

# INDIAN ECONOMIC PROBLEMS

PART II

SOURCE BOOK  
FOR THE STUDY  
OF  
INDIAN ECONOMIC PROBLEMS

BRIJ NARAIN

**Dhananjayrao Gadgil Library**



**GIPE-PUNE-004801**

**SOURCE BOOK**  
**FOR THE STUDY**  
**OF**  
**INDIAN ECONOMIC PROBLE**

Printed by L. Diwan Chand at The Mercantile Press, Lahore.

# **INDIAN ECONOMIC PROBLEMS**

---

PART II

## **SOURCE BOOK** FOR THE STUDY OF **INDIAN ECONOMIC PROBLEMS**

BRIJ NARAIN, M.A.,

*Professor of Economics,*

*Sanatana Dharma College, Lahore.*

THE PUNJAB PRINTING WORKS,  
KATCHERI ROAD, LAHORE.  
1922.

*Price Rs.*

X.2

F2.2

4801

## PREFATORY NOTE

The object of this "Source Book" is to introduce the student to the study of official reports on Indian economic questions. The Indian student has hitherto neglected the study of reports. But there are very few economic questions which have not a long history; they have formed the subject of official investigations in the past and the results of these investigations are very valuable. A first-hand knowledge of some of the sources of "Indian economics" should, therefore, prove useful to the student.

The extracts have been carefully selected from a large amount of material covering several thousand closely printed pages. The present volume is only introductory, and it is to be hoped that a study of these extracts will lead the student to read the official and other publications from which the extracts have been taken.

My thanks are due to the editor, the Indian Review, for permission to use an article on the Indian Fiscal Commission for the purposes of this book.

## TABLE OF CONTENTS.

<b>I—INDIAN CURRENCY</b> ...           ...	1—57
Introductory Note           ...           ...	1—14
1. Extract from a Minute on the Proposal to introduce a Gold Currency into India, by the Right Honourable James Wilson, dated 25th December, 1859.           ...	14
2. Extract from a Minute on a Gold Currency for India, by Sir W. Mansfield, dated 8th March, 1864...	20
3. The Respectful Memorial of the Bombay Association to the Right Honourable Sir John Lawrence, Viceroy and Governor General of India, dated 8th February, 1864, on the subject of a Gold Currency for India           ...           ...	26
4. Extract from a Minute on a Gold Currency for India, by Sir C. E. Trevelyan, dated 28th June, 1864...	23
5. Despatch from the Government of India to the Secretary of State for India, dated 14th July 1864, proposing that sovereigns and half-sovereigns should be made legal tender in India           ...           ...	32



6. Despatch from the Secretary of State for India authorising the Government of India to receive sovereigns and half-sovereigns into public treasuries for 10 and 5 rupees respectively ... 33
7. Extract from the Final Report of the Gold and Silver Commission, 1888 : Effect of the changes in the relative values of the precious metals upon India ... 37
8. Extract from the Despatch from the Government of India to the Secretary of State for India, dated 13th October 1876, showing that an enhanced standard could not be introduced into India without introducing an enhanced currency 44
9. Extract from the Despatch from the Government of India to the Secretary of State for India, dated 23rd March 1892, suggesting settlement of the silver question by international agreement ... 47
10. Extract from the Despatch from the Government of India, dated 21st June 1892, proposing that Indian mints should be closed to the free coinage of silver if the International Conference failed 49
- 11, 12, 13. Notifications by the Government of India, dated 26th June 1898 58
14. Extract from a Minute by the Honourable Sir David Barbour.

- dated 16th October 1893, describing the unfavourable conditions under which the establishment of the gold standard in India was undertaken by the Government ... .. 55
15. Extract from the Despatch from the Government of India to the Secretary of State for India, dated 16th September 1897, concerning the proposal to reopen Indian Mints to silver ... .. 59
16. Extract from the Report of the Indian Currency Committee, 1898. A gold standard and a gold currency recommended, 67. The use of a gold reserve, 71. 64
17. Extract from the Despatch from the Secretary of State for India, dated 25th July 1899, *re* Fowler Committee's Report ... .. 72
18. Extract from the Despatch from the Government of India to the Secretary of State for India, dated 24th August, 1899, *re* Fowler Committee's Report ... .. 73
19. Extract from "Ricardo's Exchange Remedy" by A. M. Lindsay, 1892 ... .. 75
20. Extract from the evidence given by Mr. Lindsay before the Fowler Committee: Objections to a gold currency for India ... .. 81
21. Extract from the evidence given by Professor Alfred Marshall before the Fowler Committee: Effects

of a fall in exchange on the export trade ... ..	84
22. Extract from the Report of the Indian Currency Commission, 1914 Government's inability to carry out the recommendations of the Fowler Committee and the adoption of the Lindsay scheme, 88. The crisis of 1907-08, 90. The question of a gold currency, 94.	88
23. Extract from the Report of the Indian Currency Committee, 1920 : The rate recommended ...	95
II—PAPER CURRENCY ... ..	98—117
Introductory Note ... ..	98—102
24. Extract from the Despatch from the Government of India to the Secretary of State for India, dated 27th April 1859, regarding the issue of a Government Paper Currency in India ... ..	102
25. Extract from the Despatch from the Secretary of State for India, dated 4th November 1859, communicating the decision of His Majesty's Government regarding the introduction of a Paper Currency into India ... ..	104
26. Extract from a Minute on a Paper Currency for India, by the Right Honourable James Wilson, dated 25th December, 1859 ...	105
27. Extract from the Despatch from the Secretary of State for India, dated 26th March, 1860, laying	

down the principles for regulating the issue of a Paper Currency ...	110
28. Extract from the Report of the Indian Currency Commission, 1914: Recommendations regarding the Paper Currency Reserve ...	112
29. Extract from the Report of the Indian Currency Committee, 1920: The metallic portion of the Reserve against notes to be 40 per cent. of the gross circulation ...	114
30. Extract from the Speech of the Finance Member introducing the Indian Paper Currency (Amendment) Bill, 1920: Metallic reserve to be 50 per cent of gross circulation; Issue of notes against bills of exchange ...	115
III—THE IMPERIAL BANK OF INDIA ...	118—124
31. Extract from the Speech of the Finance Member introducing the Imperial Bank of India Bill ...	118
IV—INDIAN FINANCE ...	125—154
Introductory Note ...	125
32. Extract from the Speech of the Finance Member introducing the Financial Statement for 1915-16 ...	126
33. Statement on the financial situation of India submitted by Mr. H.F. Howard of the Indian Delegation to the International Financial Conference held at Brussels in 1920 ...	134
34. Extract from the Speech of the Finance Member presenting the Indian Budget for 1922-23 ...	140

35. Extract from the Report on Indian Constitutional Reforms: Financial Devolution ... ..	148
V—THE INDIAN TARIFF ... ..	155—204
Introductory Note ... ..	155—159
36. Extract from Indian Financial Statement, 15th March 1877: Financial difficulties prevent the abolition of the Cotton Duties ... ..	159
37. Extract from Indian Financial Statement, 18th March 1878: Application of the principles of the English Tariff to India ... ..	161
38. Extract from Indian Financial Statement, 13th March 1879: Arguments in favour of the aboli- tion of the Cotton Duties ... ..	163
39. Extract from the Proceedings of the Council of the Governor Gene- ral of India, held on 17th December, 1894: Cotton Duties Bill ... ..	168
40. Extract from a Letter from the Government of India to the Secre- tary of State for India, dated 26th January, 1899: Countervailing duties on bounty-fed sugar imported into India ... ..	170
41. Imperial Preference: Extract from a letter from the Government of India to the Secretary of State for India dated 22nd October 1903 ... ..	173
42. Imperial Preference: Extract from a Minute by Sir E. F. G. Law, dated 31st August, 1903 ... ..	182

The Report of the Indian Fiscal Commission, 1921-22: Introductory Note	185—191
43 Summary of the main recommendations of the Indian Fiscal Commission, 1921-22	191
44 Extract from the Report of the Indian Fiscal Commission, 1921-22 The Principle of Discrimination, 194. The economic limitations of Preference in India, 198.	194
<b>VI—THE LAND REVENUE POLICY OF THE INDIAN GOVERNMENT</b>	205—240
Introductory Note	205—209
45. Extract from the Resolution issued by the Governor General in Council on the 16th January, 1912	210
46. Land Revenue Whether a Tax or Rent : Extract from a Minute by Sir H. Maine, dated 13th March, 1875	232
47. Land Revenue—Whether a Tax or Rent : Extract from a Minute by Sir Louis Mallet, dated 12th April, 1875	235
48. Land Revenue—Whether a Tax or Rent : Extract from a Minute by Lord Salisbury, dated 29th April, 1875.	233
<b>VII—FAMINE</b>	241—270
Introductory Note	241—245
49. Extract from the Report of the Indian Famine Commission, 1880,	245

Part I.		245
	Certainty of the recurrence of famine, 245. Obligation of the State to give relief in times of famine, 248. The main principles of famine relief, 254.	
50.	Extract from the Report of the Indian Famine Commission, 1880. Part II: Encouragement of Diversity of Occupations ...	257
51.	Extract from the Report of the Indian Famine Commission, 1898: Resources and famine-resisting power of the people ...	259
52.	Extract from the Report of the Indian Famine Commission, 1901. Lessons of experience, 261. Danger signals, 263. The order of relief measures, 264. Gratuitous relief, 268.	261
VIII.--IRRIGATION	... ..	271—298
Introductory Note	... ..	271—278
Irrigation Statistics	... ..	274
53.	Extract from the Report of the Indian Irrigation Commission, 1901-03 ...	279
	Definition and classes of irrigation works, 279. Early history of irrigation works in India, 281. The limitations of irrigation, 285. State irrigation works, 288. Protective value of irrigation, 292. Loans for improvements, 299.	

<b>IX—INDIAN INDUSTRIAL DEVELOPMENT</b>	...	299—327
54. Extract from the Report of the Indian Industrial Commission, 1916-18	... ..	299
Industrial deficiencies of India, 299. Technical assistance to industries by Government, 302. Cottage Industries, 314. Government financial assistance to Industries, 322.		
<b>X—INDIAN RAILWAYS</b>	... ..	328—371
Introductory Note	... ..	328—340
Railway Statistics	... ..	341
55. Extract from the Administration Report on Railways in India for the year 1914-15: The relation of the Government to Railways in India	... ..	344
56. Extract from the Report of the Mackay Committee on Indian Railway Finance and Administration, 1908: What additional amounts may properly and advantageously be raised for railway construction and equipment	... ..	359
57. Extract from the Report of the Indian Railway Committee, 1920-21 Finance and Financial control, 362. Allegations of undue preference, 366. Treatment of third class passengers, 368.	... ..	362
<b>XI—Co-OPERATION</b>	... ..	372—408
Introductory Note	... ..	372—377
Summary of the Report of the MacLagan Committee	... ..	378



Co-operation Statistics ... ..	386
58. Extract from the Report of the Indian Famine Commission, 1901 : Agricultural Banks ... ..	388
59. Extract from the Proceedings of the Governor General's Council, 23rd October, 1903 : Co-operative Credit Societies' Bill ... ..	389
The difficulties of the agriculturist, 389. Co-operation in Germany; Co-operation in Madras, 390. The object of establishing co-operative credit societies, 393. Constitution of rural and urban societies, 395. Privileges conferred upon the societies, 396.	
60. Extract from the Co-operative Credit Societies Act Amendment Bill, 1911 ... ..	897
61. Extract from Sir F. A. Nicholson's Report ... ..	399
Schulze Delitzsch Loan Societies, 399. Raiffeisen Credit Unions, 402. Differences between the Schulze-Delitzsch and Raiffeisen Societies, 405.	
<b>XII—INDIAN FACTORY LEGISLATION</b> ... ..	409—435
Introductory Note ... ..	409—412
62. Extract from the Report of the Bombay Factory Commission, dated 6th January, 1885 ... ..	412
Hours of work, 412. Days of work, 416. Evidence of Mr. Rustomji Framji Wadia, 416.	

63. Extract from the Report of the Indian Factory Commission, 1908...	418
Hours worked in Indian Fac- tories, 418. The economic position and habits of Indian operatives, 421. Physi- cal deterioration of factory operatives, 425. Restriction of working hours of adults, 425. Objection to any direct re- striction of hours ; the measures recommended for an indirect limitation of the working hours of adult males, 427.	
64. Indian Factories (Amendment) Act, 1922 ... ..	426
65. Report of the Committee of the International Labour Conference on the application of the 48-hour week Convention to India ... ..	433

## INDIAN CURRENCY.

### *Indian Currency before 1873.*

The year 1835 is the first important date in the modern history of Indian currency. In their despatch of 1806 the Court of Directors of the East India Company had declared their intention of making the silver rupee "the principal measure of value and money of account" in the territories ruled by them, and in 1835 the rupee was established as the standard coin of British India. Under Act XVII of 1835 gold coins ceased to be legal tender in any of the territories of the East India Company, but the Act allowed the coinage of 5, 10, 15, and 30 rupee gold pieces in the Indian mints. These coins were received by public treasuries at their denominated value in accordance with a proclamation issued in January 1841, but soon after the discoveries of gold in Australia and California, which lowered the value of gold, gold began to accumulate in Government treasuries and the proclamation of 1841 was withdrawn by notification in December 1852.

The increase in the supply of gold led to a demand for the establishment of a gold currency in India (Extracts I to III). James Wilson opposed the proposal to introduce a gold currency (Extract I) but it was supported by Sir William Mansfield (Extract II) and the Government of India. Sir C. Trevelyan attempted to show in his Minute that there was a genuine demand for the introduction of gold coins in India and that the declaration of the sovereign as legal tender at 10 rupees would be very popular (Extract IV). The Secretary of State, however, thought that the sovereign could not circulate at 10 rupees, but he allowed Government treasuries to receive and pay out sovereigns at 10 and 5 rupees respectively (Extract VI). The fall in the gold value of silver which commenced in 1873 created a new situation and in May 1874 the Government of India decided not to take any further step for the recognition of gold as a legal standard of value.

*Indian Currency, 1873 to 1893.*

The effects of the fall in the gold value of silver on Indian finance and trade are described in Extract VII. One of the remedies suggested was the closing of the mints to the coinage of silver and the introduction of a gold standard without a gold currency. But the

Government of India rejected this proposal, as they thought that an enhanced standard could not be established without an enhanced currency (Extract VIII). They themselves favoured a settlement of the silver question by international agreement, and if this failed, they proposed to close the mints to the free coinage of silver and introduce a gold standard with a gold currency (Extracts IX and X). The International Monetary Conference held at Brussels in 1892 broke up without coming to any satisfactory decision regarding silver and, acting on the advice of the Herschell Committee, the Government closed the mints to silver in 1893 (Notifications, X, XI and XII).

*Indian Currency, 1893—1898.*

This period saw a gradual rise of exchange to 16*d.* after a temporary fall to 12½*d.* in 1895. Sir David Barbour's Minute, dated 16th October, 1893, describes the difficult conditions under which the first steps towards introducing the gold standard in India were taken (Extract XIV).

In August 1897 the Government of India were asked by the Secretary of State whether they were in favour of re-opening the Indian mints to silver if France and the United States opened their mints to silver as well as gold. The Government of India in their

reply pointed out that circumstances had very much altered since 1892 and that India had little to gain by the proposed arrangement. They asked the Secretary of State not to give the undertaking desired by France and the United States (Extract XV).

On the 3rd of March 1898 the Government of India sent a despatch to the Secretary of State which led to the appointment of the Fowler Committee. In this despatch they advocated the melting down of rupees, in order to reduce the rupee circulation and raise exchange, and the formation of a gold reserve with a view to the effective establishment of a gold standard.

*The Fowler Committee.*

The main recommendations of the Fowler Committee were that the sovereign and the half-sovereign should be declared legal tender throughout India at 15 rupees per sovereign and that a gold standard with its "normal accompaniment", a gold currency should be established in India. The Committee also recommended that the profits on the coinage of rupees should be kept in a separate reserve, to be used for the maintenance of exchange (Extract XVII). The Committee rejected Mr. Lindsay's scheme for the introduction of a gold standard without a gold currency (Extract XIX).

*Indian Currency from 1898 to the  
Outbreak of War.*

The Extract from the Report of the Chamberlain Commission of 1914 (XXII) describes the gradual establishment of the Gold Exchange Standard in India in place of the Gold Standard recommended by the Fowler Committee. The gold exchange standard was tested in the crisis of 1907-08. This crisis showed that gold in circulation is not of much use for supporting exchange in a time of exchange weakness. The gold standard had been secured without a gold currency, and in considering the ultimate goal of the Indian currency system the Chamberlain Commission attached great importance to this fact. They criticised at length the view that it would be to India's advantage to encourage the use of gold in the internal circulation.

*Indian Currency during the War.*

The outbreak of war in August 1914 was immediately followed by a weakening of exchange. Government were fully prepared to meet the crisis, and they lost no time in declaring their intention of supporting exchange by all the means in their power. Between 6th August, 1914, and 28th January, 1915, Reverse Councils were sold to the extent of £8,707,000.

Reverse Councils were again sold in 1915-16 (£ 4,893,000) and between November 1918 and April 1919 (£ 5,465,000). Indian currency difficulties during the war, however were chiefly caused, not by a falling exchange, but by exchange which rose to entirely unexpected heights.

*Causes of the Rise in Exchange.  
Heavy demand for remittances to India.*

There was a very great increase in the demand for Indian rupees during the last three years of the war owing to the heavy balances of trade in India's favour. The average balance of trade in India's favour in the years 1916-17 to 1918-19 was £59,601,000 as compared with £53,439,200, the average for the last three years of the pre-war period. The exceptionally favourable balances of trade were due to the reduction of imports on the one hand, and increase in the exports of food stuffs and raw materials required for the Allies on the other. There was thus a strong and rising demand for rupees in London which tended to raise the rupee exchange. It should also be remembered that India served as the base of military operations in Mesopotamia, Persia and East Africa, and the Government of India had become responsible for meeting the cost of



these operations and civil expenditure in occupied territory. In addition, the Government of India undertook to finance purchases made in India by certain Dominions and Colonies and provide funds for American buyers of Indian produce in 1917-18 and 1918-19.

At a time when, owing to the favourable balances of trade and exceptional disbursements, there was a strong demand for remittances to India, imports of gold and silver into India on private account declined heavily. The chief cause of the decline in the imports of gold was the restriction on the export of gold imposed by the belligerent countries. The private imports of silver continued unrestricted until September 1917, but the imports of this metal declined owing to a very serious shortage in production which accompanied a very great increase in the world demand.

#### *The rise in the Price of Silver.*

The annual average output of the world's silver mines during 1914-1917 was only 178,075,000 fine ounces as compared with 231,676,000 oz. for the years 1910-13. The decrease in silver production was largely the result of the heavy fall in the Mexican

output.\* The decrease in Mexican production was not due to the war but to political disturbances in Mexico.

While there was a serious shortage in the supply of silver, the world demand for silver for coinage purposes had increased enormously. As a consequence, the price of silver began to rise in 1916, and by December of that year it had risen to 37*d.* per standard ounce in London, as compared with 27½ *d.*, the highest price in 1915. In August 1917 the price of silver exceeded 43*d.*, the

\* *Mine Production of Silver in Fine Ounces,*  
(000 omitted.)

	Years.	Canada.	U. S. A.	Mexico.	Rest of World.	Total of World.
	1910	32,869	57,590	71,372	57,249	219,080
	1911	32,559	61,109	79,333	57,643	230,644
	1912	31,958	66,041	74,640	60,423	233,061
	1913	31,806	71,200	70,704	57,966	331,676
Average for 4 years 1910-13	...	32,297	63,997	73,937	58,331	228,552
	1914	28,449	69,034	27,547	50,418	175,448
	1915	26,626	72,364	39,570	47,180	185,745
	1916	25,460	74,775	22,838	48,283	175,456
	1917	21,221	70,866	31,214	50,919	175,050
Average for 4 years 1914-17	...	25,689	72,886	30,292	49,208	178,075

bullion par of the rupee, and in September it rose to 55*d.* The action taken by the United States in September 1917 to control the trade in silver tended to check the rise in price. Between October 1917 and April 1919, the period during which the price of silver was controlled by legislative measures adopted first by the United States and then by the Governments of Canada and Great Britain, the price of silver fluctuated about the level of 50*d.* But when in May 1919 the United States Government and the British Government withdrew control over the silver market, the London price at once rose to 58*d.* About the middle of December the price stood at 78*d.*, and in February 1920 it rose 89½*d.*

In dealing with the causes of the rise in the price of silver account should also be taken of the fall in the value of the sterling in relation to the dollar. Silver for the coinage of rupees is purchased in London, and as America is the largest source of supply of this metal, payments for silver purchased have ultimately to be made chiefly to America. Every fall in the dollar-sterling rate, therefore, automatically increases the price of silver in pence. Thus, apart from influences acting directly on the demand for and the supply of silver, the unfavourable state of the dollar-sterling exchange during

the war was an important factor in raising the London price of silver.

The rise in the price of silver made it impossible for the Secretary of State to sell Council drafts at pre-war rates, and the rate of exchange was gradually raised from 1*s.* 4*d.* to 2*s.* 4*d.* as shown in the following table :—

Date of Introduction	Minimum rate for Immediate Telegraphic Transfers.	
	<i>s.</i>	<i>d.</i>
3rd January 1917	1	4½
28th August 1917	1	5
12th April 1918	1	6
13th May 1919	1	8
12th August 1919	1	10
15th Sept. 1919	2	0
22nd Nov. 1919	2	2
12th Dec. 1919	2	4

Measures were also taken to prohibit the export and melting of silver as well as gold coins. From June 29, 1917, the use of silver or gold coin for other than currency purposes was declared illegal, and from 3rd September 1917 the export of silver coin and bullion from India was prohibited except under license.

To economise silver, 2½ rupee notes were issued in December, 1917 and one rupee

notes in January, 1918. Two-anna nickel coins were issued at the end of March, 1918, and legislation was passed in September, 1919, authorizing the issue of four-anna and eight-anna nickel coins. The eight-anna nickel coin is not unlimited legal tender like the corresponding silver coin. Every effort was also made to increase the note circulation, which amounted to 179,67 lakhs of rupees on 30th November, 1919 as compared with 66,12 lakhs on 31st March, 1914.

*The Babington Smith Committee.*

On 30th May, 1919, the Secretary of State appointed a Committee under the chairmanship of Sir H. Babington Smith to examine the effect of the war on the Indian currency system and to make recommendations "as to the policy which should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation, and to ensuring a stable gold exchange standard."

The Committee recommended the stabilization of the exchange value of the rupee at 2s. (gold). It rejected the proposal to reduce the fineness or weight of the rupee. "The fineness of the present rupee," the Committee wrote, "which is known to every village goldsmith and silversmith, has remained unaltered since 1835, and its use is

so firmly rooted in the habits of the Indian people as to have given it the character of a standard weight. Modification of the fineness or weight of the standard coin of the country would, we have been assured, react gravely on the credit of the Government, and possibly lead to serious social and economic consequences." The Committee expected two chief advantages from the fixation of exchange at a high level: (1) a high exchange would tend to lower the prices of food stuffs and manufactured imports and thus remove some of the causes of economic and political discontent in India, and (2) it would reduce the burden of the Home Charges, though revaluation in rupees on the 2s. basis of the sterling investments and the gold in the Paper Currency Reserve would cause a loss of 38.4 crores. "If the whole of the revenue saved in respect of the Home Charges," said the Committee, "could be employed for the purpose of meeting this loss, it would be recouped in about three years. Thereafter a considerable surplus revenue would remain which might be employed in furthering the development of India or in the reduction of taxation. This is an incidental advantage in fixing a high rate of exchange which must be taken into consideration."

The Committee did not think that a high rate of exchange would adversely affect

Indian trade or Indian industrial development, for the prices and costs of production in foreign countries were still very high and the foreign demand for our produce was strong.

The Committee recommended the stabilization of the rupee with reference to gold as distinguished from sterling. Sterling was depreciated currency. If the rupee was linked to sterling, the Committee said, Indian currency would share all the inconveniences to which a depreciated currency is subject. Again, unless the relation of the rupee to gold was directly fixed, gold could not circulate in India side by side with the rupee. It could certainly be argued in favour of sterling that the larger part of India's trade was with sterling using countries, and that in devising plans for the stabilization of exchange, the interests of inter-Empire trade should be regarded as of first importance, but in view of the obvious disadvantages of linking the rupee to depreciated currency, the effect of the fluctuations of the dollar-sterling rate on the price of silver, and of the desirability of permitting the free export and import of gold coin and bullion and the coinage of gold in India, the Committee concluded that the balance of advantage was on the side of fixing the exchange value of the rupee in terms of gold.

In order to give effect to the recommendations of the Committee it was necessary to amend the Indian Paper Currency Act and Indian Coinage Act, so as to make the sovereign legal tender for Rs. 10 instead of Rs. 15, and to withdraw the undertaking on the part of Government to give Rs. 15 for a sovereign. The necessary action was taken by the Government in 1920.

---

I.

*Minute by the Right Honourable James Wilson on the proposal to introduce a Gold Currency into India ; dated 25th December 1859.*

In the final Despatch, No. 109, dated the November 1859, from the Secretary of State, upon the subject of a paper currency for India, the consideration of the Indian Government is invited to the question which has recently been much discussed, of introducing the English sovereign, or some other gold coin, into the circulation of India, as being one intimately connected with that of a paper currency.

2. The discoveries of gold of late years, and its diminishing price in relation to silver, added to the great demand which has lately existed for the latter metal for shipment from England to India and China, have combined to create a strong public feeling in favour of making use of

Increased production of gold. Proposal to introduce gold into circulation in India.



gold, in some form or other, as part of the circulating medium of India.

3. No one will be inclined to deny that if we had to begin a system of currency *de novo*, the most convenient of all the various systems now in practice would be found to be in England where gold is the standard, gold coin the general money in circulation, and silver tokens of limited tender the subordinate coins.

4. But we have to deal with a long established standard of silver in India, in which liabilities to a large amount, in the shape of public debt, and obligations of varied character, running over a long series of years, have been incurred in silver. For it must be borne in mind that a contract to pay a given sum of money is nothing more or less than a contract to deliver a given weight of that metal which is the standard at the time the contract is made, and that to alter or vary the standard, and to adopt another because it is cheaper, is simply to enable the debtor to break faith with the creditor.

Breach of faith involved in the change of standard.

Sir James Wilson next proceeds to consider the various proposals that had been made with the object of introducing gold into circulation. Of these the most important were :—

To preserve a single standard, but to change it from silver to gold, adopting silver tokens for subordinate coins.

To adopt a double standard of silver and gold.

22. The fourth proposal is to adhere strictly to a single standard but to change it from silver to gold.

Gold monometallism.

As I have already said, I freely admit that if we had to begin *de novo*, convenience would point to a gold standard with silver token coins as the best, although public opinion has by no means agreed upon this point. It is curious to observe the fluctuations of views upon this subject, and how much they are governed by expediency and convenience of the moment. In 1837, during the panic, silver happened to be rather abundant in the London market, and difficult to be converted into bank notes or gold, not being a legal tender. A great pressure from the merchants of London at that time and again in 1847, under similar circumstances, was made upon the Government of the day, to admit silver into circulation, exactly similar to that which now prevails in respect to gold where silver is the standard. I have a very clever pamphlet lying before me, entitled, "*The Injury, Insufficiency, and Inconvenience of a Gold Standard,*" in which arguments are used quite as strong against that system as now prevail against a silver standard. If a Government were to vacillate in a vital matter of this kind according to the convenience or interest either of the debtor class or the creditor class, the integrity of any standard would be entirely lost.

23. But though I admit that a gold standard does possess superior advantages, yet, as I have

already shown, in a country where all obligations have been contracted to be paid in silver, to make a law by which they could forcibly be paid in anything else would simply be to defraud the creditor for the advantage of the debtor, and to break public faith.

24. The fifth and the last plan proposed is  
A double standard. to adopt a double standard, such as still prevailed in the United States previous to 1853, and such as still prevails in France. The system of a double standard is practically a permission for the debtor to pay his debts from time to time in the cheapest of the two metals. As I have already remarked, where such a system has existed from ancient times, and when under it the great bulk of obligations have been contracted, the creditor has no right to complain of being paid from time to time in the cheapest of the two metals, because that was the condition of his contract ; but in cases where a single standard has long prevailed, the adoption of a double standard is just as much a breach of faith as a simple change of the standard ; for it must be plain that the introduction of a double standard is practically the adoption of the cheaper of the two metals at the time.

25. But unjust as such a change would be, inconvenient as a double standard has proved in practice, and inconsistent as it is in principle—yet I have no doubt, if it is desired to have the use of both metals in a circulation of full value as coin, that it is the best mode in which that object can be attained.

26. But I would ask, what advantage could

The rise in the price of silver not a sufficient reason for adopting a gold standard.

be expected from the adoption of gold in India? Upon this subject there is, I believe, much confusion of ideas. It is said that gold is becoming more plentiful, and that the demand for silver is making it scarce. Now the extent to which this is true in practice must be measured by the rise which has taken place in the market price of silver, which I have shown does not exceed five per cent. But supposing it were greater, would that be a reason for using gold? If India requires a supply of the precious metals it can only be obtained in exchange for its products in foreign markets, and the quantity of those metals, whether of gold or silver, will be obtained in the exact proportion which they bear to the products of India for which they are exchanged. India is quite as well off to receive silver as gold, and perhaps better, in as much as silver seems to be an appreciating metal while gold is probably still falling. Nor can it be deemed to be a disadvantage to India that the silver remitted for its products has to be obtained in exchange for the gold received from California or Australia in London. These different movements in the distribution of the precious metals to the points at which the exchanges of the world direct them, are all determined by general broad principles, which are self-acting, and which any artificial attempt to disturb or control can only tend to derange.

27. In whatever form India receives its payments from the exterior world for the balance

of its exports over its imports, whether in gold or in silver, can matter not, so long as the full value is received.

28. I know it is said that gold coins are much more convenient for circulation than silver. If this refers to the removal of Government treasure from one part of the country to another, then I much doubt if any important advantage would attend gold coins. The expense of removing coin, is, no doubt, in a very small degree determined by its weight and bulk but to a much greater extent by the necessity of protecting it. It would require just as much of an escort to protect the sum of Rs. 100,000 in gold as in silver, and perhaps even more so, inasmuch as the compactness and lightness of gold would render it a more tempting and handy prize to the robber than bulky and weighty silver. Again, I doubt much whether there would not be somewhat great danger to local treasuries containing gold coin than silver. It is a very suggestive fact, that during the Mutiny the gold mohur of 15 rupees commanded such a premium, owing to their greater convenience for concealment or removal, that the price of 26 and 27 rupees was given for them.

29. But if the convenience referred to alludes to the use of gold coins for private expenditure, then I readily admit their value to that extent. But I would submit that for this purpose, and for all others that have been suggested, a well regulated paper currency, such as I have described in

another Minute of this date, would answer much better, while the ancient single standard of the country, in which all existing obligations have been contracted, would be maintained in all its integrity.

Governor General's  
Camp, Meerut,  
25th December 1859. } (Sd.) JAMES WILSON.

---

II.

*Extract from Sir W. Mansfield's Minute on  
a Gold Currency for India, dated  
8th March, 1864.*

"A careful perusal of Mr. Wilson's Minute  
of 25th December, 1859  
Mr. Wilson's Minute. on the "proposal to in-  
troduce a Gold Currency into India" has con-  
vinced me that the grounds of his opinions are,  
in point of fact, fallacies, which are incompatible  
with the development of the people, and with  
a feeling of equity towards all classes, the poor  
as well as the rich, the indebted (in which I in-  
clude the State), as well as the capitalist and  
the owner of land.

The Minute has convinced me that while  
Mr. Wilson has allowed his imagination to be  
excited by the possible depreciation in the value  
of gold, as the effect of new gold mines might be  
still more felt, he overlooked the corresponding  
circumstance that if, as he expected, gold through-  
out the world should fall still more in value than  
it had done when he wrote, silver, if stationary

in the amount produced, would proportionally rise. He thus neglected to consider that, as a means of appreciating value, silver was, in truth, as uncertain as gold, this being true both with regard to new contracts hereafter to be made, and to those of ancient date.

The perusal of his speeches and minutes on Indian Currency has further persuaded me that Mr. Wilson's views were formed without sufficient attention to the social condition and the habits of the great masses of the people of India.

He was thus led into error, both with regard to what it is possible to effect in the execution of currency changes, and to the wisdom of reforms to the general entertainment of which the popular mind has not yet been sufficiently educated.

In effecting a loan, the State borrows  
The "breach of faith" value as represented by a  
argument. certain number of coins.

It does not borrow a special commodity of trade, or contract to return that same commodity except in so far as it is the representative of value.

Thus the money it seeks represents a given value. It actually contracts for that value, and receives the money which represents it in the legal tender of the day. But it is because money is the representative of value, and that the legal tender is merely the form in which the money is clothed, that the State so receives the money in gold or silver, as the case may be.

The State does not, and cannot, bind itself

Money is the representative of value. It should not be confounded with the commodity in which the unit of value is embodied.

never to change the character of its legal tender, or expression of measure, which it looks on as liable to change like other institu-

tions. Its engagement deals with the value of the loan, and not with the special expression of the measure of value, which in equity cannot be a matter of consequence either to the lender or the borrower, if the idea of currency be fairly maintained, and it be not confused with the notion of the natural character of the commodity, which has been chosen to afford a material of currency or national machinery of exchange.....If such reasoning as Mr. Wilson's were to be admitted, when the question of substituting a cheaper currency for a more expensive one is considered, such as silver for copper and gold for silver, the community would be absolutely precluded from effecting any improvement or economy in the working of that particular machinery, organised and maintained by the community at its own charges, for the performance of particular functions, which affect alike the State and the individual.

It would be to create a new vested right in consequence of an agreement, to bar economy and the progress of development in favour of certain portions of the public to the disadvantage of the public generally ; in short, it would be to do what has been declared politically and socially wrong, and therefore unwise, in all the great changes which have been executed in England since the passing of the Reform Bill.



Let us reflect on the fact, that the populations of India have the most simple and gregarious habits. There are tens of millions of the people who carry their little store of wealth habitually with them on their persons, or bury it in the corners of their huts. To perceive the actual presence of their hardly saved rupees, or to conceal them away from the eyes of all other men, is their only notion of safety for their slender property.

For them, therefore, it is difficult to over-estimate the advantage of having the intrinsic value of their savings in the smallest and most portable form. The intensity of the want of portability of money comes before us in various ways. It is one of the conditions of what may be called the extreme promiscuity of existence seen in oriental bazars, in the town and village life of India, as compared with the habits of European communities.

We saw the exaggeration of the notion of the value of portability during the recent rebellion in 1857—58, when the price of gold rose 50 per cent. in the bazaars of the North-West, solely because of that quality. The gold mohur which used generally to be exchanged by the money-changers for 16 rupees, its mints price being 15 rupees, actually rose to 24 rupees, which were readily given for it.

The people hug the idea of intrinsic value in coins of the precious metals which will last for ever, which

Durability.

will be again found, if war sweep over the country and destroy all that is above ground.

It will be understood that they would not care to bury the bank note in a corner of the hut. They would know that the paper would rot, be destroyed by damp, or be eaten by insects.

They would further be always oppressed with the idea that it might lose in value or become inconvertible hereafter, in the midst of political changes, and by no means unreasonable suspicion....

It may further be said that, of all people in the world, the population of India carries practically and keenly into execution the principle, that the money actually current is a commodity which must possess the intrinsic value it assumes to represent.

To them bangles are convertible into rupees and *vice versa*.

“ The gowd’s the gowd for a’ that ”

Thus in some Native States the people refuse in their retail operations to take the British rupee without a slight discount, because they declare, whether rightly or wrongly, that rude rupees supplied from their native mints have more of silver in them, or are freer from alloy than the British rupees.

The gold mohurs produced in the native mints were, I am informed, always more in demand, for similar reasons, than the British gold mohurs, when gold was received at our treasuries. To this day, the purity of the old gold mohur of Oudh, and of the gold mohurs coined at Jeypore, are held in high estimation.....

The social aspect of the question is after all the truly important one, that the importance of the social aspect of the question. which presents enormous difficulties in the way of execution of a general paper currency. The economical theory of the advantages of a paper currency is doubtless absolutely true ; but we are convinced, by a thousand instances, that in politics scientific truth must wait patiently, must gradually force itself on popular conviction, here a little and there a little.

An over-hasty application of the most perfect economical system, which ignores the facts of the existing state of knowledge and civilisation, defeats the objects sought by the advocates of the change. In such case the Government of a country is fortunate if the resistance it is certain to encounter be only dumb and dogged, as it might be in India, instead of violent and inflammatory, as it assuredly would be in Europe.

It is curious to note the determination of the population at large to acquire gold in preference to silver as a means of ornament and hoarding, so soon as their increased wealth permits of it.

The fact is remarked and reported by collectors and superintendents of police. It is said that since the cotton crisis, gold bangles have in some favoured cotton districts become almost as common as silver bangles were before. Sir Arthur Cotton relates that before the opening of the Godavery canals, the districts of Rajamun-

dry was one of the poorest in India. The irrigation of the soil converted it to a rich one.

He visited the district a few years after his canal labours had produced their fruits; wealth had taken the place of the most ghastly poverty. The district had become a steady importer of gold.

It is thus evident that the people must have and will have gold.

\*            \*            \*            \*            \*

### III.

*The respectful Memorial of the Bombay Association, to the Right Honourable Sir John Lawrence, Bart, G. C. B., K. S. I., &c., &c., Viceroy and Governor General of India in Council, dated 8th February 1864.*

**SHEWETH,**

That your Memorialists beg respectfully to submit for the serious and favourable consideration of Your Excellency in Council, the following representation in regard to the question of the introduction of gold currency into India.

2. That the existing silver currency is no longer adequate for the wants of India, and that commerce begins to be seriously crippled by its inefficiency.

3. That from time immemorial until some years ago India possessed an extensive gold currency.

4. That the superior convenience of this

circulating medium was well understood by the natives of this country.

5. That the measures adopted by the British Government for the regulation of the money of India had the effect of gradually suppressing a gold and extending a silver currency, and that finally in 1835 an Act was passed declaring gold no longer a legal tender.

6. That these stringent regulations have virtually extinguished a gold currency in India, but have by no means extinguished its popularity.

7. That the few gold coins remaining in circulation are greatly prized and command a considerable premium in the market.

8. That rude attempts are made by some of the natives of India to remedy the defects of the present inconvenient silver currency by circulating gold bars authenticated by the stamp of Bombay banks.

9. That when the present currency was introduced into India silver was much more abundant than gold, and on this account was probably adopted.

10. That large quantities of gold have now been discovered in adjacent countries, and that this metal being now greatly more abundant than silver, the same reason which originally led to introduction of silver now should suggest the expediency of the introduction of gold.

17. That a silver currency convenient for the people of India a quarter of a century ago,

when trade was limited, and payments in the main extremely small, is very inconvenient now that wealth is largely diffused throughout the country and the operations of commerce have become so enormous.

\* \* \* \* \*

18. That the transport of this bulky and cumbersome currency entails constant and useless expense upon the country, and its consequent sluggish circulation is a serious impediment to trade.

---

#### IV.

*Extract from a Minute on a Gold Currency for India by Sir C. E. Trevelyan, dated June 28, 1864.*

In the progress of improvement nations advance by successive steps from the rude instruments of exchange of primitive time, to the use of silver and gold money; and at last, they attain to paper as the representative of gold. India had arrived at the gold period. Without going back to the history of former times, gold pagodas and fanams formed the bulk of the circulation of the South of India within the memory of persons still living; and, in the North of India, although the gold mohur was over-valued with reference to silver, its superior convenience obtained for it a considerable circulation. The trade of India with the countries beyond its north-western frontier has always been carried on by means of gold coins of various kinds.

The action of the Government upon this state of things was first to exclude gold from the circulation and then to introduce a paper currency based upon silver. The result is that India attained the last step *per saltum*, with the omission of the one which ought to have preceded it. Retrogression has been followed by irregular advance.

The paper currency has been attended with a fair measure of success. The note circulation already amounts to upwards of 6,000,000 *l.* sterling, of which rather more than 3,000,000 *l.* has been invested in Government securities. The time was come for furnishing this great accommodation to the Europeans and to the native mercantile classes in towns; and, as the body of the people become educated to the use of paper money, it will gradually answer the objects intended by it. The currency circles have been extended to the rest of India, and a more popular character ought now to be given to the system by issuing five rupee notes as was originally intended.

But the people of India have never acquiesced in the exclusion of gold from the currency, nor have they accepted paper as a substitute for it. The plan of locking up reserves of the precious metals in strong rooms and representing them by convertible paper, belongs to an advanced stage of civilization. The great majority of the people of India must have intrinsic value in their hands before they are convinced

Government introduces  
a paper currency.

Unpopularity of paper  
currency.

that payment has been made to them. This habit is founded upon the experience of ages. Promises to pay are rendered of no effect by bad faith or revolution ; bonds and notes are destroyed by damp or eaten by insects ; but gold and silver survive every change and reappear to be enjoyed in better times. As between gold and silver, the preference is decidedly in favour of gold, which, having large value in small bulk offers most of the advantages of a paper currency together with the security derived from intrinsic value. Since the improvement of the circumstances of the people, arising from the great increase in the demand for their exportable, produce, there has been a corresponding increase on their part in the demand for gold.....Although gold is not available as a legal tender in payment of debts and taxes in the British dominions in India, the people in some parts of India have endeavoured to remedy the defects of the present inconvenient silver currency by circulating gold bars authenticated by the stamp of Bombay banks. This rude attempt to organise an ingot currency in the face of every discouragement, proves the determination of the people to have gold, and shows that the Government would be cordially seconded by them in any attempt to introduce a gold currency on a sound footing.

A still more striking instance is that gold coin is in such request, that the desire for a gold real gold mohurs, nearly of standard value, are habitually made by forgers, chiefly to secure the premium on which they sell.....



Many other proofs might be adduced of the popularity of gold coinage in India. The Native State of Jeypore has long enjoyed a reputation for the purity of its coins; and Jeypore gold mohurs, which were formerly seldom seen, have of late years obtained an extensive circulation. In the Punjab, the use of gold, as a medium of exchange, has greatly increased of late years. In the Sikh time it was chiefly procured from Russia through Kabul; but, to use Mr. Melvill's words, "the facilities of communication with Calcutta and Bombay, which are freely supplied from Europe and Australia, have given the precedence to those markets in the supply of gold." Mr. McLeod reports that the sovereign is now the gold coin most familiar to the people of the Punjab, "being by far the most abundant and almost the only one now employed systematically for equalising the exchange."

But the most decisive example of all will be found in the Madras correspondence in the Appendix. Owing to the large number of sovereigns introduced into the districts of Tanjore, Tinnevely, and Madura, partly received in payment for rice exported to Ceylon and the Mauritius, current silver money became so scarce in 1858 that it was difficult for the landowners to pay the revenue due by them. The Government of Madras, therefore authorised the receipt of sovereigns at the Tanjore Treasury at 10 rupees each, and afterwards directed that they should be paid at the same rate to such persons as might be willing to receive them. Although this proceeding was over-ruled by the Government of India,

it had gone far enough to prove that a gold currency, based upon the sovereign at 10 rupees, would rapidly have taken the place of the silver currency, if the Supreme Government had not interfered to prevent it.....”

---

V.

*To the Right Honourable Sir Charles Wood, Bart.  
G. C. B., Secretary of State for India.*

Simla, 14th July 1864.

Sir,

According to the intention already expressed by us, we have the honour to address you on the subject of a gold currency for India.

2. The accompanying Minute by Sir Charles Trevelyan and its Appendices contain, we believe, a full exposition of the question.

3. We concur in the two main proposals contained in that Minute, *viz.*, that sovereigns and half-sovereigns, according to the British and Australian standard, coined at any properly authorised Royal Mint in England, Australia, or India, should be made legal tender throughout the British dominions in India, at the rate of one sovereign for 10 rupees; and that the Government currency notes should be exchangeable either for rupees or for sovereigns at the rate of one sovereign for 10 rupees, but that they should not be exchangeable for bullion.

4. We are also of opinion that, in order to mitigate the evils to be expected from a recurrence of the late commercial crisis it is necessary that there should be no delay in the adoption of these measures.

5. If therefore, they have your approbation, we propose to give immediate legislative effect to them.

6. In the event of your approving of the adoption of the sovereign and half-sovereign as legal tender in India, we request that you will, without waiting for indents from this country, cause to be sent to the Mints of Calcutta, Madras and Bombay, such matrices and dies, and drawing, adjusting or other machinery, as may be necessary to secure the coining of sovereigns and half-sovereigns in exact conformity with the coinage of the London and Sydney Mints, except that there should be a minute mark (say C., M., and B., for the respective Mints of Calcutta, Madras and Bombay), distinguishable only by practised persons with the help of a magnifying glass.

We have, &c.,

(Sd.) JOHN LAWRENCE.  
 " H. ROSE.  
 " R. NAPIER.  
 " H. S. MAINE.  
 " C. E. TREVELYAN.  
 " W. GREY.  
 " G. N. TAYLOR.

VI.

*From Sir Charles Wood, Secretary of State for India, to the Governor General of India in Council.*

India Office, London,  
 26 September, 1864.

5. It is obvious, from the information collected by Sir G. Trevelyan, that there is a

very general desire for the introduction of gold coins in India ; that the people, even in the upper and remote parts of India, are well acquainted with the sovereign ; and that there is a very general impression that the introduction of the sovereign would be well received, and that it would circulate freely at 10 rupees. Nor can there be any doubt of the advantage to India, England, and Australia if this gold coin could be made the basis of their common currency.

6. It is not proposed at once to change the standard coin of India, and indeed it would be a very serious measure hastily to attempt so great a revolution in the habits of the people. There is great wisdom in the observations of the Chamber of Commerce at Calcutta that they are "strongly in favour of the introduction of gold as an auxiliary currency, and as a tentative measure, which they believe will gradually but surely lead to the adoption of gold as the general metallic currency of this country, with silver as the auxiliary ; but they are opposed to any sudden change being attempted, fearing that any such attempt would prove unsuccessful, and be likely to cause great derangement in the commerce and finance of India.

7. The only practical measure, therefore, to be considered is the establishment of a double standard of gold and silver, the gold sovereign being legal tender for the same sum as 10 silver rupees.

8. I will not stop to discuss the general question of establishing a double standard, but it appears to me that there are great practical

objections in the way of adopting the measure actually proposed.....

20. At the present price of gold, with the various charges of bringing it to India, the value of the sovereign must.....be so much above that of 10 silver rupees that, for the purpose of making any payment, the latter coins must necessarily be preferred to the sovereign.

21. If there were the means of coining sovereigns in India, it would be more for the advantage of the holder of bullion to carry silver to the Mint for coinage rather than gold, and it would be more for the advantage of the exporter from England to send silver to India rather than gold or sovereigns. Even if the sovereign is imported from Australia, it would be more valuable in India than 10 silver rupees.

22. If the use of gold in the currency of India enhanced its value there, as is probable, and if the anticipations which are generally entertained of a diminishing supply of gold, and increasing supply of silver, should be realised, the difference in favour of the employment of silver coin will be greater even than it is at present.

23. I cannot but think, therefore, that to enact that a sovereign should be legal tender at 10 rupees, with the view of introducing it largely into the circulation of India, would be totally inoperative; and it is very inexpedient to

enact a law which would have no practical effect, and which it might be necessary to alter in a very short time.

24. I am unwilling, therefore, to sanction such an enactment, but at the same time I see no objection to reverting to a state of matters which prevailed in India for many years, namely that gold coin should be received into the public treasuries at a rate to be fixed by Government, and publicly announced by proclamation.

25. This was the case with the gold mohur, or 15 rupee piece, from 1835 till Lord Dalhousie's proclamation in 1852, and with other gold coins previously to the reformation of the currency in 1835.

\* \* \* \*

30. I wish you, therefore, to declare and to make it publicly known by proclamation, that sovereigns and half-sovereigns, according to the British and Australian standard, coined at any properly authorised Royal Mint in England or Australia, and of current weight, will, until further notice, be received into all the treasuries of India for the same sum as 10 and 5 silver rupees respectively, and will be paid out again at the same rate, unless objected to.

31. This measure appears to be entirely unobjectionable. It is in accordance with the cautious and tentative course recommended by the Chamber of Commerce of Calcutta; it will, as far as it goes, facilitate the use of the sovereign and half-sovereign in all parts of India; it will pave the way for the use of a gold coinage in whatever shape it may ultimately be found advis-

able to introduce it, and at the same time it establishes a preference in favour of the sovereign.

I have &c.,  
(Signed) CHARLES WOOD,

### VII.

EXTRACT FROM THE FINAL REPORT OF THE GOLD AND SILVER COMMISSION OF 1888.

*Effect of the changes in the relative values of the precious metals upon India.*

103. We now pass from considerations which are of general application to the commercial relations of all countries having different standards to the special case of India. The exceptional position of that country causes it to be affected in a special manner which we propose to treat separately.

Special position of India. While the metal forming its standard of value is silver, its political and, for the most part its commercial relations are with a country having a gold standard.

While its taxes are collected in silver, a substantial portion of its outgoings, including the payments which have to be made in this country, are necessarily disbursed in gold.

104. Of the above circumstances, the most important is the fact that the Government of India has every year to convert a large portion of its receipts from silver into gold, in order to meet its liabilities in England.

Extent of its gold payments.

In practice this operation is affected by selling in London for gold bills payable in India in rupees. As these gold payments are for the most part, fixed in amount, any fall in the value of silver necessarily compels the Government to sell a larger quantity of bills, or in other words, to pay a larger quantity of silver. It is this which constitutes its chief difficulty, for (a) it is always uncertain what additional number of rupees will be required in any one year, and all calculations of revenue and expenditure are, therefore, open to serious modifications between the date when they are made and the date when they are realised; (b) it is extremely difficult on political grounds, to increase the existing taxation; and (c) the increased amount of silver now required to discharge its gold liabilities imposes a burden upon the Indian taxpayer in respect of a considerable proportion of those payments.

105. The bulk of the gold payments which the Government of India is under obligation to make fall under one or other of the following heads: (1) interest on debt, (2) interest on the stock of the guaranteed railway companies, (3) expenses on account of the British forces maintained in India, (4) pensions and non-effective allowances payable in England, (5) the cost of the Home administration, and (6) stores purchased in England for use or consumption in India.

\* \* \* \*

108. The difficulties of the Government of India consist, however, not only in the additional number of rupees which it is compelled

Difficulties arising from uncertainty as to exchange.



to find from year to year in order to discharge its gold liabilities, but in the uncertainty caused by the fluctuations in the rate of exchange, which makes it impossible to forecast with any accuracy its future expenditure.

The following table shows the rate of exchange estimated in the Budget, the rate actually realised, and the additional expenditure caused, or the saving effected by the divergence, since 1874-75.

Year.	Rate of exchange estimated in the Budget.		Rate actually realised.		Difference.	
	s.	d.	s.	d.	Excess. Rupees.	Saving. Rupees.
1874-75 ...	1	10·375	1	10·156	15,91,764	...
1875-76 ...	1	9·875	1	9·626	19,57,917	...
1876-77 ...	1	8·5	1	8·508	...	76,736
1877-78 ...	1	9·23	1	8·791	38,43,050	...
1878-79 ...	1	8·4	1	7·794	56,87,129	...
1879-80 ...	1	7	1	7·961	...	84,40,737
1880-81 ...	1	8	1	7·956	4,24,722	...
1881-82 ...	1	8	1	7·895	10,17,482	...
1882-83 ...	1	8	1	7·525	37,46,890	...
1883-84 ...	1	7·5	1	7·536	...	36,29,902
1884-85 ...	1	7·5	1	7·308	18,97,307	...
1885-86 ...	1	7	1	6·254	56,82,638	...
1886-87 ...	1	6	1	5·441	65,17,721	...
1887-88 ...	1	5½	1	4·898	71,90,097	...

It will be observed that during the above period the actual rate exceeded the estimated rate in only three years, and that on the whole the effect of the fluctuations was to cause a considerable increase in expenditure over what had been anticipated when the financial arrangements of the year were made.

109. Reference has been made in a previous paragraph to the difficulty of attracting capital to silver-using countries, owing to the reluctance of capitalists to invest in securities, the return on which they are unable to calculate with certainty.

This consideration applies with special force to the case of the Government of India, with whom it necessarily lies to take the initiative in any scheme of public works for the better development of the country.

The form of investment which native capital has adopted from time immemorial is hoarding, and though there may be some tendency to invest in the securities offered by the Government, it has made but slow progress, and since the divergence between the value of gold and silver first manifested itself, the inducement to hoard the more valuable metal has rather increased.

In former times, when the relative value of the two metals was more stable, the Government were able to raise loans, both capital and interest being payable in silver; and the terms on which they were raised were about the same in Calcutta and London. The price of 4 per cent. rupee

paper in 1873 varied between 101½ and 105½ in Calcutta, while the price of the 4 per cent. sterling stock in London was from 101 to 106. But in 1887 the former security was from 95½ to 99½, while the 3½ per cent. sterling stock in London varied between 100½ and 104, or but very little below the 4 per cent. stock 14 years before.

110. Of the three sources of embarrassment to the Government which we have indicated above, perhaps the most serious is the uncertainty which must necessarily attend all the calculations on which their financial arrangements for the future are based.

Uncertainty of all financial arrangements in India.

Apart from any question of exchange, both the revenue and expenditure in India are from various causes, it is said, more subject to fluctuations and uncertainty than is the case with European States generally.

But in addition to these contingencies an unexpected fall in the value of silver may involve a loss of revenue which could not have been foreseen when the financial arrangements of the year were made, and this difficulty would be aggravated in the case of arrangements extending over many years. The extent of the inconvenience thus caused may be inferred from the figures given in §108.

Even if the precise limits of the fluctuations could be foretold with greater accuracy, neither revenue nor expenditure could be made to accommodate itself to variations of such magnitude.

For it would be difficult to impose and remit taxation from year to year without causing great discontent among a population who are unaccustomed to changes in their fiscal arrangements, and to whom it would be difficult to explain the circumstances which had rendered the changes necessary.

111. Grave objections are also entertained to progressive increase of taxation to meet either unexpected fluctuations or a continued fall in exchange. A large portion of the revenue generally is inelastic and not easily increased. The land revenue, from which source is derived nearly one-half of the net-receipts of the Government, has been fixed on a silver basis, in some cases in perpetuity and in others for a long term of years

The salt tax has been increased since the commencement of our inquiry, and we are told that it would be difficult to raise much additional revenue from this source. The opium receipts are of a very precarious nature, and have shown a tendency to fall off in recent years; and it is stated that it would be difficult to find any available branch of the Indian revenue which could be relied upon to bring any large addition to the Exchequer.

112. Another interest to which our attention has been directed is that of the European employees of the Government of India. They receive salaries paid in silver,

Case of European employees of the Government.

and calculated with some regard to the cost of living in India, and to the necessity imposed upon them of remitting home a certain proportion of their incomes. So far as their incomes are spent in India or are devoted to the purchase of commodities, the gold price of which has fallen as much as that of silver, they do not sustain any loss. But on a large proportion of their remittances to Europe they derive no benefit from the fall of gold prices, as the fall has affected wholesale more than retail prices, and has not affected at all many of the prices in which they are interested.

In reply to this it is pointed out that the loss sustained by the servants of the Government in connexion with their remittances is a matter for discussion and settlement between themselves and their employers. If the salaries of the Indian officials do not represent as much real remuneration as before, the Government will ultimately be compelled by the same forces which settle the market value of all other commodities, to increase their salaries.

113. The above allegations relate to matters affecting only the Government of India as a Government, and its employees. The country if its commercial intercourse with other countries is subject to the same disadvantages and disturbing influences which affect the international trade of silver-using countries generally with gold-using countries, and which have been described above.

Effect upon the country as a whole.

On the other hand it is urged—

(a) That with the exception of the European employees of the Government, no class in India can be shown to have suffered by the fall in exchange; that on the contrary, those interested in exports would appear to have gained some advantage by the stimulus given to their several industries, and those interested in imports have secured the benefit of the fall, of gold prices which has taken place in Europe.

(b) That consequently the people of India are as well, if not better, able to bear the increased burden of taxation rendered necessary by the fall in the value of their currency.

(c) That if and so far as silver has fallen, silver prices are higher than they would have been without that fall, and in that case the fall in silver, if it has added to the sum which the Indian Government have to raise by taxation in order to pay their gold debt, has lightened the burden which, but-for that fall, would have rested on the Indian taxpayers.

### VIII.

*Extract from the despatch from the Government of India to the Secretary of State for India, No. 368, dated 13th October 1876.*

8. We consider it certain that, if we should find it necessary to make any change in our standard unit of value, it would be incumbent upon us sooner or later, and more or less quickly, to call in our old currency, and directly

The problem of introducing a new standard.

or indirectly at the public expense, to substitute a new currency representing the new standard by real value. Our present standard unit of value would, doubtless, immediately cease to exist, if we were simply to cease the manufacture of coins of this standard; and provided only that we did not annex conditions so severe that they could not be profitably accepted, any new standard that we might adopt would be established at once by the mere act of opening our mints to the manufacture of coins of the new standard alone, upon fixed and uniform conditions. Our existing full-legal-tender coinage would, if we authorise the manufacture of no new full-legal-tender money, represent domestically a new standard, the value of which would be the monopoly value of the existing stock of coins. If we introduce a new and more valuable standard, the existing coins would represent domestically the new standard, just as the full-legal-tender silver coins of France and her associates of the Latin Convention now represent domestically not their own independent value, but that of the coins of equal nominal value in gold, which is for the time being, the sole monetary standard of those countries.

9. We are thus quite aware that our standard of value might be enhanced without any immediate change in the body of our currency; and that we might, for a time, enjoy many of the advantages of a gold standard without undergoing the expense of introducing a gold currency. But we wholly distrust the advice and conclusions of those who think that such a state

of things could be tolerated permanently or even for any considerable length of time; in other words, that we could introduce an enhanced standard, and yet, indefinitely, escape the obligation to introduce an enhanced currency. So long as the currency of a country is out of accord with the standard, the country is exposed to all the evils of an inconvertible paper currency; the value of its money abroad differs from its domestic value, and the community is exposed to the depredations of coiners and forgers. It is not, we conceive, necessary for us to multiply arguments on this point: but we must record our deliberate conviction that, although we could, hardly, under any circumstances, hope to effect an enhancement of our standard of value, without being compelled to endure, for a time, the evils inseparable from a currency not truly representing the standard, it would be our imperative duty to adopt immediate and definite measures to bring this state of things to an end, within a specified time, by the introduction of a sound currency, that is to say, of a currency representing the standard by its own independent value abroad as well as at home.

14. To raise the standard of value of any country above its actual or very recent value would be a breach of the public faith. Innumerable contracts are made, day by day, upon the basis of the standard unit of value and in the faith that no change will be made in the standard: the parties to such contracts must accept the risks of any natural and

Breach of public faith caused by raising the standard of value.



fortuitous changes in the value of the standard of value; but although the State might upon sufficient cause shown, properly and with benefit to all concerned, interfere to prevent, by its own act, future violent changes in the value of the standard, it could not, without injustice to numerous private interests, carry any such adjustment far backwards.

15. It is especially important to observe that the State would have no right to change or enhance the standard unit of value either for the benefit of the public revenues, or of any class or classes of the community, however influential or valuable, or on any ground other than that the relations of the whole community were so disturbed by the alteration of the value of the standard that the commonweal required its readjustment.....

---

IX.

*Despatch from the Government of India  
to the Secretary of State for India,  
No. 68, dated 23rd March, 1892.*

We have the honour to forward, for your Lordship's information, a copy of the correspondence.....with the Bengal Chamber of Commerce, in which the Chamber enquires what we propose to do with reference to the heavy fall in the value of the rupee which has followed on the fall in the price of silver in the United States.

2. Your Lordship is aware of the anxiety with which we regard this question, and of its high importance in our estimation as affecting the

interests of India. We have at various times fully expressed our views on the subject, and it is unnecessary to repeat them here. But we desire to say that the violent oscillations in the price of silver since 1890 and its rapid decline during the last year to the lowest point yet reached cause us, as they have caused the mercantile community, the gravest anxiety for the future.

3. We are desirous, as we have always been, of aiding in the settlement of the silver question by international agreement, and if proposals should be made by the United States, or by any other Government for the holding of an international Conference, we trust that Your Lordship will lend those proposals your strongest support.

4. In our opinion it is not open to question that if international agreement is not arrived at, the United States Government will sooner or later be driven either to the adoption of a silver standard or to the abandonment of its purchases of silver. It is certain that the cessation of the purchases of silver by the United States could not fail to depress still further the price of that metal, and the policy to be followed by India in that event deserves the most serious consideration on an early date.

5. The stoppage of the coinage of silver by the United States will probably, if it should come, come suddenly, and if we defer until it has taken place the consideration of the measures which in

that event it may be expedient to adopt, we shall find ourselves unprepared and left with no time for due consideration.

6. We are therefore of opinion that the subject should be considered in all its bearings beforehand, and we recommend that, in view of the possible action of the United States in the future, Her Majesty's Government should now take into consideration the question whether any, and if so what, measures can be adopted for the protection of Indian interests against the further decline in the gold value of the rupee to which, for the reasons we have given, we may be at any moment exposed, and the violent fluctuations in the relative value of gold and silver to which, under present circumstances, we cannot assign any limit either in time or in amount.....

---

X.

*Despatch from the Government of India to  
the Secretary of State for India,  
No. 160, Dated 21st June 1892.*

In our Financial Despatch No. 68, dated 23rd March 1892, we requested Your Lordship to lend your support to any proposals that might be made by the United States of America, or any other country, for the settlement of the silver question by International Agreement. At the same time we called attention to the probability that failing an international agreement, the United States would be forced to stop the purchase and coinage of silver, and we requested that Her Majesty's Government, in view of this contingency should now take into con-

sideration whether any, and if so, what, measures could be adopted for the protection of Indian interests.

2. Since that Despatch was written we have learnt with satisfaction that Her majesty's Government have accepted the invitation of the United States to take part in an International Conference to consider measures having for their object the more extended use of silver as currency, and that Your Lordship agrees with us in the importance of Indian interests being properly represented.

At the same time we cannot overlook the English opposition to bi- strong opposition to the metallism. introduction of the system of double legal tender into Great Britain that has been manifested in certain quarters, and we observe with regret that the Conference has been summoned to consider the question of the more extended use of silver as currency, and not for the purpose of considering the adoption of an International Agreement for the free coinage of gold and silver, and the making of both gold and silver coins legal tender at a definite and uniform ratio.

3. We fear that a refusal on the part of Great Britain to adopt the system of double legal tender may be fatal to an International Agreement for the free coinage of both gold and silver, on a sufficiently wide basis, and we believe that a limited increase of the quantity of silver used as currency will exercise a very trifling influence (if any) in raising, or preventing a fall in the gold price of silver, while it would be wholly

without effect in the far more important matter of preventing fluctuation in the relative value of the two metals. We greatly regret this state of affairs, both because we believe that no other country is so deeply interested in, or would benefit so greatly by, a uniform standard of value throughout the civilised world as Great Britain, with her vast system of trade and the great extent of her finance, and because the final rejection of an International Agreement for free coinage of both gold and silver will leave this country face to face with a problem of the greatest difficulty.

4. If the forthcoming International Conference fails to arrive at a satisfactory decision regarding the question, we apprehend that it will very soon be necessary for the United States to decide either to accept a silver standard, or to abandon the purchase and coinage of silver on a scale in excess of what is required to keep up the necessary subsidiary coinage.

If the United States abandon the attempt to maintain the use of silver as standard money, there must be an immediate and very great fall in the price of silver, which would react on the Indian exchanges and increase indefinitely the rupee burden of our sterling obligations.

The recent fall in the rate of exchange has already imposed upon our finances a burden which we shall have some difficulty in meeting, and we cannot contemplate without dismay the

prospect of another fall of indefinite amount, attended no doubt with great and sudden fluctuations in the gold price of silver, and to be followed possibly by further falls in the future.

It must also be remembered that, if the present conditions continue, the pecuniary difficulties of the Government of India will not be limited to the loss by exchange. The fall in silver causes distress to a very large number of our European officers of all services, but specially of the army, who have to remit money to their families in England. The distress is rapidly becoming acute. It has been borne hitherto with great patience. But, in the case which we have just supposed, we shall, unless the efficiency of the service is to suffer, find it necessary to satisfy, in a reasonable manner, claims involving compensations to a large amount.

5. We have carefully reviewed all the circumstances of the case and we desire to place on record for your Lordship's information our deliberate opinion that if it becomes evident that the International Conference is unlikely to arrive at a satisfactory conclusion, and if a direct agreement between India and the United States is found to be unattainable, the Government of India should at once close its Mints to the free coinage of silver, and make arrangements for the introduction of a gold standard.

In arriving at this conclusion we have been mainly influenced by a consideration of the fact that the abandonment of silver by the United States of America would involve the perpe-

tuation of all the evils from which we have suffered during the last twenty years, and possibly their perpetuation in an aggravated form, unless steps are taken for the establishment in India of a gold standard.

We believe that public opinion in India is ripe for the adoption of decisive measures, that the stoppage of the coinage of silver would be generally approved, and that we might safely count on receiving every reasonable assistance from the commercial and banking classes in the attempt to introduce a gold standard.....

---

## XI.

*Notification by the Government of India, Finance and Commerce Department, No. 2662, dated 26th June 1893.*

The Governor General in Council hereby announces that until further orders gold coin and gold bullion will be received by the Mint Masters of the Calcutta and Bombay Mints respectively in exchange for Government rupees, at the rate of 7.53344 grains troy of fine gold for one rupee, on the following conditions:—

(1) Such coin or bullion must be fit for coinage.

(2) The quantity tendered at one time must not be less than 50 tolas.

(3) A charge of one-fourth per mille will be made on all gold coin or bullion which is melted or cut, so as to render the same fit for receipt into the Mint.

(4) The Mint Master, on receipt of gold coin or bullion into the Mint, shall grant to the proprietor a receipt which shall entitle him to a certificate from the Mint and Assay Masters for the amount of rupees to be given in exchange for such coin or bullion payable at the General (Reserve) Treasury, Calcutta or Bombay. Such certificates shall be payable at the General Treasury after such lapse of time from the issue thereof as the Comptroller General may fix from time to time.

---

XII.

*Notification by the Government of India, Finance and Commerce Department, No. 2663, dated 26th June 1893.*

In suppression of the Notification by the Government of India in the Financial Department, No. 3287, dated the 28th October 1868, which is hereby cancelled, the Governor General in council is pleased to direct that, from and after the date of this Notification, Sovereigns and Half-sovereigns of current weight coined at any authorised Royal Mint in England or Australia shall be received in all the Treasuries of British India and its dependencies, in payment of sums due to the Government, as the equivalent of 15 rupees and of seven rupees and eight annas respectively.

---



## XIII.

*Notification by the Government of India, Finance and Commerce Department, No. 2664, dated 26th June, 1893.*

In exercise of the powers conferred by the Indian Coinage and Paper Currency Act, 1882, as amended by the Indian Coinage and Paper Currency Act 1893, and of all other powers enabling him in this behalf, the Governor General in Council is pleased to direct that currency notes shall be issued by the Head Commissioner of Paper currency Calcutta, and by the Commissioner of Paper Currency, Bombay on the requisition of the Comptroller General, in exchange for gold-coin or gold bullion at the rate of one Government rupee for 7.53344 grains troy of fine gold. Sovereigns and half-sovereigns of current weight coined at any authorised Royal Mint in England or Australia shall be taken as the equivalent of fifteen rupees and of seven rupees and eight annas respectively.

## XIV.

*Extract from a Minute by the Hon'ble Sir David Barbour, dated 16th October, 1893.*

9, We have taken the preliminary steps towards introducing a gold standard into India, and it is of vital importance that our policy should be carried to a successful issue. Before the Indian mints were closed to the free coinage of silver, it was possible to hope that that measure would of itself lead to the rise of the rate of exchange to 1s. 4d., that we should only have to

wait while a gold reserve accumulated under trade influences and that the gold standard could be introduced into India with but little trouble. It seems impossible any longer to entertain the hope that the mere closing of the Indian mints to silver will lead to the accumulation of a gold reserve, and bring about the effective establishment of a gold standard without its being necessary for us to take any further steps in the matter.

According to present appearances the establishment of a gold standard will be a work of time and labour, involving sacrifices so heavy that they may tax our resources to the utmost.

The establishment of a gold standard in India, a work of time and labour.

10. On the other hand, the speedy establishment of the gold standard is most desirable. We have neither a gold standard nor a silver standard; our trade with China suffers severely and our trade with gold standard countries has not so far been appreciably facilitated. The measures taken to improve the position of the European services (the grant of exchange compensation allowance and of favourable rates for the payment in England of rupee pensions and furlough allowances) have, in round figures, converted a rupee liability of Rs. 4,380,000 into a sterling liability of £3,812,000. This conversion at favourable rates of rupee liabilities into sterling liabilities has added materially to our rupee expenditure, and the additional expenditure will increase with every fall in the exchange value of the rupee, and must aggravate our financial diffi-

culties so long as we are unable to effectively establish the gold standard.

11. The establishment of the gold standard in India has been undertaken under specially unfavourable conditions.

In the first place, the drawings of the Secretary of State are very great in proportion to the magnitude of India's trade and of her total revenue, and, as I have already shown, these drawings do not constitute the whole of the burden of this nature which falls on that trade.

In the next place, we are attempting to introduce, or hoping that we may be able to introduce, a gold standard at a higher rate of exchange than that which prevailed when the Indian mints were closed to the free coinage of silver. ... a task the magnitude of which it is impossible for us to measure.

In the third place, we are trying the experiment when our finances are seriously embarrassed, and when expenditure materially exceeds revenue.

Considering the magnitude of the interests at stake, and the difficulties we have to meet, we ought not to throw away a single chance, or to do anything which might delay success by a single month. The longer the delay in establishing the gold standard, the weaker will be the confidence of the general public in our ability to make the gold standard effective; and the greater our loss of credit, the more difficult will our task become....

13. The only sound and certain method of establishing the gold standard is to be found in the necessary reduction of the rupee currency. We know that there are many coined rupees in existence which may be poured into that currency and we can neither say what the total amount may be, or what length of time it may take to make the necessary reduction. Nevertheless the difficulty must be faced, and the sooner it is faced the better. There can no real reduction of the currency until we possess a surplus of revenue over expenditure which may be devoted to this purpose, and in my opinion the primary duty of the Government of India is to re-establish financial equilibrium either by reducing expenditure or by imposing additional taxation. Any surplus that would then be available should be devoted to the withdrawal of the redundant currency. The process may be tedious and difficult and involve a heavy sacrifice, but if we persevere in this course we may hope that the gold standard will ultimately be established, and by no other process can we make certain of arriving at the desired result.

14. The task of establishing a gold standard will be facilitated if, at the same time, we can succeed in reducing the total amount of the remittances to England, and in any case we ought scrupulously to avoid increasing them. However beneficial the construction of new Railways may be, we must recollect that a heavy expenditure from borrowed money on Railways would not only involve, for a time at least, an increase of net expenditure and thus render it more difficult to es-

establish financial equilibrium, but would add permanently to the amount that has to be remitted to England, and thus directly tend to depress exchange, and counteract any efforts we may make towards the establishment of the gold standard.

The measures which the Government of India should adopt, are in my opinion, as follows :—

(1) The immediate establishment of financial equilibrium, whatever the cost may be.

(2) The devotion of any surplus that may be obtained to the reduction of the number of coined rupees in circulation, such reduction of the currency to be carried as far as may be found necessary to produce the desired result.

(3) The reduction of, or at least the avoidance of any increase to, the Home charges and the total remittances to England—a process which necessarily involves the application of a strict limit to the construction of Railways and Canals from borrowed money, and which, if the Famine Grant is suspended, will necessitate a contraction of the present Public Works programme.

---

#### XV.

*Extract from the Despatch from the Government of India to the Secretary of State No. 261, dated the 16th September 1897.*

“ We have the honour to acknowledge receipt of your Lordship’s despatch No. 129 of August 5, 1897, asking for our opinion whe-

The proposal to reopen Indian mints to silver

ther the Indian mints may be reopened to silver as part of a contemplated arrangement under which France and the United States of America will open their mints to silver as well as gold.

3. The changes which are involved in the arrangements proposed to Her Majesty's Government are the following. France and the United States are to open their mints to the free coinage of silver, continuing the free coinage of gold and the unlimited legal tender of coins of both metals, the ratio remaining unchanged in France and being altered to the French ratio of  $15\frac{1}{2}$  to 1 in the United States. India is to open her mints to silver, to keep them closed to gold, and to undertake not to make gold legal tender. France and the United States would thus be bimetallic; India would be monometallic (silver); while most of the other important countries of the world would be monometallic (gold).

4. The object which the proposers have in view is the establishment of a stable relation between the values of gold and of silver. This would include the establishment of a stable exchange between the rupee and sterling currency, which was the object of the Government of India in the proposals made in our Financial despatch No. 160 of June 21, 1892, which proposals ultimately resulted in the adoption, in view to the attainment of that object, of the policy of a gold standard, and in the closing of the mints to the free coinage of silver.

If then it were certain that the suggested measures would result in the establishment of a

stable ratio, the Government of India might well consider whether their adoption would not be preferable to the policy to which they committed themselves in 1893 in the hope of attaining the same result by isolated action on the part of India alone. The principal questions, therefore, for us to consider are whether the measures are more likely to succeed than the policy of 1893, and what consequences to India may be apprehended if the measures should fail of success after being brought into operation.....

5. The first result of the suggested measures, if they even temporarily succeed in their object, would be an intense disturbance of Indian trade and industry by the sudden rise in the rate of exchange which, if the ratio adopted were  $15\frac{1}{2}$  to 1, would be a rise from about 16*d.* to about 23*d.* the rupee. Such a rise is enough to kill our export trade, for the time at least. If the public were not convinced that the arrangement would have the effect intended, or believed that it would not be permanent, the paralysis of trade and industry would be prolonged and accompanied by acute individual suffering; none of the advantages expected would be attained; and the country would pass through a critical period which would retard its progress for years.....

8. Moreover, it seems to us somewhat unfair to expect that India should, after its struggles and difficulties of the last decade,

Success of the policy of 1893.

consider itself on the same plane in the discussion of these projects, as France and the United States. India has since 1893 passed through a period of serious tension and embarrassment alike to trade and to the Government. We are satisfied that, great as have been the troubles which have attended this period of transition, the attainment in the end of the paramount object of stability in exchange is worth more than all the sacrifices made. We believe that our difficulties are now nearly over and that we shall in the near future succeed in establishing a stable exchange at 16*d.* the rupee by continuing the policy initiated in 1893.....

20. We believe, however, that whatever inducements are held out to us by other nations, our best policy in monetary matters is to link our system with that of Great Britain. Our commercial connexions with that country are far more important than those with all the rest of the world put together, and more than a sixth part of our expenditure is incurred in that country, and measured in its currency. The advantages which in this respect we gain by following the lead of Great Britain, are not obtained, or not fully obtained, if we become members of a monetary union in which Great Britain takes no part. And indeed, as we have already explained, we have little hopes of an efficient union being formed unless Great Britain is a member. We think it a reasonable position for us to take with regard to the present proposals by France and the United States, that

Indian currency system should be linked with that of Great Britain.



we should say that the Government of India strove long and earnestly to further the formation of an International Union: that when they saw that the opposition of England rendered impossible the attainment of that object within any measurable time, they temporarily abandoned their efforts in that direction and decided, as the least prejudicial of the courses open to them, to throw in their lot with Great Britain and to adopt the gold standard: that, as it appears improbable that an effective union will be formed without the adhesion of Great Britain, and as the measures adopted to introduce a gold standard in India are now approaching final success, they consider that it will be wisest to adhere to the course adopted in 1893 until Great Britain is prepared to join in international bimetallism; and that therefore they wish to adhere to the same monetary standard as Great Britain, with which nation they are most closely linked both in respect of their commercial relations and in all other respects, and to refrain from becoming a party to arrangements with other nations in which Great Britain sees ample reasons for refusing to join.....

30. To sum up, our reply to Your Lordship's reference is a strong recommendation that you should decline to give the undertaking desired by France and the United States. Our unanimous and decided opinion is that, it would be most unwise to reopen the mints as part of the proposed arrangements, specially at a time when we are to all appearance approaching the attainment of

stability in exchange by the operation of our own isolated and independent action.

---

XVI.

*Extract from the Report of the Indian Currency Committee of 1898.*

\* \* \* \* \*

It is of greater practical importance at the present time to consider what steps the Government of India contemplated taking when, by their methods, that state of things had been established which is in actual operation to-day. They did not definitely propose to make gold coins a legal tender; but they did not hesitate to express the opinion that "the only state of things which can be called a thoroughly satisfactory attainment of gold standard is one in which the gold coins which represent our standard are those also which are good for payments in England." As a matter of principle therefore, the Government of India favoured a gold standard *with* a gold currency.

49. This brings us to the consideration of schemes which have been proposed for establishing a gold standard *without* a gold currency. Great stress has been laid upon the hoarding habits of the natives of India; and, in view of the direct encouragement which a gold currency might give to the hoarding of gold, it has been represented to us by Mr. Lesley Probyn that, "if gold coins were passed into the currency it would beat first like pouring water into a sieve." He accordingly proposed (1) to institute a separate

issue of gold notes of the denomination of Rs. 10,000; (ii) to issue such notes only in exchange for gold; (iii) to make them payable (at the option of the holder) either in rupees or in gold; (iv) to make it optional to the Currency Department, when gold is demanded, to pay either in sovereigns or in gold bars of not less than 67½. It was hoped that gold would be attracted to India, and that a gold reserve would be gradually accumulated which would be strong enough to allow the Government to undertake ultimately the universal convertibility into gold of all rupees and rupee-notes, when presented in parcels of not less than Rs. 10,000. Under the scheme the gold standard would be left to automatic agencies to establish, and its establishment would coincide with an ultimate undertaking to exchange rupee currency for gold bars of high value.

50. On this scheme we may remark that, while bullion may be regarded as the international medium of exchange, there is no precedent for its permanent adoption for purposes of internal currency; nor does it accord with either European or Indian usage that the standardised metal should not pass from hand to hand in the convenient form of current coin. No real support for such a scheme is to be drawn from the purely temporary provisions of "Peel's Act" of 1819 whereby, for a limited period, the Bank of England, as a first step to the resumption of cash payments, was

authorized to cash in stamped gold bars, its notes, when presented in parcels of 300*l*. Little or no demand for gold bullion appears to have been made on the Bank under these temporary provisions, which were repealed at the instance of the Bank itself in 1821.

As regards the hoarding difficulty in India, we are not satisfied that the danger therefrom is so great as has been suggested. There is little or no likelihood, even according to the most sanguine view, that for a long time to come gold coins, even if declared a legal tender forthwith, would find their way to any great extent into general circulation. Even under silver monometalism India imported and absorbed gold, as she is doing to-day and as she may be expected to do in the future, no matter what her system of currency is. In a strongly conservative country like India no sudden changes are to be expected in the habits and customs of the people, particularly in matters relating to currency and hoarding, but, while we must look to the continuance of the habit of hoarding, we may also feel satisfied that, until gold has penetrated into general circulation (so far as the relatively small transactions of India permit), there will be no materially increased temptation to the natives of India to hoard gold instead of silver. Moreover, the introduction of a gold currency into India would not be an untried experiment. As has been shown above, gold coins were in common circulation in India generally within living memory, and were expressly

stated in 1806 to form the principal currency and money of account of Madras. If hoarding did not render a gold circulation an impossibility in the past, we look for no such result in the future.

51. Consequently, we are of opinion that the habit of hoarding does not present such practical difficulties as to justify a permanent refusal to allow India to possess the normal accompaniment of a gold standard, namely, a gold currency.

54. We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption.

55. Under an effective gold standard rupees would be token coins subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the

Convertibility.

amount for which they should constitute a legal tender ; indeed, for some time to come, no such limitation can be contemplated.

\*            \*            \*            \*

57. Outside the United Kingdom there are two principal instances of Convertibility in France and the United States. countries with a gold standard and currency, which admit silver coins to unlimited tender. These countries are France and the United States of America. In France the five-franc piece is an unlimited tender and for all internal purposes is equivalent to gold. The same remark applies in the United States to the silver dollar. At the present time there is no addition to the coinage either of five-franc pieces or of United States' silver dollars. In the case of the five-franc piece, there was free coinage up to 1874 ; in January the coinage was limited and in November 1878 it was suspended altogether. With the repeal in 1893 of the purchasing clauses of the Sherman Act, the same result was reached with regard to the United States' silver dollar. Both in France and in the United States the mints are now closed to the coinage of silver coins of unlimited tender. In neither country are such coins convertible by law into gold ; in both countries alike they are equivalent to gold for all internal purposes. For international payments, so far as specie is concerned, France and the United States depend ultimately on the international medium of exchange, which is gold. In the last resort, it is their gold which, acting through the foreign exchanges, maintains

the whole mass of their currency at its nominal value for internal purposes.

58. We do not doubt that it is, in theory, possible to attain the same result in India, as in France and the United States of America, by limitation of the quantity of the rupee currency.

Restriction of the rupee currency would raise the gold value of the rupee.

The special difficulty in the case of India is one of degree and not of principle. We are unwilling to commit ourselves to the acceptance of the estimates which have been made of the number of rupees actually circulating in India. There can be no doubt but that it is very large; and there are also large quantities of rupees in existence which, though not actually circulating, might, under certain conditions, be brought into circulation. On this account doubts have been entertained in the past whether the mere closing of the Indian mints to silver would, in practice, be attended with such a restriction of the rupee currency as would make the rupee permanently exchangeable for gold at a fixed rate.

The experience which has been gained since the closing of the Indian mints supports the belief that this result will be attained. From the nature of the case, the demand for rupee currency increases every year; there is no evidence that large quantities of rupees that were formerly hoarded have been thrown into circulation since the mints were closed; the exchange has risen steadily since 1894-95, and the rupee is now actually exchangeable for gold at the rate of 1s. 4d.;

while the demand for additional currency has been so great that over 2,370,000 l. in gold has been paid to the Indian Treasury for the purchase of silver rupees.

The forces which affect the gold value of the rupee are complicated and obscure in their mode of operation, and we are unable, therefore, to say positively that the mere closing of the mints to silver will, in practice, lead to such a limitation of the rupee currency, relatively to the demands for it, as will make the rupee permanently exchangeable for gold at a fixed rate; but we have no hesitation in expressing the opinion that the experience of the last few years, so far as it goes, indicates that this result is attainable - if, indeed, it has not already been attained.

59. The position of the currency question in India being such as we have explained in the preceding paragraph, we do not consider it necessary to recommend a different policy in the case of that country from that which is found sufficient in France and the United States, by imposing a legal obligation on the Government of India to give gold for rupees, or, in other words, to substitute the former for the latter on the demand of the holders. This obligation would impose on the Government of India a liability to find gold at a moment's notice to an amount which cannot be defined beforehand, and the liability is one which, in our opinion, ought not to be accepted.



Although the Government of India should not in our opinion, be bound by law to part with its gold in exchange for rupees, or for merely internal purposes, we regard it as the principal use of a gold reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point ; and the Government of India should make its gold available for this purpose, when necessary, under such conditions as the circumstance of the time may render desirable. For example, the Government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the gold which it may hold—a corresponding reduction being made in the drawing of the Secretary of State ; and when it has accumulated a sufficient gold reserve, and so long as gold is available in its Treasury, it might discharge its obligations in India in gold, instead of in rupees.

60. The exclusive right to coin fresh rupees must remain vested in the Government of India ; and though the existing stock of rupees may suffice for some time, regulations will ultimately be needed for providing such additions to the silver currency as may prove necessary. The Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public. We also recommend that any profit on the coinage of rupees should not be credited to the revenue

or held as a portion of the ordinary balance of the Government of India but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.

---

XVII

*Despatch from the Secretary of State for India, No. 140 (Financial), dated the 25th July, 1899.*

6. Her Majesty's Government have given to this report \* the careful consideration which its great importance deserved; they are impressed by the array of arguments and facts embodied in it; and they have come to the conclusion that it is advisable to accept generally and act upon the principles which it recommends.

7. I have therefore decided in Council that the policy of keeping the Indian Mints closed to the unrestricted coinage of silver shall be maintained; and I request that you will, as soon as you may deem it expedient, take the necessary steps to make the British sovereign a legal tender and a current coin, and that you will make preparations for the coinage of gold under the conditions suggested by the Committee. As regards the permanent ratio which the rupee should bear to the sovereign, after carefully weighing the arguments of those who are in favour of a lower rate than that which now obtains, I have no hesitation in accepting the view of the majority, who recommend an ex-

---

\* Report of the Fowler Committee, 1898.

change rate of 16 pence per rupee, or 15 rupees to the sovereign, and in this opinion I am confident that your Excellency's Government, especially after the experience of the last eighteen months, will be disposed to concur.

8. I am also in accord with the Committee as to the general principles by which your Government should be guided in the management of your gold reserves in the absence of a legal obligation to give gold in exchange for rupees, namely, that you should make it freely available for foreign remittances whenever exchange falls below specie point, under such conditions as the circumstances of the time may render desirable.

---

XVIII.

*Despatch to the Secretary of State for India,  
No. 301, dated 24th August, 1899.*

8. We note with great satisfaction that the Committee and Your Lordship are agreed that we should not accept any legal obligation to give gold in exchange for rupees. To undertake any such obligation at this stage would involve borrowing an indefinite amount of gold for the purpose of convertibility, and to such a course there are the strongest and most obvious objections. Moreover, a stock of gold acquired for this object would be watched with excessive anxiety, and any shrinkage in its amount would be likely to foster apprehension, if not panic. At the same time we hasten to add that we must aim at the attainment, with the least avoidable delay, of practical convertibility, such as exists in France.

9. We also concur in the determination that the rupee shall remain full legal tender as at present. It is not likely that gold will ever penetrate freely into the country, or be used except in the larger centres and to some extent along the railways, since gold coins represent too great a value for ordinary transactions, which will, in the main, continue to be carried out by the use of silver. Gold, in our opinion, will remain a marginal currency. Any restriction on the use as legal tender of the rupee would, moreover, be an unnecessary and arbitrary interference with the habits of the native population. The closing of the Mints, essential as that measure was, has had a certain depressing effect upon that metal which forms the favourite investment of the savings of the people; and any semblance of hostility to silver should, in our opinion, be rigorously avoided. We do not anticipate any more inconvenience under such conditions than has been felt in France from the maintenance of the full legal tender value of a mass of silver currency which is probably equal to the dimensions of our rupee currency.

10. The question of making our gold reserve freely available for foreign remittance is one in which the Indian business community is keenly interested. It is a question that touches them more nearly than any other connected with the currency, and hence it is that they have given such a large measure of approval to proposals for establishing a fund to be specially kept available for foreign remittances. But, though we could not consent to such proposals, we have the

strongest opinion that our gold reserve should be available for foreign remittances, and that the natural and proper function of gold, when the standard is established, will be to flow in and out of the country in response to the seasonal demands of trade, and so to impart elasticity to our currency. After the gold standard has been firmly established, the inflow and outflow of gold will be automatic; but at the beginning of the new system the particular manner in which the gold reserve may be drawn upon for the purpose of securing stability in exchange must be considered and determined in the light of circumstances as they may arise. Probably, for some time to come, the only method to be employed will be to remit gold to Your Lordship when exchange shows a tendency to fall below specie point, and to reduce the drawing of Council bills by an equivalent sum. We may also proceed in time to discharge obligations in gold, or to pay certain classes of currency notes in gold, and gold so paid would reach the Banks and be made available for foreign remittance.

---

 XIX.

*Extract from "Ricardo's Exchange Remedy"*  
*by A. M. Lindsay, published in 1892.*

Towards the beginning of the present century trade in England was disturbed by the want of fixity in the foreign exchanges. In 1810 the Bullion Committee was "appointed to enquire into the cause of the high price of gold bullion, and to take into con-

Depreciation of Bank of England notes in the Restriction period and Ricardo's plan for securing a stable exchange.

sideration the state of the circulating medium and of the exchanges between Great Britain and foreign parts," The result of this investigation will be found to correspond with the conclusion arrived at by the late Royal Commission regarding the cause of the high price of gold bullion in India and the fall in the gold value of the Indian currency and other silver. The Bullion Committee held that the high price of bullion and low state of the Continental exchanges in those days arose from the suspension of the conversion of the circulating medium into gold. The members of the Royal Commission were unanimously of opinion that the bimetallic system, when in force, "kept the market price of silver approximately fixed," and they held that the low and the uncertain state of the Indian exchange is primarily attributable to the fact that silver can no longer be converted on demand into bimetallic money, which was equivalent to gold. The cause of the evil in both cases was the suspension of convertibility into gold. The convertibility in the one case was direct, in the other indirect, but none the less effective. The Royal Commission came to no agreement with regard to a remedy, whereas the Bullion Committee reported unanimously that the only adequate remedy was to make the currency convertible on demand into gold. The currency at that time was based on inconvertible notes of the Bank of England, and Mr. Ricardo suggested that convertibility into gold to the extent necessary to give stability to the foreign exchanges might be secured, and all legitimate requirements met, by the simple and economical

expedient of arranging that the Bank of England should sell its paper money at a fixed gold price and buy back the notes when desired at  $1\frac{1}{2}$  per cent. below that price, the gold employed to be in the shape of gold bars or any other form that would prevent its being used as a medium of local payment. He said a currency is in its most perfect state when it consists of cheap material, of an equal value with the gold which it professes to represent.....and he added that a currency of this description might be equally well issued by a Government as by a Bank.

This proposition of Mr. Ricardo was recommended by the Committee of the House of Lords and Commons appointed in 1819 to consider the expediency of the Bank of England resuming gold payments, and was afterwards adopted on a temporary footing in the Bill for their resumption, introduced by Sir Robert Peel. From 1st February 1820, to 1st May 1823, the value of the English currency was raised gradually and successfully from its degraded position to the old fixed standard of £3 17s. 10½d. paper money to the ounce of gold, by making the notes convertible into gold bars, that could not be used in the internal circulation. This short trial is the only one ever given to Ricardo's scheme, and it passed through the ordeal satisfactorily. The arrangement appears to be in every respect a suitable precedent for the Government of India to follow, as a temporary expedient at all events ; and it is the

Success of Ricardo's plan. Its suitability for India.

duty of the Indian authorities to consider carefully whether this scheme of currency, which was devised by our greatest currency authority, not merely as a temporary remedy but as a permanent measure of reform, should not be adopted in India on a permanent footing. The reasons that induced Sir Robert Peel to prefer Lord Overstone's standard coin scheme to Mr. Ricardo's standard bar plan, as a permanent arrangement, were explained in his speech to the House of Commons on the 6th May, 1844. They will be found to be inapplicable as objections to the adoption of the latter scheme in India. He said, "it would be quite consistent with the principle of the metallic standard..... to dispense with gold coins altogether and regulate the amount and value of paper currency by making it convertible only, according to the proposal of Mr. Ricardo, into gold bullion of a given amount..... There is no doubt some expense in the maintenance of the metallic circulation, but none in my opinion sufficient to countervail the advantage of having gold coin generally distributed throughout the country accessible to all.... The most effectual measure for promoting confidence in the paper circulation of the country is to require that the gold coin shall be in general use for small payments." These objections have little weight now-a-days. On the one hand, experience has shown that gold coins in pockets or tills are of no use as a support to a note or a token coin system. They are not available as a reserve, as they are not get-at-able at times of an internal or a foreign drain. On the other hand;



the question of a scarcity of gold has assumed great importance. The Royal Commission, in rejecting a modification of Ricardo's scheme submitted by Professor Marshall, did not repeat Sir Robert Peel's objections. All they said was that the disuse of gold coins involved too great an alteration in our system of currency. It will be generally admitted, I think, that whatever force the objections made by Sir Robert Peel and the late Royal Commission may have with regard to the adoption of the scheme in England, they are inapplicable to the proposed introduction of the system into India. Gold coins are not used there, and the acceptability of the silver coins now in use will be disturbed rather than promoted if they have to compete with gold coins or public favour. In Europe, where paper money is popular, there is less reason to prefer gold coins; but in India where notes are little used and legal tender coin is largely hoarded, portable and full value coins would be apt to displace and discredit cumbrous coins bearing extrinsic value.

In applying Ricardo's proposals to India

Details of the scheme recommended for adoption.

little modification is necessary either of the proposals or of Indian currency arrangements. The only change in the proposals will be the substitution of sterling money for gold bars, and rupees for paper money. In India the currency mediums now in use will continue to be employed, and the alteration in

the conditions under which they circulate will be felt by the general community as little as the motion of the earth on its axis. When additional currency is required in India at present, it is obtained from Government in two ways. Council drafts are purchased at the Bank of England, or silver bullion is imported, which can be coined at a small charge at the Indian mints. In order to carry out Ricardo's proposals, this open coinage of silver will be stopped and fresh rupees will be obtainable only by purchase of Council drafts. This arrangement will increase the demand for these drafts; and the Bank of England, instead of selling them at rates that fall in accordance with the sterling price of silver bullion, will sell them freely to all applicants at a fixed sterling rate, sufficiently high to enable the Indian mints to coin rupees at a profit to meet the Council bills. The Bank of England will, thus, on behalf of the Secretary of State, have the monopoly of the sale of Indian currency at a profitable sterling price, and all that is asked in return is that it will engage to buy back, when desired, at 1*d.* below that price, any rupees that have been overissued and are tendered for reconversion into sterling up to the limit hereafter specified.....

" If free coinage in the United States or any other cause should raise the gold price of silver above the rate adopted in India, the Government would be forced to issue rupees at a loss."

An objection answered.

This objection is met by the stipulation in the scheme that the rate adopted in India for the issue of rupees shall be one profitable to Government. If the gold price of silver should rise above the Indian rate, it will be necessary to fix upon a fresh sterling price for the issue of rupees. This change would cause an unfortunate fluctuation in exchange; but this fluctuation would be greater under the present system, and one fluctuation is less injurious than many.....”

---

 XX.

*Extract from the evidence given by Mr. A. M. Lindsay before the Indian Currency Committee of 1899.*

3588. What are your objections to having gold coins in circulation?  
 Objections to a gold One objection is to prevent  
 currency for India. hoarding. What are the  
 others?—Expense.

3589. There is a certain saving which accrues to the Government, and to the community, and not to the individual. (Mr. Harmbro) At a loss to the individual.

3590. (Sir D. Barbour). It is a loss if he has ever to deal with the coin at its intrinsic value, otherwise there is no loss. Then do you think that the absorption of gold in India might go so far as to enhance the value of that metal seriously to appreciate it?—You mean if gold coins were introduced?

3591. Yes?—I look for an enormous

circulation of gold coins in India if the natives have the opportunity of using them.

3592. You look to an enormous circulation?—  
An enormous circulation for this reason: India is entirely exceptional in this respect, that the natives will not use paper money, not because they have not large payments to make, but simply from an inherited dislike of paper currency; and for that reason there would be a large demand for the gold coins if they were made legal tender.

3593. Do you think this would, under the circumstances, lead to an injurious appreciation of the standard of value?—I think, myself, that the two uses of gold combined, for hoarding and for internal circulation—would be so enormous that it would create a serious disturbance in the London money market.

3594. I did not ask what the effect on the money market would be, but whether the state of things you describe might seriously appreciate the standard of value; that is cause a very injurious fall in prices?—A large demand for gold would tend to create a fresh fall in gold prices.

3595. You think it might cause a very injurious fall in prices?—I think it is a risk that India should not run into with a large gold debt.

3596. Then you think that the risk of appreciation is a serious one?—It is considerable. It is very difficult to say how far gold might appreciate, but I think it is a risk that a wise government would avoid.

3597. Of course the Government of India could not prevent other nations from adopting a gold standard?—The Government of India could not prevent other nations from adopting a gold currency, but I think if it establishes a currency on this footing you will find a great many countries would imitate her.

3598. Most of them have established, or nominally established a gold currency already? — Still there are a great many that have inconvertible paper, countries such as Brazil and others, and they would find it easy to follow the example of India. I believe also that a number of other countries, which at present find a difficulty in maintaining a gold currency would follow the example of India, and find it easy to maintain a gold standard.

3599. On our system?—On a system similar to this. I think that the example of India would be beneficial all round.

3600. I dare say you are aware in Russia they have gone to the very opposite of your system; I do not say that they are right, but in Russia paper is very popular, and the people do not want to take gold. But I understand the Russian Government is forcing them now to take gold instead of paper?—So I understand, and I think that is a mistake on the part of the Government.

3601. Can you give any instance previous to the present time of any country establishing a gold standard and positively taking measures to prevent the people obtaining gold for circula-

tion?—It was done in Scotland, and it was recommended to be done in Ireland. The system prevails very much in Holland at present.

3602. In Scotland was there any objection to gold circulating at the time the scheme was introduced there?—The bank notes were made convertible into drafts on London instead of into gold coins, for the sake of economy.

3603. But have you ever heard of a nation introducing a gold standard, and at the same time taking steps to prevent the people from having gold coins?—In Holland, at the present moment, they discourage the use of gold for internal purposes as much as possible, but they do not actually prohibit it. In Canada, little gold coin is used, and the West Indies have a gold standard without using gold coins; but these instances do not quite meet your question.

My reply would be that if it has not been done up to the present, it has been recommended by the highest authorities.

3604. And if it is a good thing, there is no reason why it should not be done?—Quite so.

---

## XXI.

*Extract from the evidence given by Professor Alfred Marshall before the Indian Currency Committee of 1898.*

11,792. Would you wish to add anything on the question whether a depreciating currency gives a bonus to any of those engaged in producing for export?—The influence of a relatively depreciating currency upon the

Effect of a fall in exchange on the export trade.

position of the exporter has been the subject of a very long controversy in which I have taken a somewhat lengthy part, as a good deal of my evidence before the Gold and Silver Commission bore upon that subject. I find that those who think that a relatively depreciating currency gives a bounty to the export trade, generally quote in support of their conclusion facts which I should not dream of calling in question, and I think it may be well to state what seem to me to be matters common to both sides, matters which are not in dispute. The dispute is whether from these facts it follows that a depreciating currency gives a bounty to the export trade. It is common ground that, if the price at which an exporter sells his goods in foreign markets be taken as fixed, then a fall in the value of his own currency, relatively to foreign currency, of one per cent. increases his gross currency receipts by one per cent., and is likely to increase his profits in a much larger proportion, or to turn a loss into a profit. Expert witnesses have been called, and numerous expert writings have been written by people making a point of the fact that they are actually engaged in trade, and in a position to prove that this is the experience of practical life, but really no experience is needed: the result follows from an elementary application of the first rules of arithmetic: and it has never, so far as I am aware, been doubted by any person in the world. It is common ground also that, if the currency in India is rising in value, while that in, say, China, is falling in value, then the employers in

India having to pay relatively increased fixed charges, salaries, wages &c., may be complaining of hard times, while the employers in China are making good profits. This will, perhaps, be expressed by saying that currency changes are giving an advantage, or a premium, or a bounty, to the Chinese employers as compared with the Indian. If these employers in India are producing for export to foreign countries, they may be described as exporters; and it may be said then that the Chinese exporters have a bounty in comparison with the Indian exporters. But this appears to me to be an incorrect way of expressing an undoubted fact: for, first, the gain of the Chinese employer is independent of the accident that his goods are exported; and secondly, it is at the expense partly of the creditors who are financing his export industry, but mainly of the employees in it. Now if one says that the export trade of a country is conterminous with the undertakers of business enterprise, who are generally employers, and that anything that benefits the employers is a bounty on the export industry, then the proposition may be conceded. But, as I hold that the creditors who finance an industry that produces for export have some share in the export trade, and that the employees who make the thing for export have a very large share—quite as large a share as the undertaker—holding that I do not admit the proposition. If the statement is that a depreciating currency gives a bounty to the employer who is producing for export, I admit it; only, I add, the bounty is just the same, and at the expense of just the



same people, as that which he would get from a depreciating currency if he were producing for his home market, and not for export. Again, it is common ground also that, when a country lends capital or returns any of its borrowings, or increases its payment of foreign dues (for example increased sales of Council bills), or has increased its imports above their wont, then there is an increased demand for exporters' bills; that this is necessarily accompanied by a fall in the value of that country's currency relatively to foreign countries, causes a stimulus to exports, and increases, for the time, the profits of exporters. But all this does not go to show that a depreciated currency is a bounty to exporters in the way of causing an increase of exports relatively to imports. On the contrary, any stimulus to exports relatively to imports which is not accompanied by lending to foreign countries, or returning loans, must necessarily be followed and compensated, by an exactly equal falling off of exports relatively to imports. For it causes an excess of exporters' bills, and that gives at once a bounty to imports. If the bounty is not sufficient, the discount on exporters' bills rises, and therefore, the bounty on imports rises, until precious metals or other goods come in.....If gold prices have remained stationary, while the rupee has depreciated 10 per cent. in terms of commodities, then the employer in India is better off than English employers. He gets 10 per cent. more rupees for his produce, whether he sells at home or abroad: he has to pay but few more rupees in wages, since wages have not risen fast; and so he gets higher profits whether he sells at home

or abroad. Most of his sales are, in fact, to gold countries; so he regards as a benefit arising from the exchange and accruing to the trade what is really a benefit arising through the depreciation of the currency and going to the employer chiefly, but being taken from the employee.

---

 XXII.

*Extract from the Report of the Indian Currency Commission, 1914.*

44. It will be clear from the above summary

The Indian Currency system as it exists at present.

that the measures taken to maintain the exchange value of the rupee have been, to use the words of our refer-

ence, less in pursuance of the recommendations of the Committee of 1898 than supplementary to them. As already pointed out, the Indian authorities duly carried out the recommendations of the Committee to make the sovereign legal tender in India, and to establish a Gold Reserve. But their first efforts to force the sovereign into circulation having failed, they abandoned the attempt actively to encourage the circulation of a gold currency in India, and, as a corollary of this change of tactics, they kept the gold Revenue in London for use in support of exchange.

45. The investment of the Gold Standard

Government's inability to carry out the recommendations of the Fowler Committee and the adoption of the Lindsay scheme.

Reserve in securities in London, the dropping of the scheme for a gold mint in India, the practice of selling Council Drafts at something below gold point against the

Currency Reserve, the establishment of the silver branch of Gold Standard Reserve, the diversion in 1907 of money from the Reserve for capital expenditure and its use in 1908 for meeting the drafts sold by the Government of India on London to private traders, are all examples of divergences from the scheme adumbrated by the Committee. Thus, in spite of the fact that the Government adopted and intended to carry out the recommendations of the Committee of 1898, the Indian currency system to-day differs considerably from that contemplated by the Committee, whilst the mechanism for maintaining exchange has some important features in common with the suggestions made to the Committee by Mr. A. M. Lindsay. The system actually in operation has accordingly never been deliberately adopted as a consistent whole, nor do the authorities themselves appear always to have had a clear idea of the final object to be attained. To a great extent this system is the result of a series of experiments.

46. But to state this is by no means to condemn the action taken or the system actually in force. Indeed, it is fairly certain that a too rigid adherence by the authorities since 1899 to any one preconceived course would have had unfortunate results. The experience gained from Indian experiments in currency from 1893 onwards, and the experience of British Colonies, such as the Straits Settlements, and of other countries, such as the Philippines, which have followed the Indian example, have thrown much new light on the working of currency laws. It is possible, looking

back on events in the light of this experience, to see that the present Indian system has close affinities with other currency systems in some of the great European countries and elsewhere, but it was universally believed in 1893 and 1899 that what was being done in India was an entirely new experiment. This being so, the Indian authorities exercised a natural discretion in interpreting the recommendations of the Committee of 1898.

47. But it is desirable that, in the light of experience gained since 1898, an attempt should now be made to review and restate the principles which should guide the authorities responsible for the Indian currency system. Although the first efforts actively to encourage the use of gold in circulation in India proved a failure and have not been repeated, many people in India still regard the recommendations of the Committee of 1898 as laying down the principles on which the currency system should continue to be developed. We have had it in evidence from one of the non-official witnesses (Q. 3977) that he personally does what he can to encourage the people with whom he comes in contact to use sovereigns rather than rupees, and the evidence which we have received shows the existence of a widespread belief, both in official and in unofficial circles, that a gold currency in active circulation is the final goal to be aimed at.

48. The crisis of 1907-8 was the first great test to which the Indian currency system, as developed

The crises of 1907-08.

since the date of the Report of the Committee of 1898, was put, and the arrangements made for maintaining the exchange value of the rupee stood the test well. The sudden fall of exchange to 1s. 3 $\frac{2}{3}$  $\frac{1}{2}$ d. in Calcutta in November, 1907 was due, not to any insufficiency in the sterling resources of the Government, but to a temporary failure to utilise those resources properly. No one in either official or unofficial circles had any experience of the machinery required for meeting the crisis, nor had any plans been fully worked out in advance for dealing with such a crisis. As may be seen from the interim report of the Indian Railway Committee of 1907 already quoted, the India Office apparently believed that the sole, or at any rate the main purpose of the Gold Standard Reserve was to meet the requirements of the Secretary of State in London when Council Drafts could not be sold, while the Government of India made the mistake of refusing to give gold from the Paper Currency Reserve for export, though allowing their gold to be drained away for internal uses. Both authorities thus failed to recognise the wisdom of the recommendations of the Committee of 1898 that the principal use of a gold reserve is that it should be freely available for foreign remittances whenever the exchange falls below specie point. But it is fair to add that the Committee of 1898 themselves seem to have believed that a cessation of the sale of the Council drafts, combined with the use of funds from the Gold Standard Reserve for meeting the requirements of the Secretary of State in London, would suffice to maintain exchange, without any provi-

sion of gold by the Government for private export.

49. These mistaken ideas were, however, very quickly, rectified in practice, and the steps taken to restore and maintain exchange proved adequate. It is easy to see after the event that in this or that point a mistake was made, but, regard being had to the difficulties and the novelty of the circumstances, the final success achieved by the Indian authorities both in India and in this country must be recognised as a proof of the soundness of the currency scheme itself and of the measures ultimately taken for meeting the crisis.

50. The first lesson to be learnt from the experience of the last fifteen years is that the Indian currency system has not developed on the lines of the system adumbrated by the Committee of 1898, *viz.*, a gold standard based on a gold currency in active circulation, such as the system in the United Kingdom is commonly held to be. On the contrary, it was proved in the crisis of 1907-8 that the gold in circulation in India was of very little value for maintaining the exchange. The Indian system, as the crisis of 1907-8 revealed it, is, as we have said, more like the system advocated by Mr. A. M. Lindsay in 1898, *viz.*, a gold standard supported by gold in reserve, with a currency for internal use composed mainly of rupees and notes. The chief difference between Mr. Lindsay's system and the present system is that, instead of the reserve depending mainly on the power to borrow in a crisis, an actual reserve of gold or sterling assets has been provided.

51. Experience has further shown that, though in origin and machinery, the Indian currency system, based on what is now known as the gold exchange standard, is different from the currency systems of such countries as Russia, Holland, Japan, or Austria-Hungry, yet in actual practice these latter systems are not very different from that of India. In these countries, as in India, gold actually in circulation is of secondary importance, and the internal medium of circulation, whether it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible into gold, and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home but in London, Paris, and other monetary centres, just as India's Gold Standard Reserve is held in London.

52. A third lesson which the crisis of 1907-8 teaches is the desirability of formulating in advance and giving publicity to the policy which it is intended to pursue in a crisis. It is almost as important that the general public should have confidence in the determination of the Government effectively to use their resources to maintain the rupee at 1s. 4d., as it is that the Government should have the necessary resources for so doing.

\* \* \* \*

---

## (c). CONCLUSIONS.

74. We have already stated that it is not to India's interest that further efforts should be made to encourage the circulation of gold as currency. We regard gold in circulation as wasteful, and we think that India should be encouraged to develop economical habits in matters of currency. In dealing with the paper currency system of India we shall make some suggestions in this direction, and any improvements in the banking facilities of India which tend to discourage the wasteful habit of hoarding the precious metals will be of great value to India. But while educating the people in the use of more economical forms of currency, it is important that the Government should continue to act on the principle of giving the people the forms of currency for which they ask. We recognise that for many years to come a metallic currency will be the only suitable one for the vast majority of transactions in India, where over 90 per cent. of the people are illiterate and cannot be expected to use paper notes or cheques to any considerable extent.

75. There will still be opportunities for the use of gold coins rather than rupees in circumstances in which notes are not suitable and rupees are inconveniently cumbrous, and there will necessarily remain for a long period a considerable demand for gold coins for hoards of all kinds until the habit of banking takes the place of the hoarding habit as a means of securing and increasing savings. The line between gold in hoards and in



circulation is an indefinable one, and the hoarding habit is sanctioned by the experience of centuries in India and by religious and social laws and customs, with which the Government of India have neither inclination nor power to interfere. Any attempt to refuse gold to meet these legitimate demands would be unjust and foredoomed to failure, and could only cause alarm and instability. The proper line of advance consists not in actively discouraging the use of gold for currency but in encouraging the use of notes.

76. To sum up, our view is that India neither demands nor requires gold coins to any considerable extent for purposes of circulation (as opposed to saving or hoarding), that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations.

---

### XXIII.

*Extract from the Report of the Indian Currency Committee, 1920.*

#### RATE RECOMMENDED.

59. We have now arrived at the following conclusions:—

(1) The object should be to restore stability to the rupee, and to re-establish the automatic working of the currency system at as early a date as practicable.

(2). The stable relation to be established should be with gold and not with sterling.

(3). The gold equivalent of the rupee should be sufficiently high to give assurance, so far as is practicable, that the rupee, while retaining its present weight and fineness, will remain a token coin, or in other words, that the bullion value of the silver it contains will not exceed its exchange value. After most careful consideration we are unanimous (with the exception of one of our members who signs a separate report) in recommending that stable relation to be established between the rupee and gold should be at the rate of ten rupees to one sovereign, or in other words at the rate of one rupee to 11·300016 grains of fine gold, both for foreign exchange and for internal circulation. While some of our number would have preferred that the rate to be adopted should be nearer to that which has been in force for the last 20 years, we all recognise that no lower rate will attain the objects which we find to be indispensable. Our recommendation accords with the views expressed by the Government of India after they had taken account of the changes in the situation since the preparation of their original proposals. They strongly support the establishment of fixed relation between the rupee and gold, and the adoption of the rate of ten rupees to one sovereign, and they express the view that this solution "combines a more real stability with maximum possible assurance of convertibility, and has, in fact, all the elements of a completely satisfactory permanent system."

We believe, as we have already stated (para.

43), that strong forces will come into operation to prevent the price of silver rising to a point which will cause the bullion value of the rupee to exceed 2s. (gold). If, however, contrary to our expectation, the price of silver should rise for more than a brief period to such a point, the situation should be met by all other available means rather than by impairing the convertibility of the note issue. In the event of such a rise in the price of silver, the Government might diminish the demands upon them for currency by reducing as far as possible the sale of Council bills, relying on the free import of gold and silver, which we recommend to provide alternative means of remittance. They would naturally endeavour to meet the demands for metallic currency by the use of gold, and abstain as far as possible from purchasing silver. If, in their judgment, it should be absolutely necessary to purchase silver, they should be prepared to purchase even at a price such that rupees would be coined at a loss.

The principal steps for giving effect to our recommendations are (1) a notification changing the present acquisition rate for imported gold and fixing it at the rate of Rs. 10 to the sovereign, (2) an amendment of the Indian Paper Currency Act and Indian Coinage Act, so as to make the sovereign legal tender for Rs. 10 instead of for Rs. 15, and (3) the withdrawal of the existing undertaking to give Rs. 15 for a sovereign.

---

## PAPER CURRENCY.

Government paper currency took the place of the notes issued by banks in India under Act XIX of 1861, which took effect from March 1, 1862. In their despatch to the Secretary of State, dated April 27, 1859, the Government of India supported the proposal of their Financial Secretary regarding the issue of a Government paper currency in India (XXIV). They pointed out that a Government paper currency would be advantageous to the public and to the Government, though the proposal involved serious risks. The Secretary of State, however, thought that the time had not yet come for the introduction of such a measure (XXV). The country was beginning to settle down after the Mutiny and the money market was still very sensitive.

The Right Hon'ble James Wilson, who arrived in India in 1859, submitted his proposals respecting a paper currency in a Minute dated December 25, 1859, (XXVI).

Wilson recognised that paper currency issued by Government only could be universally current in India and made a legal tender. As regards the maintenance of convertibility, Wilson, who advocated the banking principle, proposed that the metallic reserve should not be less than one-third of the circulation; he was not in favour of rigidly fixing the amount of the fiduciary circulation, as was done by the Bank Act of 1844 for the Bank of England notes. The Secretary of State (Sir Charles Wood), however, was convinced of the soundness of the currency principle, and in paragraph 13 of his despatch to the Government of India, dated March 26, 1860, he stated that "The sound principle for regulating the issue of a paper circulation is that which was enforced on the Bank of England by the Act of 1844 . . . . ."

(XXVII). The Indian Paper Currency Act of 1861 embodied this principle. The invested portion of the Paper Currency Reserve was limited to 4 crores of rupees; the interest on securities was to be credited to general revenues. Rs. 10 was the lowest denomination; notes were to be legal tender in their circles for all payments except by Government at offices and agencies of issue.

The fiduciary circulation was gradually increased by Acts of the Governor-General's

Council from 4 crores in 1861 to 14 crores in 1912, at which figure it stood in 1914. The 5 rupee note was made a universal legal tender in British India, except Burma, in 1903, and the Burmese limitation was removed in 1909. In 1910 power was taken to make the notes universal legal tender throughout India and encashable as of right at the head offices of each of the (seven) circles of issue. Under this power notes of Rs. 10 and 50 were universalised in 1910, and notes of Rs. 100 in 1911. Most of the Government Treasuries freely encash notes, though not obliged to do so.

Some degree of elasticity was imparted to Indian currency by the Act II of 1898 which permitted the issue of notes in India against gold deposited in the Bank of England as part of the Indian Paper Currency Reserve. The object of this measure was to enable the Government to quickly expand the currency in a time of monetary stringency. But in order to make the paper currency more elastic it was necessary to get rid of the rule which fixed the amount of the fiduciary circulation at a certain figure. The Chamberlain Commission recommended that the amount of the invested portion of the Paper Currency Reserve should be raised from 14 crores to 20 crores and the maximum fixed at one-third of the net

circulation plus the amount of the notes held in Reserve Treasuries (XXVIII).

A great expansion of the paper circulation took place during the war. The gross circulation increased from 66 crores on March 31, 1914, to 153 crores on March 31, 1919, and the active circulation, in the same period, increased from 50 crores to 134 crores. The invested portion of the Reserve was increased from 20 crores in 1915 to 100 crores in 1919 by means of special Acts.

The Babington Smith Committee re-considered the question of the composition of the Paper Currency Reserve and recommended that the metallic reserve against notes should be 40 per cent. of the gross circulation.

The Paper Currency (Amendment) Act of 1920 contained both temporary and permanent provisions. Under the former, which came into effect on 1st October 1920, the rupee and sterling securities in the Paper Currency Reserve have been limited to Rs. 85 crores instead of Rs. 120 crores (in 1920). The permanent provisions of the Act, which have not yet come into force, (1) fix the maximum of the fiduciary portion of the Paper Currency Reserve at 50 per cent. of the total circulation, exclusive of that based on commercial bills, and (2) authorise

the issue of notes against commercial bills of exchange maturing not later than 90 days to a limit of 5 crores.

---

XXIV.

*Financial despatch from the Government of India to the Right Honourable Lord Stanley, Secretary of State for India, dated 27th April, 1859, No. 61.*

MY LORD,

We have the honour to forward, for the consideration of your Lordship, a copy of a note, dated 11th February last, prepared by our Financial Secretary, regarding the issue of a Government paper currency in India.

2. Such a measure would certainly be productive of advantages. It would prove convenient both to the public and to the Government; and it would afford eventually a very large saving to the State, as the minimum amount in circulation would be, in fact a public loan, bearing no interest; but, on the other hand it would involve serious risks, which demand careful consideration.

3. In the first place, there may be risks of Government having the business of the transport of bullion upon its hands. But this objection might, we think, be met by having several central treasuries at places where the largest disbursements are made, with not too large circles around them.



4. In the second place, it seems to us that it would be unwise to introduce this measure at a time when there is reason to suspect that the security of the Indian Government is regarded with mistrust by the sensitive community with whom we have to deal. A refusal, or even an unwillingness to receive the notes, or an eagerness to convert them, might become damaging to the credit of the Government, and seriously embarrassing.

5. Lastly, we believe that the convertibility of the notes on demand would not be a sufficient guarantee against over-issue. When once the paper currency is established in public confidence, the temptation to take dangerous advantage of this confidence will be very great in a time of difficulty, if the power of doing so is left in the hands of the Government of India alone. Restriction by law, either to a certain amount of issue absolutely, or to an amount relative to the balance in hand, will, in our opinion, be necessary. We think that such a law ought to be passed by Parliament, and not by the Legislative Council of India.

6. We do not consider it necessary to go into the details of a scheme of paper currency. Upon these we think that it would be expedient to take the opinions of the most intelligent and influential bankers and merchants in India, before any final determination is come to regarding them.

7. Our present object is to obtain an expression of your Lordship's views in respect to an

extension of the paper currency in India in the manner proposed.

We have, etc.,

(Sd.) CANNING.

(Sd.) J. OUTRAM.

(Sd.) J. G. RICKETTS.

(Sd.) B. PEACOCK.

---

XXV.

*Financial despatch from the Secretary of State to the Governor-General of India in Council, dated 4th November 1859, No. 109.*

Her Majesty's Government are fully sensible of the advantage which might be derived from introducing a well-regulated paper currency into India, but the wisdom of cautiously avoiding any measure calculated, however slightly, further to increase the sensitiveness of the Indian money market, is so manifest, that they are not disposed at present to direct the introduction of a paper currency, whether in the form of Government notes, or by means of extended privileges to the chartered banks. I am, however, anxious that your attention should continue to be directed to this subject, and I shall be prepared to give every encouragement to a well-considered scheme for the purpose, whenever the time shall appear to you to have arrived for introducing it.....

---

## XXVI.

*Minute on the despatch of the Secretary of State respecting a Paper Currency, by the Right Honourable James Wilson, dated Camp Meerut, 25th December, 1859.*

15. Paper money is issued usually either by governments or banks. The main objection to governments undertaking these functions is the neglect which has usually existed as to any strict regulations by which they could be bound to the necessary precautions for maintaining the convertibility of the note, and thereby placing such a limit upon the amount of issue as to secure its identity of value with the coin. The consequence of the absence of such a check has too frequently been to lead to over-issues and great depression of the value of the notes. As sovereigns have too frequently not hesitated to tamper with their coin by reducing its intrinsic value, so they have abused their power of issuing notes by making them inconvertible, but at the same time a legal tender. The two vices are similar in their character. Otherwise, and upon general considerations, it might fairly be thought, that governments were the best agencies through which notes could be issued, as their credit may be supposed to be the highest in the State, and in as much also as the credit of individuals or of private corporations could hardly be made the basis of a legal tender. And no doubt this would be the case, provided any means could be discovered for placing an independent check upon

the amount of issue, and of taking security for the maintenance of a sufficient metallic reserve to guarantee the convertibility of the note. The absence of such independent checks hitherto has led to the common practice of leaving the issue of notes to banks, public and private, although the functions of issuing notes is not necessarily part of the business of the banker. Very few examples, however, exist where an attempt has been made to give to such notes the character of a legal tender. This has necessarily resulted from the absence of any absolute guarantee which the State has taken for the payment of such notes. Indeed it may be laid down as a rule to be strictly observed, that if notes are to be made a legal tender without any risk of their abuse, two conditions are requisite:—

First, that a provision should be strictly maintained for a sufficient metallic reserve to ensure the immediate convertibility of the notes at all times ;

Second, that there shall be absolute ultimate security for the payment of the notes.....

17. If it is desirable to establish in any country such paper money, it is essential that it should be of general use throughout, and issued under a single authority. We have only to consider how impossible it would be for any banking establishment to extend its agencies over the greater part of India, to see that no such bank could possibly fulfil the functions of conducting universally the circulation of notes.

Reasons why Government should issue paper money in India.

18. But, on the other hand, if there are special reasons why this function could not be performed by banks, there are very special grounds which point to the facility which the Government of India possesses, more than any other government in the world, for such a duty. In the great capitals of the Presidencies, and in many of the large emporiums of trade, little difficulty could arise, however the circulation might be conducted, but it is the Government alone that has agencies established in every part of India, however remote. Moreover, it is through these agencies in the collection of land and other revenues, in the payment of troops, in the purchase of commissariat stores, and in disbursements for the performance of public works, etc., that a great bulk of all the monetary transactions of a great part of India takes place; and therefore whatever may be the currency in use, it is really constantly passing out of, and into, Government Treasuries.

This fact alone would secure to notes issued by the Government not only the most extensive use, but their being available for payments of revenue would instantly establish them in high credit with the people.

19. I have no doubt, therefore, that the only means by which a paper note circulation can be extensively applied to India, such as shall be universally current, and can be safely made a legal tender, is through the agency of the Government, and that it possesses means peculiarly favourable for the useful exercise of such a function.

20. This brings me to the second head for consideration : the manner in which the essential conditions already laid down as needful to maintain the convertibility of the note at pleasure, and in any case its ultimate security, can best be applied. What we have to do is not merely to lay down theories which ought to be complied with, but also to erect a machinery as simple as possible for securing the practical observance of the rules necessary to give effect to those theories.

In order to do this, I would propose, in the first place, that the functions to be performed by the agency to be erected should be confined exclusively to those now performed by the issue department of the Bank of England, *i.e.*, the exchange of notes for coin and bullion, and the payments of notes in coin or bullion, and in issuing orders for notes at one branch for bullion or notes received at another, on such conditions as may be fixed, and that it should undertake no other business of any kind whatever, either for the Government or for others.

24. The notes so issued to be a legal tender everywhere throughout India, as well by and to the Government officers as between private persons, excepting only at the different places of issue, where the note of each district will be payable in coin. Everywhere the notes will consequently be receivable for Government revenue, or for any other demands of the Government, for payments into Court under judicial proceedings,

and all other purposes whatever ; and at every centre of issue the notes of the circle will be payable in coin.....

26. In order to maintain the instant convertibility of the note at the place of issue, the Commissioners shall be obliged at all times to retain an amount of coin bearing such a proportion to the notes in circulation as shall from time to time be determined upon, but never less than one third, and for the remainder of their issues they shall hold Government securities.....

Reserve to be 1/3 of  
of circulation.

27. As it would be desirable that there should be only one class of notes in circulation and that all others except those of the Government should be withdrawn, an arrangement would be made with the Bank of Bengal to substitute Government notes for their own now in circulation within a certain period of time.....

37. In the first instance, I would propose to begin with notes of the denomination of 5,10,20,50,100 and 500 rupees. The effect of these denominations would be that remittances would be made in the larger notes, and exchanged for daily use, not in coin, as would be the case if there existed notes only of a high denomination, but into notes of the lower denominations.

38. To have a circulation of large notes only would merely be to enable the public to remit a considerable sum from one place to another, and to throw upon the issuing department of the circle the duty of providing rupees in exchange ; whereas if smaller notes were issued, the change would be given in them.....

## XXVII.

To His Excellency the Right Honourable the  
Governor-General of India in Council.

India Office, London, 26 March 1860.

MY LORD,

6. Her Majesty's Government are of opinion, that in India the agency for providing and maintaining a paper circulation can best be conducted by the Government, and they also coincide in the opinion of your Excellency, that the time has arrived when a measure for this object may be safely and advantageously introduced.

9. Mr. Wilson very properly separates altogether the proposal for introducing a paper circulation in India from the consideration of establishing any banking corporation there. It cannot be too generally, or too clearly understood, that it is the intention of Her Majesty's Government, in sanctioning the introduction of a circulation of Government paper, to keep it entirely and altogether distinct and separate from any banking operations whatever. What is to be done by the Government Establishment in India, is simply what is done by the Issue Department of the Bank of England, *vis.*, to exchange notes for bullion and coin, and *vice versa*, or notes of one denomination for those of another.

\* \* \* \* \*

11. It is proposed in the Minute to manufacture at Calcutta the notes required for the whole of India; and you request that,

Notes to be manufactured in England,



in conjunction with the authorities at the Bank of England, steps should be taken for providing the machinery required for the preparation of notes. I very much doubt whether any advantage would result from the manufacture of notes at Calcutta. It appears to me that it would not only be cheaper to have them made in this country and transmitted to your Government ready for issue, but that it is probable that by this means an additional security would be obtained against forgery. With the present means of communication, it is not apparent how any inconvenience could arise from the adoption of this plan. I am desirous of being furnished, as early as possible, with your opinion in regard to this point. In the meantime, measures have been taken, in communication with the Bank of England, for forwarding to you a supply of notes for Calcutta, and the circle attached to it, early in the autumn.

\* \* \* \* \*

13. The sound principle for regulating the issue of a paper circulation is that which was enforced on the Bank of England by the Act of 1844, *i.e.*, that the amount of notes issued on Government securities should be maintained at a fixed sum, within the limit of the smallest amount which experience has proved to be necessary for the monetary transactions of the country; and that any further amount of notes should be issued on coin or bullion, and should vary according to the wants and demands of the public.

14. The important condition is thus realised, that the mixed currency of notes and coin should vary in quantity exactly as if it were wholly of coin.

15. In this country the smallest amount of notes required had been ascertained by long experience; but what that quantity may be in India, can only be ascertained in like manner; but what that minimum amount of notes in India will be, the proceedings for determining this point must necessarily be tentative and experimental....

### XXVIII.

*Extract from the Report of the Indian Currency Commission, 1914.*

111. We have already recommended that the six crores of rupees in the Indian Branch of the Gold Standard Reserve should be handed over to the Paper Currency Reserve, which is the more natural place for keeping a reserve of rupees. The minimum figure of 24 crores on the 1st November and 18 crores on the 1st May for the stock of coined rupees in reserve will be unaffected, but in future this stock will be entirely within the Paper Currency Reserve 4,000,000 sovereigns should concurrently be transferred from the Paper Currency Reserve in India to the Gold Standard Reserve.

112. Our next recommendation is that the fiduciary portion of the Paper Currency Reserve should be increased at once to 20 crores. But instead of merely fixing this figure as a maximum,

we propose that the maximum of the fiduciary portion should be fixed at the amount of the notes held by the Government in the Reserve Treasuries *plus* one-third of the net circulation\* for the time being. Under this proposal the invested portion of the Reserve will be at once increased by six crores. We recommend that this result should be effected by a transfer (at market value) of sterling securities to that amount from the Gold Standard Reserve in exchange for six crores of the gold now in the Paper Currency Reserve in India.

113. So long as the gross circulation exceeds 60 crores, it will be within the power of the authorities to increase the investment of the Reserve, and we propose that the Government should have the power not only to make such further permanent investments as they think fit but also to make temporary investments, or to grant loans either in India or in London. In India such loans should be made to the Presidency Banks on the same terms as we propose hereafter in the case of loans from balances, while in London the Secretary of State should have power to lend out in the London market sums received in payment of Council Drafts sold against the Currency Reserve in the busy season, so long as the total of the cash portion of the Reserve does not fall below two-thirds of the net circulation.

---

\* By net circulation is meant the gross circulation less the amount of notes held in the Reserve Treasuries.

## XXIX.

*Extract from the Report of the Indian Currency Committee, 1920.*

78. The Chamberlain Commission recommended that the fiduciary portion of the Paper Currency Reserve, which at the time of their Report stood at 14 crores, should be increased at once to 20 crores and should thereafter be fixed at a maximum of the amount of notes held by the Government in the Reserve Treasuries, plus one-third of the net circulation. The large increase in the note circulation that has taken place during the course of the war and subsequently, has modified the position as it existed when the Commission reported. Under their recommendation it would be necessary that, on the present basis of circulation, the metallic reserve should amount to 119 crores of rupees, as compared with 80 crores so held at the present time. We do not consider that so large a reserve is required for ensuring the convertibility of the note issue, especially when it is remembered that in the case of any drain arising from demands for foreign remittance the Gold Standard Reserve is also available. We recommend that the statutory minimum for the metallic portion of the reserve should be 40 per cent. of the gross circulation.

It would, of course, be desirable to maintain in the metallic reserve a substantial margin above the statutory minimum, especially at the beginning of the busy season, which always brings a demand for issues of coin.....

Paper Currency—Reserve to be 40 per cent.

## XXX.

THE INDIAN PAPER CURRENCY (AMENDMENT)  
BILL, 1920.

*Extract from the Speech by the Hon'ble Mr. W. M. Hailey, (Finance Member) in introducing the Bill in the Imperial Legislative Assembly.*

The Bill, therefore, which I now propose to introduce, falls into two parts, a permanent and a transitory part. The provisions which deal with the permanent constitution will be found in clauses 12, 14 and 15. There is in this portion one clause which will attract the attention of all those who are interested in the subject, I mean the clause which provides that the metallic reserve shall be at least 50 per cent. of the total reserve. This is an interesting departure for India. Under the Law of 1910 we had a different kind of limit, that is to say we had a maximum limit to the amount of notes we might issue on a fiduciary basis. We could issue what we liked against metal; but if we desired to issue against securities, we were limited to 14 crores. This specific limitation of the fiduciary portion of the Reserve has created a rigidity in our Paper Currency System from which it is desirable to liberate it. . . . . Now I do not think that any suggestion will seriously be made that we should return to the old system. Apart from the condemnation of this system which is implied in the recommendations of the two Commissions which sat and considered it, it is our own practical experience that there are many drawbacks inherent in a system so inelastic as that which

prevailed up to 1914. When there was an expansion of the currency which the seasonal demands of the trade called for at the time of export, there arose a stringency in the money market which could only be cured by the acquisition on behalf of the Paper Currency Reserve of gold or silver; indeed it was only through the expansion of the metallic reserve that we could provide the trade with the currency it desired. The case, therefore, for abandoning the previous basis on which the Paper Currency Reserve was constituted is clearly justified. In one respect—and I expect I shall have the Council with me here—in one respect we have gone beyond the proposals of the late Currency Committee, that is to say, that whereas they recommended a metallic reserve of 40 per cent we have recommended a reserve of 50 per cent.....With a note circulation expanding as it has been in recent years, to hold a high percentage in metal would involve the locking up of vast quantities of coin—an expensive and unnecessary luxury. We recognise, however, that there is a strong feeling in India that our metallic reserve should be stronger than in other countries. We also recognise that what might be sufficient in ordinary banking practice would not be a safe guide in dealing with central reserves of this nature. It is for this reason that we propose to go above the 40 per cent. recommended by the Committee.....

I come now to a provision which is a new one as far as our own legislation is concerned, although there are precedents in the

Issue of notes against bills of exchange.

legislation of other countries. We have frequently been told that our Currency Note System is not sufficiently elastic; that though we may introduce improvements which will allow for the ordinary growth of note issues by the increase of investments against securities, yet it is not sufficiently elastic to allow for the fluctuations in the seasonal demand for currency. When the Committee considered this problem, they also felt the force of this criticism and suggested that the note issue should be based in part upon commercial bills of exchange. That system, I may say, has been employed on a large scale in connection with the Federal Reserve Note System obtaining in the United States of America. The Committee recommended that it should be tried experimentally in India on a small scale as the basis of a special power of expansion. I would like the Council to note that the expansion thus contemplated is not and cannot be a permanent expansion of the note issue; it is based on the fact that a self-liquidating bill has a self-retiring note as its concomitant. With necessary safe-guards, such an issue cannot lead to any permanent inflation of the issue. Our Bill provides for power to authorise the Controller of currency to issue notes up to an amount not exceeding 5 crores of rupees against Bills of exchange of a maturity not exceeding 90 days, the exact conditions as to the class of Bills to be accepted and the manner of holding them being laid down by the Governor General in Council.

---

## THE IMPERIAL BANK OF INDIA.

XXXI.

*Extract from the speech of the Finance Member in introducing the Imperial Bank of India Bill in the Imperial Legislative Assembly on 1st March 1920.*

“The scheme does not merely represent an ordinary banking amalgamation. It has an important aspect in that connection; but if it stopped there, it would be little more than what in England would be called a ‘private’ Bill. But it seeks to go further. It will increase the resources of the three Banks by handing over the whole of our balances to them; and seeks in return to make use of the amalgamated institution as a means of furthering the banking development of which this country stands so much in need. The bank will have a definite obligation to open 100 new branches in five years. It is on this account and not merely because it is a bank amalgamation, that the Bill has aroused considerable public interest, and in some quarters criticism. I am far from regretting that the public has evinced so much interest in the scheme; for I feel strongly that the



more this matter in our Bill is ventilated, the more likely it is to meet with the acceptance of all those who are anxious to see a real beginning made to remedy what is admittedly one of the great defects from which India is now suffering. We set forth the position clearly in our despatch of the 25th June, 1919. In that despatch the Government of India described the urgent necessity for an increase in banking facilities, if the proper development and progress of this country is to be secured. It stated that, in their opinion, an indispensable preliminary to any widespread growth in banking was the establishment of a strong Central Bank, in intimate relation with Government, and with a large number of branches throughout the country. If the Council will allow me, I will read the following extract from the Government of India's Despatch to the Secretary of State dealing with this matter:—

“ We doubt if, in the present conditions in which there are three separate banks working independently, any further substantial increase in the number of branches is to be looked for, owing mainly to considerations of territorial limits and of profits and loss. The Presidency Banks have now undertaken, as part of the present amalgamation scheme, to establish 100 new branches within five years, and we have every reason to hope that the progressive policy thus initiated will be continued, until at least in every district, and eventually at every town of importance, a branch of the Imperial Bank is established. We do not

The proposed extension of banking facilities.

claim that this widespread extension of branches will work a sudden miracle, or will immediately prove itself the long sought talisman to charm the wealth of India from its hoards. We do not look for rapid or dramatic results. But a beginning must be made, and we think that the mere appearance in a district of a bank which conducts Government Treasury and Public Debt business, as to whose stability there can be no question, and from which local traders and dealers in produce can obtain advances on reasonable terms, must in due course inevitably have an appreciable effect upon the local mental attitude towards banking in general, and in course of time we shall expect to see the new branches of the Imperial Bank attract large amount of deposits from the general public in such localities.'

"That is one important aspect of the case to which I wish to invite the attention of Hon'ble Members; the opportunity for the extension of banking facilities which this amalgamation offers. I have now to turn to another one, which will, I think, be equally in the minds of Hon'ble Members. It need hardly be said that if a Bank of this sort is to be a success, if it is to play its full part in the development of the country, it must have its roots in the soil; an exotic will never 'bear the fruits which we look for. One of the principal reasons why banking on modern lines has not made greater progress in India is because, with a few notable exceptions, the only trained bankers available have been Europeans. I am glad to say that more recently

The need for trained bankers.

Indians have been taking to banking in greater numbers, more particularly on the Bombay side. I could name more than one striking example of conspicuous success on that side of India; the name of Mr. Pochkhanawala has already been brought before this Council by Mr. Howard. Nevertheless progress on the whole has so far been slow, and we ourselves look to the Imperial Bank as likely to stimulate very considerably the training and employment of Indians as bankers. Let me again read an extract from what the Government of India said on this matter in their Despatch to the Secretary of State:—

For such development, moreover, an equal necessity is a sufficient supply of men trained in modern methods of banking. The mere staffing of a large number of new branches of the amalgamated bank will naturally involve the training and employment of Indian agency to a very much greater extent than at present, and the demand for and training of such men by the Imperial Bank should have valuable influence in stimulating their supply for other banking institutions, just as the requirements of our Public Works Department have undoubtedly stimulated the growth of the engineering profession in India.

“Our hope, therefore, is that the new Bank will grow up to be a really national institution. I feel that I must here repudiate, in the strongest possible terms, suggestions that have been made in some quarters that the object of the scheme is to preserve a European monopoly. We look to the new Bank to have a wide

and beneficent sphere of influence; and any scheme of constitution which gave it a definite racial colour, whether European or Indian, would inevitably be doomed to failure. A purely European concern, however successful its operation might be in the seaports and large cities, could never be successful in carrying banking facilities over the extended area which we contemplate as the field of operations for the new Bank. On the other hand, an institution under purely Indian management would not, I believe, command for many years to come a sufficient supply of expert banking knowledge to enable it to take that position in the economy of the country which we wish to see the new Bank occupy. This pre-eminently is one of those matters which urgently call for co-operation between Europeans and Indians, and if, as I hope and believe that co-operation will be forthcoming, the Imperial Bank should prove a most useful factor in promoting the economic interests of the country.

“ These remarks bring me to the third point ; also a point which has attracted the attention of the public—the question of control. The controlling body of the Bank, that is the Governors, will consist of the presidents, vice-presidents and secretaries of the three banks with two managing governors appointed by the governing body. These are the representatives of the shareholders. In addition, we propose to place on the governing body an official, the Controller of Currency, who will represent primarily Govern-

Administration of the new Bank.

ment interests and will have certain well defined powers in this respect. We have been told by certain critics that if the governing body is limited to the constitution I have described, this institution will have what the writers are pleased to call an entirely European character. I must delay the Council while I examine this objection. In one of the constituent Banks—the Bank of Bombay—Indian shareholders are already in a majority, and three out of the six Directors of that Bank are Indians, one of whom, besides being one of the leaders of industry in this country, is a prominent member of this Council. I am glad to hear that the Bank of Madras has recently invited an Indian gentleman to join its directorate. The Council will, I think, agree that it is not for Government to dictate to the shareholders whom they should or should not elect as directors, and I can see no justification for any attempt to legislate in the direction of compelling the shareholders to exercise their choice in favour of members of one class of the community rather than another. But we desire to see the new Bank start under the most favourable auspices. We desire that there should remain no doubt or suspicion, justifiable or otherwise, that the interests of the general taxpayer who will contribute a considerable portion of the Bank's resources in the shape of Government balances, are not sufficiently represented. While, therefore, we do not intend any dictation [to the shareholders regarding their own representatives on the governing body, we have decided to take power in the Bill for the Governor General in Council to

nominate two additional members to the governing body of the Bank. These members will be non-officials; they will be nominated for a year, but can be re-nominated; and the provision will, as I hope the Council will agree, amply meet the desire that the interests of the general taxpayer will be sufficiently represented.

There remains a final point to bring before the Council. It is again a point in which the proposals have been criticised; and I think it right to bring any point of criticism before the Council at the earliest opportunity. It has been urged that we should not seek, as we do seek, to exclude the Imperial Bank from taking part in ordinary exchange operations. It is a point of detail rather than principle; but I can dispose of it without delaying the Council. The Banks themselves, who are mainly concerned, have acquiesced in this proposal; they have done so for the reason that they now hold in many cases the balances of the Exchange Banks, and they could not expect those Banks to leave their balances with them if they were rivals in the matter of exchange operations.....

---

## INDIAN FINANCE.

India's financial problems during the war and since the conclusion of peace have been discussed in Part I. The following extracts would enable the reader to study some aspects of Indian war finance in greater detail. Extract XXXII reviews the effect of the outbreak of war on Indian currency, exchange, commerce and banking. Mr. Howard's statement on the financial situation of India gives a brief summary of Indian war finance, and the extract from the Finance Member's Budget Speech (1922-23) describes some of the post-war financial difficulties.

The reasons which led the authors of Indian Reforms to recommend the separation of Provincial from Indian Finance are explained in the extract from the Report on Indian Constitutional Reform.

---

## XXXII.

*Extract from the Speech of the Finance Member  
in introducing the Financial Statement for  
1915-16.*

GENERAL EFFECTS OF THE WAR ON TRADE AND  
FINANCE.

2. Since I last addressed the Council on financial matters, India has been, and is still, passing through a crisis which has subjected her financial and economic system to a supreme test. It is true that, save for some vivid but happily transient experiences in the autumn, she has not felt the direct impact of war. But she has not been able to escape the consequences of that economic solidarity which binds her closely to the outside world. All her recent development has been on lines of diminished isolation. Her currency system connects her with the money markets of London and the world. She relies for internal development largely upon borrowings in London. Her prosperity is increasingly bound up from year to year with her rapidly growing foreign trade. Her internal financial arrangements, and above all her system of credit, in many respects follow Western models. Finally she is a part of a mighty Empire which is one of the belligerents in the general war. It is inevitable, therefore, that India should feel the effects of the war from top to bottom of her economic system; they are written large over the Statement which I have to present to the Council to-day, and are affecting still more deeply the trade and production of the entire country.



5. The first effect of the European war, which began to operate even before Great Britain had actually been drawn in, was a threatened break in exchange. The Government of India took immediate steps to deal with this aspect of the general situation, and were able to make a preliminary reassuring announcement on the 1st August. On the 3rd August we publicly formulated, with the approval of the Secretary of State, the measures which we had decided to adopt. In the first place, we formally undertook to support exchange by all the means in our power. This was a policy which the Royal Commission on Indian Finance and Currency had recommended in their recently published Report: it fell to us to declare our adhesion to it at the outset of a crisis of unprecedented magnitude and totally uncertain duration.

In the second place, we announced our intention, in pursuance of this object, to sell sterling bills on London, or "reverse" bills as they may conveniently be termed, up to a maximum limit of £ 1 million a week until further notice. This, too, was an innovation on previous policy. In the exchange crisis of 1907 and 1908 the amount sold had usually been £½ million a week, and occasionally £ 1 million, but the exact amount was settled afresh just before each successive weekly sale. The present was the first occasion on which the Government of India undertook beforehand to maintain sales on an ample scale. Again, to adapt the system still more fully to trade re-

quirements, we combined with the sale of bills the practice of selling telegraphic transfers also, thus providing a guarantee of immediate remittance when required. A few days later, too, we arranged that bills should be payable in London in 16 days after the departure of the weekly mail, thus eliminating the uncertainty due to possible delay in the arrival of the bills by mail steamer.....

In all we expect, by the end of this year, to have sold bills and transfers to the total extent of about £ 8½ million. The sums thus received have been credited to the Gold Standard Reserve in India *pari passu* with the Secretary of State's withdrawals from the Reserve in England in order to meet the bills and transfers, falling due for payment by him from week to week. The net result has, of course, been a great strengthening of the Gold Standard Reserve on this side.

Lastly, in the early days of the crisis, we strengthened that Reserve by exchanging £4 million of silver held therein on this side for an equivalent quantity of gold previously held by us in the Paper Currency Reserve.

5. At the same time as we first notified the selling of reverse bills and transfers, we took steps to restrict the dissipation of our gold in India by laying down that no gold should be issued to any one person or firm to a less extent than £10,000. The object of this was to secure what we thought would be a rough test as between applications for eventual remittance

Gold for foreign remittances.

purposes and those which were merely for local requirements. The limitation, however, was defeated by various individuals and firms clubbing together so as to make between them a demand which conformed to our minimum. Between the 1st and the 4th we had already lost about £, 800,000 of our gold; and on the 5th August, when it was announced that Great Britain was actually at war with Germany, we took the further step, for which we had previously obtained the Secretary of State's approval in anticipation of that contingency, of refusing the issue of gold altogether to private persons.....

7. The next grave difficulty that the outbreak of war brought upon us was in regard to our savings banks deposits and savings banks deposits and currency notes. The general trade and credit position which the war set up was most serious in Bombay, mainly as a result of the banking and commercial crisis of the preceding year which had been more severe there than elsewhere. There was also considerable uneasiness in the Punjab, which had likewise suffered from the late banking crisis, but it was in Bombay that the difficulties I have mentioned arose in the most acute form. The deposits in our Post Office savings banks amounted in all to somewhat over 23 crores at the beginning of this year and by the 31st of July had risen to 24½ crores, the increase being due mainly to the more liberal conditions announced in paragraph 58 of my speech introducing the last Financial Statement. From the

second week of August there was a heavy and excited run by savings banks depositors upon their funds, and in August and September together there was a net withdrawal of about 6 crores (£4 million) of these deposits, due to misguided apprehension in regard to the effects of the war upon the stability of the Government of India, which was every now and then fanned by wild stories of imaginary reverses sustained by our allies or ourselves, and by the untoward incidents connected with the career of the late *Emden*. Since then the drain has materially slackened, but in all we calculate that by the end of this year we shall have lost about £ 7 million of savings banks deposits which we have had to pay out from our general balances. I may say here that we did what we could to promote confidence by putting the Post Offices in adequate funds and enjoining the prompt payment of all claims; and it is perhaps a welcome indication of the way in which the strength of our financial position is really viewed by our enemies that a number of German prisoners at Ahmednagar have themselves opened accounts with the Government savings banks.

8. The demand for the encashment of currency notes was most serious in Bombay, and the total abnormal encashment in that Presidency as a result of the crisis has been estimated at about 2½ crores in August and September, out of 4½ crores in respect of India as a whole. Outside Bombay the largest encashment occurred in Burma, and in the Punjab too it was considerably

larger than in ordinary years ; but in these cases the increase appears to be due as much to the special trade conditions of the year as to uneasiness arising directly from the crisis.

The Government at once took steps to check any panic by issuing instructions that every endeavour should be made to meet promptly all demands for encashment at district treasuries, whereas ordinarily, it will be remembered, a note is only encashable as of right at a currency centre. A very large number of notes were cashed in this way in districts, especially in Bombay and the Punjab, and it may be hoped that when the crisis passes away, the measures we took will have the effect of ensuring a permanent increase in the popularity of currency notes and consequent extension in their use.....

The abnormal run on our notes was of relatively short duration. Nevertheless, owing to depressed trade conditions resulting from the war, our net note circulation, excluding the holdings by Reserve Treasuries and by the Presidency banks at their head offices, remained nearly 7 crores (£ 4½ million) less at the end of January than on the corresponding date in 1914.

9. Having regard to the present abnormal trade conditions and to the extraordinary strain on our credit generally, I consider that the position of our paper money calls for full satisfaction. Our notes circulate freely, and apart from very minor temporary local incidents, there has never been any question of their being depreciated as compared with coin.....

11. I now turn to the effects of the war on the commercial and credit position in India, which, of course, materially influences our revenue receipts, especially under Customs and Railways. In the first place, internal credit was seriously prejudiced by the attitude of a large part of the Marwari community, who play such an important role in conducting and financing the trade of the country. Speaking, generally, instead of conforming to the excellent British maxim of "business as usual," they departed to their homes taking with them as much of their capital as they could readily lay hold of, and thus materially hampering the credit machinery with which they are so intimately connected. As regards the banks, the position of the Presidency Banks was, as I have already said, very strong before the crisis, and in order to promote public confidence the large Government deposits which they already held were further increased at the outset of the war, and have since been kept at as high a level as our resources permitted. We have preferred, in fact, to borrow somewhat more freely from the Gold Standard Reserve—a matter to which I shall refer later—rather than curtail unduly the resources placed at the disposal of trade.

The bank rate was low when the war commenced, as is usual at that season of the year, being 3 per cent. in Calcutta, 3 per cent. in Bombay, and 4 per cent. in Madras. As a measure of protection, the Bank of Bengal raised its rate to

5 per cent. on the 6th August, and the Bank of Bombay to 4 per cent. on the same day, and to 5 per cent. on the 13th; while later on the rate was increased, at somewhat different dates, to 6 per cent. for all three banks at which figure it now stands. It is understood that the Indian branches of the Exchange Banks were also in a strong position at the commencement of the crisis.

As regards other banks, the previous year saw the collapse of a large number of (generally speaking) recklessly managed banking institutions. In the light of subsequent events, however, we may reckon it as fortunate that the disappearance of these banks occurred before the present crisis. Though the want of confidence engendered by their failure tended to accentuate the difficulties in Bombay and the Punjab, the situation would have been far more acute had the banks in question been still in existence and then collapsed as they must have done. As it was, two banks which had been badly shaken by the previous crisis, though they survived it, now fell. One of these, the Punjab Co-operative Bank, established in 1905, was compelled to close its doors on the 14th September. Another, Bank of Upper India, established as far back as 1862, suspended payments on 8th October. It is probable, however, that events had been largely discounted beforehand, for they did not produce any widespread panic.

---

## XXXIII.

*Statement on the financial situation of India, submitted by Mr. H. F. Howard of the Indian Delegation to the International Financial Conference held at Brussels in 1920.*

From a financial and economic point of view India has been less acutely afflicted by the Great War than many of the participants in the Conference, and she is no doubt more fortunate than some of them by reason of the fact that she is a large producer of several important raw commodities, of which, in normal years, a considerable margin is available for export, these commodities including articles in such world-wide demand as wheat and other food grains, jute, cotton, oil seeds and hides.

2. Nevertheless, though the Great War was waged outside India's boundaries, she made large contributions in men, money and material for its prosecution in various theatres, and since its conclusion has had to deal with difficult and expensive operations on one of her own frontiers.

3. The War thus necessarily reacted very sharply on the financial and economic machinery of India.

**Taxation.**

If, on the one hand, the resultant demand for materials served as an industrial stimulus in certain directions, the War inevitably imposed a great burden on the finances of the Government, necessitating large additions of taxation and—as it was impossible to provide additional funds from this source alone—substantial additions to India's borrowings, and she has now to face



the problem of dealing with an unwieldy volume of short term and floating debt. Moreover, as the War went on, the great inflation of prices elsewhere was accompanied by a very serious, though not indeed equivalent, rise in the prices of all necessities in India, leading to great and widespread hardship and unsettlement. It is hardly necessary to emphasise that this development is liable to have far more important results in the case of an Eastern country than in an advanced Western community. The great rise in commodity prices has also inevitably been reflected in a general enhancement of the cost of the administration.

4. The position can be best illustrated by a few salient comparative figures. For the financial year preceding the War, namely, 1913-14, India's gross revenue amounted to £85,000,000 and the expenditure charged against revenue to rather less than £83,000,000. The corresponding figures for the budget of the current year, 1920-21, are £134,000,000 and £132,000,000. (These totals would be substantially smaller in each case if net figures were taken, i.e., if only the balance of receipts from Government commercial undertakings were shown, the expenses being treated as a deduction from receipts, instead of being entered on the expenditure side of the account.) The more important enhancements in taxation were made under the heads of "customs" and "taxes on income," there being an increase under these heads from 110 to 250 millions of rupees, and from 30 to 170 millions of

rupees respectively, but substantial additional levies were made under other heads also. In considering these figures, it must be borne in mind that the taxable capacity of India is low as compared with that of Western countries. On the expenditure side, the cost of the military services budgeted for 1920-21 was 570 millions of rupees against 300 millions for 1913-14, while there has been a general increase under other heads of the Budget, the increase being spread over the whole of the administration.

5. As regards India's loan obligations, at the outset of the War her debt was set off by re-

#### Loans.

munerative assets of practically equivalent amount in the shape of railways and irrigation works. During the War it has been necessary to raise large sums for the finance of military expenditure, and a considerable proportion of this debt has perforce been in the shape of relatively early maturities. Thus, with an outstanding sterling debt of £193,000,000 and an internal debt of 2,800 millions of rupees, the amount falling due for repayment within the ten years up to 1930, inclusive, amounts to over 1,000 millions of rupees. To these figures must be added a floating debt of over 600 millions of rupees, which, as in other countries, is likely to prove a source of continuing embarrassment until it is possible to discharge or fund it.

6. Concurrently the War threw a great strain on India's currency arrangements. The finance of military requirements, including supplies for

#### Indian Currency.

the Allies, entailed heavy disbursements in India and resulted in a large expansion of the Government currency note issue, this increasing from about 750 millions of rupees at the outbreak of war to 1,850 millions in January, 1920. This increase in the note circulation was accompanied, especially at certain critical stages of the war, by an intense demand for metallic money, and the absorption of silver coin in the five years from April 1915 to March, 1920, amounted to about 1,400 millions of rupees in round figures.

7. The great demand on the world's stocks of silver, which these figures represent, was no doubt one of the main factors contributing to the great rise in the price of that metal. This rise in prices, in its turn, led during the war to the result that at the pre-war rate of exchange of Rs. 15 to the English pound the value of the silver content of the rupee rose above the face value of the coin. As a result a break in the exchange rate became inevitable and necessitated a review of the whole position. It was decided, having regard to the great and continuing rise in the price of silver after removal of the controls placed on the metal during the war, to fix the parity of the rupee at 11.3 grains of gold, or in other words at Rs. 10 equal one sovereign.

Though gold is still at a premium in India as compared with this basis, and though this rate has not yet become fully effective for the external exchange (exchange ranging at the time of writing in the neighbourhood of 1s. 10½d.), it can reason-

Rise in the price of silver.

The 2s. rate.

ably be hoped that this measure will operate to a material extent to mitigate the problem of high internal prices in India, by changing, as it were, the gear between these and external prices; indeed it already shows some signs of doing so.

8. This process will, it is also hoped, be furthered by the fact that India is at the present time making a determined effort to face the problem of deflation. It has already been possible to reduce the note issue from 1,850 to 1,630 million rupees, and this contraction has been accompanied by a reduction in the metallic circulation of about 160 million rupees in the last four months, but the complete solution of the problem is, as elsewhere, dependent on that of the funding of the outstanding floating debt.

9. Turning to India's foreign trade, the imports of private merchandise in 1913-14, the year before the war, amounted to £122,000,000, and the exports to £166,000,000. These totals were not again reached during the war, and though they were passed in 1919-20 with totals of £139,000,000 and £218,000,000 respectively, it must be realised that this is largely due to the great enhancement of values which has taken place. During the last few months the tendency has been for the balance of trade to move against India, since, on the one hand, she has been importing large amounts of manufactured goods not available during the War, while, on the other, markets for her commodities are still limited by the restricted purchasing

power of many countries, and at the same time it has been necessary to impose important restrictions on the export of food grains from India in the circumstances about to be mentioned.

10. On the economic side, the strain of war

The position regarding food grains and raw materials. conditions in India was aggravated both by the ravages of the influenza epidemic in 1918, which is estimated to have carried off more than six million lives, and also in the same year by a widespread failure of the rains, on which the prosperity of India so largely depends. This failure resulted in a serious scarcity of food grain crops, which not merely exacerbated the price problem already referred to, but has made it necessary to impose and continue drastic restrictions on the export of food grains. Though there has since been a substantial alleviation of the position in this respect, it is still not sufficiently secure for it to be possible to remove the restrictions in force. In the case of wheat, it is uncertain whether direct sales of wheat to Europe other than the United Kingdom will be possible. For rice the position is different, the export trade is under control, but sales to Europe are already being effected. Oil seeds are not subject to control, but as regards food grains other than wheat it is not possible at the time of writing to say more than that the extent to which the Government of India will be able to relax restrictions in the near future must be dependent on the course of the monsoon in the next few weeks. The Government of India have been asked to furnish, before the Conference sits, the latest available information on the point. In the

case of other raw materials, the position is simpler and substantial quantities of cotton, tea, jute and hides will be available, provided that satisfactory financial arrangements can be made, though it will no doubt be recognised that, in the event of the demand exceeding the available supply, some form of rationing may prove to be necessary. Here again the Government of India are being asked for the latest possible information with regard to quantities. Control is at present exercised over the export of coal and various food stuffs (wheat, rice, bajra, barley, gram, jwar, lentils, maize and pulse). It may be added that no restrictions are at present imposed by the Government on private operations in the foreign exchanges.

---

#### XXXIV.

*Extract from the speech of the Finance Member in presenting the Indian Budget for 1922-23.*

7. Altogether then our expenditure is somewhat over 14½ crores more than we expected; and the total deficit will amount to no less than 34 crores. If you carry your minds back to the history of the last three years, the House will realize that this is now the fourth deficit in succession. In 1918-19 it amounted to 6 crores, in 1919-20, mainly due to the Afghan War, the deficit was 24 crores; our final accounts of 1920-21, swollen by many adjustments of arrear expenditure on the Afghan war and the Great War, showed a deficit of 26 crores. Adding the 34 crores to which I have just referred, the

total excess of expenditure over revenues in the four years comes to 90 crores.

#### HOW TO MEET THE DEFICIT.

18. I now come to the hardest part of my task to-day, namely, to discuss what measures should be taken to meet the grave problem presented by an estimated deficit next year of about 31½ crores. It is obvious that there are, in theory, three courses which can be adopted, either separately or in combination. First, we can budget for a deficit, either the whole or part of the above amount; second, we can attempt to reduce our expenditure; and third, we can take steps to increase our revenues. The problem is so grave, and the issues at stake so large, being nothing less than the solvency of the country, that I make no apology for examining in some detail each of these three courses.

Would it be desirable, or would it even be possible, to leave the whole or the major part of this deficit uncovered? Now, so far as I have been able to ascertain, on one occasion only in the past has the Government of this country deliberately budgeted for a deficit. This was in 1915-16, the first budget of the war, when Sir William Meyer budgeted for a deficit of about 4 crores. In introducing that budget, Sir William Meyer carefully explained the reasons which had led him to adopt that course. He emphasised that the Government would not think of proposing to budget for a deficit if the defi-

iciency in revenue promised to be of a more or less abiding character. That, however, he held was not the case on that occasion; it was then too early in the war to be sure that the excess of expenditure over revenue was anything more than temporary, and unless and until it could be shown that the gap between revenue and expenditure was likely to last for some time, it would not be justifiable to impose increased taxation, especially as the Government's cash balances could at that time be relied on to produce the necessary finance. For the rest, so far as my researches go, the Government of India have always endeavoured to meet the expenditure of each year from the revenues of that year, and although on occasions their estimates have been disturbed and deficits have actually accrued, they have, except on the one occasion mentioned above, never deliberately contemplated that their expenditure should exceed their revenues. I do not think that there can be any doubt that this policy consistently followed in good years and bad, when the outlook was fair and when it was gloomy, had much to do with the sound financial position in which India found herself at the beginning of the war, and with the excellence of the credit of the State both within the country and abroad.

19. Now, in considering the extent, if any, to which we should be justified in leaving this estimated deficit uncovered, there are two points of vital importance to which I must invite the careful attention of the House:

The deficit cannot be left uncovered.

to which we should be justified in leaving this estimated deficit uncovered;



In the first place, it is necessary to examine briefly the real nature of the current and next year's deficit. Can it be said that the present emergency is similar to that which Sir William Meyer had to face in preparing his budget for 1915-16? I hold that the answer to this must be in the negative. I do not think that it is possible to take the position that these deficits are due to transient causes, that we can look for better times ahead, and that we should consequently be justified in leaving things as they are, in the hope that before long our revenues will once more have equalled our expenditure. I must say frankly that I see very little prospect of any such equilibrium being attained within a measurable period. In saying this I do not mean to imply that either the probable deficit of 34 crores in the current year, or the estimated deficit of 31½ crores next year, is necessarily to be taken as a measure of the permanent gap between our expenditure and our revenues. I assume that, with the liquidation of our frontier commitments, the portion of our military charges which are classified as "abnormal" will disappear. I also assume that our revenues would respond to any substantial revival in trade, when the day of that revival dawns, as assuredly dawn it must. But after making every possible assumption of this nature, I do not think it can be said that, if things are left as they are, equilibrium will be attainable within a measurable time. It has, moreover, to be remembered that we have certain loss of revenue in front of us, in respect of the gradual abolition of the provincial contributions. I have not over-

looked the fact that the stabilisation of the rupee at 2s. would relieve our revenues to the extent of about 15 crores a year, but the House is in as good a position as I am, to judge whether we should be justified in placing any reliance on this consummation. The problem, as I fear we must envisage it, thus not one of carrying on until we have turned the corner, for the turning is nowhere visible.

20. Secondly, it is necessary to examine briefly what a succession of deficits really means, and what are the results which

Financing a succession of deficits.

it leads to. I will not embark on any theoretical discussion of financial ethics, but confine myself to actual facts. Including the deficit of the current year, during the past four years, our expenditure (in using the word expenditure I mean, of course, expenditure debitable to revenue, and not capital expenditure on such objects as Railways and Irrigation) has exceeded our revenue by a total amount of 90 crores. Where did this money come from? The short answer is that we have been living on credit. About 37 crores have been obtained by the issue of fiduciary currency notes, namely, notes the only backing of which are our own L. O. U's. A further 47 crores will have been found by incurring floating debt in the shape of Treasury bills, while the remaining 6 crores will have been taken from the proceeds of our regular annual borrowings. Our Treasury bills consist of short term bills (mostly for 3, 6 or 9 months) which we have so far engaged to renew on maturity.

But it is an open fact we have only succeeded in doing this by virtue of the recent stagnation of trade and consequent plethora of bank money; it is very doubtful if on any real revival of trade we should be able to keep "floating" an amount of Treasury bills on anything like the present scale. A Treasury bill outstanding in the neighbourhood of 60 or even of 40 crores is, as I have more than once pointed out, a matter for great anxiety, seeing that at any time, with the appearance of other demands upon the discount market, such as a revival of trade or an acute monetary position, our sales might not cover our maturities and we should then have no alternative, if we were not to dishonour our bills, but to make a further large fiduciary issue of currency notes. During the past month or two we have, in fact, had a preliminary warning as to the insecurity of our position; a sudden tightening of money in Bombay led for a time to distinct embarrassment; in spite of our giving very much more favourable terms for our Treasury bills we found great difficulty in meeting our requirements and were obliged, as a temporary measure, to re-issue a substantial amount of currency notes which we had cancelled during the preceding months. And, of course, the dependence of Government upon the money market to supply it on credit with funds to meet the gap between incomings and outgoings itself reacts strongly upon the supply of money available for trade, thus setting up a vicious circle. To escape from that circle is one of the most pressing problems before us.

21. What then is the inevitable conclusion to which these considerations lead? Putting aside all theoretical considerations of principle and of sound financial policy, the financing of a further deficit next year of an amount anything like the 31½ crores estimated is simply not a practicable proposition. I should be much mistaken if we have not already reached the limit of safety. To attempt to increase our floating debt beyond the figure at which it is likely to stand on April 1st next would be to invite not only grave monetary stringency, but possibly even a severe crisis. To raid the Gold Standard Reserve, which has been built up for an entirely different purpose, would be merely putting off the evil day, and would be an expedient which could be adopted only as a last resort, and even then purely as a temporary measure. To rely on the proceeds of our annual rupee or sterling loans to finance our deficits would, as I shall show later in my speech, be equally impracticable, seeing that we shall fully need the whole of these for financing our existing capital liabilities and productive expenditure on our railways. The inevitable result, in short, of any attempt to finance a deficit of this size would, in my opinion, be to force us to large issues of unbacked currency notes, and I am sure the House will agree with me that the effect of such inflation upon the general level of prices in this country, and upon our general credit, would be very serious. My conclusion then is, and I state

it with perfect confidence, that the problem before us is one that cannot be shelved or left to be looked after itself. It is a problem which has to be faced, and it is my duty to ask this House and the country, whatever their opinion may be of the particular proposals that we are making, to join with us in facing it.

22. How far can we reduce the deficit by cutting down our expenditure?  
Economy. I have already

indicated the difficulties which we have encountered in regard to our largest spending department, the Army. I have told the House that, as regards the Civil departments, we have cut out all new expenditure which cannot be proved to be of imperative necessity. I do not claim that further reductions are impossible; as the House knows, we are committed to an enquiry into the steps necessary to effect retrenchment, even if that results in curtailing departmental activities. We have agreed to accede to the desire of the Assembly for the appointment of a Committee of retrenchment, and an announcement will shortly be made on the subject. But the field of civil expenditure over which that enquiry can range is small; it does not extend to more than 20 crores; and though retrenchment may, and no doubt will be effected, it could have but a minor effect in restoring the balance. In any case a Finance Member must frame his budget, not on what he hopes may be effected in the future, but on the basis of the expenditure now actually being incurred.

24. If I have carried the House with me so far, I have established two propositions. The first is a two-fold one, namely, that the country cannot, if it has any regard for its credit or any thought for its future solvency, take refuge in the simple course of leaving the whole or even the greater part of this deficit uncovered, and further, that quite apart from such considerations, it would not be a practicable proposition to do so, even if we tried. Secondly, however successful our efforts may be in reducing our expenditure, and imperative though it is that we should make the attempt, it is out of the question to expect any relief from this source to be on such a substantial scale as materially to reduce the excess of expenditure over revenues. I submit, therefore, that there is no escape from the conclusion that it is imperative to take every possible step to increase our revenues. We can do this in two ways; firstly, by ensuring that our commercial departments shall, at any rate, not be a burden upon the taxpayer, and shall, if possible, yield a profit: secondly by increasing taxation.

## XXXV.

*Extract from the Report on Indian Constitutional Reforms.*

200. The present settlements by which the Indian and Provincial Governments share the proceeds of certain heads of revenues are based primarily on the estimated needs of the provinces, and the Government of India disposes of the surplus.

This system necessarily involves control and interference by the Indian Government in provincial matters. An arrangement which has on the whole worked successfully between two official Governments, would be quite impossible between a popular and an official Government. Our first aim has therefore been to find some means of entirely separating the resources of the central and provincial Governments.

201. We start with a change of standpoint.

A new basis. If provincial autonomy is to mean anything real, clearly the provinces must not be dependent on the Indian Government for the means of provincial development. Existing settlements do indeed provide for ordinary growth of expenditure, but for any large and costly innovations provincial Governments depend on doles out of the Indian surplus. Our idea is that an estimate should first be made of the scale of expenditure required for the upkeep and development of the services which clearly appertain to the Indian sphere; that resources with which to meet this expenditure should be secured to the Indian Government; and that all other revenues should then be handed over to the provincial Governments, which will thenceforth be held wholly responsible for the development of all provincial services. This, however, merely means that the existing resources will be distributed on a different basis, and does not get over the difficulty of giving to the central and provincial Governments entirely separate resources. Let us see how this is to be done.

202. Almost every one is agreed that a complete separation is in theory desirable. Such differences of opinion as we have met with have mostly been confined to the possibility of effecting it in practice. It has been argued for instance that it would be unwise to narrow the basis on which both the central and provincial fiscal systems are based. Some of the revenues in India, and in particular land revenue and excise, have an element of precariousness; and the system of divided heads, with all its drawbacks, has the undeniable advantage that it spreads the risks. This objection will, however, be met if, as we claim, our proposed distribution gives both the Indian and provincial Governments a sufficient measure of security. Again, we have been told that the complete segregation of the Government of India in financial matters will lower its authority. This argument applies to the whole subject of decentralization and provincial autonomy. It is not necessary for us to meet it further. Our whole scheme must be even and well-balanced; it would be ridiculous to introduce wide measures of administrative and legislative devolution and at the same time to retain a centralized system of finance.

203. There are two main difficulties about complete separation. How are we to dispose of the two most important heads which are at present divided—land-revenue and income-tax—and how are we to supplement the yield of the Indian heads of revenue in order



o make good the needs of the central Government? At present the heads which are divided in all or some of the provinces are:—land revenue, stamps, excise, income-tax and irrigation. About stamps and excise there is no trouble. We intend that the revenue from stamp duty should be discriminated under the already well-marked sub-heads *General* and *Judicial*; and that the former should be made an Indian and the latter a provincial receipt. This arrangement will preserve uniformity in the case of commercial stamps where it is obviously desirable to avoid discrepancies of rates; and it will also give the provinces a free hand in dealing with court-fee stamps, and thus provide them with an additional means of augmenting their resources. Excise is, at present, entirely a provincial head in Bombay, Bengal and Assam, and we see no valid reason why it should not now be made provincial throughout India. At this stage the difficulties begin. Land revenue, which is by far the biggest head of all, is at present equally shared between the Indian and all the provincial Governments, except that Burma gets rather more than one-half and the United Provinces get rather less. Now land revenue assessment and collection is so intimately concerned with the whole administration in rural areas that the advantage of making it a provincial receipt are obvious. But other considerations have to be taken into account. One substantial difficulty is that, if land revenue is made entirely provincial, the Government of India will be faced with a deficit, and its resources must be supplemented by the provinces in some form or other.

Moreover famine expenditure and expenditure on major irrigation works are for obvious reasons, closely connected with land revenue, and if the receipts from that head are made provincial, it logically follows that the provinces should take over the very heavy liability for famine relief and protective works. An argument of quite another character was also put forward. We were told that in the days of dawning popular Government in the provinces it would be well that the provincial Government should be able to fall back on the support of the Government of India (as, if the heads were still divided, it would be able to do) when its land-revenue policy was attacked. But it is just because divided heads are not regarded as merely a financial expedient but are, and so long as they survive, will be, viewed as a means of going behind the provincial Government to the Government of India, that we feel sure that they should be abolished. We propose therefore to make land-revenue, together with irrigation, wholly provincial receipts. It follows that the provinces will become entirely liable for expenditure on famine relief and protective irrigation works. We shall explain shortly what arrangements we propose for financing famine expenditure. The one remaining head is income-tax. We see two very strong reasons for making this an Indian receipt. First, there is the necessity of maintaining a uniform rate throughout the country. The inconveniences, particularly to the commercial world, of having different rates in different provinces are manifest. Secondly, in the case of ramifying enterprises with their

business centre in some big city, the province in which the tax is paid is not necessarily the province in which the income was earned. We have indeed been told that income-tax is merely the industrial or professional complement of the land-revenue; and that to provincialize the latter, while Indianizing the former, means giving those provinces whose wealth is more predominantly agricultural, such as the United Provinces and Madras, an initial advantage over a province like Bombay which has very large commercial and industrial interests. Another very practical argument is that the tax is collected by provincial agency, and that if provincial Governments are given no inducement, such as a share of the receipts, or a commission on the collections, which is only such a share in disguise, there will be a tendency to slackness in collection and a consequent falling off in receipts. We admit that these arguments have force; but we are not prepared to let them stand in the way of a complete separation of resources. Equality of treatment as between one province and another must be reached so far as it is possible in the settlements as a whole, and it is not possible to extend the principle of equality to individual heads of revenue. If it should be found that receipts fall off, it may be necessary to create an all-Indian agency for the collection of the tax, but this we should clearly prefer to retaining it as a divided head. To sum up: we propose to retain the Indian and provincial heads as at present, but to add to the former income-tax and general stamps, and to the latter land revenue,

irrigation, excise and judicial stamps. No heads will then remain divided.

204. For the purposes of famine relief we propose that the provincial settlements should make allowances based on each province's average liability to this calamity in the past; and it will be the duty of provincial Governments liable to famine not to dissipate this special provision, but to hold a sufficient portion of their resources in reserve against the lean years. In years when there is no scarcity, a province should not spend its famine assignment on ordinary purposes, but should either add it to its balances or spend it on some defensive purpose directed to diminishing the cost of famine when it comes.

## THE INDIAN TARIFF.

The general rate of duty levied on imports into India until 1860 was 10 per cent. *ad valorem*; almost all goods exported were taxed at the rate of 3 per cent. The duty on imports was reduced to  $7\frac{1}{2}$  per cent. in 1864 and 5 per cent. in 1875. Duties on exports were gradually repealed and in 1875 only rice, indigo and lac were still subject to duty.

The reform of the Indian tariff in accordance with the principles of free trade began in 1878. The duties on a great number of articles, including some of the coarser cotton goods, were remitted in that year, and in the following year the duties on grey cotton goods, except those of the finer qualities, were repealed. In 1882, with the exception of salt, all the remaining import duties were repealed.

It is not denied that the reasons which led the Government to abolish the cotton and other duties were not merely economic. (XXXVIII). But at the back of the mind

of our administrators was the idea that such protection as the tariff afforded to Indian industries was economically indefensible. Again, free trade was the policy of the United Kingdom, and it was thought to be wrong for India to levy duties on imports when the United Kingdom did not do so. (XXXVII). In the Financial Statement for 1878 we find the principles which governed the customs legislation of the United Kingdom, "now admitted axioms by all who recognise the theoretic advantages of free trade", held up as a model for India.

The abolition of cotton duties in 1879 met with a good deal of opposition in the Viceroy's Council; it was in opposition to the opinion of the majority of his Council that Lord Lytton carried out the measure.

Financial pressure compelled the Government in 1894 to re-impose the tariff of 1875 with some modifications. In December 1894 a 5 per cent. duty was imposed on cotton goods and yarn imported into India, and a countervailing excise duty of an equivalent amount was imposed on cotton goods made in Indian power mills. Referring to the excise in his speech on the Cotton Duties Bill on the 17th December, 1894, Mr. Westland (Finance Member) frankly admitted that he did not recommend the measure on its own merits. The instructions of the

House of Commons were that if the Government of India were obliged by financial necessity to impose a duty on cotton goods, an equivalent duty must be imposed on similar goods manufactured in India to deprive it of a protective character. (XXXIX). Two years later the duty on yarns was removed and both the duty on cotton goods and the excise were lowered to  $3\frac{1}{2}$  per cent.

The Tariff Act of 1894 was amended in 1899 with a view to check the imports of bounty-fed sugar from Germany and Austria-Hungary. In two years, 1895-96 to 1897-98, the imports of sugar from these two countries increased from 35,956 tons to 107,452 tons (XL). The result was the closing of Indian sugar refineries in many places. It was feared that if the imports continued unchecked, the cultivation of sugar-cane would be abandoned and some other crop substituted for it.

The customs tariff was completely revised in 1916. With effect from March 1, 1916, the general rate of duty was raised from 5 to  $7\frac{1}{2}$  per cent.; the free list was curtailed; the duty on iron and steel was raised from 1 to  $2\frac{1}{2}$  per cent. and that on other metals from 5 to  $7\frac{1}{2}$  per cent., and the duties on articles subject to special rates, as arms and ammunition, liquors, cigars and cigarettes, were enhanced. Export duties were also imposed on tea and ute. The duty on cotton manufactures was

not altered, as the proposal to raise them would have revived old controversies at a time when it was necessary to concentrate all attention on the war. In the following year, however, financial reasons compelled the Government to raise the import duty on cotton goods from  $3\frac{1}{2}$  to  $7\frac{1}{2}$  per cent. without any change in the excise, which remained at  $3\frac{1}{2}$  per cent. At the same time the export duties imposed on tea and jute in 1916 were doubled.

The customs tariff was again recast in the Budget for 1921-22. The general rate was increased from  $7\frac{1}{2}$  to 11 per cent. Duties on liquors, sugar, tobacco and certain articles of luxury were raised and a specific duty of 12 annas per gross boxes was imposed on matches in place of the old  $7\frac{1}{2}$  per cent. *ad valorem* duty.

Under the stress of financial necessity the customs tariff was again revised in the Budget for 1922-23. The general tariff was raised from 11 per cent. to 15 per cent., but the duty on cotton goods was not altered. The duties on iron and steel, railway material, sugar, alcoholic liquors, and imported petroleum were considerably enhanced. The specific duty of 12 annas per gross boxes of matches was doubled, and a duty of 5 per cent. was imposed on imported yarn.



The views of Lord Curzon's Government on the question of a preferential tariff (XLI) deserve careful study. The conclusion of the Government was that India had not much to gain by Imperial preference, while there was a serious risk of retaliation on the part of foreign countries in case India adopted a preferential tariff.

---

 XXXVI.

*Extract from Sir John Strachey's Financial Statement of 15th March 1877.*

My Lord, I have reserved to the end of my Financial difficulties statement the remarks which prevent the abolition of I wish to make regarding the the cotton duties. Customs duties on cotton goods. I do not now wish to re-open the discussion which was finally closed last year by the Secretary of State. It was then decided by Her Majesty's Government that "the interests of India imperatively require the timely removal of a tax which is at once wrong in principle, injurious in its practical effect, and self-destructive in its operations." The Secretary of State, while leaving to the judgment of the Government of India the mode in which the policy thus laid down should be carried out, declared his opinion that measures for the abolition of these duties should have priority over every other form of fiscal relief to the Indian tax-payer. Financial embarrassments arising from the depreciation of silver prevented any practical steps being taken last year in this direction. It is with regret that I have to announce that, for reasons similar to

those which prevailed a year ago, it has been decided that nothing can be done at the present moment towards the abolition of these duties; the financial difficulties caused by the famine are so serious that we cannot sacrifice any source of income.

I altogether disbelieve that there is, in this

No conflict between matter, any conflict between Indian and English interests; Indian and English interests; interests.

I am satisfied that these interests are identical, and that they alike require the abolition of this tax. I will not speculate on what ought to have been done if the case had been different, but there is one thing which I wish to take this opportunity of saying: we are often told that it is the duty of the Government of India to think of Indian interests alone, and that if the interests of Manchester suffer, it is no affair of ours. For my part, I utterly repudiate such doctrines; I have not ceased to be an Englishman because I have passed the greater part of my life in India, and have become a member of the Indian Government. The interests of Manchester, at which foolish people sneer, are the interests not only of the great and intelligent population engaged directly in the trade in cotton, but of millions of Englishmen. I am not ashamed to say that, while I hope that I feel as strongly as any man the duties which I owe to India, there is no higher duty in my estimation than that which I owe to my own country. I believe that our countrymen at home have a real and very serious grievance, and that it is no imaginary injury against which they com-

plain : I know that your Excellency has resolved that the Government of India shall not shirk this business, and there need be no fear that it will be regarded in any half-hearted spirit.

### XXXVII.

*Extract from Government of India, Financial Statement, 18th March 1878.*

50. It is not necessary now to discuss the advantages to a country of free trade and the disadvantages of protective duties. It is sufficient to say that these have been admitted for many years by the statesmen who, of whatever party, have guided the policy of the United Kingdom. In pursuance of the principles thus accepted, the tariff of the United Kingdom, which, less than thirty years ago, subjected to duty more than one thousand different articles, has been brought down by various stages to some half dozen, of which the only important ones are wines and spirits, tea and tobacco. At the same time export duties have been abolished.

51. The principles on which the Customs legislation of the United Kingdom has been based are now admitted axioms by all who recognise the theoretic advantages of free trade. They must be regarded as a part of the national policy which Great Britain has finally adopted, and which the Secretary of State for India, with the deliberate approval of the House of Commons, has required the Government of India in this country to carry out.

These principles are, as regards imports :—

(1) That no duty should exist which affords protection to native industry and, as a corollary, that no duty should be applied to any article which can be produced at home without an equivalent duty of excise on the home production ; also that no duty should be levied except for purely fiscal purposes ;

(2) that, as far as possible, the raw materials of industry and articles contributing to production should be exempt from Customs taxation ;

(3) that duties should be applied only to articles which yield a revenue of sufficient importance to justify the interference with trade involved by the machinery of collection.

As regards exports ;—that duties should be levied on those commodities only in which the exporting country has practically a monopoly of production.

54. Here then is a country which, both from its poverty, the primitive and monotonous condition of its industrial life, and the peculiar character of its political condition, seems to require from its Government, before all things, the most economical treatment of its resources, and, therefore, the greatest possible freedom in its foreign exchanges.

Under these circumstances, what are the conditions of production and consumption in India? How far is it possible to construct a tariff of import and export duties, which will comply with the accepted canons of taxation? And how

far does the existing tariff conform to those canons ?

55. In answering these questions, it will be found that India, by the extent and favourable conditions of its territory, is capable of producing almost every article required for the use of man. If, therefore, the Import Customs Tariff be maintained, it will involve the evils of protection, unless an excise duty to countervail the customs duty be imposed upon almost every item which the tariff now includes. Now as excise duties are generally costly, vexatious, and inconvenient forms of taxation, and would be in most cases impracticable in India, this of itself is a reason against the permanent retention of the existing Customs tariff, and one which interposes a very serious difficulty in the way of constructing one that shall be free from objection. Since almost every article that is now on the tariff, or that could be named, is either produced or is capable of being produced in India, it follows that import duties must in every case be actually or potentially protective, while, with the exception of liquors and salt, none of them are subject to an excise.

### XXXVIII.

*Extract from Government of India Financial Statement of 13th March 1879.*

187. The Government of India naturally view with much satisfaction the great expansion of local industry which has thus taken place, and the salutary outlets for capital and

Progress of the Indian Cotton Industry.

labour which it affords, and does not doubt that the depression complained of will be temporary only. But such facts as those which have been stated show very plainly the duty incumbent on the Government of taking care that the great increase attained in the manufacture of cotton goods by the Indian mills is not fostered by defiance of the fundamental principles of British commercial policy, or by improper restrictions on other classes of her Majesty's subjects.

195. The real question which the Governor General in Council has had to consider is this:—Ought the Government to look upon the fresh financial difficulties arising from the fall in the exchange as a sufficient reason for refusing to sanction any further remission in the duty on cotton goods? And this question, His Excellency in Council considered, must be answered in the negative. The injury and loss which these duties are causing both to the English producer and to the Indian consumer, and to the true interests of Indian commerce and manufactures, are certain. Measures which, for the present at least, will almost completely remove the protective, and, therefore, the most objectionable, feature in these duties, can be taken without surrendering any very considerable amount of revenue. The difficulties caused by the increased loss by exchange are great, but they will not practically be aggravated to an appreciable extent by the loss of £200,000. If the fresh fall in the exchange should prove to be temporary, such a loss

will possess slight importance. If, on the other hand, the loss by exchange does not diminish, and no other remedies can be applied, it will become necessary to take measures of a most serious nature for the improvement of the financial position; but the retention of the import duties on cotton goods will not thereby be rendered possible. On the contrary, such retention will become more difficult than ever.

199. It is, of course, true that such questions as these cannot wisely be settled on economic grounds alone; but, in the present case, the Governor General in Council is satisfied that the political are fully as weighty as the economic reasons for the removal of the duties under consideration. As observed by the Secretary of State, these duties place "two manufacturing communities upon whose well-being the prosperity of the Empire largely depends in a position not only of competition, but of political hostility to each other."

".....The impost is too much at variance with the declared policy of this country to be permanently upheld; but, if the task of dealing with it be long postponed, it will be the subject of controversy between interests far more powerful and embittered than those that are contending over it at the present time." "I will not dwell again at length," the Secretary of State wrote in another despatch, "upon the political reasons which furnish, in my judgment, the weightiest arguments in favour of the course which I have urged upon your Excellency's Government. I need hardly

insist further upon the danger of keeping open between two great communities of Her Majesty's subjects an irritating controversy which can be closed by one, and only one solution. It is difficult to overstate the evil of permitting an industry so large as the cotton manufacture in India is certain to become, to grow up under the influence of a system which wide experience has proved to be unsound, and which is opposed to the deliberate policy of England, nor can I view without serious apprehension, unless it should be the result of natural causes, the gradual contraction of a trade which constitutes one of the strongest bonds of material union between England and India."

200. In thus ascribing great weight to the political reasons for the removal of these duties, the Government of India desires that its motive may not be misunderstood. It is not, for the sake of averting an embittered controversy, yielding anything which it would otherwise be unwilling to concede. The impossibility of maintaining protective duties is indisputable and obvious. Such duties must, sooner or later, inevitably be removed wherever they are to be found. The existing duties on a great variety of articles comprised in the Indian tariff are, as was shown in the Financial Statement for last year, undoubtedly protective; and they are constantly becoming more so, as the industrial and manufacturing resources of India develop. But the removal of protective duties must necessarily be a work of time, dependent on the state of the finances and on the expedients which can be devised for



replacing the revenue lost. The Government of India deems it right to begin by a single measure of relief which will at once and directly reach one great and important branch of manufacturing industry, rather than by spreading its exemptions over a large area in which their effect, though not lost, might be ill-defined and uncertain.

It is not surprising under these circumstances that Lancashire should Equality of treatment between Bombay and Manchester desirable. that Lancashire should jealously scrutinize all the advantages which its rivals in the East may possess, and should raise objections to any artificial advantages being added to those which nature already confers. And these considerations add a special responsibility to those who, either in this country or in England, have the administration of these matters. Whatever be the immediate future of the Lancashire industry, it behoves us to be careful that none of its misfortunes—if any such should be in store—be in any way attributable to any unequal action on our part. The history of the past 10 or 15 years shows that Indian industries in a fair field and without any adventitious aid, can even more than hold their own; and mill-owners and merchants in India are at one in declaring that they want no special terms of any kind, no treatment in which Manchester is not admitted to a perfectly equal share.

We are anxious, therefore, on these grounds to secure a perfect equality of treatment—not merely an equality attained by different processes, calculated to lead to a result that in our opinion shall be equal, but an equality that shall be conspicuously such—a system that shall weigh

in precisely the same way and to precisely the same degree on both sides. We have always wished to hold the balance with perfect fairness between the two parties, and to give to neither of them any reasonable claim that it is subjected, so far as cotton duties go, to any disadvantage as compared with the other. We admit that the means by which we have sought to attain this equality leaves something open to controversy; our desire is now to close that controversy by assimilating the methods as well as by equalising the results.

---

XXXIX.

*Extract from the Proceedings of the Council of the Governor General of India held on the 17th December, 1894.*

COTTON DUTIES BILL.

The Honourable Mr. Westland said :—

<p>Proposal to levy excise duties on cotton goods manufactured in Indian mills.</p>	<p>Council to supplement the imposition of import duties on cotton goods by introducing a Bill for the levy of excise duties on certain cotton goods manufactured in India.</p>
---	---

I would not be dealing straightforwardly with the Council if I pretended that this measure was recommended by the Government of India on its own merits. No Government would desire, except under the extremest stress of financial necessity, to impose a duty upon an industry so deserving of any fostering care which the Government can bestow upon it, as the cotton manufacturing industry of India. The proposal I make is therefore not made on its own merits,

but as the necessary accompaniment of the fiscal measure which I have already to-day laid before the Council—a fiscal measure which we believe to be rendered necessary by the financial circumstances in which we find ourselves.

Her Majesty's Government, representing the supreme authority in the administration of India, and following the instructions of the House of Commons, have stipulated that if we are obliged by stress of finance to impose an import duty on cotton goods, we must deprive it of protective character by imposing an equivalent duty upon similar goods manufactured in India, to the extent to which these enter into direct competition with goods imported from the United Kingdom. I do not desire to discuss this condition. It is a decision arrived at by an authority which is as capable of pronouncing a judgment on the economic question as the Government of India is, and which has, by the constitution of the Government of India, the authority to enforce it.

The part which the Government of India have taken in the discussion of the subject has been, in the first place, to lay before Her Majesty's Government such arguments on the subject as occurred to themselves or as were communicated to them by various representative bodies in this country; and, in the second place, after receiving the decision of Her Majesty's Government on the matter, which they accept as a fully-instructed decision, to consider in what manner they can carry out the requirements of the House of Commons, while at the same time conserving to the utmost degree consistent with those require-

ments the interests of manufacturers in this country, and avoiding to the utmost possible extent all interference with the process of manufacture and production in this country.

The Bill which I now ask leave to introduce sets forth in legislative form the method in which we propose to carry into effect the results of our considerations.

---

XL

**COUNTERVAILING DUTIES ON BOUNTY-FED SUGAR  
IMPORTED INTO INDIA.**

*Letter from the Government of India (Finance and Commerce Department) to the Secretary of State for India, dated Calcutta, 26th January 1899.*

We have the honour to acknowledge the receipt of your Lordship's Despatch No. 149 (Revenue) dated the 25th August 1899, referring to paragraph 4 of our Financial Despatch, No. 129 of 5th May, 1898, and requesting to be furnished with a fuller expression of our views in regard to the proposed levy of countervailing duties on bounty-fed sugar imported into India.

2. The total imports of refined or crystallised sugar from Austria-Hungary and Germany into India during the last three years as given in the Trade and Navigation accounts

Increase in the imports of bounty-fed sugar from Germany and Austria-Hungary and its effect on the Indian industry.

are quoted in the margin\*. It may be assumed that the imports of sugar from these countries represent bounty-fed beet sugar, which is being diverted to India in consequence of the closing of the American market by countervailing duties. The striking increase in the imports dates only from 1897-98. Simultaneously with these imports from Germany and Austria-Hungary imports from Mauritius have continued on the scale of preceding years, and prices of imported sugar are at present much lower in this country than in the past. They compete in the up-country bazaars not only with the best kinds of native sugars, but also with the commoner kinds of native sugar, produced by a rudimentary system of refining. There is evidence that the profits of native sugar refiners have in consequence been considerably diminished, that they have had difficulty in disposing of their stocks, and that in some places refineries have been closed. How far these effects are likely to be permanent it is impossible to say. Enquiries have been initiated in our Department of Revenue and Agriculture, as the enclosed copy of letter will show, and they will be supplemented by enquiries into the prices of both refined and coarse sugar which will be undertaken by the Director-General of Statistics. With these data before us we shall hereafter be

•	1895-96.		1896-97.		1897-98.	
	Tons.	R.	Tons.	R.	Tons.	R.
Austria-						
Hungary ...	246	83,582	6,775	1,313,792	47,287	10,445,039
Germany ...	95,91	8,750,225	37,940	8,757,394	60,165	12,788,053

in a position to express the final, or, at any rate a more confident opinion on the policy, of imposing countervailing duties. Meanwhile, as Her Majesty's Government wish to determine within the next few months what course they should pursue, we indicate the general considerations by which we should be guided in arriving at a decision.

3. We have already said that owing to low prices, which are popularly connected with the great increase in the import of refined sugar from abroad, the sugar refining industry in India is at present unprosperous. Among the poorer classes there is a considerable consumption of unrefined sugar, and we are at present without evidence as to what extent, if any, the commoner kinds of refined sugars, whether of native manufacture or imported, are taking the place of unrefined sugar among those classes or reducing its price. But the probabilities are that, if the imports from foreign countries continue to increase, the demand for sugar and the price of unrefined sugar will be affected if it has not already been so. If this movement were carried beyond a certain point, it would result in the abandonment of the cultivation of sugar-cane and the substitution of some other crop on those lands on which the cultivation is now conducted least advantageously. It is possible that this might take place to an extent sufficient to affect the security of our land revenue or canal receipts, as lands irrigated from canals rank among those most advantageously situated for the purpose of

sugar-cane cultivation. On this subject, reference may be made to a passage towards the end of Sir John Strachey's Financial Statement for 1877-78.

4. The direct discouragement of the manufacture of refined sugar, whether by European or native firms, would be a serious evil in itself. Within the last twenty years a great impulse has been given to the cultivation of sugar-cane by the introduction of improved sugar mills which enable the cultivators to extract more juice from the canes, and the number of sugar factories has increased greatly. We cannot but view with disapproval any influence which tends to discourage the growth of manufacturing industries in a purely agricultural country, and this is more especially the case when the manufacture works up the produce of a crop which State irrigation has rendered to a great extent independent of seasonal vicissitudes.

We have, etc.,

(Sd.) CURZON OF KEDLESTON.

---

## XLI.

### PREFERENTIAL TARIFFS.

*Extract from a letter from the Government of India, in the Finance and Commerce Department, to the Secretary of State for India, dated Simla, the 22nd October, 1903.*

12. Our Honourable Financial Colleague has shown in his Minute, to which allusion has already

been made, that although British imports in India to the value of 23 millions sterling are practically secure from foreign competition even under present conditions, yet there remain imports the value of approximately 10 millions sterling which effective competition prevails. In respect of these a substantial preferential tariff against the foreigner would be of material benefit to the British manufacturer.

13. But as regards India, the balance of a  
vantage is distinctly adverse.

The adoption of a preferential tariff would cause loss to India. The danger of retaliation from foreign countries. In the first place, we might be forced to shape our policy not in accordance with our own needs, but in accordance with the interests and demands of other constituents of the Empire. Secondly, we should lose a portion of the revenue that we receive at present from British and Colonial imports, being left to make up the deficit by enhanced duties on foreign goods. As the latter are only from one-fourth to one-third as great in value as the former, it might prove difficult to secure in a suitable manner the maintenance of our present revenue from Customs. The last and greatest source of injury, *vis.*, the probability of retaliation by foreign countries, and its consequences to our trade and our financial situation is discussed in a later paragraph of this despatch. On the other hand, the preferential advantage which we might hope to receive is neither large nor assured. If duties are not to be imposed on raw materials imported into the United Kingdom, India can receive no advantage in the home market for these. In



the case of tea, India and Ceylon already divide between them more than nine-tenths of the trade of the United Kingdom. A reduction of the present duty of 6*d.* a lb. might not improbably stimulate consumption and would so far benefit this country, but for preferential treatment as such there is very little room. In the case of wheat there is ample room; but the supply from India though increasing is still uncertain; any advantage that might be given would be shared not merely with Canada, Australia and New Zealand, but also with growers in the United Kingdom itself; and moreover it seems inevitable that any duty that may be imposed on this article, and therefore any preference to India, must be of relatively small amount. In the case of rice, India already supplies two-thirds of the demand in the home market. The only considerable articles of consumption that remain are coffee and tobacco. Of the former, our total exports to all countries amount to only about one-third of the foreign import into the United Kingdom, and a large proportion—exceeding £200,000 worth per annum—finds a profitable market in France notwithstanding the relatively heavy duty levied in that country. Indian tobacco is at present very unfavourably treated in the United Kingdom, being subject to the same specific duty as the higher valued American article. If the two were placed on a footing of equality, and still more if the Indian article were accorded preferential treatment, our trade should receive a considerable stimulus, although pipe tobacco, for which the demand in England is so large, has not hitherto been manu-

factured successfully in this country. We may add that Indian indigo would benefit by discrimination against the artificial product.

As regards this second alternative, we are of opinion that a preference of one-fourth, calculated on a very low rate of duty, would be of little material advantage to British manufacturers exporting their wares to India. A large proportionate preference, or the same proportion calculated on a relatively high rate of duty, would be likely seriously to affect the trade of foreign countries in manufactured goods, and in proportion as it benefited the British manufacturer would tend to embroil us with the foreigner and provoke the latter to measures of retaliation.

14. This brings us to the consideration of

the very important point to which reference has been made in more than one previous passage of this despatch, *viz.*, the possibility that the concession of a preferential traffic to British goods might lead to reprisals by foreign nations, and the consequences thereof to our trade and our financial position. The question has been considered with much fulness by our Honourable Financial Colleague Sir Edward Law, in a minute which is annexed hereto. Our Honourable Colleague lays great stress on the fact that a large proportion of our export trade consists of raw products and that foreign countries are interested in obtaining these at the cheapest rates, as well as in supplying us with their manufactures. He has discussed with abundance of detail the trade of India with each of our more important foreign

Sir Edward Law's  
Minute.

customers, and has shown the extent to which, in his judgment, the cardinal fact above stated, is likely to prove effectual in averting retaliation. His view is that in respect of a number of these countries, the position of India is one of considerable defensive strength, but that this is not the case with every country nor by any means with regard to all classes of produce exported; and he arrives at the conclusion that, with a few possible exceptions which he enumerates, it is more in the interest of India to leave matters as they are than to embark on a new fiscal policy, unless by its adoption very great advantages should be secured for our exports to the United Kingdom and the Colonies.

15. We desire, however, to state our opinion on this point somewhat more emphatically than our Honourable Colleague has done. As already explained, we are not of opinion that India can expect very material advantages in the Imperial market by any measure which appears to be within the range of discussion. On the other hand, our Honourable Colleague may have underrated both the power of retaliation which foreign countries possess, and also their readiness to use it. We are fully alive to the value of the safeguard that we possess in the fact that much of our export consists of the materials used in foreign industries, and we believe that, in normal conditions, foreign nations will be deterred by the powerful motive of self-interest from striking

at us lest in doing so they might injure themselves. But it would seem to us to be unwise to rely too much upon the hypothesis that India enjoys an effective monopoly in any large number of articles which are essential to the existence of foreign industries. Such a monopoly we at present hold with regard to jute and perhaps the coarser classes of jute manufactures, as also in til seed, lac, teak wood, myrabolams, and mowra, while in some other articles we enjoy advantages of the nature of a modified monopoly owing to their limited production in but very few countries. With regard, however, to the greater portion of our exports, they compete successfully in foreign markets by reason of their cheapness rather than of their quality or kind. We cannot feel confident that the conditions and requirements of foreign countries have yet been ascertained with the precision and fulness necessary to make them a sufficiently broad and stable basis on which to rest a fiscal policy of very problematic value to India, whilst the consequences of failure might result in irreparable disaster.

16. In this connection we desire to emphasize, with all the weight at

The need for maintaining a favourable balance of trade as India is a debtor country.

our command, the argument elaborated in paragraph 138 of our Honourable Colleague's Minute. The

factor there stated is peculiar to India, and differentiates her case in relation to the matter under discussion from that of any other member of the Empire. India is a debtor country. Her

net obligations are approximately 16 millions sterling per annum. The major part of this great charge is payable in a currency different from that in which her revenues are collected. The only means consistent with national solvency of discharging this obligation lies in the preservation of an equivalent excess of exports over imports; in other words in maintaining a sufficiently favourable balance of trade. It is therefore a vital object with us to stimulate our exports by every means in our power, to seek new markets and develop old ones, and to remove all obstacles which stand in the way of growing external demand. If then, notwithstanding the safeguards which we possess, we should unhappily be drawn into tariff wars with powerful countries, it cannot be doubted that, whichever way the ultimate victory might incline, our export trade would for the time being be injuriously affected. Such a result would be fraught with the gravest consequences. By ten years of effort, sacrifice and perseverance we have slowly built up a fair measure of public confidence in the stability of our finance. Exchange has been steadied; our credit is good and improving; our rupee securities are rising in relative value in the London market; and we have created the nucleus of a reserve of gold. But if by a change of fiscal policy the balance of trade in our favour should dwindle or disappear, the whole work of ten years would be sacrificed; and the setback to our trade, our revenues, and our credit would immensely outweigh any benefits that we might reasonably expect from the most unconditional

surrender of our opponents in the war of tariffs. We cannot sufficiently impress this danger on your attention. Even if the chances of success were greater than we conceive them to be, we hold that the certain cost of the struggle and the severe penalties of defeat would be too heavy a price to pay.

17. Our conclusions then, based on the imperfect information before us, and having regard to the hypotheses which we have framed as to the terms on which India might participate in a policy of preferential tariffs within the Empire, are as follows:—

*Firstly*, that without any such system, India already enjoys a large, probably an exceptionally large, measure of the advantages of free exchanges of imports and exports.

*Secondly*, that if the matter is regarded exclusively from an economic standpoint, India has something, not perhaps very much, to offer to the Empire; but that she has very little to gain in return; and that she has a great deal to lose or to risk.

*Thirdly*, that in a financial aspect the danger to India of reprisals by foreign nations, even if eventually unsuccessful, is so serious and their results would be so disastrous, that we should not be justified in embarking on any new policy of the kind unless assured of benefits greater and more certain than any which have, so far, presented themselves to our mind.

21. In view of what has been said in paragraph 15 of this Despatch, "We would avoid all tariff wars." we need scarcely affirm that any actual measure of retaliation should only be adopted with the greatest caution, and in the last resort, and in circumstances which in the most careful judgment afford a strong assurance of success. We would avoid all tariff wars, and we recognize that it would be a calamity should we become involved in such struggles with the important purchasers of our exported produce. In no circumstances whatever should we allow a policy of retaliation to develop into one of aggression. All that we seek is that we shall not be pledged in advance to accord equal treatment to the imports of all countries alike, irrespective of whether they penalize our exports or not. And we are hopeful that the mere announcement that our hands are free will of itself suffice to maintain us in the enjoyment of that considerable measure of free exchange which we already possess, and from time to time even to extend it.

We have, &c.,  
(Signed) CURZON.  
" T. RALEIGH.  
" E. FG. LAW.  
" E. R. ELLIS.  
" A. T. ARUNDEL.  
" DENZIL IBBETSON.

---

## XLII.

*Extract from a Minute by the Honourable Sir E. F. G. Law, K. C. M. G., Financial Member of the Council of His Excellency the Viceroy and Governor-General of India, dated 31st August, 1903.*

## CONCLUSIONS.

136. Before attempting to draw any conclusions from the above examination of such facts as can be ascertained, I must once more insist that the information at our disposal for a correct appreciation of all the numerous points involved in the question under consideration is insufficient. It requires to be supplemented by enquiries as to the uses to which Indian produce is put when received in foreign markets; and without such full information in this respect as could only be obtained by local enquiries in the different countries concerned, we cannot say with certainty how far, in the case of a tariff war, each individual country could afford to assume an aggressive attitude, hampering the supply of raw materials required for its industries. At the same time, I feel sufficiently confident that with the great majority of the countries with which we trade, and as regards the very great bulk of our exports of raw material, we are not only in a safe position, but we could afford, in certain instances, ourselves to assume the aggressive by going so far as to impose duties on the exportation of produce they require for their industries. This is not the case

Dangers of embarking on a new fiscal policy.



with every country, or by any means with regard to all classes of produce exported, and with possible exceptions in the case of Russia, Austria, Germany and Belgium, it seems to me to be more in Indian interests to leave matters as they are, than to embark on a new fiscal policy, unless, indeed, by its adoption very great advantages could be obtained by preferential discrimination in favour of our exports to the United Kingdom and British Colonies and Possessions.

137. I have indicated as far as possible how far it would appear that such advantages might be obtained, but in existing circumstances, and in view of the fact that our exports consist almost entirely of raw material and produce, it does not appear probable that materially important advantages could be offered to us under a system of preferential tariffs in our favour, adopted in other parts of the Empire. The gain to the United Kingdom would probably be considerable, as also to the Mauritius, but I doubt if our trade relations with other parts of the Empire would be materially advanced in their favour by any far-reaching change of policy.

138. In my opinion it might be difficult to show that a preferential trade would prove directly prejudicial to Indian interests, but, should we be urged to join in a general preferential arrangement, I think that it would be our duty to point out very strongly that, if our export trade with foreign countries were in any way seriously prejudiced, we should run a very grave risk of disturbing the balance of trade,

The balance of trade would be affected.

now strongly in our favour and we might find ourselves once more plunged into the deep sea of trouble arising from a depreciation of the exchange value of our rupee currency.

139. The situation appears to me to be this, that India could probably give without serious danger some small preference on her present low tariff rates to imports from other parts of the Empire; but she has little to gain by so doing, and would incur a risk of difficulties with her foreign customers in proportion to the extent of preference given in a system of inter-Imperial preference, and to the rates of the tariff on which it was given. If we were to raise our average tariff rates to, say, ten per cent., (which I would not in any case recommend), so as to give an appreciable preference of  $2\frac{1}{2}$  to 3 per cent. to our Imperial relations, such a difference might so affect our import trade with our foreign customers for exports, that they would necessarily consider the advisability of retaliation, and we might be landed in a series of tariff wars, the results of which we cannot foresee with certainty. On the other hand, such very small preferential advantage as might probably be given with fair prospects of safety, on generally low average tariff rates, would hardly be likely to afford such advantages to British manufacturers as would prove of material benefit to their interests.

140. Two important points must, however, be borne in mind in considering the whole question, Elements of strength.

first, that most of the foreign countries which would be likely to resent the introduction of an inter-Imperial preferential tariff, are interested both in obtaining our raw produce and in supplying us with their manufactures, and that this situation gives us a double weapon to use against them if necessary.....second, that the percentage of profit on manufactured goods is, as a rule, considerable, and consequently trade in many manufactured articles might not suffer appreciably from a small percentage of increase in cost. A relatively much smaller increase in the percentage of cost of raw material and produce would seriously check importation, unless the supply of such commodities were necessary for important industries and were so limited as to partake of the nature of a monopoly. I have already shown that a large proportion of Indian exports, consisting almost entirely of raw material and produce, is of that nature.

---

### THE REPORT OF THE INDIAN FISCAL COMMISSION.

The publication of the report of the Fiscal Commission is an important event in the fiscal history of India. In spite of the Minute of Dissent, the report of the Fiscal Commission is a valuable document. In a sense, the Fiscal Commission may be regarded as having completed the work of the Indian Industrial Commission. The tariff

policy of a country has an important bearing on its industrial development, but the consideration of India's fiscal policy was not included in the scope of the Industrial Commission. The Fiscal Commission has now recommended the adoption of a policy which will have a permanent and far-reaching effect on industrial life in India.

The majority report recognises that "the industrial development of India has not been commensurate with the size of the country, its population and its natural resources," and it recommends the adoption of a policy of protection to be applied with discrimination with the object of stimulating Indian industrial enterprise. This policy has been recommended in the best interests of India, and every one will admit that the members of the Fiscal Commission, both European and Indian, have considered the whole question of India's future tariff policy, which seriously affects British interests, primarily from the Indian point of view. For the first time in our fiscal history it has been definitely recognised that Indian interests are of the first importance in framing a fiscal policy for India. We have travelled far from those days when tariff changes in India were determined by the requirements of British manufacturers.

There is no difference of opinion between the majority and the minority as

regards the fiscal policy best suited for India: the minority declare that this is "Protection," the majority recommend "Protection applied with discrimination." Even if the majority had recommended unqualified protection, it could not be applied without proper discrimination. Every one recognises that protection will raise prices and impose heavy burdens on certain classes of our consumers. It is certainly desirable that, as far as possible, the rise of prices should be restricted. It is difficult to see what advantage will be gained by extending protection to industries which will not benefit by it, or by imposing unnecessarily high duties on imported articles. There is great need for the exercise of caution in applying the principles of protection to India. We are trying a new experiment, and we should proceed carefully. Let us not forget that protection is not an unmixed good. Protection is an expensive thing; a heavy price has to be paid for developing national industries. The country is prepared to pay the price of protection, but there is no reason why the people should be called upon to make heavier sacrifices than is necessary, or why the cost of protection to the consumer should not be reduced as much as it can be reduced consistently with our aim—the development of our industries.

One cannot, therefore, quarrel with the majority, because they have not declared themselves in favour of unqualified protection for India. For practical purposes the difference between "unqualified protection" and "protection with discrimination" is very little, for no country can afford to apply protection without due regard to the interests of consumers, and that must mean protection with discrimination.

The minority, however, have done well to emphasize that our object in adopting protection is not merely to encourage the manufacture of simpler forms of goods. One may hope that in the course of the next 20 years India will be able to produce finer cotton fabrics, other more elaborate and finished manufactures and, as our iron and steel industry develops, also complex machinery. The industrial development of India will be slow, as the industrial deficiencies of India are many and they can be only slowly remedied, as for example, the want of technical knowledge and skill. But no limits can be placed on our industrial advance, and I do not think that the majority report seeks to impose any such limits either. The concluding remarks of the majority report are addressed to the British manufacturer, who is asked to believe that in the long run protection in India will not injure him.

These remarks do not mean that India may be allowed to manufacture simpler forms of goods and that she should be prevented from manufacturing more complex forms of goods. For many years, of course, we are likely to concentrate on the simpler forms of manufactured goods, and the British manufacturer may draw from this what consolation he can. But as our industries develop and home production increases, British imports into India are likely to diminish. The majority report attempts to show that in spite of increase in home production, British cotton imports have considerably increased: "In 1878-79 there were 12,983 power looms in India; in 1920-21 there were 118,400. Nevertheless, the value of imports of cotton piece-goods, which was 1,394 lakhs in 1878-79, had risen to 8,378 lakhs in 1920-21. And even if we take a pre-war year so as to eliminate the factor of the recent rise in prices, we find that in 1913-14 the value of imports was 5,817 lakhs at a time when there were 96,688 power-looms in India." These figures are somewhat misleading, for, as is well known, the rise in prices sometimes conceals a decrease in the quantities of goods imported or exported. The quantities of cotton goods imported from the United Kingdom in 1878-79, 1880-81, the average imports in 1881-82 to 1885-86 and in 1920-21 are shown by the following table:—

*Piece-goods imported into India from the United Kingdom in thousands of yards.*

	1878-79.	1880-81.	1881-82 to 1885-86.	1920-21.
Grey (un-bleached.)	763,074	1,160,745	1,097,813	420,287
White (bleached)	190,701	282,764	277,771	408,560
Coloured, printed or dyed.	158,890	315,373	305,863	448,598

As compared with the average imports in 1881-82 to 1885-86, British imports of grey goods decreased 62 per cent. in 1920-21. The increase in the imports of bleached goods, and dyed and coloured goods was 47 and 46 per cent. respectively.

On the subject of Imperial Preference the majority report has suggested that no such policy should be adopted without the free consent of the Council of State and the Legislative Assembly, while the minority report insists that Imperial Preference can be adopted only "on the distinct condition that India should in this matter be put on the same footing of freedom as is enjoyed



by the Self Governing Dominions, and that the Non-official members of the Legislative Assembly should be given power by legislation or other equally effective means to initiate, grant, vary and withdraw preference as may be necessary in the interest of India in all its aspects." Both the majority and the minority reports show a proper appreciation of the Indian point of view in dealing with the question. The majority report refers to the examination of the question by Lord Curzon's Government in 1903 and recognizes that while the situation to-day, in the main, is still the same, "such change as has taken place has been to the disadvantage of the British Empire."

---

#### XLIII.

*Summary of the main recommendations of the Indian Fiscal Commission, 1921-22.*

#### REFERENCE.

"To examine with reference to all the interests concerned the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations.

#### PRELIMINARY CONCLUSIONS.

That the industrial development of India has not been commensurate with the size of the country, its population, and its natural resources, and that a considerable development of Indian industries

would be very much to the advantage of the country as a whole.

#### PRINCIPAL RECOMMENDATIONS.

1. (a) That the Government of India adopt a policy of Protection to be applied with discrimination along the lines indicated in this Report.

(b) That discrimination be exercised in the selection of industries for protection, and in the degree of protection afforded so as to make the inevitable burden on the community as light as is consistent with the due development of industries.

(c) That the Tariff Board (see below) in dealing with claims for protection satisfy itself—

(i) That the industry possesses natural advantages;

(ii) that without the help of protection it is not likely to develop at all, or not so rapidly as is desirable;

and

(iii) that it will eventually be able to face world competition without protection.

(d) That raw materials and machinery be ordinarily admitted free of duty, and that semi-manufactured goods used in Indian industries be taxed as lightly as possible.

(e) The industries essential for purposes of national defence and for development of which conditions in India are not unfavourable, be adequately protected, if necessary.

(f) That no export duties be ordinarily imposed except for purely revenue purposes, and then only at very low rates; but that when

it is considered necessary to restrict the export of food grains, the restriction be effected by temporary export duties and not by prohibition.

2. That a permanent Tariff Board be created whose duties will be, *inter* investigate the claims of particular industries to protection, to watch the operation of the tariff, and generally to advise Government and the Legislature in carrying out the policy indicated above.

3. (a) That no general system of Imperial Preference be introduced ; but

(b) That the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian Legislature after preliminary examination of the several cases by the Tariff Board.

(c) That if the above policy be adopted, its application be governed by the following principles :—

(i) That no preference be granted on any article without the approval of the Legislature.

(ii) That no preference given in any way —diminish the protection required by Indian industries.

(iii) That preference do not involve on balance any appreciable economic loss to India.

(d) That any preferences which it may be found possible to give to the United Kingdom be granted as a free gift.

(e) That in the case of other parts of the Empire preference be granted only by agreements mutually advantageous.

4. That the existing Cotton Excise Duty in view of its past history and associations be unreservedly condemned, and that the Government and the Legislature start again with a "clean slate", regulating their policy solely in the interests of India.

---

#### XLIV

*Extract from the Report of the Indian Fiscal Commission, 1921-22.*

#### THE PRINCIPLE OF DISCRIMINATION.

88. The fundamental principle that guides us may be stated quite shortly. It is that the temporary sacrifice, which even the most successful protection must entail, should be restricted to the minimum necessary to attain the object aimed at. The principle, when stated, is self-evident, but we lay stress upon it, partly because it sometimes escapes attention, with the result that enthusiasm for the end makes it appear that there is something essentially desirable in the means; partly because our decision in favour of protection is based on the view that the gain to the country will outweigh the loss, and this will only be true provided no unnecessary or useless burdens are imposed; and partly because India, owing to the poverty of the mass of the people, is a country in which it is specially important that the principle should be emphasised. We reject therefore all proposals which would found Indian protection on an indiscriminate

high rate of duties. Any such system would protect industries unsuitable as well as suitable, and would impose on the consumer a burden in many cases wholly gratuitous.

89. The burden on the consumer may be Discrimination will viewed in two aspects, the (i) restrict the rise of extent and the duration, and prices in both the importance of discrimination in reducing the burden to a minimum is clear. With regard to the extent of the burden, namely the rise in prices, we have already shown that the fewer the articles on which increased duties are imposed, the smaller will be, not only the direct effect arising from cost of these articles and their substitutes, but also the indirect effect through a rise in the general level of prices. We need not recapitulate the importance to the great mass of the people and to the interests of agriculture of restricting the rise of prices to a minimum. This can only be achieved by exercising a wise discrimination in the selection of industries for protection.

90. From the point of view of the duration of the burden also it is clear (ii) curtail the period of the burden. that discrimination is of the first importance. If protection is extended to unsuitable industries, they will never reach the stage at which the shield of protection can be discarded, and will remain a permanent burden on the community. The duration of the burden will also be extended if protection operates to prolong inefficient methods of production. As an instance of this possibility

we may refer to the view of the Indian Sugar Committee of 1920. After a detailed enquiry into the conditions of the sugar industry they came to the conclusion that, at the time at which they wrote, the degree of protection, direct or indirect, enjoyed by the industry was sufficient, and they added:—"We fear that any increase in the duty might result in bolstering up an inefficient industry to the detriment of the consumer; and that secure behind a high protective wall, factories in India might make no effort to reach the standard of those in other sugar producing countries, notably in Java, where the industry has been able to dispense with any protection, subsidy, or assistance from Government....."

91. When we turn to the interests of industries themselves we (iii) serve the best interests of industries. arrive at the same conclusion, that protection must be applied with discrimination. There would be a real danger to the industrial progress of the country if any attempt were made by high or indiscriminate protective duties to force the pace too rapidly. If unnecessarily high duties were imposed, a large number of concerns would be started; there would be a boom, followed by the inevitable sequence of over-production and collapse. The development of industries would be pushed beyond the limit of what is economically safe, and the resultant collapse would shake that very confidence of capital which it is one of the main objects of our recommendations to build up. Further, if protection were applied not only to an excessive extent, but in an indiscriminate

manner, the uneconomic industries which would come into existence would be likely to unsettle labour in established industries, and to attract it from economic to uneconomic employment....

92. The probable effect of protection on (i) minimise the the balance of trade of effect on the balance of India is not a subject on trade. which it is safe to dogmatise. The immediate effect will naturally be to diminish imports, decreased demand following on increased cost. There will also be factors tending to a diminution of exports. Any general rise of prices in India must discourage exports by making their cost to the foreign purchaser dearer, and apart from any rise in internal prices a reduction of imports will tend to raise exchange and thus to diminish exports. Again protection will lead to an increased local consumption of raw materials previously exported. On the other hand, there is the possibility that the development of Indian industries will produce an increased export of manufactured articles. On the whole, from a consideration of these various tendencies it may be concluded that the immediate effect of protection will be some diminution both in imports and exports, but it is impossible to say whether the balance of trade would be altered. The present currency system in India depends on the maintenance of a favourable balance of trade. The less disturbance there is in the import and export trade, the smaller is the danger of upsetting the balance, and thus we have one more argument or not embarking on indiscriminate protection.

93. Our conclusions therefore are that in the interest of the consumers generally, and particularly of the masses of the people, in the interests of agriculture, in the interests of steady industrial progress, and for the maintenance of a favourable balance of trade, the policy of protection which we recommend should be applied with discrimination, so as to make the inevitable burden on the community as light as is consistent with the due development of industries, and to avoid abrupt disturbances of industrial and commercial conditions.

#### THE ECONOMIC LIMITATIONS OF PREFERENCE IN INDIA.

232. We have explained in general what we conceive to be the normal economic effects of preferential duties, both on the producer in the country receiving the preference, and on the consumer in the country giving it. We have now to consider the probable results of a policy of preference in India, in view of the special features of her economic position. This aspect of the question was examined with great care by the Government of Lord Curzon, and their conclusions were stated in their despatch to the Secretary of State dated the 22nd October 1903. In its general features the analysis of the situation then made holds good. The Government of India in 1903 found that about three-fifths of the total imports into India came from the British



Empire. Indian exports on the other hand went preponderatingly to foreign countries. The situation still is in broad outline the same, though such change as has taken place has been to the disadvantage of the British Empire..... The imports from the British Empire, which were estimated at about 75 per cent. in 1903, averaged in the five years immediately preceding the war only 69·8 per cent., and in 1921-22 stood at 66·6 per cent. The percentage of India's exports going to the British Empire has followed a similar course of gradual diminution. In 1903 approximately 47 per cent. of Indian exports went to the British Empire, including exports to Hong Kong and the Straits Settlements, which were, however, destined very largely for China and Japan. The corresponding figures for the five years preceding the war show a percentage of 41·9 and in 1920-21 of 43, which in 1921-22 fell abruptly to 37·3. Turning to exports from India to the United Kingdom, these represented in 1903 about 25 per cent. of the total exports, in the five years preceding the war the average percentage was the same, in 1920-21 it stood at 21·9 per cent. and in 1921-22 it had fallen to 19·7. Conditions have not completely re-adjusted themselves after the war, but the figures seem to indicate, for exports as for imports, some degree of relative decline of the importance of the British Empire in the trade of India. The present position is that India receives about two-thirds of her total imports from the British Empire, and sends to the British Empire, after deducting exports to

Hongkong and the Straits Settlements which are destined for China and Japan, something over one-third of her exports.

233. We have shown in Chapter III that Indian exports not of a kind to benefit appreciably from preference. between 70 and 80 per cent. of the imports into India come under the class of articles wholly or mainly manufactured. On the other hand the exports of manufactures from India amount to only some 30 per cent. of the total exports, the remainder consisting to the extent of 40 to 50 per cent. of raw materials, and the balance of articles classified under the head of "food, drink and tobacco." Broadly speaking therefore India may be said to import manufactures and to export raw materials and food stuffs. This fact is of great significance in considering the probable results of a system of preference. The economic advantage derived from a system of preference tends to be more important in the case of manufactured goods than in the case of raw materials. Manufactures nearly always meet with keen competition in foreign markets, and therefore a preference on manufactures is nearly always of value. The position in regard to raw materials is different. In the first place they are usually admitted free into foreign markets, so that the possibility of a preference does not arise; in the second place it is an obvious fact that to a large extent they find their markets ready made, whereas the market for manufactures has to be developed and carefully nursed. With a comparatively small degree of competition to meet, it is clear that raw

materials stand very much less in need of preference than do manufactures, and the gain to them by preference is likely to be correspondingly smaller. With regard to food stuffs the general tendency in most countries is to admit them free, and the possibilities of preference are limited.....

#### CONCLUSIONS.

255. We have been impressed throughout our enquiry by the almost complete unanimity with which Indian witnesses opposed the principle of Imperial Preference; and it is important to explain the causes which in our view underlie this antagonism.

Causes of Indian hostility to preference.

256. We have already referred to the belief entertained by many witnesses that preference would operate to weaken the protection granted to Indian industries. This apprehension can be met by laying down definitely the principle that under no circumstances should preference be allowed to diminish the protection which it may be decided that an Indian industry requires.

(i) Fear that it may diminish protection.

257. A second argument which has weighed with many witnesses is that preference is equivalent to the grant of a bounty to the British manufacturer at the expense of the Indian consumer, that India is poor while Britain is rich, and that it is not reasonable to expect a poor country to make a gift to the rich one. We have explained that in our opinion this view of the question is not unreasonable, and that any general

(ii) Burden on Indian consumer.

system of preference would undoubtedly impose an appreciable burden on the Indian consumer, which we do not think it fair that he should be called upon to bear. This argument may be met by the assertion of a second principle, namely that Imperial Preference should not involve any appreciable economic loss to India. In estimating the economic loss it would be reasonable to take into account any economic gain which India receives by the preferences granted by the United Kingdom; and in case any should be tempted to look too narrowly at the balance of loss and gain, it is well to remember that India at present enjoys the protection of the British Navy in return for a merely nominal contribution.

258. The main cause, however, of the  
 (iii) Fear that it will affect India's fiscal autonomy. general hostility displayed by Indian witnesses to the idea of Imperial Preference is, we think, political. It is based on a feeling of suspicion. There is a fear that if India accepted the principle of Imperial Preference she would find that she has parted with the newly won privilege of fiscal autonomy, that in the name of Imperial Preference the tariff policy of India would be directed not in her own interests but in the interests of other parts of the Empire, that if India signified her acceptance of the principle the details would be dictated to her regardless of her own interests and wishes. We think that these fears are based on a misunderstanding of the true position. Many regard

Imperial Preference as meaning a unified tariff policy for the whole Empire, dictated, if not by the mother country, at least by binding resolutions passed at periodical Imperial Conferences. This is a complete misunderstanding of the real principles which underlie Imperial Preference. We have shown above that Imperial Preference implies no kind of interference in the tariff policy which the various Dominions have chosen for themselves, and no idea of a system of free trade within the Empire or any uniform tariff policy. It is true that, as a result of the Paris Economic Conference of 1916 already referred to, the question of the organisation of the Empire as an independent economic unit seemed for a time to be coming into practical consideration. But the ideas to which the crisis of the war gave rise did not long survive its original lines. Each part of the Empire took such steps as it felt could reasonably be taken consistently with its own interests to promote inter-Imperial trade and the manufactures of the mother country. This is the meaning which we attach to the policy of Imperial Preference, and all our recommendations must be read as referring to such a policy, and not to the idea of a joint tariff policy for the Empire imposed on the various component parts.....

262. We recognise that the question of Imperial Preference is one which can only be determined in accordance with Indian opinion; and that the Indian view can be best

Decision must rest with the Legislature.

ascertained by reference to the Council of State and the Legislative Assembly, without whose free consent no such policy can be adopted. We feel confident that the Indian Legislature will consider the obligations of India in this matter as a component part of the Empire. We have endeavoured to indicate certain principles which should govern any application of the policy. Principles which should govern any application of the policy. which should govern the application of the policy, if adopted. We repeat them once more. In the first place, no preference should be granted on any article without the approval of the Indian Legislature. Secondly, no preference given should diminish the protection required by Indian industries. Thirdly, the preference should not involve any appreciable economic loss to India after taking into account the economic gain which India derives from the preference granted her by the United Kingdom....

214. Hitherto in discussing the question of Imperial Preference we have confined our considerations to preferences granted to the mother country. With regard to other parts of the Empire we would recommend a different policy. We suggest that to the United Kingdom should be offered such preferences as India may find she is able to offer without appreciable injury to herself. With regard to other parts of the Empire we recommend a policy of reciprocity such as is already adopted by more than one Dominion for inter-dominion trade relations; that is to say, preferences should be granted only as the result of agreements which might prove to the mutual advantage of both parties.....

## THE LAND REVENUE POLICY OF THE INDIAN GOVERNMENT.

The Resolution on the Land Revenue Policy of the Indian Government (XLV) was issued by the Governor-General in Council on 6th January 1902 as a reply to a number of representations made to the Government on the subject of land revenue, and criticism of their policy by the late Mr. R. C. Dutt in a series of letters addressed to the Viceroy. The Resolution mainly deals with the reforms suggested by the critics in the Zemindari and Ryotwari tracts.

*Permanent Settlement* — Mr. R. C. Dutt in one of his letters had claimed that Permanent Settlement had contributed very largely to the prosperity of Bengal, that cultivators in that province were more resourceful than those under Temporary Settlement, and better able to help themselves in a famine. The view of the Government of India was that Bengal had not been saved from famine by Permanent Settlement, and that the causes of its prosperity were its favourable climate,

its excellent means of communication, its monopoly of jute and the enterprise of its capital, rather than Permanent Settlement. Further the Bengal cultivator was "rack-rented, impoverished, and oppressed," and Government had to enact a series of measures for his protection. Other evils of the system were absenteeism, management of estates by unsympathetic agents, multiplication of tenure holders or middlemen between the Zemindars and the cultivator. The general conclusion of the Government was that Permanent Settlement could not be regarded as a model system of agrarian tenure, and that so far as the ryot was concerned, he owed the security which he now enjoyed not to Permanent Settlement but to the tenancy legislation of the Government.

*Temporary Settlements. Zemindari Settlement.*—Two reforms were suggested by the critics in Zemindari Settlements (1) Limitation of landlords' enhancements of tenants' rent and (2) Limitation of the State's demand on landlords. With regard to the former Government pointed out that the idea underlying the suggestion was already the basis of their tenancy legislation. As to the latter, they maintained that there had been a progressive reduction of the State's share in the profits of cultivation under



British rule and that the actual share of the Government nowhere exceeded 50 per cent. of the net assets.

*Ryotwari Settlements.*—The most important reform suggested for ryotwari tracts was that land revenue should be a definite share (not exceeding one-fifth) of the gross produce. Government regarded the suggestion as impracticable, and considered that if it was adopted, its effect would be to impose heavier burdens upon the cultivators.

Other reforms suggested for temporarily settled tracts were : (1) that no term of settlement in such areas should be for a period less than 30 years (sec. 18); (2) that improvements should be exempted from assessments (sec. 20); that Government enhancements of land revenue should be limited to increase in the value of land due to (1) State improvements and (2) rise in the value of produce as shown by the average prices of the 30 years next preceding such revision (sec. 22) and that no cesses should be imposed on the rental of land except for purposes directly benefiting the land (sec. 23).

*The nature of Land Revenue : whether  
it is a tax or rent.*

The nature of land revenue is discussed in XLVI, XLVII and XLVIII. The occasion which gave rise to the discussion was a

difference of opinion between the Governor of Madras and his Council in 1875 regarding the power of the Local Government to increase the assessment.

It has been said that the controversy about the nature of land revenue, whether it is a tax or rent, is a profitless war of words. So it is in a sense. If land revenue is regarded as a money payment made by one party to another, and no further questions are asked, it is a matter of indifference whether the payment is called 'rent' or a 'tax'. But if we enquire further whether this payment is made by a tenant to the State landlord, or by a subject to the State as a contribution towards the general expenses of Government, the question at once raises important issues. For if the State in India is the universal landlord, it is legally entitled to the whole of the rent, and enhancement of the State's demand until it absorbed the whole of the surplus produce of the soil would be justified. But if land revenue is of the nature of a tax, then those who pay it can demand that it should be administered like a tax, for example, it might be claimed that this tax, like the tax on non-agricultural incomes, should be graduated. It is thus seen that in a practical sense, that is, considering the consequences that flow from

the acceptance of one view or the other, the question whether land revenue is a tax or rent is not merely a question of words.

It cannot be denied that the State was the universal landlord in India under Indian rulers. But the British Government has everywhere recognised a private right in land. It is certainly true that it treats land as a security for the payment of land revenue, and that non-payment of the assessed revenue entails loss of the land, but this does not imply non-existence of a private right in land.

Again, if land revenue is regarded as rent, it must be recognised that the enforcement of the State's demand in full at the present time is out of the question. Such an attempt would be politically dangerous. Thus on the one hand we have a definite recognition on the part of the State of a private right in land, and on the other the difficulty, if not the impossibility of realizing the full State demand as rent, assuming the State to be the ultimate owner in every case. Practical considerations in the discussion of the question are entitled to great weight, and we may conclude that the land revenue is for all practical purposes a tax on agricultural incomes, though, regarded as such, it is entirely different in character from the land tax of European countries.

## XLV.

LAND REVENUE POLICY OF THE INDIAN  
GOVERNMENT.

*Extracts from the Resolution issued by the  
Governor General in Council on the 16th  
January 1902.*

*Suggested reforms in Zemindari Settlements :  
Limitation of the State's demand on landlords.*

It has already been stated on the authority of Regulation XIX of 1793. Ancient right of the State to a share of the produce of the soil. of Regulation XIX of 1793. that the ruling power in India has always, by the ancient law of the country, been entitled to share in the produce of the soil. Regulation II of 1793 pointed out that the Government share of that produce was fixed by estimating the rents paid by the tenants, deducting therefrom the cost of collection, allowing to the landlords one-eleventh of the remainder as their share, and appropriating the balance or ten-elevenths, as the share of the State. But if this was the ostensible basis upon which the Permanent Settlement in Bengal was originally made, and if, at the commencement of their fiscal administration, the Government of India thus followed indigenous custom in assessing the revenue, they soon began to moderate the severity of the practice. It is unnecessary to trace here in detail the process of mitigation. It will suffice to say that long before the late century had reached its midway point the demand of the State upon the landlord had been limited to two-thirds of the net assets. About the middle of the

century, *i.e.*, before the Mutiny, the question of the relative shares of the State and of the landlords in the net produce of the soil came again under careful review in Northern India; and the result of this further consideration of the matter was embodied in what are known as the "Saharanpur Rules" (so called because they were issued in connection with the resettlement of the land revenue of the Saharanpur district of the North-Western Provinces). The Settlement Rules previously in force authorised the demand of two-thirds of the net produce of an estate, or rather of its value in money, as the Government share in respect of land revenue. The Saharanpur Rules, issued in 1855, laid down "not that the revenue of each estate is to be fixed as one-half of the net average assets, but that in taking these assets with other data into consideration, the Collector will bear in mind that about one-half, and not two-thirds as heretofore, of the well-ascertained net assets should be the Government demand." These orders have since remained the accepted canon of assessment on landlords' estates in the North-Western Provinces, and they continued to govern assessments in the adjacent districts of the Central Provinces, until the constitution of the latter as a separate administration in 1862.

12. In the North-Western and other zemindari provinces prospective Progressive reduction of the State's share under British rule. dari assets have been excluded from consideration; allowances have been made for improvements made by

the land-lord, for precariousness of cultivation, and for local circumstances: and the revenue has been fixed at a share of the actual income of the proprietor, his income including a fair rental value for the lands which he farms himself, or assigns on privileged terms to tenants. The share to be taken as land revenue by Government is thus being brought down in the North-Western Provinces—in the interests of the proprietor—to an average of less than 50 per cent., while in the resettlement of Oudh, now on the point of completion, the average falls below 47 per cent. In the Central Provinces, which have been for a shorter period under British rule and where much higher assessments, amounting in some cases to over 75 per cent. of the actual income, were inherited from the Mahratta Government, there has been a progressive reduction of assessment; but it has not yet reached the very moderate level that is common in the North-Western Provinces. In time, as population increases, and more labour and expenditure are devoted to cultivation, the share taken by Government may be expected still further to diminish, and already three of the districts in the north of the provinces have recently been re-assessed (from a desire to limit the sudden enhancements that result from long-term settlements) at less than 50 per cent. of the rental. In Orissa the gradual reduction of the Government proportion has been even more striking. In 1822 it was authoritatively declared to be 83·3 per cent. of the assets; in 1833 it was lowered to 70—75 per cent.; in 1840 to 65 per cent. with a permissive reduction to 60 per cent., while

at the re-settlement just concluded, it has been brought down to 54 per cent. In the Punjab, where proprietary cultivation is common, and where the maximum land revenue that may be taken is the "estimated value of half the net produce"—the principal guide to this being the rents that are paid by neighbouring tenants-at-will—the calculations given in the official reply reveal yet lower proportions. Assessments of 45, 39, 35, and 25 per cent. are recorded in particular cases, and the general average is shown not to exceed 45 per cent. of the net income.

13. From this summary it results that while the standard of 50 per cent. has nowhere been laid down as a fixed and immutable prescription, there has been, and there is, a growing tendency throughout temporarily settled zemindari districts to approximate to it, and in special circumstances a very much lower share is taken. It does not appear to the Government of India to be necessary to issue fresh regulations upon a matter in which their general policy is so clear and where, save in exceptional cases, to be justified by local conditions, uniformity of practice is now so common.

*Suggested reforms in Ryotwari Settlements :  
Revenue to be a definite share of gross  
produce.*

The Government of India believe it to be an entirely erroneous idea that it is either possible or equitable to fix the demand of the State at a definite share of the gross produce of the land. There is great practical difficulty in ascertaining what the average produce is. It is dependent upon a number of varying factors, such as the industry and resources of the cultivator, the nature of the crop; the capacity, security, and situation of the holding, and the chance of the seasons. The share of the gross produce which a crop can afford to pay must stand in close relation and in inverse proportion to the amount of expenditure which has been required to grow it, and this will vary very greatly, for instance, in the cases of sugar-cane and of wheat. In zemindari districts, accordingly, rental value, and not produce, has for the last 50 years been adopted as the basis of assessments, although the latter have commonly been checked by comparison with produce, with the result, as a rule, of showing that, judged by that standard, they were unreasonably low. In the ryotwari provinces of Madras and Burma, the attempt has been made to fix assessment rates in accordance with produce, but the rules giving effect to this principle fence it round with so many qualifications as practically to involve its abandonment. The truth is that assessment of land



revenue is subject to so many complicated and varying conditions that any attempt to reduce it to an exact mathematical proportion either of gross or of net produce would not only be impracticable, but would lead to the placing of burdens upon the shoulders of the people, from which, under a less rigid system, if sympathetically administered, they are exempt.

18. The next recommendation to which the attention of the Government of India has been drawn is that no term of settlement in temporarily settled districts should be for a shorter period than 30 years. The history of settlements may briefly be summarised as follows. In Bombay the 30 years' term was introduced by the Court of Directors so far back as 1837. From there it was extended to Madras and the North-Western Provinces, where it has been the standard period for the last half century. The same principle was followed in an extension of the Orissa Settlement in 1867, and in confirming most of the settlements made in the Central Provinces between 1860 and 1870. But it never came into general use in the Punjab, where in the greater part of the province, the shorter term of 20 years has been the recognised rule. The question was exhaustively examined in 1895, when it was finally decided by the Secretary of State that 30 years should continue to be the ordinary term of settlement in Madras, Bombay, and the North-Western Provinces, that in the Punjab 20 years should be the general rule

(30 years being admitted in some cases), and in the Central Provinces 20 years also. A 30 years' term has been adopted for the recent re-settlement of Orissa. In backward tracts, such as Burma and Assam, and in exceptional circumstances such as exist in Sind, shorter terms are permitted. The reasons for this differentiation are familiar and obvious. Where the land is fully cultivated, rents fair, and agricultural production not liable to violent oscillations, it is sufficient if the demands of Government are re-adjusted once in thirty years, *i. e.*, once in the life time of each generation. Where the opposite conditions prevail, where there are much waste land, low rents, and a fluctuating cultivation, or again where there is a rapid development of resources owing to the construction of roads, railways or canals, to an increase of population, or to a rise in prices, the postponement of re-settlement for so long a period is both injurious to the people, who are unequal to the strain of a sharp enhancement, and unjust to the general tax-payer who is temporarily deprived of the additional revenue to which he has a legitimate claim. Whether these considerations, justifying a shorter term of settlement than 30 years, apply with sufficient force to the Punjab and the Central Provinces at the present time, and if they do apply at the present time, whether the force of their application will diminish with the passage of time, are weighty questions to which careful attention will be given by the Government of India upon a suitable occasion.

19. It may further be pointed out that many of the objections at one time urged to revisions of settlement have become, or are fast becoming, obsolete. Improvements in procedure rendering re-settlements less disturbing. The process of re-settlement is more rapid and less disturbing than was formerly the case. Where the re-settlement of a district thirty years ago lasted for six or eight years, the work is now, in a large district, usually completed in about four years and often in less. The improvement in the village records, and their punctual correction and maintenance up to date, have to a large extent obviated the necessity for detailed surveys, and for those local enquiries by subordinate officers which were in former times a fruitful source of harassment and extortion to the agricultural community.

20. Again, the principle of exempting from assessment such improvements as have been made by private enterprise, though it finds no place in the traditions of the past, has been accepted by the British Government, and is provided for by definite rules, culminating, in the case of the Bombay Presidency, in legal enactments, which secure to the cultivator in perpetuity the whole of the profit arising not only from such irrigation works as private wells or tanks, but from the minor improvements which would count for an increase in assessment under a system of reclassi-

fication of the soil. The Madras ryots have a recognised right to enjoy for ever the fruit of their improvements, and the exemption of wells, irrigation channels, and tanks which are private property is provided for by executive orders. Minor improvements are also protected, as in Bombay, by the permanent recognition of a land classification once fairly effected. In zemindari provinces, where the revenue is temporarily assessed on estates as a whole, and not on each particular plot of land composing them, the State has not similarly surrendered its right to all share in improvements in which the capacity of the soil plays a part with the industry or outlay of the cultivator. But the principle followed has been that additional assessments should not be imposed on these grounds until the private labour or capital expended upon them has had time to reap a remunerative return. In the Punjab and Bengal the term of exemption has been fixed, without reference to the term of settlement, at 20 years for masonry wells, 5 years for canals distributaries, and 10 years for other irrigation works. In the North-Western Provinces and the Central Provinces, irrigation works not constructed by Government are freed for the term of settlement next following their construction, the average period of exemption being 45 years in the former and 30 years in the latter provinces. The rules of all provinces provide for the grant of longer terms of exemption in special cases.

21. The question of the effect upon the domestic life of the community of long as against short settlements has been the subject of much discussion.

Effect of long as against short settlements in increasing resources of the people.

It may be regarded as certain that long-term settlements leave more money to the people, however large be the revenue enhancement at the close. On the other hand, short-term settlements, which are the familiar practice of Native Rulers, excite less discontent, when not associated with inquisitorial proceedings. An increase of liabilities which comes once in a generation is said by some to be more acutely resented than one which has been rendered familiar by more frequent repetition. Upon this point it is difficult and perhaps unnecessary to pronounce: attention should, however, be called to a concession made by the Government with a view to reducing its own share of the produce, and leaving more to the land-holder. Formerly the basis of assessment was the anticipated average yield of the land during the coming period of settlement. Now it is the actual yield at the time of assessment, so that the landowner enjoys to the full any new advantages that may accrue either from his own outlay or from outside circumstances, in the interval before the next revision is made. Assessment upon actual, as distinct from prospective, assets has thus become a cardinal principle of the land revenue policy of Government.

22. The principle that the State in India has a right to share in the produce of the land carries with it the right to share in any increment of produce or its value.

Suggested limitation of Government enhancements to rise in value due to (1) State improvements, (2) rise in prices.

In the case of increments resulting from the expenditure of private labour or capital, this right, as has already been pointed out, has been altogether waived in some provinces, and materially limited in others. But it can scarcely be contended that such a surrender should equally apply to improvements produced by the growth of population, by the gradual development of the country, by the introduction of new staples or by an increase in the productivity of the soil and in the value of its produce, more particularly if the latter are themselves the result of an expenditure upon irrigation or communications that has been incurred by the State. The concession to the landlord or the tenant of a complete monopoly of the profits of all improvements of the soil in perpetuity, whether created by himself or not, would be a doctrine not merely economically unsound, but without any foundation in native custom or any precedent in history. What happens in practice is this: in zemindari areas the claims of Government to a share in the increasing value of the land are adjusted by a periodical settlement with the landlords for its portion of the rental, subject to a not infrequent sacrifice, in the interest of the tenants, of the fractions which might fairly be claimed.....Whatever be the

case as regards zemindari districts, it is now, however, urged that in ryotwari areas no ground of enhancement but a rise in price should in future be allowed. Attention has already been called to the limitation that has been placed by Government upon the discretion of its officers in respect of changes in land classification as a possible basis of enhancement. In Bombay no change in a classification once definitely accepted is permitted by the law. In Madras, though the Government of India, acting under the instructions of the Secretary of State in 1885, have declined to give a pledge against future revisions of classification, they have intimated their cordial acceptance of the principle that the existing classification, if found to be in the main equitable, shall, on re-settlement, not be disturbed. In these circumstances, to deny the right of the State to share in any increase of values, except those which could be inferred from the general tables of price statistics—in itself a most fallacious and partial test—would be to surrender to a number of individuals an increment which they had not themselves earned, but which had resulted partly from the outlay of Government money on great public works, such as canals and railways, partly from the general enhancement of values produced by expanding resources and a higher standard of civilisation.

23. The concluding proposal, which it is the duty of the Governor-General in Council to examine, and which, in slightly different
- Limitation of cesses on land.

shapes, finds a place in both memorials, is that no cesses should be imposed on the rental of land, except for purposes directly benefiting the land, and that a limit should be fixed beyond which it may not be permissible to surcharge the land tax with local taxation. These cesses, which are levied for the construction and repair of roads, the upkeep of schools and dispensaries, and other similar duties appertaining to Local Government Boards, are generally assessed on the assets or rental value, since the land revenue would, in many provinces, be an unfair basis of distribution. The rate in force in Bengal is  $6\frac{1}{2}$  per cent. on the rental, and this rate is taken as a fair standard by Mr. Dutt when speaking for himself. When associated with the other memorialists, he admits that the maximum rate may be as high as ten per cent., a proportion which, as a matter of fact, is nowhere exceeded. But before going into this question, the Governor-General in Council desires to record an emphatic dissent from the opinion that primary education is not a proper object of local taxation, and that such taxation should be limited to objects directly connected with the land. The aim of local taxation is the benefit of the community, and the spread of elementary education amongst the cultivating classes is the surest preventive of the carelessness which allows so large a proportion of the increased value that settled Government and improved communications have given to the produce of agricultural industry, to slip through the fingers of the people.



25. It may be objected, however, that the rates which are levied for Local Self-Government purposes are not the only extra charges imposed upon the population, and that count should also be taken of the sums payable by them for the remuneration of the village officers—the watchman, the headman, and the accountant. The support of this village staff has been a charge on the community from time immemorial. The Governor-General in Council does not consider that these customary contributions towards the maintenance of village officers can be classed as local taxation without some important qualifications.....

The general conclusion of the Government of India is that there is no reason for thinking that local taxation, if properly distributed, is on the whole either onerous or excessive, while, as a general rule, it already falls short of the limit which the memorialists would propose to fix. But there are grounds for suspecting that the distribution is often unfair; and that the landlords shift on to the tenants that share of the burden which is imposed by the law upon themselves. In the present backward condition of so many of the people, it is not possible effectively to redress this injustice; and the question presents itself whether it is not better, as opportunities occur, to mitigate imposts which are made to press upon the

cultivating classes more severely than the law intended. The Government of India would be glad to see their way to offer such relief.

26. But the burdens of which complaint is made are, by no means confined to the legal cesses, which after all, are few in number and strictly limited in amount. There are also, in some zemindari tracts, a number of practically unauthorised village cesses, of which no mention has been made by the critics of the existing system, but which are well-known to all those who are familiar with the economy of rural life in India. In many cases unrecognised and often undesirable imposts exceed the total of the cesses levied under the British administration. Their imposition was prohibited by the Regulation of 1793, and ever since that date has been steadily discountenanced by the Government of India, as vexatious to the ryot and detrimental to the successful cultivation of the soil. Their complete suppression by the action of Government is not practicable in the present state of education among the agricultural classes. But the subject is one to which the friends of the ryot might appropriately devote their concern, and in which their exertion might be of much use in supplementing the opposition of Government to a wholly illegitimate form of exaction.....

32. Before concluding his examination of this problem (theory of connection between land revenue and famines) the Governor-General in Council desires to

Three possible causes of hardship requiring attention.

notice three aspects of the land revenue question involving three possible causes of hardship to the proper landholder, which seems to him to be of much greater importance than the criticisms which he has so far been engaged in examining. The first of these is the pitch of enhancement; the second is the levy of the same assessment in bad years as in good, on the assumption that savings in the one will meet the losses of the other; the third is the effect of local deterioration upon land revenue payments.

33. (1) That revenue enhancements must often be large is of course the direct consequence of long-term settlements, and it is, no doubt, because their dis-

Large and sudden  
enhancements of reve-  
nue.

tributing effect furnishes an argument for shorter settlements, that a reference to it has not been found in the forefront of attack. There can be no question of the hardship which a family must experience in finding its income suddenly reduced by a third or even more, as may happen, for instance, when at the end of a term of Settlement it is enjoying 75 per cent. of the assets, and resettlement is made at 50 per cent. The State cannot without hesitation call upon people suddenly to effect a great reduction in their domestic expenditure, however well justified in theory its demand may be. A man will look more to the actual increase of his obligations than he will to the arithmetical standards by which it is justified or determined. If for thirty years he has been paying a land revenue of Rs. 1,000, and is called upon to pay Rs. 2,000

upon re-settlement, it is small consolation to him to be told that, while the former sum represented 50 per cent. of his former assets, the latter only amounts to 47 per cent. of his assets as they now stand. A reduction in percentages is far from compensating him for an enhancement of burdens.

34. To meet such cases, the Government of India desire to lay much stress upon the principle of gradual and progressive enforcement of sudden increases of other than moderate dimensions. The mitigation of a large enhancement by spreading its imposition over a term of years has been a recognized feature in the settlement procedure of Upper India for a long time past, but has not till recently been brought systematically into practice. In 1895 the Government of India, with the concurrence of the Secretary of State, drew general attention to the advisability of making larger use of progressive enhancements. In the North-Western Provinces very complete effect has already been given to this principle..... In the Punjab, the use of progressive assessments has been discouraged on the ground that, though an appropriate means of easing an enhancement to a large landholder, they are not suitable to the circumstances of the petty proprietors who hold a very large proportion of the land in that province. Large increases in the demand have been commonly avoided by under-assessment. But it seems open to question whether an expedient which has proved serviceable in other parts of India might be not usefully adopted in the Punjab, and the point will be considered, though the

effect of progressive assessments in this province will be to raise, not to lower, the Government revenue ..... The procedure of ryotwari settlements renders it difficult for an assessing officer to pay close regard to the circumstances of individuals in framing his proposals, and there is, therefore, the greater need of general rules to obviate hardship in particular cases, even if it be conceded that men who cultivate their own land can support a heavier percentage enhancement than those who subsist upon rental receipts. The question is one that calls for, and will receive further consideration.

35. The question of varying the revenue demand to meet the character of the season is similar to the preceding, in that it involves departure from the theory of settlement at the cost of some revenue to the State. In theory the Government revenue represents the sum that may fairly be demanded on an average of seasons, and it is assessed in the belief that cultivators will save from the surplus of good years to meet the deficit in bad. It is manifest, however, that, in tracts where the chances of a bad harvest are high, it must be exceedingly difficult to make allowances for crop failure in framing the assessment rates. And it is also clear that the agricultural classes have not, as a rule, yet learnt to regard a good harvest, not as an occasion for larger expenditure, but as a means of insurance against failure of crops. In truth, to a poor family a short harvest must be a severe calamity. The assessment may absorb but a

(2) Exaction of a fixed demand where produce fluctuates.

small share of the gross produce of its land. But its circumstances depend on the net produce, on which the assessment is in higher proportion, and it is obvious that on inferior land a substantial deficiency in the outturn may leave no net produce whatever, so that (in the absence of savings) the assessment can only be paid by borrowing or by stinting the necessaries of life. When such a deficiency is frequent, the rigid demand of the land revenue must add very materially to the hardships endured by a poor and uneducated people.

36. In tracts where great variations from the average of produce are not very frequent, such a demand may be suitable enough, its simplicity and educating effect compensating for the hardship that may be felt in individual cases. But where the produce of the land is liable to great and frequent fluctuations owing to failure of irrigation or vicissitudes of season, there is reason to apprehend that a fixed assessment may ruin people before it teaches them. The revenue system of several provinces—notably those of Madras and the Punjab—have recognised the necessity of special arrangements for remission of revenue for failure of crops on lands capable of being supplied by State irrigation works. In Madras no revenue is charged upon irrigable land the produce of which has not matured owing to the failure of the water supply; and in the Punjab this principle has received a further development, a deficiency of produce, not amounting to total failure, entitling the ryot to a proportionate abatement of the

assessment rate. This system entails an elaborate procedure of crop inspection, and throws much responsibility upon native subordinates. But it has worked well, and is being extended..... The Government of India freely admit that a fluctuating assessment, in the sense of an assessment without a definite maximum limit in cash, and annually varying with the outturn of the crops, is exceedingly difficult to work with fairness, throws an undesirable amount of power into the hands of subordinate officials, and lacks the influence for thrift which has been the desire of Government to secure in its land revenue policy. It would be a retrograde step, and would imply a reversion to the methods of native rule. But these objections would not apply so forcibly to a system under which the produce of particular harvests would be taken merely to justify the reduction of a standard demand, when such produce falls below a point at which relief is, for general reasons, pronounced to be necessary .....

37. In a country of the size and diversity of India exceptions must occur to the general rule of agricultural progress, and localities are to be found where the conditions are those of actual deterioration. The Governor-General in Council has in mind not only the losses of population and of produce which are the unavoidable consequences of severe famine, but the circumstances of tracts and villages which lose ground owing to such special causes as the effect of decimating epidemics of malarial fever or other conditions, whether

(3). Expediency of meeting local deterioration with prompt relief.

connected or not with vicissitudes of seasons. For some years past the Government of India have insisted upon the importance of the early detection of cases of local deterioration, and have committed to Provincial Departments of Land Records and Agriculture the conduct of systematic enquiries to this end. But the information thus collected has not always been fully utilised, and there have been cases in which a reduction of revenue was not granted till the troubles of the people had been aggravated by their efforts to provide the full fixed demand. It is no doubt true that any alteration of the assessment is in conflict with the terms of the original contract, by which the landholder has undertaken a liability for loss in return for an expectation of profit. But in this matter the interests of the Government are identical with the interests of the people, and it is unwise to exact from impoverished persons a revenue which they really cannot pay, merely because they are under an engagement to pay it. The Governor-General in Council is convinced of the desirability of granting prompt relief in these cases, whether they involve tracts or single villages, even though such a course may involve a departure from the strict principles of settlement. The amount of revenue which the concession will cost to the State will be insignificant compared with the advantages obtained in assisting and encouraging an afflicted population.

39. In thus defining their policy, the Government of India would not desire to claim for the land revenue system of British India an

Conclusion.



exactitude or a freedom from blemish to which it cannot pretend. Historically it owes its immediate origin to practices inherited from the most decadent period of native rule, and its form to changes made slowly, and not without mistakes, by men who were aliens to the country, and only with difficulty, and by slow degrees, assimilate the requirements or enter the feelings of the people. Where habit and precedent count for more than wisdom, there has been need for caution in reform; and logical completeness or simplicity could not be expected of a system born amid such surroundings, applied to such manifold conditions and to so heterogeneous a population, and subject, in the various stages of its development, to considerations of practical expediency rather than of abstract symmetry or scientific perfection. Indeed the one claim which the Government of India would decline to make for the land revenue system of this country is that it can properly be regarded as a science at all. In no country can land valuation be so described; and India, in spite of records, estimates, and tables, is no exception to the rule. A part of the weakness of the criticisms which have been directed against it, arises from the erroneous assumption that it can be regulated by fixed laws, or shaped by arithmetical standards. Assessments cannot be dictated by the theorist in his study; they elude dogmatic treatment, and can only be safely worked out by the Settlement Officer in the village and on the fields. While they may admit of statistical analysis, they are liable to be hampered by premature statistical definition:

The true function of Government is to lay down broad and generous principles for the guidance of its officers, with becoming regard to the traditions of the province and the circumstances of the locality, and to prescribe moderation in enhancement and sympathy in collection. Above all it is its duty to exercise discrimination in the choice of the agents whom it employs for this most critical and responsible of tasks. The Governor-General in Council acknowledges with gratitude the services that have been rendered to Government in this respect by a long line of devoted and capable officers, and he believes that the existing system, if pursued upon lines that have been indicated, is both well suited to the present conditions of the country, and compatible with its future development, and that the revenue which it provides, and which is more lenient in its incidence than at any previous stage of Indian history, is capable of being levied from the people with surprisingly little hardship and without discontent.

---

#### XLVI.

LAND REVENUE—IS IT A TAX OR RENT ?

*Extract from a Minute by Sir H. Maine,  
dated March 13th, 1875.*

It is absolutely necessary to answer the question whether the land revenue taken from time<sup>s</sup> immemorial by Eastern Governments is or is not rent; I imagine that the answer must be in the negative. It seems to me incredible that any Government, since the

Land revenue is not of the nature of rent.

beginning of history, should have taken the exact economic rent of the territory occupied by its subjects. In order to obtain this, a Government must have put up the soil in parcels to competition, without recognising any hereditary right in any one person which entitled him to be preferred to another person who bid higher for the occupation. No evidence of any such system exists; some preferential rights, whether they can or cannot be called ownership, have always been acknowledged. But unquestionably Oriental Governments have occasionally absorbed all but the whole of the fund from which rent would come under a system of the Western type, and indeed have probably gone further every now and then, and have encroached on the scanty capital of the cultivators. I do not know how far the remarkable investigations of Mr. Edward Thomas, the eminent Indian antiquarian, on the financial resources of the Moghul Empire, have attracted notice. There appears to be documentary evidence, trustworthy within no wide limits, that, out of the total revenue which the Moghul Emperors, at the end of the 17th century, took from a territory roughly corresponding to the present British Indian Empire, extending rather farther to the north-west and not quite so far to the south, the portion answering to our land revenue amounted to no less than 35 millions sterling. As India was certainly not more prosperous in the 19th century, these prodigious figures are only intelligible on the assumption that the whole, and occasionally more than the whole, of the fund, under other circumstances

available for rent, was exhausted. Whether they are entitled to absolute credit or not, they are probably quite accurate enough to indicate the character of the system of land revenue which the English inherited from their Mahomedan predecessors.

The considerations which led a certain school of Anglo-Indian functionaries, came to be regarded as and a certain number of theorists on India, to speak of the Indian land revenue as rent, and of the power in virtue of which it is taken as ownership, may be understood, as it seems to me, readily enough. These terms did certainly express to an English ear, better than any others, the nature of the right which was exercised by the Indian Governments. The morality current in England did not forbid the exaction of an extreme rent from a tenant, just as the morality current in India did not forbid the exaction of excessive contributions from a subject in virtue of the land which he occupied. Again, Mr. J. S. Mill pointed out that the direct effects of payment of land revenue, and of payment of rents, on the general mass of cultivators are precisely the same. So long as the occupier of land must make over a portion of the produce raised by his labour and capital to somebody else, it does not directly concern him whether the transfer is made under the name of rent or under the name of revenue.

The rival theory that the Indian land revenue is a tax, is so far more correct that we in Western Europe have agreed to apply the

word "tax" to every exaction of the State from persons recognised as owners; and the English Government has never pushed taxation so far as to obliterate ownership. The chief objection to the word appears to me to be that it carries with it associations with the land tax, which, in all European countries is only one tax among many, and which is especially light in England.....It is certainly unfortunate, but the lighter our assessments of land revenue become, the more does the land revenue come to resemble a land tax.....

---

XLVII.

*Extract from a Minute by Sir Louis Mallet,  
dated 12th April, 1875.*

The accounts which I have received of certain recent Bombay settlements distinguishing between rent and revenue. strongly confirm everything which I have said as to the practical importance of clearly distinguishing between rent and revenue. Assessments have been raised 70 or 80 per cent. in one stroke, in conformity with certain artificial and arbitrary rules often at variance with actual facts, and raised distinctly under the influence of the rent theory, which has been warmly advocated of late years by Mr. Knight and others.

I am also informed that, in many cases, lands have been assessed which barely pay the cost of cultivation, and yield no rent at all. This is not a question of words to the cultivator.

It seems to me that enough weight is not given to the changed aspect of this question owing to the assumption of the sovereignty of India by the Crown, and the recognition of the natives as British subjects. It is always said that it is idle to apply English ideas to India, but if any of those ideas are of a kind which an important class in India sees its clear interest in adopting, is it safe to assume that they will never do so ?

So long as the exactions from the land by the State were levied by the "Communitic" experiment. ex- Company as the inheritor of the despotic Governments, and frugally dispensed in the several functions of administration, or even sent in form of tribute to England, I can understand the Indian people accepting their condition. But when the sums so taken are largely spent, as they now are, for the avowed purpose of benefiting the Indian Empire and people at large, on public works, education, health, famine, and all the objects which under the influence of modern ideas fall within the province of State expenditure, and attempts are made more and more to resist and remove taxes such as income tax and Customs, which fall on other than the landholding classes, while to meet the increasing burdens of the State additional charges are laid on the land, may they not awaken to the fact that they are being made the subject of an experiment, which, I venture to think in spite of Sir H. Maine's criticism, can only be appro-

prlately described, where it is found, as "communistic.".....

From this point of view, the policy of further taxing the land might easily become a political danger, and the large margin on which under the rent theory, the State has a right, if it be not a duty, to encroach, lends itself too easily to such an extension.

Danger of excessive taxation of land.

In an economical point of view, I regard such a policy as especially mischievous.

The function of rent is to restrain the undue pressure of population on the soil. The presence of rent is the result of the demand for land pressing on the supply. To take the rent and divide it among the whole population, which is done when it is substituted for taxes, is to counteract and neutralize the operation of the law of supply and demand, by stimulating the demand anew without increasing the supply, and tends directly to a progressive pauperization of the community.

For these reasons, without disturbing past settlements, which we cannot afford to do, and cannot now do without gratuitous fiscal sacrifices, I shall rejoice to see a limit placed on future assessments, with a view to which the renunciation of the theory of State landlordism would be the most effectual step. In speculating on its future resources, I should like to see the Government steadily putting rent out of view, as only liable to taxation in common with other forms of property.

## XLVIII.

*Extract from a Minute by Lord Salisbury  
(Secretary of State for India), dated 29th  
April, 1875.*

I cannot see how the question can be described as one of words.

The question whether land revenue is a tax or rent is of great importance to the cultivator.

The practical difference between the word rent and revenue is very palpable to

the cultivator. Under the rent theory his payments are a portion of his gross produce, limited by the condition of his first paying wages and profits; under the tax theory they are unlimited either way, save by the power of mercy of the Government. It speaks loudly for the character of British rule, that the advocates of the ryot call for the application of the tax theory. Under the Mogul they would have welcomed the rent theory as heartily as they would the tax theory now.

Nor can I regard it as a *question oisive*.

The importance of the question to the Settlement Officer.

The fiscal relations of the Government to the cultivator is a question which I should rather accuse of obtrusiveness

than of indolence. We may, it is true, discuss it under different forms. We may use the terms of political economy, or we may use the less accurate but more flexible language of unscientific men.

..... One mode of describing them may be more convenient and more complete than another. But the essential point is that the language used should be understood by those to whom it is addressed. Now it is our function to



address Indian officials, and—speaking of the generation now coming into office—their vocabulary is derived with more or less fidelity from the writings of political economists. They have been required to study the science closely before they could undertake our service, and their minds were fresh from a close application to it when, for the first time, they came into contact with Indian life, and were trusted with a share of Indian Government. To the modern Indian statesman the refined distinctions of the economical school are a solid living reality, from which he can as little separate his thoughts as from his mother tongue. To us it may seem indifferent whether we call a payment revenue or rent, so we get the money; but it is not indifferent by what name we call it in his hearing. If we say that it is rent, he will hold the Government in strictness entitled to all that remains after wages and profits have been paid, and he will do what he can to hasten the advent of the day when the State shall no longer be kept by any weak compromises from the enjoyment of its undoubted rights. If we persuade him that it is revenue, he will note the vast disproportion of its incidence compared to that of other taxes, and his efforts will tend to remedy the inequality, and to lay upon other classes and interests a more equitable share of the fiscal burden.

I prefer the latter tendency to the former.

Land revenue should be treated as a tax. So far as it is possible to change the Indian fiscal system, it is desirable that the cultivator should pay a smaller proportion of

the whole national charge. It is not in itself a thrifty policy to draw the mass of revenue from the rural districts, where capital is scarce, sparing the towns, where it is often redundant and run to waste in luxury. The injury is exaggerated in the case of India, where so much of the revenue is exported without a direct equivalent. As India must be bled, the lancet should be directed to the parts where the blood is congested, or at least sufficient, not to those which are already feeble from the want of it.

I agree, therefore, with Sir Louis Mallet in desiring that our present nondescript land due should tend to the form of revenue rather than that of rent.

---

## FAMINE

Famines were not unknown in ancient India. Famine is mentioned in several verses of the Rig Veda and "death by hunger" in Atharva Veda IV. 17-6. In Rig Veda X. 112-10 Indra is invoked for power to "subdue all famine and evil want with store of grain and cattle." "From this our misery and famine set us free; from this dire curse deliver us" is a supplication to Indra in Rig Veda VIII. 56-14.

Famines were frequent in India under Mohammedan rule and they were terrible when they came. About a famine which occurred in the reign of Jalal-ud-din Khilji the historian Badaoni writes :—

"And just at this time, on the very day of his murder\* a whirlwind black with dust arose, and the world was darkened; there was a scarcity of rain in that year, and such a famine occurred that the Hindus, from excess of hunger and want, went in bands and joining

---

\* Sidi, a darwesh, who was murdered by the orders of th<sup>e</sup>ultan.

their hands, threw themselves into the river Jumna and became the portion of the alligator of extinction. Many Muslims also, burning in the flames of hunger, were drowned in the ocean of non-existence." \*

A very severe famine occurred in the reign of Muhammad Tughlak. The price of wheat, according to Ferishta, rose to 17 *diram* per seer (=1½ present seers per rupee) and "things came to such a pass that in Delhi people ate one another." †

The year 1555-56, the year of Akbar's accession to the throne, was marked by a severe famine. Badaoni thus describes this famine :—

"A severe famine prevailed throughout the eastern portion of Hindustan, especially in Agra, Baiana and Dehli. It was so severe a famine that one *ser* of *jawari* grain had reached two half-tankahs, and was in fact not to be had (even at that price). Men of wealth and position had to close their houses and died by tens or twenties or even more in one place, getting neither grave nor shroud. The Hindus were also in the same plight, and the bulk of the people were fain to live on the seeds of the *mughilan* thorn and on

\* Trs by Ranking Vol. I. p. 235.

† *Yak ser ghalla ba hafdek diram yaft nameshud, o der Delhi qasbat bamartbai bud ki adam adam ra mokhurd.* Brigg's Trs. Vol. I: p. 425.

wild herbs, also on the skins of the oxen which the rich slaughtered and sold from time to time ; after a few days their hands and feet swelled and they died. As a date for that year the phrase *khashm-i-Ezad* (Divine wrath) was invented. The writer of these pages with these guilty eyes of his saw man eating his fellow man in those terrible days. So awful was their aspect that no one dared let his glance rest upon them ; and the greater part of that country, what with scarcity of rain and shortness of grain, and desolation, and what with the constant struggle and turmoil, and two years' continual anarchy and terror, was utterly ruined, the peasantry and tenants disappeared and lawless crowds attacked the cities of the Muslims."\*

Two more famines are recorded in Akbar's reign, in 1583 or 1584 and in 1595—98. We know that they were severe, but details about them are lacking.

Famines have been frequent under British rule, but thanks to the chain of protective railways, and the great irrigation works, they do not cause so much suffering now as they did in the past. It has been truly said that famines now are famines of work rather than of food. Very great progress has been made in famine protection and famine relief.

---

\* Trs. by Ranking Vol. I, p. 449-450.

The Famine Commission of 1880 defined the general policy which Government should adopt in dealing with famines, and the work of this Commission, the first and the most important Indian Famine Commission, was completed by the Commissions of 1898 and 1901. The Commission of 1880 emphasised the need for anticipating famines and being prepared for them beforehand (XLIX) The Commission insisted on Government directly taking steps to organise famine relief, as a famine was a calamity wholly transcending individual effort and power of resistance (Section 105). In administering relief care has to be taken that indiscriminate charity does not demoralize the people. Hence the "Labour test" (Section 111). The main principles which should govern the administration of relief are enumerated in Section 112.

As measures of protection against famines, the Commission urged the extension of irrigation, and made definite suggestions as to the lines of railway which were to be constructed. Encouragement of a diversity of occupations was also recommended, but chiefly through indirect means.

The experiences of the famine of 1896-99 were examined by the Lyall Commission appointed in 1898. It reported that a considerable degree of success had been attained

in meeting famines, both with regard to the saving of life and relieving distress, and economy. The Commission also found that the resources and famine-resisting power of the people had increased (LI).

The Commission of 1901 reviewed the whole question of famine relief and famine protection. The chief protective measures that it recommended were the establishment of agricultural banks, suspension or remission of land revenue when necessary, permanent exemption of improvements from assessment, and the making of *taquavi* loans on easier terms so that the poorer classes of agriculturists might be able to take advantage of them.

---

### XLIX

*Extract from the Report of the Indian Famine Commission, 1880.*

85. We now pass to the consideration of a general character of the action of the Government in times of famine. A very long period elapsed before the conviction was attained that Indian famines are necessarily recurring calamities, against which such precautions as are possible must be taken beforehand, and that it is the duty of the Government to do its utmost in devising some means of protecting the country, and to persevere in its attempts till some solution of the problem has been obtained. This result was no doubt due to the almost total absence,

Certainty of the recurrence of famine.

until within comparatively recent times, of trustworthy statistical knowledge as to the numbers of the people, the rates of their deaths and births, and the influence on these rates of epidemic disease or local distress, combined with an equally insufficient insight into their economical condition, and particularly an absence of agricultural statistics in an accessible form. We fear that even yet the vast importance of knowledge of this description is but imperfectly appreciated in many quarters. The want of it has been experienced by us in almost every part of our enquiries, and we feel it to be necessary thus emphatically to call attention to the subject, as such knowledge is, in our opinion, one of the principal instruments on which the Government must rely in preparing for its conflict with famine.

86. No sterner warning could be given of the paramount necessity of obtaining a true knowledge of the condition of the great population which we have undertaken to govern in British India, than is to be found in the history of the famines that have desolated it. We must not permit ourselves to be deceived by the vain hope that the famines of recent years have been more difficult to deal with than those of the past, nor have we any right to suggest that those who have gone before us were less humane than ourselves, for there is direct evidence to the contrary. The lesson of experience is that it is in vain to attempt to deal successfully with these calamities, which so frequently deprive a large proportion of the people of their food supply, without a liberal

Historical sketch of the views of Government in respect of famine relief.



expenditure of money, that in order to be effectual this expenditure must be applied with careful attention to the exact conditions under which these visitations arise, and that as a primary condition of success in the administration of relief a more thorough insight into the vital and economical statistics of the country is absolutely essential.

103. A main cause of the disastrous consequences of Indian famines, and one of the greatest difficulties in the way of providing relief in an effectual shape, is to be found in the fact that the great mass of the population directly depends upon agriculture, and that there is no other industry from which any considerable part of the community derives its support. The failure of the usual rain thus deprives its labouring class, as a whole, not only of the ordinary supplies of food obtainable at prices within their reach, but also of the sole employment by which they can earn the means of procuring it. The complete remedy for this condition of things will be found only in the development of industries other than agriculture and independent of the fluctuations of the seasons. With a population so dense as that of India these considerations are of the greatest weight, and they are rendered still more serious by the fact that numbers who have no other employment than agriculture, are in large parts of the country greatly in excess of what is really required for the thorough cultivation of the land. So far as this is the case, the result must be that the part of the population which is in excess of the requirements of agriculture

Want of diversity of occupations in India.

eats up the profits that would otherwise spring from the industry of the community. It is not surprising that in a country thus situated material progress is slow.

105. The precise circumstances under which  
 Obligation of the state to give relief in times of famine. it becomes right and necessary that the resources of the State should be applied to the relief of want or suffering must differ in different countries, but the general conditions by which the obligation is governed appear to be these: (1) that the calamity shall be one which places it beyond the power of an individual to obtain the requisite relief or efficacious remedy otherwise than with the aid of the State; and (2) that intervention of the State is likely to produce a practically beneficial result. There can be no doubt that a calamity such as famine, exceptional in its nature and arising from causes wholly beyond human control, which deprives an entire population of its customary food supply, and arrests the ordinary employments of the wage-earning classes, is one which in a country such as India wholly transcends individual effort and power of resistance. It accordingly becomes a paramount duty of the State to give all practicable assistance to the people in time of famine, and to devote all its available resources to this end; and this duty is emphasized by the fact that the Government stands in the place of landlord to the agriculturists, who form the great mass of the population. We need not entangle ourselves in vain speculations as to the point at which the consequences of giving relief on some imaginary

scale of magnitude would become a more grievous evil to the country than the destruction that would follow if famine were left without relief, or with relief known to be insufficient. No such alternative is at all events at present before us.

107. To secure compliance with the second

Necessity of administering famine relief so as not to check thrift and self-reliance, or impair the structure of society.

condition, which prescribes that the interference of the State shall be practically beneficial, there are certain important limitations by which the administration of relief must be restricted. The British administration of India, with so many of the latest appliances of civilisation and science at its command, has in many respects fundamentally changed the position of the people for the better; it has given a check to some of the great causes of mortality at work among them, it has provided many inestimable advantages, and has added much to the power of the community to improve their condition. It must be remembered, however, that all such advantages tend at the same time to favour the increase of the population, and to add to the pressure on the means of subsistence. It becomes, therefore, especially important that the Government, when it has to deal with calamities such as famines, should so frame its measures as to avoid every tendency to relax in the people the sense of the obligation which rests on them to provide for their own support by their own labour, to cultivate habits of thrift and forethought, and as far as possible to employ the

surplus of years of plenty to meet the wants of years of scarcity. The great object of saving life and giving protection from extreme suffering may not only be as well secured, but in fact will be far better secured, if proper care be taken to prevent the abuse and demoralisation which all experience shows to be the consequence of ill-directed and excessive distribution of charitable relief.

108. The structure of Indian society is, in some ways, admirably adapted for common effort against a common misfortune. The ordinary form of life in the Hindu family makes each individual a member of a corporate body, in whose possessions, rights, and duties he participates, and to which he is legally entitled to look for assistance in time of need. Even where the legal right does not exist, the moral obligation of mutual assistance is scarcely less distinctly recognised. Apart from family ties, there are other relationships, such as those of landlord and tenant, master and servant, employer of agricultural labour and employed, alms-giver and alms-receiver, which are of the utmost importance in binding the social fabric together, and enabling it to resist any ordinary strain. There are, too, salutary habits of frugality and foresight, the precious result of traditional experience, which have an all-important bearing upon the power of Indian society to pass comparatively unscathed through periods of dearth. Any form of relief calculated to bring these rights into obscurity or desuetude, or to break down these habits by showing them to be superfluous, would be an incalculable misfortune. In the same way anything which

diminishes the reluctance which the people exhibit to accept public charity, and the eagerness with which at the earliest opportunity they recur to their own unaided labour for support, would be a certain cause of future grave evil.

109. The first effect of drought is to diminish greatly, and at last to stop, all field labour, and to throw out of employment the great mass of people who live on the wages of such labour. A similar effect is produced next upon the artisans, the small shopkeepers, and traders, first in villages and country towns, and later on in the larger towns also, by depriving them of their profits, which are mainly dependent on dealings with the least wealthy classes; and lastly all classes become less able to give charitable help to public beggars, and to support their dependents. Such of the agricultural classes as possess a proprietary interest in the land, or a valuable right of occupancy in it, do not as a rule require to be protected against starvation in time of famine unless the calamity is unusually severe and prolonged, as they generally are provided with stocks of food or money, or have credit with money-lenders. But those who, owning only a small plot of land, eke out by its profits their wages as labourers, and rack-rented tenants-at-will living almost from hand to mouth, are only a little way removed from the class of field labourers; they possess no credit and on them pressure soon begins. Thus the classes who are the earliest in point of time to feel the need of relief are (1) the actually landless class who live

on the wages of labour, and the smallest proprietors or occupiers ; (2) artisans and small traders ; (3) infirm persons and beggars who ordinarily live on the charity of the public or of individuals and (4) the dependents of all persons who by reason of their own distress can no longer support them. These classes again fall into two chief categories : (1) those who are accustomed and able to perform work of some sort ; and (2) those who from any cause are incapable of labour.

110. Such being the general character of the

How to ascertain the calamity to be met, and of proper objects of State aid. the classes who need relief,

we have to consider the manner in which the proper recipients of public charity can be most effectually ascertained. The problem to be solved is how to avoid the risk of indiscriminate and demoralising profusion on the one hand, and of insufficient and niggardly assistance on the other—how to relieve all who really need relief, and to waste as little public money as possible in the process. In England it has been considered that the economical administration of public charity is best secured by placing the responsibility for relief directly upon those who have to pay for it, and who from their local knowledge are in the best position to judge in each particular case whether assistance is required. No such system has ever been adopted in India, or could, in the present condition of the country, be adopted without risk of disastrous failure. Again where limited numbers have to be dealt with and there is a numerous and efficient staff of

officials, it may be possible to ascertain by personal inquiry the circumstances of every applicant for relief sufficiently for the purpose of admitting or rejecting his claim. But in an Indian famine the Government has to deal not with limited numbers, but with millions of people, and the official machinery at its command, however strengthened for the occasion, will inevitably be inadequate to the task of accurately testing the individual necessities of so great a multitude. Nor again is it possible to entrust the administration of public charity to a subordinate agency without providing sufficient checks against dishonesty and neglect on the part of its members. Some safeguards then are assential in the interests of the destitute people no less than of the public treasury, and they are best found in laying down certain broad self-acting tests by which necessity may be proved, and which may, irrespective of any other rule of selection, entitle to relieve the person who submits to them.

111. The chief of these tests and the only one which in our opinion it

Labour test.

is ordinarily desirable to enforce, is the demand of labour commensurate in each case with the labourer's powers, in return for a wage sufficient for the purposes of maintenance but not more. This system is applicable of course only to those from whom labour can reasonably be required; it provides a plain and intelligible method of relief for the great mass of the population; it affords the means of ascertaining necessity detecting imposition, and procuring for the State some useful

return for its expenditure, and it avoids to a large extent the demoralising influences of purely eleemosynary aid. It requires, in order adequately to meet the case, as will be seen hereafter, to be accompanied by various other measures of relief ; but for those who are able to work, we can feel no doubt that it is the safest and most efficacious form of State help, and that, to use the language of a great administrator of famine relief in modern times, "the best and most useful kind of alms consists in providing means of earning them." The great bulk of the applicants for relief being thus provided for, we believe that it will be possible for an efficient staff of officers to control with success the grant of relief, on the basis of personal inquiry and knowledge of the individual circumstances of each applicant, among the comparatively small numbers of destitute persons to whom the test of labour cannot be applied.

112. The following are the principal rules of action which we consider are most likely to conduce to the efficient administration of relief in times of famine :—

The main principles of famine relief.

I. To lay down a definite system of procedure, to be embodied in a famine code, which the local Governments will carry out, subject only to financial control on the part of the Government of India. At the same time to provide, by the aid of a special department of the Government an improved system of recording information on subjects connected with famines, and of collecting and dealing with the statistical returns relating to the weather, the agriculture, the health,



and the well-being of the people, and thus to secure the most prompt and accurate knowledge attainable of a probable failure of crops, and of the extent and consequence of any failure that actually takes place. Further, to concentrate the control of the various branches of the Administration concerned in famine relief, and to render their action more efficient.

II. To provide for the offer of employment at the cost of the State to persons capable of work and deprived of the means of earning their livelihood by reason of drought, such employment being offered in time to secure them against the danger of falling into enfeebled condition through want, and being adapted to the capacity of the labourers.

III. Simultaneously to offer gratuitous relief, as early as possible, in their villages, or if the case shall so require, in poor-houses, to persons who in such times are left without the means of support, and are from any cause incapable of providing for themselves; attention being given to the great importance of avoiding anything that may tend to weaken the coherence of the village community, of working through the village officers or headmen, where such authorities exist, and of making use of any available local help for superintending the relief operations.

IV. To organise a suitable system of village inspection and control, through which the condition of the country and the efficiency of the measures of relief may be ascertained, and defects brought to light and corrected, and the people

encouraged to avail themselves of the measures offered.

V. To maintain a policy of non-interference with the ordinary operations of trade unless in some very exceptional condition of affairs when there may be evidence that without such interference the supply of food will not be maintained; but to keep a constant watch over the food supply of the people in time of threatened or actual scarcity, and to remove any impediments in the way of the free movement of trade; measures being also taken in anticipation of the time of need to extend and improve to the utmost, and in all parts of the country, those means of communication on which the distribution of the food directly depends, and those means of irrigation by which its production may be profitably increased and secured.

VI. To grant aid to the land-owning classes in two ways: First, to relax the demand for land revenue at a time of wide-spread loss of the harvest, suspending it freely in proportion to the degree of that loss, on the condition that a proportionate relief is given to tenants and others who hold subordinate rights in the land:

Secondly, to give loans to small landed proprietors who are in need of such assistance, and also to large proprietors who may be trusted to apply the money usefully.

VII. To lay down with precision the limits within which the principle of local responsibility or meeting expenditure on relief shall be applied

to provincial governments; and to require the municipal authorities in the towns, and the local committees in the districts, to co-operate in carrying out relief measures for the local population.

---

L.

*Extract from the Report of the Indian Famine Commission, Part II, 1880.*

ENCOURAGEMENT OF DIVERSITY OF OCCUPATIONS

1. We have elsewhere expressed our opinion that at the root of much of the poverty of the people of India, and of the risks to which they are exposed in seasons of scarcity, lies the unfortunate circumstance that agriculture forms almost the sole occupation of the mass of the population, and that no remedy for present evils can be complete which does not include the introduction of a diversity of occupations, through which the surplus population may be drawn from agricultural pursuits, and led to find the means of subsistence in manufactures or some such employments.

2. It will be almost self-evident that such a change in the condition of the people could not be brought about by any direct action of the State, and that there would be much risk of interference of this description, discouraging the spread of sound principles of trade, and retarding the operation of private enterprise. So far as we are able to form an opinion on a question so difficult of solution, the desired result can only

follow upon an increased desire to apply capital to industrial pursuits in India, which again will be a consequence of a growing conviction that adequate profits may be secured on investments, under a condition of continued peace and good government.

3. The State should certainly use its utmost endeavours to assist in the preparation of the country for reaching such an advanced condition, but it will, we believe, be by indirect means, such as the extension of railways and the development of local trade and foreign commerce, that the end will be attained, rather than by any attempts to give adventitious aid to particular branches of industry. Capital will accumulate in the country or will flow into it for investment in proportion as security is maintained, and facilities for obtaining profitable markets for all sorts of produce are enlarged.

5. Looking to the very great importance of fostering the growth of diverse branches of industry we should see with satisfaction any steps taken which would tend to it, but we are satisfied that the circumstances can hardly arise in which the Government could beneficially extend any system of guarantee to such undertakings for the purpose of encouraging their introduction, or should otherwise offer direct assistance to them. Direct State aid could not be given without some corresponding power of control or interference, and the exercise of any such power would be almost certainly incompatible with the successful management of

industrial occupations. It is probable, moreover, that the whole available means of the State will yet be required for many years either for railway extension, with or without co-operation of private enterprise, or for the extension of irrigation works which are no less necessary, and which experience has shown to be unsuited for management by private companies.....

---

## LI.

*Extract from the Report of the Indian Famine Commission, 1898.*

592. The general conclusions that we are disposed to draw are that it may be said of India as a whole that, of late years, owing to high prices, there has been a considerable increase in the incomes of the landholding and cultivating classes, and that their standard of expenditure has also risen. With a rise in the transfer value of their tenures, their credit has also expanded. During the recent famine these classes, as a rule, have, therefore, shown greater power of resisting famine, either by drawing on savings, or by reduction of expenditure, than in any previous period of scarcity of like severity. Whether it can be safely said that they have much improved in thrift, that is in the accumulation of capital, seems open to doubt. There is some evidence to the effect that the export trade and the improvement of communications have tended

Resources and famine resisting power of the people. General conclusions.

to diminish the custom of storing grain, as a protection against failure of harvest, which used to be general among the agricultural classes. The skilled artizans, excepting the weavers, have also greatly improved their incomes and their style of living and very few of them required relief. The commercial classes, whose numbers are relatively small, are not generally injuriously affected by famines of short duration. The poorer professional classes suffer severely from rise of prices, but do not come on famine relief. Beyond these classes there always has existed, and there still does exist, a lower section of the community living a hand to mouth existence, with a low standard of comfort, and abnormally sensitive to the effects of inferior harvests and calamities of season. This section is very large and includes the great class of day labourers and the least skilled of the artizans. So far as we have been able to form a general opinion upon a difficult question from the evidence we have heard and the statistics placed before us, the wages of these people have not risen in the last twenty years in due proportion to the rise in prices of their necessaries of life. The experience of the recent famine fails to suggest that this section of the community has shown any large command of resources or any increased power of resistance. Far from contracting, it seems to be gradually widening, particularly in the more congested districts. Its sensitiveness or liability to succumb, instead of diminishing, is possibly becoming more accentuated, as large and more powerful forces supervene and make their effects

felt where formerly the result was determined by purely local conditions. We may take this opportunity of remarking that the evidence given before us by many witnesses proved that in times of scarcity and famine in India the rise in price of food is not accompanied by a rise in the wages of labour ; on the contrary, owing to competition for the little employment available when agricultural employment falls off, the rate of wages offered is frequently below the ordinary or customary rate. Such wages in times of famine prices are not subsistence wages for a labourer with dependents to support. This explains and justifies the practice which able-bodied labourers often adopt of taking what private employment they can get at their homes or elsewhere, and sending their wives and children to the relief works. The fact also indicates a practical difficulty in the way of the working of a principle which has been laid down by high authority. That principle was that remuneration on relief works should be always fixed so as not to attract labour for which there is existing employment elsewhere. But if the wage for such employment is not a living wage for the ordinary labourer with a family, the wage the family can earn on relief works must necessarily be higher.....

---

## LII.

*Extract from the Report of the Indian  
Famine Commission of 1901.*

### LESSONS OF EXPERIENCE.

There are certain generalizations from ex-

perience which we place in the front of our recommendations.

30. We desire to place special emphasis on the immense importance of "moral strategy". There is no greater evil than the depression of the people. It is a matter of universal experience that moral depression leads down a sharp incline to physical deterioration. A main trait in Oriental character is proneness to succumb to difficulties and to accept them as inevitable. But, if given heart at an early stage, the Oriental will fight upon the side of the Government, which is his own; for his belief in the power of Government is of a kind which to Western ideas is almost profane. The fullest advantage should be taken of this belief at all stages, but especially at the outset, for the moral impetus given then should last through the first period of the famine. It is scarcely possible to overstate the tonic effect upon the people of early preparation, of an early enlistment of non-official agency, of liberal advances in the earliest stages, and of early action in regard to suspensions of revenue.

34. We advocate, at all stages, the greater use of non-official agency. In those provinces in which there are influential land-owners it is most important to associate them with the Administration, as well as in making preparations to meet it and in carrying relief measures into effect. We shall hereafter strongly

Bring from the outset influential non-official interests into touch with and support of the official organisation.



recommend the policy of administering relief as far as possible through private agency. For such a policy to be successful it is essential to have a detailed plan of private relief works made out from the beginning, and to have secured, in advance, the consent of landowners and men of local influence to take upon themselves the responsibility for controlling and executing these works.

#### DANGER SIGNALS.

37. The risks attaching to the policy, which we advocate, of waiting on events are reduced to a minimum by a careful look-out for the regular premonitory symptoms of distress. Apart from the failure in the rainfall, and the movements of prices, the following warnings are nearly always given, and in something like this order:—

- (1) the contraction of private charity, indicated by the wandering of paupers ;
- (2) the contraction of credit.
- (3) feverish activity in the grain trade ;
- (4) restlessness shown in an increase of crime ;
- (5) unusual movements of flocks and herds in search of pasturage ;
- (6) unusual wandering of people.

To some extent the warnings may be deceptive. The first three may only be temporary in character, as was the case in the North-Western Provinces in 1899 ; the full effect of their meaning is not known until test works have been opened. The fourth is often found to disappear directly the first panic of rising prices has passed.

THE ORDER OF RELIEF MEASURES.  
FIRST STAGE.

41. I. The first act of the Local Government should be to review the financial position and appropriate the necessary funds.

II. Arrangements should then be made for the collection of establishment--administrative, executive and sanitary—and for the distribution of tools and plant. We have already dealt with this to some extent, and if our recommendations as to lists of establishment and reserves of tools and plant are adopted, there should be no difficulty in meeting immediate requirements. But it will still be necessary to make active preparations for the future.

III. Liberal advances should be given at this stage for the construction of temporary, and the repair of permanent wells and for other village improvements—

- (1) as a means of employing labour;
- (2) as a means of securing the *kharif* and *rabi* crops;
- (3) as an act of moral strategy, to give confidence to the people, and to stimulate local credit.

This was recommended by the Commission of 1898, but little action was taken in any province. It is only necessary here to say that we attach special importance to advances at this early stage.

IV. The recruiting of non-official agency, and the organization of private charity should be vigorously taken in hand.

V. Liberal advances should also be given for the purchase of seed for the ensuing crop. The advances under Act XII of 1884 in the

months of September and October 1899 were small.

VI. The police should be supplied with funds to relieve wanderers in distress.

VII. Test works should be started, and poor houses should be opened at the chief centres of population.

VIII. Enquiries as to the suspension of revenue should be begun.

IX. Relief circles should be organized, and the necessary inspections should be made. In those provinces which possess a well organized Land Records system the basis of these relief circles will naturally be the *kanungo's* or superintendent's circles. But in provinces which do not possess this organization it is desirable that in ordinary years relief circles should be marked out in anticipation of the need.

X. Preliminary lists should be drawn up of persons eligible for gratuitous relief.

XI. If there are threatenings of a scarcity of fodder or drinking water, steps should be taken to meet it, and to encourage private enterprise to import fodder and to develop the water-supply.

43. We believe that the right development of the relief system hinges very greatly on the proper use of test works. The objection to test works rests also, it would seem, upon a misconception of their object, which is, "not to relieve famine, but to test the presence of it; not to appease hunger, but to find out whether people are hungry". Without test works it is not possible to gauge the existence or the pressure of distress, or, again, to discover the

Test works.

time for entering upon substantial measures of relief. In illustration of the value of test works we should cite the case of the Agra Division and the affected districts in Madras in 1899, where many indications of famine were present, and the local officers considered it at hand, but where test works showed that general measures of State relief were not required. We have no hesitation in recommending that the omission to open test works should not be repeated in any future famine.

45. The object of poorhouses is to collect and relieve paupers sent adrift by the contraction of private charity. These unfortunate people gravitate at an early stage towards the towns, and poorhouses should therefore be opened in towns to receive them. Poorhouses should not be employed, as suggested by the Commission of 1880, to test the need of any person to receive relief; but at a later stage they may appropriately be used for contumacious idlers.

#### SECOND STAGE.

48. Directly the numbers attending test works indicate that further relief measures are necessary a new stage begins, and the full machinery of relief should be brought into play. We have considered whether at this or any other stage it is possible to distinguish, in the matter of relief, between the conditions of scarcity and of famine. We are unable to arrive at any satisfactory results. It is impossible to fix in formal language exactly the point where the conditions of scarcity cease, and where conditions of famine

begin. It is a question of degree, into the proper appreciation of which many considerations must enter, and which Local Governments alone are competent to decide.

49. In any case there should be no delay whatever in converting test works into relief works directly they have served their purpose as tests. Conversion should take the form of addition of relief to dependents, either by cooked food or by cash doles.

50. Simultaneously village inspection must be fully developed; the staff should be increased..... Where necessary, the village accountant given an assistant to carry on his ordinary duties: and the circles should be so arranged that every village may be carefully examined once a week by the circle officer, who should not be below the rank of a *Naib Tahsildar* (head *karkun*) or *kanungo* (circle inspector).

51. The *distribution* of gratuitous relief should also begin when test works are converted into relief works: and care should be taken to see that all those entitled by the Code to receive it are brought upon the list.

52. It is necessary at the outset to be strict in the administration of gratuitous relief, but the existing categories of persons entitled to such relief are sufficiently strict. And, while we should strongly condemn, as demoralizing, any profusion in this matter, we attach great importance to bringing on gratuitous relief at an early stage all those who on a fair interpretation of the rules are entitled to it.

#### THE WAGE SCALE.

97. To avoid any misunderstanding, we will

first recur to the fundamental principle of the famine wage. This principle was laid down in paragraph 28 of the Government of India's Circular No. 44 F., dated the 9th June 1883. The passage runs:—

“The principle upon which the Government of India has framed the scale of wage embodied in the Code is that the wage should be the lowest amount sufficient to maintain health under given circumstances. While the duty of the Government is to save life, it is not bound to maintain the labouring community at its normal level of comfort. To do so would be unjust to other sections of the community, besides prolonging the period for which the labouring population would cling to the relief works.”

The alternatives, it will be seen, are the *maintenance of health* and the *maintenance of the normal level of comfort*; the former was deliberately chosen to the exclusion of the latter. We have no doubt whatever that the range of famine relief should be strictly confined to the maintenance of health, and we accept without any reservation the principle laid down in 1883.

#### GRATUITOUS RELIEF.

127. There is no branch of famine relief administration in which it is more difficult to hit the happy mean than gratuitous relief. Difficulties beset the famine officer's course on both sides. Doubtless if famine is, by mismanagement, allowed to make much headway, there is nothing for it but to save life at the sacrifice of other considerations; but even if gratuitous relief is begun in time, there is difficulty in deciding how far it is right to go. This difficulty is enhanced by a tendency on the

part of the public to regard profuseness in this kind of relief as a venial fault. We regard this tendency with much concern, for, in truth, the fault is not a venial, but a very grave fault, being akin to that most dangerous popular vice—the disposition to force the Government to grant public charity.....

129. The necessity for gratuitous relief must be judged by an entirely different test from that applicable to other forms of relief. Other forms of relief are appropriately regulated by a *self-acting test*, a labour test, a distance test, a residence test,—all of which are practicable, though all may not be advisable; but gratuitous relief can properly be regulated by *personal selection* alone. Every *self-acting test* that has been tried has broken down.

130. The following heads comprise the main forms under which gratuitous relief is administered, and under which it may be most conveniently considered :—

- (a) relief of dependents on works ;
- (b) poorhouses ;
- (c) village relief by doles ;
- (d) kitchens.

135. We are distinctly of the opinion that early attention to this part of the relief scheme saves expense and suffering later on. If wages on relief works are reduced to a bare subsistence, it follows that indigent dependents, who cannot come upon the works, must either starve, or be helped by their friends on the works at the cost of suffering to the latter. We there-

Village gratuitous relief.

fore repeat that at the first indications of approaching pressure lists should be made out of the persons eligible for gratuitous relief.

137. As to the form that village relief should take, the Commission of 1898 preferred a dole in grain, and, where this can be easily managed, there is much to be said in its favour. But when the dole is given in grain, Government, by implication, undertakes the responsibility of supplying the grain in the event of failure on the part of private enterprise; a responsibility which, in parts of the Bombay Presidency where there were either no *bantias* or the *bantias* had fled in terror, it was unable to fulfil. A difficulty of the same character, though in connection with the supply of grain to kitchens, was experienced in the Central Provinces. We think that Local Governments should have discretion in the matter, but on the whole the balance of the evidence appears to us to incline to the side of a cash dole.

138. In whatever form the dole be given we would insist on the necessity of regular payment at short intervals and under constant check. This is required alike in the interests of the recipients and to prevent fraud in the way of double relief.....

---



## IRRIGATION

In an agricultural country the value of irrigation works, which secure the country against famine and which, by increasing production, add to the wealth of the country, cannot be over-estimated. Some irrigation canals existed in India prior to British rule, and as a matter of fact, the Grand Anicut in Madras and the remnants of old Mohamedan channels in the Punjab suggested to the present rulers of the country the idea of the big works which have contributed so largely to our prosperity. The early history of irrigation works in India is summarised in the extract from the Report of the Indian Irrigation Commission of 1901 (sections 36 to 43). The Commission, though recognising the limitations of irrigation, (sections 55 to 61) recommended the extension of State irrigation works (sections 92 to 99), and the encouragement of private enterprise by means of *taquavi* loans for irrigational improvements under less rigid conditions.

than those imposed by the Acts of 1883 and 1884 (sections 182 to 187.)

*Present position.*—In the whole of India excluding Native States the total area irrigated by Productive works in 1918-19 was 17,314,712 acres; by Protective works, 692,366 acres, and by Minor works, 7,145,373 acres, or a total of 25,152,451 acres by all the three classes of Government works. Table A. below shows that the area irrigated by Productive works was greatest in the Punjab.

The Productive works are remunerative. The net revenue from these works for the whole of India in 1918-19 amounted to Rs. 523 lakhs, which represents a return of 9 per cent. on the total capital outlay on these works (52 crores).

The net revenue from Protective works in 1918-19 showed a return of 0·19 per cent. on capital. Protective works, as their name implies, exist primarily for protection against famine, not to bring revenue for the State. But the low return from them in 1918-19 is partly due to the fact that some of the works which are at present under construction, have not yet begun to yield revenue.

The net revenue from Minor works represented a return of 8·29 per cent. on capital. Of the 128 Minor works which

were in operation in 1918-19, 113 were irrigation works and 8 navigation works.

*Irrigation in the Punjab.*—No part of the country has benefited more by the development of irrigation than the Punjab. In 1864-65 the total area irrigated by canal irrigation in the Punjab was 750,000 acres, the estimated value of the crops raised on this area being 3 crores of rupees; in 1918-19 the area irrigated was over 9 million acres and the estimated value of the crops raised on all canals (including those of Native States) no less than 55 crores of rupees. The value of the crops raised in 1918-19 was 2.5 times the total capital outlay on all canal systems to the end of the year. The average value of crops per acre was 64 rupees, while the cultivator had to pay only Rs. 5— as. 3 per acre for water rates. These figures enable us to form some idea of the value of irrigation to the Punjabee cultivator.

## IRRIGATION STATISTICS.

*Table showing the area irrigated by Government irrigation works excluding Indian States, in 1918-19.*

(Thousands of acres).

	Productive	Protective	Minor.	Total.
Madras ...	3,477	107	3,251	6,837
Bombay Deccan ...	41	122	179	343
Sind ...	1,001	...	1,625	2,627
Bengal ...	80	...	20	101
United Provinces ...	3,294	210	172	3,677
Punjab ...	7,748	...	666	8,415
Behar and Orissa ...	924	66	2	992
Burma ...	291	...	1,092	1,455
Central Provinces ...	114	185	29	329
N. W. Frontier Province ...	339	...	...	339
Rajputana ...	...	...	11	11
Baluchistan ...	...	...	21	21
<b>Total ...</b>	<b>17,314</b>	<b>692</b>	<b>7,145</b>	<b>25,152</b>

*Table showing the acreage of crops matured during 1918-19 by means of Government irrigation systems with the total area under cultivation in the several provinces.*

(1,000 acres).

Provinces.	Net area cropped (1,000 acres.)	Area irrigated by Government irrigation works (1,000 acres.)	Percentage of irrigated area to total cropped area.	Capital cost of Government irrigation works to end of 1918-19 in lakhs of rupees	Estimated value of crops raised on areas receiving State irrigation in lakhs of rupees.
Burma ...	14,728	1,456	9.9	327	495
Bengal ...	24,350	101	0.4	253	68
Behar & Orissa	7,710	993	12.9	631	786
U. P. of Agra & Oudh ...	30,918	3,678	11.9	1,309	2,584
Ajmer-Marwar	218	12	5.5	35	7
Punjab ...	19,006	8,415	44.3	2,251	5,182
N.-W. F. Province ...	2,279	339	14.8	273	216
Sind ...	2,808	2,627	93.5	332	846
Bombay Deccan	20,475	343	1.7	501	367
Central Provinces, excluding Berar ...	16,669	329	2.0	359	166
Madras ...	36,047	6,838	18.9	1,121	3,166
Baluchistan ...	205	21	10.2	40	5
<b>Total ...</b>	<b>175,416</b>	<b>25,152</b>	<b>14.3</b>	<b>7,432</b>	<b>13,888</b>

*Punjab Canals, Major*

Year.	Capital Outlay, Direct and In- direct, to end of year.	Interest char- g's to end of year.	Net revenue to end of year.
1887-88	5,76	3,18	5,09
1891-92	6,70	4,11	6,36
1895-96	8,02	5,24	7,87
1899-00	9,09	6,57	11,37
1903-04	10,69	8,03	15,82
1907-08	11,23	9,59	21,10
1911-12	11,62	11,08	27,37
1912-13	14,62	11,86	29,78
1913-14	16,77	12,53	32,37
1914-15	17,17	13,11	34,90
1915-16	21,69	14,40	37,26
1916-17	22,06	15,10	40,13
1917-18	22,33	15,85	42,80
1918-19	22,45	16,61	45,83

Works, 1918-19.

(Lakhs of rupees).

Accumulated profits to end of year (column 4— column 3).	FOR THE YEAR.			
	Gross revenue.	Working expenses.	Net revenue.	Per- centage on capital.
1,90	40	17	23	3.99
2,24	60	22	37	5.65
2.63	70	28	42	5.31
4,80	134	41	92	10.21
7,79	185	57	128	12.02
11,50	202	71	131	11.64
16,29	271	83	187	16.18
17.91	327	86	241	16.48
19,84	347	88	259	15.45
21.79	345	93	252	14.70
22,86	345	109	236	10.90
25.02	396	109	286	12.99
26,94	378	111	266	11.95
29,22	413	110	303	13.50

*Table showing the areas irrigated by the several canals in the Punjab in 1918-19.*

(In thousands of acres.)

*Major Irrigation Works—*

Western Jumna Canal	...	{ Imperial ...	658
		{ Patiala State	61
Sirhind Canal	...	{ Imperial ...	887
		{ Patiala, Nabha & Jind States	537
Upper Bari Doab Canal	...	...	1,065
Lower Bari Doab Canal	...	...	678
Upper Chenab Canal	...	...	426
Lower Chenab Canal	...	...	2,339
Upper Jhelum Canal	...	...	246
Lower Jhelum Canal	...	...	777
Upper Sutlej Canals	...	...	258
Sidhna Canal	...	...	229
Indus Canals	...	...	181
Total Major Irrigation Works.		{ Imperial ...	7,748
		{ Native States	599

*Minor Irrigation Works—*

Shahpur Inundation Canals.		{ Imperial ...	16
		{ Provincial ...	13
Ghaggar Inundation Canals.		{ Imperial ...	11
		{ Bikaner State	1
Lower Sutlej Inundation Canals (including Hajiwah Canal).			189
Chenab Inundation Canals	...		126
Muzaffargarh Inundation Canals	...		308
Total Minor Irrigation Works.		{ Imperial ...	653
		{ Provincial ...	13
		{ Native States ...	1
Total Major and Minor Irrigation Works.		{ Imperial ...	8,402
		{ Provincial ...	13
		{ Native States	600
Grand Total	...		9,015



## LIII.

*Extract from the Report of the Indian  
Irrigation Commission, 1901—1903.*

33. The surplus rainfall becomes available for use in artificial irrigation when it accumulates, or flows, either upon the surface or upon the subsoil, at a level sufficiently high to admit of its being diverted or raised on to the land. But in all cases before this can be done certain works of construction are necessary. These are called works of irrigation, or, briefly 'irrigation works.' Thus the term irrigation works includes works of many varieties and magnitudes, ranging from the rude contrivances which enable the cultivator by swinging a basket to raise water from a pond, to the huge embankment of earth or masonry holding behind it a lake of many square miles; or from the small temporary well, a mere hole in the ground lined with brushwood, to the great canal which, carrying for some hundreds of miles a volume of water equal to that of a large sized river, delivers it into a network of smaller channels for the irrigation of over a million of acres.

34. The irrigation works of India may be divided into three main classes: canals, tanks, and wells. Under 'canals,' are classed all works of any considerable size for diverting the waters of streams or rivers, and carrying

them on to the land ; under ' tanks ', all works for the store of water, and all natural depressions of which the water is used for irrigation ; and under ' wells ', works for giving access to the subterranean supply, or to the waters of rivers which, running deep below the general level of the ground, have to be lifted vertically before they can be made to flow on to the fields. Canals are of the ' perennial ' or ' inundation ' type according as they are designed to draw their supplies from the river at all seasons of the year, or only when it is in flood. In the former it is almost always necessary to make a weir, temporary or permanent, across the river so as to divert the water into the canal, and this is often one of the most expensive parts of the canal works. Inundation canals have no such weirs. Once cleared of silt they go on taking in water from the river until, at the close of the flood season, its surface falls below a certain level, and the canals then remain dry until the next flood season.

35. In the case of large tanks or canals, works have to be made and subsequently maintained which are beyond both the means and management of individuals or village communities. Such works are therefore generally constructed and controlled by the State ; and we have thus a second classification of irrigation works into ' State works ' and ' private works. ' All works which have been constructed or which are maintained or partially maintained by the State, are classed as ' State works. ' The irrigation from ' private works ' is entered in the annual statistics of areas irrigated under the heads of

Distinction between  
state and private works.

canals, tanks, wells, and 'other sources'; the last including irrigation from rivers and streams, and from channels which are too small to be classed as canals. The distinction between canals and smaller channels is nowhere clearly defined and the classification adopted varies from province to province and even from district to district.

36. In the early records of the peoples of India, dating back to many centuries before the commencement of our era, there are frequent references to the practice of irrigation. Wells have been in use from time immemorial; most of the almost innumerable tanks of Southern India have been in existence for many generations—two in the Chingleput district of Madras, which still irrigate annually from two to four thousand acres, are referred to in inscriptions which are said to be of the 8th and 9th centuries of our era; the practice of drawing off the flood waters of the Indus and its tributaries by means of small inundation canals has been followed from a very early date, and in the submontane districts of Northern India are still to be found the remains of ancient irrigating channels which have been buried for centuries in the undergrowth of the forests. But the numerous large works which now exist for utilizing the supplies of the larger rivers are of comparatively recent date and little seems to have been done in this direction before the country came under British rule. The most notable exceptions are the 'Grand Anicut' across the Coleroon river in Madras, some of the inundation canals of the Indus and its tributaries, and

Early history of irrigation works in India.

two canals taken out of the Jumna river at a point where, passing through a gorge in the outer ranges of the Himalayas, it debouches on to the plains.

37. To the 'Grand Anicut,' tradition assigns a period corresponding to the close of the second century, though it is probably of a much later date. This work is, so far as is known, the greatest engineering work carried out in India before British rule began. It consisted of a solid mass of rough stones, over 1,000 feet in length, 40 to 60 feet in breadth and 15 to 18 feet in depth, stretching across the whole width of the Cauvery river. It fulfilled its purposes for centuries, and in 1830 was still in operation, but the vagaries of river had not been watched, and by the time the main stream had begun to flow down a northern channel known as the Coleeroon, the district of Tanjore had lost much of its former prosperity.

38. Most of the existing inundation canals in the Multan, Muzaffargarh, and Dera Ghazi Khan districts, were constructed by the former Muhammedan and Sikh rulers, and on many of these canals a high degree of efficiency was attained under the management of the great and energetic canal maker, Dewan Sawan Mal.

39. A canal known as the Hasli, was also constructed by the Sikh or Muhammedan rulers of the Punjab to carry water to Lahore from a point on the Ravi river at a distance of 130 miles. When the Punjab came under British rule, the area

irrigated by the canal was paying a revenue of eighty-five thousand rupees. Its general alignment was fairly good, but in detail there had been so many errors that to rectify them would have cost more than making an entirely new channel. The Hasli has been replaced by the Bari Doab Canal, which has more than twenty times its carrying capacity, and is one of the most important irrigation works in India.

40. Owing to the proximity of the Jumna to Delhi, the Muhammedan rulers of India turned their attention at an early period to utilizing the waters of that river for the irrigation of the higher lands on both banks. In the fourteenth century, Firoz Shah Tughlak constructed a canal, taking water from the right or western bank of the Jumna, a distance of about 150 miles, to irrigate his favourite hunting ground at Hissar. This canal, which had silted up, was repaired during Akbar's reign by the Governor of Delhi for the irrigation of lands in his private estate, but for want of repairs it again stopped flowing about the year 1647 A. D. The canal was repaired under the direction of Ali Mardan Khan, the celebrated engineer of Shah Jahan, and a new channel excavated to carry water into the city of Delhi. During the decline of the Mughal empire the canal again gradually silted up until it ceased to flow. The canal on the eastern bank of the Jumna was also constructed during the Mughal Dynasty, probably during the reign of Muhammad Shah (1718—1748) ; but it appears to have been very soon abandoned, if indeed it had ever been used for the carriage of water. In 1784 the work

was partially restored by a Rohilla Chief who succeeded in bringing water to some short distance below Saharanpur, and there are traditions of serious injury having been caused thereby to the towns of Saharanpur and Behut. No masonry works of any kind were constructed in connection with the canal; and in their absence, owing to the excessive slope of the country, if any considerable volume of water had been allowed to enter the channel, it must have led in time to a fatal retrogression of bed-levels.

41. Doubts have been expressed as to whether these works, in their former condition, ever irrigated any considerable areas or conferred much benefit upon the people. Be this as it may, it is certain that it was the existence of the 'Grand Anicut' in Madras, and the remains of the old Muhammedan channels in the Punjab and United Provinces, which suggested and led to the construction of the earliest works carried out under British rule. India, therefore, in a great measure owes to her former rulers the first inception of her present unrivalled systems of State

## THE LIMITATIONS OF IRRIGATION.

55. The main conditions imposing a limit to the use which can be made of the surplus drainage of the country for the prevention of famine are:—

Conditions limiting the extension of irrigation.

- (1) the geographical and seasonal distribution of the rainfall;
- (2) the physical configuration of the country;
- (3) the difficulty of holding up water stored in years of good rainfall as a provision against a year of drought;
- (4) the character of the soil; and
- (5) the large number of different States and territories into which the country is divided and sub-divided.

56. In its geographical distribution, the rainfall displays a diversity which is said to be without parallel in any other country in the world; the average annual fall varying in different localities from under five to nearly five hundred inches. Leaving mere questions of distance and cost out of consideration, the general contour levels of the country will frequently offer an insuperable obstacle to the transfer of water from regions of copious and assured rainfall to those where it is scanty and capricious. At the same time, the seasonable distribution of the rainfall, which is confined for the most part to a few months of the year, presents a condition most unfavourable to its economical storage and use; for if the water is to do more than merely

Limitations imposed by the distribution of rainfall.

tide the autumn crop over breaks in the monsoon, the storage reservoir must be made large enough to carry the subsequent crop to maturity by means of the volume stored in a single rainy season. Over the greater part of the country, there is little or no chance of subsequent rain refilling the reservoir after its water has been partially utilized.

57. The general conformation of the surface

Difficulties connected adds still further to the with the surface conformation. difficulties and cost of storage.

On the flat surface of the alluvial plains of Northern India, storage on any considerable scale, as we have said, is almost impossible. If we allow for evaporation and percolation, it involves generally the submersion of an area at least as large as that which would receive benefit from the water.

58. On the other hand, in the Western Ghats, where the assured rainfall might be stored at a sufficient elevation to admit of its being carried into tracts where the rainfall is scanty and peculiarly liable to failure, the steep slopes of the valleys necessitate, as a rule, the construction of a dam at least one hundred feet in height, if water is to be stored in any considerable volume, and for this sound foundations and suitable materials within a reasonable distance are essential.

59. With regard to storing the rainfall of

Impossibility of con- good years for use in a year  
serving water for a year of drought, we may say that  
of drought. if there is one point upon  
which our enquiries have convinced us, it is



that where as in many parts of India, the only possible source of supply is an uncertain and often insufficient rainfall, it will not be possible to provide, at any practicable cost, the amount of storage required to counteract the effects of severe and prolonged drought. There are no means of predicting a year of drought, and any attempt to hold over water, even for one year to the next, would entail the loss of an enormous proportion of the supply by evaporation and percolation. In these circumstances it would obviously be bad economy and fatal even from a purely protective point of view, to limit the cultivation under a tank, and refuse to give out water to the cultivators, which they could utilize advantageously from year to year, in order to hold it up as an insurance against a possible drought.

60. We have already referred to the general unsuitability of soil.      unsuitability to irrigation of the black cotton soils which cover such a large portion of the area of India. In addition there are areas of inferior sandy or stony soils which would never repay the cost of artificial watering. And, we may add, there are enormous areas of forest and uncultivable waste where water cannot be used, however great the facilities for providing it. In British territories alone, in the area under consideration the forests cover an area of more than eighty thousand square miles, or eleven per cent of the surface; and there is nearly twice that area of uncultivable waste. About one hundred and twelve thousand square miles are said to consist of lands fit for

cultivation which are now lying waste, but a very considerable proportion of this has a soil too poor to repay the cost of cultivation.

61. The numberless territorial divisions of the country and the manner in which the various States and territories are inter-mingled, have also been a material obstacle in the past to the development of irrigation. The only suitable site for a storage work may lie in a territory whose people would not only derive no benefit, but might even be put to considerable loss and inconvenience, by the construction of the work; or the full utilization of an available supply may only be possible by the co-operation of two or more states who are unwilling to combine. We have found numerous instances in which these and other territorial considerations have offered in the past a serious hinderance to the construction of irrigation works; but we believe that in the settled condition of the country, these difficulties will be found capable of adjustment by friendly co-operation of the states concerned with each other and with the Supreme Government.

#### STATE IRRIGATION WORKS.

76. The State irrigation works in India consist essentially of two kinds: small works originally constructed by the former rulers of the country or the owners of the soil, and now controlled and maintained by Government; and large works which have been constructed or reconstructed by the British Government as productive or protective

public works, or in other words, as financial investments which were expected to be either directly or indirectly remunerative. Most important, though not all, of the latter are technically classified as major works, while the class 'minor works' includes all the former and also a few of the latter. The minor works consist for the most part of small local works which are maintained by Government in consideration of the revenue derived from or dependent upon them, but so little capital outlay has been incurred on them by the British Government that capital accounts have not been opened for them. Between works of this kind and major works there is, however, an intermediate class, known as minor works for which capital and revenue accounts are kept. Some of the works in this class are old native works which have been improved or enlarged by Government at a considerable cost; others are new works, generally of small size, which have been constructed by the British Government but which have not, for reasons which it is unnecessary now to consider, been classed as major works. State irrigation works must, therefore, be considered under three heads:—

- (a) Major works.
- (b) Minor works for which capital and revenue accounts are kept.
- (c) Minor works for which capital accounts are not kept.

#### MAJOR WORKS.

78. It would be difficult to overestimate the value to the country of these fine systems of irrigation. Protective value.

tion works which may be said, with some slight reservations in respect of the Cauvery works in Madras, to have been entirely created by the British Government within the last eighty years. They irrigate annually over 11 million acres, and completely protect from famine an area which, except in the Madras and Orissa deltas, may be said to vary from twice to four times the area annually irrigated. In some parts, as in Sind, there can be no cultivation, and therefore no population, without canal irrigation. In others, the effect of the works in maintaining or raising the level of the subsoil water, on which the well irrigation depends, is of the utmost value and importance. The value of the crops irrigated by the canals in a single year is about equal to the whole capital cost of the works; and in years of famine the produce of the irrigated area, being largely available for transport to distressed tracts, becomes an important item in the general food supply of the country.

**MINOR WORKS FOR WHICH CAPITAL AND  
REVENUE ACCOUNTS ARE KEPT.**

80. Under this head are included a few small works which have been initiated and carried out by the British Government, but the majority of the works of this class were constructed by former rulers of the country or in their times. They have, however, been enlarged and improved by means of expenditure which has been charged to capital account and the works are credited with the increase of

revenue which is attributable to that expenditure. In the Punjab and Sind, minor works consist almost entirely of groups of inundation canals from the Indus or its tributaries, which irrigate very large areas. In other provinces they consist partly of tanks or storage reservoirs, and partly of small canals or groups of canals which generally take off from above weirs built across the smaller streams of the country. There are, in all, seventy-three minor works for which capital accounts have been opened.

82. The works irrigate over 2 million of acres annually, but the protective value and magnitude of the works. irrigation is more variable and uncertain than that effected from the large works, both inundation canals and tanks being liable to fail in unfavourable seasons. Nevertheless the protective value of these minor works is very great when compared with the capital outlay incurred on them. The total length of the Government channels pertaining to them exceeds 7,000 miles, and there are storage reservoirs with an aggregate capacity of over 25,000 million cubic feet.

#### MINOR WORKS FOR WHICH CAPITAL ACCOUNTS ARE NOT KEPT.

83. We have next to consider what may be called the indigenous State Nature of works. irrigation works, the maintenance of which has been undertaken by the Government. These works are essentially of the same kind as those which we have just been considering, the difference being

that in respect of these no charges have been made to a capital account. It must not be supposed, however, that Government has never undertaken anything more than the bare maintenance. Considerable sums have been spent in improving and developing the works, but it has been found more convenient to charge such expenditure against a revenue account, and to avoid the complications of a capital account.

84. Under this head are included all the inundation canals in the Punjab and Sind which have no separate capital account, and also all the old or native irrigation works in Upper Burma, which resemble those in Southern India, and consist either of tanks or small canals taking off from above temporary or permanent weirs across the beds of minor rivers. But collectively the most important item under this head is the 40,000 tanks, river channels, or other petty irrigation works which are to be found in the Madras Presidency, and which irrigate between them more than three million acres.....

#### SCOPE FOR FURTHER EXTENSION OF STATE IRRIGATION WORKS.

##### PROTECTIVE VALUE OF IRRIGATION.

93. It has often been urged that the indirect advantages of irrigation in India are so great and incontestable that the question of direct financial return which may be anticipated on the capital outlay is one of minor importance to which very little regard should be paid. This proposition is not likely to commend itself to

Indirect advantages of irrigation.

those who are responsible for finding the large sums of money required for the construction and maintenance of irrigation works; and it seems desirable to form a clear idea of the nature of indirect advantages which are claimed for irrigation works, and of their comparative, if not absolute, value to the State in different circumstances. These advantages are of three kinds, each of which must be considered separately :—

- (a) The increase in the general wealth and prosperity of the community resulting from the increase in the produce of cultivation due to irrigation even in years of normal or more than normal rainfall.
- (b) The effect of irrigation and of large water storage works in increasing the humidity of the air, and in raising the level of the underground water-supply.
- (c) The prevention or mitigation of the horrors of famine.

94. The value of irrigation in increasing the wealth and food supply of the country cannot be doubted; and although the amount or percentage of this increase varies greatly for different tracts, it can generally be estimated approximately for particular tracts in which irrigation works have been for some time in operation. There are, however, obvious limits to the permanent charges which the State may reasonably be expected to meet for the purpose of increasing the produce or the profits of cultivation in particular tracts. The value of the crops which have been irrigated in a single year is often compared with

the capital cost of the works. The comparison may be interesting, but it is very misleading as an indication of the value of the work. In the first place, the value of the crops which receive irrigation from a canal does not always represent the value of the increase of produce due to irrigation. It may do so in parts of Sind and the Punjab where cultivation without irrigation is impossible, but not on the Orissa or Kurnool-Cuddapah Canals: on the former canal, owing to the generally copious rainfall, the difference in the value of the irrigated and unirrigated crops is small in ordinary years; and on the latter the people find it more profitable to cultivate large areas of dry crops for which the rainfall is ordinarily sufficient, than to put a smaller area under wet (rice) cultivation. But when the increase in the value of produce due to irrigation has been determined, it must be compared not with the capital cost of the works, but with the annual net charge for interest and maintenance which they impose on the State. We have found that there are many works on which this charge varies from Rs. 5 to Rs. 8 per acre irrigated. *Prima facie*, there is no more reason for calling on the State, or, in other words, on the general taxpayer, to bear a permanent charge of, say, Rs. 6 per annum, for the sake of increasing by irrigation the produce of an acre of land belonging to a private owner, than there would be for calling on it to pay a similar amount for the purpose of supplying another man's acre with manure. Apart from the question of famine protection, which will be considered separately, the maximum per-



manent charge which the State may reasonably undertake in providing irrigation, should theoretically be limited by the share of the increase in the value of produce due to irrigation which it will be able to recover indirectly. It is hardly necessary to say much here as to the manner in which a share in the increase of the wealth of the community comes back, in some indirect form or other, to the State, as by the increase in railway earnings or from the revenue derived from excise, stamps, income-tax, etc., or by other ways in which the State shares in the prosperity of the country; but a measure of this share may be proposed which will be sufficient for our present argument.....The best measure of the increase in the profits of cultivation due to irrigation appears to us to be the amount which the people are willing to pay for it, that is, the gross revenue of the works .....

99. The important question of the value of protective irrigation works in preventing or mitigating the cost or horrors of famine, has next to be considered. We have already observed that, *apart from the question of famine protection*, there is no reason why the State should accept a permanent charge on the revenue for the sake of increasing the productiveness of land belonging to private owners; and at any rate such charge should be limited to the amount which may be recouped by the share of the increased produce which will come back to it in an indirect form. The reservation in respect of famine protection is, however all-impotent. The obligation on the State to incur whatever expenditure may be necessary to save life during famine, involves future

liabilities which cannot be evaded, and of which full account must be taken.....

#### LOANS FOR IMPROVEMENTS.

182. Of all the methods by which Government is able to stimulate and assist private irrigational improvements, the most convenient and obvious is the system of State advances to the cultivating and land owning classes, known as takavi. We propose, therefore, to consider briefly what use has been made of this system and how far such use is capable of extension, and this system capable of improvement. This system has existed in India from time immemorial, and is now regulated by special laws, namely, Land Improvement Loans Act (XIX of 1883) and the Agriculturists' Loans Act (XII of 1884) for the whole of India, and by rules under these Acts framed for each province by the Local Governments and sanctioned by the Government of India. Under the former Act money is advanced for specific purposes of land improvement, and under the latter for seed, cattle, and other miscellaneous agricultural purposes. But the objects of the two Acts are closely connected, for it will often be the case that in order to make efficient use of his improvement the cultivator will find it necessary to provide himself with cattle and manure, well-gearing and the like, if not with seed.....

191. The Collector or head of the district has authority, under the rules of collection, in all provinces, to suspend payment on the occurrence of

failure of crops or other exceptional calamity, subject, however, to a report to higher authority. But this power of suspension is not very frequently exercised, except in years of very general failure of crops; and when it is, the result is merely to postpone payment of the instalment for a single season, with the result that in the ensuing year the cultivator has to pay double the usual amount. The increased payment must often be raised with difficulty, and it is probable that under the circumstances cultivators would seldom care to apply for suspension of takavi payments. We are of opinion that suspension should be given without hesitation whenever, from causes beyond the control of the borrower, his crops fail to such an extent as to render the payment of the year's instalment unduly burdensome to him; that whenever suspensions of revenue are granted they should carry with them automatically suspensions of the takavi instalment which may be due the same year; that the officer who has authority to grant the loan should also have authority to grant the suspensions; and that the suspended instalment should not be made payable in the ensuing year with the instalment of that year, but that the effect of suspension should be to postpone by one year the payment of all remaining instalments due on the loan. It seems also unnecessary for the head of the district to report each case of suspension, as it occurs, to superior authority. Greater leniency in the matter of recovery cannot well be exercised by Government, which in these matters is unable to place itself in the same position as a private creditor.

192. There is, however, a measure which would undoubtedly go far to mitigate the hardship of rigid recovery and that is the lengthening of the periods of repayment. In several places these periods have been criticized as too short.....

Generally speaking, then, the sole consideration in determining the period of repayment should be the durability, or what we may term the 'life' of the work; the full period so determined should be offered to the borrower and no pressure whatever should be placed upon him with the object of inducing him to choose a shorter period.....

---

## INDIAN INDUSTRIAL DEVELOPMENT.

The report of the Indian Industrial Commission, from which an extract is given below, deals with pre-war industrial conditions in India. The development of Indian industries during the war has been described in Chapter XVII of Part I.

---

### LIV.

*Extract from the Report of the Indian  
Industrial Commission, 1916—18.*

#### INDUSTRIAL DEFICIENCIES OF INDIA.

74. The basis of modern organised industries in those countries where they made their first appearance, was the manufacture of cast and wrought iron. The invention of the steam engine created the necessity for machine tools, to produce parts which would fit with sufficient accuracy to give smooth and efficient working. The existence of machine tools greatly facilitated the manufacture of standardised parts in large quantities, which were in demand for the mechanical processes required in textile and other similar industries. These large scale manufactures increased the demand for industrial chemicals.

But the course of industrial development in India has followed very different lines. The political and economic conditions of India in the past have created a large export and import trade; and this trade has brought about the present industrial position. A large railway system and such other mechanical facilities as were necessary, for the preparation and transport of produce for export have been brought into existence, but, in the absence of an existing iron and steel industry, with imported appliances. The great textile industries similarly rely almost entirely on imported plant and spares. The obvious need of having repairs done on the spot has led to the establishment of numerous engineering shops, without any corresponding equipment for actual manufacture.

77. Where money has been invested in industries, it has generally been confined to a few simple and safe enterprises of an obviously attractive nature, whilst equally important minor industries have been almost entirely neglected, partly in ignorance of the country's resources in raw materials, but mainly because commercial firms have prospered too well along conservative and stereotyped lines to trouble about undeveloped industries with uncertain prospects. Before the war they could always be sure of importing all necessary stores and machinery of assured and regular quality, and they have naturally preferred a safe profit from trade, or from such established industries as jute and cotton manufacture, to a doubtful return from such ventures as metallurgical and chemical

manufactures. Another contributory cause has been the practice pursued by Government departments of indenting on the India Office for miscellaneous stores, which has been to some extent due to the absence of a stores-purchasing department in India. Government rules intended to encourage the purchase of locally manufactured articles have not succeeded in counteracting the tendency of indenting officers to place on some recognised authority the responsibility for price and quality.

Generally speaking, the industries based on technical science have been disregarded, because profits in other ways have been easy and assured. The neglect of applied science is perhaps the most conspicuous among our administrative deficiencies.

\* \* \* \*

82. The list of industries which, though their products are essential Dangers of deficiencies alike in peace and war, are lacking in this country, is lengthy and almost ominous. Until they are brought into existence on an adequate scale, Indian capitalists will, in times of peace, be deprived of a number of profitable enterprises, whilst in the event of a war which renders sea transport impossible, India's all important existing industries will be exposed to the risk of stoppage, her consumers to great hardship, and her armed forces to the gravest possible danger.

83. The removal of these deficiencies is one of the main objects of our Suggested remedies. proposals, and the various schemes which we set forth

are designed to meet this end, as well as to promote the industrial prosperity of the country generally. We desire, however, to draw attention here to the necessity of securing the inception in India of certain very specialised and essential industries which must be set up in this country at the earliest possible date, if grave dangers are to be avoided. Though in many cases the importation of technical specialists will be sufficient to enable our local industrial capitalists to get to work, there are a few classes of articles produced only by firms which have attained efficiency in their manufacture after the experience of many years and the expenditure of much money. The machinery and apparatus which they employ is often manufactured only by themselves or to their own specifications, and its imitation in this country is not possible, nor were it possible, would this be sufficient. Therefore to attain its end, Government must take special steps to facilitate the manufacture of these articles in India. Among such industries we would include the production of such essential articles as magnetos, incandescent lamps; ferro-tungston, "high-speed" steel, graphite crucibles, special form of porcelain for insulators, chemical glass, and probably also certain forms of "heavy" chemicals, rubber and vulcanite.....

#### TECHNICAL ASSISTANCE TO INDUSTRIES BY GOVERNMENT.

203. It is necessary to indicate in somewhat

Reasons for adopting in India a policy of direct assistance to industrialists.

greater detail the special necessity which exists in India for direct Government participation in the initiation and



improvement of industries by experiment, by advice and help, and where necessary, by example. We think that in the peculiar circumstances existing in this country, any limitation of the functions of the State in accordance with the principles laid down by Lord Morley..... will render our proposals of little benefit to Indians and will also detract largely from their general usefulness.

The risks to which private enterprise is exposed in India or elsewhere, when embarking on industrial work in new directions, are proverbial. India, however, possesses one great advantage; the new industries or processes that may be started here are almost always old industries or processes in other countries, though they may require modifications to suit them to Indian conditions. On the other hand, the country's lack of industrial organisation, of private consultants and specialists, of information on the industrial value of raw materials, and of experience in the way of approaching industrial problems, are serious obstacles, especially to the smaller-scale undertakings. Under present Indian conditions, this class of organised industries has great possibilities and is in every way well suited to Indian enterprises in most parts of the country. But the Indian investor is most reluctant to risk his money in undertakings of this sort, unless they relate to industries which are already established and practised extensively. Of the readiness to invest money in industries which can already claim a number of successes, we have had abundant evidence; indeed this tendency has had unfortunate

effect, in some instances, of creating more individual undertakings than the industry can support. This seems, at any rate, to indicate that there is capital seeking industrial outlets, and that the directions in which it can be employed are at present, from the point of view of the Indian investor, insufficient. We are further confirmed in this view by the freedom with which money is forthcoming for new ventures where the management has earned public confidence.

204. If we are to suggest the way in which Government assistance can best be given, it is important for us to understand the difficulties of industrialists who engage in new undertakings in India, especially on a small scale. The smaller industrialist, whether Indian or European, who is thinking of taking up a new venture, seldom has the advantage of a name which commands the confidence of a wide section of investors, or the support of large resources of his own, and he is thus not in a position to engage the assistance of experienced technical advisers in his preliminary investigations. The knowledge of the industry which he possesses is more often than not incomplete. He may have familiarised himself with it in actual operation in another country; but to start it in a new field demands greater practical experience and skill than he has usually acquired.

But even in the case of the larger undertakings, where funds are sufficient to engage expert technical advice, the following difficulties often occur:—

(1) There is frequently some uncertainty as to the quality and quantity of the raw material.

At the outset, it may apparently be abundant at reasonable prices; but directly any demand for it is created, the supply falls off or prices unaccountably rise. It is, therefore, difficult to frame a safe estimate beforehand on this point, simple as it may seem.

(2) The industry may involve the training of labour to carry on its operations, and this may entail a very considerable initial outlay, adding greatly to the cost.

(3) The country-made articles competing with foreign imports are always looked upon with suspicion, and generally have to be sold at a much lower price to command a market, even when the quality is equally good.

(4) When success is attained, rival enterprises are immediately started, the trained labour is enticed away, the cost of the material is sometimes enhanced, and competition, possibly in a weak market, has to be faced, with the result, that the monopoly upon which a new enterprise must count to recoup extraordinary initial expenditure rapidly vanishes, and profits are reduced to a level at which only those can work successfully who are benefited by the work of the pioneer without having had to pay for it.

The cautious individual realises these risks and refuses to be tempted into new paths. Those of a more sanguine temperament, or with less experience, are attracted and too often come to grief.

Some of the difficulties which we have enumerated above are common to new industrial efforts in all countries, and cannot be eliminated

in India. But the Government organisation which we propose will at any rate ensure technical advice for the small industry, and adequate economic and scientific data for all classes of undertakings. This will furnish industrial enterprise of all kinds from the outset with much better prospects of success than in the past. We believe that public opinion is completely changed in regard to the permissible limits of State activity, and that the grant of such assistance as we propose is urgently demanded.

205. We have already, in previous chapters, explained our views regarding the means of providing industrial research and the results that are likely to follow from it. We think it desirable now to explain the meaning which we attach to the terms "pioneering" and "demonstration", when applied to Government industrial undertakings started for the assistance of industries. These two expressions are often used as if they had the same meaning, and with the vague idea that they cover the whole field of Government assistance. In any case, they represent the greatest departure from the old *laissez faire* standpoint; and it is for these reasons that we consider it advisable to describe the actual methods which these terms are intended to denote, and the limitations to which these methods should be subject.

By "pioneering" we mean the inception by Government of an industry on a small commercial scale, in order to ascertain and

"Pioneering."

overcome the initial difficulties, and discover if the industry can be worked at a profit. It must be clearly understood that Government should only undertake the pioneering of industries when private enterprise is not forthcoming, and that, as a general rule, Government participation should only be continued till the object with which the operations have been started has been fully attained. By this we do not mean that the Government factory should necessarily be closed down, as soon as a private individual or company is willing to take it over, or it has reached some degree of commercial success. The opportune moment can be decided only by a full review of the circumstances of the case, and in some instances it will be found that the new industry is capable of development far beyond the initial stages at which it is profitable, before the withdrawal of Government becomes imperative in the interests of those who have invested, or are anxious to invest, capital in the new industry.

Further, a Government factory which has successfully passed through the pioneer stage will often prove a useful training ground, both for the men who are to control the industry in the future and the workmen who are to be engaged in it. This leads us to consider the suggestion made by some witnesses, that Local Governments should establish and manage what may be termed "demonstration factories". The objects might be either educational, in which case these factories would serve as schools for the training of men as operatives, foremen, or managers,

under strictly commercial conditions ; or, in other cases, the primary idea would be to show how to improve local industrial practice. As examples of the first, we may cite a glass factory, in which the training of operatives would be the *raison d'être* for its existence ; of the second, a silk-reeling and throwing house to demonstrate the advantages of modern methods of operation on a factory scale, in comparison with the existing indigenous cottage methods. These factories would be the counterpart in industries of the demonstration farms established by the Agricultural Department. In actual practice they would be required principally in connection with the development of cottage industries, and we allude elsewhere to their necessity as a part of the scheme for the training of hand-loom weavers. If the object with which each factory of this class is started be kept strictly in mind, there can be no doubt that, so long as it fulfils its primary function, it must prove useful and can in no sense be regarded as likely to interfere with the development of private enterprise.

206. Starting with the preliminary statement of our views regarding the attitude which should be adopted by Government in rendering assistance to industries, we may now indicate different ways in which action can be taken and the various methods by which the machinery that we have proposed to create can be brought into direct contact with industries. We have now in

Division of industries into "cottage", "small organised," and "large organised" industries

ment of our views regarding the attitude which should be adopted by Government in rendering assistance to

India two industrial systems working side by side, covering respectively:—

- (a) Industries carried on in the homes of the workers, which we have designated as "cottage industries." In these the scale of operations is small and there is but little organisation so that they are, as a rule, capable of supplying only local needs.
- (b) Organised industries carried on in workshops and factories, which vary in size from simple rural factories carrying out a simple operative process, to the big textile mills and engineering workshops, employing thousands of hands and possessed of complete organisation both for manufacture and trade.

These organised industries may be subdivided into two classes. In the case of the first, the interests involved are mainly of a provincial character. In the case of the second the industries have markets extending far beyond the boundaries of a single province or even of India, and their inception and management give rise to questions of inter-provincial or even international trade, which can best be handled by an imperial organisation. As examples of these two classes of organised industries, we may cite, as belonging to the first, engineering workshops, tanneries, sugar factories, rice mills, some textile mills, cement works, glass works, wood distillation plants, distilleries and breweries, and the majority of the miscellaneous workshops engaged mainly in

manufacturing for a local market. In the second class will be included industries usually carried out on a very large scale and involving very high capital expenditure, such as "heavy" chemical works, iron and steel works, electro-metallurgical and electro-chemical works, ordnance factories, factories for the manufacture of explosives, and the larger metalliferous mines with their associated metallurgical works.

It will, we think, be obvious from the outset that each of these systems will require separate treatment, and the manner in which they can be assisted will be most easily explained by a reference to examples which have come to our notice.

207. Owing to their lack of contact with the outside world, new ideas do not readily occur to these small workers, and they can receive material help from the supply of new patterns and designs, an example of which we saw at the Amarapura Weaving School near Mandalay, where the popularity of the school was almost entirely due to the new designs introduced by the Superintendent. Much useful work can be done by bringing to the notice of artisans labour-saving devices, or even such complex pieces of mechanism as the jacquard machines for weaving intricate patterns on hand-looms. The processes employed by metal workers are especially susceptible of improvement in this way. In most parts of the country they are ignorant of the use of patterns for casting work and of the advantages of stamping,



pressing, and spinning metal. Where considerable colonies of these artisans exist, their status can be raised and their output greatly increased by the establishment of small auxiliary factories employing machinery to carry out operations which involve much time and labour, when carried out by hand. These may be started by private individuals, by Government, or by co-operation among the artisans themselves, assisted by Government. Some attempts in this direction, we found, had been made in Madras, Nagpur and the United Provinces; but equipment was lacking and the attempts were not properly carried through.....

208. In the case of the existing larger organised industries, there will seldom be any call for technical assistance, as they are under the control of competent experts who will only look to Government to conduct scientific researches and to provide accurate economic data, including such information as it will be the duty of the Commercial and Industrial Intelligence Department to supply. In the inception of industries of this class which are new to India or to a particular area, Government can render much assistance, both by way of conducting preliminary investigations regarding the raw materials available, the conditions under which the industry may be carried on, and the markets open to its products, and by the supply of technical advice in regard to the location of the factories, the design of the buildings, the arrangements for water supply and the selection

of the machinery to be employed. To carry out this work, the services of industrial experts, who would be mainly mechanical engineers with special industrial experience, would be necessary and the imperial scientific services would be drawn upon to provide the more highly specialised forms of scientific and technical assistance. Preliminary enquiries will frequently involve the examination of raw materials by an analytical chemist, and, in each province, there would be required at least one man drawn from the Indian Chemical Service, with a staff of assistants and a properly equipped laboratory, to deal with this work and to advise on ordinary local questions such as the quality of the water supply, the calorific value of the fuels available and the disposal of refuse.

209. We have already emphasised the importance of small organised industrial undertakings, and have explained the difficulties which confront them and the reasons why they have so largely failed to attract support. The industrialist operating on a small scale frequently embarks on a venture, being imperfectly acquainted with the nature of the business, and, at the very outset, handicaps himself by laying his limited capital on unsuitable plant and machinery. There are no consultants to whom he can go for advice, and usually he copies blindly what he has seen working somewhere else. It is desirable to provide competent technical assistants for such a man.....

212. In our chapter on the industrial deficiencies of India, we have given some account of the work which will have to be done to place India on a firm basis of economic self-sufficiency and of self defence; and it is clear that, from this point of view, there are strong arguments for a policy of direct Government assistance in respect of essential and new industries. We contemplate that only in exceptional circumstances will Government itself carry on industrial operations on a commercial scale; but it is necessary to establish and maintain Government factories for the manufacture of lethal munitions and to exercise some degree of control over the private factories upon which dependence will be placed for the supply of military necessaries. This, in most cases, could be obtained in return for guarantees to take over a definite proportion of the output, and should be exercised only to ensure that adequate provision is made to meet the prospective demands of the country in time of war.....

213. The foregoing description of the methods to be adopted by Government in assisting directly in industrial development will show the necessity of an extensive administrative machinery. Nearly every provincial Government has set about establishing a Department of Industries, and the bulk of the executive work will naturally fall to these departments, which should have at their heads experienced industrial experts. They will

require in most of the provinces a large staff of officers with special qualifications. Those directly associated with organised industries would be men of scientific attainments, who have specialised in mechanical engineering with a view to its technological applications, whilst a staff of skilled and experienced craftsmen would be required for the assistance of cottage and minor industries. Already in Madras it has been found necessary to appoint district officers in places where industrial developments are proceeding apace, in order to provide for the efficient supervision of new undertakings, and to ensure prompt assistance to those in operation, whenever accidents occur or difficulties crop up that are beyond the capacity of the management. The volume of such duties is rapidly increasing, and may probably grow even faster under the stimulus of the measures which we propose in this report.

#### COTTAGE INDUSTRIES.

255. Apart from the beneficent changes brought about by the cotton mill, the rice mill and the flour mill, modern industrial enterprise has left India in substantial possession of its cottage industries. The imports from abroad and the products of Indian factories have been absorbed by the largely increased demands of the country. Nevertheless, it must be admitted that the condition of village artisans is far from satisfactory, in that they are, in earning capacity at any rate, in an inferior position to the employees in organised factories.

It must be assumed that cottage industries have survived because they are so far adapted to their environment. The artisans produce commodities which are in demand and so far have not been displaced by factory-made goods, and they work under conditions which they prefer to factory life. It must not be imagined, however, that the artisan of to-day is wholly uninfluenced by the industrial changes of the past century. His methods remain the same, but in some instances he works with superior raw materials and in others with better tools. The weaver has taken to mill yarns, the dyer to synthetic dyes, the brass and copper smith to sheet metal, the black smith to iron rolled in convenient sections, in each case with advantage to himself from the lessened cost of production, which has greatly extended his market. In some districts in Lower Bengal, the weavers use the fly-shuttle slay extensively: and they have recently adopted it in large numbers in the coast districts of the Madras Presidency; while it is also gradually coming into use elsewhere. The tailors invariably employ sewing machines, and town artisans readily take to improved tools of European or American manufacture.

A general review of the evidence tendered to us, supplemented by numerous inspections in towns and villages that we have visited, confirms us in the conclusion that cottage industries are a very important feature in the industrial life of India; that they are by no means so primitive as they are usually depicted; and that there is no real ground for belief that they are generally

in a decadent condition. We have been unable to obtain accurate statistics regarding the actual number of workers in the various cottage industries, but in every town they still form a large percentage of the population, and they are to be found in almost every village, so that their numbers are still vastly larger than those of the operatives employed in organised industries.

256. Of these cottage industries, the most important is hand-loom weaving. It is believed that between two and three million hand-loom weavers are at work in India, and their annual gross earnings must amount to something like fifty crores of rupees. Hand-spinning has entirely died out; accurate statistics are available for the production of yarn, the output of cloth in Indian mills, and weaving sheds, and the imports of yarn into India; and it is thus possible to ascertain how much yarn is absorbed in the hand-loom industry. Calculations have been made which show considerable fluctuations from year to year, but, on the whole, a tendency to an increase rather than to a diminished consumption. There is some reason to believe that the weaving from coarse yarn is declining, while the broad and fine weavers are chiefly responsible for the increase.

Next to hand-loom weaving, metal working is the most important cottage industry; but there is some difficulty of ascertaining accurately the number of workers. The goldsmiths are flourishing; the workers have undoubtedly felt

the competition of imported enamelled iron ware, glass and crockery; but the greater purchasing powers of the people have enabled them to absorb these domestic novelties and to substitute brass and copper vessels for village pottery.

258. Sericulture based on the mulberry tree or shrub is an important cottage industry in certain districts of Bengal and Mysore. It also flourishes under State control in Kashmir and Jammu. Other forms of sericulture dependent on the *eri*, *tasar* and *muga* silk worms, are widespread in Assam, Chota Nagpur and parts of the Central Provinces.

The indigenous methods of silk reeling are crude..... Indian silk weavers largely use imported silk, while the Indian silk is exported from the country for the manufacture of velvets and silk hats. The local silk is full of knots and loose ends, and is of very unequal strength. Consequently, it gives the weaver much trouble to prepare it for the loom, and he prefers the more even re-reeled silk imported from China.

259. The indigenous dye industry has felt probably more than any other the effects of modern technical progress. When colouring matter was derived chiefly from vegetable sources, the processes were lengthy and laborious and the results uncertain; the use of imported synthetic dyes greatly shortened and simplified the operation and gave more certain results, thus

enormously reducing the cost. Many dyers had, perforce, to seek other means of livelihood, and the attempts made since the war to replace the synthetic dyes have established the fact that vegetable dye-stuffs are, and always must be, incapable of meeting the demands of the industry on its present scale, both as to quality and quantity. Further, the change in taste brought about by the brighter synthetic dyes renders it difficult to find a market for the thinner and duller, though perhaps more pleasing, colours of vegetable origin.

260. The cottage industries of India are many; some of them are peculiar to the country; but the great majority are to be found in some form or other all over the world. It is needless to emphasise the artisan's conservatism, lack of ambition and present inability to appreciate a higher standard of living. They are very ignorant, and obviously the first step towards their improvement is to educate them. In most cottage industries the children can be employed at an early age, and it often falls to the women to take a full share of the work. The care of children is, therefore, apt to be neglected and they are put to work much too soon with the view of adding to the family earnings. Every gradation of skill and craftsmanship is found in these cottage industries, and where a higher standard of comfort exists, the necessity for some education is recognised.....

Our enquiries force us to the conclusion that the crying need of industrial India at the present



time is the provision of much greater facilities for the education of the artisan population. Apart from such general measures as Government may find it possible to introduce in the near future, we have recommended the establishment of an efficient system of industrial education in special industrial schools under the control of Departments of Industries.

The industrial school in India has achieved little in the past, yet it seems capable of being rendered efficient for educating the workers in cottage industries in the future. But no matter what steps are taken to improve the instruction given in the schools, the results will be negligible, unless the pupils can be induced to go through the whole course, so that their training is complete when they leave. The cheapness of living in India is a powerful weapon in international competition; but it is of little avail if the labour is inefficient and unorganised. There is no likelihood of cottage industries becoming extinct; but improvement in the condition of the workers is not probable, unless better tools and plant are employed and an intelligent subdivision of industrial processes introduced. There is a tendency, which will probably be accentuated, to organise small factories, and this should be encouraged. Such a result is, however, more likely to arise from individual capitalist effort than from anything like co-operation among the artisans.

261. In each industrial school provision should, therefore, be made for instruction of a small number of pupils of a higher

Training of master workmen.

class with better educational attainments and with prospects of being able to command sufficient capital to start eventually in the trade themselves. In the case of weaving, something in this direction is being done at the Government Weaving Institute at Serampore, where a considerable number of fairly well educated young men are undergoing a course of instruction, which is intended to fit them ultimately to become master weavers. The scheme, however, fails to produce satisfactory results, owing to the absence of opportunities to acquire practical experience in the control of workmen and in the management of a commercial business. There are no hand-loom factories or village associations, in which such training might be obtained, and it is necessary to arrange for a few small undertakings on these lines, if possible under private control, with assistance from Government in whatever form proves most suitable, to serve as demonstrations of work under commercial methods. Failing private enterprise, a purely commercial section should be attached to the larger weaving schools, with the avowed object of supplying the training, other than purely technical, which a master weaver must possess before he can hope to start in business for himself.

262. We think that attention should also be concentrated on helping the individual workman to escape from the clutches of the money-lender and to obtain credit on easy terms. We make certain suggestions to this end in the following chapter, but, in cases which cannot be reached by the organisation for co-operative credit,

Financial assistance  
to cottage workers.

Directors of Industries may well be empowered to grant small loans and to supply tools and plant on the hire-purchase system. The difficulties experienced in dealing with this class of worker are well known, and the power to grant such loans must be exercised cautiously; but, while the terms on which they are to be recovered should be easy, the margin between the cost of providing the money and the rate at which it is lent should be sufficient to render the business profitable, as the ultimate aim should be to hand over such transactions to co-operative societies or other agencies.

264. An essential feature, in fact, of any attempt to develop cottage industries in India must be the opening up of new markets for the goods produced. The provision of markets for products of cottage industries. Many of these industries have survived because of their ability to satisfy the strongly marked local demands for special designs. But where productions go far afield, it is through the agency of middlemen and merchants, who, however, have so far shown little enterprise or originality in the necessary directions which we have indicated above. We need only mention the toy industry of Germany, the straw-plaiting work of Luton, and the many cottage industries of Japan, as examples of what can be done when enterprise and organisation take in hand the marketing of goods. This really pressing problem confronts any one who would try to put the cottage industries of India on a better footing. Where a greater demand for their products has been created, the artisans

have almost invariably sought on their own initiative to improve their means of production; but it requires capital to establish new markets, and in a subsequent chapter we make specific suggestions for dealing with this problem.....

The little that has been done in India in this direction is full of promise. But it is almost entirely for internal trade. From the great centres of indigenous weaving and metal work, goods are sent far and wide, but usually only throughout India. The staple products of Benares, Aligarh, Moradabad and Madura, to mention but a few of the larger towns where these industries flourish, are found in most parts of the country, but little or no attempt is made to cater for foreign markets. The nature of their demand, actual or potential, is unknown and there is no one to direct attention to their possibilities. It is true that in the south of India there is a considerable export trade in what are known as Madras handkerchiefs and Singapore *lungis*, both products of hand-loom weaving and both specialities which find no sale in India. But Indian merchants have undoubtedly neglected the potentialities of cottage industries, and have done nothing to encourage the workers to produce goods of a class which would find a ready market outside the country.

294. We consider that preliminary investigation and expert advice by Government will inspire confidence and render possible the starting of many industrial enterprises, for which, in existing circumstances, private funds are not forth-

Circumstances in which Government financial assistance may be given to large industrial undertakings.

coming. But there will still, we recognise, be occasional cases in which this will not be so, and more direct Government aid will then be asked for. The advisability of giving such aid depends on the extent to which the starting of the enterprise in question will be of benefit to the public, and not merely on its probable advantage to the promoters of the industry. Thus, the starting of a new or the improvement of an existing industry, when such a measure is required to supply an existing deficiency in the interests of national safety, is clearly a case for direct aid. There may also be a few cases where a new industry or process will have such an important bearing on the economic development of the country as to deserve Government help. Finally, it may even be found that the extension of an existing industry to a new locality will benefit local consumers or producers so markedly as to merit Government assistance. We think that in the majority of instances private funds will be forthcoming without direct Government aid, to finance proposals put forward under any of the above conditions, if Government advice and technical assistance are freely utilized. But where private enterprise is unable to obtain funds without Government aid, and where, with such aid, prospects are promising, we think that, in the circumstances described above, it should be given.....

295. Government assistance may take the

Nature of Government financial assistance to large industrial undertakings.

form of guarantees of dividends on loans of money, or of undertakings to purchase output, as may appear most

suitable in each case. Thus guarantees may be appropriately given in the case of large industries, in which the dividend-earning stage is likely to be reached only after a comparatively long period. As a general rule, any sum paid by Government by way of guarantee should be refunded from the subsequent profits of the enterprise, when these have reached a certain predetermined percentage; and the guarantee should be only for a limited number of years, and at a somewhat higher rate than that which Government paper can be bought to yield. Loans are especially suitable in the case of concerns with assets of a comparatively liquid nature, but need not be confined to these, if Government is fully satisfied as to the prospects of the undertaking. Agreements to purchase output may be freely given to concerns manufacturing articles not previously made in the country, and, in other cases, with greater caution and with due regard to existing interests in India. Such agreements should be limited in point of time, and should be accompanied by suitable conditions as to quality and price. The output must, of course, be of articles which Government requires for its own purposes. There may be a few industrial ventures which Government may consider of importance to national safety, but does not desire to undertake by its own agency, though it thinks it necessary to have a continuous and effective voice in their management. In such cases, especially where sufficient private capital is not forthcoming, Government might contribute directly towards capital resources as a shareholder. The general effect of the measures suggested will be

greater and will be in the direction where it is most needed, if ventures of moderate extent receive preference and the requirements of comparatively undeveloped districts are not overlooked.

296. Before giving assistance which involves a charge on the public funds, Government supervision in such cases. Government should satisfy itself regarding the financial status of the promoter and the economic and technical aspects of the proposed industry. The latter information may be collected either by Government or by the promoters, so long as the agency employed is of a nature to command confidence. Where any form of Government financial assistance is given, we consider it desirable that Government supervision should at least include audit and inspection, and that it should be secured by suitable agreements that the objects aimed at by Government will be fulfilled; also that, where guarantees are offered, unfair encroachments on the earnings of the undertaking should not be permitted to other interests.

297. In certain cases it may be desirable, especially in the early stages of an undertaking, to appoint a Government director who need not, however, be an official. ....

301. Assistance may also be given by way of loans to small or cottage industries and to co-operative societies. This class of loans should be made by the Department of Industries to

Special recommendations regarding Government loans to small and cottage industries.

persons or bodies whose financial position and character are found on local enquiry to be suitable. Other forms of security than landed property might be accepted, but in such cases a stipulation should be usually made that applicants should find a fair percentage of the total outlay from their own resources. ....

It should be a condition of the loan that it should be spent on approved types of plant and the department itself might, when desired by the applicant, purchase the plant. There are numerous types of plant suitable for the purposes of agriculture or of small industries, which could be made available by Government on the hire-purchase system. This system has already been followed with some degree of success in Mysore by the State Department of Industries, and by private concerns elsewhere.....

802. We consider that some maximum limit must be placed on the amount of individual loans advanced and on the value of plant supplied under this system, but it would be for the Local Government to determine the figure to which the powers of the Director of Industries should extend. We are further of opinion that advances of this kind, whether in cash or by way of hire-purchase, should be made under a special Act providing suitable means for the recovery of outstandings. In the absence of such provision, the difficulty of recovery will tend unduly to restrict the giving of advances. The Land Improvement Loans Act and the Agriculturists' Loans



Act do not cover the granting of loans for purposes unconnected with agriculture, nor do they permit of the loan taking the form of plant made over to the recipient on a hire-purchase system. For these reasons, we think that fresh legislation would be required.

---

## INDIAN RAILWAYS.

The existing system of railway management in India may be described as a composite system, under which some railways belong to the State and are worked by the State ; others, which are owned by the State are worked by companies ; while still others are owned as well as operated by companies. The question whether the existing composite system is the best, or whether there would be advantage in transferring all railways to State management has been much discussed in India. The question may, in a sense, be said to be a practical one, for the contracts of two of our important railways, the East Indian and the Great Indian Peninsula railways are terminable in the near future, 1924 and 1925 respectively, and a decision about their future management is immediately required. The general question of the future management of our railways was considered by the Railway Committee appointed by the Secretary of State in November 1920, but, unfortunately, the report of the Committee on this question

is not unanimous. The difference of opinion among experts on such an important subject is much to be regretted, but one of its results, which no student of economics will regret, has been that the case both for and against Government management has been fully stated and discussed from every point of view.

The terms of reference instructed the Committee "To consider as regards railways owned by the State, the relative advantages, financial and administrative, in the special circumstances of India, of the following methods of management :—

- (a) Direct State management ;
- (b) Management through a Company domiciled in England and with a Board sitting in London ;
- (c) Management through a Company domiciled in India and with a Board sitting in India ;
- (d) Management through a combination of (b) and (c),

And advise as to the policy to be adopted when the existing contracts with the several Railway Companies can be determined "

The Committee unanimously rejected management either by English companies or by combinations of English and Indian companies. As regards the alternative between

management by Indian companies and management directly by the State, the President and four members of the Committee, including two Indian members, the Hon'ble Mr. Sastri and Mr. Purshotamdas Thakurdas, recommended State management. The other five members, including Sir R. N. Mookerjee and Sir Henry Burt (some time President of the Indian Railway Board), recommended company management.

#### THE CASE FOR STATE MANAGEMENT.

The advocates of State management condemn the existing system as essentially unworkable. "Our experience and investigations in India," they say, "have led us to the quite definite conclusion that the system has never worked satisfactorily, and cannot be made to do so." The reason is that power and responsibility under the present system are divided between the Government and the company. On the Board of each company there is a Director nominated by Government who has power to veto any decision of his colleagues. The Government control is enforceable in other ways also. The company has no control over its own revenue receipts or over its expenditure. It appoints its staff, but it cannot create a new appointment carrying a salary of more than Rs. 250 a month without the sanction of

Government. "In a word, the Company does not, and cannot manage the undertaking; it cannot, without the permission of Government, break new ground in any direction. Neither does the Government manage; it only controls and restraints."

Government control, further, is of a negative character. Government can give orders only in cases where public safety is involved. If it is a question of adopting new operating methods, or of improvements in plant and equipment, or of a modification of freight rates to encourage new traffic, Government can merely propose and suggest.

The advocates of State management contend that the substitution of Indian for English companies would not improve matters. Government would have a predominant interest in the new companies, and it will appoint one-half of the Directors. Responsibility would be divided as at present. The old system would continue only under a new name. "And that system, in our opinion, is essentially bad."

An incidental advantage of State management would be the absorption of the Oudh and Rohilkhund by the East Indian Railway, which would enable both lines to be worked as a single system.

## COMPANY MANAGEMENT.

The five members of the Committee who favour company management recognise that for many years to come the present dual system of management must continue to exist. For strategical reasons company management cannot be advocated for the North Western Railway; while in the case of the Bengal Nagpür Railway, the contract is not terminable before 1850. But they propose a scheme for creating Indian domiciled companies to manage the East Indian and, possibly, the Great Indian Peninsular railways—the cases of other railways to be considered on their merits when the contracts become terminable. They urge that railways are primarily commercial undertakings, and therefore they should be managed on a commercial basis so as to secure economy and efficiency, that is to say, by a company with a Board of Directors. Under State management there are (1) constant transfers of senior officials resulting in lack of continuity of policy, (2) the tendency to give promotion on the grounds of seniority alone, which does not encourage merit, (3) disregard of public opinion, and (4) lack of initiative. These conclusions are supported by facts showing the existing condition of certain State managed railways in foreign countries. It is also contended that com-

parisons in economy and efficiency invariably prove advantageous to company management.

The advocates of company management emphasize the fact that in the past Government have not been able to find sufficient funds for railway construction, and they see no reason for thinking that Government in future will be able to provide the large sums needed for railway purposes. They object, on political grounds, to the State being the employer of a vast labour force, which must be the case under State management of railways.

For the scheme under which Indian domiciled companies will be created to manage the East Indian and possibly the Great Indian Peninsular Railway, the following advantages are claimed :—

(1) Money will be readily attracted from the Indian investing public.

(2) The appointment of Indians to higher administrative posts and the promotion of specially meritorious Indians from subordinate to higher grades will be better secured under this scheme than on State managed railways.

Public opinion could not be disregarded under the Reformed constitution. Any complaints about unduly favourable treatment of foreign trade in competition with internal trade could be referred to the Tribunal which

the Committee have unanimously recommended should be set up.

To the charge that the existing guaranteed company system has not worked satisfactorily, the reply of the five members is that if the system has not been a complete success it is due to the financial difficulties which have hampered its working; that the system of company management devised and adopted in the latter part of the last century was an eminently suitable one and profitable to the Government; that the English domiciled companies rendered valuable services to India in undertaking railway construction at a time when capital in India was not available for the purpose; and that the defects of the system are capable of elimination—they are not inherent in the system.

#### CONCLUSION.

The foregoing discussion shows that the problem of railway management is not simple. Neither system is free from serious defects. The advocates of company management have tried to prove that in point of efficiency State management is inferior to company management, but the evidence collected by the Committee shows that the charge of overcrowding and inability to cope with the traffic applies to all railways, whether company managed or State managed. Company



management and State management in India are both equally efficient or inefficient. The reference to foreign countries proves very little — it furnishes very little ground for thinking that company management under Indian conditions of divided responsibility will be a success. Again, very few people in India will believe that company management will better secure the appointment and promotion of Indians in railway administration. Facts show that the percentage of Indians employed in the higher services on most of the company managed railways is so small as to be negligible. As regards railway finance, it is true that Government in the past have somewhat neglected the railways, but the separation of the railway budget from the general budget of the Government of India, which is proposed by the Committee, will make more funds available for railway purposes. The president and four members have also recommended that more money should be raised even at to-day's prices; that the whole of the capital for the future development of Indian railways should be raised directly by the State by means of sterling loans in England and rupee loans, which might be earmarked for railway purposes, in India; that funds should be raised in periods of easy money in excess of immediate requirements, so that it may not be

necessary to borrow much when money is difficult to obtain, and that the masses of India should be encouraged to subscribe to Government loans—all very sound proposals. Lastly, Indian public opinion is decidedly in favour of State management. On the whole it may be concluded that while both systems have their faults and limitations, the balance of advantage lies on the side of direct management of railways by the State.

#### NEED FOR THE SEPARATION OF THE RAILWAY BUDGET FROM THE GENERAL BUDGET.

The separation of the railway budget from the general budget has been unanimously recommended by the Railway Committee. "We do not think", they say, "that the Indian railways can be modernised, improved and enlarged so as to give to India the service of which it is in crying need at the moment, nor that the railways can yield to the Indian public the financial return which they are entitled to expect from so valuable a property, until the whole financial methods are radically reformed. And the essence of this reform is contained in two things :— (1) the complete separation of the railway budget from the general budget of the country, and its reconstruction in a form which frees a great commercial

business from the trammels of a system which assumes that the concern goes out of business on each 31st March and recommences *de novo* on the 1st of April; and (2) the emancipation of the railway management from the control of the Finance Department."

Under the existing system the net receipts from the State railways (worked by State and by Companies) form part of the general revenues of the country, out of which allotments, varying from year to year, are made for capital expenditure. The Mackay Committee of 1907 emphasized the need for adopting a steady annual rate of capital expenditure which could be maintained even in times of difficulty, and they suggested Rs. 18.75 crores as a standard. But the figures given below show that actual capital expenditure has generally been much below the standard recommended by the Mackay Committee :—

*Capital Programme*  
*Crores of Rupees.*

1908-09	... 15,00
1909-10	... 15,00
1910-11	... 16,30
1911-12	... 14,25
1912-13	... 13,50
1913-14	... 18,00
1914-15	... 18,00

	<i>Capital Programme</i>
	<i>Crores of Rupees.</i>
1915-16	... 12,00
1916-17	... 4,50
1917-18	... 5,40
1918-19	.... 6,30
1919-20	.. 26,55
1920-21	.... 21,98
1921-22	... 17,82

The stoppage of railway development during the war was inevitable, but even in pre-war years the allotments were below the modest standard recommended by the Mackay Committee. The consequences to the railways of this policy have been serious. "There are scores of bridges with girders unfit to carry train-loads up to modern requirements; there are many miles of rails, hundreds of engines, and thousands of waggons whose rightful date for renewal is long overpast."

The Committee unanimously recommended that the whole of railway receipts, after paying the working expenses and interest on capital borrowed by the State for railway purposes, should be at the disposal of the railways, to be devoted to new capital requirements (whether directly or as security for new debt incurred) or to reserves, or to be utilised in the form either of reduction of rates or improvement of service.

## OTHER RECOMMENDATIONS.

The principal unanimous recommendations of the Committee regarding railway administration are given below :—

“ We propose great changes in the constitution, status and functions of the Railway Board. We recommend that at the head of the Railway Department there shall be a Member of Council in constant touch with railway affairs; and we suggest that with this object there shall be created a new Department of Communications responsible for railways, ports and inland navigation, road transport (so far as the Central Government deals with this subject) and posts and telegraphs. We think that the Member in charge of Communications must be an experienced administrator and able to represent his Department both in the Legislature and with the public. We do not think he need be expected to be a technical expert.

We recommend that, on the one hand, the reconstituted Railway Department should delegate considerably increased power of day to day management to the local railway administrations, and, on the other hand, should be relieved from control by the India Office and by the Government of India, except on large questions of finance and general policy.

We recommend, that, subject to independent audit by the Government of India, the Railway Department should employ its own accounting staff, and be responsible for its own accounts. We think that the present accounts and statistics

should be thoroughly overhauled and remodelled with the assistance of experts familiar with recent practice in other countries.

We recommend that the title of Railway Board be replaced by the title Railway Commission; and that under the Member of Council for Communications there shall be a technical staff consisting on the railway side of a Chief Commissioner, and four Commissioners; that of the four, one should be in charge of finance and the organisation and staff of the office, and that the three other Commissioners should be in charge of three respective geographical divisions, western, eastern and southern. The Divisional Commissioners, while normally engaged at headquarters, should devote a substantial portion of their time to personal visits to their divisions.

With the object of giving to the Indian public an adequate voice in the management of railways, the Committee recommended the establishment of Central and Local Railway Advisory Councils representative of various interests. It also recommended the formation of a Rates Tribunal with jurisdiction over all questions of reasonableness of rates and of facilities. The Committee proposed a "reasonable" general increase in rates and fares.

---

## RAILWAY STATISTICS.

*Main results of the working of all Indian railways treated as one system.*

	<i>1919-20</i>
Mileage open at the close of the year	36,735
Total capital outlay in lakhs of rupees ... ..	56,637
Gross earnings in lakhs of rupees ...	89,15
Total working expenses in lakhs of rupees ... ..	50,65
Percentage of working expenses gross earnings. Per cent. ...	56.81
Net earnings in lakhs of rupees ...	38,49
Percentage of net earnings to total capital outlay. Per cent ...	6.80
Unit-mileage of passengers (in crores) Unit-miles ... ..	2,061
Freight ton-mileage of goods (in crores). Ton-miles ... ..	2,040
Average miles a ton of goods was carried. Miles ... ..	232.33
Average rate charged for carrying a ton of goods one mile. Pies ...	4.43
<i>Average miles a passenger was carried.</i>	
1st Class ... ..	139.16
2nd Class ... ..	85.63
Intermediate Class ... ..	75.85
3rd Class ... ..	40.73
Season and Vendor's tickets ...	9.18
Total ... ..	39.64
<i>Average rate charged per passenger per mile.</i>	
1st Class ... ..	16.04
2nd Class ... ..	7.59

Intermediate Class	...	...	4.21
3rd Class	...	...	2.4
Season and Vendor's tickets	...	...	1.54
Total	...	...	3.09

*Passenger traffic.*

		<i>1919-20.</i>
1st Class No. in hundreds	...	11,082
„ Earnings in 1,000 Rs.	...	128,80
2nd Class No. in hundreds	...	64,391
„ Earnings in 1,000 Rs.	...	217,94
Inter. Class. No. in hundreds	...	102,006
„ Earnings in 1,000 Rs.	...	169,68
3rd Class No. in hundreds	...	46,03,058
„ Earnings in 1,000 Rs.	...	2,76,894
Season and Vendor's tickets. No.		
of trips in hundreds	...	419,737
Earnings in 1,000 Rs.	...	3,096
Total No. in hundreds	...	5,200,274
Earnings in 1,000 Rs.	...	33,16,29
Other coaching traffic earnings in		
1,000 Rs. ...	...	5,97,67
Total coaching traffic earnings in		
1,000 Rs. ...	...	39,06,93
Total goods traffic: Tons, in thou-		
sands	...	87,630
Earnings in 1,000 Rs.	...	4,711,60
Total gross earnings including other		
earnings in 1,000 Rs.	...	89,15,32

*Mileage open on the 31st March 1920.*

	<i>Miles.</i>
1. State lines worked by the State	... 7,338.98
2. State lines worked by companies	... 19,019.42



3.	Branch line companies' railways under guarantee terms.	
	(a) Worked by the branch line company ... ..	168·26
	(b) Worked by the main line ... ..	91·16
4.	Branch line companies' railways under rebate terms.	
	(a) Worked by the Branch line company ... ..	85·86
	(b) Worked by the main line ... ..	1,687·85
5.	Branch line companies' railway under gurantee and rebate terms ... ..	100·68
6.	Companies' lines subsidized by the Government of India ... ..	2,169·26
7.	Companies' lines subsidized by Local Governments ... ..	137·02
8.	Unassisted companies' lines ... ..	110·31
9.	District Board lines ... ..	237·08
10.	Companies' lines subsidized by District Boards ... ..	807·52
11.	Indian State lines worked by Indian States ... ..	2,595·42
12.	Indian State lines worked by the main line ... ..	1,822·58
13.	Companies' lines guaranteed by Indian States ... ..	759·96
14.	Lines in foreign territory worked by British Indian railway companies ... ..	73·60
	<b>Grand Total, all railways</b> ... ..	<b>36,734·96</b>

## LV.

*Extract from the " Administration Report on the Railways in India " for the year 1914-15.*

THE RELATION OF THE GOVERNMENT TO THE  
RAILWAYS IN INDIA.

One of the special features of the Indian Railways is the diversity of conditions that prevails in the relation of the State to the various lines in respect of ownership and control. Of the important lines situated in British India, or in which the Government of India is interested, three (the North Western, Eastern Bengal, and Oudh and Rohilkhand Railways) are owned and worked by the State; eight (the East Indian, Great Indian Peninsula, Bombay, Baroda and Central India, Madras and Southern Marhatta, Assam-Bengal, Bengal-Nagpur, South Indian, and Burma) are owned by the State but worked on its behalf by Companies enjoying a guarantee of interest from the Government; three important lines (the Bengal and North-Western, Rohilkhand and Kumaon, and Southern Punjab), and many of less importance, are the property of private companies, some being worked by the owning Companies and some by the State or by the Companies that work State-owned systems; several minor lines are the property of District Boards or enjoy a guarantee of interest granted by such Boards.

The diversity of conditions is in certain respects less important than might at first appear for the following reasons :—

The Government of India exercises under the Indian Railways Act, 1890, in respect of all railways in British India (and also by virtue of arrangements with Native States, in respect of the chief railways passing through such States), certain general powers. Thus, a railway may not be opened until a Government Inspector has certified that it has been constructed so as to comply with requirements laid down by the Government and can be used for the public carriage of passengers without danger to them. The Government of India can also, in the interest of the safety of passengers, require a railway, to be closed, or the use of particular rolling stock to be discontinued, or may prescribe conditions for the use of the railway or the rolling stock. They can appoint a Railway Commission to investigate complaints on certain matters such as the withholding of reasonable traffic facilities or the grant of undue preference.

In addition the Government of India (or in some cases Local Governments) exercise under the provisions of contracts detailed control over the management of all railways in British India, greatly exceeding that which is secured by the Indian Railways Act. They also have a certain financial interest in all Companies in British India, and a preponderating interest in most of those which are of the first importance.

The main causes which have led to the present diversity of conditions in the History of relations of the Government and Companies. regard to the agency by which railways are managed, and the relations of the Government with the various classes of Companies now in existence, are summarised in the following paragraphs:—

The first proposals for the construction of railways in India were submitted in 1844 to the East India Company in England by Mr. R. M. Stephenson: afterwards Chief Engineer of the East Indian Railway, and others; and included the construction of lines by railway companies to be incorporated for the purpose and the guarantee by the East India Company of a specified return. A contract for the construction by the East Indian Railway Company of an experimental line of 100 miles from Calcutta towards Mirzapore or Rajmehal at an estimated cost of 1,000,000 £. was made in 1849, and a return of 5 per cent was guaranteed by the East India Company on the capital; and a similar contract was made in the same year with the great Indian Peninsula Railway Company for a line from Bombay to Kalyan at an estimated cost of 500,000 £. But the policy of entrusting generally the construction of Indian Railways to Guaranteed Companies was not adopted until 1854 on the recommendation of Lord Dalhousie, who, in a minute dated 20th April 1853, explained his reasons for preferring the Agency of Companies, under the supervision and control

of the Government, to the construction of lines on behalf of the Government by its own officers. He held that Engineer officers should make railways as well and possibly as cheaply and as expeditiously as companies; but that the withdrawal from other duties of the large number of Engineer officers required would be detrimental to the public interest, that the conduct of commercial undertakings did not fall within the proper functions of any Government and least of all within the functions of the Government of India, since the dependence of the population on the Government was in India, one of the greatest drawbacks to the advance of the country, and that the country would therefore benefit by the introduction of English energy and English capital for railway purposes, with the possibility that such energy and capital would in due course be encouraged to assist in the development of India in other directions.

The policy supported by Lord Dalhousie was adopted, and between 1854 and 1860 contracts for the construction of railways in India were made by the East India Company or (after 1858) by the Secretary of State for India with the East Indian, Great Indian Peninsula, Madras, Bombay, Baroda and Central India Scinde (afterwards the Scinde, Punjab and Delhi), Eastern Bengal, Great Southern of India (after wards the South Indian) and Calcutta and South Eastern Railway Com.

panies. Under these contracts the Railway Companies undertook to construct and manage specified lines, while the East India Company (or the Secretary of State for India) agreed to provide land and guaranteed interest on the capital, the rate fixed being in various cases 5,  $4\frac{1}{2}$ , and  $4\frac{1}{2}$  per cent. according to the market rates prevailing when the various contracts were made. Half of any surplus profits earned was to be used towards repayment to the Government of any sums by which it had been called upon to supplement the net earnings of any previous period in order to make good the guarantee of interest; and the remainder was to belong to the share-holders. In practically all matters of importance, except the choice of staff, the Companies were placed by the contracts under the supervision and control of the Government, which had power to decide on the standard and details of construction; the rolling-stock to be provided; the number, time, and speed of trains; the rates and fares to be charged; the expenditure to be incurred; the standard of maintenance; and the form of accounts. The railways were to be held by the companies on leases terminating at the end of 99 years, and on such termination the fair value of their rolling-stock, plant, and machinery was to be paid to them. But provision was also made to enable the Government to purchase the lines after 25 or 50 years, on terms calculated to be the equivalent of the Companies' interest therein, and also to enable the Companies to surrender their lines to the Government and to receive in return their capital at par.

An attempt to secure the construction of rail-

Early attempts to secure funds for Railway Construction without a guarantee. ways in India on terms more favourable to the Government than those of the contracts with the original guaranteed

companies was first made in 1862, when a subsidy, but not a guarantee, was granted to the Indian Branch Railway Company, Similar assistance was granted later to the Indian Tramway Company which made a short line in Madras. In 1861, the terms granted to the two Companies mentioned were taken as a standard for general adoption with a view to the encouragement of similar companies. The chief provisions were that the Government, besides giving the necessary land free of cost, would grant an annual subsidy for 20 years at a rate not exceeding 100 £, per mile of line, with an addition in respect of large bridges costing more than 10,000 £. These terms failed to attract capital, and the two unguaranteed Companies which had begun work found themselves after a few years unable to proceed without further assistance from the Government. Consequently, in 1867 a contract was entered into with the Indian Branch Railway Company (which soon after changed its name to the "Oudh and Rohilkhand Railway Company") by which the Company was guaranteed interest at 5 per cent. per annum on the cost of certain lines to be carried out by it, on conditions similar to those laid down in the contracts of the period 1854—1860. Similarly the Indian Tramway Company, after having been given in 1868 a guarantee of

An attempt to secure the construction of rail-ways in India on terms more favourable to the Government than those of the contracts with the original guaranteed companies was first made in 1862, when a subsidy, but not a guarantee, was granted to the Indian Branch Railway Company. Similar assistance was granted later to the Indian Tramway Company which made a short line in Madras. In 1861, the terms granted to the two Companies mentioned were taken as a standard for general adoption with a view to the encouragement of similar companies. The chief provisions were that the Government, besides giving the necessary land free of cost, would grant an annual subsidy for 20 years at a rate not exceeding 100 l. per mile of line, with an addition in respect of large bridges costing more than 10,000 l. These terms failed to attract capital, and the two unguaranteed Companies which had begun work found themselves after a few years unable to proceed without further assistance from the Government. Consequently, in 1867 a contract was entered into with the Indian Branch Railway Company (which soon after changed its name to the "Oudh and Rohilkhand Railway Company") by which the Company was guaranteed interest at 5 per cent. per annum on the cost of certain lines to be carried out by it, on conditions similar to those laid down in the contracts of the period 1854—1860. Similarly the Indian Tramway Company, after having been given in 1868 a guarantee of



three per cent per annum, went into liquidation in 1870, and became absorbed in a new Company called the Carnatic Railway Company to form the South Indian Railway Company with which the Secretary of State entered into a contract guaranteeing interest on its capital at 5 per cent per annum. In 1869, Sir John Lawrence summed up the result of the experiment of the construction of railways by guaranteed Companies as follows:—  
“The Government of India has for several years been striving to induce capitalists to undertake the construction of railways in India at their own risk, and on their responsibility with a minimum of Government interference but the attempt has entirely failed, and it has become obvious that no capital can be obtained for such undertakings otherwise than under a guarantee of interest fully equal to that which Government would have to pay if it borrowed directly on its own account.”

The attempt to encourage unguaranteed Companies having thus been unsuccessful, it became necessary to decide whether the old practice of relying on guaranteed companies of the type that had provided capital for, and had constructed the first railways in India, should be continued. The Government of India expressed their objections to this course. They doubted whether their power of control over such Companies secure the greatest possible economy in construction. They also disliked the arrangements under which they guaranteed the interest on the capital of Companies, and thus became responsible for

loss on working while having only a comparatively remote prospect of profiting by the result of successful working. Two important changes were consequently made in the practice that had been followed since the beginning of railway construction in India:—

1. Arrangements were made with some of the most important of the guaranteed Companies that, in lieu of the provision that half of any surplus profits was to be applied in repayment of sums advanced by the Government under the guarantee of interest, half of the surplus profits for each half year should be the property of the Government. In consideration of this modification, the Government relinquished, in the case of three Companies, the Great Indian Peninsula, the Bombay, Baroda, and Central India, and the Madras, its right to purchase the lines at the end of the first 25 years from the dates of the respective contracts.

2. It was decided by the Secretary of State that the time had arrived when in both raising and expending such additional capital as might be required for new lines in India, the Government should secure to itself the full benefit of its own credit and of the cheaper methods, which it was expected that it would be able to use. Accordingly for several years after 1869 the chief capital expenditure on railways was incurred direct by the State, and no fresh contracts with guaranteed Companies were made except for small extensions. Among the lines constructed or begun by State agency and State capital between 1869 and 1880 were the Indus Valley, Punjab Northern,

Rajputana, Malwa, Northern Bengal, Rangoon and Irrawaddy Valley, and Tirhoot.

By the end of 1879 *i. e.*, in about 25 years from the introduction of railways in India, 6,128 miles of railway had been constructed by Companies, which had expended approximately 97,872,900 *l.* (These figures include the Calcutta and South Eastern and Nalhati Railways, which are constructed by Companies but were purchased by the Government in 1868 and 1872, respectively). By the same date 2,175 miles of railway had been constructed by the Government at a cost of 23,795,226 *l.*

In 1880, the necessity for great and rapid extension of the railway system was urged by the Famine Commissioners, appointed after the great famine of 1876, who estimated that at least 5,000 miles were still necessary for the protection of the country from famine. It was held by the Government of the time that a limit was necessary on the capital borrowed annually; and it was clear that the limit fixed was not high enough to allow of such progress in railway construction as was desirable. With reference to this difficulty the Famine Commissioners remarked "that there would be manifest advantages in giving free scope to extension of railways by private enterprise if it were possible; and, though the original form of guarantee has been condemned, it may not be impossible to find some substitute which shall be free from its defects, and may secure the investment of capital

in these undertakings without involving the Government in financial or other liabilities of an objectionable nature."

Action in the direction suggested by the commission was taken by the formation of three Companies without a guarantee (the Bengal Central in 1881 and Bengal and North-Western and the Rohilkhund and Kumaon in 1882) and three new guaranteed Companies (the Southern Mahratta in 1882, the Indian Midland in 1885, and the Bengal-Nagpur in 1887.) The Bengal and North-Western and the Rohilkhund and Kumaon Railway Companies are referred to more fully in a later paragraph. The Bengal Central Railway Company's operations were not successful at the outset and a revised contract was entered into with the Company, with effect from the 1st July 1885, under which the Secretary of State guaranteed interest at  $3\frac{1}{2}$  per cent. on the Company's capital, the balance of net earnings remaining after payment of interest on advances by the Secretary of State and debenture capital (but not on the share capital) being divided between the Secretary of State and the Company in the proportion of three-quarters to the former and one-quarter to the latter. The new contract gave the Secretary of State the right to take possession of the line on the 30th June 1905, or subsequently at intervals of 10 years, repaying the Company's capital at par. The rate of interest guaranteed to the Southern Mahratta Railway Company was also  $3\frac{1}{2}$  per cent., in this case the balance of net earnings remaining after payment of interest on advances by the Secretary of State (but not on share or

debenture capital) was divisible in the same way as in the case of the Bengal Central Railway Company. The guarantee to the Indian Midland and Bengal-Nagpur Railway Companies was 4 per cent. and the Secretary of State was entitled to three-quarters of the surplus profits in excess of all interest charges. The lines constructed by the three Companies last mentioned were declared to be the property of the Secretary of State, who had the right to determine the contracts at the end of approximately 25 years after their respective dates, or subsequent intervals of 10 years, on repaying at par the capital provided by the Companies.

The Assam-Bengal Railway Company was formed on similar lines in 1892, except that any surplus profits were to be divided between the Secretary of State and the Company in proportion to the capital provided by each. The rate of guarantee in this case was  $3\frac{1}{2}$  per cent. for the first six years and thereafter 3 per cent. The Burma Railways Company was formed in 1891 to manage and develop the line in that province that had been constructed by the State. Interest at  $2\frac{1}{2}$  per cent. was guaranteed on the share capital raised by the Company, and the surplus profits were originally divisible in the proportion of four-fifths to the Secretary of State and one-fifth to the Company, but since 1908 the division has been proportional to the capital invested by each in the undertaking. The contract with the Burma Company is terminable by the Secretary of State in 1928 and on subsequent

occasions on repayment of the Company's capital at par.

The terms of the guarantee given to the Companies formed since 1880 have thus been much more favourable to the Government than in the case of the Companies formed before 1869.

In dealing with the guaranteed Companies formed before 1869 and with those formed in 1881 and subsequently, it has been the practice (except in the cases mentioned above, when the purchase of some of the old guaranteed lines was postponed in order to secure to the Government a share in surplus profits to use in some way or other at the earliest possible date the right reserved by the Government of terminating the contracts of the various Companies. The method of making use of this right has differed in different cases. The Eastern Bengal, Oudh and Rohilkhand, and Scinde, Punjab and Delhi lines were purchased and transferred to State management, the last named now forming part of the North Western Railway. Similarly, the Bengal Central line was purchased and made part of the Eastern Bengal Railway. The Madras and the Indian Midland lines were acquired but left, after acquisition, under the management of Companies working other lines with which it was advantageous to amalgamate them. In all other cases (East Indian, South Indian, Great Indian Peninsula, Bombay, Baroda and Central India, Southern Mahratta and Bengal-Nagpur), the course adopted has been to arrange for the continuance of

Termination of Contracts of the old guaranteed Companies.

management by the original Company (or by a new Company closely related to the old one), but to secure more favourable financial conditions for the State by one of more of the following methods, *viz.* :—reduction of the amount of capital retained by the Companies in the undertakings, reduction of the rate of interest guaranteed by the State on such capital, and modification in favour of the Government of the clauses relating to the division of surplus profits.

The relations between the Government and the guaranteed Companies  
Arrangements between the Government and Companies at present. the now working railways may be summarised as follows :—

The lines that they work are the property of the State.

The greater part of the capital is the property of the Government, either through having been originally supplied by it or through the acquisition by the Government of the greater part of the Companies' interests on the termination of old contracts.

When funds are required for further capital expenditure, the Government has the option either of providing them or of calling on the Company to provide them. The Company receives guaranteed interest at a fixed rate on its capital; and similar payments out of the earnings are made to the Government. If, after these have been made, surplus profits remain, they are divided between the Government and the Company in the various proportions provided for by

the contracts. The Company's share is in all cases only a small fraction of the Government's share.

All the contracts, except one, which is for a fixed term of 25 years, are terminable at the option of the Secretary of State, at specified dates; and on termination the Company's capital is payable at par (except in the case of the East Indian Railway Company, which is for special reasons to receive a terminable annuity instead of a cash payment).

The administrative control exercised by the Government over the Companies is as follows:—

The Company is bound to keep the line in good repair, in good working condition, and fully supplied with rolling-stock, plant, and machinery; to keep the rolling stock in good repair and in good working condition; and to maintain a sufficient staff for the purposes of the line; all to the satisfaction of the Secretary of State.

The Secretary of State may require the Company to carry out any alteration or improvement in the line, or in the working, that he may think necessary for the safety of the public or for the effectual working of the line.

The Secretary of State may require the Company to enter into agreements, on reasonable terms and conditions, with the administration of adjoining railways for the exercise of running powers, for the supply to one another of surplus



rolling-stock, for the interchange of traffic and rolling-stock and the settlement of through rates, and for additions and alterations to, or the redistribution of existing accommodation in junctions or other stations in view to their convenient mutual use.

The train services to be such as the Secretary of State may require. In order to secure a general control over the rates quoted by Companies the Secretary of State has retained power to settle the classification of goods and to authorise maximum and minimum rates within which the companies shall be entitled to charge the public for the conveyance of passengers and goods of each class.

The Company has to keep such accounts as the Secretary of State may require, and these are subject to audit by the Secretary of State.

In all other matters relating to the line, the Company is made subject to the supervision and control of the Secretary of State, who may appoint such persons as he may think proper for the purpose of inspecting the line, auditing the accounts, or otherwise exercising the power of supervision and control reserved to him. In particular the Secretary of State has the right to appoint a Government Director to the Board of the Company, with a power of veto on all proceedings of the Board. All the monies received by the Company in respect of the undertaking, whether on capital or revenue account, have to be paid over to the Secretary of State.

## LVI.

*Extract from the Report of the Mackay Committee on Indian Railway Finance and Administration, 1908.*

What additional amounts may properly and advantageously be raised for railway construction and equipment?

13. In our opinion the prudent policy for the Government to adopt is to fix periodically a standard of annual expenditure. For this purpose two questions have to be considered :—

(1) What is the average of the annual expenditure that can be advantageously and profitably incurred ?

(2) What is the average annual supply of capital that the Government can count on being able to procure ?

14. On the first question there is considerable diversity of opinion. We consider it safe to assume that, for a good many years to come, the amount that might with advantage be spent on railways in India will exceed the funds which will, on the average, be available, so that the effective limit of the amount to be spent in any year will be the amount that can be provided.

15. In any attempt to form an estimate, the most important factor is the amount which it may be assumed that the Secretary of State for India can borrow annually in London.

On this point we have had the advantage of hearing the opinions of Lord Rothschild, Lord Swaythling, and Mr. H. A. Daniell. Lord Rothschild in reply to the question—"Then, in regard to the amount of money the Secretary of State can raise in any one year in London, you are inclined to think that an average of 8 or 10 millions would be about the figure?"; remarked, "I think he might get it, especially if it were distinctly stated that it was for railway purposes." Lord Swaythling considers that, in normal conditions, the Secretary of State would be able to raise 10,000,000 £. annually in London for expenditure on productive public works. His Lordship remarked that borrowing for Indian railways, which are highly remunerative works, would be quite favourably received, as it is altogether different from borrowing, as many countries do, for such purposes as the construction of vessels of war and armaments. Mr. Daniell's estimate was lower than those of Lord Rothschild and Lord Swaythling.

A careful consideration of the evidence leads us to the conclusion that it would not be imprudent for the Secretary of State to contemplate raising in London, in normal years, as much as 9,000,000 £.

16. The amount that in normal years may be expected to be provided in India for capital purposes may be estimated as follows:—

	Lakhs.
Revenue surplus	... 100
Annual appropriation from Revenue for re- duction or avoidance of debt	... 75
Savings bank deposits	... 100
Rupee loan	... 325
Moiety of profits of coin- age	... 150

750 = 5,000,000 l.

17. The total amount that can be provided in England and India by or on the credit of the Secretary of State for capital purposes may thus be estimated for the present at 14,000,000 l. a year. But a portion of this sum will not be available for outlay on railways. Provision must be made for expenditure on irrigation works, which may be estimated at 1,000,000 l. a year, and other expenditure may have to be met from borrowed money; moreover, the money market may not always be favourable. We think it desirable to recommend an annual rate of expenditure on railways which there is a reasonable hope of maintaining, even in difficult times, and we accordingly advise that the Government of India be authorised to prepare their annual railway programme on the basis of a capital expenditure of 12,500,000 l.

## LVII.

*Extract from the Report of the Railway  
Committee, 1920-21.*

## FINANCE AND FINANCIAL CONTROL.

28. The defects mentioned in the last chapter are due primarily to the failure of Government to provide the railways with adequate funds for capital expenditure on development and extensions, and even for the essential operations of renewal and repairs. They are the inevitable results of a paralysing system which has not been adapted and developed to meet the requirements of what is essentially a commercial enterprise of the first magnitude.

Demand for financial reform.

29. As to the necessity for great financial reforms, the evidence placed before the Committee is practically unanimous.

30. Witness after witness told us that the present financial methods need drastic revision, and that the basis of the reform is the complete separation of the railway budget, in respect both of capital and revenue, from the general budget of the country. The Associated Chambers of Commerce of India and Ceylon expressed the general opinion in the following resolution, which they passed at their annual meeting held in Calcutta on the 24th and 25th January 1921:—

“ That this Association is strongly of opinion that the present method of financing the annual capital expenditure programme of railways in this country, and the general system of control exercised

by Government over their administration, are in urgent need of revision and reform. This Conference further considers that, as an essential condition precedent to such reform, immediate steps should be taken to render the railway administration independent of the provisions of the general budget and to secure for them a separate budget of their own."

31. This resolution under both its heads embodies conclusions at which we have independently and unanimously arrived.....

70. The Great War is an explanation, if not an excuse, for many practices which no one would defend under normal circumstances. We cannot think that even the war is sufficient to explain the treatment of Indian railway revenue in the last few years. Till quite recently India produced hardly any of the supplies that her railways require. Locomotives, carriages, wagons, or at least their component parts, rails, signalling work, bridge work, all were imported from Europe. Even now India produces only a very small part of what she needs. At an early stage of the war it became difficult to obtain from Europe the customary supplies. Later on it became practically impossible. The inevitable result was that maintenance and renewals fell seriously into arrears from 1914 to 1918....

71. Obviously the expenditure was only postponed, and had to be faced later on. An ordinary commercial concern would, as a matter of course, have carried the money so underspent to a reserve for renewals, to be spent when the materials were

again available. The independent railway companies did this. Not so the State's. The money was treated as part of the ordinary revenue of the Government in the year in which it was not spent, with the result that the net profits of the State railways are shown in official returns as having risen steadily from 4.54 per cent. in 1914 to 7.07 per cent. in 1918-19. The apparent gain was not real. Had there been a separate railway budget, the money underspent would have been earmarked in it as advanced to the Government for general purposes. It was indeed announced at one time that a reserve was being made, or would be made. The end of the war has come, and the money is not there; other liabilities had been too strong for the Government of India and so the reserve fund vanished. The railway machine is in urgent need of repair, and funds to put it right are not forthcoming. The position at present is this: maintenance is lamentably in arrears. The cost of materials of all kinds is far above the pre-war level. Wages likewise have advanced steeply.

72. Indian railway rates and fares have always been among the lowest, if not actually the lowest in the world. They have only been advanced in the last few years very slightly as compared with the rest of the world. A general and substantial increase is overdue. Witnesses from all parts of India have agreed in recognising that rates and fares should be increased, and saying that they will be ready to pay the increases, provided a reasonably efficient service is given in return. One of the

most important railway companies applied many months ago to the Railway Board for permission to increase its rates beyond the maximum hitherto authorised. It met with a refusal.

74. We now proceed to discuss the manner in which reform should be carried out. At the outset we wish to disclaim any idea that the railway organisation should be independent, an *imperium in imperio*. This is quite out of the question. The Indian Government owns the railways; the Indian Government must control them.... What we propose is in outline that the railways should have a separate budget of their own and assume the responsibilities for earning and expending their own income. The first charge on that income, after paying working expenses, is interest on the debt incurred by the State for railway purposes. The amount of this debt is known—we may call it roughly 252,000,000*l*. The annual liability of the Indian Government for interest is 8,700,000*l*. Whether the railways should pay precisely this amount, or a larger amount in consideration of the fact that in early years taxation had to be imposed to meet that portion of the interest which the railway receipts did not cover, or a smaller amount, in consideration of the expenditure which the railways have since incurred for non-railway purposes, is a matter for argument. We have no wish to express a positive opinion, though we think there is much to be said for letting bygones be bygones and fixing the payment to the Government at the same sum that the Government has itself to find at



the present time for interest on the railway debt. The point is that the Railway Department, subject to the general control of Government, once it has met its liability to its creditors, should itself regulate the disposal of the balance, and should be free to devote it to new capital purposes (whether directly or as security for new debt incurred), or to reserves, or to dissipate it in the form either of reduction of rates or improvement of services.

75. We have expressed our own view that the only payment by the railways to the general Exchequer should be the interest at a fixed rate on the capital advanced. But we desire to point out that this is not necessarily involved in the separation of the railway budget. It would be possible, however undesirable, for the Government to impose a surtax on railway traffic such as is now in force, or even to call upon the railways for an emergency contribution to the necessities of the State. Neither method would involve interference by the Finance Department with the Railway Department's control of its own internal finance.

149. It is an Indian grievance of old standing—it was voiced in the Allegations of undue preference. Legislative Assembly at Delhi in 1915 by a distinguished Indian, now a Member of the Executive Council of Bombay, Sir Ibrahim Rahimtoola—that the railways fix their rates to suit their own pecuniary interests—if indeed it be not to suit

the interests of European merchants—regardless of the effect of these rates on the native industries of India. And we have no doubt that the charge is accepted as proved by a large proportion of Indian traders.

150. Charges based upon motives are difficult to prove or to disprove. It was not our duty to investigate specific cases in detail, nor would the time at our disposal have permitted us to do so. Unquestionably, low exceptional rates exist for traffic to and from ports, especially the great ports of Calcutta and Bombay. But exceptional rates such as these exist in every country, and are justified on the ordinary grounds, not only of the economy of handling goods in large volume, but also of competition between railway systems serving the same distributing or consuming area.

151. In one respect, at least, the Indian railways have refrained from following the accepted railway practice in other countries. It is usual in most countries to concede for export traffic through a seaport rates which are not available to that seaport for local traffic; and *vice versa*, in countries which adopt a Free Trade policy, to fix lower rates for the carriage inwards of goods imported through a port than for goods produced locally at the port town. This practice is not, so far as we have been able to ascertain, followed in India. Bombay receives from up-country large quantities of raw cotton, part of which is worked up on the spot and part exported. Similarly Bombay distributes to up-country points large quantities of cotton cloth, part of

it locally manufactured and part imported. The raw cotton rates down to Bombay port and to Bombay town are the same, and so are the manufactured cotton rates upwards. The same principle, we understand, is applied elsewhere in the case, for instance, of the great Calcutta jute trade.

167. We received many complaints regarding the treatment of third class passengers. Their grievances are of long standing and have often been recognised. Stress was laid upon them by Sir Thomas Robertson in his report of 1903, and—more especially with regard to *mela* traffic—by the Pilgrim Committees of a few years ago, whose reports showed plainly that even with the insufficient means of transport available more might easily be done for the passengers' comforts; it might, for instance, be necessary in exceptional circumstances for passengers to travel in trucks, but the trucks could at least be cleaned beforehand. We may quote the following sentence from the letter dated 27th September 1916, from the Sanitary Commissioner to the Government of India, submitting the reports of the Pilgrim Committees:—

“The Government of India can hardly be aware of the amount of ill-feeling and ill-will towards themselves that these two conditions (*vis.* (1), overcrowding of ordinary trains and pilgrim specials, and (2) the use of goods wagons to carry pilgrims) engender.”

168. As voiced before us, the complaints of the third class passengers still continue under the following heads:—

- (a) Overcrowding, to the extent at times of double or even more than double the approved carrying capacity.
- (b) Inaccessibility and insanitary condition of w. c.'s in third class carriages for long distance journeys.
- (c) Dirty condition of third class carriages.
- (d) Inadequate water supply on railway platforms.
- (e) Inadequate food supply arrangements.
- (f) Inadequate waiting sheds or waiting rooms.
- (g) Insufficient booking office facilities.
- (h) Uncivil treatment by railway staff.

169. In India, with its vast population, normally sedentary, but at intervals—sometimes of months, sometimes of a year, sometimes of several years—flocking in enormous numbers to *melas* (fairs or fêtes) or on pilgrimages to holy places, occasional overcrowding is inevitable. To construct and equip the railways so that on rare occasions they should be able to accommodate without inconvenience traffic out of all proportion to the normal is evidently impossible. And so long as the present shortage of funds persists serious hardship is unavoidable. But when it comes to overcrowding as a constant everyday affair, carried to the length that Members of the Committee have seen with their own eyes—passengers by regular trains perched in the luggage racks and in suburban services hanging

on outside or squatting on the steps of the coaches, it is another matter. Serious measures must be taken to deal with it. It cannot be done away with till funds are provided on a large scale sufficient to allow of railways being brought up all round to a much higher standard of efficiency. But even with restricted facilities something more might be done by measures such as borrowing stock to the utmost possible extent from other lines to meet exceptional local pressure, and by strict supervision of matters such as enforcing cleanliness and the provision of drinking water. We consider that in such ways as these the utmost efforts should be made to minimise the inconveniences to which the lower class passengers are subjected.

170. We were told by the Agent of the East Indian Railway that the Railway Board, had recently disallowed any capital expenditure even to provide such things as installation of additional water supplies or erection of waiting sheds, as they did not directly improve the movement of traffic. Whatever the shortage of funds, we cannot think that if an order so sweeping as this was given it was in the general interest.

171. The view has been urged upon us that the third class passengers suffer relatively more than other users of the railways from the lack of adequate facilities, and that, though they contribute by far the greater part of the coaching earnings and nearly one-third of the entire railway revenue, their requirements have received less attention than those of the organised traders and more vocal classes of passengers. There is a strong feeling

on the part of the Indian public that the improvement of the conditions under which the mass of the passengers travel has a priority claim.

172. In this connection we may refer to the existence on a few lines of a special class of officials, known as Passenger Superintendents, who are engaged at some of the principal stations in looking after the comfort and convenience of the lower class passengers. These officials are usually retired Indian Army Officers, who give much assistance to travellers. The evidence given shows that their services are appreciated, where they exist, and we recommend an extension of the employment of such officials.

---

on the part of the Indian public that the improvement of the conditions under which the mass of the passengers travel has a priority claim.

172. In this connection we may refer to the existence on a few lines of a special class of officials, known as Passenger Superintendents, who are engaged at some of the principal stations in looking after the comfort and convenience of the lower class passengers. These officials are usually retired Indian Army Officers, who give much assistance to travellers. The evidence given shows that their services are appreciated, where they exist, and we recommend an extension of the employment of such officials.

---

## CO-OPERATION.

The Famine Commission of 1901 emphasized the need for the establishment of agricultural banks in India. The Government, the Commission said, could not finance agriculturists all over India, and as for the *sowkar*, "far from being a help to agriculture, he had become, in some places, an incubus upon it."

Practical effect was given to the recommendations of the Commission in 1904 when the Co-operative Credit Societies Act was passed, giving legislative sanction to the creation of rural and urban co-operative credit societies. This measure was necessary as the old Companies Act of 1882, with its numerous sections, was unsuited to the societies proposed to be established. The Act was amended in 1911 so as to make it applicable to Unions and other forms of co-operation than co-operative credit. A new basis of classification of societies was also adopted. The progress of co-operation was



reviewed by the Maclagan Committee appointed by the Government of India in 1915. The Committee made a number of important recommendations regarding co-operative methods and finance. A brief summary of the report of the Committee has been given as it has not been found possible to include extracts from the report of the Committee in the present volume.

The extracts from Sir F.A. Nicholson's report trace the history of co-operation in the country of its origin—Germany.

*Present Position.*—The progress of co-operation during the last 15 years is shown by the following figures :—

	Total number of societies for all India.	Total number of members (thousands).	Working capital (in lakhs of rupees.)
Average for 4 years 1906-07 to 1909-10	1,926	161	68
Average for 5 years 1909-10 to 1914-15	11,786	548	5,48
1915-16	19,675	865	10,32
1916-17	23,036	960	12,22
1917-18	26,465	1,061	14,40
1918-19	32,439	1,235	17,55
1919-20	40,772	1,521	21,40

There were in British India, including Burma, in 1919-20 six Provincial Banks, with a working capital of 237 crores of rupees, and 354 Central Banks. In 1915, the number of apex banks in India was only 3, one each in Burma, Bombay and Madras, and of Central Banks, 200. The need for the co-ordination of co-operative finance by means of Provincial Banks was pointed out by the Maclagan Committee, and it is satisfactory to note that the work of the Committee is bearing fruit. The total amount of loans made by the Provincial Banks in 1919-20 to individuals and societies was 15 lakhs and 121 lakhs respectively, as compared with 7½ and 110 lakhs in the preceding year.

The figures quoted above show that the co-operative movement has made rapid progress during the last 15 years. It is beyond question that co-operative societies are doing very useful work in our villages. The rates of interest charged by them on loans, as the Maclagan Committee recommended are "substantial," though very much lower than the usurious rates charged by the *sowkar*. With the exception of Assam and Coorg, where the conditions seem to be exceptional, the usual rates of interest on loans made by societies vary between 9½ per cent. in Madras and 15½ per cent. in Behar and Orissa. Co-operative credit societies have been

successful, not merely in supplying capital to their members at reasonable rates, but also in teaching them the lessons of thrift and self-help. It is useful to remember that co-operative credit societies are not merely cheap money-lending concerns ; one of their chief objects is the moral uplift of the agricultural classes. Praiseworthy efforts have been made by societies in several districts of the Punjab to discourage extravagance, gambling and litigation among their members and to encourage habits of economy and industry. A case is reported from Gurgaon of a member whose credit was assessed by his society at the low figure of Rs. 30 as he spent too much time in a mosque and too little on his fields. Cases are reported of people who have given up a criminal profession in order to qualify for membership of a society. That the advantages of co-operation are appreciated by the agriculturists, and that their interest in the movement is increasing is shown by the following passage taken from the Report on the working of the Co-operative Societies in the Punjab for 1919-20. The Registrar says :—

“Generally it may be said that the movement is having a distinct effect in instilling into the people the ideas of hope and progress. The members are becoming more business-like and their apathy towards education is giving way to something approaching active interest. To one

change I can personally testify; when nearly five years ago I joined the Department, I found few members attending my inspections; my duty then was to reprimand defaulters and warn the Committee members. Now crowds come along; questions are asked showing intelligence and understanding; the fact that they are collected to discuss measures for their own welfare and betterment is realised. The Committee members no longer have to be dragged from their homes, they show their books with pride."

Co-operation in India owes its initiation and success entirely to official inspiration. The movement being essentially one of self-help, based on self-reliance, it may be regretted that it has not developed independently of the State, and that official propaganda should have been found necessary at any stage to popularise it. But to judge from results, the movement has succeeded in bringing help and relief to the poor agriculturist of which he stood in great need.

*Other Societies.*—Co-operative credit societies are not the only, though the most important, form of co-operative effort. There are, in the Punjab, Supply unions, which sell goods to their members; Demonstration and Seed societies, the object of which is to improve agriculture; and Sale societies, which arrange to sell members' produce. Other forms of co-operation are arbitration societies and societies for the consolidation of holdings.

The growth of co-operative arbitration will be watched with great interest by all true friends of the agriculturist. The movement to consolidate holdings by co-operative effort has already yielded striking results. "In Saira Khurd (Tahsil Garhshankar)", we learn, "each owner has been allotted one solid block of land in one place. The number of fields has been reduced from 425 to 5, while the average size of a field has been increased from 3 to 35 kanals. In Ghazikot the owner had 31 acres divided into 40 fields scattered in 26 different places. He received Rs. 6 an acre rent. Consolidation has given him one solid block; the same tenants have offered Rs. 10 per acre rent and have also expressed their willingness to sink two wells and recoup the cost by annual deductions from the rent."\*

The repartition is made with the approval of two-thirds of the members of the society for a period of four years.

Arbitration societies and societies for the consolidation of holdings are admittedly experiments, but experiments full of hope and promise for the future of agriculture in India.

---

\* Report on the working of Co-operative Societies, Punjab, 1919-20.

The growth of co-operative arbitration will be watched with great interest by all true friends of the agriculturist. The movement to consolidate holdings by co-operative effort has already yielded striking results. "In Saila Khurd (Tahsil Garhshankar)", we learn, "each owner has been allotted one solid block of land in one place. The number of fields has been reduced from 425 to 5, while the average size of a field has been increased from 3 to 35 kanals. In Ghazikot the owner had 31 acres divided into 40 fields scattered in 26 different places. He received Rs. 6 an acre rent. Consolidation has given him one solid block; the same tenants have offered Rs. 10 per acre rent and have also expressed their willingness to sink two wells and ~~re~~ the cost by annual deductions from the rent."\*

The repartition is made with the approval of two-thirds of the members of the society for a period of four years.

Arbitration societies and societies for the consolidation of holdings are admittedly experiments, but experiments full of hope and promise for the future of agriculture in India.

---

\* Report on the working of Co-operative Societies, Punjab, 1919-20.

*Summary of the Report of the MacLagan Committee, 1915.*

A primary agricultural co-operative credit society consists of a number of individuals, not less than ten, who combine together to obtain credit for their small agricultural operations on reasonable conditions. Each becomes liable for the debts of the society to the extent of the whole of his assets. Sometimes well-to-do persons join the society to increase its credit. Generally the total assets of the members at their nominal saleable value are in excess of the total loans granted, but if the assets were sold, the value actually received might fail to cover the debts of the society.

“Each loan should mean so much earning capacity, so much productive power for the individual borrower.” Members should carefully watch the use of each loan and exercise moral influence upon one another to prevent extravagance and dishonesty. Each society must, in the first place, be co-operative and must further be business-like.

The object of co-operation is to enable weak members to improve their capacities. “The movement is essentially a moral one.” The members should possess a knowledge of the principles of co-operation. Loans should be made to members only. Loans

The essential elements of co-operation.

Conditions necessary to make a society co-operative.

should not be made for speculative purposes. The borrowers should satisfy the society that they would be able to repay the loan. Care should be taken to see that money is expended for the purpose for which the loan was granted. If proper use is not made of it, it should be recalled. The constitution of the society should be republican. The ultimate authority should remain in the hands of the members. All business should be transacted with the greatest publicity possible. General meetings should be held frequently. Attempts should be made to develop thrift among members. As soon as possible a reserve fund should be built up from profits. "With all this there must go the elementary principles of business, of honesty, punctuality, diligence and payment when due."

No official propaganda in favour of primary societies should be started. A New societies and their size. primary society should be registered only after the Registrar is convinced that the members understand the principles of co-operation. The members should know one another. The chief objection to large societies is that they lose their co-operative character. As members cannot watch one another, large societies generally degenerate into money-lending concerns.

The period of the loan should be carefully fixed; and when fixed, it should be rigorously enforced. Length of loans and their repayment. Loans should not be extended, but loans should not be granted on conditions of repayment within too short a period. "Agricul-



tural finance must be based on the agricultural cycle," which is frequently a matter of from two to five years where harvests do not fail. Where the harvests are precarious, "the agricultural class must be financed with regard to the period of years which will cover the average cycle comprising good, bad, and indifferent seasons."

If the rate of interest is very low there is a danger of unthriftiness and extravagance incidental to too facile credit. Rates of interest should be substantial. They may be as high as 15 or 18 per cent., where the usual rates charged are 36, 48 or even 60 per cent. A high rate of interest imposes no hardships on the members, for profits go to swell the reserve fund.

(1). *External capital*: Deposits from members and non-members and loans from central financing institutions or central banks.

(2). *Internal capital*: Reserve fund and, in some provinces, share capital.

Every effort should be made to get deposits from members and non-members. But capital thus obtained has hitherto been small.

The main source of outside capital in primary societies consists, not in deposits, but in loans from central co-operative financing agencies. Loans are sometimes made through the Registrar. In some cases the loans are made directly by the central

The rate of interest on loans.

Business aspect. Sources of Capital.

External capital. Deposits.

Loans to societies; how determined; use of Unions.

financing institutions. In other cases, but not generally, a society, before obtaining a loan, has to become a member of a Union. A Union is a body of which the only members are primary societies within a circle of a radius about 8 miles. The Union advises on the grant of loans to its constituent societies. The Union possesses intimate knowledge of the affairs of its constituent societies and can therefore advise on the propriety of a loan asked for by a society. The Union is made liable to some extent for making good to the central financing institution any loss which it may have incurred from lending money to a society recommended by a Union.

In most cases interest has to be paid regularly each year or half-year. The principal is, in some cases, repayable by instalments spread over periods varying from one to ten years. In others it is repayable in one lump sum after a term of years. On an average loans from central financing institutions to societies are repaid within two or three years, whether by yearly instalments or in one sum. The annual rate of interest paid by a primary society is 7 to 9 per cent.

The Registrar should maintain a control over the total amount that a society may borrow from every source and an elastic maximum should be fixed for such borrowing. This limit should include loans from a central financing institution.

Registrar as representing the Government. Government should audit the accounts of each society once in two or three years. The audit in the meanwhile can be conducted by Unions or central banks.

The persons for whose benefit the co-Need of increased operative credit societies are control. intended are illiterate. There is thus the possibility of the movement being diverted to wrong ends if it is not properly controlled. The dangers are: (1) perversion of co-operative movement to other objects, and (2) lack of true spirit of co-operation. The primary societies fall short of the co-operative ideal. "There has been found a lack of true co-operation." It is necessary to develop "co-operative habits than cheap money-lending."

In Burma the primary societies receive loans direct from one bank at Mandalay. In all other provinces, except Madras and Bombay, primary societies receive loans from local central financing institutions or central banks. Each of these institutions is an independent society registered under the Co-operative Societies Act with limited liability. In Behar and Central Provinces these institutions are formally federated under an apex bank called Provincial Bank, which provides a certain amount of capital to its constituent banks and maintains general control over them. The number of local financing institutions is nearly 200 in India. They

Co-operative finance.  
Central and Provincial  
Banks.

lend to primary societies and also exercise the duties of supervision and control over these societies. The term 'Provincial Bank' is applied to the apex institution in a province, which is formally constituted to co-ordinate and control the finances of central banks.

The central banks raise the major portion of their capital by inviting deposits from the public. Most of these deposits are for periods ranging from three months to one year. The money so obtained is lent to the societies, but loans made to societies are in instalments spread over three or four years. "It is thus obvious that if the banks are to be in a position to repay deposits when due and demanded they must equilibrate their finances and provide an adequate amount of liquid resources." If a large number of depositors wanted their money at the same time it would not be forthcoming.

The remedy for this state of affairs is the co-ordination of co-operative finance in each province in a strong apex bank, and to insist that the central financing institutions shall have their dealings with one another through the apex bank only. The Provincial Bank might also be made the sole medium in the province for dealing with the Presidency and Joint-Stock Banks.

Deposits for periods as long as are required for agricultural loans will be obtainable on very dear terms. Where the difference between the rates at which

Difficulties in maintaining a standard of fluid resources.

deposits are obtained and at which members of societies borrow is small it may be difficult to make resources fluid. The only other alternative is to provide an agency which will discount the promissory notes of co-operative banks in time of need, and thus obviate the necessity of their keeping liquid resources. In European countries this agency is a State Bank or a specially constituted Co-operative State Bank.

---

deposits are obtained and at which members of societies borrow is small it may be difficult to make resources fluid. The only other alternative is to provide an agency which will discount the promissory notes of co-operative banks in time of need, and thus obviate the necessity of their keeping liquid resources. In European countries this agency is a State Bank or a specially constituted Co-operative State Bank.

---

CO-OPERATION STATISTICS.

*Number of Societies by Provinces in 1919-20.*

Province.	Population in millions.	Central (including Provincial and Central Banks and Banking Unions).	Supervising and Guaranteeing Unions (including Re-insurance Societies).	Agricultural (including cattle Insurance Societies).	Non-agricultural.	Total number of societies	Number of societies per 100,000 inhabitants.
Madras	41.4	30	136	4,218	641	5,025	12.1
Bombay	18.6	14	64	2,095	398	2,571	13.8
Bengal	44.6	65	6	4,977	360	5,408	12.1
Behar and Orissa...	84.5	39	64	2,774	134	3,011	8.7
United Provinces...	47.2	6	10	8,498	148	8,721	7.9

Punjab ...	19.6	80	1	6,853	240	7,174	36.6
Burma ...	10.6	11	410	3,805	169	4,895	41.5
Central Provinces and Berar.	14.0	35	295	4,456	99	4,885	34.9
Assam ...	6.0	15	3	412	45	475	7.1
Coorg ...	0.2	...	...	103	6	109	54.5
Ajmer-Merwara ...	0.5	6	1	425	19	451	90.2
Hyderabad (Ad- ministered Area).	0.1	...	...	...	4	4	4
Delhi ...	0.4	...	...	12	13	25	6.2
<b>Total British India</b>	...	360	990	33,628	2,276	37,254	...
<b>Total Indian States</b>	...	40	4	3,088	386	3,518	...
<b>GRAND TOTAL ...</b>	...	400	994	36,716	2,662	40,772	...



## LVIII.

*Extract from the Report of the Indian Famine Commission, 1901 Section 8.*

## AGRICULTURAL BANKS.

288. We attach the highest importance to the establishment of some organisation or method whereby cultivators may obtain, without paying usurious rates of interest, and without being given undue facilities for incurring debt, the advances necessary for carrying on their business. Agriculture, like other industries, is supported on credit. "The sowkar is as essential in the village as the ploughman," said the Secretary of State in reviewing the Report of the Deccan Riots Commission, and the statement is true in existing circumstances. But owing to causes which it would be tedious to trace, the sowkar or bania, has, from being a help to agriculture, become, in some places, an incubus upon it. The usurious rates of interest that he charges and the unfair advantage that he takes of the cultivators' necessities and ignorance have, over large areas, placed a burden of indebtedness on the cultivator which he cannot bear. Passed on from father to son, and continually swollen in the process by compound interest, this burden of indebtedness has become hereditary and retains the cultivating classes in poverty, from which there is no escape that we can perceive, except through state assistance or the discovery of some other means by

which the cultivator may get, on easier terms, the accommodation that he needs. But even the fuller measure of State aid in the shape of takavi loans which we shall recommend, will go but a small way towards removing the difficulties of the whole class. Government cannot possibly finance all the cultivators of a district, still less of a province. In the establishment of Mutual Credit Associations lies a large hope for the future of agriculture in India, and from the enquiries we have made there is reason to believe that, if taken up and pressed with patience and energy, such associations may be successfully worked.....

---

LIX.

*Extract from the Proceedings of the Governor  
General's Council, dated the 23rd  
October, 1903.*

CO-OPERATIVE CREDIT SOCIETIES' BILL.

Sir D. Ibbetson said :—

One of the most difficult problems with which the small agriculturist is everywhere confronted is to obtain the money which is necessary for his operations at a reasonable rate of interest. This is a state of affairs by no means peculiar to India. The petty agriculturist of Europe is for the most part financed by borrowed capital, and there too the money-lender takes advantage of the exigencies of the cultivator to demand exorbitant terms. In India, however, the problem is aggravated by the fact that Indian rates of interest are to some extent survivals from times when the

which the cultivator may get, on easier terms, the accommodation that he needs. But even the fuller measure of State aid in the shape of takavi loans which we shall recommend, will go but a small way towards removing the difficulties of the whole class. Government cannot possibly finance all the cultivators of a district, still less of a province. In the establishment of Mutual Credit Associations lies a large hope for the future of agriculture in India, and from the enquiries we have made there is reason to believe that, if taken up and pressed with patience and energy, such associations may be successfully worked.....

---

LIX.

*Extract from the Proceedings of the Governor  
General's Council, dated the 23rd  
October, 1903.*

CO-OPERATIVE CREDIT SOCIETIES' BILL.

Sir D. Ibbetson said:—

One of the most difficult problems with which the small agriculturist is everywhere confronted is to obtain the money which is necessary for his operations at a reasonable rate of interest. This is a state of affairs by no means peculiar to India. The petty agriculturist of Europe is for the most part financed by borrowed capital, and there too the money-lender takes advantage of the exigencies of the cultivator to demand exorbitant terms. In India, however, the problem is aggravated by the fact that Indian rates of interest are to some extent survivals from times when the

security which the agriculturist had to offer was of far smaller value than at present, and partly perhaps by the fact that into most Indian contracts there enters an element of oriental hyperbole, for which full allowance is made when the settlement is by mutual consent, but which our Courts of Justice are for the most part unable to recognise.

Some fifty years ago, the establishment of agricultural banks and of co-operative societies for small men was initiated in Germany by Schulze Delitzsch and Raiffeisen respectively. The experiment passed through twenty years of struggle and uncertainty; but eventually it succeeded beyond all expectation, the institutions of both classes now exceeding 50,000 in number; and the example thus set has been imitated with more or less modifications, in many European countries where land is commonly in the hands of men of small means.

Madras was the Indian province in which attention was first turned to the subject. In that province an indigenous institution called a *Nidhi* had sprung into existence at about the same time as the movement to which I have just referred began. These *Nidhis* are modelled very much upon the lines of English building societies, and they find their clients among a more educated and advanced class than that of the rural agriculturist, to whose needs their constitution is not well adapted. But the fact that, notwithstanding numerous failures, and much discredit attendant

upon a period of speculation, they have attained a very considerable degree of success, since at present they include some 86,000 members with a paid-up capital of 75 lakhs, is encouraging, as suggesting the possibility of establishing true co-operative credit societies among an Indian people.

It was the Madras Government, then, who, towards the end of 1899, forwarded for the consideration of the Government of India a report upon the subject which had been prepared under their orders by Mr. (now Sir Frederick) Nicholson, and which is a monument of research and a perfect storehouse of information; while about the same time Mr. Dupernex, a civilian in the United Provinces, published a book upon "Peoples Banks for Northern India."

The Government of India fully realised the doubts and difficulties which must attend any attempt to introduce the Raiffeisen system into rural India. But they also recognised the enormous advantage which would result to the Indian cultivators if by any means they could be induced to utilise their combined savings under a system of co-operative credit, and so be freed, even partially, from the necessity of recourse to the professional money-lender. They therefore referred the subject in its most general form to Local Governments for preliminary consideration and suggestions.

After some intermediate discussion, the opinions of Local Governments were considered in June 1901 by a strong Committee under the

presidency of my Hon'ble colleague Sir Edward Law; and it was on the report of this Committee, to which attached a draft Bill, and draft model schemes of management for co-operative credit societies with limited and unlimited liabilities respectively, that proposals for action first took a form sufficiently definite to allow of detailed discussion. These proposals were referred to Local Governments for criticism, and it is upon a consideration of the replies which have been received to this reference that the Government of India now propose to take action.

While the subject had thus been under discussion, a certain amount of experience had been gained from experiments which had been made with varying success in several provinces of Northern India. In some cases failure had ensued, or was only averted by official support; but in a few instances genuine success had been achieved, and real co-operation for the purpose of utilising the combined credit had been arrived at among a cultivating community.

One thing, however, soon became apparent, that no real advance was possible without legislation. The Companies' Act at present in force (Act 6 of 1882) contains 256 sections, and its elaborate provisions, however necessary in the case of combinations of capital on a large scale, are wholly unsuited to societies of the kind which we desire to encourage. The first thing to be done was to take such societies out of the operation of the general law on the subject, and to substitute provisions specially adapted to their

Unsuitability of the  
Companies' Act of 1882.

constitution and objects. In the second place, it was desirable to confer upon them special privileges and facilities, in order to encourage their formation and assist their operations. And thirdly, since they were to enjoy exemption from the general law and facilities of a very special nature, it was very necessary to take such precautions as might be needed in order to prevent speculators and capitalists from availing themselves, under colourable pretexts, of privileges which were not intended for them. These three ends were the objects which we kept in view in framing the legislation that I am about to propose.....

Before turning to the actual provisions of the

The object of establishing co-operative credit societies. *Rural* and *urban* societies.

Bill, it will be well to define as exactly as possible the precise nature of the institutions which we desire to create,

and that we shall best do by defining the precise object with which we desire to create them. That object may perhaps be defined as the encouragement of individual thrift, and of mutual co-operation among the members, with a view to the utilisation of their combined credit, by the aid of their intimate knowledge of one another's needs and capacities, and of the pressure of local public opinion.

The main object of our endeavours is to assist agricultural credit, which represents a far more important and more difficult problem than does industrial credit. But we recognise that artisans, employees on small pay, and other persons of small means residing in towns, may very properly be

admitted to the benefits of our legislation. We therefore provide for two classes of societies, *rural*, which are composed of agriculturists (a term which is not intended to include the wealthy rent-receiver), and *urban*, which consist of artisans or other persons of limited means. The members of a rural society may live in a town: so also the members of an urban society may live in a village, a condition which will exclude in practice all villages that are not sufficiently large to possess an urban character. In the case of both classes we provide that the members must be small men, for we are not legislating for capitalists; that they must be residents of the same neighbourhood, else the knowledge of one another which is to guide them in their operations will be wanting; that new members shall be admitted by election only, thus securing that mutual confidence which is the only possible foundation of co-operation; that a man must be a member before he can borrow from the society, and must in that capacity have contributed to the funds of the society, since our basis is mutual co-operation; that money shall not be lent on mortgage, so that the capital may be liquid, and capable of ready realisation; that the interest in a society which may be held by a single member is to be limited, in order to prevent an individual from obtaining control; and that shares can be transferred subject only to certain restrictions which are intended to prevent speculation. We provide for a simple form of registration; for compulsory dissolution, subject to appeal to the Local Government, in order to meet the case of fraud,



of bogus co-operative societies which may have obtained the benefits of the Act while not pursuing its objects; and for liquidation under a simple procedure, and subject to appeal to the Civil Courts.

In the case of rural societies we further insist upon unlimited liability, as best suited to the agricultural classes to whom they are confined and most consistent with the mutual confidence which is to form their basis; we lay down that no profit is to be directly divided among the members, since their object is not to make money but to assist one another, and any surplus that may accrue should either be carried to a reserve fund, or be applied to reducing the rate of interest upon loans; and we forbid the society to borrow money without sanction, for it would often be worth the while of a money-lender to risk his money in order to get a successful society into his power, and so to rid himself of a rival. We prohibit pawn-broking, since the basis of the operations should be personal and not material security; but we allow agricultural produce to be received as security or in payment, and to be converted into money at any time by the society, which will generally be in a position to get a better price for it than an indebted cultivator could obtain.

In the case of urban societies we allow of limited liability and the distribution of profits, subject to the creation of a sufficient reserve fund, and we allow them to lend money to a rural society which is situated in the same district, and

with the circumstances of which they have therefore the opportunity of being acquainted.

Having thus provided for the constitution of our societies, and regulated their operations, we proceed to confer upon them certain privileges. We exempt the shares or other interests of members in the capital of a society from attachment for their private debts, thus encouraging thrift, and giving stability to the operation of the society; we relieve societies from the necessity for letters of administration or a succession certificate; we give them a lien upon certain forms of property when created or acquired by means of a loan from them, until the loan is repaid; and we make an entry in the books of a society *prima facie* evidence in a suit to recover money due to it. We take powers for the Governor General in Council to exempt societies and their operations from income tax stamp-duties, and registration-fees; and it is our intention to act upon those powers, at any rate in the first instance.

Finally, we provide for compulsory inspection and audit by a Government officer, in order to provide against mismanagement and fraud, to give the members and the public confidence in the societies, and to justify the privileges which we confer upon them; we make Government advances recoverable as arrears of land revenue; we confer a wide rule-making power upon Local Governments while indicating certain heads under which it will probably be advisable to exercise it; and we declare that the provisions of the Indian Companies' Act shall not apply to societies registered under the new law.....

## LX.

*Extract from the Co-operative Credit Societies  
Act Amendment Bill, 1911.*

## STATEMENT OF OBJECTS AND REASONS.

The chief changes contemplated by the Government of India are four in number :—

(1) The Act of 1904 applies to societies for the purpose of co-operative credit only, and not to Co-operative Societies of other kinds, such as those established for production or distribution. It has in practice been found that the establishment of Credit Societies has led to the founding of other classes of Co-operative Societies also, and it is advisable that the privileges extended by the Act to Co-operative Credit Societies should be extended to these other Societies. It is proposed therefore that the Act as now revised should be made applicable to all classes of co-operative Societies.....

(2) In the Act of 1904 Societies were classified according as they were "Urban" or "Rural", and the principle was laid down that as a general rule rural societies should be with unlimited liability. This basis for distinction was adopted, mainly because it represented a classification which had already been recommended and put in force in the initiation of Co-operative Credit Societies in certain parts of India, but it was at the time criticised as unsuitable by experts,

and it has in practice been found artificial and inconvenient. The real distinction is between Societies with limited and those with unlimited liability, and it is proposed in the new Bill to maintain this distinction only while retaining the principle that agricultural Credit Societies, must, as a general rule, be with unlimited liability.....

(3) The Act of 1904 did not contemplate that Societies with unlimited liability should distribute profits. It is still felt that such Societies do not represent the best form of co-operation for agricultural communities, but this form of Society has, in practice, been for some time in existence in several provinces, and Societies of this character, though not of the orthodox type, are recognised to be capable of useful work. Although therefore it is not intended to give them undue encouragement, it is proposed to legalise their existence and to permit an unlimited Society, with the sanction of the Local Government, to distribute profits.....

(4) A cardinal principle which is observed in the organisation of Co-operative Societies in Europe is the grouping of such Societies into Unions and their financing by means of Central Banks. This stage of co-operation had not been fully realised or provided for in the Act of 1904, but such grouping of Societies has already been found feasible in most provinces, and it is now considered desirable to legalise the formation of Co-operative Credit Societies of which the Members shall be other Co-operative Credit Societies.....

## LXI.

*Extracts from Sir F. A. Nicholson's Report.*

## SCHULZE-DELITZSCH LOAN SOCIETIES.

Herr Schulze-Delitzsch was a village Magistrate who, having studied the working classes of the towns and rural tracts, was called to the Prussian National Assembly in 1864. Subsequently troubled by party intrigues he resigned Government service and devoted himself with but slight pecuniary resources, to the elevation of those whom he saw oppressed not merely with want of wealth but with want of the power to perceive, to strive after and to attain better things, a higher social, mental and moral development. Be it remembered that the work of Schulze-Delitzsch was in its aim no less than in its results essentially educational in the highest sense of the word, and not merely material. The country and the people were habituated to live under Government wardship, and to look to the State for all improvements and for all deliverance from difficulties and misfortunes. Schulze-Delitzsch saw that it was essential, if the nation was to become worthy of the name, to turn the masses towards self-help, and to accustom them to rely on their own efforts and their own initiative to work out their national salvation.....He had no universal panacea with which, in half a dozen

years, the nation was to be re-created, and poverty, the legacy of a series of generations, the offspring of centuries of error and oppression, the result of social manners, customs and ignorance, the outcome, in short, of its history, was to be straight away eliminated; he aimed at practical education, and if his efforts have been crowned with a marvellous and probably unlooked for success, it is but the greater proof of his wisdom in seizing the true idea of progress suited to the conditions and needs of his country, *viz.*, the development of the individual through association, so that the powerlessness, carelessness and ignorance of the isolated worker might give place to the prudence, the thoughtfulness, the credit, the strength and self-reliance, of banded and disciplined groups. Moreover it was not simple credit that he aimed at; credit without a proper knowledge of its use, he rightly held to be an error, if not a fatal injury; it was disciplined and safe-guarded credit, credit based on thrift and prudence and having directly a productive object. Nor was it credit only but all the benefits of co-operation at which he aimed. His first association in 1849 was a Friendly Society for relief in sickness; his second in the same year was an association of shoe-makers for buying raw material; in 1850 the first Loan society was formed with ten members, all artisans.....

These banks start from the fact that capital is necessary to enable labourers and honest men to lift themselves higher in rank, to improve their Principles.

methods and instruments of their work, to develop their estate, opportunities and capacity; the object of credit is to provide the capital necessary for these purposes; loans for unproductive purposes did not enter into his idea of 'credit.' Credit is, in fact, the power of obtaining capital, and capital is wealth used productively. But he had also in view that self-help is the only source of such credit, and that capital obtained by aid of philanthropy, charity, or even of the State, except on a rigid business footing, is an injury; every act of benevolence accustoms men more and more to dependence on charity; every State intervention by way of favour renders men less self-reliant, more helpless in face of difficulty. He disclaimed all external intervention or interference, believing that men associated on his principles were sufficient for themselves, and he proved his theory by his success.....

As a rule, too, these banks are local, and a marked feature, if not a principle, of their establishment is the limitation of their area of operation. The Schulze-Delitzsch banks do not indeed recognise any limit, but in practice it seems that each bank operates in a small area; in the Raiffeisen banks this is an absolute rule. Hence there arises that local knowledge by the bank of its members, by the members of the bank and of one another, which seems essential to success in bringing credit to small agricultural folk. A further principle is that of association with unlimited liability—a principle which gives the maximum of credit possible in the absence of material pledge, compels the admission only of the more prudent and thrifty, binds the

members together in a spirit of fraternity, and at the same time ensures that loans will only be advanced and spent for productive or useful purposes. The result of this solidarity of members known to be *prima facie* prudent and laborious, coupled with the material results of their thrift in the shape of share capital and reserve, is not only an abundant credit as shown by the deposits, which average about three times the share capital and reserve, but a large freedom both from losses or from serious failure.....

#### RAIFFEISEN CREDIT UNIONS.

The Raiffeisen societies are due, as in the case of their rivals, to the philanthropy, prudence, courage, perseverance and skill of one man, Raiffeisen, a man of slight estate, a burgomaster or village mayor, of very poor health, with no particular property, but of unbounded energy. He has been called the Schulze-Delitzsch of rural Germany, for he has done for agriculture—though as yet on a much smaller scale, owing to the inherent difficulties of the case—what his contemporary did for the towns. Struck by the misery, isolation and want of capital among the peasantry, by the shameless and fearful usury of the private money-lenders, by the absence of association and public spirit in the cultivating classes, and by their need for elevation not merely in the material but on the moral side, he set himself alone and unaided, to develop a scheme for supplying the needs he saw. Like Schulze-Delitzsch, talking and writing were with him merely subsidiary to



action, and that action was his own, and not another's; he asked for no aid but that of his own will, his belief in his cause and his confidence in the dormant capacities of the peasant; he formulated no great scheme, nor called on others or Government to do so, but began work in his own village, with the inspiration of his own ideas and of the needs around him. He had no ideal *entourage* for his work; on the contrary, the country round Flammersfeld is represented as very poor, the men of scanty means, ignorant, very superstitious and overwhelmed by debt, and his first attempt at co-operative effort was on the occasion of a great famine "which decimated the people"; on that occasion "the usury was frightful and bread and potatoes—the ordinary food of the peasantry—were not to be had." By personal effort he united some of the better class in a "Co-operative society", which imported grain direct, ground, baked and distributed it and brought down local prices by 50 per cent.; he also obtained both for food and as seed when spring arrived. This was in 1848. In 1849 he started an association of the better classes, who contributed funds with which cattle were bought by the association, and resold to the ordinary peasants who repaid the amount with interest in five years by easy instalments.....subsequently this took the form of an ordinary loan society, the money and not the cattle, being made over to the peasant, who therewith bought the cattle outright for cash. In 1854 Raiffeisen founded a society not only for granting credit, but for educating orphans, for supplying labour

to men out of work, for buying cattle and for creating a library. This was unmanageable and was wound up in 1864, and in that year, the first regular loan society, under the rules, which in the main, govern these Credit Unions, was founded at Heddesdorf, a village of the Neuweid Union, of which Raiffeisen was the burgomaster. It is only from 1864, therefore, that these societies took their origin. Till 1868 it stood alone, 5 were then newly started and 22 in 1869. Until 1869 progress was slow, but from that time the increase has been very rapid.....

There is little difference between the aims and objects of Schulze-Principles. Delitzsch and Raiffeisen, and that which has been said above of the former applies equally well to the latter; they differ only in the less essential matters of method, and in the clientele which they had in view; the former founded popular credit for all classes, but especially for townsmen, tradesmen, artisans, &c., while the latter had in view simply the peasantry and rural classes. As in the Schulze-Delitzsch societies, so in the Raiffeisen Unions, the principles of action are those of self-help, association, solidarity, prudence, thrift and public spirit, to which, however, Raiffeisen added unselfishness, in that dividends are forbidden, all profits, less fixed interest on the very small shares—introduced only in obedience to the law—go to a common fund to be used for purposes of general utility, and not for private gain. Raiffeisen, like Schulze-Delitzsch, demanded no privileges for his societies, but was content

to base their success on honest, energetic and prudent action.....

The chief features are (1) that the society is absolutely local, the limits of a commune (village) being strictly maintained as the limits of membership and of operation, (2) that the administration is equally local, members alone being eligible for appointment, and is absolutely gratuitous, (3) that there is but small share capital, all funds being borrowed on the guarantee of solidarity and eventually of the reserve, (4) that there are, therefore, no dividends to pay, and all profits go to the reserve, (5) that only members who must be residents of the commune, can get loans, (6) that loans may be of long term, extending to ten or even twenty years, and (7) that, as far as possible, all funds are the result of local thrift.

#### DIFFERENCES BETWEEN THE SCHULZE-DELITZSCH AND RAIFFEISEN SOCIETIES.

Both philanthropists started with the same idea, *viz.*, that of providing cheap capital for those, who were debarred from it by its enormous cost, cheap credit for those who were exploited by the usurer; their object was to supplant the individual lender by the organised bank. Both saw clearly that thrift is at the base of any possible system; only persons who showed themselves able to save were deemed worthy of credit; saving, moreover, as the only basis of capital, is a *sine qua non*. Here, however, the two systems diverged; Schulze-Delitzsch began to foster thrift by rewarding it with dividends

and profits as high as possible, thus placing the interests of borrowers in opposition to that of lenders; Raiffeisen placed the interests of the borrowers first and allowed no dividends. The difference is considerable; the former tend to become joint-stock societies, in which investments seek high dividends, some societies declaring dividends to members of 30 or even 56 per cent. (Wolff), a result hardly commensurate with anything but usury; the latter preserve intact the co-operative idea of mutual help, and yet are eminently successful both in attracting abundant deposits at market interest and in helping borrowers, actual or possible, and there is no antagonism between investing and borrowing members.....

Schulze-Delitzsch, again, started his societies at any given centre with a wholly indefinite area of operation; the larger the area, the better the chance of paying business. Raiffeisen, on the contrary, lays down as an *absolute* rule that the area of operation must be small, never exceeding that of a village. The difference here is radical; in the former societies it is far less possible to know, much less to influence, the members individually, to judge of their character and status, to supervise the employment of the loan; in the latter societies all members are acquainted, the bank's clientele are its neighbours; it can lend upon character, upon status, both personal and material, of the borrowers and their sureties. Usury can only be fought hand to hand, and it seems likely that only purely local societies can succeed—at least as regards the peasantry.

Other radical differences are as follows: in the Schulze-Delitzsch societies, which are largely urban, only short term loans are granted, three months being the rule with one or two prolongations; in the Raiffeisen societies, which are wholly rural, long loans are the rule, two or three years being the average, and ten years the ordinary maximum. The former societies do not trouble themselves to watch over the use made of the loan, though they satisfy themselves beforehand that it is to be used profitably, the latter consider it essential to see that the loan is used productively, and every three months the utilisation of the loans is examined by the committee of supervision; the former societies require repayment of their loans in lump, the return being usually speedy, and the result of a particular operation in trade, business or industrial contract, &c., the latter take their loans, if of more than a very short term, by instalments, per month or per annum; the former, lending only in short loans, have no rule regarding repayment on four weeks' notice; the latter insert, though they hardly use, such a rule to provide against the deterioration of property or the misuse of the loan; the former do an enormous short term business, with artisans, tradesmen and a proportion of agriculturists, the latter a far smaller but now rapidly increasing business in long loans almost solely with agriculturists.

So much for the differences between the systems of the two great founders of German co-operative effort. On the other hand, it must

be pointed out that their common object was the strengthening and raising of the poor by the means of self and mutual help. They rejected mere benevolence in their methods, for though charity is a high virtue when applied by individuals to individuals, it cannot, or rather does not, in our imperfect conditions, succeed when applied to the relief of classes. Yet it was the mainspring of their own action; Schulze-Delitzsch devoted himself with such unselfishness to his philanthropic work that, though voted a statue and a subvention, he left his widow in narrow circumstances, while Raiffeisen, who might have pleaded sickness to inaction, used his life so sympathetically and usefully as to win the name of "Father" Raiffeisen throughout the country side. It is personal devotion alone which effects great reforms among the poor and helpless.

---

## INDIAN FACTORY LEGISLATION.

The Factories Act of 1881 fixed 7 and 12 as the limits of age for children, and nine hours as the limit of their work. Hours of work for persons over 12, whether male or female, were not fixed by law. Factories generally worked from day-light to dark, a period which varied from  $11\frac{1}{2}$  to 14 hours, with a very short interval about 15 or 20 minutes. The average of hours of work of persons of different ages in Bombay were as shown below :—

### BOMBAY. ENGLAND.

Male over 18	...	...	12 $\frac{1}{2}$	10
Female over 18			11 $\frac{1}{2}$	10*
Persons between	14	and 18	12 $\frac{1}{2}$	10*
„	„	12 and 14	12 $\frac{1}{2}$	5*
„	„	10 and 12	9*	5*
„	„	7 and 10	9*	Not at all*

Those marked with an asterisk were regulated by law.

The Bombay Factory Commission of 1885 (LX) found that while women were treated with leniency and consideration in Bombay, they worked very long hours in the ginning and pressing factories of Khandesh. They also considered the age for the first employment of children, *i.e.* 7, too low. They recommended that no child should be employed before 9 and that adult labour should not be exacted before 14.

The Indian Factories Act of 1881 as amended in 1891 limited the hours of work for children (defined as persons below the age of 14) to 7; their employment at night time was forbidden, and no child below the age of 9 was to be employed. The employment of women between 8 p. m., and 5 a. m. was prohibited as a general rule, except in factories worked by shifts, and their hours of work were limited to 11, with intervals of rest amounting to at least an hour and a half. Rules were also framed by provincial Governments under the Act for the fencing of machinery, for proper arrangements regarding water-supply, ventilation, sanitation and the prevention of overcrowding.

The conditions of work in textile factories were examined in 1906 by a small Committee appointed by the Government of India. The Committee found that the hours of employment in some mills were excessive.



The use of electric light made it possible for operatives to be employed for 15 hours a day or even longer. The Committee recommended that the working hours of adult males should be limited to 12 hours a day; that night work of women should be prohibited; that certificates of age and physical fitness should be required prior to half-time employment and prior to employment as an adult; and that wholetime Medical Inspectors should be appointed.

The Indian Factory Commission, appointed in 1908, completed the work of the Committee of 1906. They recommended the formation of a class of "young persons" between 14 and 17 years of age whose hours should be limited to 12; that the hours of work for children should be reduced from 7 to 6; that the hours for women should be assimilated to those for "young persons;" and that the employment of "young persons" women and children before 5-30 a. m., or after 7-30 p. m. should be prohibited. The Commission did not recommend a direct limitation of the working hours of adult males as it expected that such limitation could be secured indirectly by the measures which it had recommended (LXIII).

The Indian Factories Act of 1911 shortened the hours within which children, and as a general rule, women may be employed.

Employment of women at night was allowed only in the case of cotton ginning and pressing factories. As for textile factories, hours of employment for adult males were limited to 12; and for children, to 6 (subject to certain exceptions, among which were factories worked in accordance with an approved system of shifts). Hours within which work must be done, and mechanical and electrical power may be used, were also fixed.

In order to give effect to the decisions of the Washington Conference the Factories Act of 1911 was amended in 1922. The chief provisions of the Act and the report of the committee of the Washington Conference which considered the application of 48-hour week convention to special countries are given below.

## LXII.

*Extract from the Report of the Bombay Factory Commission, dated 6th day of January 1885.*

Male adults have always been considered to be outside the principle of protection afforded by  
 Hours of Work. factory law. They are supposed to be able to take care of themselves; and experience has clearly proved in England that they have done so and managed to diminish their hours of work more effectually than any Act of Parliament could have done, and the result is that in those industries in which men form the majority of hands.

employed, instances of overwork are unknown. Men may be worked overtime, night time, and even on Sundays, so far as the English Factory Law is concerned, but, in practice, shortening the hours of the protected classes (children, young persons and women) has just as effectually compelled the shortening of the hours of work of the men as if the latter had been directly dealt with. No doubt this is partly due to the fact that one work in connection with a trade can rarely be carried on independently of some other in which the assistance of children, young persons, or women is needed. It is also generally recognised that the Factory Acts in England would never have been so successful or so useful as they have been if their operation had been strictly limited in practice to the labour of the weaker protected classes. We do not, therefore, recommend any legislative interference with the labour of adult males.

The protected classes in England, or those whose labour has been regulated by the Factory Acts, are :—

- I.—Children between 10 and 14 years.
- II.—Young persons between 14 and 18 years.
- III.—Women, 18 years and upwards.

In the Indian Factory Act we are astonished to find that the maximum limits within which regulated labour is to be taken are not prescribed, and we further note that there is no mention of women and young persons whatever. Children only between 7 and 12 years of age are protected, and that most inefficiently. The result of these omissions is that women can be worked as long

as men, or from sunrise to sunset-- that is 11½ hours a day or 80½ hours a week, in the cold weather, and 14 hours a day, or 98 hours a week in the hot weather, and if artificial light is used, they may be worked day and night for days consecutively, and that such excessive labour is exacted in the small ginning and pressing factories of Khandesh is distinctly proved by the evidence before us.

We must add, however, to the credit of the Cotton Mills in Bombay that, although we found in some cases low-caste women working on machinery as long as men, the almost invariable rule is to treat women with leniency and consideration, and to give them light hand work such as reeling and winding, which admits of their coming later and leaving earlier than the men... ..

We find that one of the principal objects of the English Factory Acts has been to gradually increase the age for first employment of children. Thus, before 1874 the prescribed age was eight, till the Act of that year raised the age to 10 for textile factories. Before the important Commission which sat in 1875, and of which His Excellency Sir James Fergusson was President, the evidence and arguments in favour of assimilating the age, and increasing it to 10 in all factories and workshops was stated to have been "overwhelming" and the result was that in the Factory Act of 1878 the statutory limit fixed for all trades was 10, at which it now stands.

Seeing the higher temperature in the mills of this country, the weaker physical development

of natives of India, the small practical value of the labour of a child, and the recommendation made by the medical committee appointed by Government Resolution No. 3183, dated 3rd September 1884, that the ages should be increased to 10, we consider that no child should be employed before nine and that adult labour should not be exacted until 14 instead of at 12 as now. We recommend nine in preference to 10 suggested by the medical committee, as we think that changes in this direction should be gradual, so as to avoid the possible hardships entailed by throwing a number of children out of employment,

Between 5 and 15 is the school age; and if in this decade nothing else is learnt in reading, writing, and arithmetic, the chances are strongly against anything being learnt subsequently. We would be glad to see, therefore, an earlier admission to first employment, say at 13, permitted on condition that a child produced a certificate from an educational officer that it had passed a suitable and easy standard or put in a certain number of attendances at school.

If the age of children be raised in the manner suggested by us, we do not see our way to recommending the creation of the third class of protected labourers, *i. e.*, young persons under 16 years of age, suggested by Mr. Meade King. Sufficient difficulties are now experienced in determining the age of children without adding further complications. Birth registers and certificates are not to be had as guides in India, and

the dental development cannot be relied on with certainty.

On the average 15 holidays are given throughout the year in Indian Factories, while in England, besides 10 holidays, there are 52 Sundays, and 52 half-Saturdays, making a total of 88 days altogether. The difference is striking. A feeling in favour of the proposed four days' rest was manifested by all the working people, and in the memorial signed by 5,500 operatives, and presented to the Committee, this concession to all hands, male and female, is prayed for.

We recommend that Government should determine and notify the days after consulting the Mill Owners' Assciation, to avoid all chances of inconveniencing trade.

*Evidence of r. Rustumji Framji Wadia*

"In ordinary seasons, that is when work is not very pressing, the engine starts between 4 and 5 A. M. and stops at 7, 8, or 9 P. M. without any stoppage during the day. The hands work continuously all these hours, and are relieved by one another for meals. In busy seasons, that is, in March and April, the gins and presses sometimes work both night and day, and the same set of hands work both night and day, with half an hour's rest in the evening. The same set continue working day and night for about eight days. When the hands have been working day and night for eight days, and it is impossible to go on longer, other sets of hands are procured from Bombay if they can be found. In this case

the work is distributed between the old and new sets of workers, half working all night and half working all day. More women are employed in gins than in presses. Both the men and the women come to the factories at 3 a. m., as they have no idea of the time, and they wish to make sure that they are at the factory by the time it opens, i. e., 4 a. m. I have 40 gins in one of my factories at Pachora, and I have only 40 women attending these 40 gins. I have only 8 spare women. I never allow these women off the gins. I am not alone in this respect; it is the general system. There is no change of hands except at meal times. The hands that work from 4 a. m. till 10 p. m. are paid from three to four annas per day. All factories pay at this rate; sometimes we pay our hands 6 pies as a bonus. There is no work in the district in which these poor women can get employment. These women come from Satara and Khandesh, and are of Maratha class. We work these long hours from the 15th November till the 31st of May, but only about 10 days in each month. Sometimes we work day and night for two months, but in this case we employ two sets of labourers. We employ no children. When the wages are so low for the adults there is no advantage in employing children. I certainly would recommend that legislation should be extended to these factories. I am personally largely interested in this matter being a proprietor, secretary, and treasurer. I should like to have these ginning factories worked only 12 hours a day.....

When we see that the hands are absolutely tired out we are obliged to get others from Bombay. The hands who work these long hours do frequently die. Women are employed on this business.

"I do not consider that sufficient provision has been made in case of fire for the escape of the labourers. All these factories should be required to provide two gates and two staircases at a good distance from one another. This is not the case at present.

"I would recommend the extension of the Act to these small factories. I do not know all the provisions of the Act, and so cannot speak of them all, but I can say positively that the Act should be applied so far as the guarding and fencing of the machinery, sanitation, and the limitation of the hours of work for women are concerned."

---

### LXIII.

*Extract from the Report of the Indian Factory Commission, 1908.*

#### BOMBAY.

Hours at present worked in Indian Factories.	Out of a total of 85 cotton mills in Bombay island, 60 are fitted with electric light installations, and the hours worked in these mills are, in general,
--	---



excessive. In 1905, when electric light was introduced for the first time in a considerable number of the mills, and when the China and Home markets were in a particularly favourable condition, the hours worked in the mills fitted with electric light were, as a rule, from 5 a.m., to 8 p.m. giving  $14\frac{1}{2}$  hours of actual work. In some cases the mills worked from 5 a.m. to 8-35 p.m., or over 15 hours' actual work. After these hours had continued for some months, the matter began to attract a considerable amount of attention; and the Bombay Mill-owners' Association, at a meeting held in August 1905, passed a resolution, in favour of an average 12 hours' day. It was found impossible to secure the general observance of that resolution, however, partly owing to the disinclination of individual mill-owners to abide by the decision of the Association, and partly owing to the attitude adopted by the employees in several mills when they found that a reduction in the working hours led to a corresponding diminution of their wages. These operatives wished to revert again to the long hour system, and brought pressure on the owners in order to secure this. The position was further complicated by the fact that, while many of the workers were undoubtedly in favour of the long hour day, a very large number was opposed to it.....

It is important to note that the Mill-owners' Association was powerless to enforce its resolution in favour of a 12 hour day, as against the individual members of the Association; and it is clear from the evidence given before us that no

reliance can be placed upon voluntary combination among mill-owners which has as its object the regulation of working hours, if the system proposed does not suit the convenience—pecuniary and otherwise—of the individual proprietors. It is also noteworthy that, although a large body of the workers were averse to the system in force in 1905, that system continued in operation for some months without protest on their part.

It will tend to a clear appreciation of the present position if the actual working hours of the two classes of mills are now stated in somewhat greater detail. The mills fitted with electric light generally begin work about 5-30 a.m. and continue, with the usual half hour's interval about noon, to 7 p. m. A few mills begin work about 5-40 a.m., working till 7-15 or even 7-30 p.m., in one or two others the hours are from 6 a.m. to 8 p.m. giving  $13\frac{1}{2}$  hours' actual work all the year round. In certain mills fitted with electric light it is customary to begin work half an hour later in the cold weather i. e., about 6 a.m., without postponing the stopping time to a corresponding extent; in such cases the cold weather day averages about 13 hours, while the hot weather day approximates to  $13\frac{1}{2}$  hours of actual work. The mills working daylight hours begin about a quarter of an hour before sunrise, and stop about a quarter of an hour after sunset; the average working time, over the whole year, is approximately 12 hours and 8 minutes; the shortest working day is about 11 hours 10 minutes from 6-55 a.m. to 6-35 p.m.; and the

longest from 5-48 a.m. to 7-33 p.m. giving 13½ hours actual working time.

25. The habits of the Indian factory operatives are determined by the fact that he is primarily an agriculturist, or a labourer on the land. In almost all cases his hereditary occupation is agriculture; his home is in the village from which he comes, not in the city in which he labours; his wife and family ordinarily continue to live in that village; he regularly remits a portion of his wages there; and he returns there periodically to look after his affairs, and to obtain rest after the strain of factory life. There is as yet practically no factory population such as exists in European countries, consisting of a large number of operatives trained from their youth to one particular class of work, and dependent upon employment at that work for their livelihood. It follows that the Indian operative is, in general, independent of factory work, to the extent that he does not rely exclusively upon factory employment in order to obtain a livelihood; at most seasons he can command a wage sufficient to keep him, probably on a somewhat lower scale of comfort, by accepting work on the land; and there are also numerous other avenues of employment, more remunerative than agricultural labour which are open to every worker in any large industrial centre. If the operative is not merely a landless labourer, he will in general be bound by strong ties to the land and to the village from which he originally came: he can at any time

abandon factory life in order to revert to agriculture; and the claims of the village where he has a definite and accepted position are in practice, as experience has shown, sufficiently powerful to recall him from city life for a period which extends, on the average, to at least a month in each year. The Bombay operative, resident in the Konkon, probably returns to his village for one month each year; and the jute weaver of Bengal, working longer hours and earning higher wages, is not content with less than two or three months. Whenever factory life becomes irksome, the operative can return to his village; there is probably always work of some kind for him there if he wishes it; and in most cases he is secured against want by the joint-family system.....

26. In as much as the Indian factory operative is in general a factory operative, pure and simple, he is comparatively unskilled at his work; because his services are indispensable and difficult to obtain, he is, within wide limits, allowed by his employers to perform the work entrusted to him as and how he likes. We have constantly been reminded, during the course of our investigations, of the lack of skill of the operatives; and the numerous comparisons which have been made with the conditions prevailing in Europe place the relative inefficiency of the Indian operative beyond all possibility of doubt..... We have also been impressed with the fact that employers are generally disposed to concede promptly all reasonable demands made by the workers; and, even where demands made are

unreasonable, to treat them as proposals which it is desirable to accede to if possible.....Great nervousness is frequently displayed by employers of labour as to the effect even of trivial changes on the workers; numerous expedients are adopted to conciliate them, and the attitude of the employers throughout appears to be based upon the knowledge that the operatives are in fact the masters of the situation.

But although factory labour in India enjoys this exceptional position, it does not follow that the lot of the factory labourers is an enviable one, or that the labourers always work under satisfactory conditions. The history of the long hours movement in the Bombay mills, for example, suggests that Indian operatives are capable of remaining quiescent under conditions which would probably not be tolerated by a class of similar standing in any other country. The fact that the hours worked were grossly excessive does not appear to have struck the operatives as a class, until the matter was taken up by the Government and by press.....

27. The Indian operative is fond of change; he prefers to wander from mill to mill rather than remain settled; and the slightest causes are apparently sufficient to determine him to leave one employer in favour of another throughout the greater part of India; and statistics which we have collected show that the *personnel* of the workers in mills in places so far apart as Bombay, Madras, and Nagpur changes almost completely in about a year and a half, on the average. The inducements to change are occasionally pecuniary, of course; but as a general rule the same rate of

pay obtains throughout each centre, and in such cases the motive must be looked for elsewhere.

28. The Indian factory worker is, in general, incapable of prolonged and intense effort; he may work hard for a comparatively short period, but even in such cases the standard attained is much below what would be expected in similar circumstances, in any European country. His natural inclination is to spread the work he has to do over a long period of time, working in a leisurely manner throughout, and taking intervals of rest whenever he feels disinclined for further exertion. Meals are generally eaten during the working hours of the factory, the midday meal is sometimes devoted to sleep; and the operative leaves his work frequently throughout the day in order to eat, smoke, bathe, and so on. As the result of careful inquiries made throughout our tour, we estimate that in the cotton textile mills in India the average operative probably spends from 1½ to 2 hours each day in addition to the statutory midday interval, away from his work.....

Facts showing that the Indian operative in a cotton textile factory generally works in a casual manner are to be found on almost every page of the recorded evidence; and we are convinced, from actual observation, that the statements made as to this matter are substantially correct. The operative in a cotton mill is, however, usually called upon to work for excessive hours; and we are disposed to think that there is some causal connection between this fact and the extent to which loitering occurs. As we have already stated, the operatives in Calcutta jute mills,

working short hours by shifts, do not idle away time to anything like the extent in Bombay; in engineering shops throughout India, where the hours seldom exceed eight a day, there is very little idling; and in some of the better managed mills, where there is strong European supervision, and the hours do not on the average exceed ten or ten and a half a day, there is little or no idling.

37. While admitting that signs of physical deterioration were nowhere observable amongst the adult male operatives of the textile factories visited by us, we consider that the past and present conditions of work in many factories are undoubtedly calculated to cause physical deterioration, owing to the severe strain thrown on the constitution by excessive hours of work in humid and often badly ventilated work-rooms. We also think it possible that, if the life history of the operatives working under these conditions could be traced to its close, there would be evidence of premature exhaustion. We were everywhere struck with the marked absence of elderly men from textile factories, in spite of the fact that the demand for labour is largely in excess of the supply; and we consider that this points to the conclusion that the operative becomes unable to stand the strain of work under present conditions at a comparatively early age.....

44. The question of the imposition of a direct restriction on the working hours of adult male factory operatives is the

Restriction of working hours of adults.

most important of the various points referred to us, and it will be necessary to discuss it at some length.

In the latter portion of the year 1905 the Bombay mills worked for 14½ hours daily with one set of bands. That state of affairs happily did not continue long in Bombay; but there is no guarantee that it will not recur, and we find it prevailing permanently in the mills at Agra and other industrial centres in Northern India. We consider that it is the duty of Government, on both economic and humanitarian grounds, to prevent the continuance or the recurrence of that system. We are convinced that it is impossible to work men regularly for 14½ hours a day—even in the manner in which the Indian operatives admittedly work without serious permanent injury to their health; and also that any system under which they are required to work for such excessive hours must necessarily be prejudicial not only to them, but also to the industry with which they are connected. Apart altogether from economic grounds, however, it appears to us indisputable that the Government cannot permit a large section of the industrial population to be regularly worked for 14½ hours a day. The evidence which has been recorded shows that in many cases the workers have to walk two or three miles before arriving at the mill in the morning, or after leaving it at night; they are unable to ascertain the time exactly; and in consequence, a 15-hour day from start to finish may mean, and in many cases does mean, that the operative is absent from his home for 16 or 17 hours each day. In



other words, when working a 15-hour day, operatives can, as a maximum, obtain only seven or 8 hours at their homes. In our opinion no further argument is necessary to prove that such a condition of affairs must inevitably lead to the deterioration of the workers; it must also render factory work so unpopular that the labour supply necessary for the adequate development of the industrial resources of the country will not be forthcoming; and the abuse is of so grave a character, so opposed to all humanitarian considerations, and so fraught with serious consequences both to the industrial population, and to Indian industries, that the Government would, in our opinion, be justified in taking any steps which experience might show to be necessary in order to prevent it from continuing or recurring.....

The most obvious restriction of this nature is a direct limitation of the working hours of adult males. We would be prepared to recommend the imposition of that restriction, if it were clearly demonstrated that the object in view could not be attained in any other manner. We are satisfied, however, that this is not the case; and we would strongly deprecate any direct limitation of the working hours of adults until all other restrictive measures of a practical character have been tried, and have been proved inadequate.

48. The measures on which we rely for an indirect restriction of the working hours of adult males to reasonable limits are:—

The measures recommended for an indirect limitation of the working hours of adult males.

(1) The formation of a "young persons" class, to comprise all young adults between the ages of 14 and 17, with working hours limited to 12 in any one day;

(2) the reduction of the working hours of children from 7 hours to 6 hours:

(3) the prohibition of the employment of "young persons", women, and children before 5-30 A.M. or after 7 P.M.;

(4) the substitution of a compulsory interval after 6 hours' continuous work, in place of the present mid-day interval; and

(5) the assimilation of the restrictions placed upon the employment of women to those proposed for the "young persons" class....

---

#### LXIV.

#### *The Indian Factories (Amendment) Act, 1922.*

##### 1. "Factory" means—

(a) Any premises wherein, or within the precincts of which, on any one day in the year, not less than twenty persons are simultaneously employed and steam, water, or other mechanical power or electrical power is used in aid of any process for, or incidental to, marking, altering, repairing, ornamenting, finishing or otherwise adapting for use, for transport or for sale, any article or part of an article; or

(b) Any premises wherein, or within the precincts of which, on any one day in the year, not less than ten persons are simultaneously employed, and any such process is carried on, whether any such power is used in aid thereof or not, which

have been declared by the Local Government, by notification in the local official Gazette, to be a factory.

2, All persons as defined in clause (a) of para. (1) employed in a factory (including the factory compound), whether employed by the manager or a contractor, shall be deemed to be "employed" within the meanings of the Act and all such persons shall be subject to the provisions laid down in the Act.....

(4) The Act also extends to all—

(a) Electrical generating or transforming stations,

(b) Indigo factories; and

(c) any factories situated and used solely for the purposes of a tea or coffee plantation.

(5) (a) "Child" means a person who is under the age of 15 years.

(b) No child shall be employed in any factory for more than 6 hours on any one day.

(c) No child under the age of 12 years shall be employed in any factory. (This does not apply to any child lawfully employed in a factory on or before the 1st day of July, 1921).

(d) No child shall be required to work continuously for more than 4 hours.

(6) (a) No person shall be employed in any factory for more than 60 hours in any one week:

have been declared by the Local Government, by notification in the local official Gazette, to be a factory.

2, All persons as defined in clause (a) of para. (1) employed in a factory (including the factory compound), whether employed by the manager or a contractor, shall be deemed to be "employed" within the meanings of the Act and all such persons shall be subject to the provisions laid down in the Act.....

(4) The Act also extends to all—

(a) Electrical generating or transforming stations,

(b) Indigo factories; and

(c) any factories situated and used solely for the purposes of a tea or coffee plantation.

(5) (a) "Child" means a person who is under the age of 15 years.

(b) No child shall be employed in any factory for more than 6 hours on any one day.

(c) No child under the age of 12 years shall be employed in any factory. (This does not apply to any child lawfully employed in a factory on or before the 1st day of July, 1921).

(d) No child shall be required to work continuously for more than 4 hours.

(6) (a) No person shall be employed in any factory for more than 60 hours in any one week.

(6) No person shall be employed in any factory for more than 11 hours on any one day.

(7) In every factory there shall be fixed for each person employed on each working day, a rest interval of not less than one hour, at intervals not exceeding six hours.

(8) No woman or child shall be employed in any factory before 5-30 a.m. or after 7 p.m.

(9) No person shall be employed in any factory on a Sunday, unless—

(a) he has had, or will have a holiday for a whole day on one of the three days immediately preceding or succeeding the Sunday, and

(b) the manager of the factory has previous to the Sunday or the substituted day, whichever is earlier, given notice to the Inspector of his intention so to employ the said person, and of the day which is to be substituted.

Provided that no such substitution will be made as will result in any person working for more than ten consecutive days without a holiday for a whole day.

#### EXCEPTIONS.

(10) Nothing in any of the preceding paras. namely 5 (d), 6, 7, 8 and 9 shall apply to persons

who may, by rules made by the Local Government under this Act, be defined to be persons holding positions of supervision or management or to persons employed in a confidential capacity.

(11) Where it is proved to the satisfaction of the Local Government—

- (a) that any class of work in a factory is in the nature of preparatory or complementary work which must necessarily be carried on outside the limits laid down for the general working of the factory; or
- (b) that the work of any class of workers is essentially intermittent; or
- (c) that there is in any class of factories any work which necessitates continuous production for technical reasons; or
- (d) that any class of factories supplies the public with articles of prime necessity which must be made or supplied every day; or
- (e) that in any class of factories the work performed, by the exigencies of the trade or by its nature, cannot be carried on except at stated seasons or at times dependent on the irregular action of natural forces;

the Local Government may, subject to the control of the Governor-General in Council, by notification in the local official Gazette, exempt on such conditions, if any, as it may impose—

In case (a) such class of work from all or any of the provisions as referred to in para. 6;

in case (b) work of the nature described from all or any of the provisions referred to in paras. 6 and 9 above;

in case (c) work of the nature described from the provisions referred to in paras. 7 and 9 above;

in cases (d) and (e) such class of factories from the provisions of para. 9 above.

(2) The Local Government may, by general or special order, exempt for such period, as may be specified in the order and on such conditions, if any, as it may impose, any factory from all or any of the provisions referred to in para. 5 (d), 6 and 7 above, on the ground that exemption is necessary in order to enable such factory to deal with an exceptional press of work.

(3) In such circumstances and subject to such conditions as may be prescribed, nothing in para. 5 (d) para. 6 and para. 7 shall apply to work on urgent repairs.

(12) Where, under the provisions of clause (1) of para. 11 any factory has been exempted from the provisions of para. 6, every person employed in such factory for more than 60 hours in any one week shall be paid, in respect of the overtime, at a rate which shall be at least one and a quarter times the rate at which he is normally paid.

(13) The Local Government may, subject to the control of the Governor-General in Council, by notification in the local official Gazette, exempt any indigo factory or any factory situated on, and used solely for the purposes of a tea or coffee plantation, from all or any of the provisions of

paras. 5 (d) or 7, on such conditions, if any, as it may impose.

---

LXV.

*Report of the Committee of the International Labour Conference (1919-20) held at Washington, on the application of the 48 hour week Convention to special countries.*

INDIA.

(1) The Committee has had the advantage of access to a good deal of the available information about Indian industrial conditions, by means of the official replies of the Indian Government and the statements of the delegates of the Government, the employers and the workers. But it is clear that that information covers only a relatively small part of the ground, mainly for the reason that in India conditions do not approximate to anything which is known in the western world. The total number of persons in British India employed in organised industrial undertakings, such as factories, mines, and railways, constitutes an insignificant proportion of the whole population. Other industries are still almost universally on a small scale, and the predominant industry of India is agriculture.

(2) At the same time it appears that such industries as exist in India, especially textiles, and Government and private railway and engineering shops, are quite well organised. It is true that the present Indian conditions are not such as to make easy in the immediate future either large scale factory production or the application of western standards in the restriction of



working hours. Nevertheless, in the industries mentioned, something has already been done in both directions. India has had three factory laws, each law marking a substantial advance on its predecessor. The Committee has had evidence that the laws have been well administered and are effective.

(3) The factory law at present covers mainly textiles and certain branches of railway and engineering work, and applies only to establishments in which at least 50 persons are employed, though, it is possible, by administrative order (which has often been brought into effect where abuses were suspected) to bring under the law establishments employing 20 persons.

(4) The Committee is of opinion that the present conference can legislate usefully only with regard to large industrial undertakings, such as are already within the scope of the factory acts and mines. With regard to these (i.e., all industries at present under the factory acts, mines, and certain branches of railway and iron works), the Committee recommends that the Government of India should be asked to adopt the principle of a 60-hour week.

(5) The Committee however recommends the conference to lay before the Government of India a very urgent request that it should consider two important matters; first the possibility of adopting a lower limit for underground work in mines, and secondly, the possibility of adopting, in the light of standards accepted in other countries, a modified definition of "factory", which would reduce the number of workers required to bring a

factory under the scope of the Act. The Committee thinks that it should be possible at an early date to limit the hours of underground work in mines to 54, or even lower; and recommends this step to the favourable consideration of the Government of India.

(6) With regard to small industries, not coming under the provisions of the Factories Act, the Government of India might be requested to expedite as much as possible the collection of information and statistical data. And as apart from this the Committee understands that enquiries were initiated several months ago relating to the amendment of the Factories Act with a view to bettering the conditions of labour, the Government of India might also be requested to communicate at the earliest possible date, and if possible before the next conference, to the International Labour Office, the results of these enquiries and the proposals of the Government for carrying into effect the tendencies apparent in modern legislation.

(7) The Committee therefore recommends the conference to embody the substance of paragraph 4 of this report in the form of a convention, and to communicate to the Government of India the observations and requests of the remaining paragraphs.....

G. N. Barnes, *Chairman.*

H.J.W. Hetherington, *Secretary.*



**CHECKED**  

---

**2003-04**