

PREFACE

The following pages contain the substance of a couple of articles contributed to the now defunct *Indian Insurance and Financial Times* in its issues of last April and May. They were intended to review the financial administration of Sir G. Schuster ; but as the paper came prematurely to an end in May, the review has been completed by additions to round up the whole field covered in the *Sixty Years of Indian Finance*. The pamphlet now issued may, therefore, fitly be described as a Supplement to that work.

In the present review, notice is taken only of the actual facts of our present financial administration and policy, no remarks being offered on proposed or impending financial changes due to the projected Federation of India if and when accomplished. The reasons for this treatment are obvious and need no elaboration. The writer trusts, however, that this omission will not impair the value of the work in the eyes of those students of Indian Public Finance for whom it is primarily intended.

BOMBAY :

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FINANCES OF INDIA, 1929-34.

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A critical review of the financial administration of India, in these eventful years, must, in fairness, take note, at the very outset, of two considerations, which must go a long way in taking off some of the edge of the criticism which the bald facts of this administration would otherwise expose it to.

Effects of World Depression.

The period is characterised by a prolonged, unprecedented world-wide depression, during which India has been particularly handicapped. India being not a fully autonomous country, her Government is really not free to take measures and adopt policies strictly in accordance with the interests of India alone. The professions of regard, therefore, of her administrators for Indian interests in their acts and policies must be taken with more than a grain of salt; for often are important lines of policy determined without the slightest reference to them, and solely in the interests of Britain, as for example, in regard to the linking of the Rupee to Sterling even when the British currency was delinked from gold. The Government of India are, in such matters, left with no alternative but to defend and carry out a policy, which they had no hand in deciding, and which, for all that the public knows to the contrary, they may even have opposed. This is, however, inevitable in view of the nature of relations now subsisting between India and Britain. Criticism of the actual facts of financial administration must, accordingly, lose much of its sting against the individuals immediately and ostensibly responsible for the administration of India's finances, especially in these times of radical changes in fundamental policies. On the other hand, these individuals cannot also claim the full degree of credit for themselves on account of measures which are but an echo of the corresponding measures adopted, for their own reasons, by the Imperial British Government; for example, the recent schemes of Debt Conversion, resulting in substantial savings to the respective Exchequers. In proportion, however, as the Indian terms for conversion were not as beneficial to the people as the corresponding terms in Britain, the Indian authorities must shoulder an undivided responsibility for showing not sufficient consideration to Indian interests.

India in Transition.

The second factor that dulls the edge of criticism is the internal situation in this country itself. It is admittedly a period of transition. Our political constitution is in the melting pot. Though nothing definite is settled yet as to the new

one that is to replace the existing constitution, the mere fact of an impending change has served as a handy excuse to moderate the speed of intended reforms, to hold off constructive changes in the financial sphere, or even to defeat suggestions for reorientation, on the ground that such proposals would endanger the credit of the country, or postpone unduly the projected reforms. Throughout the period of Sir George Schuster's Finance Ministership, this excuse has been put forward in one connection or another : but, how far it was a genuine consideration in adopting the attitude Government have done, and how far it was a mere excuse, the public have no means of judging. They can infer certain facts from the known results of this administration ; but the inference may not always be sound, or even well grounded.

In the following review of Sir George Schuster's administration, therefore, criticism will be, wherever pertinent, objective in its character ; and every allowance shall be made for the special factors so far as they really and truly affect the Indian situation. Inferences would be, as far as possible, avoided, except where argument would be inconclusive or unintelligible in the absence of such a rounding up ; but even then, care shall be taken to emphasise the fact that any such expression of opinion is a mere inference.

General.

Sir George starts his Finance Ministry with professions of regard for Indian interests.

"If I have an ambition," he said in the opening paragraph of his first Budget speech, "it is this, that whether we encounter bad seasons or good, you should be able to say of me, when my work is done, that I served your country at least to the utmost of my powers, and that in all that I did my main thought was for the interests of the people of India."

A meticulous critic may point out that even here Sir George promises to devote his "*main thought*" to the interests of the Indian people, and not his *exclusive* consideration ; and that, therefore, other interests and considerations are not entirely excluded from his regard. Without, however, harping upon such minutiae, one may point out, in a general summary of Sir George's achievements, that, while his period of office was synchronous with a severe depression, the immediate interests of this country exclusively often seemed to demand a line of policy that the present Government of India, acting in subordinate co-operation with the British Imperial Government, could not always pursue, and often had to take a radically opposite line of action. Trade was falling ; revenue declining ; expenditure, though sought to be retrenched, was often impossible to curtail in a full measure ; the people's capacity to bear the burdens, in a system of money economy and fixed cash payments, under a period of falling price, was rapidly shrinking. Consider the following facts :—

1. His successor is reported to have made a statement in the same spirit by declaring in the Assembly that he was a servant of India, not of the Government of India.

Total value of India's	Decennial average, 1920-21 to 1929-30 (crores of Rupees)	1930-31	1931-32	1932-33	Fall from the Decennial Average in per cent.
Exports and re-exports.	326	226	160	135½	58.5%
Imports	242	163	125	132	45%
Decline in Wholesale Prices	148 (1927-8)	96	91	83	65 points
Revenue	132.69 (Crores)	124.60	120.62	126.40	4.75%
Expenditure	132.42	136.18	132.37	124.85	5.7 %

Some Comparisons.

In these figures, compiled from the Budget statements of Sir George, as also from the Explanatory Memoranda of the Finance Secretary to the Government of India, it is clearly brought out that the revenues show a fall despite substantial additions to the tax and non-tax revenues of all kinds; that expenditure shows a slight fall but at the expense of cutting down substantially provision on account of reduction or avoidance of debt, which makes the Indian financial system and governmental credit vulnerable; and that all other measures of retrenchment are utterly incommensurate with the handicap imposed on the people by rapid and substantial fall in prices. If the total wealth, or yearly income in goods, of India be taken, in the gross, at something like 2,000 crores, at the level of prices prevailing between 1900-1921, the present valuation of the same volume of goods could not be more than 1,200 crores at the outset. But the Governmental burdens, both tax and non-tax receipts, of the Central as well as Provincial Governments, have increased in the meanwhile. The 300 odd crores of revenues derived by all the Governments and Commercial Departments represent, at today's price level, a much heavier deduction from the wealth of the people, than a similar amount in 1921-22, or even in 1928-29. For, whereas in 1928-29, it represented a deduction of some 15%, to-day it means a charge of 25%, or even more. And 25%, on an income of Rs. 4 per head per month, is far more serious than 15% on an income of Rs. 6 per month. Nowhere in his several Financial Statements and discussions has Sir George indicated that he was aware of this peculiarity of the Indian public finance, which he claims to have administered in the interests of the people of India.

Contrast with preceding quinquennium.

Sir George, it may also be added by way of another general observation, received a financial system and position from his predecessor, which not only had made both sides balance one another, but even show a margin of surplus to be devoted either to remit taxation, or to add to the constructive work of the country. Sir Basil Blackett, the immediate predecessor of Sir George Schuster, was probably much less sympathetic; or, at any rate, his professions of regard for the interests of the Indian people were neither so many nor so fulsome as those of Sir George Schuster's. Sir Basil's ways and means of securing a surplus in the revenues were not always commendable, in the eyes of his Indian critics, His

Currency Reform was particularly open to objection, inasmuch as, in the days when every country was trying to keep its standard of money at as low a value as it could possibly manage, Sir Basil made the Indian monetary standard conform to an initially higher exchange value, in relation to the Pound Sterling, which was itself stabilised in 1925 at an intolerably high level, as subsequent experience has but too amply proved. This was held by many to have brought Sir Basil the surpluses in revenues in the final years of his financial stewardship of India, which enabled him to remit taxation. But, when every allowance is made for these drawbacks, the fact must be admitted that Sir Basil reduced many taxes, sacrificed the Cotton Excise Duties, surrendered the Provincial Contributions, lowered a number of Customs duties, readjusted the Income Tax burdens, provided for the redemption of the debt of the country on a systematic basis, created a Revenue Reserve Fund, and carried out certain programmes of constructive expenditure—for all which he must be given full credit. Sir George, on the other hand, has added, in numerous directions and substantially, to the tax and other revenues of the Government of India; he has dissipated the Railway reserves, and reduced the provision for the reduction or avoidance of debt; he has submitted to the currency dictates of Whitehall without seemingly a word of protest, and insisted on a currency policy in India that unduly handicaps and penalises the Indian producer *vis-à-vis* all his competitors; finally, he has hitched the Indian fiscal system to the Juggernaut's car of the principle of Imperial Preference which may, not uncharitably, be held up as explanation of the comparatively much smaller shrinkage in imports than in the exports of India. Let the following more detailed review of the administration speak for itself.

N. B.—All Figures are in Lakhs of Rupees.

Year.	Revenue, Excluding Transfer from Revenue Reserve Fund.	Expenditure Excluding Transfer to R. R. Fund, and Provision for Reduction or avoidance of Debt.	Provision for Reduction or Avoidance of Debt.	Final Surplus or Deficit.
1923-24	133,17	127,16	3,62	+2,39
1924-25	138,04	128,58	3,78	+5,68
1925-26	133,33	125,05	4,97	+3,31
1926-27	131,70	123,77	* 7,93	.....
1927-28	125,04	122,22	† 2,82	.....
1928-29	128,24	123,88	† 4,68	- 32
1929-30	132,69	126,68	5,74	+27
1930-31	124,60	130,04	6,14	- 1158
1931-32	120,62	125,48	6,89	- 1175
1932-33	126,40	118,01	6,84	+155
1933-34	R. E. 119,31	116,31	3,00	.....
1934-35	B. E. 119,71	116,61	3,00	+10

* After adding 2.96 transferred to the Revenue Reserve Fund.

† After deducting 2.22 transferred from the Revenue Reserve Fund.

‡ " " 74 " " " " " "

The last figures are the Revised and Budget estimates for the respective years, which, however, may not be realised as Sir George expects; for he has proved himself to be a very bad hand at estimating. There is not a year in which Sir George has not to confess to his estimates of the Budget forecast having gone wrong—to the tune of something like 20 crores, in round terms, in the year 1931-32, six months after the Budget was presented in March of that year. True, the years 1931-33 may not be taken as a fair specimen, since extraordinary forces and circumstances were at work in that period; but even so, with the full knowledge of such forces before him, Sir George, estimating in September 1931, and again in March 1932, has to tell a tale of repeated failures of his estimates. For the year 1933-34, therefore, it is problematic if the final result would really show the Budget revision to be borne out, though the provision against Reduction of Debt has been reduced by 388 lakhs, and so a meretricious surplus is shown in the financial statement. No one feels in the mood to scrutinise this too closely in the face of the tremendous calamity in Bihar, to provide for which this artificial surplus is proposed to be devoted. The net result, on revised estimates for 1933-34, is admitted by Sir George Schuster himself to be unfavourable to the extent of 284 lakhs as compared to the original estimates for the same period. For the year 1934-35, he estimates, on the basis of the then existing revenues and expenditure, another deterioration, of Rs. 282 lakhs, to meet which, he has proposed additional taxation.

The sum total, then, of his stewardship of Indian finances would be an aggregate *deficit* of over 20 crores, as against a surplus of nearly 11½ crores during the five years of Sir Basil's administration. And this without counting the additional taxation,—duties, rates, and charges,—which Sir George has levied in every revenue-yielding department of Government.

Expenditure.

In every instance in which he found himself faced with a deficit compared to his previous estimates, Sir George has relied mainly on additional tax burdens to square that deficit. He has attempted, no doubt, to retrench in expenditure. But, the retrenchment effected under the principles and conditions Sir George believed himself to be pledged to, cannot possibly compare to the heavy burdens imposed by him in taxation. Take the most glaring case of the years 1931-33. In that period he estimated, in September 1931, an aggregate deterioration of something like 39 crores. Against this, he proposed to make an economy in expenditure including a special, temporary, emergency cut in salaries, of Rs. 980 lakhs, including a mere postponement of Rs. 175 lakhs in non-recurring military expenditure, whereas from revenues he proposed to obtain:—

Rs. 200 lakhs,	from anticipation in Salt Credits, i. e., collecting in 18 months 24 months' salt duty;
„ 1457 „	from Customs, and surcharges on existing Customs Duties.
„ 106 „	„ Salt Surcharge.
„ 558 „	„ Income Taxes, and Surcharges.
„ 110 „	„ Increased Postal rates.

Or, in all, Rs. 2431 lakhs, without including Railway surcharges on freights and passenger rates.

Of course, these estimates were not realised, the revenues from almost each important head proving substantially less than Sir George had estimated in September 1931. But, without counting this deterioration, Sir George's partiality for relying on extra tax-burdens rather than on reductions in expenditure is obvious from this one striking instance, in which he seeks to make good only 25% of the estimated deficit,—or even 20%, if we do not include the economies of non-recurring expenditure being postponed,—from disbursement side; while over 60% is sought to be obtained from revenues and tax-burdens.

Disproportionate Burdens.

The defects of Sir George's financial policy in general are further evident, when one recollects, that, even as between the several forms of tax and revenue burdens, the richer classes escape relatively with much lower burdens, even though their ability to bear or evade such burdens is much greater; while the poorer classes, who cannot escape from such burdens, have to bear the lion's share of the burdens with less than the lamb's capacity to shoulder them. While the Customs, Salt, and increased postal dues, all borne largely by the poorer classes, account for 1673 lakhs out of an aggregate of revenue increase of Rs. 2431 lakhs, or over 67%, Income Tax increases only account for 558 lakhs, or 22½%. The indirect taxes of Salt and Customs, enhanced post card and letter rate, and increased freight and passenger rates on railways, fall upon incomes, which barely suffice to give less than one meal a day of the crudest kind, and leave no margin for anything else by way of necessaries of life to such unfortunate Indian citizens; while the direct taxes fall on classes, which, in a proper account of the distribution of the wealth of India, would appear to possess something like 120 times the ability of their more unfortunate fellow citizens.

Rising Burdens on Falling Incomes.

This is not all. While the wealth of the poorer agricultural classes is rapidly diminishing,—by over 50% in most cases on account of the fall in prices,—and Sir George had set his face like flint against any proposal of monetary reform which could have given these miserables the least relief, until the exigencies of Britain forced him to tow the line in a policy of breach of faith involved in a deliberate, self-willed, one-sided depreciation of the monetary standard,—the wealth of the richer classes was, in the aggregate, declining, if at all, in very much slighter proportions. Thus, without taking any note of the fact that the richest section of the community—the landlords with a permanently settled land revenue demand, and those who derive their income from Government revenues by way of interest on debt, or pensions &c., payable out of India, whose wealth, therefore, is of no benefit to this country, or its industry,—escape all Indian income taxes, if a full account were taken of Sir George Schuster's measures and policies, with special reference to his attitude towards British as against Indian interests, or the richer classes, as against the poorer classes' interests, it would be impossible to credit him

with having, as he claimed at the commencement of his career, always paid due attention to Indian interests, or those of the poorer classes. He did attend to India's interests,—when they did not conflict with Britain's; he did attend to the claims of the poorer classes, unrepresented in the circles in which Sir George moved and lived,—when the richer and more vocal elements of the community in India saw no reason to object to such acts, *e.g.*, the provision for agricultural research.

On two specific items of expenditure, Sir George Schuster has claimed special credit for himself and his colleagues in the Government of India for drastic economies. These are charges in respect of Debt and Defence. Let us see how far his claims are valid in this regard.

Debt Charges.¹

(N. B.—Figures are in Lakhs of Rupees)

Year.	Gross Interest on Ordinary Debt.	Interest on other Obligations.	Total Interest Payments.	Provision for Reduction or Avoidance of Debt.	Interest charged to other Departments.
1923-24	35,03	3,02	38,05	3,62	22,08
1924-25	37,56	3,62	41,18	3,78	26,28
1925-26	38,12	4,29	42,41	4,97	29,04
1926-27	37,31	4,90	42,21	4,97	30,44
1927-28	37,46	5,20	42,66	5,04	32,09
1928-29	38,70	6,17	44,87	5,42	34,67
1929-30	40,34	6,83	47,17	5,74	36,32
1930-31	41,67	8,68	50,35	6,14	39,07
1931-32	44,57	8,43	53,00	6,89	40,17
1932-33	43,56	8,73	52,29	6,84	40,68
1933-34	40,30	9,66	49,96	3,00	40,30
1934-35	39,77	10,35	50,12	3,00	39,78

1. Before 1930-31 nothing like a full percentage was charged in the accounts due to the outstanding Post Office Cash Certificates. The amount borne on the Budget by way of Bonus and other details are shown in the table below :—

(Figures are in lakhs of Rupees)

	Mean Balance of P. O. cash certificates outstanding.	Provision for Bonus.	Percentage of interest actually borne on the Budget.
1927-28	28,69	23	.8
1928-29	31,50	60	1.9
1929-30	33,65	73	2.2
1930-31	36,72	2,00	5.4
1931-32	41,50	2,06	5.0
1932-33	50,11	2,20	4.4
1933-34	(R. E.)59,54	2,60	4.4
1934-35	(B. E.)66,19	3,10	4.7

There has, no doubt, been some reduction in the net interest payments by the Government of India ; but, lest there be any misapprehension on vital points, it is worth noting that :—

(1) This reduction in interest payment is obtained by assignment to the several so-called commercial departments of Government, which are in no way paying their way in every respect. This is particularly the case with the Provincial Governments, which are made responsible for about 180 crores of Debt ; while the loans advanced to Indian States account for another 21 odd crores. Roughly 10 crores of Debt charges are accounted by such " assets " of the Government. To regard these as capital assets ; to consider even the Capital advanced to Railways and the Post Office,—some 776 crores of Rupees,—as assets is a travesty of financial statesmanship, which only Sir George Schuster could venture to uphold. The Railways have of late years been notoriously deficit concerns ; and their whole history inclines one to doubt if such over-capitalised concerns could ever earn enough, on a strict basis of commercial accounting, to pay all their own cost of working depreciation, and amortisation on interest account. The Post Office, including the Telegraphs, together with the white elephant of the Indo-European Telegraph system, are another such sink of capital, the return from which will never rise to a point where that department could, similarly, meet all its expenses on a strict basis of proper commercial accounting. Sir George's outlook on these Departments is indicated by the gay insouciance with which he has sanctioned enhancements in Railway rates and fares, and additions to postal charges, in the depth of the depression. That the yield from these Departments does not rise in proportion to the increase in the scale of charges ; that such increased charges payable in money in the days when prices are falling so heavily impose a double burden on the country's productive organisation, when it is least able to support such burdens ; that for an effective revival of the productive system the country badly needs a substantial scaling down of these charges ; and that meanwhile the Law of Diminishing Returns is acting furiously—these are all elements of the science of economics, and of the art of public financing, of which Sir George Schuster seems to be blissfully ignorant, or reprehensibly negligent. He has, however, taken special pains to represent the credit position of the Indian Government as essentially sound, since the bulk of the Debt is covered with capital, or interest yielding assets. If this is all the backing the Indian Government's credit has ; if it is on the strength of this kind that Sir George has ventured to reduce the provision for reduction or avoidance of Debt, at a stroke by 50% or more, those interested in the credit of the Government of India will have to take counsel among themselves whether everything is for the best in Sir George's world of Indian finance.

(2) The reduction is also due in part to the conversion of the Sterling Debt of the Government of India at 18*d.* per rupee, and the consequent calculation of the provision for reduction or avoidance of debt being re-

duced *pro rata*. There is no guarantee that the currency policy of the Government of India will always maintain the Rupee at its present exchange value in Sterling, since the Rupee is only a fraction of Sterling, and the latter is now no longer fixed. With the example of Britain and America to hearten up the inflationists in this country; with the prospects of price improvement generally associated with such manipulations of a country's monetary standard, it seems to be only a question of time before the Government of India will yield to the clamour of the Inflationists or Reflationists, who desire a certain deliberate depreciation of the Rupee.¹ In that event, the policy of Sir George in thus underestimating the real burden of the Debt of India would be proved to be an understatement of liability that cannot reflect credit on his financial acumen, or political rectitude. He has read too many homilies to the Indian public on the dangers of reckless talk about "repudiation,"—though one wonders where he got that notion from the utterances of responsible Indian statesmen or publicists,—not to misunderstand, once in a way, the Devil quoting the Scriptures, against the elect of the Olympians.²

(3) A certain degree of reduction was also obtained by the conversion operations of 1932-33. But the credit for these is not exclusively Sir George Schuster's. He is a victim (?) of the circumstances and policies of England, in this as he has been in less pleasant instances. The British National Government have decided to reduce the deadweight of debt in these times of falling prices; and so they have carried out a gigantic programme of Conversion at something like a 30% reduced basis. Other Governments, like the American or the German, have afforded relief to the private debtor by extending this principle of reducing the interest charge by a Government decree of law, at the same time that they sought such a relief for the public Exchequer. The Indian Government are too perfect believers in the sanctity of contracts to venture upon any such heterodoxy. On their one really Conversion Loan, 1960-70, offering for conversion the 5% War Loan 1929-47, the 5% Bonds 1933, and the 6% Bonds, 1933-36, they offered the following terms:—

"For every Rs. 100 (nominal value) of any of the above Loans tendered for Conversion, the applicant received Rs. 100 (nominal value) of the 4% Loan 1960-70, and in addition, a cash bonus of Rs. 7-8 in the

1. This is not a mere fancy of the present writer. There was a sudden and apparently inexplicable recrudescence of the Indian Currency League, which wanted the rupee to be fixed at 16d. Sterling, in the winter of 1933-34 that was supposed to have the secret backing of some of the highest authorities. They failed in 1933-34, but there is no knowing when they may not succeed,—especially as they could plausibly urge the interests of the Indian producer on their side.

2. In fairness it must be admitted that the Rupee-valuation at 18d. had taken place before Sir G. Schuster took charge of the Indian Exchequer. His offence, in Indian eyes, lies in not studying the interests of India when Britain, for her own reasons, broke faith and went off the Gold Standard. The world Depression would have had no place in India had the Rupee been left to find its own level without any manipulation whatsoever.

case of the 5% Loan, 1929-47, and of Rs. 8-8 in the case of the other two Loans. The total amount converted was Rs. 33,85 lakhs, of which Rs. 15,50 lakhs were by tender of the 5% War Loans, 1929-47; Rs. 7-12 lakhs by tender of the 5% Bonds 1933, and Rs. 11-23 lakhs by tender of the 9% Bonds, 1933-36.¹"

These terms impose an additional debt of some 2½ crores, assuming that the amounts paid in cash bonuses were invested in some Government security on this basis of 4%. For a debt charge, before Conversion, of some 180 lakhs per annum, on debts of relatively much smaller duration, a new obligation is substituted, which will last for nearly 40 years; which will save some 35 lakhs, in 15 years at most, on less than half the amount converted, including Rs. 22 lakhs for at most 3 years on the 6% Bonds converted. On the other hand, the longer duration of the Conversion Loan, makes the aggregate burden on the taxpayer not much lower, if at all. Hence, the apologist of the Government (Report of the Controller of Currency, 1932-33, from which the above figures have been taken) only claims:—

"The success of this (Conversion) operation placed the finances of the Government of India on a very sound basis as it reduced the amount of the early maturing debt outstanding to easily manageable proportions, and also lowered the yield offered for medium or long-term borrowings from 5·8% to 4·5%."

He wisely takes no stock of the longer period of exploitation that these Conversions have exposed the Indian people to. In contrast with these, the British, or even the French, terms for Conversion are excessively unfavourable to the investor, or creditor of Government, and much more advantageous to the tax-payer. And the German or American method of reducing the interest burden from the standpoint of advantage to the tax-payer cannot even be mentioned in the same breath with Sir George's elaborate ways for advantaging the creditor of Government.

(4) Adventitious help, resulting from the suspension of War Debt payment, and subventions from the Gold Standard Reserve Fund, have, in particular years, reduced the amount of net interest payment; but that does not really, and permanently, improve the situation.

(5) The reduction of the Treasury Bills in the hands of the public as also the yield on these bills, is an item in favour of Sir George Schuster, which, strictly speaking, is the correction of an evil practice, rather than the conferment of a new boon.

(6) Two minor points of policy, in which Sir George Schuster's administration of Indian finances differs markedly from that of his predecessor, need also to be mentioned, though not on the credit side of the final testimonial to Sir George Schuster. (a) He has, in the first instance,

1. Cf. Report of the Controller of Currency, 1932-33.

reversed the policy of his predecessor in discouraging foreign borrowing by the Government of India. The real burden of Sterling Loans lies not so much in the obvious handicap of the interest rate offered or conversion terms attached, or the exchange facilities provided, though these may be considerable. It lies in the effect of a boa constrictor, which the foreign creditor has in getting a stranglehold on Indian political progress. So long as India remains indebted to foreign bondholders, particularly the British, she will not be able to shape her credit and currency policy away from the strangulating influence of the creditors from abroad. Radical measures for the relief of Debt would not be possible so long as foreigners are interested as creditors in the governance of India. (b) And, secondly, Sir George's modification of the scheme for amortisation of the Indian Debt, by regular provision for the reduction or avoidance of Debt, as laid down in December, 1924, by Sir Basil Blackett, is a most reprehensible step of retrogression that has not come in for the criticism that is its due. He has deliberately misconceived and misrepresented the real nature of the Indian Debt. His confidence, therefore, about its easy liquidation, even on a 50% reduced provision in that behalf, is utterly unfounded; and promises to expose this country's credit unduly to the gusts of foreign or domestic speculation. The damage to India's real interests by such devices is not possible to measure in monetary terms; but Sir George is, for the same reason, not entitled to take credit for the surplus in his final Budget that is born of such manipulations as the reduction of a provision against new debt or the old.

(7) Finally, Sir George Schuster seems never to have considered—it may even be doubted if he has ever understood—the reaction of his policies and proposals in this behalf on the burden of private indebtedness in the country. The tale of India's agricultural indebtedness is too tragic, and too well-known, to need repetition here. But if relief to the debtor class is to come on such lines as the conversion operations during the Schuster regime have provided for the benefit of the creditor class; if the sanctity of contract is insisted upon in the true Shylockian fashion, without the least regard to the ability of the debtor to bear such burdens—what time the richest nations in the world deem it no shame or discredit to urge considerations of their ability in seeking reductions of their nominal or contractual debt burdens—the Indian debtor, whether agriculturist, or taxpayer at large, must abandon all hope of any relief to his impossible burdens.

Defence Expenditure.

In the other spending departments of the Central Government, Sir G. Schuster's claim to have been always acting in the interests of India is even less sustainable. Take the largest single instance of the Indian Defence Budget. It continues still to absorb something like 40% of the total revenue of the Government of India, and stands well over 50% above the pre-war level on the same account. And this, notwithstanding the fact that the prices have in many cases fallen much below the pre-war level!

tribution to the Indian Defence Budget would have been, not $1\frac{1}{2}$ million sterling, but ten times as much! There is nothing, it must be repeated, to show that Sir George urged the case for India with the zest and reasoning that the Ministers of a responsible Indian Government would have done, and that even some of the irresponsible bureaucratic chiefs have done in the past. Without speeding up Indianisation of the Indian Defence forces; without any reduction in the total strength and scale of the Defence provision in India; without any retrenchment in the enormously inflated salaries and emoluments of the Indian military services; without practically any substantial effort at securing justice for India—in her case against the British War Office charges—how can Sir George rightly claim to have upheld and protected the interests of India? The Defence provision still remains mainly an engine of British domination, worked with the least attention to economy, with the least desire to secure full value for every rupee spent.

The Indian Defence forces have, it may be admitted, been re-equipped in this period, without any extra cost being charged to the current revenues on account of such modernisation. The whole of that cost, said to amount to 10 crores, is alleged to have come out of the savings of the Defence Services! The Defence Budget was standardised at 55.1 crores in 1928, and any economies therein were left to the military authorities to provide for their programme of modernisation. For those, however, who have heard of such schemes of modernisation, mechanisation, and re-equipment of the defence forces in India, time and again,—they seem to occur with almost as much frequency as a famine or a major epidemic in India, and cost much more each time they occur,—the suggestion that, when the present programme of re-equipment has been completed, the Indian Defence forces would be equal to any emergency against which they are claimed to be a provision, brings but cold comfort. For, there is no end to human ingenuity in inventing weapons of destruction; there is no limit to the powers of the Armament Firms in persuading Indian Defence authorities to condemn the equipment existing at any given time as obsolete, unsuitable, and dangerous in the event of a war breaking out; and so there is no finality in such programmes. Consumption of existing Military Stores, which is claimed as being one of the factors in effecting the present economies, is thus no special item of credit to the authors of such measures. And the entire treatment of Defence Expenditure offers no satisfaction to those who earnestly search for substantial and lasting economies.¹

1. The Indian National Congress has demanded a fifty per cent. reduction in the charges of Defence as in 1930-31. In view of the prevailing price-level, even that limit is high enough to provide for every reasonable demand of Indian National safety. And if the salaries and allowances in the entirety of the Indian Defence Services were modelled on lines prevailing in some of the most militaristic, but at the same time economical, of European nations; if the Indian defence forces were Indianised within a given period completely; if the British contribution towards this engine of Imperialism was at all commensurate with the real benefit derived by the senior partner, the scale and burden of the Indian Expenditure on defence could be easily reduced to below Rs. 25 crores per annum, without any loss in efficiency, without any risk to national safety.

Civil Administration Expenditure.

Apart from Interest charges, and the Defence Expenditure ; apart also from the Extraordinary Payments, and Departmental Expenditure connected, for instance, with Opium or Mint and Currency, the other Expenditure of the Government of India remains substantially unreduced, as the following figures indicate :—

(Figures in Lakhs of Rupees.) ¹

Year.	Cost of Revenue Collection.	Other Expenditure.	Total.	Year.	Cost of Collecting Revenue.	Other Expenditure.	Total.
1922-3	2,97	16,89	19,86	1928-9	3,14	17,42	20,56
1923-4	2,48	15,86	18,34	1929-30	3,25	19,11	22,86
1924-5	2,70	16,75	19,45	1930-1	3,22	19,69	22,91
1925-6	2,96	17,00	19,96	1931-2	3,06	18,03	21,09
1926-7	2,87	17,39	20,26	1932-3	3,17	15,92	19,11
1927-8	3,01	16,99	20,00	1933-4	R. E. 3,35	15,96	19,31
				1934-35	B. E. 3,37	17,51	20,88

The figures for the last two years are for the Revised and Budget Estimates respectively. In the aggregate sum of Expenditure is included, since 1924-25, a varying sum for bounties to certain Indian industries selected for that mode of treatment. But this outlay is essentially different from the ordinary expenditure of Government.

Taking the whole, however, collectively, there is no reduction worth the name over a period of 12 years. True, a progressive Government often has demands upon it, even in years of the worst depression, which it cannot resist without forfeiting every claim to be called progressive, and impairing the national productive system most reprehensibly. Sir George's Budget statements abound in illustrations of this nature. In each case, the particular demand may have grounds to be considered extraordinary and non-recurrent ; but taken, by and large, and in the aggregate, such contingencies have always to be provided for. Hence no special commiseration need be shown because unavoidable expenditure of this character had to be undertaken during Sir G. Schuster's stewardship. Inasmuch, moreover, as the general rule of public service salaries is to provide incremental emoluments, in order to secure sufficient stimulus to public servants, a certain additional portion may likewise be considered an inevitable increase in expenditure. But when every allowance is made for these considerations ; when every credit has been given for the several Retrenchment Committees, especially in the panic period of 1931-33, the fact remains, that there is no change in the basic outlook on the subject of the scale and volume of such expenditure.

1. These figures are as usual complicated, and often incomparable from year to year because of frequent transfers from one head to another. The above figures are taken from Table II appended to the Finance Secretary's Explanatory Memorandum to the Budget of 1934-35.

The cost of governance in India is particularly high, both absolutely and relatively ; relatively to the ability of the people to support such a Government, and to the value of service rendered to the community by this costly apparatus. The chief items in this costliness of Indian administrative machinery are : the scales of salaries and emoluments of public officials, including the indirect burden and waste of a foreign element in the public services, and the wastage in the methods and paraphernalia of administration.

Twenty years ago, Sir Abdur Rahim, member of the Islington Commission on the public services in India, laid down the guiding principle for the recruitment to public services in this country. As between choosing Indians and non-Indians, he approached the problem of the Commission from an angle radically different from that of his colleagues, inasmuch as he wanted to enquire whether there was any justification for employing any European in any capacity in any department whatever, whereas his colleagues only sought some additional room in the public services of the country for a few more Indians : That aspect of the problem has remained almost as bad as before, though the changes of 1919-20 have promised a half-and-half infiltration of Indians into the superior branches of the public services of the country, within a period of a generation perhaps. Meanwhile, the Indian critics of the cost of administration have pointed to the scale of salaries and emoluments prevailing in this country in contrast with others. India cannot afford such high-priced services, even if the public servants were really giving the country its money's worth. And there is more than a modicum of doubt as to whether the country really receives its money's worth, from an average service of 25 years in a salaried payment of 35 years, not to mention the pensions burden. Public inquiries, such as that conducted by the Lee Commission, have only intensified the racial aspect ; and added to the economic burden of the Indian public services.¹

1. The Indian National Congress, at Karachi, in 1931, enunciated it as a maxim of public administration in India, that no official salary should be higher than Rs. 500 per month. The average official salary, in the so-called superior services, without reckoning allowances or other advantages of the service, works out at about Rs. 3,000 per month, as against a corresponding average of Rs. 1,000 per month in the United Kingdom. While the average income per head in the United Kingdom is about £50 per annum, the average income in India is less than £4 per annum ; so that, for a country with a national wealth less than 1/12 of the British the burden of Government, the costliness of administrative machinery is thrice as great ! A Select Committee of the Congress, after a more detailed consideration of the problem, advised a *maximum salary* of Rs. 1,000 per month, against the present maximum of Rs. 20,000 per month. Those, however, who have the governance of India still in their hands, do not seem to agree to this view that any substantial economies could be effected merely by reducing salaries. Starting with the prejudice that : "no country has ever had more devoted and self-sacrificing work, or, to descend to material grounds, better value for her money, than India has had from her Civil Services," it was a foregone conclusion that Sir G. Schuster would not regard salaries reduction to be at all advisable ; that he would never admit that there ought to be any relation between the average income in a country, and the scale of salaries in its public services. The comparison between the scale of Public salaries in India and in other countries has been well worked out, in a pamphlet on the subject, by Prof. D. R. Gadgil of the Gokhale Research Institute, Poona, 1931.

In the Budget speech, (1931-32), Sir G. Schuster declared :—

“Taking the Civil Departments (exclusive of Railways), the total pay of all the officials of Government, British and Indians, high-paid and low-paid, Central and Provincial, amounts to just under 57 crores. Of this sum, the Central Government's share is about 16 crores, and the Provincial Government's about 41 crores. This total is distributed between gazetted officers on the one side, and what are called “establishment” on the other. The term Establishment covers all the clerical and lower-paid staff. Roughly speaking, with a few exceptional cases, it may be said that this part of the staff includes posts with pay ranging to a maximum of about Rs. 500 per month. I may say incidentally that it includes all the Police, and the irregular levies employed in frontier defence, to which special considerations apply.

Taking these together, the total cost of officers, of British and Indian, Central and Provincial, all together, and including leave pay, amounts to 16 crores, of which the Central Government's share is just under 4 crores, and the provincial Governments' just over 12. Incidentally, I may mention that out of this total, the cost of British officers amounts only to Rs. 6½ crores.”

Sir George held, on this analysis, that the total saving, from a 10% cut in all the superior officers' salaries, would not exceed Rs. 1.60 crores per annum. This assumes that the salaries in what are called “establishments” must not be touched, even if they are as high as Rs. 500 per month; that the average salary of the superior officer can, at the very utmost, admit of a cut of only 10%; that the same reasoning cannot apply to their pensions and superannuation allowances: and that the salaries in the Railways, and the Military services should be kept outside the range of such retrenchment. The aggregate salary bill, of the Indian Governments, if these departments be included, would be much nearer Rs. 100 crores than 57 crores, as presented above. For those who hold that the range of Indian salaries, in all grades of the public service above the menial, is devastatingly high, an all round reduction of 20%, subject to a minimum of Rs. 50 per month, with a maximum of Rs. 1,000 per month, (a scale which, compared to the taxable capacity of the Indian people, compares not at all unfavourably either to French, or even to British, public salaries) would imply *an annual economy of at least 25 crores*. Perhaps the superior gazetted officers' salaries, pensions, and other allowances, would alone suffice to bring in this much saving, if only those whose business it would be to effect such economies proceed about their task scientifically, instead of sentimentally.

When he was driven, by the exceptional emergency of 1931, and the prolonged depression which still continues, to recommend cuts in pay, etc., without making any reduction in pensions charge, from a purely temporary all round cut of 10%, Sir George estimated a saving in the civil and military salaries of about Rs. 1,90 lakhs in a full year. Including the Railways and the provincial services, such a saving would aggregate over 5 crores. His own figures indicate how he under-estimated the possibilities of savings through this direction; and his own reasoning must lead any one, arguing on a different basis regarding the sanctity of

contractual obligations of the State towards its public servants, to contend that it is possible to make economies from a reduction of official salaries alone, to a more proportionate level, in the Central Government Budget, of something like 25 crores per annum.

The Government of India, however, never consider that other possible basis for retrenchment in the cost of civil administration; viz., the ability of the people to bear the burdens. The economies forced upon them by the emergency and depression of 1931-34 were maintained only for the minimum period, even though in one of the Provinces, Bombay, an official Committee had actually pointed the way to substantial reduction in the cost of government by revising the scale of official emoluments.¹

1. The Thomas Committee's Report has, however, been effectually pigeonholed even in Bombay itself, so that the official apologist of Indian finance may well declare such schemes to be impracticable under the present circumstances of India.

Tax Increases.

The worst feature, however, of the Schuster regime lies in the almost annual proposals for tax-increases. The gravest charges against the financial administration of India, during the last five or six years, in this department of additional tax-burdens imposed on the people, may be summarised as follows:—

Bad Estimating.

(1) In his several proposals for additional taxation, Sir G. Schuster exhibits at its very poorest the art of estimating the strength of the resources he tapped. The following statistics will indicate the very wide margins within which Sir G. Schuster failed in his several estimates¹ :—

(In Lakhs of Rupees).

I.—Customs Revenue.

	Year.	Budget Estimates.	Revised Estimates.	Actuals.	Remarks.
Supplementary ...	1929-30	50,22	50,01	50,13	Increases were proposed in Customs and Income Taxes almost every year; but estimates seldom tallied whether the Budget with the Revised Estimates, or either with the Actuals.
	1930-31	53,66	45,06	45,87	
	1931-32	55,48	50,33		
	1931-32	45,31	50,16	45,53	
	1932-33	51,40	51,34		
	1933-34	50,27	45,89		
	1934-35	40,51		(On the basis existing in March 1934)	

II.—Income and Super Taxes.

	Year.	Budget Estimates.	Revised Estimates.	Actuals.	Remarks.
Supplementary ...	1929-30	15,87	16,38	15,98	
	1930-31	17,24	16,04	15,29	
	1931-32	16,67	15,04		
	1931-32	16,57		16,75	
	1932-33	17,90	16,92		
	1933-34	17,21	16,31		
	1934-35	17,25			

1. The several figures given above are compiled from the Budget Statements of the respective years. Often they are too bewildering to permit exact statistics being given; but, for the present argument, these would serve as good illustrations. The official and final figures of the several heads of Revenue are given in a later section.

III.—Salt.

Year.	Budget Estimates.	Revised Estimates.	Actuals.	Remarks.
1929-30	500.	5,43	5,48	
1930-31	5,71	5,56	5,57	
1931-32	5,80	7,31		
1931-32	7,31		7,42	
1932-33	8,27	9,23		
1933-34	7,58	7,38		
1934-34	7,76			

IV.—Finance Heads.

Year.	Budget Estimates.	Revised Estimates.	Actuals.	Remarks.
1929-30	580	6,44	5,04	
1930-31	5,57	3,58	3,66	
Supplementary ... { 1931-32	2,77	3,06		
1931-32	3,06		3,43	
1932-33	4,41	3,54		
1933-34	2,92			
1934-35				

The faults in estimating are perhaps best brought out in the following summary of the Emergency Budgets of 1931-32 to 1932-33 :—

Year.	Revenue.	Expenditure.	Surplus or Deficit (—)	(Figures are in lakhs of Rs. _____)
Emergency Budget				
1931-32	126,13	136,30	—10,17	In spite of heavy additions to taxation in all directions, the revenue estimates declined by more than 11 crores in the final results, while the expenditure side shows a variation on the favourable side of only 5½ crores.
1932-33	133,06	127,83	5,23	
Combined Result ...	259,19	264,13	—4,94	
Estimate in March 1932 :				
1931-32	120,77	134,43	—13,66	
1932-33	129,96	127,81	2,15	
Total ...	250,73	262,74	—11,51	
Actuals 1931-32 ...	121,64	133,39	—11,75	
Rev. Est. 1932-33 ...	127,13	124,96	2,17	
Total ...	248,77	258,35	—9,58	

This inability to estimate properly reveals a lack of full and real appreciation of the changing economic situation, and at the same time compels a resort to expedients, like drawing upon the Revenue Reserve Fund, or reducing the provision for Reduction or avoidance of Debt, or manipulating the Interest receipts, to make both ends meet. These expedients, however, cannot, and do not, permanently improve the financial condition of the country.

(2) Sir G. Schuster made no addition to taxation in his first two Budgets except that, in 1929-30, he proposed a 50% increase on Kerosene excise and

import duties, yielding him about 83 lakhs in a full year. This, however, was ear-marked for the Road Development Fund, and may accordingly not be counted as additional taxation. In his Third Budget, that for 1930-31, he recognised for the first time that the financial position was not quite sound; and that no manipulation from the several reserves would help to bridge the gap of some 5½ crores. This was before he had realised the existence of a serious and prolonged depression all over the world; his main explanation for the deterioration in Indian financial conditions being the political ferment in the country. Even after allowing for savings of 140 lakhs, the balance to be made good was calculated to be 4.10 crores: which was increased by another 30 lakhs, because of the reduction of the Rice Export Duty, in view of the falling price of rice in the world market. He proposed to find from Indirect Taxation of Customs and Excise, the following amounts:—

Cotton Import Duties.

	Rs. (Lakhs)
Increase from 11% to 15% 	125
Kerosene Excise 	35
Sugar Import (1½ per Cwt.) 	180
Silver Import (4 as. per Oz.) 	100
Total ...	440

To this may be added an increase of Rs. 70 lakhs from Income Taxes, making a total addition of Rs. 5.10 crores.

Not one of these estimates seems to be realised at Budget time in 1931, the revenue position deteriorating by 14½ crores, in spite of—or perhaps because of—these additions. Hence, at the original Budget for 1931-32, proposals were made to increase Customs Revenue by surcharges and specific additions to the duties on liquors, sugar, silver, betel nuts, spices, and cinema films, estimated to yield an aggregate of about 9.32 crores. Income Taxes were increased so as to yield a further 5 crores, making a total of over 14½ crores. But in September of the same year, the Emergency Budget showed how utterly undependable were the previous estimates, the revenue heads showing, despite all these additions, a decline of 11½ crores, of which Customs alone accounted for 5½ crores decline. Increase in rates and surcharges on Customs duties; reduction of the exempted minimum of income-tax, and additions to the rates of these taxes; and surcharges on other sources of revenue, like salt, revision of Postal rates, were estimated to provide an additional income, in 18 months, of 24½ crores, while expenditure was supposed to make a saving of 10 crores. From the total estimated deficit of 39 crores these measures would find 34 crores, leaving an aggregate uncovered deficit on two years' accounts, of some 5 crores.

In the final result, however, Revenue fell short of estimate by 11 crores, and economies in expenditure could only aggregate less than 6 crores, so that the deficit of the two years combined was 9½ crores, instead of 4.95 crores, as estimated in the Emergency Budget of September 1931. In the 1933-34 and 1934-35 Budgets, the same tendency of falling estimates is visible. The final year 1934-35 repeats the tale of falsified estimates as follows:—

**Summary of main differences between Revised and Budget Estimates
1933-34.**

Heads of Revenue.	Better.		Worse.	
	(In Lakhs of Rupees.)		(In Lakhs of Rupees.)	
Customs	4,38
Income Taxes	93
Salt	20
Opium...	39	.....	.....
Interest	23
Currency	51
Other Heads	82	.....	.....
Net worsening	5,04

Sir G. Schuster proposed to make good the deficit of some 1.53 crores by imposing Excise Duties on Sugar (140 lakhs), Tobacco (30), Silver Duty (4), less 5 lakhs due to sacrifice of export duty on hides. In addition, he proposes to give special aid to Bengal by surrendering $\frac{1}{2}$ of Jute Export Duty, amounting to some 180 lakhs, and make good the sacrifice by Excise Duties on Matches, which, for the period for which the duty could be imposed in the current Budget, would, he estimates, yield, for the Central Government only, about 192 lakhs, or hardly 3 lakhs more than the Jute Duty surrendered to Bengal.

(3) The total additions to the burdens of taxation in India during the Schuster regime may be computed, in round terms, at something like 50 crores per annum, counting on the basis of taxation he received from his predecessor, and without taking into account the additions made to the Railway rates and freights, or to the provincial taxation. The latter cannot, in strict justice, be laid at the charge of Sir George Schuster, as the Provinces are supposed to enjoy autonomy in these matters, though a captious critic might urge that the measures and policies of the Central Government have an inevitable and a direct reaction in provincial finance. But the Railways rate and freight additions and surcharges must be laid at the door of the Indian Finance Member, since the Government of India are supreme masters in matters of this kind; and the Finance Member of the Government of India cannot, therefore, escape responsibility for this department. But even if we leave out the additions to the Railway Rates etc., the addition to the tax revenues were made as follows :—

In 1929-30, addition, through Kerosene Excise, of Rs. 85 lakhs	
In 1930-31, addition, through Customs and Income Taxes ...	Rs. 510 lakhs
In 1931-32, addition, through Customs and Income Taxes ...	Rs. 1450 lakhs
In 1931-32, addition, through Customs and Income Taxes ...	Rs. 2425 lakhs
In 1933-34 ... ..	.....
In 1934-35, addition, through Customs and Income Taxes ...	Rs. 400 lakhs
<u>Total Rs. 48,70 lakhs</u>	

These are round figures, and they do not make allowance for minor items. But, in the aggregate, it is true to say that additions to the tax burdens, annually, over the level of 1928-29, have been made to this extent.

Review of the Changes in Taxation during 1928-9 to 1929-30.

A detailed review of the changes in Taxation made during this period would be superfluous for our present purpose. But a historical outline of the more important developments, affecting the very basis of the Indian tax-system, would be useful for a clearer appreciation, not only of the financial genius of Sir G. Schuster, but also of the financial outlook in the impending constitutional changes in the governance of India. These promised changes have often served as excuse for withholding imperatively needed constructive reforms, when the powers that be did not desire those reforms; they have sometimes been also made an explanation for hurrying through some changes in the tax-system, even though such changes might radically affect the new-framework of a federal government for India. In the following critical and historical out-line of the principal changes, this double standpoint has been consistently borne in mind for prompting any criticism that seems unavoidable in regard to particular changes.

Changes in Indirect Taxation :

Customs.

The most considerable of the changes, both from the point of view of the revenues derived and from that of the economic and constitutional reactions, are in regard to Indirect Taxation. The total gross Tax revenues of the Government of India,—the Revenues from Customs, Excise, Salt,—and from Direct Taxes on land and on Income, given in the Table below, show the proportion of the Indirect Taxation to the total tax-receipts¹:—

(Figures are in lakhs of Rupees.)

Year.	Customs Revenue.	Salt.	Excise.	Stamps.	Regis- tration.	Taxes on Income and Land.	Total Tax Revenues.	Proportion of 2, 3, 4, 5 and 6 com- bined to.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1928-29	49,28	7,60	53	31	2	17,08	74,82	76%
1929-30	51,28	6,76	55	27	2	17,09	75,97	77.6%
1930-31	46,81	6,83	47	28	1	16,34	70,74	77%
1931-32	46,44	8,58	51	23	1	17,83	73,60	75.7%
1932-33	51,95	10,07	42	33	1	18,15	80,93	77.7%
1933-34	B. E. 46,87	8,55	41	31	1	17,33	73,48	76.4%
1934-35	R. E. 47,76	8,73	42	30	1	17,45	74,67	76.6%

In the above figures the receipts from Customs include the recently imposed Excise Duty on Sugar and Matches, as without that the figures of the Excise revenue as given there would be inexplicable.

1. The Figures are taken from the Budget for 1934-5, Explanatory Memorandum, Table III. The figures for Land Revenue vary from Rs. 38 to Rs. 18 lakhs in the period under review, and hence have been included in the Taxes on Income and Land. Revenues from Opium, Railways, Posts and Telegraphs and forests are not included as being non-tax income.

Taking, however, the Customs revenue as given in the Budget, it is the largest single head of the Central Government's revenue. Its gross receipts and cost of collection are given below :—

Year.	Customs Receipts Refunds.	Cost of Collection.	Net Revenue.
1927-28	48,21	85	47,36
1928-29	49,28	94	48,34
1929-30	51,27	97	50,30
1930-31	46,80	93	45,87
1931-32	46,44	90	45,53
1932-33	51,95	93	51,02
1933-34	B. E. 46,87	99	45,88
1934-35	R. E. 47,76	100	45,76

It makes up nearly $\frac{2}{3}$ of the total revenues, and has undergone the most radical and considerable changes during recent years of financial stringency. The main changes proposed and carried out have a financial as well as a protective importance, so far as the internal industry is concerned. These may be summarised as follows :—

In his first Budget, 1929-30, the new Finance Minister proposed no considerable changes, on the ground that he had no time to study very carefully the whole financial system. He, therefore, allowed one year of his office at least to watch the effect of the structural changes his predecessor had made. The only item of variation requiring comment in that year was the proposal to add 2 annas per gallon in the Import as well as Excise Duties (from 4 to 6 annas) on motor spirit,—the proceeds to be made over to a Road Development Fund,—and not for aid to the general financial system of the country. A specific tax for a particular purpose, we need make no comment on it.

In the following year, his studies having disclosed that the Central Government Finances needed at least another 5 crores of revenue to make a sound position, Sir George Schuster proposed considerable changes.

- (a) The Excise Duty on Kerosene was raised from 1 anna per gallon to 18 pies, and the Import duty reduced from $2\frac{1}{2}$ annas per gallon to $2\frac{1}{4}$ annas, the difference between Excise and Import Duty being halved. This was claimed to be mainly in the interests of the consumer, as also with a view to avoid sudden and heavy fluctuations in the Import Duty in the interests of the local industry. The increase in revenue from these changes was estimated at Rs. 35 lakhs. A surcharge of 25% of the duty was added during the severe financial crisis of 1931-33 ; but though other surcharges imposed about the same time have been removed or modified, this has been left untouched.
- (b) Against this must be set off the reduction in the Export duty on Indian Rice, from 3 annas per maund to $2\frac{1}{4}$ annas. Already world prices had begun to sag, and a specific duty falls with increasing weight on the article taxed in days of falling prices. There was also a disparity as between the export duty on rice imposed by Siam, Burma's chief competitor in world markets in this commodity. The proposal was, therefore doubly justified, while the estimated loss of revenue from this sacrifice was only Rs. 30 lakhs. Duties on

Exports play no inconsiderable part in the financial system of India, as is evidenced in the following figures :—

N.B.—Figures are in Lakhs of Rs.

Export Duties on.	1930-31.	1931-32.	1932-33.	1933-34. Revised Estimate.	1934-35. Budget Estimates.
Skins, Raw	24.80	20.23	14.07	19.00	15.00
Jute (raw and manufactured)	3,44.28	3,10.01	3,07.47	3,60.00	3,80.00
Rice	90.61	95.28	75.75	75.00	75.00
Total	4,59.69	4,25.52	3,97.29	4,54.00	4,70.00

These duties are instructive also because they are levied presumably because the articles thus taxed are regarded as the natural monopolies of India, on which the burden of the duty is likely to be borne by the foreign purchaser of India's produce. In fact, however, only Jute can be regarded as such a monopoly, though in the days of Depression, its price has sagged as heavily as that of any other commodity of export from India. The duty being a specific one, the receipts under that head have not fallen very substantially even though the value of Jute exported has fallen to less than half the 1929-30 basis. While the quantity exported had fallen to 94 in 1933 of the average of ten years ending 1930, the value had fallen to 44%. The burden, therefore, of the Duty is increased by about 150 %. The Export Duties on Hides have been abolished since 1934. The presence of these duties might be regarded as so much fillip to Indian industry for manufacturing these raw materials into finished products; but the Government of India do not pay any particular attention to that aspect of the case. The duty on Rice can scarcely be considered to be monopoly tax; while the Tea Cess is really devoted to improving the conditions of that industry.

Sugar.

- (c) An all round increase was proposed in the Import Duty on Sugar of Rs. $1\frac{1}{2}$ per cwt. The Tariff Board on Sugar Industry in India had already reported at the time of the Budget, recommending a fifteen years' protection; and the Government proposals, though dictated mainly by revenue reasons, were calculated to have a protective effect. The world price of Sugar having fallen substantially, the burden of these additions to the existing Duties would, it was held, not fall unduly heavily upon the Indian consumer. The Duty was graduated. On the highest class of imported sugar, it was raised from $4\frac{1}{2}$ Rs. per cwt. to Rs. 6; from Rs. 4 to Rs. $5\frac{1}{2}$ per

cwt. on the intermediate class; while sugar below Standard 8 Dutch, and sugar-candy, which upto then had been taxed 25% *ad valorem*, was henceforth to be taxed 25% *ad valorem*, plus 1½ rupees per cwt. Molasses, being regarded as raw material for Indian industry, were left dutiable as before 25% *ad valorem*. The yield from these additions was calculated to be Rs. 180 lakhs—a substantial burden, which, however, seemed condoned in Indian eyes because of its protective effect on the growing Indian industry. The Finance Minister was at pains to point out that the Indian duty, even as enhanced, was lower than that in many European countries, except France; and he recommended his proposal particularly by offering a grant of Rs. 10 lakhs to promote sugar research.

The duty was further increased, by means of surcharges of Rs. 1½ per cwt. in the critical years of 1931-33, first by raising the rate by Rs. 1¼ per cwt. and later on by a 25% surcharge. Revenue considerations of those hard years excluded all other thoughts; the increase must, therefore, be criticised, if at all, on the ground whether so much additional revenue was really needed. We shall, however, consider the policy of surcharges collectively, later on; and so need say no more on this point at this stage.

Sugar Duties, and the whole policy underlying those duties, came in for a radical review in 1934-35, when the Finance Member proposed an Excise Duty on home made Sugar. He was led into this course by a belief that the heavy revenue duties imposed on this commodity had acted protectively, so that the local Indian industry had made rapid strides till it was able to supply the entire domestic demand. On that basis, the danger to Government's revenue from the Import Duties on Sugar was very considerable, as the marginal figures of declining yield would show:—

N.B.—The Figures are in Lakhs of Rupees, and include the duty on Confectionery, sugar and sugar-candy.

Year.	Sugar Import Duties.	The actual duty in 1934 was Rs. 7¼ per cwt., plus a surcharge of Rs. 1-13-0, or Rs. 9-1-0, making over 200% duty on imported sugar. Government considered this level of protection to the local industry as excessive, not only in the interests of the consumer, or in those of the Government's revenues; but also because they doubted if this additional protection obtained by the Sugar industry was shared justly between the local cane-grower and the sugar refiner, or manufacturer. ¹
1930-31	10,75	
1931-32	8,08	
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1. Of 48½ million tons of cane grown in the country, the factories producing white sugar bought only 4½ million, while the makers of *khandsari* consumed 5½ million tons. This was less than 20% our home-grown raw material, showing the limits to which this industry could expand if properly stimulated.

They accordingly proposed a double measure: (a) A protective duty of Rs. 7-12-0 per cwt., i.e. abolishing the Surcharge, plus an Excise Duty of Rs. 1-5-0 per cwt. on Factory sugar. Together, the Excise and Import Duties would amount to the existing duty; and so the burden on the consumer would not be reduced by this measure. But Government hoped that it would at least check over-production to a point where the entire industry might be in jeopardy. (b) On the other hand, they also suggested setting aside an amount, equal to one anna per cwt. in the Excise Duty yield, (calculated at Rs. 147 lakhs,) to be utilised for distributing among provinces where white sugar is grown, so as to aid the Co-operative Societies to obtain the best price for the cane grower. Legislation was to be introduced to enable Government to enforce a *minimum* price for sugar-cane for the benefit of cane-growers.

These proposals aroused the strongest opposition from interests connected with the sugar Industry. The main points, of the case, for and against, the Government proposals may be summarised as follows:

Arguments for the Government Proposals.

(1) Government needed revenues very badly, not only for the maintenance of the financial equilibrium, but also for that of the country's credit, and ensuring a sound position to the new regime when it was inaugurated. Certain items of revenues, like opium, were bound to disappear by 1936; and others, like the Rice Export Duty, were open to objection. Additional revenue was therefore absolutely necessary. Sugar was, under Customs, the most important single head of revenue, which was recommended for Protection by a Tariff Board for a period of 15 years. Protection was accordingly granted by the Act of 1932 for the period required, but Government's financial needs had led to import duties far in excess of the measure of protection recommended by the Tariff Board (Rs. 7½ per cwt.) A surcharge of Rs. 1-13-0 had been added to the general duty of Rs. 7½ per cwt. Under the present proposals, this measure of minimum

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protection, would be retained; but inasmuch as to the extent that the Indian industry grew and supplied the home market, the imports fell off, Government revenues suffered in consequence, Excise Duty, calculated to make good the loss to revenue anticipated, was necessary.

This argument may be valid so far as the facts went; but did not justify the penalisation of a growing Indian industry before it had come to maturity.

- (2) Thanks to an excessive duty, Sugar factories have grown at an alarming rate, threatening an overproduction of the commodity, which may endanger the industry, and stultify the main principles on which the sugar protection was based.
- (2) The Industry was still in its infancy, and the Policy of Discriminating Protection required unswerving protection during the period calculated to be needed to get the Industry out of its infancy. Fifteen years were judged by a Tariff Board to be needed to accomplish this; and before even 2 years of that period were out, a proposal for an Excise Duty would strangle the Industry in its infancy.
- This argument could be pushed to indefensible extreme. Those concerned in an industry protected by the State would never admit that the stage of infancy was passed. The statistics of the import trade, and of home growth offer an answer, which it is impossible to ignore.
- (3) In the growth of the Industry, the prosperity was not equally shared between the agriculturist who supplied the raw material, and the manufacturer who worked it up. The measures proposed by Government would achieve that. Government's proposals, however, to secure a minimum price to cane-grower would not necessarily secure an equal or
- excess of what may be called India's legitimate claim in this regard. India produces 48½ million tons of sugar-cane; her local industry can only account for less than 10 million. To those who insist upon industrialisation of the country to the limit of the raw material this does not seem to be excessive growth.
- (3) The Duty was on an article of food,—a wholly illiberal measure that every Liberal must oppose on principle. The reduction on *Khand-sari* sugar, and exemption of Palmyra sugar was not so much a response to this principle of Liberal Finance, as because material was not adequate to judge of its possibilities.

even an equitable, distribution of the benefits of protection. .

- (4) Should the Industry deem itself to have been left without adequate protection, it might again appeal to a Tariff Board, convince them for a further dose of protection, and secure it in the usual way.
- (4) The duty was on outturn, an indefensible proposal in the eyes of those who would tax the undue profits, if any. Had some machinery been devised to check really overproduction by taxing the profits,—a levy on differential gains,—the proposal might not have been as objectionable fundamentally as it was in the form in which it was presented.

This would, however, be needlessly cumbrous, not to say unfair to the Industry. A Tariff Board had recommended protection; and the burden of proof about the need of protection was no longer on those concerned in the Industry. Six months after the passage of the Excise Duty, complaints have been heard of Java Sugar underselling the Indian article at Calcutta.¹

- (5) Any reduction in the Duty proposed would cause a heavy loss of revenue, and so upset Budget calculations, to the tune perhaps of Rs. 40 lakhs per annum.
- (5) The revenue consideration had been overstated. The local production was increasing, and it was calculated, by some members of the Select Committee on the Bill, that at least 750,000 tons of sugar would be produced in India in the financial year, while another 250,000 tons of *Khandsari* Sugar on which Government calculated no Excise Duty, but of which 60% was factory produce. A lower Excise on this, combined with Re. 1 per cwt. on Factory sugar would yield 1.47 crores, as desired from that source by the Finance Minister. It would be bad finance to tax the country more than was absolutely needed for purposes of Government, and if Government proposals were enacted in their original form, they would raise from this source more than 2.36 crores instead of 1.47 crores.

1. *Times of India*, Calcutta correspondent's message, dated the 5th October, 1934.

- (6) In the period of trade depression through which the whole world was passing, other sources of revenue might fail ; in which case this would be a good stand-by.

But this is bad finance on principle. Either the estimates on other heads are defective, and the calculations of the total deficit is an underestimate ; or a particular tax is selected for specially invidious treatment. As the tax in question is an Indirect tax, whose ultimate burden cannot be traced, no vigilance would be too great to exercise for seeing that no more than the amount strictly needed was raised from this source.

(6) Java and other sugar import trade, though diminished, had not disappeared altogether. The decline was in sympathy with the general trade depression, and no more. Besides huge stocks are reported to have been accumulated in Java, which are certain to be dumped in India. The Import duty, therefore, need occasion no great apprehension of a further fall, and there may even be an improvement.

The case was, on the whole, very strong against the official proposals ; but the Sugar Excise Duties Act, as eventually passed, imposed an Excise Duty "on all sugar produced in any factory in British India, and either issued out of such factory on or after the 1st, day of April, 1934, or used within such factory on or after the said date in the manufacture of any commodity other than sugar". The rates of these Excise Duties finally sanctioned were—

On Khandsari Sugar at 10 annas per cwt.

„ other sugar, except Palmyra at 1-5-0 per cwt.

„ Palmyra Sugar at such rate, if any, as may be prescribed by the Governor-General in Council after such enquiry as he may think fit.¹

Cotton Duties.

- (d) Next in importance to Sugar Duties, the increase of duties on Cotton Imports is also interesting. There also a Tariff Board had investigated into the conditions of industry ; but thanks to intensive Japanese competition, labour troubles, and letterly, depreciated Japanese currency, the need for some measure of protection was

1. It may be interesting to note, in this connection that, according to a Calcutta message in the *Times of India* of the 26th October, 1934, the customs revenue from sugar for the first 7 months of 1934-5 is expected to be equal to the figure estimated under this head for the whole year. Java is dumping her surplus stocks at any price. The Indian industry has, therefore, demanded extra protection, even though the sugar Excise revenue is likely to exceed estimates.

urgent, if the industry was to be salvaged at all. It was not, of course, an "infant industry", as sugar might claim to be ; but its great importance in the country's economy was as incontestable as its special circumstances demanding protection.

In 1930-31, though the industry was not in an identical situation in all parts of the country alike,—Bombay needing protection most urgently,—the duties on imported Piece-goods were raised from 11% to 15% all round, plus 5% protective duty on all cotton goods imported from countries other than those of the British Empire, with a minimum of 3½ annas per lb. on grey goods.

This was the first step towards the principle of **Imperial Preference** in the Cotton goods, though a beginning had already been made in the case of the Steel Protection Bill of a few years before. The proposal was strongly opposed, but was eventually carried, mainly because it was promised to be for only a period of 3 years. Continued Depression in trade, however, coupled with the growth of the Swadeshi sentiment, in the years 1931-33, brought about a phenomenal fall in the imports of these goods from Britain ; and an estimate of 1.25 crores of revenue from this source was soon defeated. In the years of crisis, 1931-33, the duty was increased by surcharges, from 15% to 25% ; and in 1934, following the report of the Tariff Board, and in accordance with the so-called Mody-Lees Pact between the representatives of the Indian Cotton Industry and those of Great Britain, a new scale of preferential duties was introduced, which is to last for 5 years : These duties are¹ :—

Article.	Nature of Duty.	Duration of the Duty.	Amount or rate of the Duty.
Cotton :			
Thread and Yarn.	Twist Revenue.	...	25%
Of Counts above 50's :—			
British	... Protective.	31-3-39	5%
Non-British	... "	"	6½%
Counts 50's or below :—			
British	... "	"	5% or 1½ annas per lb. whichever, is higher.
Non-British	... "	"	6½ % or 1½ annas per lb. whichever is higher.

1. These are not exhaustive as given in the Tariff Schedules ; but they represent fairly the existing state of duties on cotton goods.

Articles.	Nature of Duty.	Duration of the Duty.	Amount of rate of the Duty.
Cotton Fabrics Crey Piece-goods (excluding Chadars Dhooties, Saris :—			
Shawls	... Protective.	31-3-39	.....
British	... "	"	25%, or 4½ annas per lb. whichever is higher.
Non-British	... "	"	50% or 5½ annas per lb. whichever is higher.
Other Cotton Piece-Goods :—			
British	... "	"	25% Ad valorem.
Non-British	... "	"	50% " "
Textile Manufactures not otherwise specified	... "	"	35% " "

The Cotton Industry has its own claims to consideration by the Indian Government; but its present-protection on a preferential basis has been resented all over the country, as an inequitable bargain with the British interests, which might benefit Bombay mills particularly, but which would not be an unmixed blessing to the rest of the country. In proportion that the Indian Industry produces higher counts goods, it would have to face more strenuous competition with British; and the steadily improving quality of Indian cotton, combined with the practice of importing American or Egyptian cotton, draws that day nearer every year. The Indian cotton grower has received scant attention in this process, except by an import duty on raw cotton of 6 pies per lb. The latest Tariff Board is reported to have been against any preference to British goods; and it had also pointed out certain defects in the internal organisation and management of that Industry, which made heavy protection to it a needless burden to the country. The existing measure of protection is primarily and effectively against Japan, which is supposed to be competing unfairly because of its depreciated currency. But British currency is also depreciated, though the depreciation is not noted particularly in this country, whose currency is linked to sterling. With Japan, however, a treaty has been made since 1933 regulating the import of piece-goods and the export of cotton, so that the problem appears, for the moment at least, to be solved.

Silk Duties.

- (e) Of much less importance, politically or financially, were the changes in the duties on Artificial Silk, yarn and fabrics, raised from 10% to 15%, and from 20% to 40% in the financial crisis of 1931-33. Similarly, the duty on Camphor and Electric Bulbs was raised from 20% to 40% at the same time, and for the same reason; while that on Boots and Shoes was changed to 4 annas a pair, or 20%, whichever was higher.

The general revenue tariff was also increased, in the same period, from 15% to 25%, while a 10% duty was imposed on machinery, dyes and other articles, which were till then free. Surcharges were also imposed of 2½% on articles liable to 10% Import Duty.

„	5%	„	„	„	15%	„	„
„	10%	„	„	„	30%	„	„

All these additions were defended on Revenue grounds only; but an indiscriminate surcharge often hurts, rather than helps, the financial needs of the Exchequer.

Silver Duty.

- (f) Another radical, and severely criticised, measure was an import and Excise Duty on Silver. First re-introduced in 1930-31, at 4 annas per Ounce, the silver duty was, the Finance Minister contended, no innovation. Even before 1910, Silver coin and Bullion were liable to the general Import duty of 5%, while in 1910, the duty was raised to 4 annas per oz. Imports of silver were prohibited in War time, but after the War both the duty and the prohibition of imports were removed. When the duty was, therefore, reintroduced in 1930-31, it was proposed to confine it exclusively to imports consumed within the country, Silver re-exported being offered full rebate of the duty, in order not to check Bombay's growth as a world market in that commodity. The duty was raised from 4 to 6 annas per Oz. in 1931-32, and a 25% surcharge to this duty was added in 1931 September.

The main arguments for this duty, and the contentions against it, are tabulated below.

Arguments for**Arguments against.**

- | | |
|---|---|
| (1) Duty needed for revenue, as also to make a fund for offering to | (1) The duty would prevent a transit trade in silver, which was |
|---|---|

Provincial Governments for nation-building purposes.

The figures of income from this source show a steady decline, from Rs. 230 lakhs in 1930-31 to Rs. 1 lakh in 1933-34 (R. E.) The revenue argument is therefore of no validity.

- (2) Government of India held large stocks of Silver, thanks to the rupees returning from circulation, which they must liquidate. But the duty would raise the price of silver only in the Indian, not in the world, market.
- (2) The duty would place a burden on the Indian consumer of Silver. But the same process, it was argued, would raise the internal price of silver, in which form were the bulk of the people's savings. In view however, of the recent fall in the gold price of Silver, the artificial rise in the price of Silver within the country only had no real benefit to the people of India.

What would be the gain to the country by such an artificial rise in the domestic price of Silver? Government, moreover, could dispose of only a limited quantity of Silver—about 95 million oz. in 5 years ending March 31, 1930. And even that would be reduced under the agreement of 1933—permitting a total sale in 5 years of 175 million oz. Selling to the British Government a heavy quantity at about 25% below U. S. price, the Government of India cannot avail themselves of this argument in their favour.

The recent American legislation has made no material difference, as yet, to the Indian holders of Silver, though Silver prices in depreciated dollars have risen considerably in the last few months.

Neither the Indian, nor the American Government's measures are a solution of the Silver Problem of the world,—and incidentally of stability in the price-level. America seeks, by an International Bimetallism, to introduce a measure of stability, which the rest of the world, unwilling to reintroduce Silver in their currency system, would not endorse. India also no longer desires to use Silver for her local needs,—whatever the future of her Currency system,—as is evident from the steady decline in Silver imports. It may be due to the diminution in the country's purchasing power. But even when the exports from India were showing a much larger excess

than in the years of depression, the balance of accounts was imported far more in gold than in silver all through the present century.¹

With the current Gold Exports, India has a balance of accounts in her favour even in these years of depression, which has not been liquidated by silver imports, and yet she imports no silver. The reason is quite simple. It is a discredited commodity, utterly unwanted for currency purposes. Its price is determined by factors other than those governing the demand and supply of the commodity as a metal, since its new supply is increasingly that of a by-product. It is, therefore, a much less stable medium of exchange, or a standard of value, than Gold. It is, consequently, a needless waste of resources to impose duties on such commodities that no one wants; and duties on which would only hurt the Indian holder of silver by reducing the scope of the free market for that commodity,—such as it still remains. Even the revenue considerations, originally pleaded in its favour, no longer obtain to justify the duty. It may be added that the duty on Silver was reduced by $2\frac{1}{2}$ annas per oz. in March 1934.

- (f) Two other cases of surcharges, or Excise duty, may be specially noticed. The duty on Cigarettes was paid doubly, as it were, until 1934-5, once the usual import duty on Tobacco, plus the surcharge on cigarettes. To avoid that, certain foreign tobacco manufacturers set up factories in India, and so avoided, on their cigarettes made out of foreign tobacco, the double duty noticed above. These interests, however, militated against those of Indian manufacturers of Cig-

1. The following Statistics of Imports and Exports of merchandise, and of Gold and Silver, in the last ten years would be interesting for comparison.

N.B.—The Figures are in lakhs of Rupees.

Year. (1)	Total Exports of Commodities. (2)	Total Imports. (3)	Excess of (2) over (3). (4)	Net Imports of Gold. (5)	Imports Silver. (6)
1925-26	386,81	236,00	150,81	34,86	17,12
1926-27	311,05	240,82	70,23	19,40	19,87
1927-28	330,26	261,52	68,74	18,10	13,84
1928-29	339,15	263,40	75,75	21,20	9,77
1929-30	318,99	249,71	69,28	14,22	8,62
1930-31	226,50	173,06	53,44	12,75	10,08
1931-32	161,20	130,64	30,56	- 57,98	- 42
1932-33	136,06	135,01	1,05	- 65,52	- 2,01
1933-34	150,01	117,34	32,67	- 56,79	- 6,36

The last figures are only revised estimates. The aggregate exports of gold by September 1934, had reached 200 crores of Rupees—a heavy drain. The total gold imports in the years above noted were 120,53—180,29 net exports, or a drain of nearly 60 crores. The total silver imports were 79,30—8,79 or a net import of Rs. 70,69 lakhs.

arettes, and so the Budget of 1934-5 proposed to impose a specific duty on imported Tobacco, Rs. 2/6 per lb. on non-British, and 1/14 per lb. on British tobacco, and Rs. 5-15 per 1000 cigarettes, plus the usual 25% *ad valorem* duty. As the 2½ lbs. were needed for 1000 cigarettes, the duty on foreign, non-British cigarettes made out of non-British tobacco, would aggregate some Rs. 17-13 per 1000, as against the prevailing rate roughly of Rs. 10-10 per thousand, while on British cigarettes it would aggregate Rs. 15-5, or a difference of Rs. 2½ in favour of the British.

Taxation of Tobacco in India, however, presents so many complications, especially in view of the impending Federation, that such changes do not even approach the fringe of the problem.

In the same Budget was proposed a Match Excise of Rs. 2½ per gross of match boxes, made in British India, as also those in Indian States which imposed such duties, and paid the proceeds into a common fund. Out of this fund, it was proposed to make refunds to Indian States in proportion to the consumption of matches in their territory on a population basis. The yield was estimated in a full year to aggregate Rs. 3 crores, of which the share of British India would be Rs. 230 lakhs. Burma having a Match excise of her own, that province was given a refund of 18 lakhs; while the rest of the proceeds were to be devoted to relief of Bengal, in proportion to half of the Jute export duty (190 lakhs). The destination of this duty was an offence to some provinces, which felt that they were penalised for having managed their finances better than Bengal; while it has created a precedent for refunds to Indian States of a tax levied by the Government of India on an article of universal consumption, which is bound to raise awkward issues in regard to the Customs revenues. The rates originally proposed in the Budget were reduced on a graduated scale by the Assembly, in the Act as finally passed, to Rs. 1 per gross of boxes containing 40 matches or less, Rs. 1½ on boxes containing 60 or less, Rs. 2 if the average is over 60, and at such rates as the Governor General may determine on other boxes.

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The subject may be rounded up by adding that, in the August-September Sessions of the Indian Legislature, an Iron and Steel Protection Bill was passed following the recommendations of a Tariff Board which had investigated into that industry, which granted further protection to the Indian Iron and Steel Industry for a period of 7 years ending March, 31, 1941. The Act is to come into force in November next, and imposes, generally speaking, Protective-cum Preferential

duties, ranging from 10% *ad valorem* to 30, with a preferential margin in favour of British goods of about 10%. There is in some cases a specific duty of Rs. 57½ to Rs. 60 per ton; while on many articles an Excise Duty is also levied on goods of Indian manufacture. The protective duty is 1½ times the Excise Duty usually. On this basis, the British imports are not likely to be affected much,—a market of nearly a million tons per annum being left at their service; while a new complication is created by the protective duty being made applicable only to goods made in British India. Steel Industry in Indian States,—particularly Mysore,—is thus exposed, apparently, to unlimited competition both to Indian, British and foreign goods.

Before passing from this subject, finally, it would be useful to add the observation that Excise Duties are generally objected to, on principle, not only because they usually fall on some articles of universal consumption,—like sugar,—and so affect the poorer man much more heavily than the richer; but also because they penalise the local industry, and so injure the prosperity and development of a growing country. The former is an offence against the accepted principles of sound and liberal Public Finance, which would make all taxation graduated according to the ability of the tax-payer. And the latter is even more a radical offence, inasmuch as it jeopardises the whole national economy of the taxing country. The several cases of Excise reviewed in these pages amply bear out the force of these objections. In cases, as in that of the Silver Excise Duty,—where factors are involved other than those noted above; and repercussions have to be taken into account, like the reaction on the world prices of an Indian duty on Silver, the objections to such duties become stronger than ever.

I.—Sea Customs : Imports.

The Indian Customs Tariff, as it stood under the Budget of 1934-5, including the principal Excise Duties, may be summarised as follows :—

N. B.—Figures are in Lakhs of Rs.

¹ (a) Non-Protective Special Duties	...	...	670.25
(b) Duty at 2½% (Vinegar and other articles)	...	...	0.25
(c) " 10%	...	...	134.00
(d) " 15%	...	...	413.00
(e) " 30%	...	...	926.40
(f) " " or Preferential Duty at 20%	...	...	625.00
(g) " Special Rates or Preferential Duty at lower rates	...	...	553.00
(h) Government Stores	...	...	22.00
Total Import Duties			4348.90
" Exports			470.9
Miscellaneous			8.00
Land Customs	...	...	35.00
Excise—			
On Motor Spirits	...	...	470.00
" Kerosene	...	...	295.00
" Silver	...	...	0.03
" Sugar	...	...	147.00
" Matches	...	...	138.00
Warehouse and Wharf Rents, and Miscellaneous	...	...	3.97
Total Receipts			4915.90
<i>Less Refunds</i>			139.90
Net Revenue			4776.00
" Expenditure			100.58
" Income			4676.42

1. (a) Includes Wheat and flour, liquors, molasses, Tobacco manufactured, coal, coke and patent fuel, tin, oils, raw cotton, boots and shoes, arms and ammunition, silver bullion, coins etc. Art silk yarn and thread, piece-goods, cotton yarn, silk and art silk mixtures etc.
- (b) Items already specified above ;
- (c) Includes certain articles of food and drink, raw materials and unmanufactured articles, cutlery and hardware, metals other than iron, yarn and textile fabrics, etc.
- (d) Silk piece-goods and Cinema films, and certain protective Duties at that rate, and heavy chemicals, iron and steel, silver wire, paper and stationery, sugar and candy ; cotton piece-goods, matches and match splints and veneers ; wood pulp.
- (e) Other articles of food and drink, and raw materials or unmanufactured articles, certain manufactures, haberdashery, pneumatic tyres etc.
- (f) Confectionery, ale, rum, beer, spices, tea, tobacco, lubricants motor cars and parts, electric bulbs, toys, games wireless instruments, unexposed films, Portland cements, etc.

Direct Taxes.

Considerable changes were also made in the Taxes on Income,—both the ordinary Income-Tax, and the Super-Tax, during the period under review. Almost every year since the Budget of 1930-31, the rates of Income-Tax and Super-Tax were increased; while in the financial crisis of 1931-3 even the exemption limit was reduced from Rs. 2,000 per annum to Rs. 1,000 as it had been before the War. The present position is summarised in the Table below.

A. In the case of every individual, Hindu undivided family or unregistered firm and other associations not being registered firms or Companies :—

When Total Income is above Rs.	1,000, but below Rs.	1,500 p. a. at 2 pies per Re.
"	"	1,500 " 2,000 " 4 "
"	"	2,000 " 5,000 " 6 "
"	"	5,000 " 10,000 " 9 "
"	"	10,000 " 15,000 " 12 "
"	"	15,000 " 20,000 " 16 "
"	"	20,000 " 30,000 " 19 "
"	"	30,000 " 40,000 " 23 "
"	"	40,000 " 100,000 " 25 "
"	"	100,000 or more " 26 "

B. For Companies and Registered firms a flat rate of 26 pies in the Re.

Super tax applies to incomes over Rs. 30,000 per annum.

In the case of Companies, for the first Rs. 20,000 of excess No Tax.

For every rupee of remainder " 12 pies.

"	Hindu Joint Family, for the first Rs. 45,000 in excess of Rs. 30,000	No Tax.
"	next 35,000	15 " "
"	" 50,000	21 " "
"	" "	27 " "
"	" "	39 " "
"	" "	45 " "
"	" "	51 " "

and so on, by increases of 6 pies in the rupee, after each an additional Rs. 50,000 of income, till a maximum of 6½ annas in the rupee is reached for Incomes of 6 lakhs per annum or more.

For individuals and unregistered firms, no Super-Tax is charged for incomes upto Rs. 30,000; for incomes upto Rs. 50,000 at 9 pies in the Rupee, on the excess over 30,000; and for incomes over 50,000, but under Rs. 100,000/15 pies on the excess over 50,000. For the rest the same rates apply as in the case of the Joint Hindu Families.

The Indian Income-Tax system has been improved, so far as the principle of Progressive Taxation is concerned, inasmuch as the rates have been sharpened, and the gradations have been reformed. But the old criticism, originally made in the *Sixty Years of Indian Finance*, still applies inasmuch as :—

- (a) The incomes derived from Agriculture remain still exempt from taxation ;
- (b) Incomes earned in India but paid abroad also escape taxation ;
- (c) No distinction is yet made between earned and unearned incomes ;
- (d) No proper system of rebates according to the burdens on the income taxed has been elaborated, or even the principle accepted ;
- (e) No allowance is made for business losses in one year against the profits taxed in another, though the two years might be successive ;
- (f) No adequate complement of direct taxation, in the shape of Death or Estate Duties, has been introduced ;
- (g) Abuses in the actual administration may have become fewer, but complaints are still common about the escape of big speculators, and other highly placed or influential individuals from taxation. This is apart from such legal evasion of the tax as the provisions of the law permit. The actual administration of the Tax is vexatious and oppressive to the poorer individual rather than to the richer. This is against the basic idea of this direct tax.

The yield from these taxes has not kept pace with the estimates of the Finance Department in each Budget ; but that does not prevent the tax from being an integral, indispensable, element in the Indian tax-system. These taxes contribute less than 25% of the tax revenues of the Government of India, and so the disparity between the burdens of Indirect Taxation and those of Direct Taxation still continues to be striking. Finally, the co-relation of the Income Tax, with that other considerable item of Direct Taxation, Land Revenue in the Provinces, has yet to be achieved. There seems, however, to be no sign of such consummation being achieved in the near future. The re-distribution of the revenue resources between the Central and the Provincial Governments, in a scheme of federation for India, occasions the gravest anxiety ; and the problem is no nearer solution to-day than when it was first mooted.

Other sources of the Government of India's revenues are relatively inconsiderable, as shown in the following table.

	Interest Receipts	Currency and Mint			Opium			Other heads		
		Revenue—Refunds	Exp.	Net Revenue	Revenue—Refunds	Exp.	Net Revenue	Revenue—Refunds	Exp.	Net Revenue
1927-8	...	2,27	88	1,90	3,94	87	3,07	2,30	55	1,75
1928-9	...	2,88	72	2,17	3,27	55	2,71	2,24	61	1,62
1929-0	4,41	2,74	74	2,00	3,04	49	2,55	2,25	63	1,62
1930-1	...	1,24	97	27	2,53	74	1,79	2,03	64	1,39
1931-2	...	1,79	76	1,03	2,07	80	1,27	2,19	58	1,27
1932-3	1,88	2,31	66	1,65	90	84	6	1,85	58	1,27
1933-4	R. E. 1,59	1,23	61	62	1,59	72	87	1,86	60	1,26
1934-5	B. E. 1,86	1,27	66	61	95	42	53	1,82	58	1,24

The only point of interest worth remarking in these is that the Opium Revenue is rapidly shrinking, and is expected to vanish by 1936, in accordance with the Opium Treaties or conventions to which the Government of India are a party. But the strongest criticism centres round the income derived from the Currency and Mint Departments of Government, as this item is connected intimately with the general financial and credit position of the country at large. Two main lines of criticism are addressed in this connection, viz. that Government, being the only Currency authority in the country, have manipulated the volume of circulation, sometimes contracting, sometimes expanding, in such a manner as not to pay proper attention to the economic needs of the country, but rather in accordance with their own remittance needs. Secondly, thanks to the policy of keeping the Rupee linked to the Sterling, even when that currency itself has broken its moorings to gold, has forced upon the Currency Department a line of action which is directly opposed to the interests of Indian Trade and Industry. As an offshoot of this policy, Government have been obliged to adopt a policy of free, unrestricted exports of gold from the country, which is regarded in Indian commercial circles as depleting the country's reserves,—the exports being really "distress gold" that the Indian tax-payer is forced to throw upon the market because the heavily falling prices of his produce would not permit him to meet his fixed cash charges without trenching upon reserves.

The first group of charges, comprised in the general accusation of Government manipulating the currency system of the country so as to suit their own convenience, may be considered under two main divisions, viz., that of contraction of currency, and its expansion, irrespective of the needs of the country, and simply in accordance with the requirements of Government. The charge of excessive contraction was made in the first half of the tenure of Finance Ministership by Sir G. Schuster; while suggestions of an undue expansion were heard in the last two years. The ultimate reason assigned for the need to contract currency was found in the unduly high ratio of the Rupee, fixed by law in 1927 at 18d, which the critics of the Government policy alleged necessitated contraction; since otherwise

the price-level would not permit that exchange ratio to be maintained. In his Budget speech for 1931-2 (para. 192) the Finance Minister estimated the aggregate contraction in currency, since 31st March 1926 to 31st March 1931, to be about 100 crores out of a total volume of circulation estimated at 520 crores in 1926, and 416 crores in 1931.¹ The fact could not be denied; but the Finance Minister contended that the contraction was much less than the fall in world price-level; for while the former, on those calculations, was about 20%, the latter was about 31%. This is countered by two arguments: (a) Is it necessary and advisable, in the interests of the Indian producer, to keep prices on a par with the world prices, especially when the latter are declining? (b) The fall in the prices of Indian produce was, secondly, much greater than the 31% indicated by the Finance Minister; and therefore the harm to the Indian producer was in proportion. Government stood, no doubt, to make some saving in their sterling remittances by keeping the exchange value of the Rupee artificially high; but that saving was out of all proportion to the loss suffered by the country by means of this artificially appreciated currency. While the saving to the Government, through an 18d. rupee, on sterling remittances of some 40 million per annum, might be less than 6 crores in terms of rupees, the country lost, on an average export of some 325 crores, or about 250 million sterling, over 40 crores per annum! And this process was intensified by the policy of contraction, the fact of which could not be gainsaid by the authorities.

That the price-level of the main Indian produce has fallen even more heavily than that of the manufactured articles not made in India is a phenomenon, not adequately appreciated by those who merely repeat the platitude that prices change according to world factors; and that the contraction in currency is accordingly a consequence, not a cause, of the fall in prices. But, apart from this harm to the country, the policy of steady contraction affects the national finances themselves adversely, inasmuch as contraction is generally accomplished by destroying the

1. According to a Table in the Annual Report of the Controller of Currency for 1933-34 (p. 20) from the 31st January, 1920 to 28th February, 1934, a total of Rs. 455-62 crores of currency, Notes and Rupees, was returned to the Treasury in the slack season, as against a total of Rs. 341-22 crores absorbed in the busy season, or a net contraction in 15 years of Rs. 114-60 crores. If we assume, on the authority of Sir G. Schuster, already quoted, that the country's aggregate volume of circulation is some 500 crores in Notes and Rupees combined, this represents a contraction of 23%. According to Statement XXXV in the same Report, while the outstanding volume of Notes in circulation, on 31st March 1927, the year in which the Rupee was fixed at 18d. gold, was 189-13 crores, it fell steadily thereafter as follows: (the same date in each year is taken to make comparison just.)

1926-27	189-13	Pound Sterling went off the Gold Standard, and permitted a certain
1927-28	180-16	elasticity which has led to a slight expansion, strictly controlled,
1928-29	184-86	however, lest the Indian Price-level should get out of sympathy with
1929-30	183-11	the British desires in the matter. Of this expansion, we shall speak
1930-31	165-19	later. Meanwhile it is worth noticing that the contraction in the
1931-32	163-64	most visible, and easily calculable, form of currency is practically
1932-33	173-83	continuous since the new policy of an artificially enhanced rupee was
1933-34	178-13	adopted.

currency notes outstanding when they are returned to the Treasury, and at the same time an equivalent amount of the Government Securities held in reserve against such Notes. On the securities so destroyed Government lose the interest payable on them; while, since their current needs would not permit them to dispense with floating capital at such rate as was necessitated for currency contraction, they had to issue treasury bills at a heavy interest in an equal volume. The Finance Minister himself admitted: "The deterioration in Government's financial returns is inevitable if the volume of currency in circulation has to be reduced."

Sir George has himself lucidly explained how this deterioration takes place. But those who criticise the main policy can easily rejoin by the remark: why, then, reduce the volume of circulation at all? Indian opinion has never accepted the view that such reduction was needed because price-stability required it, or that world factors affecting the price-level necessitated it.

Because of this lack of the medium of exchange in sufficient quantities, the volume of floating capital available for commercial needs was also restricted, a restriction which was further enhanced by the policy of borrowing at heavy rates on Government Treasury Bills. All surplus funds were thus withdrawn from the market; and the country's commerce was further handicapped by this unnecessary contraction of credit. To this charge, the authorities replied by alleging that the political developments connected with the Civil Disobedience campaign of 1930-32, coupled with suggestions for repudiation of debts, and the impending constitutional changes, had created an uneasiness in the foreign investor, who was withdrawing his capital from India, thereby causing a peculiarly adverse balance of accounts. By their policy of taking up all surplus funds from the market by means of Treasury Bills, at high rates of interest, Government claimed to have prevented this drain of capital, and made India more attractive as a country for investment. Indian critics, however, would not only demur to the advisability of offering special temptation to the foreign capitalists for investing in India; they would question the whole reasoning justifying the policy of Government. No responsible leader of Indian opinion has ever declared for a wholesale and indiscriminate repudiation of India's debts, however tempting such a suggestion might be; while the delay in the promised constitutional changes, and the consequent unrest and distrust in the popular mind, are much more truly at the bottom of this phenomenon than the suggestions of Government in support of their suicidal policy.

The counter charge of expansion in currency was first voiced in the Budget of 1932-33. Government admitted an addition to the circulation of some 35 crores, but against that they set off the previous two years' contraction of 43 odd crores. Even without counting this, they claimed that the expansion was needed to keep pace with the recent rise in prices. But, as a matter of fact, between the date Britain went off the Gold Standard in September 1931, and the 31st, March 1933, there was no rise in Indian wholesale prices. While the monthly average

for 1931 of the Calcutta Index Number of wholesale prices was 96, the subsequent period shows the following variations :—

Monthly average for 1932	...	...	91
" " " 1933	...	...	87
" " " 1933-4	...	...	88.3

On the whole, then, on this line of attack, *viz.* that Government have manipulated in recent years the Indian Currency system to suit their own convenience in remittance, rather than the interests of the country they govern, there is little valid defence. So long as the Indian Government are the central currency authority of the country, they cannot escape such accusations, merely because of the office they perform. Besides, while the Currency is tied to a variable standard, like the Sterling, and is not self-acting, the necessity to manipulate would be unavoidable. All currencies in the world to-day are, in this sense, manipulated ; but whereas, in the case of other nations, the Governments of their countries are supposed to act primarily if not exclusively in the interests of their own people, the present Indian Government, acting in subordinate co-operation with the British Imperial Government in such matters, necessarily incur the not unreasonable nor unfounded charge that they do not consider, primarily and entirely, the interests of India. While elsewhere critics have to curb Governments in their zeal for depreciation of local currency, as a means of restoring national prosperity, in this country the Government is criticised because it keeps up the exchange value of the local currency artificially and excessively high. While elsewhere Governments are criticised because they make their Central Banks hoard gold, and prevent export of that commodity, Indian Government have permitted freely the export of Gold, which their critics hold to be the surest weakening of the entire Indian credit structure for the future. These are charges inevitable from the nature of the Indian Currency system, the basic principles of its operation, and the constitution and complexion of the present rulers of India.

We have also, incidentally, considered, in the foregoing remarks, the second group of accusations against the Indian currency policy. When Britain for her own reasons discovered that the Pound Sterling could no longer be maintained in fixed ratio with gold, because of the latter's being overvalued in terms of Britain's productive capacity, and she went off Gold, even though she was the world's banker, and had large foreign deposits in her banks ; India, in stead of being allowed to let her rupee find its own exchange level, was tied to the juggernaut of Sterling. The reason given for such a course was that, left to itself, India might have such an inflation that one did not know where the process would lead to. But because of the resolve to keep the Rupee linked to sterling, at a time when the credit and trade of India was very low, Gold had to be permitted to be freely exported if the accepted policy was not to be rendered utterly impossible. Gold Exports, therefore, from India facilitated the maintenance of the Rupee at an impossibly high level, at a cost to the country which is not to be measured in the mere loss of the Gold exported,—though even that has come to be nearly

200 crores in 3 years since September, 1931. In Budget after Budget presented since Britain went off the Gold Standard, the Indian Finance Minister has laboured the point that the exports of gold were nothing in proportion to the amounts imported and locked up in India in the last 30 years ; that the liberation of this gold must help world recovery ; and that not all the gold thus released by the Indian holder was "distress Gold," or the reserves of capital of the Indian people. He pointed to the increase in the amount of the Post Office Cash certificates, and the volume of the Savings Banks deposits, as evidence of this released gold having been converted into another form of investment.¹ He forgot, however, that the Gold exports from India were at rates far sharper than the imports of bullion in the years of prosperity ; he overlooked the fact that the released Indian Gold was not really available as some new blood to revivify the world's industry and commerce, but that it was locked up in American and French Bank-vaults, so that India was made to offer herself in sacrifice without the world price level improving in consequence. Those who argue in the strain of the Indian financial authorities naturally do not even glance at the inconvenient fact that in all other countries, suffering from the same type of evils that India was supposed to be, the measures of relief or protection adopted were radically different from those taken in India. But even they cannot be allowed to neglect the simple fact that had India been free to allow its Rupee to find its own exchange level in the world markets, in the conditions of 1931-33, it would have brought prosperity to the country within 3 months after such a policy had been announced. The Indian Government would thereby have been landed in no bottomless trough of inflation and discredit and insolvency,—as conjured up annually by the Budget ; in stead they would have had merely to watch the rupee declining, at first in terms of Gold, or even sterling, and fetching thereby sharply raised prices in rupees for Indian exports, which were being strangled by the currency starvation policy of Government. Once the stream of exports was released from the dam erected by an unnaturally high and fixed exchange against it, the world demand for Indian products, and therefore for Rupee exchange, would have been sharp, and swift and heavy. Without any inflation, Government could have met this demand for Rupees from the world markets, either in exchange for Gold,—which would then have been imported rather than exported, at day to day prices somewhat in the same manner that Britain herself has been doing through her banks ; or in exchange for their own obligations abroad, liquidated and replaced by corresponding obligations in India. In either case, there would have

1. According to a calculation presented by the Finance Minister, in the Budget for 1934-35, India exported Gold, in fifteen months ending 31st, December 1932, of some 107.08 crores ; and, in addition, there was surplus of commodities exports of 19.92 crores, 127 crores or £95.3 million. Out of these Government acquired £69.7 million, from which they paid off sterling obligations of £34 million, and another £15 million short terms bonds in sterling. £11 million were added to Currency reserves, and £9½ million was to cash balances. Of the balance in public hands, £25.6 million, about £11½ million was used to pay off foreign banks' holdings of the Indian Treasury Bills, (perhaps an index of the real export of foreign Capital invested in India ?) and the balance used for private needs (perhaps a measure of living upon capital ?)

been a serious accession of strength and solidity to the Indian currency and credit system. Gold would have flowed into the country to be placed in ever strengthening reserves. And prices in Rupees would have ruled at a level at which India could best remunerate her producer competing in the world markets. And Government revenues, Government *bona fides*, would not have suffered, or been challenged, in the least. As it was, the country in these years has lost rupee values of some 500 crores, counting only the price-level and export trade on 1929-30 basis.

II.—Railways.

The Railway receipts have perhaps deteriorated the most during these years of Depression, as the following Table shows, and all the attempts at improving them by means of Rates and Fares manipulation and surcharges have not made matters better.

N. B.—Figures are in Lakhs of Rupees.

	1927-8	1928-9	1929-30	1930-31	1931-2	1932-3	1933-4 R. E.	1934-5 R. E.
Gross Traffic Receipts...	103,48	103,73	102,70	95,10	86,63	84,43	86,50	94,25
Operating Expenses ...	53,06	54,22	55,59	54,39	49,31	49,08	49,44	52,25
Depreciation Fund ...	11,38	12,00	12,59	13,07	13,46	137,7	13,60	13,65
Net Traffic Receipts ...	38,99	37,51	34,52	27,64	23,86	21,58	23,46	28,35
Net Miscellaneous charges ...	87	37	2	11	- 1	- 1,10	- 1,16	1,60
Net Revenue ...	38,12	37,14	34,50	27,53	23,87	22,68	24,62	26,75
Interest charges ...	27,27	29,33	30,46	32,72	33,07	32,91	32,40	32,05
Surplus ...	10,85	7,81	4,04	- 5,19	- 9,20	- 10,23	- 7,78	- 5,30
Contribution to general Revenues ...	6,28	5,23	6,12	5,74	...	...	...	...
Transferred to Railway Reserve ...	4,57	2,58	- 2,08	- 10,93	- 49,95	...	...	...

Postal Rates.

No changes, however, in the Revenue resources of the Indian Government, or their Tax-receipts introduced by Sir G. Schuster, was so hurtful to the interests of India as his enhancement of the postal rates. That these charges have an element of taxation; that they operate injuriously on that form of "consumption" which it ought to be the most earnest duty of every civilised Government to encourage; that they impeded trade and postponed recovery,—were considerations all forgotten in the mad search for revenue, more revenue, and still more revenue. The Indian people had lost the $\frac{1}{4}$ anna postcard sometime before Sir George came to the country, as also $\frac{1}{2}$ anna letter. These used to be the boast of the Indian Post office; but they are no more. The present rates, sanctioned in the latest Finance Act, are:—

Inland Postal Rates : Letters.

For a weight not exceeding $\frac{1}{2}$ Tola	...	...	1 anna
For a weight Exceeding $\frac{1}{2}$, but not exceeding $2\frac{1}{2}$ Tolas	...	...	$1\frac{1}{2}$ "
For every $2\frac{1}{2}$ Tolas, or fraction thereof, exceeding $2\frac{1}{2}$ Tolas	...	...	" "

Postcards : Single ... $\frac{3}{4}$ anna ; Reply paid ... $1\frac{1}{2}$ annas

Book, Pattern, and sample packets :

For every 5 Tolas, or fraction thereof	$\frac{1}{4}$ "
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Registered Newspaper :

For a weight not exceeding 8 Tolas	$\frac{1}{4}$ "
For a weight exceeding 8, but not 20 Tolas	$\frac{1}{2}$ "
For every 20 Tolas exceeding 20 Tolas	...	...	$\frac{1}{2}$ "

Parcels :

For a weight not exceeding 20 Tolas	...	...	2 "
For a weight Exceeding 20, but not 40, Tolas	...	...	4 "
For every 40 Tolas, or fraction thereof, exceeding 40 Tolas.	...	...	4 "

These rates, it may be added, have been revised, and in some cases reduced, in comparison to the rates prevailing before the Budget of 1934-35. But even so, they continue to be disproportionately high; and the powers that be have hardly even now realised that high rates have a tendency to defeat their own purpose, when the law of Diminishing Returns sets in.

In all other respects, also, the main critique of the Indian Post Office policy made in the main work to which this is a supplement remains unaffected by recent changes.

Conclusion.

In every department of the Indian Public Finance, then, this review shows a steadily worsening position, which the continued depression in world trade and industry has only served to intensify. The interests of India proper being in many vital matters in unavoidable conflict with those of Britain, the present rulers of India have persuaded themselves that what their superiors from "Home" order them to carry out must necessarily be the best. It is accordingly no matter of surprise that the financial policy and administration of India provokes the sharpest criticism from the nationalist circles in the country, now becoming increasingly conscious of harm done to our national interests. And the consciousness is the clearer because of the expectation of impending constitutional changes, and the realisation of the inability to improve matters if and when the nationalist leaders themselves take over charge, simply because a wrong turn has been given and hostile elements implanted in the country.