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RECENT INDIAN FINANCE
BY D. E. WACHA,

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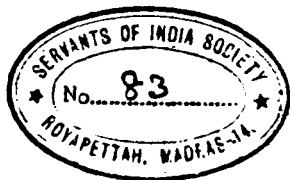
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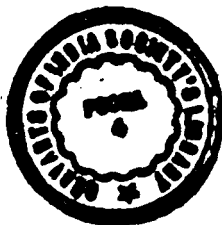
Recent Indian Finance

BY

DINSHA EDULJI WACHA.



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NOTE.

This brochure owes its origin to the request made to me by my friend Mr. Natesan of Madras to reprint in their present form the letters on Indian Finance which, thanks to the courtesy of its accomplished Editor, I had lately contributed to the columns of the *Times of India*. In complying with his request I have embraced the opportunity to preface the letters by an article which I contributed to the *Indian Review* on the subject of Indian Financial Reform and by a few supplementary observations called for by the speech which Mr. Montagu, the Under Secretary of State for India, made in the House of Commons on 26th July last. These papers will inform those who take an interest in the finances of the Empire how imperative is the necessity for effectually checking and controlling expenditure which for some years past has been allowed to overrun the normal revenue at a pace which is positively disquieting, if not alarming.

BOMBAY,
15th September, 1910. }

D. E. WACHA.

MR. MONTAGU'S INDIAN BUDGET SPEECH.

It is, indeed, a disappointment to students of Indian Finance that the Under Secretary of State for India, in his recent Budget speech in the House of Commons (26th July), should have confined himself to the barest generalities, without making any serious effort to justify the recent imposition of the enhanced taxation and allay the prevailing uneasiness on account of the overgrown expenditure which is even *now* mounting at a higher ratio than the revenue. As to the increased burden of taxation placed on the shoulders of the taxpayers, Mr. Montagu observed:—

“The main cause of this additional taxation is that while the revenue, owing to the remission of taxation under certain heads, has not expanded, *there has been a very large increase in the expenditure under certain heads with which the revenue had not been able to keep pace.*” Further on, he observed that “despite the prosperity of India, the increase in its expenditure on subjects such as I have mentioned, the condition of the revenue, owing to remission of taxes, the prospective loss of revenue from opium, account for new taxation this year.” This is rather a different story

from that related by the Finance Minister on the spot, fully conversant with all the details of revenue and expenditure. It is necessary to recall here the words of that authority in reference to the reasons of the enhanced taxation as categorically stated in the Financial Statement of 25th February last. It is observed in paragraph 19th that there were "two plain and adequate reasons" for the imposition of that taxation. "In the first place" observed Sir Fleetwood Wilson, "the reduction of our exports of opium to China will cause a serious fall in our opium revenue. In the second place, we are obliged to abandon to Eastern Bengal and Assam a much larger share of its land revenue than it has hitherto retained. *These two factors dominate the position for 1910-11. Apart from them we should have been able to meet the growth of our expenditure from our growing revenues.* Now, it may be admitted that both authorities assign the prospective diminution of opium revenue as one of the reasons which have necessitated the enhanced taxation. But the fallacy of this reason has been so completely and universally exposed that it would be a waste of breath and energy to hang any further comment on the point. Facts themselves have painfully contradicted both authorities; while Sir Sassoon David and his col-

leagues in the Viceregal Council who exposed the hollowness of the reasoning have been amply justified in the criticisms they made touching the underestimates of the opium revenue. The latest figures, as published in the *Gazette of India*, show that the gross opium revenue already received in the Imperial Treasury for the four months of the official year ending with July last amounted to 3·83 crore Rupees against only 1·97 crore Rupees in the corresponding period of last year. Practically, the excess is 1·86 crore Rupees, and there are yet eight months to run. Assuming even that during those months there may be no further windfalls, is it not apparent that the entire deficit, for which the enhanced taxation has been imposed, is already made up?

But the Under Secretary observed in his speech that owing to the last remission of the Salt duty and the very insignificant loss in the amount of the Income-tax by reason of the taxable minimum being somewhat raised, the revenues have not yet overtaken the expenditure. This is unfortunate. Worse still is that the Under Secretary offered no convincing explanation for this growing expenditure. On the other hand, the Finance Minister declared that the normal growth of the expenditure could have been met "from our growing revenues!" The distant, and

least informed authority at Westminster assured the House that the revenue had not yet overtaken the increased expenditure, whereas the nearer and most informed authority declared that but for the larger assignment made to Eastern Bengal and the prospective diminution in the opium revenue, he would have been fully able to meet the growing expenditure from the "growing revenues." Here, then, is to be noticed a wide divergence in the two statements which inform us plainly how far neither the one nor the other authority has been able to justify even by a hair's breadth the imposition of the enhanced taxation. It is a pity that no member of the House of Commons rose in his place to point out this conflict of opinion between the two authorities. He might have well inquired as to which authority it was whose statement the House could most rely upon!

It is superfluous to further comment on that part of Mr. Montagu's speech which has reference to the Budget. He made no attempt whatsoever to justify the immense growth in civil expenditure and railway interest charges. More. It is, indeed, amazing for a responsible Minister to rise in his place and shew no concern whatever for the still alarming pace at which expenditure has been allowed to grow, in face of his own admitted fact that the revenue has not yet over-

taken it. Any honourable member with an economic conscience might have reasonably put the question to Mr. Under Secretary Montagu whether it was a wise and sound policy of public finance to allow expenditure to run at double the speed at which revenue was growing, especially for a country situated like India where the annual revenue was almost wholly dependent on the condition of each year's agricultural prospects, not to say aught about the extremely limited sources of revenue for purposes of taxation. It is superfluous after analysing the figures of net revenue and expenditure in my letters to the *Times of India* to dive further into them. But to me it seems extraordinary that in face of the salutary criticism made by the popular representatives in the Viceregal Council, those responsible for the soundness of Indian finance should still light-heartedly talk of the growing expenditure which, I repeat, imperatively demands a serious curtailment. I have only to adduce the latest figures of net revenue and expenditure, tabulated in the Explanatory Memorandum for 1910-11 issued by the Under Secretary of State for India and presented to both Houses of Parliament on the eve of the Budget debate, and contrast them with those of 1906-07, the very year which Mr.

Montagu specially chose in his speech for purposes of a fair comparison of the actual position of the finances for the current year, in order to emphasise the correctness of my statement.

In Million Sterling.

	Net Revenue.	Net Expenditure.
Accounts 1906-07 ...	48·95	47·36
Budget 1910-11 ...	50·22	49·85
Increase	<u>1·27</u>	<u>2·49</u>
Ratio of Growth	2·60	5·25

It will be seen that, *in spite of enhanced taxation*, the net revenue has grown since 1906-07 to the extent of 2·60 per cent. whereas the net expenditure has grown to the extent of 5·25, a trifle more than double! What a strange fatality is here! And yet the Under Secretary of State seemed to think there was nothing unsound in this position! With such little care and less financial statesmanship is the Indian financial bark steered by those who, under the Parliamentary Statute of 1858, for the better government of India, are made completely responsible to Parliament! Evidently, Parliament has relegated its trust back to Providence!

Recent Indian Finance.

THE CASE FOR INDIAN FINANCIAL REFORM.*

It is now an axiom of economists and financiers that the expenditure in a modern State almost wholly depends on its policy. For instance, the Continental States in Europe have great frontiers. The frontier of one country borders on that of another. Sometimes it so borders, not on one side only, but three. Under the circumstances it has virtually become a necessity with each of them to preserve and defend its frontier or frontiers, under the natural instinct of self-preservation. National defence is a paramount necessity. It implies the maintenance of a regular army for purposes of offence and defence. The latter contemplates the army on what is called a peace footing; the former on a war footing. Each State considers what may be the number of troops required for each purpose. That number depends on the strength of the neighbouring State. A State which is powerful, wealthy and militant, imposes on its neighbour an army sufficient to withstand an invasion. The

* Reprint from the *Indian Review*, April, 1910.

State first *determines the policy* of offence and defence. On that policy in turn depends the actual cost of the army annually.

Or again, there may be a country which has no land frontiers to defend. It may be seagirt as the United Kingdom is. Seagirt countries necessarily are ever in the pursuit of foreign commerce. That commerce, of course, is carried by a mercantile fleet, but lest it should be molested or seized in times of war, it becomes the paramount duty of the maritime State to protect it. It has also to defend itself against another naval State which may invade its shores. Here it becomes the question of maintaining a powerful navy both for purposes of offence and defence. The cost of the maintenance of such a navy is thus, again, determined by the naval *policy* of that State.

Policy, therefore, dominates State expenditure in every civilised country of the world. Policy, again, divides itself into two broad branches, foreign and domestic. The foreign one is more or less in relation, firstly, to offence and defence, and, secondly, to trade and commerce with countries abroad. The domestic policy is confined to the carrying on of an orderly but progressive administration which shall conduce to the greater development of the coun-

try and its resources. Here the ultimate aim and object must be the greater production of wealth which is necessarily the 'sinews' of an administration. *Hence the character of the domestic policy of a country determines the cost of its annual expenditure for the above purposes.*

India has on her north-west and north-east a wide frontier extending over hundreds of miles, which, though almost secure by natural barriers, demands some protection from external aggression. Besides, surrounded as she is on her three sides by sea, with her tremendous coasts, there is need for maritime protection. But so far, as the fear of a foreign invasion by sea is remote, the need of a strong navy is not at all paramount. For internal peace, however, and for purposes of repelling external aggression on the frontiers, a moderate land force has long become inevitable. Here the State policy determines what should be the strength of the force. On that number depends the annual cost of maintaining the army. Unfortunately, the policy with regard to the army has never been constant or consistent. It has varied with the conflicting views of the various "experts" who have been quinquennially entrusted with the chief command of the troops, modified only by the character generally of the Government of

India itself for the time being. A pacific Viceroy may curb the zeal of a warlike Chief, while a warlike Viceroy with a warlike Chief may engulf the country in a costly and wasteful war. After the days of the Mutiny what has been known as the Laurentian policy was in vogue till 1876. It was the policy of what has been thoughtlessly christened that of "masterly inactivity." It was inaugurated by the great Sir John (afterwards Lord) Lawrence and firmly maintained by his successors till the retirement of Lord Northbrook. And there was no Anglo-Indian administrator who had a broader and more intimate experience in their minutest details of the requirements of the country and the sentiments and feelings of its people than that great Pro-Consul whose name shall live in British Indian history so long as the British Indian Empire lasts. Sir John insisted upon never interfering with border politics. His Government wisely recognised that the safest and the most economic way of defending India against external aggression from the land-side was to remain *within the natural boundaries of the country which are almost wholly impregnable*. It was a policy of remaining at peace with the border tribes instead of pouncing upon their barren territories and difficult mountain passes

under any pretext or no pretext whatever. That statesmanlike policy was recognised by the British Government at home. It continued to be maintained, despite spasmodic ebullitions of the Jingoës of that generation, till the advent of Lord Lytton, with Mr. Benjamin Disraeli, that "Guru of Gunpowder and Glory," as the Prime Minister of England. He was no doubt the precursor of that "insane" militant Imperialism which has since made such rapid strides in Little England and which wrought the South African War, with its fresh burden of national debt to the tune of 250 million £. Lord Lytton brought with him in his pocket a new foreign policy. It was the very opposite of the Laurentian one which had worked so beneficially for the country and limited military expenditure for well-nigh a quarter of a century to the modest figure of 16 crores of rupees. It had for its aim and object the spoliation of Afghanistan which Lord Northbrook nobly resisted till at last he was driven to resign his exalted office. The pretext of the presence for a time of the Russian Embassy at Kabul in 1875 was made the signal for going to war with the ill-fated Ameer Sher Ali. The rest is history and it is superfluous to enter on it.

But the historical sequence of this new

frontier policy may be briefly related as it would clearly demonstrate how far it has been *mainly* instrumental in mounting up military expenditure, now standing at the colossal figure of 32 crores of rupees per annum. Though the Simla Army Commission of 1884 recorded in black and white that for all purposes of internal defence and repulsion of external aggression—with Russia nearer to India than she was in 1873 when the Gortschakoff Clarendon Convention was brought into play—an army of 60,000 British and 120,000 Indian troops was ample, the spirit of spread-eaglimism or “forward policy” had taken deep root both in England and India. There was first that absurd artificial Penjdeh scare in 1885. It was simply a blind to increase the British troops by another 10,000 and the Indian by another 20,000 men, with the ultimate object of seizing Upper Burma. The history of that forcible seizure, without any rational or justifiable pretext, may be left severely alone. The Blue-Book thereon fully relates the tale.

But the reader should remember how the mischievous and costly Second Afghan War had slowly led to the acquisition of the ancient Kingdom of the Alamporas. The land grabbing fever had by the time completely set in. And there

was always held before the ignorant and affrighted British public the Russian bogey. The third stage of "insane" militant Imperialism was reached when Gilgit, Hunza, Nagyar, were acquired beyond the natural frontiers of India. It was the only next best step to acquiring Kashmir which was contemplated in 1890, but fell through. At the heel of the acquisition of these three border and strategical places came the Tirah expedition which ended so disastrously to British arms. The process of "scuttling" had to be performed. That was the fourth stage.

The fifth was reached under our "greatest of Viceroy's" with the Jingo Unionist Government in power. Imperialism of the reddest was in the ascendency, the same which had provoked the Boer War. That Imperialism had so intoxicated Lord Curzon that he successfully engineered the glorious or inglorious Tibet campaign. The British people were presented with a dismal picture of the Indian frontiers. In his own grandiose, but far from convincing, style, he informed them that India had become a tremendous frontier State like Germany and Austria—surrounded by a great military power whose further resistless march (?) nearer must be repelled at all cost and hazard!! Then, again, a brand new province was formed on

the frontiers and transfrontiers of North-West India. And the last stage was reached when Lord Kitchener fought and won his pet scheme of a revolutionary army reorganisation the chief merit of which, from the point of view of the taxpayer, was an annually recurring burden approaching 3 crores of rupees !

Thus, militant Imperialism has passed in India through *six progressive stages* between 1876 and 1904—a period of unceasing military activity and proportionately increasing military expenditure. Of course, the military policy underwent rapid changes, each change involving larger and larger expenditure, apart from that which India had had to incur in pursuance of that disastrous amalgamation scheme of 1859—the scheme which has involuntarily made poor India a mute and fettered partner with wealthy England. The net result, then, of this adventurous military policy of the Government of India has been that the army charges now cost 32 crores against 16 crores in 1874 ! Here may be seen the most striking instance in modern British India of the consequences of the fateful *military policy* of our rulers. Military expenditure doubled itself in 20 years !

How, again, the policy in the matter of civil administration, including public works, has led

similarly to an equally appalling growth of expenditure may be briefly related. As to expenditure on the purely civil administration of the provinces, it may be said that the progressive character of the country rightly demanded it. And so long as it was moderate, there was nothing to be said in disapproval thereof. But the cry of "efficiency" was loudly raised by Lord Curzon. A variety of new "Imperial" departments were established with but doubtful benefits to the general taxpayer. Other civil charges and works were equally augmented, specially those for the Police, the reform of which, though emergent, has been hardly attained with any thing approaching beneficial result to the population at large. So that during the decade which ended with 1907-08, the net increase was 9·46 million £ equivalent to 14·19 crore rupees, without including famine insurance charges.

But apart from civil charges, there has been a larger expenditure by way of interest charge on account of railways. For the past few years the policy of the Government has been of a character which must needs cause the greatest embarrassment in Indian finance in the near future. It may be useful to remember at this stage that the expenditure on railway construction and extension

is of a twofold nature. There is the expenditure incurred year after year (1) from revenue account and (2) from public borrowings. There has been a growth in expenditure of railways chargeable to revenue of 6·73 million £, say 10 crore rupees. The larger the amount drawn from the ordinary revenue for railway purposes, the greater is the diminution of funds for more pressing objects of public utility, like education, sanitation, and so forth. These are comparatively starved, while this enormous sum is spent on railways of doubtful utility to the population at large. But this is only one part of railway expenditure. There is also capital expenditure. That, too, has immensely risen, from 3·31 million £ in 1898 to 13·71 million in 1908, say on an average 10·40 millions, equivalent to 15·20 crore rupees. Practically the growth has been larger and larger since 1902-03 as may be better apprehended from the following figures:—

1902-03	...	...	4·63 million £.
1903-04	...	...	4·68 „
1904-05	...	...	6·02 „
1905-06	...	...	22·44 „
1906-07	...	...	7·93 „
1907-08	...	...	12·71 „

Thus, for the last four years the annual average is 12·23 £ against 4·65 £ previously. It is an

annual growth of 7.58 million £ on which, of course, a larger interest charge has to be paid. The amount estimated for the current year in the Budget is 5.86 million £ against 5.03 million in 1906-07. Practically in 4 years the interest charge has increased by $1\frac{1}{4}$ crore rupees, while the normal growth of net revenue has been 80 lakhs only. This enormous expenditure on interest is undoubtedly the result of the very extravagant railway policy of the Government which has been in vogue during the last 5 years. It is entirely owing to the outcry of the purely European Chambers of Commerce. The object, however, of this paper is not the discussion of the justice and expediency of the railway policy of the Government. It is simply to illustrate the broad fact *how far policy entails State expenditure.*

This brings us to the question of the reform of Indian finance. It would be altogether impossible in these columns to deal exhaustively with this subject. Its fringe only can be touched. What the representatives of the taxpayers in the Viceregal Legislative Council should press on the attention of the Government is *the urgency of formulating its domestic and foreign policy* on both of which depends the expenditure of the Empire. It is of no use entering into the ques-

tion of economy and retrenchment so long as the Government continues to carry out its present policy in regard to civil and military expenditure on the one side and railway capital expenditure on the other. What needs to be carefully and vigorously pointed out is the greater strain put on the slow growing resources and revenues of the country. Enhanced taxation alone is the outcome of its policy. Therefore, it is necessary to modify that policy. Indeed, this modification of the policy is absolutely essential as a preliminary to financial reform. For so long as the present policy, which leads to expenditure from time to time by leaps and bounds, is persisted in, it is hopeless to see Indian finance established on a sound and healthy footing. While the resources of the country for the purposes of taxation are limited, it is economically unsound to mount up expenditure without any well-defined limit. The ability of the taxpayer, too, has to be carefully considered. At present it seems that he is almost wholly disregarded. We have seen, how, in spite of the reasoned remonstrance and protest of the representatives of the taxpayers in the Viceregal Legislative Council on the occasion of the introduction of the Budget, the Government has simply carried out its pre-determined object

of enhancing taxation without any valid reason. If the Government will not in the immediate future modify its policy so as to relieve Indian finance of its embarrassments, the result will be that expenditure will go on recklessly increasing, as it has done during the last ten years, certainly entailing, as the night follows day, additional taxation. To demand a Retrenchment Committee would be a mockery for the simple reason that the laborious proceedings of that body will only end in a barren result. Who is unaware of the insignificant economies which Lord Dufferin's Committee of 1886 recommended under the presidency of Sir Charles Elliot? Poor as the economies were, they were immediately swallowed up by the expenditure consequent on the fateful foreign policy that came into vogue at its heels; and later on the domestic, too, of which the closure of the mints was the most mischievous and unstatesmanlike. Retrenchment and economy are out of place so long as the policy which leads to financial crises, from time to time, and consequent enhanced taxation, is not modified. It is like the procedure of the proverbial Mrs. Partington mopping the Atlantic. You may economise at the best to the tune of a crore or two, if ever so much, but the saving

will soon be swallowed up by the surging sea of larger expenditure.

Next to a satisfactory modification of the present foreign and domestic policy resulting in moderate expenditure, the cry should be for the independence of provincial finance. It should be forever emancipated from the thralldom of the Imperial Government. There ought to be *genuine decentralisation*, not the mockery of the one which has, under various guises, been going on since the days of Sir John Strachey. Imperial finances demand decentralisation altogether on a different basis. The present position is this: There are two partners in the revenues of the Empire—the Imperial Government on the one side, and the different Provincial Governments on the other. But the *anomaly* is that while the unproductive partner pounces upon the resources and earnings of the productive, in the distribution of those resources and revenues, the productive partner is given the crumbs. The non-productive reserves for his own use the fattest portion which, of course, it spends like the prodigal. Each province puts forth its best efforts to increase its revenue from year to year in order that it may be able to meet the larger demands which a progressive administration requires for the better welfare of its people. But

as the Fates would have it these hard toilers are not allowed to enjoy wholly the just fruits of their diligence. The Imperial Government in every sense of the word is an unproductive element in the finances of the Empire. *It produces nothing*; but it sweeps away into its own treasury the whole of the provincial revenues and then apportioned as it pleases what each should have after reserving the biggest slice for itself. Now, were the apportionment anything approaching fairness the action of the unproductive partner might be tolerated. He goes in for big pyrotechnic displays in the shape of ever-mounting military expenditure. He multiplies civil establishments, creates fat berths, spends freely right and left without check and control, the productive partners not being in a position to prevent him from spending their substance in this manner. More. The prodigal, without a penny in his pocket, borrows right and left in order to indulge in the grand luxury of railways at breathless pace, here, there and everywhere. He never cares what burdens such annual borrowings cost by way of heavier interest charge year in and year out. Sufficient for the day if by sheer force of the privilege and power he wields he can get the productive partners to provide for the interest! It is

altogether an one-sided partnership. It is wholly unnatural and can hardly be justified on grounds of equity and fair play.

What is really wanted for purposes of a genuine decentralisation of Indian finance is a certain well-thought out and well-defined method whereby each Provincial Government may enjoy the fruit of its own diligence, while contributing a reasonable percentage of its revenue towards the expenses of the Imperial Government for purposes of general supervision and nothing more. By all means let the army and the railways be kept under its charge and control. But let their maintenance entirely depend on what each Provincial Government is able annually to offer. Let the percentage of the share the Imperial Government should obtain from each Provincial Government be carefully ascertained and fixed by parliamentary legislation. Let the percentage work automatically, that is to say, the Imperial Government should obtain more when the Provincials are enabled to obtain more and less when the Provincials obtain less by reason of famine or other causes. For instance, assume that Parliament assigns 40 per cent. as the fair share of the Imperial Government under certain well-defined conditions and limitations. The 60 per cent. should

be the share of each Provincial Government. When the provincial revenue expands, its own share will be larger but automatically the 40 per cent. will yield a larger share also to the Imperial Government. When owing to famine or other causes the revenue is less for the Provincials, the Imperial will also get less. The advantages of such an apportionment are obvious. On the one hand, the scheme will give a reasonable contribution to the Imperial Government for its annual expenditure. The temptation to spend right and left without thought for the taxpayer will be greatly minimised. On the other hand, the Provincials will be able to work out better their financial salvation. Their productive diligence will be greatly stimulated. The more they get, the more they will be able to spend on the moral and material progress of their respective population and, of course, the Imperial Government will have its share of the provincial prosperity. Another provincial advantage will be this: That each province will vie with the others. At present, a backward province has no incentive whatever to expand its revenue, because it can always fall back upon the Imperial Government for doles whenever its revenues do not suffice. See how the Eastern Bengal Government has been able to get a dole

this year. Practically, all the other provinces have combined, as it were, to fill the deficit. Each province must be made to pay its way, but no province, under this scheme, can look forward to receive a dole from any other. This is the only rational and impartial scheme of decentralisation of Indian finance. This is the great financial reform loudly called for. To do aught else is simply to palter with our finances. Such paltering cannot help the taxpayer. If at all, it will throw greater burdens on him in the future by way of taxation, and even when the augmented taxation is placed on his shoulder many urgent wants will remain unsupplied.

Two points only need to be pressed on the attention of the Imperial Government by the popular representatives in the Viceregal Legislative Council. Firstly, a modification of its present foreign and domestic policy which is entailing year in and year out a larger and larger expenditure for which now and again enhanced taxation has to be levied ; and, secondly, decentralisation of the finances on the lines indicated. But in order that the voice of the popular representatives may be effectively heard and attended to in the Imperial Council it is necessary that the leading recognised public bodies, European and Indian, should adopt as planks of their platform

for financial reform, the two suggestions made. Let them discuss and thresh out the subjects during the next twelve months. Let them educate the public through their organs of public opinion. And let the voice of the whole country be echoed by their representatives in the Council next year. If the Imperial Government is sincerely desirous of taking the people more into its confidence and to reform Indian finance, it ought to pay heed to the popular voice in the Council. It may be that a year may not suffice for such agitation, but whether it takes two years or ten the time is ripe for a constitutional agitation of this character. We know the walls of the Council Chamber will not fall at once to the trumpet blasts of the representatives, but we are confident that repeated blasts must in the long run bring it down. So let our people begin this agitation in right earnest. It is of no use fighting for the shadow of representation and seats in the different Councils. Let them fight for the substance and that substance is Indian finance. In its prosperity lies our country's prosperity. And all who love their country ought to gird up their loins and enter the lists till the battle is fought and won. That it must be won in the end goes without saying. Only we must put our shoulders to the wheel and work on in right earnest till the goal is reached.

GROWTH OF EXPENDITURE.—I.*

The recent Return of the net income and expenditure of British India for the ten years ending 1908-09, presented on 26th April last, to both Houses of Parliament, impels me to pursue a little further the parable on which, thanks to your courtesy, I was able to discourse in your columns three months ago, namely, that the ratio of the growth of net expenditure was considerably higher than that of revenue. That fact is fully emphasised by the financial statistics disclosed in the Return. It can be clearly apprehended from the following comparative statement:—

Net Revenue in Million £.

	1898-99.	1908-09.
Land, including Forest.....	19·34	21·08
Opium	2·23	4·65
Taxation	18·40	20·84
Commercial Services, including Railways.....	—00·25	—00·76
Miscellaneous.....	X	—00·11
	Total...	39·72 45·70

Thus, the growth of the net revenue during the eleven years amounted to 5·98 million £, equal to 15·05 per cent. or 1·37 per annum. The figures of net expenditure were:—

* Reprint from the "Times of India," 17th June, 1910.

Net Expenditure in Million £.

	1898-99.	1908-09.
Interest (exclusive on Irrigation and Railways)...	1·32	0·98
Army Services.....	16·47	19·60
Collection of Revenue	4·25	6·03
Civil Services	13·35	21·85
Famine Relief.....	00·78	1·65
Provincial Adjustments.....	00·93	—0·67
	<hr/>	<hr/>
Total...	37·10	49·44

The growth of expenditure amounted to 12·34 million £, equivalent to 33·26 per cent. or 3·02 per annum. So here is the broad fact:—

Growth of Net Revenue per year.....	1·37 per cent.
" " " Expenditure " 	3·02 " "

Is it not a disquieting, if not alarming, feature of Indian finance? Is it not a dismal prospect for the taxpayer to contemplate? Expenditure, in reality, has progressed at more than double the pace of the growth of net revenue! A merchant or a banker would think twice and thrice how to curb this expenditure and bring revenue and expenditure to bear the same ratio, at the worst.

It would, however, be urged, and fairly urged that during the eleven years under review, the revenue had suffered by reason of the duty on salt having been twice reduced. The fact cannot be denied. But we may reasonably inquire

whether that fact in any way goes to minimise the force of the main contention as to the net expenditure outrunning the net revenue? I venture to reply that it does not. And for this reason.

Prior to its reduction, the salt duty had been almost stationary. The average annual yield between 1898-99 and 1903-04, the year of the reduction, was 5·74 million £. It is notorious that the heavy duty had in no way stimulated consumption. Assuming then that the yield of the duty had remained at the level it stood in 1902-03, *viz.*, 5·93 million £, at the best the growth up to 1908-09 (after taking even the second reduction into account) would not have been more than 116·200 £. Such an increase might be considered as absolutely negligible, for it could have hardly affected the total growth of net revenue amounting to 5·43 million £.

But leaving alone this hypothetical computation, let us examine the larger ratio of the growth of the expenditure from the year 1906-07 to 1908-09 during which there was no further adjustment or disturbance of any taxation. They are years which offer a perfectly fair comparison. Of course, there were the usual ups and downs of ordinary receipts and charges ; but there was nothing exceptional.

Net Revenue in Million £.

	1906-07.	1908-09.
Land Revenue, including Forest.....	21·23	21·08
Opium.....	3·74	4·65
Taxation.....	20·46	20·84
Commercial Services	3·07	—00·76
Miscellaneous	0·44	—00·11
	<hr/>	<hr/>
Total...	48·94	45·70

From the above figures it will be seen that practically during the triennial period ending with 1908-09, the net revenue, instead of showing any growth, declined by as much as 3·24 crores, partly on account of the diminished yield of the salt duty but chiefly on account of the net loss to the State on its precious railways.

Per contra the net expenditure was as follows:—

Net Expenditure in Million £.	1906-07,	1908-09.
Ordinary Debt (exclusive on Irrigation and Railways.)	0·94	0·98
Military Services	20·17	19·60
Collection of Revenue.....	5·55	6·03
Civil Services	19·37	21·8
Famine Relief	1·01	1·64
Provincial Adjustments	0·31	0·67
	<hr/>	<hr/>
Total...	47·35	49·43

The growth of expenditure amounted to 2·08 million £. This fact plainly informs us that Indian finances even now are in a worse plight than before. Let us put the position as simply as possible :—

	Million £.
Deterioration of Revenue in 3 years.....	3·24
Increase of Expenditure " 	2·08
	<hr/>
Total Deterioration ...	5·32

There has been a deterioration during the three years which ended in 1908-09 of 1·77 million £ per annum! It is for those who have studied Indian finance for a number of years to say whether it can be called prudent. In reality, it seems that they at the seat of Central Government have been burning the candle at both ends. It will be noticed from the comparative statement of expenditure that the Civil Charges in the collection of revenue are almost wholly responsible for this serious deterioration of our finances. It is now a matter of consideration whether the Government of India, in view of such a parlous condition of its finances, ought not to take some effective measures to control expenditure so that it may not outrun the revenue. It will never do to rely on "windfalls"—be they in opium or railway earnings—both of a precarious and fluctuating character. Economy should be the order of the day. Is economy impossible with the "experts" who have the financial destinies of the taxpayer in their hands? All depends on the strength and ability of the "experts" to grasp the dismal situation which

may any day be aggravated (which Heaven forbid) by the failure of the monsoon. All this tends to demonstrate the imperative expediency of first *modifying the policy* of the Government which lies at the root of all expenditure. Let us devoutly hope that the vessel of finance, which is now in dangerous waters, will be steadied by the skill and prudence of its chief helmsman.

—:o:—

II.*

Having demonstrated in my last letter, of the 17th instant, how the net expenditure has been allowed to run at double the speed of net revenue during the decade ending with 1908-09, I would now endeavour to point out some of the more prominent items in which that larger expenditure is to be discerned.

The first item which attracts attention is that of the charges for collection of the revenue. In order that their incidence may be clearly apprehended, it is essential to exhibit in details the items of net revenue collected, side by side with the charges :—

* Reprint from the "Times of India," 23rd June, 1910.

In Million £.

	Net Revenue.		Net Charges of Collection.	
	1898-99.	1908-09.	1898-99.	1908-09.
Land	17·52	19·00	2·68	3·65
Forest.....	1·23	1·69	0·66	0·99
Salt	5·81	3·00	0·31	0·34
Stamps	3·16	4·29	0·09	0·17
Excise.....	3·77	6·31	0·16	0·39
Provincial Rates	0·97	0·53	...	...
Customs	3·12	4·72	0·14	0·21
Assessed Taxes.....	1·27	1·54	0·02	0·02
Registration	0·29	0·42	0·16	0·23
TOTAL ...	37·14	41·50	4·22	6·00

It will be seen that the growth of net revenue under the different heads amounted to 4·36 million £ in eleven years, which was equivalent to 11·74 per cent., say, 1·07 per annum; while the growth of the charges of collection amounted to 1·78 million £, equivalent to 42·18 per cent. or 3·83 per annum. We may put this result broadly as under:—

Net Revenue increased at the rate of 1·07 per annum.

Net Charges of Collection of Revenue 3·83 " "

The charges of collection were mounted up nearly four times in proportion to the growth of revenue!

The next most prominent item of expenditure are the Civil Charges. These consist of (a) Civil Charges; (b) Miscellaneous Charges; and (c) Civil Works.

(a) Net Civil Charges.
In Million £.

	1898-99.	1908-09.
General Administration.....	1·23	1·69
Law Courts.....	1·80	2·47
Jails.....	0·48	0·68
Police.....	2·37	4·03
Ports and Pilotage.....	0·01	0·11
Education..	0·57	1·52
Ecclesiastical.....	0·11	0·12
Medical.....	0·77	0·96
Political.....	0·60	1·01
Scientific.....	0·28	0·72
	<hr/>	<hr/>
TOTAL ...	8·22	13·31
	<hr/>	<hr/>

The growth of the Civil Charges, as above, in 11 years, amounted to 5·09 million £, equivalent to 61·92 per cent. or at the rate of 5·63 per cent. per annum! I am not going at this stage to discuss the necessity or propriety or expediency of the charges under the different heads. No doubt, each and all would be held justifiable by the Finance Department. The largest increase is, for instance, under the head of Police, in pursuance of the recommendations of the Police Commission. Education, and Scientific, also show large increases. The annual statement of appropriation charges, of course, gives the reason of each increase, though it may be said to be a sealed book to all save a few who could be easily counted. Justification

of the increase will be and can be urged. It is not my intention at present to discuss that point. The only point I am concerned with is *the fact* of the growth.

(b) Net Miscellaneous Civil Charges.

In Million £.

	1898-99.	1908-09.
Territorial and Political Pensions...	0.29	0.24
Furlough and Absentee Allowances.	0.25	0.36
Superannuation and Pensions.....	2.41	2.86
Stationery and Printing.....	0.41	0.69
Miscellaneous.....	-0.13	0.13
	3.23	4.28
TOTAL ...	_____	_____

The increase under this head is 1.05 million £ equivalent to 32.50 per cent. or 2.95 per annum.

Lastly, there are the Civil Works.

(c) Net Civil Works.

In Million £.

1898-99. 1908-09.

1.86

4.20

The growth is fully 2.34 million £, equivalent to 126 per cent. or 11.45 per annum!

Summarising the three heads, the result is as follows:—

no condition	on £.	
to outstrip	1899.	1908-09.
	8.22	13.31
	3.23	4.28
(c)	1.86	4.20
	—	—
TOTAL ...	13.31	21.79
	—	—

Thus, we have had a growth, a colossal growth, of 8.48 million £ in eleven years, equal to 63.71 per cent. or at the rate of 5.79 per cent. per annum!

We will now compare the interest (exclusive of annuities) on the interest charge on Railways.

Railway interest in Million £.

1898-99.....	4.04
1908-09.....	6.01

The increase is 1.97 million £, equivalent to 48.76 per cent. or 4.34 per cent. per annum.

Lastly, there are the charges on the Army Services, the details of which demand a separate treatment by themselves. Here, I content myself with the broad growth during the decade:—

Net Army Service Charges.

In Million £.

1898-99.....	15.38
1908-09.....	19.60

The growth amounts to 4.22 millions, equal to 27.44 per cent. or 2.50 per annum.

Let me now recapitulate the facts of the larger growth of net expenditure :—

Percentage of Increase in 11 years.	
Charges on account of Collection of Revenue.....	42.18
" " " " Civil Services.....	63.71
" " " " Railway Interest.....	48.78
" " " " Army Services.....	27.44

The clear issue which might be raised on the above result of 11 years of Indian net expenditure is this : assuming that the charges could be justified, is it a good symptom of public finance of a country, whose sources of revenue, specially taxation, are limited, to mount up expenditure at double the speed of the growth of net revenue? Is it provident or improvident finance? The necessities of a State may be any thing. It may want millions but if those millions are not to be had, is it not wise financial statemanship to regulate the expenditure in proportion to the growth of revenue? That is the principal and only issue. Speaking for myself I must ruefully answer that not by all the canons of public finance can the expenditure which has been incurred by the State in British India be held or pronounced to be sound. It is this unsound condition of the finances which demands public attention in order that salutary criticism thereon may evoke a thorough overhaul of the finances on the principle that under

no conditions ought expenditure to be allowed to outrun the revenue.

III.*

It is some comfort to the taxpayer, poor though it be, to learn from the announcement, presumably semi-official, made in your columns on the 23rd instant, that the Government of India have directed all provincial administrations to exercise the most rigid economy in public expenditure, and are further contemplating the appointment, later on, if need be, of a Commission of Inquiry to determine how far retrenchment is possible and practical. It is undoubtedly a step in the right direction, seeing how, as pointed out by me in my previous correspondence, the finances of the country have undergone serious deterioration, amounting to over 5 million pounds during the last three years—deterioration of net revenue on one side and excessive growth of expenditure on the other. Judging, however, from the experience of the past in the same direction it is most unlikely that the efforts of the central authority will be attended with any thing like solid success, and that of a reasonably permanent

* Reprint from "The Times of India," 1st July, 1910.

character. For, in the first place, most of the economies enforced, under pressure from the Central authority, turn out in the end to be either unsubstantial, cheeseparing or temporary. Not sooner have the finances recovered than they are laid aside and the old order of things is resumed. In the second place, retrenchment is pronounced by provincial administrations as next to impossible. We have known, how even in a year of famine, when orders for retrenchment are enforced, that there is a loud and strong protest from them as to their impracticability. Many a public work of the greatest utility has to be suspended in mid-career and many an other object of the utmost usefulness has to be starved, entailing eventually a heavier sacrifice of the finances. No doubt, while so protesting, provincial administrations loyally endeavour to carry out the behests of the Imperial Government. But while the Imperial Government, stricken with an economic conscience, endeavours to enforce rigid economy from the provincials, are we quite sure that the same conscience is ever at work so far as its own expenditure is concerned? Has it been known how far the Central authority has refrained from imitating the prodigal? My own experience informs me that it has seldom been the case. It

ment, under strain and stress of Imperial finance are futile. Provincial Governments, if they are not to stagnate but be progressive, have so many demands from the public on their limited treasury, that they really find themselves between the devil and the deep sea. On the one hand, the Central authority sits tight on them, saying, "this much, and no more shall be your annual share of the revenue." On the other hand, the public, through their accredited representatives, in the various Legislative Councils, raise a piteous cry for more grants on sanitation, education, justice, and a score of other objects tending to advance their moral and material welfare. The provincials are thus between the upper stone of the supreme authority and the nether stone of the taxpayers. The largest tax eater is the former authority: so that the only reply the Provincials can make in response to popular appeal is this want of the eternal pence, the largest fraction of which is snatched by that same masterful entity.

This unsatisfactory, nay ungenerous and arbitrary, method of administering Indian finance has been the theme, time out of number, of trenchant but perfectly justifiable criticism in the Press, Indian and Anglo-Indian. There has been, in reality, no "true decentralisation" as yet, not

even after the roving Commission we had had three years ago. We want a decentralisation which shall allow each Province to raise its own revenue under certain well-defined restrictions and limitations, and which shall prescribe by Parliamentary Statute, a certain reasonable, but not the lion's share, of that revenue to the Central authority. Such decentralisation is neither here nor there, and Heaven only knows when it may be an accomplished fact.

It seems to me that there has been no master-mind as yet at Westminster or at Calcutta to place Indian finance on a sound and healthy basis. Even Parliament has never attempted that task. What is wanted is a radical overhaul of the present faulty system of Indian financial administration. True it is that more than one Finance Committee of a sort has now and again sat, incubated and hatched something—something having about it precious little by way of financial statesmanship, let alone financial permanence. True it is that there was a Parliamentary Committee on Indian Finance from 1871 to 1874 and a Royal Commission on Expenditure in 1896 and 1897. The former recorded voluminous evidence of a most valuable and informing character, more or less owing to the ability and impartiality of the late Professo

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Fawcett, who was the life and soul of that Committee. A reference to the four ponderous volumes of that evidence would inform any student of finance how searching was his cross-examination of the facts and arguments urged by many an important witness, official and non-official. Unfortunately, owing to a change of the Ministry in 1874, that Committee ceased to exist and so far no report, recommending changes, has ever been made. And as to the Royal Commission on Indian Expenditure, it must be observed that notwithstanding that so able and trained a treasury officer as Lord Welby presided over it, and though a good deal of evidence, including that of five representative Indians, was recorded, it was disappointing in its results in many respects, albeit that it recommended a relief to the Indian Treasury to the extent of £ 250,000—a mere “bagatelle” which was more than swallowed by the demand of that Shylock, the British War Office, immediately thereafter, of £ 750,000, which have since gone on indefinitely increasing.

This being our past experience, I, for one, would boldly venture to say that the fresh attempt of the Government of India at enforcing economy and retrenchment is most unlikely to result in “permanent” good. It should set an

example itself in that respect. Has it ever done so ?

The fact is that the "crux" of the whole problem of Indian finance has not yet been seized. Of what use the Central authority directing the provincials to economise and retrench when the entire "Imperial policy" which regulates the annual expenditure demands most careful and statesmanlike consideration. It is superfluous to state that as is the policy of a State so shall be its expenditure. The policy for years in vogue at the seat of the Imperial Government requires to be thoroughly revised or modified by the light of the past and the requirements of the future. A small Committee of practical British statesmen of the first rank is essential to go into the whole question of the policy with the aid of one or two of the most competent experts in public finance.

It should be borne in mind that Indian expenditure is chiefly governed by the following three policies :—

- (1) By its "Foreign" policy which is almost wholly directed by the Home Government.
- (2) By its "Military" policy which to a large extent is also directed by the Home Government and to a very limited extent by the Indian Government.

- (3) By its " Railway " policy which is mostly a domestic policy of the Government of India to which the Home Government more or less gives its assent.

These policies during the past thirty-five years have been more or less contributory to an enormous expenditure, part of which has simply been wasted. The expenditure itself is of two kinds, permanent or recurring, and non-recurring. Both in their turn have demanded annual borrowings, especially that on railways. Heavy borrowings on the last account have entailed, in the first place, certain obligations to outside companies or syndicates and, in the second place, larger and larger annual interest charges. The foreign policy has brought in its train what are called " Imperial interests." That is to say, *Imperial* interests in which India has no or next to no concern but which, owing to the sheer helplessness of the people and their subjection, have dominated the entire expenditure on the Army Services from the fateful date of the Amalgamation Scheme of 1859 till now. It is a most fruitful subject of inquiry, for millions of unproductive expenditure have, under pretext of these precious " Imperial interests ", been foisted on this unhappy country for which there is, in my humble opinion, absolutely no

justification. Whatever may have to be said in regard to Railway expenditure, it must be admitted, apart from all other aspects, that it is an expenditure which in long years to come will bear full fruit. But as far as the Army Expenditure is concerned, in which I include the charges of the Second Afghan War and the other warlike expeditions, and the unjust and inordinate demands from time to time of that Shylock, the British War Office, it must be said that they have been the greatest burden on our poor finances and resources. Whenever the exigencies of British estimates have demanded, India has been made to pay through the nose. Such is this unfair military policy that even the Government of India has itself in its numerous public despatches emphatically protested and remonstrated against the expenditure it has entailed on our revenues. They have openly said that the rich partner—without one “if” or “but,” compels the poor partner to pay what it pleases. England, the wealthy partner, may call for any tune she pleases and demand that India, the poor and really voiceless partner, should pay the piper. This is the disastrous military policy.

As to the foreign policy it may be said to be “the” policy indeed which controls the mili-

tary. As England's interests have demanded in foreign affairs so has the military policy in India been moulded. Indeed, the foreign and the military policy go hand in hand. Their combined influence is most potential and mischievous.

It is therefore essentially imperative to modify the triangular policy which in reality dominates the greater part of the domain of Indian expenditure.

It is only when a Committee of practical statesmen of the first rank, unbiassed and independent, have impartially investigated into the woeful financial results on the Indian revenues of the three policies which the Home Government has all along dictated to the Government of India, that the public can realise the present situation. It is only when the public have realised it that they will be able to appeal most successfully to Parliament to have these policies modified so as to allow Indian finance to breathe freely and the people to work out their own better salvation morally and materially. At present Indian finance is simply throttled.

Every progressive community has its own larger and larger wants which can only be met from growing revenues and resources. But when these revenues and resources are heavily handicapped

so as to leave only a small margin for domestic purposes of the highest utility there can be no hope of a sure, steady and permanent progress. At present what happens is that for one step forward we go two steps backwards. Our people have to realise the universal fact, common to all States, that revenue, after all, is a limited quantity, whereas expenditure is unlimited. There can be no limit to expenditure so long as the policies which demand it are of a dominating and wasteful character, let the growing revenue be what it may.

Unless, therefore, the policy of British Indian Administration, now in vogue, is materially revised or modified in harmony with the resources of the country and the ability of the people, I, for one, despair of any solid retrenchment of a genuine character. Expenditure will increase and with it the burdens of the people without any possible hope of relief. It is only when there is a reasonable modification of the policy that we can witness a progressive condition of Indian finance on a sound and stable basis. Hence all efforts at present to check and control expenditure are bound to be futile. You may repeat these spasmodic and fitful efforts whenever the Government finds itself pinched awhile. But to what avail? After all, they are

meré palliatives and stop-gaps. They never will cure the financial diseases from which we suffer off and on. Those diseases demand a radical cure, and, it is my honest conviction that the cure lies in the direction I have already indicated. Unless the policy which regulates the expenditure is modified, Indian finance is bound to drift hither and thither as it has, during the last thirty years and more, till, perchance, at last, the vessel is overwhelmed by some tremendous catastrophe and founders.

The subject is too vast for a single letter. It really demands a thick volume to be treated in that exhaustive and convincing manner which is needed for our purpose. I have only touched the bare outskirts of this complex problem.



ENHANCED TAXATION.*

The debate which took place on Friday last in the Viceregal Legislative Council on the enhanced taxation proposed by the Finance Minister affords ample pabulum for reflection and suggestion to the unbiassed critics of Indian Finance. Carefully reading between the lines the speeches made thereat by the Finance Minister, his Secretary and Mr. Brunyate, in response to the solvent criticism levelled at both the non-necessity of the extra taxation and its objectionable character, they cannot help noticing how the policy of the Indian Government in matters of public finance varies not infrequently from the views entertained by divers men in power for the time being at the seat of Central authority; how even that oscillating policy is permitted at times to be overridden by a financial exigency the *raison d' être* of which remains unproven; how the elementary axioms of public finance are flung aside while hastily providing means for such artificial exigency; how a red herring is thrown across the trail of public scent, how public voice of a unanimous character almost, as echoed in

* Reprint from "The Times of India," 9th March, 1910.

the Council Chamber, is haughtily disregarded while affecting to take the public into greater confidence than before ; and, how, to crown all, the Central authority, which purports to call itself responsible for the well-being of the Empire, brushes aside, in the plenitude of its omnipotence and infallibility, the stern and unbending logic of facts and arguments as utterly negligible !

First, as to the policy. Not to recall the past history of policy from the days of Sir John (afterwards Lord) Lawrence downwards, specially in the matter of public works, opium, famine, exchange, and currency, I would only refer to what was openly declared by the late Finance Minister in the Council three short years ago in connection with opium receipts. The Honourable Mr. G. K. Gokhale, in his incisive and argumentative speech, had quoted that passage from the Financial statement of Sir Edward Baker. It was the same to which I made reference in my letter to you last week, namely, that the Government was quite prepared to undergo the diminution in net opium receipts, at the rate of £ 350,000 per annum, for the next ten years, without resort to fresh taxation. I will not, therefore, needlessly encumber this letter with the same quotation. But I would ask the public

to ponder on and compare that official declaration with the one now made by Sir Fleetwood Wilson. In the former case, there was the distinct policy announced of bearing the annual loss in opium receipts without extra taxation. In the latter, the very opposite policy was announced! And the public now know that the most able expert in opium trade in the Viceregal Council, an expert who is the special choice of the Imperial Government itself, openly challenged the Finance Minister that his forecasts of opium for the coming official year were extraordinarily under-estimated. Indeed, but for that under-estimate the *raison d' être* for any extra taxation at all vanishes into thin air. But the Finance Minister had not ventured to pick up that gauntlet thrown by Sir Sassoon David at him *coram populo!* It was made painfully evident that the principal plea put forward for enhanced taxation remained undemonstrated.

So much, then, for the oscillation of the Government policy in the important matter of balancing the annual revenue and expenditure of the Empire. One authority publicly declares one policy to-day on a particular financial problem which another authority the day after ignores and supersedes it by another. Where may be then a *fixity* of policy, firm and deliber-

ate, slowly and sagaciously thought out, on which the intelligent mass of taxpayers could fairly rely? Indeed, Sir, every right-minded person will admit that the taxpayers are thus made the sport of the high official authorities who by a curious providential dispensation happen to hold in the hollow of their hand for a brief period of five years their financial destiny. Is it not clear that the deficit in the Budget is largely an *artificial* deficit? And who has this time played the "gamble?" It was laid last year at the door of dame nature. It was declared that Indian finance was mostly a "gamble" in rain! Are we not entitled to say to-day that Indian Finance was a "gamble" of the Finance Minister himself in the matter of forecasts of an important item of revenue?

If I have rightly interpreted this disagreeable feature of the speech of the Finance Minister, may I not then venture to assert that my statement is correct, namely, that this "gamble" in opium was simply the red herring of the "cautious" Finance Minister thrown across the trail of public scent? There would have been in reality no deficit, worth speaking of for purposes of enhanced taxation, had his opium forecast been a fair and reasonable one.

Coming to my third point, is it not proven, by

the light of the unanswerable fact disclosed in the course of the debate, that while of late we have been informed in strident tones that it was the sincere desire of the Imperial Government to take the people, under the reformed Council, into its greater confidence, the very opposite has been accomplished? Have not the Finance Minister and his colleagues absolutely disregarded the view of the people as represented in the Council on this important matter? Would it not have been wiser and more statesmanlike to have accepted the word of such an opium authority as Sir Sassoon David and modified the revenue side of the balance-sheet by increasing the forecasts of opium at the rate of Rs. 2,000 per chest instead of Rs. 1,750? The deficit might have then almost wholly disappeared. More. The entire Indian community would have applauded the courage of the Finance Minister in really taking the public into the confidence of the Government. And, lastly, the Government itself would have not only made good its word but risen exceedingly high in the estimation of the public for the sincerity of its purpose in establishing the reformed Council. To me, Sir, as to a vast majority of those who have followed the Budget debate critically but with an open mind, it is a matter of profound regret

that the Imperial Government so unwisely allowed to slip the golden opportunity presented to it at the Budget meeting to prove its sincerity. So far it has to be regretfully observed it has failed in that higher statesmanship which is greatly needed at present. It never rose equal to the occasion, but on the contrary did its very opposite while evoking the loudest dissatisfaction throughout the country at its financial aberrations. All facts and arguments, irrefragable and unbending, were disregarded. The Imperial Government simply carried out by the force of its majority its pre-determined policy of enhanced taxation, as if the voice of the representatives of the people had never been heard in the Council Chamber! For that matter nothing could have prevented it from issuing its Imperial ukase without the aid of the Council. That proceeding might have been more consonant with its autocratic authority than this mockery which was enacted at the very first Budget meeting of the Council under the Reform Act.

But, Sir, it is of no use further commenting on this much-minced subject. Neither is it necessary to refer to the diverse weighty objections raised against the details of the augmented taxation. It is of no use crying over spilt milk,

and I have no desire, after the length to which this letter has been reached, to expatiate on those objections and refer to the two or three simple alternative forms of taxation which might have been easily adopted without treading on the toe of any interests, without disturbing any staple industry, and without provoking that universal protest which is now to be heard in every part of the country.

I will, however, say this much that in reality the Imperial Government has for some time past been annually increasing a larger expenditure at an appalling pace which is not at all warranted by the normal growth of revenue from year to year. With your courtesy, I shall be able to demonstrate from the official figures themselves, how the larger surpluses at least of the last five years have concealed the true character of this larger growth of expenditure compared to the normal growth of revenue. I only state for the present this simple fact, that the Imperial Government has allowed expenditure to run at a most disproportionate ratio to the growing revenue. The ratio of the growth of the net expenditure to that of net revenue is as 7-14 to 4-44 or little less than double! It is here that the most vulnerable part of Indian Finance is open to attack, but being unseen has escaped notice.

REVENUE AND EXPENDITURE.*

I now take up the parable referred to in the concluding paragraph of my letter which appeared in your columns of Wednesday last, namely, that the net expenditure during the last few years has been allowed to be incurred in a faster ratio than warranted by the growth of revenue, but that such an undesirable feature of our annual Budget has remained concealed by reason of the large surpluses that have accrued. The following statistical facts, gleaned from the authoritative publication which is annually presented to both Houses of Parliament, will, it is to be hoped, demonstrate the correctness of the inference I have ventured to deduce. For purposes of fair and accurate presentment of the broad features of our finances I have all through dealt with net revenue and expenditure, that is to say, the gross revenue and expenditure, less all charges of collection and other receipts under the different heads, on both sides of the annual balance-sheet. Secondly, I contrast this net revenue and expenditure as it stood at the close of 1902-03, with that for the succeeding five

* Reprint from the "Times of India," 11th March, 1910.

years which ended with 1907-08, and for which we have complete account.

Net Revenue and Expenditure in Millions Sterling.

Year.	Revenue.	Expenditure.	Surplus.
1902-03	43·21	40·14	3·06
1903-04	45·03	42·03	2·99
1904-05	47·91	44·45	3·45
1905-06	46·69	44·59	2·09
1906-07	48·95	47·36	1·59
1907-08	47·00	46·70	0·30
Annual average	47·11	45·02	2·08
Percentage of increase over 1903-04	+4·61	+7·11	-30·47
Percentage of increase over 1902-03	+9·02	+12·15	-38·56

Before analysing in detail the above table it may be useful to remember that the salt duty, which had stood at Rs. 2 per maund, was twice reduced. The total remission came to Re. 1 per maund which has practically left it at present at Re. 1 per maund. At the same time there is the further gratifying fact to place on record, that the consumption of this necessary of life has, as was fully anticipated, steadily increased, the consumption having risen from 37·26 million maunds in 1902-03 to 45·41 million maunds in 1908-09.

Now, the first fact that strikes one on an examination of the figures of net revenue and expenditure exhibited above is the steadily diminishing character of the surplus, after taking into consideration, on the one hand, the remission of the salt duty and, on the other, the healthy normal growth of revenue. In 1902-03, the net revenue stood at 43·21 million £, while the net expenditure was 40·14 million £, leaving a fat surplus of 3·06 million £. But at the close of 1907-08, the surplus had become so lean, though meanwhile, the revenue had grown to 47 million £ and expenditure to 46·70 million £, that it dwindled down to the paltry sum of 0·30 million £! What may be the reason? A careful study of the figures of revenue and expenditure explains it. The annual average of the quinquennium, compared with the figures of net revenue and expenditure for 1903-04, (the first year) show a growth equivalent to 4·61 per cent. of the former and 7·11 per cent. of the latter. In other words, expenditure was allowed to be incurred at an extraordinarily faster pace than was warranted by the ratio of the growth of revenue! The ratio of expenditure was one and a half times and a little over! This is the Achilles' heel; this is the most vulnerable part of Indian finance. The average man was lulled

into a sense of security by reason of the surplus which was annually euded. That it was a surplus of receipts over expenditure none doubts. But the student of finance has to probe the whole question to the very bottom in order to find out whether or not such a surplus indicated a really healthy financial condition. It is fortunate so far that the larger revenue has enabled the Government to meet the larger expenditure and show a surplus. But it is pure luck. With a falling revenue and a growing expenditure the unhealthy condition, hitherto concealed, might have become palpably visible to the most ordinary intelligence at an earlier stage. As a matter of fact, we are now entitled to say, on the strength of the analysis of net revenue and expenditure, that but for the abnormally faster speed at which expenditure had been allowed to be incurred during the period under review, the taxpayer would have obtained even a larger but truer surplus annually than exhibited in the annual accounts. And my contention, Sir, is that it never can be deemed a healthy sign of State finance where expenditure is allowed blindly to be incurred at a speed which is a great deal faster than that of revenue. Practical financiers and economists cannot but condemn as unsound such a condition of finance.

If, therefore, the Government of India has this time produced a deficit Budget, it is undoubtedly owing to the fact of its sins of commission in this respect in the past. It is, I regret to have to state, more inexcusable, seeing that this country's annual financial condition is not a little influenced for better or for worse by the actual state of the annual agricultural prospects each monsoon. Those high authorities who loudly assert that our finances are a "gamble in rain" ought to be the very first to exercise the greatest precaution that expenditure is not allowed to outstrip the revenue. There is a serious responsibility in the matter which no financier with any reputation for economic statesmanship ought to ignore. But from the figures that have been exhibited it would be clear even to the man in the street how during the last five years those responsible for the conservation and soundness of Indian finance have woefully failed to discharge their obvious duty in this respect.

Having pointed out the broad feature which has characterised our finances for the last few years it is essential at this juncture, without unnecessarily wearying the reader with a mass of figures, to show in what particular directions expenditure during the quinquennium has been

allowed to mount up. Here are the results of the analysis:—

Increase in five years.	
1. Army Charges	11 per cent.
2. Collection of Revenue	14·9 " "
3. Civil Departments	14·7 " "
4. Civil Works	32·5 " "

But this is not all. There is still a further woeful tale of expenditure, I should say extravagant expenditure, to be related. I refer to the railway policy of the Indian Government in recent years. Vigorously egged on by the interested cry of the European Chambers of Commerce, members of which have no permanent ties with the country and have not therefore to bear the heavier burden of taxation (save for the time that they may be here) which falls on permanent taxpayers, the Government of India has unfortunately, without looking to the right or the left, without taking breath or pause, borrowed heavily within the last few years for extension and new construction. Extension and new construction are certainly desirable for the development of the resources of the country. I fully admit its importance. But as in every other practical financial problem to which a wise State is bound to give its serious consideration so in the matter of railways, there ought to be a certain well-defined limit, combined with a

spirit of moderation demanded by the financial ability of the people themselves, apart from their wishes and sentiments as to the real necessity of railways here, there, any everywhere. No wise Government can go on piling blindfoldedly Ossa on Pelion in the matter of borrowing for railway purposes. There ought to be a wise limitation and reduction. But, to my profound regret, it has to be stated that the Indian Government has absolutely failed to put any limitation or restriction whatsoever on its extravagant railway borrowings. I am perfectly aware of the fact that there is a body of men in the European mercantile community and out of it who never miss an opportunity to urge their stock sophistical pleas against those who condemn the railway extension and construction which have been going on at a breathless pace, regardless of the ability of the taxpayer to bear the additional burden of taxation which they necessitate, though unseen. There is a complete answer to those pleas but it must be reserved for another suitable occasion. Meanwhile, the Goliaths of breathless railway construction and extension should bear in mind that Indian railways have not been a source of unmixed blessing as they unceasingly seem to din in our ears. The Royal Commission on Ex-

penditure, which was presided over by so distinguished a financier as Lord Welby, has placed it on record the fact that the entire system of Indian railways had cost the Indian taxpayer an annual loss averaging 1 crore for fully 50 years! In other words, the railways lost 50 crores in 50 years to the taxpayer! It is only within the last seven or eight years that they have earned for him a net gain averaging 1.176 million per year. Some of these railways have yet to turn the corner and to convert the debit side of their ledger in point of heavy losses of the past into a credit one. More. The stupendous financial blunders which were made during the first quarter century of railway construction should not be forgotten. A history of those blunders might be read with profit by the advocates of unlimited railway extension and construction in those voluminous tomes of the East India Finance Committee Report, commonly known as the Fawcett Committee, which recorded a mass of evidence on the subject between 1871 and 1874. But this is not the place to relate the chapter of Indian railway finance which, from the point of view of the taxpayer, has been to say the least, far from agreeable.

Now to hark back to the railway borrowings for the period under review.

Capital Outlay on Railways.

	In million £.
1902-03.....	4·63
1903-04.....	4·68
1904-05.....	6·02
1905-06.....	22·46
1906-07.....	7·93
1907-08.....	12·71

Thus, during the five years 10·76 million sterling on an average has been expended per annum, compared to 4·63 in 1902-03. Has not the taxpayer to bear the burden of the interest charge on this additional burden of 6 millions? When we take into account the heavy interest charge along with the other increased expenditure on the military and civil departments, it will be easily learned why expenditure has been mounting at a faster ratio than our growing revenue. Look only at the interest on the railway debt itself, omitting altogether from our consideration the amount annually required for the purchase of annuities and sinking fund.

Interest on Railways debt.

	In million £.
1906-07.....	5·03
1907-08.....	5·24

Interest on Railways Debt.

1908-09.....	5·53
1909-10.....	5·67

(Revised Estimate.)

1910-11 (Budget)	5·86
------------------------	------

Here is a growth of 0·83 million £, equivalent

to 1.25 crore Rupees in five years. When the normal growth of the net revenue is about 80 lakhs, here is the annual interest charge of $1\frac{1}{2}$ crore! Is it not clear to us that it is not the diminished opium receipts, discounted three years ago, but the continued increases in military and civil charges and in the interest charge on the growing railway borrowings which are now going on at an appalling rate. It will be said that a progressive Government like that of India demands from year to year a larger expenditure. Indians are constantly appealing to Government for increased grants on education, sanitation and other objects of popular, social, and intellectual progress. So far such expenditure is to be welcomed if fairly distributed and administered. So, too, the expenditure on productive works, specially irrigation. But what needs to be remembered is the exercise of wise discrimination and practical sagacity in the matter. This expenditure must be in proportion to the ability of the taxpayer. The burden which the next generation should bear ought not to be laid on the present. And when even it is in proportion to the ability of the taxpayer the condition of the finances generally should have a paramount importance. At present it seems that expenditure both on ordinary civil and military administra-

tion as well as on productive works is being incurred on a scale of prodigality unprecedented in the annals of Indian finance. The time has come to take breath, pause, and seriously consider the necessity of checking the phenomenal extravagance.

I have concluded my parable, but I am prepared to stand corrected if my interpretation be inaccurate. It is always a most disagreeable and painful task to have to criticise the financial lapses of the Indian Government, almost all resulting from its erroneous policy in more than one direction. But there is no help for it. Salutary criticism on its finances in and out of the Council Chamber, so far as it is made, with a single eye to the reform of our finances on a healthier basis, is of the highest benefit to the people and the State alike ; and since the Government has been proclaiming on the house top that it is sincerely desirous of better ascertaining the thoughts and sentiments of the people on all branches of the administration, it is to be hoped this humble contribution from the pen of one who has studied to some purpose the finances of the country for over forty years, will not be resented but received by the governing authorities in the spirit it is here offered, thanks to your own courtesy in placing such a large space o

your journal at my disposal. I earnestly hope some lasting good may result from the criticisms now being heard in and out of the Press in all parts of the country, and that the Imperial Government may benefit by that criticism. In my humble opinion the time has come when the entire system of Indian finance so obsolete and antique, needs to be radically overhauled by a trained financier of the highest repute and practical sagacity, if through our reformed Councils is to be achieved that good result which our rulers seem sincerely to desire. Above all, it is time that we saw the last of those incredible financial follies, financial fallacies, financial anomalies, financial conceit, and financial infallibility which have so painfully obsessed Indian finance these many years past.



REASONS FOR THE DEFICIT.*

It is to be feared that opinions will greatly differ on the justification or otherwise of the enhanced taxation proposed by the Finance Minister. At any rate, having carefully gone through the financial statement and the statistical tables which accompany it, I would unhesitatingly observe, speaking for myself, that that authority has failed to prove his case for the enhanced taxes on the two grounds specified by him. In the 9th paragraph, Sir Fleetwood Wilson observes that save the increase in land revenue in every other important respect "our receipts were below expectations. The most disappointing section was our railway earnings which reflected the slowness of the general improvement being almost a crore short of what we had counted on realising by the end of October." It would be seen that as far as the revised estimates for the current year are dealt with, the biggest hole in the balance-sheet of the Empire is caused by the shortage of nearly a million sterling in net railway gain to the State. Incidentally, "the most dramatic feature in the situation has been," con-

* Reprint from "The Times of India." 3rd March. 1910.

tinues the Finance Minister in paragraph 10th, "the unexpected development of our opium revenue." After graphically describing the incident of this precious opium drama, he avows in paragraph 12th that "the result of the great appreciation in the value of Indian opium in China is that our revenues in the current year will gain about a million pounds beyond what we budgetted for." So far the windfall has had no disturbing influence on the fortunes of the finances for the current year now coming to a close. The shortage in State gain from railways is made up by that windfall.

Turning next to the Budget estimate for 1910-11, the Finance Minister is hopeful that the year will turn out good. But immediately following that optimistic forecast there is the pessimistic declaration that unfortunately he cannot expect a surplus without the help of additional taxation! For this state of affairs are urged two reasons. In the first place, "the reduction of our exports of opium to China will cause a serious fall in our opium revenue. In the second place, we are obliged to abandon to Eastern Bengal and Assam a much larger share of its land revenue than it has hitherto retained." These are the two "adequate" reasons openly declared for raising taxation. I do not wish at

present to encumber your columns by expatiating on the questionable policy involved in the second of the reasons. I confine myself to an examination of the first, *viz.*, the apprehended shortage in opium receipts in order to prove that it is wholly fallacious.

Now, Sir, I should, in the first place, remind the public of the broad fact that both the Government of India and the Secretary of State had declared three years ago that the opium revenue must gradually vanish, provided, the Chinese Government were sincere on their part in suppressing the opium traffic in their own country. Indeed, the Government was prepared without any fresh taxation to forego in ten years, at the rate of £ 350,000, the net opium revenue which they declared was $3\frac{1}{2}$ millions sterling. Since that declaration was made there had been a Commission in Shanghai which unanimously arrived at certain conclusions nine of which have been specially alluded to by the Finance Minister in the 48th paragraph of his statement. I will only quote one sentence which I consider most relevant to the purposes of this correspondence. "The Commission was a thoroughly representative body; its conclusions were unanimous; and there is nothing in its findings to deter us from expressing our acceptance of the general princi-

ples which it laid down. We accept them all the more readily that the interests of India were amply and skilfully pressed on the Commission to your representative, Mr. J. B. Brunyate. Aided by his knowledge of the subject the Commission was enabled to appreciate the importance and complexity of the opium problem in this country."

Thus, the public has before it two distinct declarations of the Indian Government. First, that it was prepared without any fresh taxation to forego the opium revenue gradually, say, $3\frac{1}{2}$ millions net in 10 years; and, secondly, that it accepted in principle the broad policy which the Commission had arrived at in Shanghai after fully hearing their own representative. It is clear then that the Government of India since the last three years was fully prepared to forego the opium revenue gradually, say, according to their own reckoning, at the rate of £ 350,000 per annum. More. In order that the policy of the total abolition of poppy growing may be carried on by Native States, simultaneously with it, the Government of India has been known to have negotiated with them how they should adjust themselves to the new policy—that is to say, how the cultivation of the poppy should be supplanted in 10 years by

other remunerative crops in their respective territories.

Let us then probe to the bottom how the opium revenue of the Government of India has stood since the year 1906-07. I analyse below the figures as given in the table under opium at page 26 of the financial statement just issued.

In Crores of Rs.

	Gross Receipts.	Expendi- ture.	Net Revenue.
1906-07	8.49	2.87	5.62
1907-08	7.87	2.50	5.37
• 1908-09	8.83	1.85	6.98
Revised Estimates 1909-10...	8.28	1.65	6.63
Budget 1910-11	6.98	1.64	5.57

It will be seen that the annual average of net receipts for three years which ended with 1908-09 was 5.99 crores; that the revised estimate for the current year is 6.63 (owing no doubt to the "wind fall") and that the budget estimate for the coming official year is 5.57. Thus, the last estimate is only short by rupees 42 lakhs compared with the annual average of the triennium. Practically, therefore, this diminution was what the Government of India had been fully prepared for since the declaration made three years ago that it would lose £350,000 or 52½ lakhs of rupees every year without the necessity of any taxation, the normal growth under the principal

heads of revenue would, it was asserted, bear, that loss.

Now, the normal revenue under the principal heads in 1906-07 was 48·78 million pounds; in 1908-09, it was 49·30 million pounds; in the current year, as revised, it is 50·94 pounds, and in the budget for the coming year it is 51·68 pounds. This budget estimate, Sir Fleetwood Wilson has taken care to inform the public, is very cautiously framed. Practically, then, this normal growth of revenue under the principal heads is 2·90 million pounds in four years, say, at an average rate of 0·58 million pounds equivalent to 87 lakhs. Whereas the diminished receipts were calculated at 52 lakhs in reality the amount estimated in the budget, as just pointed out, is only 42 lakhs! How under the circumstances can it lie in the mouth of the Finance Minister to assert that it is principally owing to opium that he is obliged to impose additional taxation? I say, that on the facts and figures related, he has failed to prove his case so far. If I am mistaken, I shall be pleased to stand corrected. At present, so far as I have studied the financial statement, and the statistical tables accompanying it, I have come to the conclusion that it is not opium but three large items of expenditure which have brought the

deficit. These are, firstly, the heavy interest charge now to be paid on the enormous annual borrowings of millions for railway purposes, and, secondly, the very large growth in the Civil and Military charges. But these will require treatment by themselves in a separate letter. It will be sufficient to state here, what are the actual increases as shown in the budget :—

	Lakh Rs.
Civil Charges	90·91
Interest Charges on Railways	50·12
Military Charges	46·68
	<hr/>
	187·71

say, 1·87 crore Rupees. These are the increases in permanent expenditure which account for the deficit, and not the falling off in opium which had been fully discounted since the last three years.

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