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**ELEMENTS OF INDIAN
TAXATION**



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ELEMENTS OF INDIAN TAXATION

ELEMENTS OF THE THEORY OF TAXATION

WITH SPECIAL REFERENCE TO
INDIAN CONDITIONS

BY

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PREFACE

THIS little book owes its appearance to the somewhat accidental circumstance that during the last few years special causes have compelled me to read a good deal of controversial literature, mostly of a journalistic kind, dealing with Indian administrative matters, and apparently widely read by the educated public of India. This literature I have found full of criticisms, often very pungently and eloquently expressed, of the methods of taxation adopted by the Government of India. But nearly the whole of it is characterised by a strange lack of perspective. Speakers and writers seldom see Indian financial conditions steadily, or see them whole. They content themselves with attacks on isolated parts of

the tax-system, without clearly realising that it is impossible to criticise the parts satisfactorily, except in relation to the system considered as a unity. Thus their well-meant efforts appear both to administrators and to political economists almost invariably misdirected, and their work has borne little fruit.

The British Government, both in the United Kingdom and in India, has accepted very unreservedly the principle of taking the public into partnership in all matters affecting taxation and general administration, and, compared with most European Governments, is peculiarly responsive to reasonable criticisms. Few readers of the political literature above referred to seem aware of the existence of the vast masses of statistical information, official reports of governmental departments and royal commissions, and so forth, which are perpetually being poured forth by the labours of the permanent civil service. These official publications (parlia-

mentary papers and "blue books") are specially intended to supply information that will assist Cabinet and Parliament in the work of legislation and at the same time enable the intelligent sections of the public to criticise effectually the activities of the State. They form the raw material on which both statesmen and economists must work in order to work to any purpose. Many of them relate to conditions in India and are procurable at very low prices; as the Government is always desirous of having its work subjected to as much fair-minded, intelligent criticism as is available. Among those publications most suitable to enable the ordinary reader to check the sort of information contained in this volume are the following:

Statistical Abstract relating to British India (Annual; price, about 1s. 3*d.*).

Statement exhibiting the Moral and Material Progress and Condition of India (Annual; price, about 1s. 2*d.*).

Memorandum on some of the results of Indian Administration during the past fifty years [Cd. 4956] (Price $3\frac{1}{2}d.$).

Of these, the first is composed of masses of figures and is intended to be used as a work of reference. The other two are straightforward, simply written reports, dealing with such matters as Legislation, Justice and Police, Finance, Manufactures and Trade, Progress of Education and Literature, Migration and Emigration, changes in prices, wages, etc.

For comparative purposes the following will be found useful :

Statistical Abstract for the United Kingdom (Annual; about 1s. 8*d.*).

Statistical abstract for the British Colonies, Possessions and Protectorates (Annual; about 1s. 11*d.*).

Statistical Abstract for Foreign Countries (Annual; about 1s. 6*d.*).

To these may be added the following

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official publications dealing with points of theory :

Fiscal Policy of International Trade [321].
(Price 3*d.*).

Memoranda chiefly relating to the Classification and Incidence of Imperial and Local Taxes [C—9528] (Price 2*s.*).

My thanks are due to Mr. J. M. Keynes for much assistance with the proofs and for numerous suggestions ; and also to Mr. H. J. Wolstenholme for similar kindnesses. The responsibility, however, for any errors that may remain rests entirely with myself.

FITZWILLIAM HALL, CAMBRIDGE,

•October, 1910.

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APPENDIX

(CURRENCY.)

By "standard" money is meant money made of a metal of which any person may take any quantity to the mints and demand that it be coined, either free of charge or for a very small charge,¹—the consequence being that standard money fluctuates in value (that is, in purchasing power) with fluctuations in the value of the metal of which it is composed. (Such fluctuations may be due to changes on the Supply side, *e.g.*, the output of the mines, or to changes in Demand, *e.g.*, as a consequence of other States adopting the same standard metal, or of new uses for the metal, of a non-monetary kind, being discovered).

By "token" money is meant money coined in limited amounts at the discretion of the State and declared by the State to have a value greater than that of the metal of which it is composed. The value (purchasing power) of such coins is not directly affected by fluctuations in the value of the metal used,

¹ Such a charge is usually called "seignorage."

any more than the value of currency notes is affected by changes in the value of the paper on which they are printed.

In the United Kingdom gold coins (sovereigns and half-sovereigns) have been standard money since 1816. Silver and bronze token coins are also issued in accordance with the changing requirements of trade and are declared "legal tender" for limited amounts; that is to say, they may, legally, be tendered in full settlement of any debts not exceeding certain specified sums.

In India the silver rupee was standard money until 1893. As, however, silver was rapidly declining in value relatively to gold, and the Indian Government had therefore the added difficulty, in drawing up its annual budget, of forecasting not merely the amount of expenditure (reckoned in gold) to be incurred in England, and of expenditure (reckoned in silver) to be incurred in India, and the amount of probable revenue for the year (paid in silver), but also of forecasting changes in the relative values of gold and silver, it decided to approximate towards the gold standard. The change to the present system was carried out in two stages. The mints were "closed" to silver in 1893; that is to say, the public could no longer freely demand that their silver should be turned into coins. The consequence of this was that a

rupee, instead of being worth just as much as the silver of which it was composed, rapidly rose in value (purchasing power). For, as wealth and trade increased, there was greater demand for coins to be used in purchasing commodities and services, while there was no corresponding increase in the number of coins in use. When the rupee, which had fallen in value from one-tenth to one-eighteenth of a sovereign, had risen again, in 1899, to one-fifteenth of that coin, the English sovereign was declared legal tender in India and a rupee treated as equal to one-fifteenth of it. Thus the rupee is now, like the English shilling, a token coin. Owing, however, to its being (unlike the English token coins) not only legal tender in unlimited amounts, but the customary medium of exchange (either in coin or in the form of notes) for moderately large transactions—so that there must always be relatively vast amounts of the Indian token money in circulation (in addition to unknown amounts privately hoarded)—it is impossible in India to regulate as satisfactorily as in England the amounts which it is desirable to coin.¹ Thus there is always a

¹ The quantities of rupees annually issued depend mainly on the amount of the drafts that are sold in London by the Secretary of State and have to be met in cash at Calcutta; and this amount is affected irregularly by the changing requirements of trade, including the changing opportunities for the investment of English capital in India.

possibility of a slight depreciation¹ of the rupee, since its purchasing power does not respond as immediately as that of the sovereign and the shilling to the changing output of gold mines or the changing demand for gold in the arts. Still it is important to remember that its value is not directly affected by the changing output of silver mines or the changing demand for silver plate and silver ornaments.

For dates previous to 1899, it is difficult to give the equivalents of English in terms of Indian money, and *vice versa*,—a fact which (it may be mentioned) tends to obscure the evidences of India's growing prosperity. The process is now quite simple.

$$£1 = 20s. = 240d.$$

$$£1 = Rs. 15. = as. 240$$

A million pounds = one and a half crores of rupees.

A crore of rupees = £666,666 13s. 4d.

A lakh of rupees = £6,666 13s. 4d.

The continuous small fluctuations in the

¹ There is, theoretically, the same possibility of the depreciation of the shilling in England—a result that would come about if a blundering Government were tempted to make profits by an excessive coinage of token money. This danger is only theoretical; but it has to be guarded against by the withholding from the Australasian and South African Governments of the power to coin their own token money.

“Exchange” chronicled in the financial columns of the daily papers, which declare that the rupee is worth, now a fraction more, now a fraction less, than sixteen English pence, are not really concerned with the relative values of the sovereign and the rupee, but with the relative prices, paid in India for documents giving purchasing power in England, and paid in England for documents giving purchasing power in India. These fluctuations in exchange are caused mainly by the relative intensity of the demands of English and Indian importers and exporters of commodities for which payments must in some way be made. Similar fluctuations occur in the rate of exchange between England and Australia, in spite of the fact that both countries use exactly the same coins.

From the coinage of token money it is clear that the Government must always make a profit. In the case of India this profit is not treated as part of the ordinary revenue, but set aside to form what is called the “Gold Standard Reserve.” A large part of this is invested in the purchase of English Government securities from which is received interest which still further augments this reserve.

This reserve stands (1910) at about $14\frac{1}{2}$ million pounds—a figure considerably lower than in immediately preceding years. “In August, 1907 . . . it was determined

to employ one-half of the profits on our rupee coinage in capital expenditure upon railways. The sum of £1,123,604 was actually diverted in this manner. But for the future, as has now been decided, the whole of our coinage profits without reservation will be paid into the gold standard reserve until such time as the gold held by us, in that reserve and in the Paper Currency Department combined, reaches the figure of 25 million pounds sterling. The second important change concerns the form in which the gold standard reserve is held in England. For the future, instead of tying up the whole amount in investments, the Secretary of State has consented to keep one million sterling uninvested, letting out this sum in short loans or putting it into bank deposits. Of the balance, he will hold a considerable portion in high-class securities with a near date of redemption; and the remainder in consols or other approved stock. When we are next obliged to sell sterling bills on London, the Secretary of State will thus be able to meet them in the first instance from cash which is virtually at call. When this is exhausted, he can draw on his short-dated securities. . . . If the crisis still continues, it will become necessary to realise—and to realise gradually and carefully—the more permanent securities.” (Budget Speech of the Finance Member, Feb. 1910).

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