

SOME ASPECTS OF
FISCAL RECONSTRUCTION
IN INDIA

*Being the Banaili Readership Lectures in
Indian Economics, Patna University, 1927-8*

BY

GYAN CHAND, M.A.

DEPARTMENT OF ECONOMICS, PATNA UNIVERSITY

HUMPHREY MILFORD
OXFORD UNIVERSITY PRESS
LONDON BOMBAY CALCUTTA MADRAS
1931

SOME ASPECTS OF
FISCAL RECONSTRUCTION IN INDIA

TO MY DEAR FRIEND

'RAU'

(P.H.P.)

TO MY DEAR FRIEND

'RAU.

(P.H.P.)

PRINTED IN INDIA
AT THE DIOCESAN PRESS, MADRAS, 1931. C11422

PREFACE

IN March 1927 I delivered a course of six lectures at Patna on the invitation of the University of Patna, which were published by them for limited distribution. But as the views expressed in these lectures are of general interest and have bearing on some of our current problems, they are here presented for the use of those who realize the importance of, and take an intelligent interest in, our problems of taxation.

We are on the eve of great changes. The air is full of war cries, and strange and ominous shadows seem to darken the sky. But this gloom and darkness must pass away, and it is necessary for us to work for the coming of the new day. For that we have to acquire a new attitude towards all matters of national importance ; and among them the questions relating to fiscal reconstruction deserve our earnest and immediate attention. We have, in the past, been dominated by what may be called the negative aspect of taxation. This was inevitable as our political subjection made it impossible for us to look upon taxation as an instrument of progress and development of the dynamic life of the community. But now it is time for us to have faith in our coming freedom and address ourselves to the problems of fiscal reconstruction from a different and wider standpoint. Our taxation policies will, in an increasing measure, be determined by the exigencies of practical politics ; once we realize that our tax system is undeveloped and must be placed on a different basis if we do not want to stand still, we shall have a new orientation of our fiscal outlook and create an atmosphere favourable for the success of new proposals and policies. It will be taking too optimistic a view of our future to assume that this change can be brought about soon or without strenuous efforts. But

Preface

without it, it will be impossible for us to make any headway against our enormous difficulties, or rise to the height of our possibilities. If we appreciate the importance of this aspect of the matter, which is of such vital importance to the well-being of our country, we shall work for a new order of things in the domain of taxation.

This change has to come ; but the immediate need of the hour is clear thinking on our fiscal questions, which is now rendered so difficult on account of passions and prejudices. Even in our universities we allow our thoughts on these questions to be dominated by considerations which, though not irrelevant, loom unduly large in our intellectual horizon owing to certain historical accidents. The universities being centres of intellectual freedom must emancipate themselves from the influence of adventitious circumstances and foreshadow changes, the necessity of which may not be quite obvious to the general public. The present book is intended to stimulate, in some small measure, this process of intellectual emancipation. It cannot carry the process very far ; and even as an attempt at initiating it I am fully aware of its utter inadequacy. But I do hope that those who happen to read this book will find in it an earnest, even though inadequate, attempt to discuss our fiscal questions from the point of view of the future. We have been, in all spheres of national life, almost completely obsessed by the past ; it is now time to shake ourselves free from this nightmare and fix our gaze upon the future.

In this book some aspects only of fiscal reconstruction have been dealt with. The limitations of space and the need of maintaining unity of thought made it necessary to exclude a number of otherwise important questions of taxation. The problems of federal finance,

Preface

which are of immediate importance, have not been dealt with at all except incidentally at some places. This omission is deliberate. I have already dealt, though briefly, with the problem of fiscal readjustment between the Central and the Provincial Governments in my *Financial System of India*. That book was published about four years ago and contained a promise that I would write a book on Federal Finance. I have been slow in fulfilling that promise; but now it has been fulfilled, and the problem of financial readjustment has been dealt with in all its aspects in my *Essentials of Federal Finance* (published by the Oxford University Press). These books can, as a matter of fact, be considered companion volumes, and in some respects supplement each other.

GYAN CHAND

CONTENTS

	PAGE
I. A PLEA FOR FISCAL RECONSTRUCTION ...	1
II. DIRECT TAXES—THE INCOME-TAX ...	26
III. DIRECT TAXES—LAND TAX AND INHERITANCE TAX ...	49
IV. INDIRECT TAXES ...	84
V. NON-TAX SOURCES OF REVENUES ...	112
VI. DISTRIBUTION OF TAX BURDEN ...	143
INDEX ...	167