

PUBLIC FINANCE and OUR POVERTY

*The Contribution of Public Finance to the Present
Economic State of India*

BY

JOSEPH CORNELIUS KUMARAPPA

M. A., B. Sc. in Business

Fellow of the Society of Incorporated Accountants & Auditors

Fellow of the Royal Economic Society

Professor of Public Finance

Gujarat Vidyapeeth

Commendatory Foreword

BY

M. K. GANDHI



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Dedicated to

*Him who bears the burden and the heat of
Whose extravagance consists in maintain-
ing the most luxurious government in the world:
Whose generosity is in paying his taxes
the cost of the subsistence of his
children,*

and on whose shoulders

Britain rests.

*Thou shalt not mill
out the corn"*

Foreword

This booklet is a reprint, revised where necessary by the author, of the chapters written by Professor Kumarappa and put in *Young India*. They examine the economic policy of the British Government and its effect on the masses. They are, therefore, very reasonable. The value of the chapters is enhanced by the addition of a very careful and judicious commentary by the author himself. This booklet both to Indian and Western readers.

Kanad

20th April, 1930

M. K. Gandhi

Preface

Suggestions have been offered which indicate that the theme set forth in the title with its implications and limitations thereof has not been kept in mind by many readers.

May I state at the very outset that I am neither concerned with allocating responsibility nor with a comprehensive enquiry into the causes of poverty in India. This essay is merely an attempt to point out the injurious fiscal policies with the hope that good will result. I am, therefore, not concerned with all the circumstances which have impoverished the country, such as morcellment of land etc., however enchanting it may be to trace the economic course of the nation from the fabulous wealth of ancient India to the stigma of poverty now attaching to that very land. Although the changes in the environmental conditions which have brought these about are varied and fascinating, we cannot within the scope of this booklet get into such a maze. I have deliberately limited myself to only one factor, viz., Public Finance.

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Even in such a limited field we are not concerned with remote periods, but with the

policies of an administration stretching over about a century prior to the present time. This historical aspect of the enquiry entails using evidence which may appear to be out of date. But it is well to remember that we are not dealing with present day policies only, but with past policies which have left their indelible marks on the economic condition of the people.

I have preferred also to judge by results and actions rather than by austensible reasons advanced by Finance Members in an oratorical flourish. Because of this, I have refrained from dealing largely with present day affairs and have limited myself to tried policies of the past; for instance, my reference to the Excise Duty on cotton. In matters of this kind we can only go by what has been achieved and not merely by methods in use. It is no good pleading that a tax or an expenditure is good in itself. What we have to judge by is by the alternative. While there are pressing needs, if the revenue is used for less pressing objects, however important or beneficial these latter may be in themselves, it is wrongly used. When children are starving, food and the means of obtaining food are more important than reading and writing and the three Rs are more important than a college education in a land of illiterates. It is futile to claim credit for building railways, good roads etc. We have to take into consideration at what 'alternative cost' these have been built and what use they are being put to and which part of the population benefits by them. If these are for the

benefit of the foreign merchant, the plutocrat or the exploiter, to the neglect of the needs of the poor, it is a blot on the administration rather than a matter to be vaunted with legitimate pride.

Even this theme is too wide to be dealt with adequately in a booklet of this kind. Here it is only possible to indicate the main lines of inquiry. The method pursued is to present evidence and then corroborate the author's conclusions from accepted authorities.

As the figures used in the body of the Essay relate to 1925/26 an Appendix has been added giving the latest available figures. Advantage has been taken of this to supplement other information as well, especially table IV of Appendix A will be found to be of great interest. France has always been considered a classic example of a stagnant population. When allowance is made for the territorial increase of British India during the last five decades, the reader will note that, India 'takes the cake' even in this. So that increase in the density of the population does not supply a solution to the poverty of India as the Government protagonists will have us believe.

The material used in this essay was originally collected while I was a student under Prof. E. R. A. Seligman of Columbia University, New York, and was put together in a form suitable to the general reader and published as a series of articles in the *Young India* during November, December 1929 and January 1930.

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CHAPTER I

INTRODUCTION

In the very beginnings of fiscal science in India, taxes were regarded as the remuneration of the kings for their services rendered to the people. The relations between the State and the people were based on contract, and thus public finance received recognition very early in Indian statecraft. Shukra says: "The king should enjoy fruits everywhere, but, at the same time, he should act like a slave in protecting his people."

Coming to modern times, we find, that there is hardly any other department of Government so closely related to the well-being of the nation, in the long run, as that of public finance. Indeed, when fiscal science is the handmaiden of public-spirited and far-sighted statesmen, it could be the making of a powerful nation, but when mishandled,

it could also be the ruination of a flourishing people. Like all other powerful instruments, this science is equally capable of being used for good or ill, and therefore, it should be entrusted only to proved friends.

With its aid the Government should husband the natural resources of the land, as short-sighted private ownership might waste and exhaust them in a brief period of time. It is the function of the Government to take a long time view of affairs, as it could afford to wait, while individuals, in their anxiety to crowd into their span of three score years and ten as much of economic production as possible, are apt to ignore the waste their feverish activities may entail on the coming generations. In the United States of America forests of timber burnt down, both in clearing the ground for cultivation and in laying foundations for trunk roads, and the oil wells rapidly pumped out in competition, afford glaring examples of loss that may occur not only to one nation but to humanity at large, as the world has now become one whole economic web, and the loss to one part is a loss to all. Thus the present day fiscal science throws a heavy burden of responsibility on the shoulders of those who wield this weapon with such far-reaching consequences.

During the transitional periods, when nations pass from one stage to another,— agricultural to industrial, handicraft to factory system,— an efficient Government should guide the economic activity of the people into proper channels, so that the productivity of the nation may not suffer by the change, but rather be increased by it, and that there may be no unnecessary waste in the switching over process. This may be done by wise expenditure on experimentation and dissemination of information so obtained, or by a well conceived system of tariffs affording protection to infant industries against competition from highly organised foreign units, or by bounties meted out to encourage promising industries in their struggle at the commencement, or by subsidies helping out undertakings essential for national welfare. Such guidance, direction and help should result in a well balanced proportion of various kinds of opportunities for the common people. The well-being of a nation does not depend on the monetary affluence of a few nor on the unlimited opportunities afforded to all by any one field of occupation; for the former will lead to a great inequality in distribution and to discontent, and the latter may spell disaster to the whole nation, as in the case of a drought

upon an agricultural community. The nation that is allowed to run on a single track will soon find difficulties in supporting itself, production will not keep pace with the growth in population unless opportunities broaden out in proportion. A deeply interested Government can do a great deal in keeping a watchful eye on the tendencies of the times, in stimulating growth and checking signs of decay. A scientific combination of industries and commerce will lead to the well-being of the masses, and will result in their contentment and happiness and in the enrichment of life to all individuals, rich and poor, high and low. Rightly does John Ruskin declare, "There is no wealth but life." J. A. Hobson suggests 'substituting for the monetary standard of wealth a standard of human well-being.' When we judge the profitableness of a Government policy, our criterion should be the provision of opportunities to all those who are willing to contribute their share of work and thought to the common good of the nation, that they may be able to do so freely with neither let nor hindrance.

The revenue of the king can be raised, says Shukra, only after he has contributed to the faculty of the people, like the gardener who collects the fruits and flowers after

having duly nourished the plants. Taxation should be such that it does not hurt the populace. To use Kautilya's figure of speech, taxes should be obtained as the fruit is plucked when ripe without injury to the plant. The flock should be shorn and not flayed. A carefully devised system of taxes, while producing adequate revenue, should not reduce the productivity of the tax-payer; the revenue should be drawn from the surplus without affecting the patrimony of the State. To again borrow an ancient Hindu simile, the State should not be like a charcoal dealer who cuts down the trees, burns them, and obtains a profit at the cost of the destruction of the source of revenue, but it should be like the florist who merely gathers the flowers which would otherwise fade, leaving the plant to bloom again. The incidence of taxation should be carefully considered, and the burden should be according to faculty. Those on the borderland of subsistence should be relieved at the cost of those who are blessed with a larger share of worldly goods. Indirect taxes should be levied only on articles carefully and scientifically selected, so that indigenous industries are encouraged and the poorer classes are not crushed by a higher cost of living owing to the taxes pushing up the prices of necessaries. Indirect taxes are

very useful means of obtaining revenue without making the one, who ultimately bears the burden, aware of it. Hindu literature likens it to the process by which the bees suck the honey without the flowers knowing it. This quality in its nature calls for the exercise of great caution on the part of those who are entrusted with this high duty.

The laying out of the revenue so obtained should be such as to increase the productivity of the people. To use a classical figure, the taxes should rise as the vapour from the sea, from the section of the populace who could best pay, and should be precipitated like rain on the needy, as when the rich are taxed to pay for the education of the poor. Even in private economy it requires a great deal more wisdom to spend the money well than to acquire it. The problem is far more complicated in public finance. It would be sheer folly to extract a rupee from a man on the subsistence level, to whom that unit represents great marginal utility, and to spend it so as to afford benefit to one who is much better off. There would be a waste of national income rupee for rupee. The faculty of the community from which the tax is raised and the utility to the group that benefits from the fund has to be always borne in mind.

The administration itself should be as efficient as the nation can afford to maintain, taking into consideration the economic development of the people. It would be reasonable for a man with an income of Rs. 6,000 a year to aspire to a 'Ford,' if his family is not too numerous even for that, but it would be madness for him to maintain a 'Rolls Royce.' The standards of efficiency required are relative and not absolute. There should be a sense of proportion in all things including even public administration. It is no argument to maintain a very highly paid administration to say that it is efficient. Efficiency itself should be gauged, not by the mechanical accuracy with which routine work is carried out, but, on the touchstone of prosperity of the general mass of the people. Mechanical efficiency should be subordinated to the need for imagination in carving out wide channels for the exercise of national talents. An administration that does not lead to such prosperity is a failure, however efficient it may be in its clockwork detail. To weigh up the ability of a nation to maintain the expense of its administration, the salaries of its public servants should be tied up to a multiple of the average income of a citizen for comparison. Such a procedure will give the proper proportion, and at the same time

will automatically eliminate the difference in price levels between countries compared, and the faculty of different citizens.

With these general remarks on the prerequisites for the building up of a wealthy nation in mind, we shall rapidly review the conditions prevailing in India. To get an adequate perspective to enable us to trace the influence of the policies of public finance pursued in India, it will be necessary to survey briefly the economic state of the country immediately preceding the present regime, leaving aside ancient India which bore the magnificence of the empires of Chandragupta, Ashoka etc.

CHAPTER II

INDIA ABOUT 1800

Although for centuries past Indian history alternated with prosperity and adversity, peace and war, contentment and oppression, benevolence and tyranny, on the whole, when we look at the general trend, we find India enjoyed a remarkable share of peace and prosperity as compared with the lot of the other nations of those days. All through mediaeval times, India occupied the centre of the economic activity of the world. Even the discovery of America was due to the eagerness with which the less developed nations of the West were seeking to get into direct trade relations with India. According to the standards then prevailing, India was highly industrialised. Foreign trade in those days consisted of small articles of great value, usually of the luxury

type, exchanged for gold. As security and transport played an important part in the cost and transfer of goods, it was not worth while to exchange for bulky and low-priced raw materials. Even Rome, in its height of power, complained of the drain of gold to India. No doubt the belief, that India is an incorrigible consumer of the precious metals, which persists to this day in spite of evidences to the contrary, had its origin in the manner in which India's foreign trade was paid for in ancient times. India was exporting manufactured articles and importing gold in exchange in the main. Her own raw materials were worked up by her own skilled artisans, and Indian¹ bottoms carried the wares to Europe, via the Persian Gulf and Arabia, on the one side, and to China and Japan on the other. Thus she was a veritable hive of activity, affording profitable employment to her sons on land, on sea and in her cities. She had an admirable combination of outlets for the genius of her people. Her cotton was skilfully woven into beautiful calicoes of Calicut on the western coast and into fine muslins of Musulipatam along the Eastern seaboard. The trade in such fabrics with

¹ Radhakumud Mookerji's *A History of Indian Shipping*, page 4.

England, in the latter part of the 18th century, assumed such proportions,¹ that it raised a hue and cry for protective tariff against Indian competition. The following lines which appeared in the *Gentleman's Magazine* in 1735 give some indication of the keenness of the competition of the Indian trade in England :

“The silkworms form the wardrobes' gaudy pride ;
 How rich the vest which Indian looms provide ;
 Yet let me here the British Nymphs advise
 To hide these foreign spoils from native eyes ;
 Lest rival artists murmuring for employ
 With savage rage the envied work destroy.”

Heavy duties were introduced² in England to safeguard British textile manufacturers from utter ruin. Cunningly wrought works of art in ivory and precious stones were in great demand everywhere, and the spices of Ind became proverbial. Silks, embroidery, and carpets catered to the aesthetic demands of the wealthy.

The great maritime activity led to shipbuilding. Prof. Radhakumud Mookerji quotes from a letter, dated 16th December 1670, from the factors at Balasore to the

¹ Balkrishna's *Commercial Relations between England and India*, Chap. X.

² Wm. Digby's "*Prosperous*" *British India*, page 90.

Court of Directors in London, the¹ following:
 “Many English merchants and others have their ships and vessels yearly built. Here is the best and well grown timber, in sufficient plenty, the best iron upon the coast, any sort of iron work is here ingeniously performed by the natives, as spikes, bolts, anchors and the like. Very expert master builders there are several here; they build very well and launch with as much discretion as I have seen in any part of the world. They have an excellent way of making shrouds, stays, and any other rigging for the ships.” Even² as late as 1802 ships and warships for England were built by India, and England borrowed³ plans and designs from Indian builders.

The beautiful buildings and canals as well as the public trunk roads, constructed during this period and existing to this day, bear eloquent testimony to the prosperity of the times.

It is true, famines devastated the country in parts, but never the whole land, at any one time. The chief cause was mainly the shortage of grain following a drought, not

¹ Radhakumud Mookerji's *A History of Indian Shipping*, page 233.

² *Ibid*, page 244.

³ *Ibid*, page 250.

the lack of purchasing power. It was a natural calamity rather than the result of the economic situation. Owing to the inadequate facilities of those days transport was both slow and arduous, making relief¹ work an almost insuperable difficulty.

From time to time some foreign ruler would cast his envious eyes on the wealth of India, descend on the country and carry off the hoarded treasures of the temples and palaces. A certain amount of loot by predatory armies was inevitable by the nature of events, but on the whole the 'underlying' population of peasants and artisans were allowed to carry on their respective avocations in peace. At all events, the means of wealth creation was not taken away from them by the invasion, and the people were left free to engage in production again. If, indeed, the wealth of a nation, taken as a whole, depends on the productivity of that nation, and not on the monetary accumulation, then we can safely say that those inroads little interfered with the welfare of the people. Farming was looked upon as sacred, and warring princes scrupulously avoided any destruction or damage to agricultural property. It is easy to understand

¹ A. Loveday's *History and Economics of Indian Famines*, page 20.

how an invasion such as that of Nadir Shah in 1739 need not cause untold misery by destroying the economic unity of the nation, though it may bring about a temporary disturbance. We can conceive of America losing the wealth of a Rockefeller or of a Ford without much hardship to the nation; but it would indeed be a sad plight if the livelihood of the farmers and the openings for employment of the labouring classes in industrial areas were taken away. 'He who steals my purse steals trash.' Comparatively little injury is done if a man is robbed but is left with the means of supporting himself; on the other hand, if a skilled worker is robbed, his eyes put out, and his hands cut off, his condition is indeed miserable. Foreign invasions and tyrannical reigns did oppress the people for a while, but it was not long before the road to welfare was regained.

Whether well or ill, the proceeds of taxation was spent in the land. The extravagances of the courts only went to encourage arts and crafts, as it meant a greater demand for the products of these. Eastern princes were well known for their patronage of scholars and artists. The nation as a whole benefited by its own total productivity. What it produced it

consumed without having to hand over a share to an outsider. The administration itself being manned by the sons of the soil, the doors of public service were thrown open to the able amongst the intellectual classes, besides providing occupation for thousands of others.

Village lands were assessed by their own Panchayats who had intimate personal knowledge of the locality and of the tax-payer. Although the tax rates appeared high, the human element and the personal touch in the government often led to bargaining and relief. The tax itself was based on the produce and so was proportionate. An option to pay the tax either in kind or in money was extended to the farmers, thus supplying the needed safety valve to hardships that may be entailed otherwise. A surplus was available to the farmers and others as reserves¹ of grain against drought. The land was not swept clean of all its production, without laying aside a margin of safety.

Each village had its own school² supported by land grants, and it had its own officers

¹ A. Loveday's *History and Economics of Indian Famines*, page 21.

² J. Matthai's *Village Government in British India*, Chap. II.

in charge of the various departments¹ of local government, thus constituting a little democratic unit.

The following accounts from European travellers and observers of the conditions at the time in the North, South, East and West sections of the country, give us a picture of a flourishing country at the end of the 18th century.

Bishop Heber describes Bharatpur State in his journal, and says, "This country²

. is one of the best cultivated and watered tracts which I have seen in India. The crops of corn on the ground were really beautiful; that of cotton . . . a very good one. What is sure proof of wealth, I saw several sugar mills, and large pieces of ground where the cane had just been cleared. The population did not seem great, but the villages were in good condition and repair, and the whole afforded so pleasing a picture of industry and was so much superior to anything I had been led to expect in Rajputana, which I had seen in the Company's territories, that I was led to suppose that either the Raja of Bharatpur was an extreme exemplary and

¹ J. Matthai's *Village Government in British India*, page 15.

² Bishop Heber's Journal, Vol II, page 17.

paternal governor, or that the system of management adopted in the British provinces was less favourable to the improvement and happiness of the country than some of the Native States."

Another witness, Lt.-Col. Moore, bears the following testimony of the Musalman Prince Tipu of Mysore in the South: "When¹ a person, travelling through a strange country finds it well cultivated, populous with industrious inhabitants, cities well founded, commerce extending, towns increasing and everything flourishing so as to indicate happiness, he naturally concludes the form of Government congenial to the people. This is a picture of Tippu's Government. . . . We have reason to suppose his subjects to be happy as those of any other sovereign. . . no murmurings or complaints were heard against him, though the enemies of Tippu were in power, and would have been gratified by any aspersions on his character."

Turning to the East, we get this description of Bengal from Mr. Holwell²: "Here the property as well as the liberty of the people are inviolable. The traveller with or

¹ From Moore's *Narrative of the War with Tippu Sultan*, page 201 (quoted from the Reform Pamphlet by Lajpat Rai).

² Lajpat Rai's *England's Debt to India*, page 25.

without merchandise becomes the immediate care of the Government, which allots him guards, without any expense, to conduct him from stage to stage." And again: "The rich province of Dacca was cultivated in every part. . . . Justice was administered impartially. . . . Jeswant Roy . . . had been educated in purity, integrity and indefatigable attention to business, and studied to render the government of his province conducive to the general ease and happiness of his people. He abolished all monopolies and imposts upon grain."

Regarding the West, Anquetil du Perron observes the Mahratta country and says: "When I entered the country of the Mahrattas, I thought myself in the midst of simplicity and happiness of the golden age, where nature was as yet unchanged, and war and misery were unknown. The people were cheerful, vigorous and in high health, and unbounded hospitality was an universal virtue; every door was open, and friends, neighbours and strangers were alike welcome to whatever they found."

From these pleasing pictures of a prosperous country at the beginning of the 19th century, let us turn to the state of India at the beginning of the next century.

CHAPTER III

INDIA ABOUT 1900

Let us again put into the witness box a few European observers. We can well begin with no less a person than the Premier of England, Mr. J. Ramsay MacDonald, who says, "For¹ days and days one goes through the land, and sees nothing but thin bodies toiling, toiling, toiling, trudging, trudging, trudging. India is the home of the poverty-stricken, and this was borne in upon me all the more that its poverty was embodied in forms of the most perfect human grace." And later he declares: "The poverty² of India is not an opinion, it is a fact."

Dr. Josiah Oldfield writes to the *Daily News* as follows: "I have³ just returned from a study of the Indian problems on the

¹ J. R. MacDonald's *The Awakening of India*, page 140.

² *Ibid*, page 159.

³ Wm. Digby's *The Ruining of India*, page 159.

spot, and cannot urge too earnestly before your readers the intense pathos of seeing village after village, village after village with all the men, still more the women and children, showing those pitiful signs of a daily struggle to live, with only half enough to live upon.

“I have seen the poverty of the English villages, and the desolation of the London slums (and a doctor in the slums sees more of the real poverty of the homes than a parson does), but I have seen nothing that haunts me more than the spectacle of these brave, honest, hard-working, economical people toiling on week after week, with only a piece of coarse *bajri* or *jovari* bread and a handful of pickles to keep it down, and a drink of butter-milk twice a day.

“There is no declared famine in India at the present time (1902), but I have visited scores of villages, and have entered many a house, and have found the corn bin empty or nearly empty.

“What does this mean? It means that their scanty harvest has already been sold to pay the tax, and that in another two months they will have nothing at all left.”

The Rev. J. Knowles,¹ of the London Missionary Society, witnesses: “In my own

¹ Wm. Digby's “*Prosperous*” *British India*, page 106.

missionary experience I once carefully investigated the earnings of a congregation of 300, and found the average amounted to less than a farthing a head per day. They did not live; they eked out an existence."

Prof. Gilbert Slater of London pronounces¹ the poverty of India as a 'grim fact.'

As recently as 1927 Dr. Rutherford observed, that 'everywhere'² the struggle for existence was terrible,' and after describing the privations the villagers suffered, he goes on to say: "Perhaps my greatest horror and anguish arose from the facts, firstly, that I was a British citizen, was responsible for their physical condition leading to a slow and painful death, inasmuch as I was responsible for the Government which failed to prevent famines by greater schemes of irrigation and by reducing the assessment on land."

The economist, H. M. Hyndman, opines:³ "Even as we look on, India is becoming feebler and feebler, the very life blood of the great multitude under our rule is slowly, yet ever faster, ebbing away."

Leaving the bird's-eye-view of affairs obtained from these snapshots, let us

¹ P. Pillai's *Economic Conditions in India*, page XII.

² V. H. Rutherford's *Modern India*, page 106.

³ H. M. Hyndman's *Bankruptcy of India*, page 152.

examine the situation at closer range. We find the old-time skilled handicraftsmen and artisans have lost their trade, and no industry has replaced them, but these men have been driven back to the land to eke out a precarious living with a slightly increased population. Part of the year they work, but when the dry season sets in, they are left idle.

The relative increase in population during the last century is very much lower in India than it has been in Europe. According to the *Statesman's Year Book* the percentage increase during the last three decades, as revealed by the census, compares with that in Great Britain as follows:

	1891-1901	1901-1911	1911-1921
India	2.5	7.1	1.2
Great Britain	12.2	11.6	5.4

So the increase in population does not cause a problem.

We observe the foreign trade of the country has changed from an export of manufactured articles to an import of such merchandise, and an export of raw materials. The cotton textiles as a cottage industry have disappeared, leaving nothing to take their place. Shipping and ship-building is as a tale that is told.

We notice there has been a large number of famines¹, and these more devastating ones in the last half a century than throughout the past of India's long history. The range of distribution of wealth is immense.

Everywhere the administration appears to be practically in the hands of European officers who naturally work with their return passage in their pockets. Their interests are not identified with the interests of those whom they govern, nor are they responsible to them. Their feet indeed rest on Indian soil, but their faces are turned *Homewards*. The sons of the soil who were once the administrators have been reduced to an ill-paid community of clerks.

'The² widespread system of national education,' which the British found when they took possession of the country, met the fate of the other indigenous institutions with the taxing of school lands.

We find a highly efficient and well developed network of railways, but comparatively little spent on canals and irrigation.

¹ A. Loveday's *History and Economics of Indian Famines*, App. A.

² John Matthai's *The Village Government in British India*, page 42.

India is 'enjoying a free-trade policy' as regards her foreign connections, while the requisite revenue is raised from salt monopoly, land tax and other regressive taxation.

It is for us now to enquire what has happened, in so short a period in a nation's life, to transform the glowing picture of the early 19th century into the harrowing tales of the 20th century.

The conditions that affect a nation's welfare may be broadly divided into :

1. Those inherent in man, and
2. Those due to environment,
 - (a) natural, and
 - (b) artificial.

As regards the inherent qualities of the Indian ryot, his intelligence and diligence and his powers of endurance under the most trying and disheartening circumstances have never been called into question, and so this can be dismissed with the evidence of the illustrious labour leader of England. Mr. MacDonald is of the opinion, that "the people¹ are the most industrious in the world, much of their land is fertile and yields rich crops."

When we turn to the natural environment, we find that there are very few countries as richly endowed as India

¹ J. R. MacDonald's *The Awakening of India*, page 159.

is. The hidden treasure trove consists of manganese, copper, iron, coal, gold, petroleum, salt, lead and lead ores, saltpetre etc. The soil offers tea, coffee, indigo, and India holds the world monopoly of jute and third place for cotton. Wheat and oilseed form other important products for world markets. The many lofty mountain ranges hold potentialities for the generation of electric power. With such manifold blessings India can plead no excuse under this head for her dire poverty. Thus man and nature stand acquitted, and so we pass on to the next.

Dealing with the theory that production is low because the standard of living is low, Dr. H. J. Davenport says: "Men¹ do not stop consuming because they want no more goods, but because they can get no more on terms that make this more worth while." What are these factors in India that make 'this more' not worth while? Owing to the limitation of our theme we shall confine ourselves to one of the chief factors among the many artificial environments, namely, Public Finance. In India, governmental policies control also railways and foreign exchange, which will, therefore, come under our purview.

¹ H. J. Davenport's *Economics of Enterprise*, page 2.

The main difference in approach between public finance and private finance is due to the fact that the individual has a fixed source of income, and he has to regulate his expenditure according to his means, but in the case of governments, the amount to be spent on various purposes is decided upon, and then they look around for ways and means of raising the wherewithal to meet such expenditure. Hence, we shall first take up the consideration of expenditure, and then examine the means by which the revenue is raised.

Although a government may appear to have the advantage, in that it can control, at least in theory, the revenue to meet its needs, we should not lose sight of the fact that such power is not absolute but only relative to the faculty of the people, which in reality limits the taxation that a nation can bear. The moment the incidence passes from the surplus to luxuries, a certain amount of resistance is encountered which becomes greater and greater as we get down the scale of incomes from luxuries to comforts, and from comforts to necessities. In the nature of things, when the income, barely sufficient to support the worker in a state of efficiency, is taxed, the faculty of the people is at an end, and any further

increase in taxation can only result in damaging the patrimony of the state. It is inevitable, that any system of taxation must mean hardship to a few, as it is hardly possible for human ingenuity to devise a means of measuring individual ability to pay. But great care can be taken to see that efficiency does not suffer, and as far as possible, incomes on the subsistence level are exempt from any burden.

Under these conditions, having ascertained the amount available, the revenue should be expended so as to obtain the best possible value for every rupee of public money. Expenditure which will increase the productivity of the masses should be preferred to such as will benefit only a class; administration expenses should always be kept down.

As Government revenue is only a slice off the national income, it should be returned to the people in the form of expenditure on their behalf; any amount not so returned impoverishes them, as they do not get the full benefit of their production.

CHAPTER IV

PUBLIC EXPENDITURES

The following figures of net expenditure, prepared from the Statistical Abstract for the fiscal year 1925-26, including both Central and Provincial Governments, are instructive as to the use the available resources are put to:

Debt Services	21,62,09,009	15.2
Military	55,99,85,654	39.5
Civil Administration	55,44,33,587	39.2
Miscellaneous	8,70,60,535	6.1
	<hr/>	<hr/>
	Rs. 141,76,88,785	100.0

The details of 'Civil Administration' are as follows:

	Lakhs	Per Cent.
General Administration	12,49	8.9
Audit	84	.58
Justice	4,69	3.31
Jails	1,94	1.38

PUBLIC EXPENDITURES

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Police	11,69	8.2
Ports	31	.21
Ecclesiastical	32	.22
Political	3,37	2.4
Scientific	86	.6
Education	10,66	7.6
Medical	3,20	2.28
Public Health	1,81	1.25
Agriculture	1,79	1.24
Industries	1,30	.92
Aviation & Miscellaneous	17	.11
	<hr/>	<hr/>
	55,44	39.20

At this stage it will be useful to compare, with the above, the functional distribution of expenditure in the United States of America for the same year, including Federal, State and Local:

	Millions	Per Cent.
Debt Services	2,432	22.3
Protection	2,085	18.7
Central Government	867	7.8
Education	2,167	19.5
Highways	1,568	14.1
Social Welfare	1,020	9.1
Public Utilities	583	5.2
Economic Development	207	1.9
Miscellaneous	155	1.4
	<hr/>	<hr/>
	11,134	100.0

We should remember, that the above ¹figures represent the utilisation of the revenue of a democratic country controlling its own finances, while in India there is no such popular control. Again owing to the difference in the classification of expenditures in the two countries, it is not possible to press the comparison too closely, but we can discern a wide variation in the policies of the two governments, and more especially when we remember that 'Protection' in America includes 'Police' also, and their combatant forces are much better paid than are those of other nations.

While America spends 48.8% on Debts, Military and General Governmental Expenditures, and the balance in nation building expenses led by Education with 19.5%, India spends 93.7% on Debts, Military and Administrative Expenses and so has very little left for developmental purposes. Even out of the little used for Education, the Government of India spends Rs. 25 per head of the European population in India on the education of the children of the Europeans; while it doles out a beggarly four annas per head of the children of the land, which is one hundredth of what it utilises for the education of the children of

¹ *The Cost of Government of the United States*, page 18.

¹Europeans in India. Is this nation building expenditure in the interests of the 'people committed to its charge'? Only the crumbs are thrown to the sons of the soil in India, under the present fiscal system.

DEBT SERVICES AND MILITARY EXPENDITURES

Prof. K. T. Shah has worked out the following percentages² of Total Expenditure that the various countries spend on 'Defence:'

India	63.8	Spain	17.6
United Kingdom	53.7	France	20.0
Australia	48.3	Italy	17.3
Canada	24.2	United States	38.2
S. Africa	5.2	Japan	49.0

These figures relate to the year 1922, but they give us an idea of how India is being burdened with unproductive expenditures. When the nation gets no return for its effort, will this not be sufficient in itself to reduce a country to poverty in the course of years? The unproductive debts were mainly incurred by the British in conquering India itself, and in financing wars of imperial interests in Asia and Africa, leaving India to pay the bill. In addition,

¹ Lajpat Rai's *Unhappy India*, pages 55-56.

² K. T. Shah's *Wealth and Taxable Capacity of India*,

India's 'trustees' made a 'gift' to themselves of one hundred million pounds during the World War, while at that time India suffered losses, computed by Prof. Shah¹ to be 180 crores. As these enormous debts were incurred in quarrels not her own, and in pursuit of interests not identical with hers, it is hardly fair to saddle India with these charges.

As regards the maintenance of the Army itself, after arguing the various needs of the country, Prof. Shah says: "The² Army in India is thus as expensive as it is useless; and the service alleged to be rendered by that instrument to the Indian people is clearly out of all proportion to its cost."

Ramsay MacDonald comes to rather similar conclusion when he says: "Undoubtedly³ India has not been dealt with fairly in this respect." And again, "A⁴ large part of the army in India — certainly one half — is an Imperial Army which we require for other than purely Indian purposes, and its costs, therefore, should be met from Imperial and not Indian Funds."

¹ K. T. Shah's *Wealth and Taxable Capacity of India*, page 276.

² *Ibid*, page 272.

³ J. R. MacDonald's, *The Government of India*, page 153.

⁴ *Ibid*, page 154.

CIVIL ADMINISTRATION

We find this item is about five times as expensive as in the United States, and it is no wonder that Mr. MacDonald confesses: "It¹ must be admitted that the Government of India is an expensive affair," and later on adds: "A foreign² government is always a dear government—even if it is worth its price."

India competes for its administrators in Great Britain, a country of high price level; therefore, the scale of salaries must, necessarily, be high enough to be an attraction. Furthermore, foreign service involves a certain amount of 'human cost' which has to be compensated by a still higher remuneration. In the early days of British rule, when the British system of government was foreign and novel, there may have been some excuse for importing raw youths from England for fat jobs which afforded them fine careers, but now with tens of thousands of Indians educated in Western methods, this system has no particle of justification. The bureaucracy has been lacking in imagination and initiative of late. The work runs in deep grooves, and they have done little to increase

¹ J. R. MacDonald's *The Government of India*, page 145.

² *Ibid*, page 147.

the productivity of the nation. ¹In 1913, of the posts² carrying Rs. 1,000 and over per month 96% were held by Europeans and Anglo-Indians and only 4% by Indians. Taking the whole service, the average pay of a post held by a European was Rs. 933 and that held by an Indian was Rs. 371. When we compare these amounts with the *per capita* income, — Rs. 50 *per*³ *annum* in 1911 — of the taxpayer, who pays for this service, we see, one European official is equivalent to 224 taxpayers and an Indian official to 84 taxpayers. It is obvious that both European and Indian officials are paid far too high a salary when we take the faculty of the people into consideration. New York, the richest state in the richest country, pays its Governor \$ 10,000 a year, about 14 times the average income of a citizen; while Bombay pays its Governor Rs. 1,20,000

¹ Although there has been an increase in the Indian element in the services since 1913, yet for purposes of our illustration it makes little difference, as the main plea is not for Indianisation but for allocating a larger share for nation building purposes such as education etc., and not using up any amounts so allotted merely in paying large salaries to officials of the departments.

² K. T. Shah's *Sixty years of Indian Finance*, page 101.

³ G. F. Shirras, *Bombay Working Class Budget*, page 11.

(\$. 45,000), about 2,400 times the income of the average taxpayer. Ramsay MacDonald dealing with this question suggests¹: "Every branch of public service should have as its standard of pay an Indian and not a foreign level," and admits²: "Thus far we have wrought India much harm, and this is a reform which a self-government would do well to make."

Apart from the fact that a large portion of the revenue is thus absorbed by the administration,—leaving very little for anything else,—if the personnel had been Indian, a good deal of the wealth would have merely changed hands and would not have affected very much the country as a whole. The fact, that a large amount of the country's production goes into the hands of these foreign administrators and a considerable portion of it is drained out of the country in savings and pensions, is a matter of great concern to those who are interested in the welfare of India. Referring to pensions, J. Ramsay MacDonald says;³ "And these dead charges under a foreign government are doubly serious, for they are not only drawn from Indian production but are

¹ J. R. MacDonald's *The Government of India*, page 147.

² *Ibid*, page 148.

³ *Ibid*, page 148.

withdrawn from India itself." And he goes on to add¹: "It withdraws from a fertilising stream a very considerable amount of necessary water, and means impoverishment." And he finally states², "Prosperity cannot be widespread if the exported tribute is heavy."

Thus we see that 93.9% of the expenditure only depletes production, the bulk of it going out of the country in return for very little. As the productivity of the people is not increased thereby, and they do not get the full return for their efforts, the continuance of such a policy, decade after decade, is bound to reduce any country to poverty.

CAPITAL EXPENDITURE

The outlay under this head should be in proper relation to the needs of the economic development of the country. However good an item may be in itself, if the interests of the country do not call for it, it remains a waste. A country like India urgently needs developmental expenditure on irrigation and cheap rural transportation. While the Government has spent 96 crores on irrigation, the amount spent on railways to the end of 1925-26 is 626 crores.³ India has the

¹ J. R. MacDonald's *The Government of India*, page 148.

² *Ibid*, page 149.

³ *The Statistical Abstract of British India*, page 217.

largest mileage of railways in Asia,—38,579 miles. Ignoring the other pressing needs, railway construction was pushed on, exhausting all the available resources in doing so. The reason for this is clear from the following quotation: “But,¹ from the borrowed capital, railway and other works were executed which were devised in War Offices and not in Counting Houses, and Military Expenditure became masked as railway development,” says Mr. MacDonald.

Apart from the military aspect, this policy also helped to keep the steel industries in Great Britain busy. The railways were further useful in bringing raw materials to the ports for shipment to England, and in carrying inland manufactured articles from abroad by utilising discriminating² rates and ‘block rates’. To cite only a few instances to show how this scheme was worked out in practice, let us first take an infant industry, like the match industry; the rate for imported matches from Bombay to Delhi was the same as the rate for locally made matches from Ahmedabad to Delhi although the latter is a shorter haul by three hundred miles. This was virtually

¹ J. R. MacDonald's *The Government of India*, page 151.

² N. B. Mehta's *Indian Railways: Rates & Regulations*, pages 134-5.

“a bounty¹ to the foreign manufacturer equivalent to the whole cost of carriage from Bombay to Ahmedabad.” After a continued agitation of about ten years by the manufacturers of Ahmedabad, the rates were reduced to Rs. 2-2-11 per maund from Ahmedabad and to Rs. 3-7-2 from Bombay.

If we turn to an indigenous industry, like sugar manufacture, we find, rate from Bombay to Cawnpore for imported *refined* sugar is as. 13-6 per maund for the 840 miles, while for indigenous sugar from Cawnpore to Akola, a distance of only 649 miles, the rate is Rs. 1-2-4 per maund. This discrimination becomes still more unjust when we remember that the imported article is high-priced, while the country manufactured stuff is low-priced, and under the principle of charging ‘what the traffic will bear, the former should bear the heavier rate. Again, *refined* sugar from Bombay to Barsi is as. 6 per maund, while *unrefined* jaggery, used by the poor people, from Barsi to Bombay is charged at as. 9-9 per maund, *i. e.*, over 50% higher. Sr. Mehta remarks⁴, “Not only were the lower rates offered to foreign sugar as against home made sugar, but even as against *gud* or jaggery—a much

¹ N. B. Mehta's *Indian Railways: Rates & Regulations*, page 149.

less valuable product and largely consumed by the impecunious masses.”

As an instance of preference given to industries run by Europeans in India we may cite the discrimination in rates between Delhi, an Indian centre of cotton industries, and Cawnpore, a European centre of cotton industries. The rate from Chaudani to Cawpore, a distance of 236 miles, is as.5 per maund for raw cotton; but to Delhi, a distance of only 128 miles, it is as.6-7 per maund. Sr. Mehta states¹ that, “this discriminative treatment resulted in closing down of some cotton mills at Delhi.”

Similar facilities in rates are given to raw hides, wheat etc. to the ports as against the rates to centres of Indian manufacture. Mr. Ghose describes such rate discrimination ‘as a subsidy’² paid by the Indian Government to foreign manufacturer. ’

While none will deny the advantages to be derived from the possession of rapid means of transport, it has to be conceded that India has been overloaded by a system far in excess of its needs at the present economic state. Usually railway development follows

¹ N. B. Mehta's *Indian Railways: Rates & Regulations*, page 149.

² *Lectures on Indian Railway Economics*, Part II, page 36.

economic demands; but in India, it is considerably in advance, and hence it is unable to pay for itself, with the result that large amounts of Government revenue have to be diverted to maintain these unnatural and parasitic growths. Besides, the manner in which an effective instrument is used will determine the advantages to be derived from it. From the samples given above, it is clear that railways have not been an unmixed blessing to India. While we have a very limited amount of capital available, that amount has been lavishly expended in building railways to the neglect of the more important construction of canals for irrigation and transport, sanitation works etc. The Government cannot plead that the excessive development was due to an 'error of judgment', as it is not the outcome of a moment's hasty decision, but of a policy persistently followed, decade after decade, in the teeth of continued public criticism.

Discriminating rates are nothing new in railway history throughout the world. In the United States and other countries private enterprise and greed was the cause of it; while, in India, the damaging part lies in the fact, that the railways are aided and controlled by a Government which holds

itself forth as a 'trustee', and hence its action amounts to a criminal neglect of its duty to the Indian taxpayer.

The famous financier, D. E. Wachha, expresses himself as¹ follows; "It is the permanent Indian population of the country which directly or indirectly bears the whole burden of the annually growing charge on Railways Public Debt. If any interests require to be consulted, it is the interests of this permanent tax-paying population and not the interests of a handful of foreign exploiters here today and gone tomorrow, who deem India to be their happy hunting ground. It is an altogether inexcusable railway policy which is eager to attend to the interests of this microscopic class, but which absolutely ignores the millions of the indigenous population. In short, as in many other matters, so in connection with railways, it is the foreign exploiter who calls the tune, but it is the indigenous taxpayer who is called upon to pay the piper."

William Digby² writes, "Railways have facilitated the transfer of produce from one part of the country to another, but they have not increased production: they have carried produce out of the country,

¹ D. E. Wachha's *Indian Railway Finance*, page 60.

² William Digby's *The Ruining of India*, page 9.

but, . . . only a small portion of the profits thus obtained have inured to the benefit of the native inhabitant of India, whilst a large portion of them are a veritable curse to the country. More and more produce and manufactures are needed to meet the ever growing charges in England, partly for railways, the same railways have facilitated the carriage of such products to the detriment and the ruin of the country."

While the trunk lines to the ports have been so well developed, the light railways and canal traction, which are so important for the betterment of rural economy, have been sadly neglected.¹ The Government has yielded to the importunities of the several British Chambers of Commerce, and failed to listen to the still small voice of the Indian people.

A certain proportion of the responsibility for the frequency of the occurrence of famines in India in the recent past has to be allocated to the rapid development of railways. The country has been drained of its reserves of food grains for distant markets. It is true, railways have also been instrumental in relieving famine areas by rushing food grains from provinces of plenty:

¹ Radhakamal Mukerji's *The Rural Economy of India*, page 225.

this is a remedy. Prevention lies in conserving available resources which, owing to the pressure of taxation, the ryots are obliged to dispose of, and the cheaper railway transport aids the foreign agent who, in many cases, buys up the crops even before they are ready for harvest. In addition to this drain, the scarcity thus caused further pushes up the prices.

Thus we see that enormous amounts have been spent in building railways, largely for military purposes, and even in so far as commercial interests were taken into consideration, they were influenced by foreign merchants and manufacturers. The policies have not centred round the Indian taxpayer, nor have they materially added to his production. What funds were available were sunk in this enterprise which had to be subsidised, as the economic requirements of the country did not call for such an elaborate development.

Besides the sinking of the capital in railways not calculated to ameliorate the conditions of the poor, further capital expenditures have been devised to dispose of the available meagre balance in other ways equally unproductive, and useless so far as the well-being of the masses was concerned. H. M. Hyndman records,

“The foreign¹ Government has become even more expensive, and extravagances such as the creation of new and wholly unnecessary capital cities at Delhi and Dacca encourage waste to the extent of many millions sterling. Naturally to keep pace with this fatal system, the land tax is more cruelly exacted than ever, and the agriculturists get poorer all the time.”

Should we look upon equalising of distribution as one of the purposes of Government expenditures, we see that the fiscal system of India fails even here. A large proportion of the disbursements is made in Great Britain and never returns to the taxpayer at all. Indeed the vapour rises from the starving millions of India and precipitates and refreshes the comparatively wealthy population of an island 5,000 miles away. Prof. Shah estimates², that out of the total tax collection of 400 crores, nearly 200 crores never brings any real return to the people of India, including ‘the Home Charges,’ *i. e.*, the sterling commitments of the Secretary of State for India, over which the Government of India has no control.

¹ H. M. Hyndman's *The Truth about India*, page 43.

² K. T. Shah's *The Wealth and Taxable Capacity of India*, page 282.

PAPER CURRENCY AND EXCHANGE

Again in its currency policy, the Government is not concerned with the stability of the purchasing power of the rupee which affects the welfare of the people, but with the maintenance of the stability of the rupee in terms of the sovereign to meet the interests of those engaged in foreign trade. To this end it maintains the foreign exchange by means of the Gold Exchange Standard Reserve and keeps this reserve of 40 millions and a paper currency reserve of 20 millions in bullion and securities in London. This amount represents a loanable capital of over six hundred crores of which India, which stands greatly in need of industrial development, is deprived, as the clamours of the London bankers are more easily heard. If ever there was a need for the expansion of industrial banking, it is now, and by depositing these Indian Reserves in London, Indian banking is retarded, and the prosperity of the country suffers. In his memorandum submitted to the Chamberlain Commission, Sir M. De P. Webb¹ says, "In connection with the general policy of holding the bulk of the Gold Standard Reserve in London, I submit that the Government

¹ Wadia and Joshi: *Money & Money Market in India*, page 250.

have gone entirely beyond their province in undertaking to provide not only gold for export but gold ready delivered at a financial centre on the other side of the globe." And again, "To deposit the bulk of the gold in a centre where the banking community are already, on their own initiative, considering how they can strengthen their own admittedly slender and inadequate gold reserves, is to expose India to risks and dangers from which she has every right to expect complete protection." Profs. Wadia and Joshi state,¹ "The Government assumes the functions of a banker, and wielding irresponsible power, can manipulate reserves on grounds not purely economic, and on considerations not entirely directed to the promotion of the trade and the industrial prosperity of the country."

In this manner, both by unproductive, exorbitant and wasteful expenditures, and by currency policy not calculated to further the interests of the people of the land, the disbursements of the Government have tended to impoverish the people. When we remember that such conditions have obtained generation after generation, is it difficult to understand the present poverty-stricken state of India?

¹ Wadia and Joshi: *Money & Money Market in India*, page 250.

CHAPTER V

PUBLIC REVENUE

In a poor agricultural country like India, the bulk of the revenue has to be obtained from the masses and mostly through indirect taxation. Hence a great responsibility rests on the administration to see, that the articles of necessity to the poorer classes are not unduly heavily taxed, while as far as possible, the regressive tendency of the system should be alleviated by direct progressive and degressive taxation. Customs duty etc. should be so carefully scheduled as to be light on articles needed by the masses and heavier on those consumed by the comparatively well off. While it is desirable to have a burden of the cost of Government distributed throughout the population, it is at the same time very unwise to bear too heavily on the poor. All available sources should be tapped before pressing on necessities of life.

Cost of collection or the principle of efficiency has to be kept in view. Any great increase may indicate defects in the system—either in the administration or in principle.

In such of the Government activities as are of a commercial or of an industrial nature affecting the poorer strata, the principle of Fees and Deficit, rather than that of Profit, should be applied, bearing in mind the needs of the development of the country. This would apply especially to irrigation and to transportation rates, which affect the cost of production of the commodities produced by the poorer classes.

The prevalent ignorance in an illiterate country throws a further duty on the Government to check undesirable consumption by taxation without reference to the revenue produced.

In raising revenue, apart from the faculty of the people, the taxpayers' convenience of payment, both as regards time and method, has to be considered, as also the effect such payment will have on future production.

The system has to be so arranged as to produce a dependable stream of revenue to carry on the government, and at the same time not work any hardship on any of the producers.

The following figures for 1925-26 are constructed from the Statistical Abstract to show the net yield of each item of revenue after deducting the cost of collection, and cover both Central and Provincial Government revenues:

	<i>Percentage of collection cost to gross yield</i>		<i>Net yield</i>
Customs	1.7 %	Rs.	46,96,18,017
Taxes on Income	3.6 %		15,53,32,134
Salt	19.7 %		5,07,90,619
Opium	50.8 %		2,03,52,437
Land Revenue	11.6 %		31,43,79,324
Excise on liquors, drugs etc.			17,29,13,641
Stamps			13,28,52,205
Forests			2,60,31,029
Registration			78,14,679
Tributes			84,29,482
Scheduled Taxes			34,78,210
	<i>Receipts</i>	<i>Expenses</i>	
Railways	34,43,40,759	28,92,17,787	5,51,22,972
Irrigation	3,74,94,549	1,35,90,525	2,39,04,024
Post and Telegraph	86,35,220	50,69,134	35,66,085
Interests			6,56,02,939
Currency and Mint	4,63,89,101	70,11,413	3,93,78,688
Extra- ordinary	2,18,69,202	26,34,719	1,92,34,483
Total revenues			Rs. 1,56,88,00,968

CUSTOMS

It is rather difficult to trace the incidence of these duties owing to the classification used. But a careful scrutiny reveals the following as regards customs revenue:

	<i>Lakhs of rupees</i>
Export Duties	5,89
Excise on Petrol	77
Import Duties:	
on motor cars, cycles etc.	3,32
on liquors & drugs	2,54
on machinery, rolling stock, etc.	1,24
on manufactured goods, textiles, cutlery, etc.	8,29
Total	<u>2,205</u>

Roughly we may take the above to represent the part of the revenue that falls on the better-off classes. To the net yield from Customs of 4,696 lakhs if we add 4% on 2,205 lakhs for expenses and refunds to the better-off classes we have 4,784 lakhs from this if we deduct their burden we have left (4,784-2,205) 2,579 lakhs which would represent the burden that falls on the poor. Government statistics leave a great deal to be desired in furnishing the required information to enable us to allocate the tax burdens to the different strata of society, and it is very difficult to make comparisons over a period of years with

any degree of accuracy. However, it is not difficult to discern a marked tendency to increase in all items without allowing for any variations in the value of the rupee.

When we remember that India is an agricultural country, we find that the receipts under customs are comparatively low. A larger proportion of the total revenue should be derived from this source. The 'Free Trade' policy forced on India is responsible for letting off this source of revenue so lightly. The British Board of Trade compiled a list of comparative foreign and Colonial tariffs on British exports in 1904, giving the following¹ figures:

Russia	131	Rumania	14
Spain	76	Belgium	13
U. S. A.	73	Norway	12
Portugal	71	New Zealand	9
Austria Hungary	35	Japan	9
France	34	Turkey	8
Argentine Republic	28	Switzerland	7
Italy	27	Australia	6
Germany	25	South Africa	6
Sweden	23	China	5
Greece	19	Holland	3
Denmark	18	British India	3
Canada	17		

¹ C. N. Vakil's *Financial Developments in Modern India*, page 442.

This discloses how little this source has been tapped, especially as the bulk of Indian imports are from Great Britain, while the other countries and even the other members of the Empire profit by a higher duty. Also in the export duties the convenience of the consumers in England receives the first consideration. Wheat, which is largely exported to Great Britain, if taxed, will be available to the Indian consumers at lower prices. As Prof. Marshall says:¹ "A protective tax in a country exporting raw produce and importing manufactured goods does not raise the cost of the goods to the consumers in that country by its full amount." Of course, it may affect the land revenue somewhat by a fall in cultivation, but as millions of the poor go with hardly a square meal a day, the restricted export and a fall in the prices may increase internal consumption, and in the absence of any definite data, it will not be possible to forecast whether the Government will gain or lose in the long run, but it is certain that the people of India will have more food grains available than at present. This may be one constructive way of meeting famines.

The benefit from lower prices, derived from the free trade policy, is in the interests

¹ Alfred Marshall's *Industry and Trade*, page 762.

of the class which uses imported fabrics etc., which class is generally composed of Europeans and well-to-do Indians. As this source of revenue is let off so lightly, the requisite revenue for the Government has to be raised in some other way, and this is done by heavier taxes on land, salt, etc., which taxes fall on the economic strata of society lower than the one which enjoys imported articles, who have no voice to complain.

Apart from low import duties, there are countervailing excise duties, making the tariff one of revenue rather than one of protection. Although the much criticised cotton duty was removed in 1926, it was not before it had practically wrecked at least one industry in which India had undoubtedly a comparative advantage. As Mr. Holland says: “¹England’s prosperity, and India’s as a means to that, has in practice been the ruling consideration.” And again: “²But for a Government of India to have any other aim than India’s welfare, or to be deflected by the competing interests of the ruling race, is to be guilty of treason against a nation committed to its trust.” Alas! What beautiful sentiments, but Rev. Holland, being a missionary,

¹ W. E. S. Holland's *The Indian Outlook*, page 156.

² *Ibid*, page 158.

evidently does not realise the hedonistic principles of life that govern the mundane affairs of everyday politics.

The result of the tariff policy pursued by the Government of India, combined with the discriminating railway rates described above, has been to reduce India to the position of 'a hewer of wood and a drawer of water' for Great Britain. How clearly we see illustrated, in the economic history of India, Prof. Marshall's statement:¹ "The more a country exported raw produce in return for manufactures, the less the benefit she got from the Law of Increasing Returns." Can India be anything but poor when such fiscal policies control her destiny?

Prof. Marshall writes:² "In all international trade policies her (Great Britain's) great Dominions are able to take full care of their own interests; but her Crown Colonies and India are not in equally strong positions; and therefore Britain is morally bound to attach to each [of their interests at least as great a weight as if it were her own." And in a footnote he adds: "In particular no plea should be entertained for protective taxes on imports into Britain competitive with some of her own industries, however

¹ Alfred Marshall's *Industry and Trade*, page 762.

² *Ibid*, page 653.

strong the national need for developing them may be, unless a similar principle is applied to selected Indian manufactures whose youthful strength is insufficient for competition on nearly even terms with rival imports from Britain and other Western countries." This is high idealism; to expect one to do unto another as one would like to be done by. It is difficult of attainment even in private life, then how much more remote is it in group life, and hardly to be looked for in politics in a nationalism-ridden world, where economic exploitation is the order of the day. It is amazing to find the host of perfectly sane people who are led into believing that the Sermon on the Mount is the guiding principle of the Government of India. Mill, in a more practical way, observes that Government by a people is eventually for that people. In India this has been proved true. Government by the British has turned out to be Government for the British. This is reflected in Mr. Holland's statement:¹ "So long as British policy in India is largely dictated by the requirements of the British trade and capital, Indians cannot feel that the political determination of their country's economic future can safely be left in foreign hands."

¹ W. E. S. Holland's *The Indian Outlook*, page² 162.

And later on he observes:¹ "India's economic development must lack both health and vigour so long as she is politically dependent on an alien race." This same author quotes a Dundee jute merchant as having said to a Governor of Bengal not long ago:² "It is a grand country, it is an awful pity the native is in it." How very human even Britishers are! Free trade policy is all right among equally well developed peoples. It resolves itself into an exploitation of the less developed by the more developed in an unequal world, especially so if the latter control the fiscal policies of the former. Within definite limits, protection is helpful to develop nascent industries if the country has a comparative advantage in it.

Similarly 'Imperial Preference,' with all the other members of the Empire controlling their own destinies and India without fiscal autonomy, reduces itself into 'a Preference of Great Britain.'

INCOME TAX

In all taxation systems, income tax is gaining ground all over the world as the most satisfactory amongst taxes. While taxes of all kinds are pressing heavily on the poor in India, this tax is not yield-

¹ W. E. S. Holland's *Indian Outlook*, page 166.

² *Ibid*, page 161.

ing what it should. Some incomes are left immune from taxation. The Government of India pays interest on its debt in England, which country being outside its jurisdiction, no tax is deductible from those payments. The law should be altered to enable India, like all other countries, to deduct its tax from interests paid to its foreign creditors. Messrs. Shah and Khambata compute such a procedure will bring into the treasury two crores¹ of rupees *per annum*.

Another source of income tax that escapes its due share of tax burden is the income of large landlords who merely pay the land revenue assessment, which works out as a proportional tax, and are exempt from progressive income tax as their income is considered 'agricultural income.' Here the principle of ability to pay should be applied, and all incomes, whether from land or industries, above a subsistence level, should be uniformly assessed, making the rates such as to bring about a degressive tax on incomes. Again the same authorities estimate the gain to the revenue from such a policy at ten crores² of rupees *per annum*.

¹ K. T. Shah and Khambata: *The Wealth and Taxable Capacity of India*, page 277.

² *Ibid*, page 278.

If we look upon death duties as a 'Back Tax,' here again there is a considerable source of revenue left untapped, in that the estates of foreign merchants, who make their enormous fortunes in India and then retire to Great Britain, completely escape taxation. This is especially a serious situation in that practically all Britishers are only birds of passage, and fail to contribute their proper share to the Government under whose shelter and benign care they amass their fortunes, leaving the burden to be borne by the toilers of the soil in greater measure. A satisfactory scheme should be worked out in conjunction with the Government of Great Britain by which such estates will render to India the things that are India's. At present, an estate pays the duties in Great Britain, and the British taxpayer gets the benefit of the revenue that rightfully belongs to India.

SALT

It is hardly necessary to dwell on the injustice of a tax on salt in a country like India. This tax has been opposed bitterly by all leaders in India. It is an unqualified evil bringing ruin to the nation, not only fiscally but also socially. W. S. Blunt bears the following testimony¹: "It is only the very poor who are obliged to stint themselves

¹ W. S. Blunt's *India under Ripon*, page 243.

in salt; but the very poor are, unfortunately, the rule in Southern India. In the Deccan, moreover, its pressure is galling because natural salt lies on the ground, and the people are therefore starved of it, as it were, in sight of plenty. In several villages, which I passed, the ryots told me that they had been reduced to driving the cattle by night to the places where salt is found, that they may lick it by stealth; but the guards impound them if they are caught infringing the law, and latterly orders have been given that the police should collect in heaps and destroy all salt whatever found in its natural state above ground. In other parts I heard of a kind of leprosy attacking persons deprived of this necessary article of diet. The price of salt sold to the people by the Government is reckoned at from 1,200 to 2,000 per cent. on its cost value." Even from the point of view of the principle of efficiency, it stands condemned, as the cost of collection is about 20 per cent. of the gross yield. Mr. Ramsay MacDonald says:¹ "Salt tax is exaction and oppression, and if the people understood it, it would only lead to discontent. It is a survival of the general exploitation of India's poverty by

¹ J. R. MacDonald's *The Government of India*, page

a profit making company." Even the pretence, that this tax is necessary to make the people realise the responsibility of the Government, will not hold in India where there is so much ignorance and illiteracy that the masses do not even know or understand that there is a tax on salt, and even if they did, they have no voice to express themselves. This is an argument that can only be used in a democratic Government that is responsible to the people. So, even politically this tax is unsound.

LAND REVENUE

It is not within the scope of this essay to examine the vexatious and much debated proposition whether this source is a tax or a rent. After arguing the *pros* and *cons* of the question in his monumental work, *The Land Systems of British India*, Baden-Powell declares¹, "The land revenue cannot then be considered as a rent," and adds: "I should be inclined to regard the charges as more in the nature of a tax on agricultural income." Whatever it is, as John Briggs says² in his *Present Land Tax in India*, "We have but one alternative, and

¹ B. H. Baden-Powell's *The Land Systems of British India*, Vol. I, page 240.

² Quoted by Prof. V. G. Kale: *Indian Economics*, page 807.

that is to acknowledge in the first place the fallacy of that doctrine which assumes a right to take the whole surplus profit from the landholder and to recognise the opposite maxim, that the more which is left in his hands, the greater will be his means to contribute to the national wealth and consequently to the public revenues." To argue, that the ryot continues to pay revenue and still cultivates, and therefore, the revenue he pays should be differential rent, is to assume the existence of that myth—the Economic Man. This argument cannot be maintained when the only alternative the ryot has is starvation. If he had several options, and if he exercised it in favour of paying revenue and tilling the land, only then will this argument carry some weight, and not when this is but Hobson's choice. Those who know the people of India know that there is very little mobility in the population. The farmer is firmly attached to his locality, and taxation is not going to drive him away from the land of his forefathers. The resistance to change is great, and there is no other field of occupation into which he could retire, leaving him the only alternative of paying the tax and being content with one meal a day. Perhaps Mr. Yusuf Ali is right when

he¹ describes this as a "demand levied by the Indian Government on land according to well-understood but ill-defined custom."

The method of assessment differs in detail in the various parts of the country, but as a rule the amount to be paid by the ryot annually is fixed in terms of money. It is estimated on the expected yield, and holds good for a long period of years, about 30 years. It bears no relation to the actual production or price in any one year, so that in bad years the farmer is forced into the hands of the moneylenders in order to pay the tax which averages about² 50% of the estimated rental of the land. Although the British claim that they are only following the precedents set up by the Moghuls, they have forgotten that these excessive tax rates were prevalent at an unsettled stage of the country's history, as a war³ measure. To perpetuate a temporary heavy tax is to kill all progress. Apart from this, the Moghuls had given the option of either paying in money or contributing a share of the yield in kind. This supplied the needed

¹ A. Yusuf Ali's *The Making of India*, page 238.

² R. C. Dutt's *India in the Victorian Age*, page

12.

³ Dr. Bala Krishna: *Indian Journal of Economics*, Oct. 1927.

safety valve; and in addition to that, it was a paternalistic Government which relaxed under trying conditions, and if it did not, it was overthrown. The British Government, on the other hand, is a bureaucracy which functions with the precision of a machine and almost as relentlessly, as it has neither a heart nor a soul. As the payment in kind entailed loss due to accidental causes in realising the value of the produce brought in, the British Government shirked this burden and made payment in money obligatory. To obtain the necessary funds, the ryot was obliged to shoulder the loss consequent on sale at a low price in an already overstocked market and often was forced to borrow. This method of payment leads to great hardship on the peasants, and to his chronic indebtedness to the usurer. There is no minimum of subsistence allowed for, and very often the tax falls below the efficiency line, and becomes cumulative in its poverty production. Ramsay MacDonald dealing with this matter confesses,¹ that "overassessment and the rigidity of payment, therefore, have undoubtedly tended to impoverish the people, and a system of revenue collection, thoroughly

¹ J. R. MacDonald's *The Government of India*, page

sound in theory, and meeting the requirements of unassailable economic doctrine, has in practice become a grievous method of oppression and the subject of formidable attack."

Commenting on the chronic indebtedness of the ryot, Mr. W. S. Blunt says,¹ "I believe, it may be stated absolutely, that the whole of peasant indebtedness originally came from the necessity thus imposed of finding coin to pay the land tax." "This is the last worst evil which English administration has brought upon the Indian peasantry." "We have given the ryot security from death by violence, but we have probably increased his danger of death by starvation." Certain efforts, however inadequate, are being made to save the ryot from the clutches of the moneylender by the creation of co-operative banks, but the prevention lies in lifting the tax burden which is bearing him down. According to Prof. Radhakamal Mukerji,² "five men cannot pay a direct tax in money amounting to 40% of gross produce and the interest on old debts at 25%, upon three acres of overcropped soil, without danger in a bad year of catastrophe."

¹ W. S. Blunt's *India under Ripon*, pp. 245-6.

² Radhakamal Mukerji's *The Rural Economy of India*, page 204.

EXCISE

This relates mostly to country liquors etc., the duty on imported spirits being included under 'customs duty.' India has all along been a dry country, but now there is a steadily growing tendency towards alcoholism, thanks to the policies followed by the Government in its eagerness to obtain revenue irrespective of humanitarian considerations. In the face of continued agitation by Indian leaders against this policy fiscal needs still outweigh social demands. Even where the Government makes a pretence of controlling consumption, loopholes are left by which the fall in the consumption of country liquors is made up by an increase in the consumption of imported liquor, as the following passage¹ culled from the Bombay Presidency Administration Report 1927-28 illustrates: "There has been, moreover, a considerable increase in the consumption of foreign spirit, beer and stout, and it is stated that beer is replacing country spirit to a considerable extent especially in large towns. From this foreign liquor the Government of Bombay derives but little revenue." (Such Revenue from customs belongs to the Government of India.) A share of the blame

¹ *Bombay Presidency Administration Report, Part I, page XVIII.*

for reduced efficiency and fall in production could easily be traced to this Government-supported and encouraged inebriety.

FORESTS

The policies of Government as regards forests are formulated and carried out with a great deal of credit generally, yet in its enforcement we perceive the same harsh treatment of the poor and an utter lack of consideration for their needs. "The *modus operandi* seems to have been needlessly violent and most injurious to the people,"¹ says Blunt; also: "the effect, in any case, has been disastrous. The leaves of trees are largely used in India for manure and the supply is now cut off. The pasture has been reduced and the cattle are dying of hunger. Where wood has been free from time immemorial, so much a load now has to be paid." These inconveniences, however small they may appear to be, all gather force as they are accumulated and retard production to an amazing degree.

RAILWAYS

While we were dealing with expenditures we noted the effect discriminating rates had on the development of industries. Here it remains for us to consider the influence of railways on the production of the masses.

¹ W. S. Blunt's *India under Ripon*, pages 241-42.

When development of transportation keeps pace with the economic demands, railways do not kill the carrying trade of the poor. Indeed, in the U. S. A. the automobile trucks threaten the railroads themselves. But in India, where the carrying trade was not sufficient to absorb all these forms of transport, the railways have displaced the bullock cart, and the cart owner has been given no other means of utilising his time and effort. India's economic order is very peculiarly dependent on the climatic conditions of the country. Owing to the monsoon the farmer can only work on the land during certain seasons, and at that time he uses his bullocks for ploughing, raising water etc., and when that season is over, he yokes his bullocks to the cart and earns a livelihood as a carrier. With the advent of the railway the latter occupation has been taken away from him, and now for a large portion of the year both he and his bullocks produce nothing and are out of employment. It is not here argued that the railways are an evil in themselves, but only that nothing has been found to take the place displaced by their coming, and circumstances have forced on the farmer a period of leisure which he could ill afford. Hence production is low and the farmer is poorer.

The railways themselves are operated on the principle of Profits. No doubt the Government needs the money, but it should first prune all extravagance in salaries and establishments, and then choose such sources as will not affect the production of the people adversely.

IRRIGATION

This is one of the greatest, if not the greatest, need of India. Even if India had fertile soil in abundance and a sufficiency of employment for all, yet the farmer will face starvation if nature is not harnessed and made to yield her supply of water where and when needed. Although the monsoon is regular, taking the country as a whole, yet it is not dependable when we consider smaller tracts of the land. Hence from time immemorial irrigation has been one of the chief functions of Government. Private philanthropy sunk wells and built village tanks, while Governments constructed dams to harness the rivers and canals to distribute the much sought element. Under the British regime railways have been the favourites, and irrigation had to be content with occasional favours, with the result that over half¹ the irrigated area is dependent on private effort and mostly individual effort at

¹ K. T. Shah's *Sixty Years of Indian Finance*, page 294.

that. It is only since the beginning of this century, that a definite policy is discernible as regards irrigation, but is still circumscribed by financial exigencies rather than being moulded by the claims of agriculture, *i. e.*, it does not get the precedence its importance deserves over other forms of expenditures.

INTEREST

An analysis of this item discloses the following sources of income:

In India:

Loans to Corporations, States etc.	227
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Railways: Loans & Provident Funds	42
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Cultivators	31
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Sundries	29
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329

In England

327

Lakhs of rupees 656

As usual with Government statements further information as regards rates of interests etc. is lacking. Assuming that these items of interest arise from more or less uniform rate of interest, we can presume that practically half the available funds are invested in England while Indian industries are being starved for lack of capital, and even the cultivator gets the benefit arising only from a meagre 5% of the available Indian funds in the hands of the Government. A few months ago that eminent engineer

and financier, Sir M. Visvesvaraya, addressing a group of young men at a college in Poona said,¹ "Several young men of this part of the country educated in foreign countries have attempted to start industries, but there have been pitiful cases of failure among them, mainly because the support of Government and of the organised money power of the country was lacking. Public opinion is unable to exert any influence in such cases and Government have not been known to take any interest." And Sir Daniel Hamilton, of Calcutta, paints the following picture:² "We have given the people a railway system which removes the surplus crops, but we have not given them a banking system to bring back the price. The world takes the surplus crops, the sowcar and the trader take the money and the devil takes the people." When the available resources of a country are being used outside its boundaries can its inhabitants, acquire wealth? Can they be anything but poor when interests other than their welfare occupy the mind of the Government?

¹ Sir M. Visvesvaraya's *The Country's Immediate Needs*, *Mysore Economic Journal*, Vol. XIV, September, 1928, page 419.

² Sir D. Hamilton's *India: Her Present and Future*, *Calcutta Review*, July 1916, page 295.

CHAPTER VI

SUMMARY

History teaches us, that when a great empire disintegrates, there is usually a scramble amongst the ambitious ones to seize what power they can. The British East India Company, which was a profit making enterprise, availed itself of the opportunity and snatched the sceptre of the Emperor at Delhi. Perhaps owing to the prevailing unsettled conditions at the time, to the cost of wars when the Moghul Empire came tottering down and to the tyranny of the last of the Great Moghuls, the tax was heavy in India and the economic state of the country was in a ferment. With true British loyalty to precedence the oppressive taxes were continued into peaceful times. With the added rigour of organisation and strict administration these same taxes in the very same provinces brought in considerably more revenues than they did under the Moghuls. It was not a

'trusteeship' then, but a mere, honest, business proposition of exploitation. This idea is of much later growth and came in as a rationalisation to justify the British hold on India. In the early days of British domination, Empire builders, such as Clive and Warren Hastings, swept the country of all the wealth they could lay hands on. This provided the British with the millions that were necessary to capitalise the advantages of inventions of steam power etc., and in a large measure gave the lead to the 'Industrial Revolution' of Europe. What was the gain of Europe in general and of England in particular was India's loss, and started the downward journey in the economic history of this country. It was but to be expected that England should feather her nest, and she did it very well. The East India Company was purely a commercial concern in its make up, and it would be folly to look for any consideration for the development of India in its policies. Like all other private undertakings its outlook was circumscribed mainly by immediate gains rather than by a long-time view of affairs. India's interests, if they were recognised at all, were subordinated to England's bid for the economic supremacy of the world. India merely provided the stepping stone and the means of achieving her

own ends. The speed on a downward journey is often accelerated beyond expectation by some added impetus. Whether the Britishers were conscious of the results they were bringing about or not, the stagnation in economic activity at the time of the fall of the Moghul Empire was followed by a rapid retrogression gathering momentum from the policies of the alien rulers.

Factorisation was growing apace in England, and India was used as a plantation to feed these factories with requisite raw materials. England and India formed a vertical industrial unit controlled by financiers in England. The Indians' part in it 'was not to reason why, theirs but to do and die.' Such were the forces which formulated the tariff rates for India. Mr. MacDonald, while granting that the results of the policies of Government have proved to be inimical to the interests of India, pleads that that does not indicate that the Britisher was motivated wrongly: but attributes it to the fact, that the Government¹ "happened to believe in principles of International Trade which coincided with Lancashire interests." This plea may find justification if the situation was the

¹ J. R. MacDonald's *The Government of India*, pages 128-29.

result of an error of judgment of one individual or of even a generation of administrators, but when we find it has been followed decade after decade by several generations, to grant Mr. MacDonald his contention would be tantamount to calling into question the intelligence of the best products of British universities from whom the Indian civilian is picked. The latter proposition—doubting the intelligence of the Indian civilian—is harder to accept than the former,—that their motives were inimical to India's interest,—which not only seems human,—to consider the interests of one's own country first—but is a deduction from events spread over a century. When we remember that during all that period the Indian leaders were constantly pointing out the evil effects the policy of Government was having, it is too great a draft on our credulity to ask us to believe that this destructive policy was pursued quite unconsciously by well meaning but ignorant civilians.

Railways were developed to carry out the scheme, and discriminating rates supplemented the tariff, and all worked harmoniously but for the discordant notes struck by the 'disgruntled agitators' in India and by their 'ill-advised' sponsors in England. In the

main, the exploitation policy of the East India Company was continued when the British Crown assumed responsibility for India, although it was no longer a barefaced commercial concern but was heralded by high-sounding trumpets of Divine Ordinance, but those 'natives' who had not the gift of musical appreciation only heard the roar of hungry imperialism.

With such political and historical background it is easy to understand the fiscal policies followed. India was made to pay as much as possible in return for as little as was necessary to keep up appearances of exchange. Indeed, as some one has put it, "India was twice blessed—blessed in the trade profits it gives to Great Britain and blessed also in the protection it takes at high market values." The general fiscal set up has not been one calculated to increase the productivity of the people of the land. Very large amounts have been sunk in capital expenditure which had very little value in aiding the production of the masses, while other forms of developmental expenditures which were essential to promote the welfare of the country were stunted. Nation building expenses have received hardly any attention, while Empire building schemes have sucked dry all available resources. In the words of

Mr. MacDonald, "we¹ spend far too much of the income of India on Imperial purposes and far too little on Indian development." The clamours of the ruling class have made inaudible the sighs of the suffering masses.

The revenues are collected in India but a large part is spent in England. "When² all is said and done, and a balance of advantage and disadvantage struck, I think there can be no doubt, that India suffers greatly because so much of its created wealth is spent and fructifies outside itself," says MacDonald.

While the revenues are obtained from the poor, they are utilised in keeping up the prestige of the foreign ruler. Again to cite the same Labour leader³: "Indian revenues have always been taken far too much from the poor, and the rich have got off far too lightly." Sir. A. Collin stated⁴: "The immunity of the middle and upper classes from their due share of the public burdens is . . . a grievous blot on our Indian administration which urgently calls for removal." The poor man's rupee, saved by giving up nourishing food, helps to maintain the luxury of the rich: thus resulting in a loss

¹ J. R. MacDonald's *The Awakening of India*, page 148.

² J. R. MacDonald's *The Government of India*, page 149.

³ *Ibid*, page 128.

⁴ Quoted by V. G. Kale: *Indian Economics*, page 951.

of 'marginal utility' in the tax funds and so of the National Income. Sir Wm. Hunter, dealing with land revenue admits¹: "The Government assessment does not leave enough food to the cultivator to support himself and family throughout the year."

It may be asked: Why should the Government tax the poor heavily and let the well-to-do classes pay comparatively little? It has been suggested, that it is a discrimination in favour of the Britishers, as all Britishers in India, practically without exception, fall into such a class. There is another answer to that question,—a much sounder one,—and under the conditions obtaining in India it would be surprising if things were differently ordered. That reason is a political one. The British Government in India is an alien Government without any roots by which it could draw the sap from the people of the land. It needs the sympathy and support of at least some of the people. That section of the populace, whose loyalty is worth courting and whose power and influence counts most, especially in a bureaucracy, is that educated upper layer which forms the economic aristocracy, and it is this group which is placated by the tax system. It also happens that the interests

¹ Quoted by Lajpat Rai: *Unhappy India*, page 356.

of this class are closely intertwined with the interests of Britishers; and their protests, against any measures that may affect them adversely, are far more effective in Government circles.

The expenses of an alien Government are likewise increased by circumstances which do not exist under a national Government. For instance, an alien Government has to depend on a mercenary standing army which must be maintained during peace and war. Only a national government can keep expenditure down by supporting a comparatively small regular force and depending on the national reserves for emergencies.

The argument often advanced in an attempt to justify the railway policy, namely, the mitigation of the horrors of famines, is like justifying the maintenance of an enormous navy, as it is capable of rendering useful rescue service in case of a gale or a storm; and it is no more logical when methods of preventing famines are ignored, private tanks and wells are closed, and irrigated water is supplied at monopoly prices and not infrequently, owing to a lack of scientific research facilities, such high priced water contains ingredients injurious to the crops. Even as a means of transport

Sir A. Cotton said¹: "My great point is, what India wants is water carriage; that railways have completely failed, they cannot carry at the price required. . . . Steam boat canals would not have cost one eighth that of the railways; they would carry any quantities at nominal prices and at any speed."

Rushbrook Williams put his finger on the spot when he said²: "The real truth is, that that the undeniable poverty of India arises principally from the fact, that the country is not organised for the production of wealth." The following generalisation³ of J. A. Hobson supplies us with a reason why India is not so organised: "The civilised western world is coming more consciously to mould its practical policy, political and economic, and its sentiments and theories, upon a white exploitation of the lower and backward peoples. Imperialism is displacing, or at present is crossing, class supremacy, and is evolving an intellectualism and a morals accommodated to the needs of this new social cleavage. It is moving towards a not distant epoch in which western white nations may, as regards the means of their

¹ Quoted by K. T. Shah: *Trade, Tariffs and Transport*, page 409.

² Rushbrook Williams' *India in 1923-24*, page 194.

³ J. A. Hobson's *Work and Wealth*, page 156.

livelihood, be mainly dependent upon the labour of regimented lower peoples in various distant portions of the globe, all or most members of the dominant people enjoying a life of comparative pleasure and leisure and a collective sense of personal superiority as the rulers of the earth." We find this idea expressed by Dr. Rutherford when he stigmatises the British rule as is found in India as "the¹ lowest and most immoral system of Government in the world—the exploitation of one nation by another." He further traces the chief causes of India's poverty to the policies of the Government both as regards revenues and expenditures, and attributes them in particular to "neglect² of education of the masses, neglect of sanitation and medical services in the villages, neglect to keep order; neglect of the housing of the poor, neglect to protect the peasant from the moneylenders, neglect to provide agricultural banks; comparative neglect to improve and develop agriculture; neglect to foster Indian industries; neglect to prevent British profiteers from capturing tramways, electric lighting and other public services; and neglect to prevent the manipulation of the currency in the interests of London."

¹ V. H. Rutherford's *Modern India*, page 77.

² *Ibid*, page 161.

Granting that protective tariff might not have prevented the old cottage industries and handicrafts from dying out, it would have promoted machine production and given direction to newly forming industries which would have drawn the excess population from the farms to the cities, and thus increased agricultural production relative to the labour employed. Increased productivity with the co-operation of the producers to avoid the evils of capitalism would have brought relief to the poverty of the masses. "If¹ manufactures are crippled, agriculture overtaxed, and a third of the revenues remitted out of the country, any nation on earth would suffer from permanent poverty and recurring famines. Economic laws are the same in Asia as in Europe. If India is poor today, it is through the operation of economic causes. If India were prosperous under these circumstances it would be a miracle." The wonder is that India has been able to exist at all, and the economic miracle is that during the past decades India has been turning stones into bread. Any other nation under similar circumstances would have given up the ghost in desperation long ago. Ramsay MacDonald himself

¹ R. C. Dutt's *Economic History of India*, XVI.

confesses¹: "On the whole, I think, two charges can be substantiated against us, our Government is extravagant and we have behaved meanly to India." If the nature of the Governmental expenditures were such as to increase the productivity of the people it also increases their faculty; but on the other hand, if it were such as to reduce productivity, it impoverishes the people. If a large part of their production is sent out of the country in return for little in exchange, then to that extent there is less of the national income to be distributed. The *per capita* income was computed under Government direction as follows, on a similar basis each time:

By Baring and Barbour	1881	Rs. 27	per annum
For Lord Curzon	1901	Rs. 30	" "
By Prof. Shah	1921	Rs. 74	" "

On the face of it, it looks like progress; but money values have no meaning unless reduced to a common denominator in terms of purchasing power. When we reduce these according to the price index for the respective years,² of 100, 120, and 378, we get the incomes for the three years respectively

¹ J. R. MacDonald's *The Awakening of India*, page 148.

² C. N. Vakil and Muranjan: *Currency and Prices in India*, page 309.

as Rs. 27, Rs. 20.37, and 19.6, a steady fall. Hyndman knows what he is talking about when he says:¹ "I can only repeat that the people of India are growing poorer and poorer, that taxation is not merely actually but relatively far heavier; that each successive scarcity widens the area of impoverishment and renders famines more frequent; that most of the trade is but an index to the poverty and crushing over-taxation of the people; that a highly organised foreign rule constitutes by itself a most terrible drain upon the country; and that all the railways and irrigation works on the planet if concentrated in India at the cost of the peasantry would but serve to hasten the inevitable catastrophe."

Under a democratic and a representative government, a steady growth in governmental expenditures is generally regarded as an index of progress. But in India, when such growth is due to officials voting themselves higher salaries and allowances under the plea of rising prices, it is doubly harmful. The unproductive expenditures are increased without any advantage or return to the taxpayer, while his own income is reduced, so that a greater loss is incurred in the marginal utility of

¹ H. M. Hyndman's *Bankruptcy of India*, page 74.

the national rupee. According to Sir Wm. Hunter: "It¹ profits little, that we have put an end to invasion from without, established order and security in place of anarchy and rapine within, covered the land with schools and court houses, with roads, railways, and canals and given a vast impulse to population and trade—all this profits little, if the people have not enough to eat, and if the country cannot support the cost of our rule."

Apart from these economic losses there is a further loss due to a lack of a full return for value. One of the greatest benefits that a nation reaps from its expenditures is the immeasurable advantage it derives from the accumulation of experience and wisdom by its administrators, who, after their period of active public life, retire into the councils of the nation to aid and guide the next generation. The British civilian gains experience and the Indian taxpayer pays for it, but when mature, the civilian retires to Great Britain and India loses the advantage of the wisdom it has paid for, and that loss again is Britain's gain. Who can say, how much Britain owes her present leadership in the political world to the wider range of view-point provided by her sons who were trained in India?

¹ Sir Wm. Hunter's *India of the Queen*, page 134.

CHAPTER VII

CONCLUSION

After considering the ways and means of alleviating the poverty of the masses, W. S. Blunt suggests:¹ "I do not believe in legislative remedies for the starvation of the ryot or in the possibility of relieving his position except at the sacrifice of interests too strongly represented both in Calcutta and in London to be assailed with any chance of success. Finance, not legislature, is the cause of all the evil; and until that is put upon a sound footing, the rest is of no real value." We have to cease using the poor man's rupee and replace it by revenues from untapped, richer sources, and regulate equitably India's financial relations to the Empire. "If the empire would readjust the burdens which it imposes upon Indian Finance and if that were done and nothing more, the Indian Government could inaugurate great reforms which would increase Indian wealth," says² MacDonald.

¹ W. S. Blunt's *India Under Ripon*, page 247.

² J. R. MacDonald's *The Government of India*, page 158

As long as human nature is what it is, India's finances cannot be moulded to fit into India's needs, until the powers that be are goaded on by motives which are identical with India's interests. Taxation has to be such as will increase production and encourage activity. When taxation nurtures infant industries; when the revenues are drawn without injuring the sources; when the starving masses are not called upon to support an extravagant and luxurious administration; when those who make their fortunes under the hospitality of India are made to assume their due share of the burden of administration; when India's revenues are spent in such ways as to bring full returns to the people; when Government undertakings needed by the poor are operated on the principle of service, and the channels chosen do not run counter to those of national interest; when the choice of alternatives is determined by the needs of India; then and then only can India be expected to progress economically, and this cannot be until India wins fiscal autonomy.

Appendices

Appendix A. — Population

*Census 1921: British Territory including Burma
and Indian States.*

I. Distribution of Population: Rural and Urban

Class	No. of Villages or Towns	Per cent. of Population	Population
Villages under 500	517,036	30.10	
500-2,000	152,259	43.05	
2,000-5,000	15,965	14.13	
		<hr/>	
Total Rural		87.28%	278,373,604
		<hr/>	
Towns 5,000-20,000	2,388	6.09	
20,000-1,00,000	253	2.97	
100,000 and over	34	2.53	
		<hr/>	
Total Urban		11.59%	37,602,286
		<hr/>	
Unclassified	46	1.13%	2,966,590
Total		100	318,942,480

II. Distribution of Population according to Occupation:

Production of Raw Materials	73.15%
Preparation and Supply of Material Substances: Industry, Transport, Trade etc.	17.59
Public Forces & Administration	1.53
Professions	1.59
Miscellaneous	6.14
<hr/>	
	100.00

III. Distribution of a cross-section of the Population of

Religion	Number Per 10,000 of Population	Literate				Total	
		Males	Per cent of Males	Per cent of Females	Females		
Hindu	6,856	404	11.53	46	1.38	450	
Mahomedan	2,174	92	8.1	8	0.73	100	
Buddhist	366	84	48.44	12	6.19	96	
Animistic	309	2	1.4	..	0.12	2	
Christian							
Europeans etc.	5.6	151	24	30.9	13	18.04	37
Anglo Indians	3.7						
Indians	141.7						
Sikh	102	5	9.39	1	1.4	6	
Jain	37	10	51.34	1	7.6	11	
Parsi	3	1.3	78.75	1	66.91	2.3	
Jews and others	2	0.65	50.	0.2	24.	0.85	
Total	10,000	623		82		705	

10,000 persons according to Religion, Sex & Literacy

Males	Per cent of Males	Illiterate		Total	Remarks
		Females	Per cent of Females		
3,102	88.47	3,304	98.62	6,406	
1,047	91.9	1,027	99.27	2,074	Mostly in Bengal, the Punjab, the U. P. & Bihar & Orissa
89	51.56	181	93.81	270	Of the total Burma contains 11,201,943 India 3,69,325
153	98.6	154	99.88	307	Mostly in Bihar, Orissa, Central Pr. Berar and Assam
54	69.1	60	81.96	114	Mostly in Madras
53	90.61	43	98.6	96	Mostly in the Punjab
9	48.66	17	92.4	26	Mostly in Bombay, the United Provinces & Central Provinces
0.3	21.25	0.4	33.09	0.7	Mostly in Bombay
0.65	50	0.5	76.	1.1	Mostly in Bombay Bengal, Burma & Madras.
4508		4787		9295	

IV. Density and Growth of Population in British India alone

As Government apologists constantly attribute the poverty of India to the rapid increase in population, the following table is prepared to supplement what has been stated on this subject in Chapter III. Absolute number at the end of each decade cannot be compared in India as the area of 'British India' has been constantly added to from time to time, and hence the population per square mile has been taken as the basis of comparison to allow for territorial increases. France has always been regarded as having an almost stationary population and England is considered a prosperous country and so a helpful comparison with these countries is instituted.

Census Year	Population Per Square Mile			With 1871 as base year		
	India	France	England & Wales	India	France	England & Wales
1871	215	174	389	100	100	100
1881	227	182	445	105.5	104.6	114.4
1891	229	185	497	106.5	106.3	128
1901	210	188	558	97.6	108	143.4
1911	232	189	618	107.9	108.6	158.8
1921	226	184	649	105.1	105.7	166.8
Summary				India	France	England & Wales
Increase during the half century				5.1	5.7	66.8
Average increase per decade				1.0%	1.15%	13.3%

The normal increase should be about 1.0 % per decade

Errata

Population per square mile:—

1911 India for 232 read 223

Per cent Population on base year:—

1911 India for 107.9 read 103.6

Normal increase for 1.0% read 10%.

Appendix B—Agricultural Statistics for 1927-28

Foodgrains	Lakhs of acres	Units	Yield Lakhs of units
Rice	766	Tons	273
Wheat	246	"	63
Barley	68	"	21
Jowar	212	"	50
Bajra	141	"	24
Ragi	38		
Maize	59	"	23
Gram	140	"	32
Others	<u>296</u>		
	1,966		
Vegetables, Fruits & Spices	78		
Sugar	30	"	31
Coffee	1	lbs.	191
Tea	<u>7</u>	"	3612
	38		
Oil seeds:			
Linseed	22	Tons	3
Sesamum	35	"	4
Rape & Mustard	33	"	8
Groundnut	47	"	25
Cocoanut	6		
Castor	6		
Others	<u>12</u>		
	161		
Cotton	148	400 Bales	101
Jute	33		
Other fibres	7		
Indigo & Opium	1		
Tobacco	11	Tons	6.
Fodder	<u>92</u>		
	292		
	<u>2,535</u>		

Appendix C. Trade Statistics, 1927-28

I. Exports

Articles	Value in Lakhs of Rs.	Unit	Quantity
Animals	47	No.	570,530
Apparel	24		
Bran and Pollards	133	tons	270,875
Bristles & Brush Fibre	46	cwts.	160,950
Candles	12	lbs.	4,397,533
Coal & Coke	77	tons	634,507
Coffee	232	cwts.	276,668
Coir & Products	114	tons	33,587
Cotton: Raw	4801	tons	482,336
Twist & Yarn, Manufactures	188	lbs.	24,696,890
	679	yds.	168,623,708
Drugs and Medicines	35		
Dyes etc.	161	cwts.	2,143,471
Fish	87		
Fruits and Vegetables	106		
Grains and Pulse:			
Barley	85	tons	71,628
Beans	39	"	41,977
Gram	28	"	17,567
Jovar	35	"	21,115
Lentils	29	"	16,538
Maize	10	"	9,496
Pulse	92	"	57,252
Rice	3,401	"	2,186,760
Wheat	441	"	299,733
Wheat flour	130	"	60,424
Others	3	"	1,581

Articles	Value in Lakhs of Rs.	Unit	Quantity
Gums & Resins	20	cwts.	66,636
Hemp: Raw	81	"	484,146
Hides & Skins:			
Raw	881	tons	64,381
Tanned	907	"	23,256
Horn	9	cwts	43,110
Jute: Raw	3,066	tons	891,907
Manufactured	5356	No. Bags cloth: yds.	463,139,689 1,552,751,590
Lac	699	cwts	543,584
Manures: Bone	128	tons.	120,312
Metals	897	" Manganeseore others	703,949 673,729
Mica	93	cwts.	82,511
Oilcake	314	tons	275,595
Oils	71	gal.	1,458,212
Opium	199	cwts.	6,208
Paraffin Wax	242	tons	51,132
Provisions	61		
Rubber: Raw	257	lbs.	25,403,266
Saltpetre	12	cwts.	99,063
Seeds	2,670	tons	1,209,973
Silk: Raw	36	lbs.	1,332,519
Manufactures	6	yds.	881,154
Spices	240	cwts	437,551
Sugar	8	tons.	2,891
Tea	3248	lbs.	361,614,124
Tea waste	4	"	4,114,638
Tobacco	106	"	29,246,489
Wood	166	Cub. tons	50,624
Wool: Raw	436	lbs.	50,165,892
Manufactures	97		
All other articles	570		

Total Rs. 31,915 lakhs

II. Imports

Articles	Value in Lakhs of Rs.	Unit	Quantity	
Apparel	164			
Arms, ammunition etc.	71			
Belting for machinery	87			
Books	62			
Boots & shoes	67	Pairs	2,772,964	
Building materials	129			
Buttons	32			
Carriages	17			
Chemicals	265			
China clay	19	cwts.	533,795	
Clocks and watches	27	No.	630,246	
Coal & coke	63	tons	273,818	
Cotton : Raw	674	"	66,062	
Cotton : Twist & Yarn	679	lbs	52,344,534	
Cotton : Manufactures	5,836	Piece goods	yds. 2,026,520,680	
		Rope thread	lbs. 4,859,997	
		Blankets	"	5,220,166
		Shawls	No.	8,310,447
Cutlery	39			
Cycles	118	"	138,783	
Drugs & medicines	198			
Dyeing etc.	265			
Fish	37			
Flax manufactures	37	Piece goods	yds. 2,243,280	
		Thread etc.	lbs. 659,980	
Fruits & Vegetables	202			
Furniture	31			
Glassware	248	sheets & plate	sq. ft. 23,425,399	
Grain, pulse & flour	231	tons	160,897	
Gums & Resins	40	cwts.	189,118	
Haberdashery	127			

Hardware	524		
Hides & Skins	35	tons	2,189
Horses	37	No.	4,001
Instruments etc.	447		
Ivory manufactures	21	lbs.	276,526
Jewellery	152		
Jute Manufactures	24	Bags No.	6,131,156
		Canvas yds.	2,85,022
Leather "	57		
Liquors	367	Galls.	7,118,458
Machinery	1,594		
Matches	39		
Metals: Iron and Steel	2,144	tons	1,197,261
: Brass etc.	695	cwts.	2,588,196
Motorcars etc.	617	No.	25,950
Oils	1,108	Galls	234,673,422
Paints etc.	155		
Paper, Paste board etc.	341	Materials	cwts 399,350
Porcelain	80		
Provisions	641		
Railway Plant etc.	477		
Rubber goods	271		
Salt	175	tons	596,250
Seeds	18	cwts.	85,980
Ships	17		
Silk: Raw	145	lbs.	2,356,225
: Manufacture	360	{ Piece goods yds.	23,740,686
		{ Yarn lbs.	1,440,683
Soap	161	cwts.	422,489
Spices	258	"	1,118,734
Stationery	92		
Sugar	1,491	tons	822,902
Tallow	26	cwts.	93,514
Tea	69	lbs.	7,993,933
Tea chests	72		

Tobacco	291	lbs.	9,928,045
Toilet Requisites	62		
Toys & games	64		
Umbrellas etc.	62	No.	294,036
Wood & Timber	81	Timber cubic tons	24,749
Wool: Raw	45	lbs.	5,781,996
		Piece goods { yds.	18,776,855
: Goods	492	Shawls { No.	1,088,939
		carpets { lbs.	4,962,918
Others	1,413		
	<hr/>		
	24,985		

III. Re-Exports (Imports into India again shipped to other Countries)

Articles	Value in Lakhs of Rs.	Unit	Quantity
Apparel	13		
Cotton: Goods	121	yds.	33,791,217
: Yarn and Twist	15	lbs.	1,383,564
Fruits and Vegetables	20		
Gums and Resins	25	cwts.	60,041
Hardware	26		
Metals	26	tons	36,808
Provisions	3	cwts.	4,858
Spices	3	cwts.	7,846
Sugar	55	tons	19,812
Wool: Raw	89	lbs.	12,699,592
Others	558		

IV. Balance of Trade (in Lakhs)

Exports of Indian Merchandise	31,915
Less Imports of Foreign Merchandise	2,46,73
Less Re-exports	954
	<u>23,719</u>
Merchandise Balance in favour of India	81,96
less Imports of gold, silver and currency notes	32,19
	<u> </u>
Net Trade Balance in Favour of India	Rs. 49,77 lakhs

Note: Imports do not include railway materials imported by State Railways.

Part of the Balance was taken up by the British Government as follows:

Council Bills etc. to the United Kingdom	37,77
Interest Drafts on Government Securities	35
	<u> </u>

Rs. 38,12 lakhs

V. Trade with Principal Foreign Countries

Countries	Exports in lakhs of Rs.	Imports in lakhs of Rs.
United Kingdom	78,91	1,19,27
U. S. A.	35,90	20,44
Germany	30,68	15,35
Japan	29,00	17,90
France	15,77	4,31
Ceylon	15,18	1,91
Italy	12,68	6,78
Belgium	10,85	7,49
S. America	10,67	8,33
	<u> </u>	<u> </u>
	239,64	201,78
Others	79,51	48,07
	<u> </u>	<u> </u>
	Rs 3,19,15 lakhs	Rs. 2,49,85 lakhs

Opium	22.0 %	3,07,51,429
Land Revenue	11.9 %	31,43,90,345
Excise on Liquors & Drugs		17,59,39,308
Stamps		13,28,24,933
Forest		2,69,08,190
Registration		75,86,616
Tributes		83,97,285
Scheduled Taxes		40,31,275

1,37,58,64,484

	Receipts	Expenses	
Railways	38,72,28,944	32,40,35,381	6,31,93,563
Irrigation	2,83,99,739	1,33,90,700	1,50,09,039
Interest			5,97,67,686
Currency & Mint	2,77,46,116	70,11,413	2,07,34,703
Extraordinary	3,61,98,543	44,85,916	3,17,12,627

1,56,62,82,102

less Post & Telegraphs 31,45,661 60,45,689 29,00,028

Rs. 1,56,33,82,074

III. Public Debt—Productive

			in lakhs
Railways	39,712	miles	6,68,74
Irrigation	main canals 22,402	„	1,11,44
	Distribution 44,587	„	
Post & Telegraphs			14,66
Forest	11,03,579	Sq. miles	1,47
Salt			86
Vizagapatam Harbour			126
Hydro-Electric Scheme			70
Bombay Development Scheme			416
Government commercial undertakings			177

Rs. 8,05,06 Lakhs

Appendix D.

Accounts 1927/28

One lakh=1,00,000. 1 Re.=1 sh. 6 d.=36 cents (U. S. A.)

I. Net Public Expenditures

Debt Services	18,49,49,736	13.3%
Military	54,79,45,581	39.4%
Civil Administration	58,30,91,611	41.9%
Miscellaneous	7,55,07,985	5.4%
	Rs. 139,14,94,913	100.00

Details of Civil Administration

	In lakhs	Per cent
General administration	12,90	9.27
Audit	88	0.63
Justice	4,76	3.42
Jails	2,11	1.52
Police	11,80	8.48
Ports	24	0.17
Ecclesiastical	32	0.23
Political	1,58	1.14
Frontier Watch and Ward	2,50	1.80
Scientific	99	0.72
Education	11,88	8.54
Medical	3,53	2.54
Public Health	1,72	1.23
Agriculture	2,09	1.50
Industries	67	0.48
Aviation and Miscellaneous	30	0.21
Indian Stores Dept.	3	0.02
	58,30	41.90

II. Net Revenue

	Collection cost to gross yield	Net yield
Customs	1.8 %	47,36,60,338
Taxes on Income	4.3 %	14,77,07,867
Salt	19.2 %	5,36,66,898

Opium	22.0 %	3,07,51,429
Land Revenue	11.9 %	31,43,90,345
Excise on Liquors & Drugs		17,59,39,308
Stamps		13,28,24,933
Forest		2,69,08,190
Registration		75,86,616
Tributes		83,97,285
Scheduled Taxes		40,31,275

1,37,58,64,484

	Receipts	Expenses	
Railways	38,72,28,944	32,40,35,381	6,31,93,563
Irrigation	2,83,99,739	1,33,90,700	1,50,09,039
Interest			5,97,67,686
Currency & Mint	2,77,46,116	70,11,413	2,07,34,703
Extraordinary	3,61,98,543	44,85,916	3,17,12,627

1,56,62,82,102

less Post & Telegraphs 31,45,661 60,45,689 29,00,028

Rs. 1,56,33,82,074

III. Public Debt—Productive

		in lakhs
Railways	39,712 miles	6,68,74
Irrigation	main canals 22,402 „	1,11,44
	Distribution 44,587 „	
Post & Telegraphs		14,66
Forest	11,03,579 Sq. miles	1,47
Salt		86
Vizagapatam Harbour		126
Hydro-Electric Scheme		70
Bombay Development Scheme		416
Government commercial undertakings		177

Rs. 8,05,06 Lakhs

IV. Customs Revenue—Details

Sea Customs—Imports

In Thousands
of Rs.

Arms, Ammunition and Military Stores	731
Coal, Coke and Patent Fuel	160
Tin, block	820
Liquors	2,55,98
Matches etc.	53,72
Opium	3
Mineral Oils	1,78,92
Sugar	6,51,19
Tobacco	2,17,13
Artificial Silk Yarn and Thread	7,91
Cotton: Yarn and Thread	41,45
: Piece Goods	6,25,17
Silk Mixtures	7,26
Portland Cement	9,96
Printers Ink	37
Motor Cars and Cycles	89,58
<i>Duty at 2½%</i>	
Machinery	21,90
Locomotive Engines and Tenders	68
Other Articles	53
<i>Duty at 10%</i>	
Metals—Iron and Steel	51,09
Railway Plant and Rolling Stock	28,94
Other Articles	1,07
<i>Duty at 15%</i>	
Articles of Food and Drink	1,82,09
Raw Materials	78,85
Cuttery, Hardware etc.	2,19,28
Yarn and Textile Fabrics	
(other than Cotton or Silk)	1,82,88

Pneumatic Rubber Tyres and Tubes	29,60
Other Articles and Miscellaneous	4,79,26

Duty at 30%

Silk Piece Goods etc.	88,22
Others	96,02

*Special Duties (Discriminating between British and
Non-British Manufacture)*

Iron & Steel	
British Manufactures	44,73
Non-British Manufactures with extra Duty	1,08,42
Non-British Manufactures without extra Duty	1,71,41
Paper and Stationery	26,92
Railway Plant and Rolling Stock (Government)	27,93
Others	50,54

Total Revenue from Imports 40,46,17

Sea Customs—Exports

	In Thousand of Rs.
Hides & Skins	37,33
Jute : Raw	2,18,69
: Manufactured	2,41,28
Rice	1,06,54
Tea	1,33
Government Stores	3

Total Revenue from Exports 6,05,20

	In Thousand of Rs.
Sea Customs—Miscellaneous	14,42
Land Customs	27,80
Exise Duty: Motor Spirit	1,21,23
Kerosene	97,18
	2,18,41

Warehouse & Wharf Rent	47
Miscellaneous	521
	<hr/>
	2,66,31
Revenue from Imports	40,46,17
Revenue from Exports	6,05,20
	<hr/>
	4,917,68
less Refunds	96,27
	<hr/>
	48,21,41
less Charges	84,81
	<hr/>
Net Yield from Customs in thousands of Rs.	47,36,60

V. Expenditure on Defence

A comparative study of 41 Nations.

The following table is adapted from a reproduction in *New India* of 17th April 1930 "with certain changes in the order of the countries and with the omission of certain details, from Mr. Arnold J. Toynbee's 'Survey of International Affairs.' The information contained in the table has been taken by him from 'The Armaments Year-Book' of the League of Nations:"

Country	Year	Equivalent in Pounds Sterling	Percent to total Expenditure
India (not including Debt services)	1927/28	42,617,535	45.29
China		20,592,188	43.13
Poland (excludes Pensions & Debt service)	1927/28	13,848,888	31.58
Portugal (includes Pensions & some Civil Expense)	1926/27	4,437,146	27.39
Japan	1927/28	47,235,969	26.57

Spain	1927	25,589,770	25.97
Switzerland	1927-28	3,383,758	25.83
Latvia	1927-28	1,621,301	25.12
Italy	1927-28	45,895,740	23.46
Esthonia	1927-28	1,022,880	23.46
Chile	1927	5,356,624	23.32
Mexico (excludes Pensions)	1927	7,536,271	23.02
Greece (excludes Pensions and Debt Services)	1927-28	5,017,784	21.92
France (" " ")	1927	63,368,635	19.75
Jugoslavia (" " ")	1926-27	8,742,753	19.29
Lithunia	1927	8,01,829	19.05
Bolivia	1925	590,612	19.03
Sweden	1927-28	7,597,027	18.79
Peru	1927	1,433,766	18.63
Argentina (excludes Pensions and Debt Services)	1926	21,596,545	18.19
Bulgaria	1927-28	1,830,080	17.79
Brazil (excludes Debt Service)	1927	7,723,373	17.52
Cozecho-Slovakia (excludes Pension and Debt Service)	1927	10,274,390	17.36
Uruguay	1925-26	1,544,248	17.07
United States of America (excludes Pension and Debt Service)	1927-28	1,20,178,130	16.09
Soviet Russia	1925-26	64,427,055	16.01
Finland (excludes Pension and Debt Service)	1927	3,118,082	15.91
Ecuador (excludes Pensions)	1927	314,026	15.88
Cuba (" ")	1927-28	2,537,052	15.05
*Great Britain & Northern Ireland	1927-28	120,695,000	14.75
Netherlands (excludes Debt Service)	1927	7,848,309	13.06

Denmark (excludes Pensions and Debt Service)	1927-28	2,225,215	12.15
Norway (excludes Debt Service)	1927-28	2,214,137	10.31
Hungary („ „)	1926-27	3,989,935	9.7
* Irish Free State	1927-28	2,480,000	7.69
Belgium (excludes Pensions and Debt Service)	1927	3,480,080	7.67
Germany (excludes Pensions and Debt Service)	1927-28	33,137,384	7.16
* Australia	1926-27	5,556,000	6.52
Austria	1927	2,318,081	6.37
* New Zealand (excludes Pensions & Debt Service)	1927-28	958,321	3.91
* Union of South Africa (excludes Pensions & Debt Service)	1927-28	1,125,900	3.16

It will be noticed that India leads the list while the rest of the British Empire brings up the rear.

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Glossary of Some Technical Terms

Direct Taxes are those which are intended to be borne by the persons on whom they are levied.

Indirect Taxes are levied on one set of persons in the expectation and intention that they will be passed on to others by the process of shifting.

The Source of Taxation is the fund or flow of wealth from which all taxes are paid—Property and Income.

Proportional or Uniform Taxation is the same for all amounts as the rate is constant irrespective of the tax base.

Progressive Rates are increased as the amount assessed increases.

Regressive Size of rate diminishes as the assessed amount increases.

Degressive when taxed amount is subject to abatements and exemptions to a certain limit.

Faculty ability of the citizen to bear the burden of Government as represented by taxes both direct and indirect and expenses of public undertakings.

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