

MEMORANDUM ON THE RATIO.

On the occasion of the general debate on the Budget Estimates of next year, we think it necessary, for the correct appreciation of our finances, and of their bearing on the country in general and the taxpayer in particular, that the following points should be brought to the notice of members of the Assembly:—

2. The Hon'ble the Finance Member has stated in his budget speech that for the fourth year in succession up to 1926-7 the finances of the country had shown a realised surplus. Whilst the only important tax remitted has been the abolition of the cotton Excise Duty, and the remission of provincial contributions has been only partially carried out and whilst there has been a substantial fall in world prices these surpluses were inevitable. As a matter of fact they were considerably larger than shown in each of these four years, but were diverted from their legitimate function of remission of taxation to the reduction of debt. Our annual provision for debt redemption has been relatively on a larger scale than that adopted in any other country we know. In England against a total outstanding debt of £7,700 millions the amount provided for debt redemption is only £50 millions a year. This works out to less than two-thirds of one per cent, although the major part of England's debt is unproductive. In contrast with this, our provision of Rs. 5 crores, which is equivalent to $2\frac{1}{2}$ per cent, or four times the provision that England makes, on an unproductive debt of Rs. 202 crores as on the 31st March 1927, is clearly excessive. Besides this, adventitious receipts in any year, have also been taken to the redemption of debt account. The amount of these windfalls has approximately been Rs. 6 crores in these four years. In this manner the total amount carried to debt redemption out of revenue has reached the substantial sum of Rs. 23½ crores in four years.

3. Apart from this, there has been during the years 1923-4 to 1926-7 a growing burden on the country on account of the concealed taxation as revealed in the statement which we attach herewith. The rupee figures of expenditure for next year show a reduction of Rs. 9 crores, over the figures of 1923-4 but this would not be a correct picture of the actual situation. In the statement referred to, the Rupee is converted into gold at the rate of exchange ruling on 1st March every year as given in an official memorandum submitted by the Government of India in the Finance Department to the Royal Commission on Currency and Finance, for each year. It will be seen from a comparison between the rupee figures and the gold value of the same that whilst the expenditure budgetted for 1927-8 in terms of rupees shows a *decline* of Rs. 9 crores as compared with the figure for 1923-4, the same, when converted into gold, turns out to be an *increase* of £6½ millions. For the whole period of five years, the total extra expenditure in terms of gold would be as large as £16 millions. The obvious inference to be drawn from this is that, under the guise of an *apparent decrease* in expenditure in terms of rupees, there has been going on, owing to appreciation of the value of the

rupee, a real and growing burden on the taxpayer of this country, which will amount to £ 16 millions gold in the course of five years.

4. It is contended by Government that if we revert to 1s. 4d. the burden of the sterling debt of India will be increased by Rs. 56 crores. The table attached to para 20 of the Finance Member's speech refers to this. This is misleading because the sterling debt has to be paid in gold, whatever the ratio, and will represent the same amount of Indian goods and services. The number of rupees required for this purpose is not a relevant factor at all.

On the other hand, we wish to point out that at 1s. 6d. the burden on the taxpayer of the rupee debt of the Government of India, will be increased in terms of gold, or goods and services. The total Rupee Debt on 31st March 1927 is given at Rs. 523 crores. This, in terms of gold at the pre-war ratio of 7.53 grains of gold to the rupee would be equal to (Rs. 523 crores x 7.53 grains of gold) 3938.19 crores of grains of gold. If the Rupee is stabilised at 1s. 6d. this debt would be equal to (Rs. 523 crores x 8.47 grains of gold) 4429.81 crores of grains of gold, a difference of 491.62 crores of grains of gold, equivalent to 4.3 crores of sovereigns, this being the increase in the rupee debt of the Government of India in terms of gold. A corresponding annual increase in the burden of interest in terms of gold has thus been imposed on the taxpayer and will continue with 1s 6d until the loans are repaid. These facts by themselves furnish an irrefutable argument against the appreciation of the value of the rupee.

5. Further, we view with very grave apprehension the question of the maintainability of the 1s. 6d ratio. Since 1st April last this has been maintained only at the expense of India's Gold resources in the Paper Currency Reserve to the extent of £23 millions. Besides the corresponding deflation of Currency against this depletion in India's Gold resources Rs. 7½ crores were deflated against reduction in rupee securities in the Paper Currency Reserve. During the last few weeks the Government of India found it necessary to refuse the issue of emergency currency, and compelled the raising of the Bank Rate to 7 per cent. as a further effort to maintain the 18d. ratio. In spite of all this, the Exchange rate continues to rule under 1s. 6d. and quotations for two months ahead have been very close to 1s. 5½d., the lower gold point of 1s. 6d. Unless something very unforeseen should happen, we fail to see how the Government of India can maintain 1s. 6d. ratio without further dissipation of India's gold resources. The balance of Gold resources left is limited, and we are anxious that they should not be further risked. Any sale of silver under present conditions being out of the question, we apprehend that Government may be driven to the expedient of borrowing in London to maintain 1s. 6d. We are very strongly opposed to the policy that may drive the Government to such a course. This danger is avoidable and must be avoided.

6. These are amongst the many reasons which necessitate our opposition to the continuation of the 1s. 6d. rate any further. We have carefully perused the Honourable Mr. A. F. L. Brayne's statement of the effect on the financial position of the

Government of India of an alteration in the exchange value of the rupee from 1s. 6d. to 1s. 4d. gold, as well as Mr. Parson's similar note on the Railway Budget. We attach herewith a note specially prepared with reference to the said statements and wish only to observe that the assumptions made in the official Notes, and the conclusions drawn therefrom, are unwarranted. We recognise that a certain reduction may occur in the surplus of Rs. 370 crores estimated in paragraph 36 of the Finance Member's speech. We are of the opinion that the various remissions of taxation and Provincial contributions indicated in the Finance Member's speech should all stand, if approved of by the Assembly. The only change we propose is that no specific provision for debt redemption should be made in the next year's Budget at this stage. This will make the amount of Rs. 5.2 crores available to meet such reduction in revenue as may result from the reversion to 1s. 4d. Although we do not apprehend reduction in revenue to be anything like Rs. 5.2 crores, we consider that this figure should be more than ample for any deficiency in the revenue due to the change in the ratio. When the actual figures are known, the realised surplus may be carried to debt redemption. We consider that the remission of the Provincial contributions has been unduly delayed by the Government of India till now, owing to their over-cautious policy regarding redemption of debt, as stated above in paragraph 2.

7. It has been contended that the reversion to 1s. 4d. will affect Provincial Budgets to their detriment. In this connection, we would point out that Provincial Governments in India have generally Land Revenue as their most important source of revenue; and with stabilisation at 1s. 6d. a reduction in land revenue to the extent of 12½ per cent. will have to be made. The equity of such a reduction has been pointed out by a correspondent in the "Financial News" of London and cannot be challenged. As such a reduction will automatically bring down the receipts from land revenue of Provincial Governments by 12½ per cent., the detriment to the finances of Provincial Governments will be more under 1s. 6d. than under 1s. 4d.

8. This is the first time that the Indian Legislature with a non-official majority, has been called upon to decide one of the most momentous questions affecting the Currency of the country, a question on the correct solution of which the welfare and prosperity of the masses of India depend. We are very anxious that the real issue should not be obscured by any plausible considerations or exaggerated apprehensions of disturbance to the finances of the country and to its economic fabric, by the return to 1s. 4d.

9. Fifty years back the Government of India proposed as at present to appreciate the value of the rupee. On a reference being made to the Lords of the Treasury, they condemned it in the following terms :—

"It appears to my Lords that the Government of India in making the present proposals lay themselves open to the same criticisms as are made upon Governments which have depreciated their currencies. In general, the object of such Governments is

to diminish the amount they have to pay to their creditors. In the present case, the object of the Indian Government appears to be to increase the amount they have to receive from their taxpayers. My Lords fail to see any real difference in the character of the two transactions..... The plan is open to the objection that it alters every contract and every fixed payment in India..... It may relieve the Indian Government, (also relieve) Civil servants and the Englishmen who are serving or working in India and who desire to remit money to England, and Englishmen who have money placed or invested in India which they wish to remit to England. But this relief will be at the expense of the Indian taxpayer, and with the effect of increasing every debt or fixed payment in India including debts due by ryots to moneylenders; while its effect will be materially qualified, so far as the Government are concerned, by the enhancement of the public obligations in India which have been contracted on a silver basis."

10. We cannot do better than close this statement by quoting the views of two distinguished Indians, both past Presidents of the Indian National Congress. Mr. Romesh Chandra Dutt whose authority on Indian economic questions is unchallengeable, giving evidence before the Fowler Committee in 1898 said "Millions of agriculturists and labourers in India are indebted to money-lenders and Mahajans, and the debt is in many cases in rupees and not in grain. Artificially to enhance the value of the rupee or to fix the value at the rate to which it has been already artificially raised, is to increase the indebtedness of the cultivators and labourers of India to money-lenders and Mahajans. The measure serves to add to the profits of the prosperous classes who feed on the distresses of the poor, and to add to the weight of the mill-stone which the poor and indebted classes carry round their necks. Throughout the bazars and money markets of India, the effect of raising the value of the rupee is to add to the profits of the rich money-lender, and to enhance the liabilities of the poor cultivator who has a debt."

Mr. (now the Honourable Sir) Dinshaw Watocha speaking before the Indian National Congress in 1892 said as follows:—

"If the purchasing power of the rupee were raised 20 per cent or anything like so much, the land tax would be raised in exactly the same proportion, for every rupee would then represent 20 per cent more of the produce of the ryot's land. Similarly, the rents of houses and land all over India would be raised to the same extent. All the other taxes payable to the same Government would likewise be raised. So would all debts due at the time the change was made; in other words, every banker and capitalist, as well as every usurer, would find his property, so far as it had been lent out to others, increased 20 per cent. while every debtor throughout the length and breadth of India would find his debts augmented in the same way. The result, therefore, would be that the Government, the official classes, bankers, landlords, and usurers would all receive 20 per cent more of the property of the vast population of India. There would be a sweeping transfer of property from the producing working masses who create the wealth and make the prosperity of the Empire to the servants of these millions and to the parasites who prey upon

them. We would ask any sane man, whose brain has not been muddled by currency disquisitions beyond his capacity, whether this is a project that ought to be listened to for a single moment? Whether it is to be thought of that the whole strength of the British Empire should be used to impoverish the hard-working millions, and to enrich usurers and Government officials? And if it is not, we would urge upon public opinion to reject so monstrous a proposal with contempt."

11. We associate ourselves completely with the views of these two eminent Indians. Dadabhai Naoroji, Gopal Krishna Gokhale, and other patriots have in the past held similar views. It cannot be alleged that these honoured names in our public life did not know where the real interests of the country lay, and we are confident that the country will refuse to be deflected from the correct course. So great is the risk involved in a change in the the standard of monetary payments from the pre-war one, that we totally fail to see how Government can reasonably expect the Assembly to accept their action. No country in the world, which had its pre-war ratio within reach, avoided it. No country has appreciated its pre-war ratio to gold. In fact, the serious results of such action have so impressed us that we would have even agreed to the postponement of the remissions of [provincial contributions for a little while, in order to keep to the correct line of action. Luckily, with the Budget presented to us, even this sacrifice is not called for. We are satisfied that the same remissions as Government suggest are practicable forthwith under the 1s. 4d. ratio. The duty of the Assembly is, therefore, straight and clear, and we have no doubt that it will rise to the occasion.

Delhi, 3rd March 1927.

*Written by Sir Peshotamdas
Thakoredas and others.*

THE RATE OF EXCHANGE AND ITS EFFECT ON THE BUDGET FIGURES.

The attached table shows the Budget figures for the past five years 1923-4 to 1927-28. The figures have been all converted in terms of gold, at the gold parity of the Rupee as on the first of March in each year i. e. on the date of presentation of the Budgets so that the real outlay budgetted for in each year may be easily seen. The expenditure is seen to be as follows:

	Rs. Crores.	Millions of Sovereigns.
1923-24	134'10	87 301
1924-25	129 90	78 824
1925-26	130'44	95 282
1926-27	130 38	98 461
1927-28	125'26	93 943

The true financial position will now become clear. It will be seen that the Rupee figure has been appreciably reduced in the last five years, but, in terms of gold, India is spending to-day about £6½ Million, say Rs. 9 to 10 crores more, than it did in 1923-24. If we look into the figures of 1924-25 when some of the recommendations of the Retrenchment Committee had been put into effect, the result appears even more astounding because the Budgetted expenditure was in terms of gold Sovereigns.

in 1924-25 78 82 Millions
as against 98'46 in 1926-27
i.e., 20. 40 Millions or Rs. 30 Crores more than in the former year.

The Assembly Members are led to believe that the Finance Member has *reduced* the expenditure of India, while, as a matter of fact, he has immensely *increased* it.

It has been possible to thus disguise the real amount of Indian expenditure only because while the layman thinks that the Rupee is a coin like the sovereign or the dollar, it is something quite different. As Sir Basil Blackett has himself said it over and over again, it is now not a real coin but *only a currency note printed on silver*. and just as a paper currency note does not represent the value of the paper on which it is printed, this silver currency note does not represent the value of the strip of silver on which it is printed. Both notes represent the value attached to them by law. This silver note formerly represented 16d worth of gold. Government has for the last two years made it represent 18d. worth of gold.

Against every 1600 d. worth of taxation, they used to collect 100 of these silver notes. To-day, they go on collecting the same number of silver notes, and pretend that they have not increased taxation, while, as a matter of fact, they *have* collected 200 d. *extra* in terms of gold. It is as if they collected 4 ten-rupee notes instead of 4 five-rupee notes, and claimed that they had not increased taxation, because they were still collecting only 4 notes.

Under the effect of this misconception, the layman is made to believe, not only that there was no *increase* in taxation but that there was actually *reduction* of taxation. The layman is unable to see that what is being done now is exactly as if they collected 3 ten-rupee notes instead of 4 five-rupee notes, and claimed that they had reduced taxation, because they took *one note less*. This cloak can only be unmasked if we constantly bear in mind that the rupee is in its nature really a Currency Note printed on silver, and to understand amounts expressed in rupees, we must first convert them into the amount of gold that this Silver note (the Rupee) represents.

EXPENDITURE OF THE GOVERNMENT OF INDIA—BUDGET ESTIMATES

(In thousands of Rupees).

(In thousands of Gold Sovereigns
at the Gold parity of the Rupee).

Expenditure.	1923-24.	1924-25.	1925-26.	1926-27	1927-28.	1923-24		1924-25		1925-26		1926-27		1927-28		Item.
						at 1/3	5/8	at 1/2	9/16	1/5	17/32	1/6	1/8	1/6		
1. Direct Demands on the Revenues ...	5,37,22	5,54,12	5,28,91	5,00,14	4,30,30	3,497		3,362		3,864		3,777		3,227		1
2. Salt, Forest and other Capital outlay charged to Revenue ...	....	....	32,93	10,20	18,79	...		...		241		77		141		2
3. Railway Interest and Miscellaneous charges...	27,91,32	25,16,79	28,65,58	29,43,45	29,49,05	18,173		15,271		20,932		22,229		22,118		3
4. Irrigation ...	14,20	22,85	17,79	17,34	18,70	92		139		130		131		140		4
5. Posts and Telegraphs ...	53,35	—11,00	—28,17	86,01	84,61	347		—67		—206		650		635		5
6. Debt Services ...	17,21,57	18,32,51	18,18,06	17,51,76	15,74,34	11,209		11,119		13,281		13,229		11,808		6
7. Civil Administration ...	9,78,29	9,80,28	10,97,98	11,45,30	11,31,50	6,369		5,948		8,020		8,649		8,486		7
8. Currency, Mint, Exchange ...	1,13,11	77,31	73,47	78,24	74,85	736		469		537		591		561		8
9. Civil Works ...	1,76,63	2,06,50	1,68,47	1,80,11	1,66,98	1,150		1,253		1,230		1,360		1,252		9
10. Miscellaneous ...	5,15,39	4,88,73	4,01,91	3,96,31	3,97,15	3,355		2,965		2,935		2,993		2,979		10
11. Military Services ...	65,04,87	63,00,16	60,26,17	59,17,79	56,72,49	42,349		38,228		44,019		44,692		42,544		11
12. Miscellaneous adjustments between Central and Provincial Governments ...	3,62	22,65	15,74	6,00	...	24		137		116		45		...		12
13. Extraordinary items ...	....	....	25,00	5,00	7,00	...		...		183		38		52		13
14. Total Expenditure charged to Revenue ...	134,09,57	129,90,90	130,43,84	130,37,65	1,25,25,76	87,301		78,824		95,282		98,461		93,943		14
15. Surplus ...	80,86	18,47	24,13	5,31	....	526		112		176		40		...		15
16. Total Revenue ...	134,90,43	130,09,37	130,67,97	130,42,96	125,25,76	87,827		78,936		95,458		98,501		93,943		16
Sterling rate of exchange ...	1-4 5-32	1-4½	1-5 31-32	1-6 1-8	} 1-6											
Gold rate of exchange ...	1-3 5-8	1-2 9-16	1-5 17-32	„												

Comments on the Notes of the Hon. Mr. Brayne and Mr. Parsons.

Before entering into an examination of the alleged loss of revenue to the Budget of the Government of India, it is necessary to make a few remarks on some of the assumptions on which the whole argument in the two Notes on the effects of exchange by Mr. Brayne and Mr. Parsons is based. One of these assumptions is that wages and allowances will have to be increased if we revert to the 16d gold ratio. We are all in favour of doing justice to the wage-earner, and would support any increase in wages or allowances that may be called for by a rise of prices above the level at which the present scales of wages and allowances were fixed. As for the superior services, there can be no ground for any claim to increase in their emoluments, because the last increases were given by the Lee Commission, when exchange was a good deal below 16d. gold.

2. The other assumption stressed in the two Notes is the possible effects of a reversion to 16d. on rates of interest. It is well known that the deflations of currency during the past five years have every time resulted in very serious stringency in the following busy season, the worst experience being in 1923-24. The present year appears to be a good second. As it is admitted even by the protagonists of the 18d. ratio that a reversion to 16d. will result in an expansion of the circulating medium, it is not possible to dispute its necessary corollary, *viz.*, an easier money market.

3. Having disposed of the two assumptions underlying these Notes, we proceed to consider the effect of a reversion to the 16d. ratio on trade and industry. Both in the Note on the General Budget, and in the Note on the Railway Budget apprehensions have been repeatedly expressed of a serious dislocation of trade and consequent diminution of receipts from customs and income-tax and railways. We cannot accept these propositions. The present depression in trade and the slump in industries is due to the appreciated rupee. A return to the 16d. ratio will lead to a more active movement of agricultural produce and other merchandise, a more rapid turn-over of goods, and better business all round, leading to increased receipts from Railway traffic as well as from taxes on Income. That a serious trade depression exists is practically admitted in the pronouncements of more than one Finance Member in the Provinces. This has also been echoed in the speeches of the Commerce Member and the Chief Commissioner for Railways while introducing the Railway Budget. If trade depression leads to reduced receipts in revenue, trade activity ought to lead to increased revenue returns. We are, therefore, surprised to see that such a self-evident proposition is sought to be denied in the two Notes.

4. Coming to a detailed consideration of the figures, we admit that so far as sterling expenditure is concerned, it will increase in terms of rupees by 12½ per cent. But there will not be anything like the same proportionate increase in the rupee ex-

penditure. Internal prices, of articles which do not figure in the export trade, have not yet been adjusted to the 1931 ratio and we therefore do not think the effect on the rupee purchases of the Government of India will be anything like as serious as it is made out to be in the two Notes. The maximum extra expenditure likely to result so far as the Budget of the Government of India is concerned should not, in our opinion, exceed Rs. 50 lacs, as the process of internal adjustments has only just commenced.

5. We cannot accept the contention of any loss of revenue under customs. On the contrary, we hold that there is bound to be a gain. The Note deals with this question under four heads viz :—

- (a). Specific import duties.
- (b). *Ad valorem* duties on tariff valuation.
- (c). *Ad valorem* duties on invoice valuation.
- (d). Export duties

(a). It is suggested that the loss under this head would be rupees one crore on account of reduced imports due to higher selling prices that are said to be necessitated by the 16d. ratio. The writers of the Note overlook the fact that reversion to the 16d. ratio will increase the purchasing power of the people in general, and this change should lead to the present demand being at least maintained, if not actually increased.

(b) Coming to "*Ad Valorem* duties based on tariff valuation" the writers admit that tariff valuations have occasionally been changed in the past in the course of a calendar year, but they say it has always been downwards, never upwards. And they contend that this means that articles coming in under this head will not result in any increased revenue at least for the current calendar year. We submit that this is a wrong view. Commercial circles would oppose any revision of tariffs upwards under normal circumstances, because that would mean Government trying to take advantage of ordinary market fluctuations. The present case is entirely different. Everyone interested in trade and industry has very full warning that the ratio is under discussion and may be changed, and, if 16d. is adopted as our legal ratio, any corresponding revision of tariff valuations could not be objected to. There need therefore be no loss of Rs. 21 lacs under this head as claimed.

(c) Under this head the writers of the Note contend that, on account of higher prices, imports are likely to decrease, but this is absolutely at variance with the known facts of commerce. From the figures of imports during the ten pre-war years, it would appear that imports fall off on a decline in the price-level, and they are active and higher on a rise in the price-level. This is only natural, because a declining price-level means continued losses and discouragement to enterprise. We, therefore, are of the opinion that there is no justification for expecting a decline in revenue of Rupees 56 lacs. under this head. On the contrary, we can confidently look for at least a 10 per cent improvement in customs receipts, say Rs. 2 crores. during the budget year, and a full 12½ per cent. increase, say Rs. 2·47 crores in future years.

(d) Under the this head—"Exports"—the writers of the Note show gains in small items, making a total gain of Rs. 51 lacs. As the amount involved is small, we offer no remarks.

SUMMARY.

Increases in expenditure :

Sterling transactions	Rs. 3'14	crores
Rupee purchases	'50	

Increased receipts from :	3'64
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Customs-Head—(c)	2'00
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" " (d)	'51
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Nett excess expenditure	2'51
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1'13 crores

6. In the above figures, we have not taken into consideration any improvement in income-tax; this tax is assessed on the profits of the previous year, and the resulting improvement on a reversion to 16d will not be in evidence till 1928-29. But, from that year onwards, there should be an appreciable improvement under this head. It will be seen from the Explanatory Memorandum to the Budget, page 5, that the Revenues under Income-tax and Super-tax had been reduced by as much as Rs. 2'69 crores between 1923-24 and 1926-27. We see no reason why, with reversion to the 16d. ratio, an improvement, at least to this extent, should not follow.

When the full improvement under customs and income tax accrues from 1928-29, there should be a net increase in the revenue of the Government of India by 5'37 crores*. This, after meeting the excess expenditure of Rs. 3'64 crores, will leave Rs. 1'73 crores in hand.

7. As regards the Railway Budget, we have already pointed out that Mr. Parsons takes no account of the revival of trade resulting in larger traffic under the 16d ratio. In fact, he seeks to make out that a reversion to the 16d. ratio would result in smaller traffic. This is contrary to all experience. We may further point out that the earnings of railways in 1924-25, when the rate of exchange was 16s. gold were, as much as Rs. 26 390 per mile against the earnings of Rs. 24,923 per mile in 1926-27. We are of opinion that with a reversion to the 16d ratio, and the consequent general improvement in the condition of trade, industry and agriculture, we may once more safely look forward to the earnings per mile being as good as they were in the year 1924-25, and this alone should give increased receipts of some Rs. 6 crores, so that, even if the highly improbable contingency of increased expenditure on Railways to the extent of Rs. 2'62 crores apprehended in Mr. Parsons' note should fully materialise, the loss caused thereby would be more than covered by the afore-said increase in Railway receipts.

*This is made up of the Rs. 2'47 crores and of the Rs. 51 lacs under customs heads (c) and (d) respectively, and of Rs. 2'39 crores from taxes on income.