CHAPTER X

FINANCIAL POLICY

I—Tariffs

When one tries to imagine what would be the policy of an India in the government of which ascertainable public opinion would have substantially more influence than it has now, one of the first subjects which presses for attention is finance and fiscal policy, and in this connection we must remember what the nature of the representative authority will be for some time to come. Its most prominent features and interests will be nationalist and capitalist. The Universities and Colleges and the greater Municipalities that will be represented will give tone to the Legislatures, and the class from which candidates will have to be drawn will be in the main that of lawyers and business men. In the very first Legislatures provision should be made for the representation of working-class, cultivator, and co-operative interests, but I do not see how, to begin with at any rate, this can be very effective. It will in time gather authority as it goes through its apprenticeship, but in the meantime it will find some of the main lines of Indian political development set for it by the classes prepared straight away to make full use in their own interests of their political powers. The new India will be started by nationalist and commercial minds, and so far as fiscal policy is concerned they will agree. They will follow precisely the same line of action as our own Dominions have done. The economics of the nationalist are those of self-supply and foreign exclusion ; the taxation policy of the commercial classes is that revenue should be found as much as possible by customs imposts which, whilst protecting Indian industry and securing for it high profits, will at the same time supply revenue and ease the burden of income tax. Indeed, as has been quite evident in recent financial debates in the Legislative Council, these interests rather shirk the duty of imposing direct taxation, are inclined to resort to loans, and, like a French Budget Committee, fail in courage to make ends meet.

The system of Indian taxation is an inheritance from past political conditions modified by the methods of the British rulers. The Hindu conception of the King's revenue was that it should be levied from the income of his subjects in varying proportions, and in fines and fees. A Collector-General supervised the tax gathering, and he appointed local representatives. The foundation of the system is to be found in the Laws of Manu. Traders' profits are to be taxed. One-fiftieth part of cattle, one-eighth of grain (or a sixth or twelfth), one-sixth of trees, ghee, honey, fruits, hides, earthern vessels, belong to the king. And so on. At its best, the Hindu system was excellent and surprisingly modern in its theory; at its worst, in practice, the tax-gatherer levied what he could and practised corruption and oppression. The barbarous splendour of the Courts which Sir Thomas Roe [1] and other visitors have described was the result of tribute and taxation outside the bounds of tax-gathering, and was made possible owing to the theory that State revenue was the personal possession of the ruler.

When the Company came, its first income was profit from trade, but by and by it received political revenues.[2] At first it collected these revenues in the name of the Indian ruler. "They held their territories as vassals of the throne of Delhi; they raised their revenues as collectors appointed by the Imperial Commission; their public seal was inscribed with

[1] *Journal*, Hakluyt Society (series ii. vols. i. and ii.).

[2] The turning-point came in 1765 when Clive procured a grant of the Diwani of Bengal, Bihar, and Orissa from Shah Alam.

the Imperial titles ; and their mint struck only the Imperial coin." The inevitable evil of such a system is the dark thread which runs through the story of Warren Hastings and Nuncomar, and tarnishes the biographies of the great men and the history of the great deeds which meet us at the beginning of our Indian connection. The income of the State was to yield profit to the shareholders, and Warren Hastings, "with an empty treasury, with an unpaid army, with his own salary often in arrears, with deficient crops, with Government tenants often running away, was called upon to remit home another half-million without fail." [1]

For a time there was a confused jumble between the financial policy of the Company as a trading concern and as a political State. It sacrificed national interests in order to make profits. It ordered the ploughing up of fields of poppies when its stock of opium was sufficient and it did not want to depress prices ; at another time, and for the same business reason, it decreed the planting of poppy crops instead of grain. And what was even more fatal to revenue, its servants on the spot traded in their own interest and made fortunes on markets which they manipulated and by bribes which they exacted. Adam Smith's account of the procedure remains the classical criticism of the faults of such a form of government.[2] It is cold ; but the heat which would arise from a political condemnation of such a system was blown with hearty good-will into the orations of Burke until they glowed like furnaces. In the end, State revenue had to be separated from trading profits, and this was finally done by the Act of 1813. Twenty years later the Company was compelled to end its trading transactions altogether.

But in the Budget, as elsewhere, the Company and the systems to which it had become heir still survive. If we take a Financial Statement of the Government of India we can see

[1] Macaulay's *Warren Hastings.*
[2] *Wealth of Nations,* bk. iv. chap. vii.

how the revenue is derived and shall appreciate the problems connected with it. That of 1915–16 showed a revenue of £54,855,000, £21,000,000 of which came from the land; £3,000,000 from salt; £5,600,000 from Customs; £8,000,000 from Excise; £2,000,000 from Income Tax; and £5,000,000 from the Posts and Telegraphs, Railways and Canals. On the Expenditure side out of a total of £56,000,000, £22,000,000 was for military purposes and £24,500,000 for the cost of government, including the collection of revenue.

Passing the Land Revenue for the moment, three things strike one in this statement of revenue—the Salt Tax, the Income Tax, and the Customs. The Salt Tax has long been regarded as a blemish on our Indian fiscal system. It is light (when it was lowest, from 1907, it stood at 1 rupee per $82\frac{2}{7}$ lb. and meant a tax of about $3\frac{1}{2}$*d.* per head per annum), but still it is no mean proportion of the income of Indian families. Though salt taxation was known in India before, its present history dates from the imposition of Clive and Warren Hastings when the Company was hard up. It has been retained on the ground that it is well that every Indian should feel the cost of government. As a matter of fact he feels nothing of the kind: he just knows that the price of his salt is high, though salt is a necessity. But supposing there was something in this notion of making everybody feel the cost of administration (and there is nothing), it would only apply to a self-governing people who may rightly be taught the financial consequences of political acts. It requires a highly trained intelligence to decide what are the consequences of political policy and what are not, what consequences are worth bearing and what are not, and so on through many other processes of accurate reasoning. We know in this country what an appeal for reduced rates and taxes generally amounts to. It is as a rule an appeal to personal selfishness and shortsightedness against a wise social policy. If the cost of government were to be made a safeguard against folly, nations would be undone, because bills come after the events and people show less forethought in reckoning up the cost of great follies than in demanding an estimated cost of cold wisdom.

In India, where the Government is a bureaucracy, even this theoretical justification for the Salt Tax does not exist. If the Indian salt consumer had all the wisdom necessary to come to sound conclusions upon the cost of his government, he has no power to alter it by one farthing. The Salt Tax is exaction and oppression; and if the people understood it, it would only breed discontent. It is a survival of the general exploitation of India's poverty by a profit-making Company. The argument for its retention illustrates the error so prevalent in India, of assuming that the political wisdom of a Western self-governing State is also political wisdom in an autocratically or bureaucratically governed one, and that a bureaucracy has the same right to impose burdens on a people that a representative Legislature has. The payers of the Salt Tax have no more to say in Indian policy than the man in the moon, and the price of their salt has no more influence on the bureaucracy than the cost of their weddings.

On the other hand there is the Income Tax, levied first of all temporarily to relieve the charges of the Mutiny, but imposed as a regular part of Revenue in 1884. It is the representative of the trade taxes imposed by the Moghuls, so that those not engaged in agriculture should not elude the tax collector altogether. Before the war, it stood at about 6¼*d.* in the £, but in 1916 it was raised to from 7½*d.* to 1*s.* 3*d.* by a sliding scale determined by the amount of income. The yield of the tax has risen steadily, but that it is evaded in a wholesale way is shown not only by the small sum which it produces, but by the further fact that the yield from Government salaries is about one-fifth[1] of the total. The import of private merchandise by sea has risen from £64,500,000 in 1904–5 to £122,000,000 in 1912–13, the exports from £105,000,000 to £166,000,000; bank deposits have doubled; the paid-up capital in Joint Stock Companies registered in the country

[1] 1914–15.

has increased from £26,782,000 to £50,698,000. But during the same time the yield of the Income Tax has increased from £1,260,000 to £1,936,000. It is true that the accumulation of wealth which these figures indicate has been confined to a comparatively small section of the people, but that is all the more reason for a much greater State revenue being obtained from it. This is one of the pressing financial problems of India: how to get at the wealth of the richer people and how to make them yield a juster amount to the national revenue. Indian revenues have always been taken far too much from the poor, and the rich have got off far too lightly. It took us a long time here to stop up the back doors by which Income Tax was evaded, and we have not completely succeeded yet. But in India we have hardly begun the task and are using its difficulties as an excuse why we should not begin.

In the mind of the Indian manufacturer, the alternative to a proper Income Tax is a tax upon imports. If Indian commercial opinion determined fiscal policy, India would be a highly protected State, and this would come about from the ordinary human motives of doing one's best for one's own advantage. This is specially the case with the cotton trade. But financial interest is here mixed up with nationalism as it is in Ireland. The Indian is told that in days gone by England deliberately ruined his manufactures in order to find a market for its own, and up to 1918 he has had "proof" of his opinions in the arrangement by which, "in the interest of Lancashire," his native products have had to pay an excise duty equivalent to the customs duty imposed upon cotton imports.

For a long time the fiscal policy of India has been the subject of conflicts between the Government—sometimes one is not very sure whether it was the Home or the Indian Government—and the manufacturing and nationalist sections of Indian opinion. The contest centred round cotton imports. Cotton is the one great machine industry in Indian hands, jute being under British control. But Lancashire has important interests in the Indian open door. From 1904–5 to 1913–14 inclusive, the value of the manufactured cotton goods, including twist and yarn, sent to India from the United Kingdom was no less than £288,000,000; in the first of those years it was £23,700,000 and in the last £39,800,000.[1] The Home Government could not, in its political interests, afford to neglect a stake such as that which these figures indicate, and it happened to believe in principles of international trade which coincided with Lancashire's interests. As is usual, when principles and interests coincide the world accepts the more ungenerous explanation that the interests are the real explanation of conduct.

When cotton production began to be of some importance in India, about 1870, Lancashire cotton manufacturers became alarmed lest the 5 per cent. *ad valorem* duty they then had to pay[2] might prove to be a protective tax for Indian products; and they moved at home to get Free Trade principles applied to India. Free Trade held unchallenged sway over the minds of British statesmen at the time, and it was not only easy for them to listen to Lancashire, but to do what it wanted in the honest belief that it was not to Lancashire they were giving ear, but to the best interests of India itself. To offer any explanation except the latter one was described by Lord Hartington in the House of Commons in 1882 as putting the matter "on a false issue." In 1874 the Manchester Chamber of Commerce urged the Indian Secretary to end the duty on cotton goods as it was disadvantageous both to India and Great Britain, and a few months later referred to the competition of Bombay mills that had been started under protection. After an inquiry, the Government

[1] *Statistical Abstract* (1916).

[2] In 1858 when the Crown became responsible for the Government of India, a 5 per cent. *ad valorem* cotton duty was in existence. This was raised in 1859 to 10 per cent., and reduced again in 1864 to 7½ per cent., and in 1871 to 5 per cent.

decided that 5 per cent. was not a protective duty, and it was right.

In 1878 Indian finances were overhauled, and an attempt was made to differentiate between raw and manufactured articles, between duties which were convenient forms of indirect taxation upon consumers and those which acted as protection to native industries. The customs were pruned and engrafted by Free Trade minds, and those kinds of Lancashire cotton which had to meet the competition of Indian mills were admitted free—not only, be it repeated, to give Lancashire a chance on Indian markets, but in the interests of Indian consumers.

The circumstances made it difficult for the Indian manufacturers to see the beneficence of the change, and it was warmly criticised in India, the majority of the Viceroy's Council protesting against the influence which Lancashire was having on Indian policy. Indeed, that side of the Free Trade mind of Lancashire appeared to be hypocritical, and the later events in the story of cotton duties have only added to the Indian doubts. In 1882 the cotton duties were completely removed, but when the exchange value of the rupee fell, and the Indian exchequer was again in great straits, the old 5 per cent. on imports had to be reimposed in 1894–5. Lancashire became active[1] and in response to its agitation some details of the Budget were altered, involving a loss of revenue to India, and an arrangement come to by which an excise duty similar to the customs duty had to be paid. That has been the rule since. But the exigencies of war finance compelled the Government to reopen the question in 1917, when, partly owing to the desire of the Tariff Reform members of the Government

[1] Cf. Hansard, September 3rd, 1895. Philip Stanhope: "If there was any thing more patent than another in the late appeal to the Constituencies, it was the stern resolve of the people of Lancashire that this matter should not be allowed to sleep." Lord Salisbury's despatch of 1871 on the subject, together with this debate embody the facts and the arguments of the controversy.

to get a contribution made to their policy, partly to unwillingness to offend the nationalist interests of India during the war, the House of Commons sanctioned an arrangement by which British cotton imports should pay in India a duty of 4 per cent. for which there should be no countervailing excise.

This is only a small beginning in the destruction of a system which the Indian manufacturer has never accepted. It has always seemed to him that, under the guise of Free Trade, we have been upholding the old pernicious practice of mercantilism and have been using dependencies for the purpose of providing markets for our goods. The nationalist movement took the same view. It felt quite accurately that the financial policy of India was devised to suit British ideas and sometimes British interests, that in any event it was not always even the policy of the Indian Government, to say nothing of India itself, but was sent out from home.

When Lord Morley increased the representative character of the Indian Councils, the old position could not be maintained for long. Indian financial policy had to be devised in India, even if, in the opinion of the Home Government, India was wandering from the paths of economic wisdom, and Lancashire interests were being damaged. So no one was very much surprised to find that the Finance member, in introducing his second war Budget (that for 1916–17), announced the inevitable departure. It was not to be taken then because when the war was over the whole question of fiscal relationships for the Empire itself, and for it in relation to the world, would have to be considered, but a pledge was given that the old policy was dead and that Indian opinion would influence Indian fiscal arrangements in a way which had hitherto been denied to it.[1]

By the following year India had offered to us a contribution

[1] The words used by Lord Hardinge in his Budget speech to the Imperial Council just before he left India were: "We are all unanimous, I think, as to what the best interests of India in connection with the cotton duties may be, and I regard this declaration that I and my Government have been

of £100,000,000 to our war expenses, and part of the financial scheme by which it was to be raised proposed an extra 4 per cent. duty on imported cotton. Lancashire challenged the departure, but was beaten,[1] and I do not believe that the decision then taken can ever be reversed.

A revision of the fiscal policy of India will be one of the first acts of a Legislature representative of active nationalist opinion, and the result will be a tariff in the interests of capital. Cotton will be protected first of all on account of its financial influence, and the 4 per cent. difference will probably be increased. In a normal year the import of manufactured textiles will be little short of £50,000,000 in value at pre-war prices. This is the highest value of any group of imports. The next is that of iron and steel and metals, which may be put down at £15,000,000, most of which would be subject to a protective duty. Then there is a considerable miscellany of manufactures, varying from matches to umbrellas, in which Indian manufacturers are interested and which is not likely to escape the eye of Tariff Reformers. On the other hand, India is in a specially strong position for imposing export duties on some of its raw products like jute, which it will send abroad to the value—pre-war rates—of perhaps £20,000,000 per annum. There is undoubtedly opportunity here for raising a considerable revenue, for easing the burdens of capital, for giving an artificial impetus to industry, for meeting the demands of nationalist economics and swadeshi.

Such a policy will provide some money for the Exchequer, but not nearly enough to meet the increased expenditure which India will have to face as the result of the programmes of representative Legislatures. It will not be to India's permanent advantage, and I am sure if the excessive influence

authorised to make in the name of his Majesty's Government as a far-reaching pronouncement of statesmanship and full of hope and promise, implying as it does the possibility, or I may even say the probability, of a broad reconsideration of the fiscal interests of India from a new angle of vision."

[1] Hansard, March 14th, 1917.

of the rich classes of Indians engaged in commerce were counterbalanced by the political activity of the common people, the Indian demands for a tariff, especially on cotton, would not be so conspicuous as they are. One thing is quite evident. A tariff will not re-establish the old hand industry of India nor help to revive village handicrafts. Factory and machine production, native to India itself, will throttle them as effectively as that of Lancashire and Birmingham has done in the past. Protection is asked for the Indian capitalist of Bombay, Ahmedabad, Calcutta, not for the artisan of the mofussil. Its one certain effect will be to increase the pace by which India is to become a great manufacturing nation, and it ought not to be granted without concurrent legislation protecting the wage-earners both in their factory and in their housing conditions. Whoever has visited the working-class districts of Bombay, with their squalid overcrowding, their filthy dens of disease, their insanitary puddles and stinks, will pause before welcoming or aiding any rapid strengthening of the economic influences which maintain them, until, at any rate, a public opinion and body of legislation have been created to protect the people whose labours will be necessary for the new factories. Social and labour legislation is so backward in India that any policy of rapid economic development can only enrich a few at the cost of the very lives of the masses. India ought to prepare itself by dealing with the human products of the factory system before the Government abandons itself to a policy whose sole object is to extend factories as though they were a sufficient end in themselves.

This policy of protection must therefore be considered in relation to the industrial development of India and its bearing on politics. To imagine the backward Indian labourers becoming a conscious regiment in a class war, seems to be one of the vainest dreams in which a Western mind can indulge. But I sometimes wonder if it be so very vain after all. In the first place, the development of factory industry in India has created a landless and homeless proletariat unmatched by the same economic class in any other capitalist community; and to imagine that this class is to be kept out, or can be kept out, of Indian politics is far more vain than to dream of its developing a politics on Western lines. Further than that, the wage-earners have shown a willingness to respond to Trade Union methods; they are forming industrial associations and have engaged in strikes; some of the social reform movements conducted by Indian intellectuals definitely try to establish Trade Unions and preach ideas familiar to us in connection with Trade Union propaganda. A capitalist fiscal policy will not only give this movement a great impetus as it did in Japan, but in India will not be able to suppress the movement, as was done in Japan, by legislation. As yet, the true proletarian type of wage-earner, uprooted from his village and broken away from the organisation of Indian society, is but insignificant. It is growing, however, and I believe that it will organise itself rapidly on the general lines of the proletarian classes of other capitalist countries. So soon as it becomes politically conscious, there are no other lines upon which it can organise itself; self-government will make it politically conscious; a capitalist fiscal policy will draw from it a programme and a policy which will reproduce amidst the wage-earning population of India all the features of what is known in Socialist quarters here as the class struggle, and will create, if it is not granted to begin with, effective representation on the Legislatures of proletarian opinion and deprive the capitalist and professional sections of a monopoly of power. To-day, economic political opinion concerns itself with tariffs; under self-government it will also concern itself with social reform.