

## CHAPTER XI

### FINANCIAL POLICY (*continued*)

#### II—THE LAND TAX

IN all discussions of Indian Revenue, the Land Tax has occupied a special place. The tax, like so many other features of Indian government, has a past dating long before the Company sent a servant to help it to make profits out of India. The grain heaps of the people had to pay tribute to the needs of the king, and the contribution was made in kind. Akbar levied it in cash; and during the last century, when British financial administrators were importing order and certainty into the Indian revenue, the method of fixing the land tribute was the subject of much consideration when every local custom was taken into account—by men, however, who unfortunately did not understand them.

To-day two methods are in force. One recognises the ownership of landlords—typified best in the Cornwallis settlement of Bengal, commonly known as the “Permanent Settlement”; the other proceeds upon the assumption that the land is State property for which the cultivator pays rent. The Land Tax of the former method is a true tax, though a most unscientific one; the Land Tax of the latter is not a tax at all, but a rent, and its amount is not the subject of legislative enactment like an Income Tax or a Customs Duty, but of valuation and arbitration.

When the Company became responsible for the administration of Bengal, the Land Tax was subject to an annual revision, no system of imposition was fixed, and the chaos and uncertainty were made greater by the fact that between

the Government and the people was a set of tax farmers who could impose their burdens pretty much as they wished. The Court of Directors determined to end this, and, going back to the Akbar method, decreed a ten years' settlement. When the period ended, Lord Cornwallis reported that the whole of the facts of the assessment had been ascertained, and that it would be best then to fix a perpetual and unvarying impost. That was done, the effect being that people who had been tax farmers became landowners, and cultivators who had been in reality landowners paying Crown dues became landlord tenants. The reason why this change, with all its unfortunate errors, was made was that Lord Cornwallis and his investigators knew next to nothing of the customs and systems with which they were dealing, and only understood the English land system with which most of them were directly connected. They read the Bengal position as though Bengal were Sussex or Yorkshire, and produced the "Permanent Settlement" and the Zemindar landowner. In time, the security of tenure which occupiers enjoyed under the Government was lost. They were exposed to the will and whim of landowners, and the condition of Bengal ryots and Bengal rents became such that a series of Land Acts had to be passed protecting the cultivator in the enjoyment of the soil and the reward of his labour, and undoing to some extent what Lord Cornwallis had done in his ignorance. Meanwhile, the revenue ceased to enjoy any part of the increasing rents, and the settled tax ceased to bear any relation to the capacity of the land to bear a share of the cost of government. The Bengal Zemindar became enormously wealthy on income which ought to have been kept by the State, and when the Income Tax was introduced he escaped it on the ground that his income was derived from the land and was presumably mulcted already by the tax which he paid. This system holds good in "about five-sixths of the present Province of Bengal,<sup>1</sup> one-eighth of Assam, one-tenth of the United

<sup>1</sup> Since then Bengal has been reportioned.

Provinces, and a quarter of Madras, representing in all about one-fifth of the area of British India.”<sup>1</sup>

Viewed from any standpoint except that of the perhaps privileged Zemindar, the Bengal system is unjust. It is, however, as I have said, in accord with the notions of our English landed governing class, and in 1862 the Secretary of State decided that it should be made universal in India. But the practical difficulties in the way were so great, the sacrifice of State rights and the handing over to private pockets as a gift what belonged to the Indian nation were so obvious, that a combination of simple justice and common sense thwarted the Secretary of State, and in 1883 Lord Kimberley declared against the extension of the Bengal system. Ever since then enlightened opinion has rejected it, and were it possible it should be undone. It is not now possible, but Zemindar incomes in “Permanent Settlement” districts ought to be subject to Income Tax.

There is another great objection to freeing the land of India and allowing it to be regarded as personal possession. The cultivator has always been the prey of the moneylender, and though the development of co-operative Credit Societies is reducing this evil rather substantially, it is still in existence. The history of the Punjab land legislation is an admirable illustration of how this works, though the case of the Deccan cultivators might equally well be cited.

When the Punjab was annexed, the lands were given back to the peasants and a very low Land Tax was fixed. But, largely owing to the rigidity of the annual payment and the happy-go-lucky disposition of the peasant—no doubt the product of generations of unsettlement—the moneylender had to come in to help over the lean years. His grip tightened year by year, until, in 1894, when an inquiry was held in one district, 20 per cent. of the cultivated areas had either been sold or was seriously encumbered with debt, and in other districts the percentage was even higher. Between

<sup>1</sup> *Imperial Gazetteer*, vol. iv. p. 229.

1892 and 1896, over 50,000 acres had been sold to money-lenders and as much to non-peasant purchasers, and these sales had grown to 120,000 acres in 1899-1900, whilst nearly 300,000 acres were under mortgage. Thus the agricultural basis of the Punjab was being undermined. To accelerate this, the moneylender was adopting various slim devices such as that of "conditional sale," by which he became possessor of the mortgaged land were interest not paid within a specified time. The conditions of the loans were in most cases extortionate to the highest degree, and could not possibly be fulfilled. But the Courts enforced them until public opinion was roused and the Government had to decide, in 1900, to prevent the sale of agriculturalists' land to non-agriculturalists. Into the merits of the law I do not enter; upon the extraordinary agitation against it I make no reflections. I draw attention to the fact that land in India enfranchised from Government control tends to pass into the hands of money-lenders, lawyers, non-agriculturalists, or to become so weighted by mortgages that the cultivator sinks to slavery, and I put that down as the explanation of how widely spread in certain classes is a demand for a landlord system and an opposition to land legislation. On the other hand, the Government no doubt has its own selfish ends to promote. But whoever speaks in the interest of the cultivator, whatever his views may be upon the weight of the land tax, will not propose to alter the system of land tenure or leave the cultivator exposed to moneylenders and forced sales.

Under the system of temporary settlement the tax is usually fixed for a period which may be as much as thirty years, with variations in the payments should crop conditions necessitate abatements.<sup>1</sup> The cultivator is then a permanent tenant of the Crown and his right of occupancy is both heritable and transferable.

The assessment requires a careful cadastral survey, and a

<sup>1</sup> As the system of assessment gets more complete, seasonal variations in the impost become more practicable and in fact more common.

map is kept in each village showing in detail the extent and boundary of each field. A list is also kept of those who have rights over each field, indicating the person responsible for paying the tax and containing in some provinces, such as Burma, the most complete information regarding tenures, rights, and mortgages. This record has to be constantly kept up to date.

The proportion of produce taken varies. Obviously where irrigation is efficient the proportion is higher than where it is not, for the rent of fertile lands is not only higher than that of poor soil, but represents a higher percentage of the yield. In estimating the tax which the land ought to bear, not only is the cost of cultivation taken into account, but that of marketing, the productivity of the soil, the effect of existing settlements, the value of tenants' improvements, the character of the seasons, and so on, and it is upon the net value thus arrived at that the tax proportion is fixed. Throughout the whole of last century there has been a steady lowering of the proportion of the net product taken. Thus in Orissa in 1822, 83·3 per cent. was taken; in 1833 it fell to 70–75 per cent.; in 1840 to 65; in 1916 it was 54.<sup>1</sup> Fifty per cent. may be taken to be the general rule. A mathematical standard is the basis, but it is, or ought to be, applied with "judgment and sound discretion." Schemes are also in operation preventing sudden increases as would take place upon reassessment after a long period of years when the value of productivity is increasing.

The sums levied in this way appear to be colossal, but the principle is sound, and its apparent oppressiveness disappears when the real economic nature of the impost is understood. It represents precisely what land reformers in this country and elsewhere are now endeavouring to persuade our governments to institute, not because they wish to oppress the cultivator, but because they wish to help him, and because they believe that they can prove that a system of private ownership of

<sup>1</sup> *Imperial Gazetteer*, vol. iv. p. 221.

rents is bad for tenants and evil for the State. It provides revenue which, if justly assessed, does not enhance prices nor affect the standard of living. The same amount of revenue raised in any other way would add to the poverty of the people.

In any event this is clear. The "permanent settlement" of Bengal and elsewhere was unjust to the general Indian tax-payer and was no benefit to the cultivator as such. The condition of things which compelled the Government to pass the Bengal Tenancy Acts, in order to save the ryot from robbery and ruin, are an unanswerable argument against those who wish us to believe that the Land Tax is the cause of the poverty of the Indian cultivator. A rack rent is an oppressive rent, but a true rent is not oppressive, and it had always better be a State revenue than a private income.

Indian Nationalist opinion has never taken kindly to this rent tax, and if it had a chance it would probably try to modify it. The motive for this is complicated, and self- and class-interest are not altogether absent. But apart from that, the tax, when considered erroneously and simply as a tax, does look oppressive, and in a complete indictment of British administration and exploitation it does look formidable. I defend it stoutly in principle, but I think it has been raised too often oppressively, and that is where the Nationalist attack cannot be rebutted. The error lies here. In theory, the tax is a rent; in practice, a rent should be fixed on an open market by competition between competitors of a decent standard of living and in relation to the amount, above that standard, the land competed for will yield; in other words, it should be assessed with that standard as its first charge. The habit of the Government, very often under the pressure of an all too limited exchequer, has been to exact from the cultivator the uttermost farthing, over and above a standard of life which has been much too low. In theory again, the annual fixed revenue was supposed to be an average in which both good and bad years were computed; but whilst this

assumed that the cultivator would average his own annual expenditure, as a matter of fact he did not do so, and in bad years he did not go to his savings, but to the moneylender. Over-assessment and the rigidity of the payments, therefore, have undoubtedly tended to impoverish the people, and a system of revenue collection thoroughly 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. The Government has only illustrated the dictum that the owner of rents tends to become the possessor of rack rents, and in this respect India shows results remarkably similar to those of Ireland. The power to exact rent has been used in both countries to keep down standards of living, and the ryot and the cottar have been doomed to illustrate how economic law is no respecter of persons. The Punjab and Connemara have been suffering from the same disease. The Indian Government and Irish absentee landlords have been proving that there are no races and creeds in economic law.

Against two forms of complaint we must be specially wary. We hear much of the excessive "taxation" of India, and we are frequently asked to condemn the way in which the Land Tax is levied because its total yield steadily increases. The substance of both complaints needs to be critically scrutinised.

Taxation averages are always misleading, and in the case of India, as I have already shown, large sums which are really rent (probably £21,000,000 out of a total of £54,855,000) are included in what is called Indian "taxation." Again, a Land Revenue yield, as it is a rent, ought to increase automatically as cultivation widens and improves. If, in this country, a proportion of rent had found its way regularly into the Treasury, an increase in the yield year by year would have been a measure of national prosperity, not of excessive Government imposts. The real point of attack upon the levy of the Land Revenue is not that it exists, but that it is more than a fair rent and that it has been levied in such a way as to prevent a steady

heightening of the standards of life which would have tended to absorb a part of the increasing productivity into the wages and salaries of cultivators.

It is often said, and as a statement of historical fact it is true, that our destruction of social custom in India by the imposition of Western legal methods marked the beginning of a new severity of oppression on the part of moneylenders, lawyers, and other classes useful within well-defined limits, but predatory when they overpass those limits. It was alleged, for instance, during the agitation against the Punjab Land Bill, that the banya, as the beast of prey, was created by English methods. We destroyed the old psychology and relationships, and we put in their place the new legal relations between man and man ; we destroyed the community and put in its place the law. So, it is argued that if we had some kind of Permanent Settlement of the Land Tax, the moneylender and the lawyer will return to their old functions. That will never happen again. The change has taken place, and the only way to meet its evils is to carry the system to its logical conclusion with the appropriate legal safeguards under whose shelter a new moral and commercial relationship will grow up. So, if, as regards the Land Revenue, self-government were to follow the lines of Nationalism in opposition (a consistency which the history of political parties shows to be anything but inevitable), India would be put more completely than ever under the hand of the exploiter, and the Indian cultivator would be turned more rapidly than ever into a landless man driven into the plague-infested chawls of Bombay and Calcutta and compelled to swell the ranks of a proletariat whose industrial conditions cannot be matched for evil amongst the most miserable wage-earners in any quarter of the globe.

This, however, must be said in extenuation of the attitude which some of the leading Nationalists have taken up on this question. The details of the Bills proposed have often been bad—those of the Punjab Bill certainly were ; they all em-



bodied ideas of social relationship alien to the Indian mind ; they were the proposals of Governments who were held responsible for the evils they proposed to cure. If the Nationalists' opposition has been tinged with some shade of class and personal interest, some desire to leave the land and the cultivator open to capture, it is to be hoped that when they have to settle with themselves the moral obligations of responsibility in a way they have not yet had to do, nothing but the sternest considerations of public policy will determine their decisions, and that they will regard consistency as all honest men do—as a very valuable possession, but not quite so valuable as to be bought by the sacrifice of justice.

If the financial policy of self-government would make the Land Revenue a real rent on the principles I have indicated, it would be all to the good ; if it is to set up a new claim to proprietorship it will be all to the bad. The following points may be stated categorically as they indicate the policy which ought to be pursued :

1. The Permanent Settlement typified in Bengal was wrong not only politically, but economically, because it was neither a State rent nor had it the advantages of a flexible tax.
2. The periodic valuation of land for the purpose of fixing a State rent-tax is sound economically, because it aims at securing for the State values which have not been created by the labour of the cultivator. The tax, however, should never exceed an economic rent.
3. Whilst mistaken impositions may impoverish the cultivator, that is not a necessary consequence of the Land Tax ; and the cultivator is more impoverished under the Bengal system unless it is guarded by a code of land legislation, and even then his economic position as a tenant is not so good as it is when he is an occupier under the State.
4. The Land Tax requires elasticity of imposition and its changes should be gradual.
5. Irrigation justifies a larger percentage of the net produce being taken, because it is not what is taken, but what

is left, which determines whether the cultivator is justly done by.

6. The gross yield of the Land Tax ought to increase as the agricultural prosperity of India advances, and as prices rise.

7. The economic condition of India is such that rent paid into the public funds is necessary unless taxation of an oppressive kind is to be imposed on consumers and paid from the incomes (in the form of high prices) of the very poorest grades of the people.