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A HISTORY OF INDIAN TAXATION

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A HISTORY OF

INDIAN TAXATION

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BY

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देवकुमारेर करकमलोद्देशे

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PREFACE

Some aspects of the question of taxation have been dealt with in the treatises which have in recent years been written on Indian finance. But no book has yet been published in which the history of Indian taxation has been systematically treated. In the present work an attempt has been made to give a connected historical review of the taxes which are at present levied or have at one time or other been levied since the commencement of British rule in this country. Particular stress has been laid on the policy underlying the imposition of each tax and its effect on the taxpayer and the community in general. For this purpose, and also in view of the attention which the principles of Indian taxation are likely to attract in the near future, it has been considered desirable to describe in considerable detail the discussions which took place at the time of introduction, modification, or abolition of the more important among the Indian taxes. Local taxes have not been included in this volume because the author desires to bring out a separate work on the subject.

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Calcutta, Jan. 2, 1930.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

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CONTENTS

CHAPTER I

SOME FEATURES OF INDIAN TAXATION - - - 1

CHAPTER II

LICENSE-TAXES - - - - - - - - - 38

CHAPTER III

INCOME-TAX - - - - - - - - - - 77

CHAPTER IV

CUSTOMS - - - - - - - - - - - 161

CHAPTER V

SALT - - - - - - - - - - - - 249

CHAPTER VI

OPIUM - - - - - - - - - - - 314

CHAPTER VII

LAND REVENUE - - - - - - - - 355

CHAPTER VIII

EXCISE - - - - - - - - - - - 470

CHAPTER IX

MINOR TAXES - - - - - - - - - 499

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GSL

CHAPTER I

SOME FEATURES OF INDIAN TAXATION

THE past lives in the present and will largely shape the future. The history of Indian taxation is, for this reason, a subject of great interest, for it not merely explains the existing tax-system of the country, but is likely to offer considerable guidance for future reforms. But before we describe in detail the history of the different taxes which are or have been levied in India during the British period of her history, it will perhaps be useful to make a few observations on some of the general features of Indian taxation.

The first subject which claims our attention in this regard is the object of taxation. In India, as in other countries, the main object which is kept in view in the imposition of taxes is the provision of funds to enable the State to perform its duties. But these duties have varied in different countries and at different periods. In India, until recently, a comparatively narrow conception of the functions of the State prevailed. The defence of the country against foreign aggression, the maintenance of internal order, and the acquisition of fresh

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
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territories were the only matters which fell within the sphere of State activity in the early days of the East India Company's rule. It was not until a much later date that sanitation, public works, and education began to engage the attention of the Government, and even then to a very inadequate extent. Social reform is not yet considered in India to be one of the duties of the State.

Besides the fiscal object, the power of imposing taxation is often utilised for the furtherance of other objects,—social, economic, moral, or political. Some economists are of opinion that taxation is one of the eligible methods by which inequalities in wealth may be removed or at least reduced. Such a view has never been accepted in India. In fact, some of the officers of the Government here have, on different occasions, expressly repudiated the suggestion of any sympathy with socialistic doctrines of taxation. For instance, Mr. James Wilson, the first Finance Member of the Government of India, observed: "The lot of men is fixed by thousands of inscrutable causes, and if a Government were to attempt to produce an equality by distributing the incidence of taxation, it would undertake a task, the end of which must be confusion and disappointment to all concerned. No, Sir, it is our duty to adjust our taxes upon a clear and general principle with as much equality as possible, and then to leave to their full and free course all those general principles of

GSL

competition and other elements which determine the lot of men."[1] So also, Mr. Samuel Laing, the successor of Mr. Wilson in the office of Finance Member, when defending his proposal to exclude persons with incomes between Rs. 200 and Rs. 500 from the operation of the Income-tax Bill, said: "I do not put the case for the exemption of these persons on the ground that they are poor, for I have no sympathy with the socialist legislation which would place taxation exclusively on the rich. On the contrary, I believe the poor, as well as the rich, and often even more than the rich, are interested in the support of the State and the maintenance of social order."[2] It is not improbable, however, that with the extension of the franchise and the growth of popular goverment, ideas which are associated with socialist thought will in future influence the Indian tax-system to a greater or less extent.

The encouragement of indigenous industries is another consideration which often influences the taxation policies of many countries. In the early years of British rule in India, the tariff policy of the country was so directed as to foster British industry at the expense of the Indian manufactured products. At a later period, the system of free trade was imposed upon India for purposes

[1] *Proceedings of the Legislative Council of India, 1860.*
[2] *Financial Statement, 1862.*

GSL

other than her own. The farthest limits of this policy were reached when in the eighties of the last century even the customs duties levied for revenue purposes were swept away. In 1910, the financial necessities of the Government compelled it to increase the import duties on certain articles. But the Finance Member not only disclaimed the slightest inclination towards a protective tariff, but expressed the hope that he would not be "charged with framing a *swadeshi* budget." The exigencies of the great European War, however, completely changed the situation; and a policy of discriminating protection originating in financial pressure has now been deliberately adopted to satisfy the popular demand.

Promotion of morality is one of the subsidiary objects sometimes kept in view in some countries. For a long time past, the opium policy of India has been criticised by philanthropists on the ground that the moral aspect of the question had been ignored. But the Government of India has always sought to justify its own action on various grounds. Mr. Samuel Laing declared in 1862 that at the bottom of the opium revenue there was one of those great natural instincts of a large population upon which the English Chancellors of the Exchequer confidently relied for half their revenue. He even blessed the smoking of opium, for he observed: "The Chinese, whose greatest deficiency, as shown by the whole history, religion and literature of the race, is

GSL

in the imaginative faculties, resorts to that which stimulates his imagination and makes his sluggish brain see visions and dream dreams. Be this as it may, the fact is certain that, under all circumstances and in all climates, as the Englishman is a drinker of beer, so is the Chinaman a smoker of opium."[1] About twenty years later, the attitude of the Government of India towards the question was made clear by the then Finance Member, Mr. Evelyn Baring (afterwards Lord Cromer), in these words: "There are two aspects of the question from the point of view of public morality. If, on the one hand, it be urged that it is immoral to obtain a revenue from the use of opium amongst a section of the Chinese community, on the other, it may be replied that to tax the poorer classes in India in order to benefit China, would be a cruel injustice."[2] In recent years, however, a more enlightened policy has been adopted by the Government in this regard; and although the controversy has not yet been finally set at rest, it may be said to be on a fair way to a proper solution.

The excise policy of the Government has always been severely condemned by the public opinion of the country. In regard to this question, the standpoint of the Government of India was declared in 1905, when it was observed that the Government

[1] *Proceedings of the Legislative Council of the Governor-General, 1862.*
[2] *Financial Statement, 1882.*

GSL

did not desire to interfere with those who used alcohol in moderation, but their settled policy was to minimise the temptation for those who did not drink and to discourage excess amongst those who did. The most effective way of forwarding this policy was, in their opinion, to make the tax upon liquor as high as possible without stimulating excessive sale and production and without driving people to substitute for alcohol a more baneful form of liquor.[1] Since the advent of the Reforms, however, a considerable change has taken place in the situation. Resolutions have been adopted by some of the legislative councils urging the Government to accept prohibition as the goal of its excise policy, while the popular Ministers in every province are seriously considering the means by which the question may be settled to the satisfaction of all.

The question of Imperial Preference, which is partly economic and partly political, has, on many occasions, come up for consideration in India. But a policy of this sort has never found favour with the public in this country. Early in the present century, the Government of India declared itself definitely against Imperial Preference. A system of preferential duties was, however, introduced in an indirect way in 1919, when a rebate was granted in respect of the duty on leather in the case of exports to Great Britain and other parts of the

[1] *Resolution dated the 7th September, 1905.*

GSL

British Empire. This policy produced unfortunate results and had to be reconsidered. But a similar step has recently been taken in connexion with the grant of protection to the steel industry.

One of the features of the Indian tax-system, which distinguishes it from the system of unitary governments and brings it in some degree into line with those of federations, is that there are here three categories of taxation, namely, central, provincial, and local. The produce of taxes goes into different coffers and is spent by the authorities concerned for their own special objects. The present system, however, is the result of a long course of development. During the first seventy years of British rule, the tax-systems of the Presidencies of Bengal, Madras, and Bombay were practically independent of one another. The Presidency Governments levied their own taxes, subject to the control of the Court of Directors and the India Board. From 1834 to the early sixties, taxation in India was almost exclusively central. It was soon after the assumption of the direct administration of India by the crown that a system of local taxation began to be developed in a systematic form. The decentralisation scheme of 1870 led to the exercise by the Provincial Governments of the power to levy taxes for provincial purposes. Provincial taxation in India had its origin in the need for giving relief to the central exchequer;

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

local taxation, though it originated in the desire to meet local requirements out of local resources, received a great impetus from the same cause. In 1920, a separation was made between the resources of the Central and Provincial Governments. The provinces were given authority to deal with certain provincial taxes independently of the control of the Government of India,[1] while the right to legislate in regard to all central taxes and some provincial taxes continued to be vested in the central legislature. The problem of the present moment is how to apportion correctly the resources of the country between the Central Government and the Provincial Governments on the one hand, and between the Provincial Governments and the local bodies on the other.

[1] Under the Scheduled Taxes Rules, the legislative council of a province may, without the previous sanction of the Governor-General, make any law for imposing, for the purpose of the Provincial Government, any of the following taxes:—(i) A tax on land put to uses other than agricultural; (ii) a tax on succession or acquisition by survivorship in a joint family; (iii) a tax on betting or gambling permitted by law; (iv) a tax on advertisements; (v) a tax on amusements; (vi) a tax on any specified luxury; (vii) a registration fee; (viii) a stamp-duty other than duties of which the amount is fixed by Indian legislation.

The legislative council of a province may also, without the previous sanction of the Governor-General, make any law imposing, or authorising any local authority to impose, for the purposes of such local authority, any of the following taxes:—(i) A toll; (ii) a tax on land or land values; (iii) a tax on buildings; (iv) a tax on vehicles or boats; (v) a tax on animals; (vi) a tax on menials or domestic servants; (vii) an octroi; (viii) a terminal tax on goods imported into or exported from a local area, save where such tax is first imposed in a local area in which an octroi was not levied on or before the 6th July, 1917; (ix) a tax on trades, professions and callings; (x) a tax on private markets; (xi) a tax imposed in return for services rendered, such as—(*a*) a water rate, (*b*) a lighting rate, (*c*) a scavenging, sanitary or sewage rate, (*d*) a drainage tax, (*e*) fees for the use of markets and other public conveniences.

The Governor-General in Council may, at any time, make an addition to either of the lists of taxes.

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This brings us to the question of the authority under which taxation is levied. The imposition of most of the taxes requires legislative sanction, while in a few cases executive action is sufficient. The land tax was inherited by the British Government from its predecessors, and legislative provision was not found necessary to authorise its collection. The system of permanent settlements which fixed the land revenue assessment in Bengal, Behar, and some parts of Madras and of the Agra province, was established by Regulations of the executive administration. The periodical assessments of land revenue in the rest of the country were also, until recently, made by executive authority, though the principles of settlement procedure were governed by legislative enactments in some of the provinces. In 1920, the Parliamentary Joint Committee expressed the opinion that it would be desirable to have the rate of assessment and other important questions relating to periodical settlements determined by legislative enactment. Since then, the question has engaged the attention of the Provincial Governments, and in two provinces legislative measures have already been placed on the statute-book.

In some cases, the executive government is given power by the legislature to impose, or to vary the rate of, a tax. The Sea Customs Act, for instance, authorises the Governor-General in Council to fix tariff values and to exempt goods from pay-

GSL

ment of customs duties.[1] Similarly, the Indian Salt Act enables the Governor-General in Council to raise or lower the rates of salt duty within certain limits laid down by the Act. In like manner, registration fees may be altered by the Provincial Governments without the intervention of the legislative councils.

A few words may be said here about the procedure adopted in the matter of tax legislation. The existing procedure in the central legislature[2] is as follows: No taxation bill can be introduced except with the sanction of the Governor-General. According to the strict letter of the law, a taxation bill may be introduced in either chamber, but the convention seems to have been established that the Legislative Assembly is the body to be first approached in a matter of this sort. A taxation bill, like any other bill, must be passed by both the chambers. In case of a difference of opinion, the Governor-General may refer the matter for decision to a joint sitting of the two chambers.[3] Where

[1] *Sections 22 and 23.*

[2] The constitution and functions of the central legislature of India have undergone many changes since the inception in 1833 of a council for the purpose of law-making. By successive amendments made in 1853, 1861, 1892, 1909 and 1919, the present legislature has been evolved. It now consists of two chambers, namely, the Legislative Assembly and the Council of State. The former may be regarded as the popular chamber, as it has a larger elective element. The central legislature of India is a non-sovereign law-making body, and there are various restrictions on its powers; but, within the limits laid down by the Act of Parliament and the rules framed thereunder, its powers are plenary.

[3] The rules and standing orders also provide for joint conferences and joint committees of the two chambers in order to overcome deadlocks. Messages may also be sent from one chamber to the other.

GSL

either chamber of the Indian legislature refuses leave to introduce, or fails to pass in a form recommended by the Governor-General, any bill, the Governor-General may certify that the passage of the bill is essential for the safety, tranquillity, or interests of British India, and thereupon the bill becomes an Act on signature by the Governor-General. Like any other bill, a taxation bill is subject to disallowance by the Crown. Until 1920, it was the practice to bring forward separate bills for the different taxation proposals of the Government. But since the inauguration of the Reforms, a different procedure has been in vogue. All the taxation measures of the year are now-a-days embodied in a Finance Bill and presented to the legislature at the time of the annual budget.

A provincial legislature[1] has not the power, without the previous sanction of the Governor-General, to pass any law imposing or authorising the imposition of any new tax unless it is a tax which is covered by one of the schedules of the Scheduled Taxes Rules. Nor has it the power to

[1] Till the year 1833, the Presidency Governments of Bengal, Madras, and Bombay possessed the power to frame Regulations. These Regulations had the force of law. But by the Charter Act of 1833 the legislative power was centralised in the Governor-General in Council. The Indian Councils Act of 1861, however, re-established legislative councils in the provinces. In 1892, these councils were expanded in size, and their functions were slightly extended. In 1909, the constitution and functions of the provincial legislative councils were further enlarged. By the Government of India Act, 1919, the councils were placed on a largely elective basis, and some measure of responsible government was established in the provinces.

GSL

make any law affecting the customs duties or any other tax or duty for the time being in force and imposed by the authority of the Governor-General in Council for the general purposes of the Government of India. No measure relating to the taxes or revenues of a province may be introduced without the previous sanction of the Governor. The procedure in the legislative council is the same in the case of a taxation bill as in that of any other bill. The Governor may exercise his affirmative power of legislation by certification, unless a taxation bill relates to a transferred subject. A provincial taxation bill requires a double assent, namely, the assent of the Governor-General, in addition to that of the Governor, and is subject to the veto of the Crown. Local taxation is now levied under the authority of the legislative councils of the provinces.

It may be observed in this connexion that only a portion—though a very large portion—of the total resources of the State is provided by means of taxation. The non-tax revenues supply the remainder of the income. Of the non-tax resources of the Central Government, net receipts from railways and tributes from Indian States[1] are the most important. Posts and telegraphs, at one time, yielded a net income to the State, but they have now ceased to be revenue-earning departments. In the pro-

[1] The position of opium is somewhat anomalous.

GSL

vinces, the chief sources of non-tax revenue are forests, fisheries, and irrigation.

The extent to which it is desirable to have resort to taxation in any country depends upon two considerations, namely, first, the expenditure needed for carrying on the functions of the Government, and, second, the taxable capacity of the people. Both these considerations are of equal importance, and the neglect of either may lead to undesirable consequences. In India, military expenditure absorbs an exceedingly large share of the revenues of the Central Government, while the cost of the ordinary routine work of civil administration is fixed on a scale far too high for a poor country like India to bear. Sir William Hunter pointed out many years ago the difficulty of maintaining a European standard of administration out of an Asiatic scale of revenues. The result of an arrangement of this sort is that, after meeting what is regarded by the Government as essential expenditure, very little is left for activities conducive to the maintenance of the health and strength of the people or the improvement of their material and moral condition.

The taxable capacity of a people is judged by its wealth and income. But no serious attempt has yet been made to calculate the national wealth or income of India. It is true that estimates have been made by various Government officers and

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

private individuals[1] at different times, but none of them seem to have been based on reliable data. It is admitted, however, by all that the average income in India is small. This fact sets a definite limit to the amount of revenue which can be raised in the country by means of taxation. In 1868, Sir Richard Temple, the Finance Member, observed that in India there was "not nearly so large a margin to work upon as in England." Sir William Hunter observed in 1880 : "Men must have enough to live upon before they can pay taxes. The revenue-yielding powers of a nation are regulated, not by its mere numbers, but by the margin between its national earnings and its requirements for subsistence. It is because this margin is so great in England that the English are the most taxable people in the world. It is because this margin is so small in India that any increase in the revenue involves serious difficulties."

The level of taxation in India has risen largely since Sir William Hunter made these observations, but it is difficult to say whether there has ensued a proportionate improvement in the material

[1] Estimates of *per capita* income in India have been made at different times by, among others, Mr. Dadabhai Naoroji (1871), the Famine Commission of 1878, Mr. William Digby in his *Prosperous British India* (1901), Lord Curzon (1901), and Mr. Findlay Shirras in his *Science of Public Finance* (1925). In more recent years, several other writers have also attempted to estimate the wealth and income of the people of the country.

GSL

condition of the people during this period.[1] In the early years of the present century, Lord George Hamilton, then Secretary of State for India, observed that India was "poor, very poor". The late Mr. G. K. Gokhale, one of the ablest of Indian statesmen, remarked with reference to this observation that not only was India very poor, but that the bulk of its population was daily growing poorer under the play of the economic forces which had been brought into existence by British rule.[2] There are many politicians and economists who hold the same view even at the present day. On the other hand, not a few officers of the Government appear to entertain the opinion that India is making rapid strides on the road to wealth and prosperity.

Closely connected with the question of taxable capacity is that of the burden of taxation. We often come across certain figures in the official publications which purport to show the incidence of taxation on the people of India as a whole or the incidence of certain taxes upon those who pay them. But the data on which these calculations are based are hardly reliable. And even if we assume the correctness of the statistical material, the estimates

[1] The majority of the members of the Indian Economic Enquiry Committee recommend that an enquiry should be made into the economic condition of the people. But Prof. Burnett-Hurst, one of the members, thinks that estimates of national wealth and national income, whether aggregate or *per capita*, would be subject to so many qualifications and limitations that they would not throw light upon the economic condition of the various classes.

[2] *Debate in the Legislative Council of the Governor-General, 1902.*

can hardly be said to throw much light upon the question of the real burden on the people. The Taxation Enquiry Committee, after emphasising the difficulties of estimating incidence of taxation and pointing out the limited value of figures of averages, arrive at certain conclusions[1] relating to some typical classes.[2] This question, together with the question of average income and taxable capacity, ought to be fully investigated. Meantime, few will deny that "the poverty of the people lies at the root of the poverty of the Indian Government". A substantial enlargement of the tax-revenues of the Government

[1] The Taxation Enquiry Committee base their conclusions "upon such general knowledge of the comparative incomes and standards of living of classes of the population and such general considerations as to the desirability or the reverse of particular taxes from the point of view of their incidence on particular classes as are available to them". *Report, ch. xiv.*

[2] Their main conclusions may be summarised as follows: The duty on salt and the customs duties fall, generally speaking, on the whole of India including the Indian States. The burden of taxation on the poorest class, corrected with reference to the price index, has on the whole increased since the beginning of the European War, mainly owing to the increase or new imposition of custom duties on articles of universal consumption. Customs and salt, as well as municipal octroi, press very heavily upon the urban labourers. It is estimated that the incidence of central, provincial, and local taxation per head on this class has become nearly double since 1911-14. The position of the landless agricultural labourers is somewhat different from that of the urban labourers in that they receive lower wages, but consume less imported or excisable goods. They are free of municipal taxes but pay capitation or apportioned taxes in some provinces. The average incidence has, in this case also, increased by 100 per cent. The number of small holders of lands is very large. The lot of this class of persons is a very hard one. They pay, in addition to the land revenue and the cesses, the same taxes as the daily labourers. The condition of peasant proprietors with substantial holdings is much better. The land revenue, being imposed at a flat rate, takes a smaller proportion of their surplus than it does of the small holders. The tax burden on the majority of large landholders rests more lightly than on other classes, and some addition to it is not likely to prove unjust. While general prices have increased by over 100 per cent., the land revenue has increased by only 20 per cent., and the road cess to a very small extent. The village traders escape with a

GSL

can take place only if there is a considerable improvement in the economic condition of the people.

A problem which has sometimes agitated the minds of publicists and financial experts in India is that of uniformity *versus* diversity in taxation. Considerable differences existed in the methods of taxation of the three Presidencies of Bengal, Madras, and Bombay during the early period of the Company's rule. But with the establishment of a centralised form of administration, the tendency was reversed, and it was accepted as a necessary condition of this system that all taxation should be uniformly and universally applicable to the whole of India. Some administrators protested against such uniformity in view of its practical difficulties. Another objection to uniform taxation was the possible danger involved in a sympathetic combination of all communities in India in opposing the Government on one particular question. Colonel (afterwards Lt.-General) Chesney expressed the view in 1868 that no tax that could be named was suitable to the conditions of the whole country, and urged a radical

light share of taxation, but the burden on the small traders in towns is a little heavier. The larger traders in towns generally bear a light burden. The big merchants in the cities have borne the brunt of the new burdens that have been imposed since the War. But even then, their burden is not heavy as compared with the burden on similar classes in other countries. The lower professional class has suffered since the War, more by reason of its comparatively high standard of living and of the fact that its earnings have not kept pace with the rise in prices, than on account of any increase in the incidence of taxation. The contribution of this class to the general taxation of the country is not large. The members of the professional classes of the higher grades pay the same taxes and enjoy the same standard of living as the big merchants. *Report, ch. xiv.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

change in the method of taxation "involving the abandonment of the idea of taxation of universal application and the encouragement of the greatest possible diversity of imposts, adapted to the diverse conditions of the different peoples of India"[1]. Colonel Chesney's objections were perhaps valid at the time they were made, but even then only partially. He, however, overlooked the other side of the case. In 1877-78, some of the Provincial Governments were allowed to levy their own license-taxes. But the differences in the rates and methods of imposition led to such an unsatisfactory state of things that, a few years later, it was considered expedient to pass an amending all-India Act in order to introduce some measure of uniformity. The question thus is not free from difficulty. The best solution of the problem is to be found in an arrangement in which central taxation is uniform, but provincial and local taxation is made to conform to special needs and conditions.

The Indian tax-system is based more on considerations of a practical nature than on any ideas of theoretical perfection. Occasionally, however, we find high officers of the Government discussing financial principles. In 1860, for instance, Mr. James Wilson observed in the course of his budget statement: "In proposing these measures there are three great principles which have guided the

[1] Chesney, *Indian Polity*.

GSL

Government in their adoption;—the first is that whatever measures are proposed, they shall at least be based upon perfect equality and justice to every class of the community, alike natives and Europeans, alike official and non-official; the next is that they shall be in conformity with sound financial and commercial policy; and the last is that in this as in all other matters in the Government of India, we will scrupulously endeavour to avoid anything that would offend the religious views and rights of our native fellow-subjects."[1]

The so-called canons of taxation[2] were never formally accepted by the Government of India; but some of them have been, either unconsciously or with a deliberate purpose, followed in practice. The great weakness of the tax-system of the earlier period of British rule was that little effort was made to attain the ideal of justice. So long as an impost did not create discontent or fail to bring sufficient revenue into the coffers of the Government, it was considered an eligible tax, no matter how objectionable its real nature might be. In fact, the taxation of the Company was through-

[1] *Financial Statement, 1860-61.*

[2] These canons have been adversely criticised by some economists, while others have attempted to substitute sets of maxims somewhat different from those laid down by Adam Smith.

A recent writer suggests the following principles of taxation: (1) The *fundamental* or economic principle is economy. (2) The *ethical* principle is justice or equity. (3) The *political* principle is conscious citizenship. (4) The *administrative* principles are: productivity; certainty; uniformity, convenience, generality. *Vide* Jones, *Taxation: Yesterday and Tomorrow.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

out extremely partial in its incidence, for while heavy burdens were placed on the poor cultivators and the small artisans, the rich landowners and well-to-do merchants contributed little to the resources of the State. It is true that, towards the end of the Company's rule, some of the vexatious imposts were abolished; but this was done, not because they were unjust, but because they interfered with the trade of the country. After the assumption of the direct administration of India by the Crown, the first Finance Member of India remarked that the financial policy of the Government stood upon "the firm and immovable basis of strict equality to all alike." The intention was no doubt there, but it was difficult to translate it into action.

It was as early as 1789 that Lord Cornwallis professed his adherence to the maxim "that all who enjoy the protection of the State should pay for it in accordance with their means." But the principle of ability did not obtain practical recognition till the outbreak of the European War, when the financial distress of the Government compelled it to adopt a method of graduation in the income-tax. No attempt has, however, yet been made to apply the principle of ability to the entire tax-system. There was a time when Adam Smith's second canon was almost entirely ignored. Originally, the land-tax and some of the other taxes were fixed for short periods, and sometimes even varied from year to year; while

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

the assessments depended almost wholly on the discretion of the subordinate officers. Although arbitrariness and uncertainty in the levy of taxes have now substantially diminished, there is still considerable room for improvement, specially in the administration of the land revenue, the income-tax, and customs. In no country of the world has it been found very easy to satisfy the third canon laid down by the great economist, and it is no wonder that in India the convenience of the tax-payer is not always consulted in the levy of taxes. As for the fourth canon, the expenses of collection are rather large, and cases of extortion and smuggling are not infrequent. But as a fairly high standard of honesty is maintained among the officers responsible for the management of taxes, the amount of leakage is not very great. The canon of economy may thus be said to be satisfied in a reasonable measure.

Although the earlier administrators did not trouble themselves over-much with questions relating to theories of taxation, the value of general principles is now being gradually recognised. In 1924, a Committee was appointed by the Government of India, with wide terms of reference.[1] Their task

[1] The terms of reference to the Committee were the following: (1) To examine the manner in which the burden of taxation is distributed at present between the different classes of the population; (2) To consider whether the whole scheme of taxation—Central, Provincial and Local—is equitable and in accordance with economic principles, and if not, in what respects it is defective; (3) To report on the suitability of alternative sources of taxation; (4) To advise as to the machinery required for the imposition, assessment and collection of taxes, old and

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

was a difficult one, and the Report submitted by the Committee in 1925 was criticised from various points of view. A few of their recommendations have been given effect to, while some others are now under consideration.

Complaints are sometimes heard about the rigidity of the British system of taxation in India. It is pointed out by some well-meaning persons that the pre-British system of taxation, particularly of the land, was more flexible. About half a century ago, this question was discussed at considerable length. A suggestion was made at the time that the cost of administration should be calculated over a period of twenty years, and that taxation should be so adjusted as to allow the annual collections to fluctuate according to the harvests, relaxing, when necessary, the demand for individual years and spreading the deficit over the whole period. But there were two serious objections to the proposal. In the first place, the taxpayer would never know exactly how much he would have to pay in any year, with the inevitable result that the collection of revenue would resolve itself into an annual wrangle between the Government officers and the people. Secondly, while the revenue demand would vary, the expenditure would

new; (5) To prepare rough estimates of the financial effects of the proposals; (6) To include in the enquiry consideration of the land revenue only so far as is necessary for a comprehensive survey of existing conditions."

GSL

remain constant, thus leading to serious practical difficulties.[1] A general system of relaxation was thus found impracticable. But whether or not a postponement of the collection of a tax in special circumstances is practicable is a matter which deserves consideration. Remissions and suspensions of the land revenue are permitted on occasions of harvest failure. But if the principle be extended to other taxes, there is the likelihood of a great deal of evasion taking place.

Although land revenue was the most important tax in pre-British India, various other taxes were also levied.[2] At present the two extremes, namely, the single-tax and a great multiplicity of taxes are both avoided. In the early years of British rule, there were innumerable petty imposts. When these were abolished at a later date, land revenue supplied the bulk of the resources of the State. There was thus an approach to a single-tax system. The growth of expenditure afterwards led to the imposition of various other taxes, and the financial exigencies of the Sepoy Mutiny made the pendulum swing violently in the other direction. Mr. James Wilson expressed the view in 1860: "The wider you can spread the incidence of your taxation, so long as a

[1] Hunter, *India of the Queen*.

[2] In Kautilaya's *Arthasastra* we find mention of quite a large variety of sources of revenue, such as *sita*, *bhaga*, *bali*, *kara*, *varttani*, *mula*, *vyaji*, *parigha*, *kirpta*, and *atyaya*. Manu also gives a fairly long list of the taxes which kings in Ancient India were entitled to impose. During the Mahommadan rule, a considerable number of taxes was levied.

GSL

fair proportion is maintained as to the means of different persons, the more just is it as a whole." Two decades later, most of the customs duties were swept away, leaving three or four main taxes to provide the needs of the exchequer. In the course of another decade, however, the policy was reversed. The stress of the European War and its aftermath has in recent years led to a further expansion of the tax-system.

Modern economists doubt the theoretical soundness of the distinction drawn between direct and indirect taxes. But the differentiation is found useful in practice. Direct taxes, besides the land-tax, were not unknown in pre-British India; in fact, a considerable number of small direct taxes was levied in different parts of the country. These taxes were continued during a part of the administration of the East India Company. But as they were of a crude sort and produced much inconvenience and vexation, it was found desirable gradually to abolish them. Thus, for a while, India enjoyed an almost complete immunity from direct taxation.

But such immunity was of a short duration. The Sepoy Mutiny was responsible for the re-imposition of direct taxes. Renewed direct taxation, however, made a false start, owing to its having been fashioned on the English model, which introduced a very complex procedure regarding assessment, exemption, and so forth. Frequent changes also took place in name,

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

form, rate, and incidence. With one object or another, no less than twenty-three Acts were passed on the subject between 1860 and 1886. One reason for this was that the taxes on income were looked upon as a financial reserve to be drawn upon in times of emergency. Besides, some of the earlier Finance Members fought shy of direct taxation under the belief that such taxation was unpopular and ill-suited to the circumstances of the country. Thus although the equitable nature of direct taxation was recognised, the fear of discontent led the Government to follow a half-hearted and inconsistent policy. In 1868, Mr. Massey, then Finance Member, referring to the inquisitorial process involved in the assessment of direct taxes, observed: "This process is not very much to the taste of the English people; but it is specially repugnant to the habits and feelings of the people of India". Gradually, however, the officers of the Government were able to overcome their feelings of reluctance and hesitancy, and in 1886, the income-tax found a permanent place on the statute-book. The public, particularly the European section of it,[1] took a longer time to reconcile itself to direct taxation, but was obliged ultimately to yield to the inherent justice of the

[1] It is a matter for surprise that as late as 1888, Mr. (afterwards Sir Griffith) Evans, a leading member of the Calcutta bar, observed: "I am strongly impressed with the conviction that indirect taxation must be our mainstay in this country, and that further attempts at direct taxation will cause waste and friction disproportionate to the results." *Debate in the Governor-General's Legislative Council, 1888.*

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system. The European War led to a great development of direct taxation, and direct taxes now occupy an important place in the financial system of the country.

Taxation is generally regarded as an evil, for it implies the "subtraction of so much wealth from individual enjoyment or use". Burke's famous dictum 'it is as difficult to tax and please as it is to love and be wise' applies with as much force in India as in other countries. It is, therefore, not without some trepidation of the heart that the Government generally proceeds to adopt measures of fresh taxation in India. While all taxes are unpopular, a tax with which the people are familiar causes less irritation and bitterness than one which is entirely new. It is this psychological fact which accounts for the saying "an old tax is no tax".

Not infrequently, the Government has been faced with the problem of meeting a heavy deficit in its budget. Two conflicting policies have prevailed on such occasions,—one, the policy of reduction of expenditure, and the other, of increase of taxation. The public has, as a rule, preferred the former to the latter alternative. But officers of the Government have differed in their opinions as to the correctness of the policy to be adopted at a particular moment. The more considerate and far-sighted among them have generally advocated retrenchment as the better method of dealing

with the situation. One of the most distinguished representatives of this group was Sir Charles Trevelyan, who wrote in 1860: "Taxes are a portion of the property of the community taken by the Government to defray necessary public expenditure. The Government, therefore, has no right to demand additional taxes unless it can be shown that the object cannot be secured by a reduction of unnecessary expenditure. In other words, the reduction of expenditure is the primary mode of making good a deficiency." A different view of the question was, however, taken by the higher authorities on this occasion, and matters went so far that Sir Charles Trevelyan was recalled from the Governorship of Madras.

When fresh taxes were proposed in 1877-78 to cope with the recurrent famines, a policy of retrenchment was suggested by the representatives of the people. But the suggestion was not heeded. A few years later, another financial difficulty occurred. A policy of reduction of expenditure was again urged, but instead of accepting the proposal, the Government decided to re-levy the income-tax.[1] An acute financial situation was

[1] The Finance Member, Sir Auckland Colvin, said on this occasion: "In public as in private life, the approach of monetary difficulties is the signal for retrenchment; and if we do not at the present moment look to economies to fill the void which threatens us in the coming year, it is not because we agree with those who think economies a pestilent source of extravagance, or because we do not ardently desire them but because they are not in any decisive degree immediately attainable." *Vide Proceedings of the Governor-General's Council, 1886.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

created by the European War of 1914-18, resulting in huge deficits. The expedient of fresh taxation was repeatedly resorted to; but even after levying heavy additional taxes, the Government found it difficult to make its two ends meet. The popular demand for a reduction of expenditure was long resisted, but at last the Government was forced to yield to the pressure of public opinion. A Retrenchment Committee was appointed, and effect was given to some of its recommendations in due course.

It has been justly observed that "the fear of new taxation is often worse than the reality of new taxes". The evil is specially marked where the community is composed largely of ignorant persons. Mr. Samuel Laing was perfectly right when he observed that, in a country like India it was "most undesirable to keep the minds of the people constantly harassed by an indefinite apprehension of fiscal changes". Another Finance Member observed a quarter of a century later: "The small and continual changes, by which in more settled countries the revenue is from time to time adapted to the expenditure, are out of place in Indian finance." As changes always tend to produce a disturbing effect, great caution should be observed in introducing them.

The frequent changes in taxation which took place during the decade following the Sepoy Mutiny created a feeling of uneasiness in the minds of the

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

people. When an enquiry was addressed to all officers of the Government in 1872, it was found that both the governing and governed classes yearned for rest and settlement. The fact was elicited that what many district officers then most dreaded was change. This was particularly the case in a newly-conquered province like Burma.[1] There was, however, sometimes a tendency towards over-conservatism and too great a readiness to believe that whatever was, was best. The feeling was often prevalent that it was better to endure a known evil than run the risk of applying a remedy. Such a feeling, when carried beyond certain limits, becomes positively mischievous and offers an obstacle to all progress and improvement. A sounder view of the question was taken by Mr. (afterwards Sir James) Westland when he observed: "It is our duty to resist a change as long as we can; but when it is at last forced upon us, it is equally our duty to face it."

Sentiment enters very largely into the disposition of people towards particular taxes. There are some imposts which are opposed to popular feeling, and though they may be of long standing, they do not fail

[1] The Chief Commissioner of Burma observed: "There seems to be an unfortunate tendency in the minds of some of the officers, who have recorded their opinions, to be satisfied with any revenue system which will bear a not altogether unfavourable comparison with the revenue system of His Majesty the King of Burma. There is too great a disposition to argue that so long as the people can pay, and do not complain, it is nobody's business to interfere in their behalf, and that so long as the people are satisfied, it is the duty of the Government to get from them all they can give." *Reports on Taxation, 1872.*

GSL

to keep up the sense of dissatisfaction. The capitation tax of Burma is a case in point. Another fact which has to be borne in mind is that taxes levied by an outside authority are always more distasteful than those imposed by the community itself. It was in this view of the matter that Mr. John Shore (afterwards Lord Teignmouth, Governor-General of Bengal,) observed that "the demands of a foreign Government ought certainly to be more moderate than the imposition of native rulers." The feeling of discontent engendered by a new tax appreciably diminishes when it is imposed by the people of a country through an elected assembly. Such procedure also helps to temper the compulsory character of a tax. The slogan "no representation, no taxation" has thus its basis in human psychology as much as in political expediency.

While the imposition of a tax generally causes discontent, its removal, as a rule, gives satisfaction. It is right and proper that taxes levied in periods of distress should be remitted when the finances of the Government are in a prosperous condition. The early years of the twentieth century were years of surplus, and the Government was taken seriously to task for not reducing the level of taxation at the time. Mr. G. K. Gokhale observed in 1902: "The obligation to remit taxation in years of assured surpluses goes, I believe, with the right to demand additional revenues from the people in times of

GSL

financial embarrassment. A succession of large surpluses is little conducive to economy and is apt to demoralise even the most conscientious government by the temptation it offers for indulging in extravagant expenditure. This is true of all countries, but it is specially true of countries like India, where public revenues are administered under no sense of responsibility, such as exists in the west, to the governed."[1]

But remission of taxation is not always a desirable object. It is incumbent on the Government, before it decides upon a remission, to examine the financial situation with anxious care, not only in view of the needs of the present moment but also of the future. Instances are not wanting in the financial history of India when, even in times of financial difficulty, taxes were repealed. Commenting on the reduction of the cotton duties in 1877, Mr. Henry Fawcett observed in the House of Commons : "Nothing can be more indefensible than to reduce taxes when there is a deficit, and when consequently every shilling of the taxation remitted necessitates a corresponding addition to the debt." The real object with which the step was taken was, as we shall see in a later chapter, something different from that of giving relief to the tax-payers.

[1] Mr. Gokhale added: "The apparent paradox of a suffering country and an overflowing treasury stands easily explained and is a clear proof of the fact that the level of national taxation is kept unjustifiably high, even when the Government are in a position to lower that level." *Proceedings of the Governor-General's Council, 1902.*

GSL

This brings us to the question how far the Government is justified in resorting to loans for meeting its expenditure. There are a few well-established rules in this regard, namely, first, that all recurring expenditure should be met out of revenue; second, that expenditure on remunerative public works may be met out of borrowed funds, and third, that extraordinary non-recurring expenditure, consequent on a war or any other sudden calamity, may be financed, in part at least, by means of loans.[1] In regard to the third proposition, a difference of opinion exists among the modern economists.[2] Some of them hold that as large a proportion as possible even of non-remunerative emergency expenditure should be met by taxation. The policy of the Government of India in this respect has not been very consistent in the past. On some occasions, expenditure on remunerative public works was met by taxation, while during other periods, as, for instance, the quinquennium following the European War, large sums were

[1] Prof. Pigou observes: "Here purely fiscal considerations suggest that such expenditures, *if financed* by loans, ought, in general, to be financed in such a way that the loans are paid off out of taxes before the need for further similar expenditures is likely to recur. For, if this is not done, there must result an ever-growing debt and, eventually, the need for ever-growing taxes to provide interest upon it, much as would happen if ordinary recurrent expenditures were financed out of loans." He also urges various grounds against the policy of financing wars out of borrowed funds, not the least important of them being that "finance by loans does hit capital, and, through this, the economic fortunes of future generations *somewhat* more hardly than finance by taxes." *A Study in Public Finance*, Pt. III, Ch. I.

[2] Two of the most distinguished economists of the day, namely, Prof. Pigou and Prof. Seligman hold divergent views on this question.

GSL

borrowed to meet deficits in the annual budgets. It is to be earnestly hoped that Finance Ministers of the future will bear in mind the fact that borrowing only "lingers and lingers it out," but does not supply the remedy.

Coming to the machinery of taxation, we find that, until recently, it was a comparatively simple one, which had grown up as the result of administrative experience. But recent developments in taxation and the separation of central from provincial finance have necessitated some important changes. The existing arrangements are as described below. The Central Board of Revenue is responsible for the administration of the most important resources of the Government of India, such as income-tax, customs, and salt. But the Provincial Governments still actually manage the collection of a few of these taxes. Steps are, however, being taken to centralise the arrangements. In the provinces, the land revenue and some of the other taxes are collected by the District Collector, while, in other cases, there are separate staffs for collection and management. There are Boards of Revenue in some provinces, and Financial Commissioners in a few others, for the final control of matters relating to the land revenue. The local taxes are administered by the local bodies concerned. They are collected by the staffs appointed by the local bodies, sometimes with the assistance of Government

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

officers. The administration of the central and provincial taxes may, on the whole, be regarded as fairly efficient; but the assessment and collection of local taxes leave much room for improvement in many cases.

In regard to improvements in the machinery of taxation, this country may well learn many valuable lessons from other countries of the world. The Indian Taxation Enquiry Committee point out in their Report certain tendencies in the tax administration of the leading countries of to-day. These tendencies are: (i) to divorce administration from politics[1], (ii) to entrust administration increasingly to experts, (iii) to centralise control, and (iv) to combine the staffs that deal with cognate subjects. The Committee further make certain suggestions for the improvement of the system. These are summed up thus: "The pivot of the tax administration in the case of the imperial taxes should be the Central Board of Revenue,

[1] Prof. Seligman points out the evils of arbitrary assessments in the United States, and remarks that advance in tax reform is to be sought "rather in the progressive excellence of administrative methods than in the elaboration of new and high sounding ideals." *Essays in Taxation, Ch. XVI.*

The Taxation Enquiry Committee quote with approval the following opinion of Sir Josiah Stamp: "My experience shows that good administrative work cannot be done by a staff which is immediately dependent on the electorate and its representatives. It is of the first importance that the staff of a fiscal department should be absolutely independent of local changes of feeling, affections and policy generally. The importance of this cannot be too greatly emphasised, and though it may be difficult to realise in some areas that it is a cardinal principle, I am more convinced of this than of anything in the realm of taxation and fiscal affairs."

directing separate but co-ordinated staffs to deal with the income-tax, customs, and salt. In the case of provincial taxes, there is no similar central head, but the Collector should be the district head of the staffs responsible for land revenue, excise, registration, taxes on transactions, and fees. The pivot of administration in the case of local bodies should be the executive officer, who might be a lent officer of the district staff, and who should be in touch, in the administration of the taxes, with certain provincial and imperial officers. Finally, the Collector should act as a liaison officer between the imperial and provincial, and between the imperial and local departments, and he or one of his assistants should also be the appellate authority in all cases of appeals against the assessments to local taxes, except where provision is made for appeal to a court"[1].

It remains now to consider the effect of taxation. This depends very largely upon the motives which underlie the levy of taxes. Kalidasa, one of the greatest poets of Ancient India, when eulogising the great qualities of King Dilipa, observes: "It was only for the good of his subjects that he collected taxes from them, just as the sun draws moisture from the earth only to give it back a thousand-fold."[2]

[1] *Report, Ch. XVII.*

[2] *Kalidasa, Raghuvansa.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

With this view may be compared the theory of some modern economists that taxation, judiciously applied, "returns in a fertilising shower"; in other words, wealth becomes more fruitful in the public exchequer than in the pockets of the people. In this view of the matter, taxation, instead of being a necessary evil, is a necessary good. But in order that tax-payers may be able to appreciate this standpoint, the benefit derived from the payment of taxes must be made patent to them. One drawback of the present system is that the control exercised by the people over the way in which taxes are spent is exceedingly limited.[1] There is also another difficulty. A considerable proportion of the resources of the State goes out of the country without

[1] There have always been some enlightened men among the administrators in India who have advocated that control over matters of taxation and expenditure should be vested in the people. Sir Charles Trevelyan, for instance, said in 1873: "Give them the raising and the spending of their own money, and the motive will be supplied, and life and reality will be imparted to the whole system. All would act under a real personal responsibility under the eye of those who would be familiar with all the details, and would have the strongest possible interest in maintaining a vigilant control over them." *Vide Evidence before the Select Committee of Parliament, 1873.* Some advance, it is true, has been made since Sir Charles Trevelyan made these observations; but popular control over taxation and expenditure is even at the present day far less than what was urged by him over half a century ago.

Under the provisions of the Government of India Act, the Secretary of State in Council still remains the sole authority vested with the right of sanctioning expenditure out of Indian revenues. Considerable relaxation of his powers has, however, been made by rules framed under the Act, particularly in regard to the transferred departments in the provinces. The right of voting certain portions of their respective budgets has been conferred on the central legislature as well as the provincial legislative councils. But this right is hedged in by various restrictions, while the executive, both central and provincial, retains large powers of appropriation.

a corresponding direct return. A distinguished administrator justly remarked many years ago: "Taxes spent in the country from which they are raised are totally different in their effect from taxes raised in one country and spent in another".[1]

[1] Wingate, *Our Financial Relations with India, Ch. IV.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

CHAPTER II

LICENSE TAXES

DURING the rule of the East India Company, certain direct taxes on trades and professions existed in different parts of the country.[1] But most of them had been abolished before the Company's administration came to an end. The extreme financial embarrassment caused by the Sepoy Mutiny, however, compelled the Government of India to re-impose direct taxation. As a deficit of 684 lakhs was anticipated in the budget estimates for the year 1859-60, a Bill for licensing trades and professions in India was introduced on the 13th August, 1859, by Mr. (afterwards Sir Henry) Harington, then a temporary member of the Governor-General's Executive Council. Section I of the Bill repealed the laws in Madras relating to *moturfa*. Section II required a license to be taken out for carrying on any trade or exercising any profession. Under Section VIII assessees were divided into ten classes, it being provided that there should be paid by the persons to whom such licenses were granted sums

[1] For a detailed account of these taxes see Banerjea, *Indian Finance in the Days of the Company*.

GSL

varying from Rs. 2 to Rs. 2,000 according to the class to which they belonged.[1] The Collector was empowered to determineunder what class persons should be assessed and to appoint *panchayats* to aid him in making such assessments. Bankers only were to come under the first two classes. A penalty was to be paid for not taking out the license. Section XX declared that persons holding office or employment not under the Government were to be deemed persons carrying on trade or engaged in professions. Sections XXI and XXII provided that the Bill was not to apply to persons holding office under the Government, or to workmen for hire, or to cultivators of land.

In moving the first reading of the Bill, Mr. Harington said that it was not unnatural that such a tax should give rise to a good deal of difference of opinion. Suggestions had been made in different quarters for the imposition of an income-tax, a succession duty, a house tax, or a duty on tobacco. The first two suggestions would, in Mr. Harington's opinion, involve serious practical difficulties, while

[1] Persons to whom licenses were to be granted were assessed as follows :—

Under Class	I	...	Rs. 2,000 yearly
" "	II	...	Rs. 1,000 "
" "	III	...	Rs. 500 "
" "	IV	...	Rs. 250 "
" "	V	...	Rs. 100 "
" "	VI	...	Rs. 50 "
" "	VII	...	Rs. 25 "
" "	VIII	...	Rs. 10 "
" "	IX	...	Rs. 5 "
" "	X	...	Rs. 2 "

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

the other two required further inquiry and fuller consideration. He observed that one great argument in favour of a license-tax was that, in so far as Indian traders were concerned, it introduced no new principle but merely revived one of their own modes of taxation. With regard to the objection that a vexatious enquiry would be needed into the profits or circumstances of every trader or professional man, Mr. Harington said that nothing of the kind was intended. It was proposed that the tax should be light, and being light, there would be little objection to its being fixed in a somewhat arbitrary manner. He referred to Adam Smith for support to his contention that in a light tax a considerable degree of irregularity might be allowed. He argued further that the extreme inequality and uncertainty of assessment would be compensated by its extreme moderation. On the question of incidence, Mr. Harington observed that, although the license fee would, in the first instance, be paid by the person taking out the license, the burden would eventually fall on the customers.[1]

The second reading of the Bill was taken up on the 27th August. On this occasion, Mr. Harington

[1] Mr. Harington observed further that, as the tax would be spread over the entire population in proportion to each man's expenditure, it would scarcely be felt. The rich man, he added, who was clothed in purple and fine linen, and fared sumptuously every day, would pay comparatively largely, and the poor man would pay very little; this would be quite right and proper, and seemed to meet in a large degree the objection that the Bill would operate unequally. *Vide Proceedings of the Legislative Council, 1859.*

added three higher classes to the schedule, namely, Rs. 5,000, Rs. 4,000 and Rs. 3,000. The reason urged by him was that it was generally felt that the higher rates might fairly be paid by the larger bankers and traders without their being unduly taxed, or taxed out of proportion to the lower classes with reference to the extent of their trade or business. A few other alterations were also made in the Bill.

The debate which took place on the occasion of the second reading of the Bill is of very great interest as throwing a flood of light on the procedure of the Legislative Council of those days. The Bill was strongly opposed by Sir Barnes Peacock, Chief Justice of Bengal, who was in the Chair[1] when its second reading was moved. He objected to the wide power left to the Collector in the matter of assessment, and pointed out that there was nothing in the Bill to declare that the amount of assessment should have reference to the profits. He showed that there were various anomalies in the Bill. In the opinion of the Chief Justice, it was wrong that officers of the Government should be altogether exempted from the operation of the Bill. "Why", asked he, "should the Chief Justice be exempted? Why should he not pay his 2,000 rupees a year, as well as any one else?" The contention that the Council had not the power to tax the high officers because their

[1] Sir Barnes Peacock was the Vice-President of the Council and, in the absence of the Governor-General, he presided.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

salaries had been fixed by Parliament, did not seem to him to be valid. His principle was, he said, that all should be taxed equally and fairly.[1] Sir Barnes Peacock further objected to the exemption of landholders under the Permanent Settlement.[2] Lastly, he entered a vigorous protest against the manner in which the Bill had been sought to be rushed through the Council.[3]

[1] The Chief Justice added that, even supposing that statutory salaries could not be taxed, he should not feel himself justified in taking advantage of such objection, and, whether assessed or not, would willingly pay the tax on his own salary. He should feel it his bounden duty as a man of honour to do so, and not to claim any exemption whilst others around him were taxed. But he should not feel inclined to pay unless others were compelled to do the same. *Proceedings of the Legislative Council of India, 1859.*

[2] He admitted that it would be unfair to tell the zemindars that a particular tax was to be imposed upon them, and not upon others. But when the profits of official and professional labour were going to be taxed generally, he did not see according to what principle of justice they only could be exempted from taxation. The Chief Justice added that, if the Government were to throw on the zemindars a particular burden, they would be guilty of a breach of faith. He had written a Minute sometime ago, in which he had stated that it was contrary to principle to say that proprietors of estates which they held permanently should be compelled, at their own expense, to keep up a certain number of police officers and chaukidars according to the value of their estates. But to say that zemindars would not be included in a general income-tax was, in his view, going a step too far.

[3] The observations made by the Chief Justice on this subject are exceedingly interesting. He said that when the expenditure of the Government exceeded its income and the Council was called upon to create a tax to make good the deficiency, the Council had a right to ask what deficiency had arisen, how it had occurred, and what measures were proposed to meet such deficiency. If the executive Government asked the Council to impose a tax, surely it was incumbent on them to show the Council why the tax was wanted, and the Council would then be in a position to know what it ought to do. Was it to be supposed, he asked, that this Council was bound to pass every Act that the Government might think fit to bring before it, and an Act too which the mover himself had admitted was founded on no principle? Were they to act independently in the exercise of the important functions vested in them, or were they to become mere registrars of the decrees of the Government? For what purpose were they assembled in the Chamber? Were they to sit there as mere machines in the hands of the executive Government? He further

GSL

Mr. A. Sconce, who represented the Government of Bengal, also took exception to many of the provisions of the Bill. Mr. Justice Sir Charles Jackson thought that the Council had a right to complain of the manner in which the financial measures of the Government were brought forward. He thought that, after the levy of quite a large number of additional taxes under the Customs Act, the Bombay Abkari Act, the Stamp Act, and the new Bombay Excise Act, and the raising of the duty on opium without the aid of the Council, the time had come for putting a stop to piecemeal legislation. Mr. Harington, in the course of his reply to the criticisms levelled against the Bill, pointed out that the Chief Justice himself had said that the Government was precluded from taking away, by any means, any part of the rents or profits of the Bengal Zemindars.[1] He further said that if the Bill was passed, it would not prevent any member, who

declared that so long as he had the honour of a seat in the Council, he, for one, would claim the right to exercise, within those walls, a free and independent judgment, and abstain from giving any vote except after mature deliberation and according to the dictates of his own conscience. *Vide Proceedings of the Legislative Council of India, 1859.*

[1] Mr. Harington quoted the following passage from Sir Barnes Peacock's Minute :

"The same principle which prevents an augmentation of the assessment equally precludes the taxation of the owners in respect of the rent or produce of their estates; such taxation must necessarily prevent them from enjoying exclusively the profits of their own good management and industry." But it was unfair to charge him with inconsistency, for the Minute had been written upon the question then before the Government, namely, as to the right of the Government to impose upon the landholders exclusively an additional burden in respect of their lands, by compelling them to maintain a police force. *Proceedings of the Legislative Council of India, 1859.*

GSL

thought proper, from introducing a Bill for imposing a general income-tax.

After a great deal of discussion, the Bill was read a second time. The House then resolved itself into a Committee. At this stage, many alterations were made in the Bill, one of the most important of which was the deletion of the clause relating to the total exemption of Government officers and the substitution for it of a provision that all military as well as civil officers should pay license-tax, at the rate of 3 per cent., on their salaries. The exemption of those officers whose salaries had been fixed by Parliament was retained, but it was explained to the Council that steps would be taken to obtain from Parliament legal authority for the extension of the measure to them. Another alteration was that the taxable minimum was fixed at Rs. 100. The Bill was then referred to a Select Committee.

The Provincial Governments as well as some of the most experienced officers in the different provinces were invited to offer their opinions on the Bill "fully and freely." Nearly all the officers who were consulted spoke of it as certain to be extremely unpopular. They alluded to the "alarm", "uneasiness", "distrust", "discontent", "dissatisfaction", or "disaffection" which was likely to result from it.[1] Some

[1] That the Government of India itself apprehended trouble was clear from the letter addressed to the Provincial Governments in which they

GSL

of the provincial rulers acquiesced in the measure, though not without reluctance and protest. But the Government of Madras was very firm in its opposition to the Bill. Sir Charles Trevelyan, then Governor of the Presidency, urged various objections against the Bill.[1] In his opinion, the fact that the Bill had no foundation in Indian experience was a serious drawback of the measure. He also thought that the tax would prove a very heavy burden on the people. Sir Charles Trevelyan took particular exception to the proposed exemption in favour of persons whose salaries were fixed by Parliament.[2] Further, he expressed the view that the financial exigency could be met, "not only with safety, but with great public advantage, by reduction of expenditure, combined with the issue of a sound paper currency, and some temporary help from loans. The

were asked to "take into consideration the steps which, as a matter of precaution, it may be expedient to adopt with the view of preventing any opposition to the law". It was further observed in the letter: "It will, doubtless, be proper, in particular localities, that the executive authorities should be furnished with the means of promptly suppressing any attempt at open and violent disturbance, though the Governor-General in Council would earnestly hope that no occasion may arise for making use of such means". *Letter dated the 14th September, 1859.*

[1] Sir Charles Trevelyan wrote: "It is an old observation that, while the people of this country are extremely patient under long-established grievances, they are always ready to rise against any new imposition. This feeling is different from the popular opposition to additional taxation in England. A wide gulf has always been fixed between the people of India and their rulers....Unfortunately, small progress has been made, under our regime, in bringing about the desired approximation. In some respects, it is worse than it was." *Minute dated the 1st December, 1859.*

[2] Sir Charles remarked in this connexion: "In saying that I should not avail myself of this privilege, if all other classes of public officers were taxed, I am only expressing the plain duty which belongs to my position under such circumstances."

GSL

members of the Madras Council also condemned the measure. One of them, namely, Mr. W. A. Morehead, remarked that the Bill was "in its provisions unequal, offensive, and impracticable."[1]

A number of petitions was presented to the Council against the Trades and Professions Bill.[2] These were referred to the Select Committee. There was also a strong opposition to the measure in the press. The London correspondent of the *Friend of India* wrote: "They (certain of the leading papers) have reprobated, in no measured terms, the exemption of servants of Government which it was sought to establish. That project has been defeated, but the odium of having proposed it sticks to the Government, and all the water in the river cannot wash out the stain. Public confidence can never again be placed in men who proposed to exempt themselves from taxation, to which they were ready to subject all other classes."[3] At a meeting of the

[1] *Minute dated the 8th December, 1859.*

[2] The Bengal Chamber of Commerce, the Calcutta Trades Association, and various other bodies presented petitions against the Bill. The residents of Calcutta, Bombay, and Madras also protested against the measure. The Indigo Planters' Association prayed that the Bill should not be proceeded with, and urged that the mover be asked to substitute, if necessary, a project of taxation which would press equally on all classes of persons.

[3] He wrote further: "Nor has it failed to be noticed, to the damage of the Governor-General unjustly, that both in the original and in the amended proposition his own personal interests have been held sacred. You know that one act of meanness does more to destroy a man's reputation than a dozen acts of despotism, and it is to be hoped that this anomaly will be fully and satisfactorily cleared up". *Proceedings of the Legislative Council of India, 1859.*

GSL

Council held on the 3rd December, 1859,[1] Sir James Outram and Mr. Harington replied to these attacks. The Bill, as amended in the Select Committee, was re-published.

The financial exigency was, however, very pressing. Pending, therefore, the adoption of comprehensive financial measures by the Legislative Council, steps were taken in some of the provinces to obtain an addition to the resources of the Government. In the Punjab, the Governor-General sanctioned certain taxes proposed by the Lieutenant-Governor. The basis of these was the scale of license duties originally proposed in the Legislative Council, which in effect amounted to an income-tax of three per cent. on all incomes below Rs. 2,000. It was found that there was an apprehension in many places that the assessment of these duties would lead to inquisitorial proceedings, and the Government showed its readiness to make concessions. The city of Amritsar offered to contribute a sum equivalent to that which might be estimated to accrue from the trade-tax by trebling the town duties already levied for municipal purposes, rather than submit to the appraisement of private fortunes. This offer was accepted by the Government, and other large cities in the province were also allowed to com-

[1] It was at this meeting that Mr. James Wilson first took his seat as the Financial Member of the Governor-General's Council.

GSL

pound for the tax by raising an equal revenue by means of town duties. The town duties were not raised to so high a pitch as to interfere with trade. In the smaller towns and in villages, the trade tax took effect. In most of the districts, the assessment was of a very rough sort. The whole agricultural population was made to contribute at the rate of three per cent. on their incomes, without claiming for the scheme any refined equality or universal applicability.[1]

A tax on trades and professions was also levied in Oudh in 1859. The principle on which the scheme was based was to take 3 per cent. on incomes, and after roughly estimating the amount thus due from the rateable inhabitants of each village or town, to leave the distribution to the people themselves. In *talukas*, this work was mainly entrusted to the *talukdars*, who zealously co-operated in the work and were expected to prevent an undue share of the burden being thrown on the poorer classes to the advantage of the rich. With the exception of the city of Lucknow, no difficulty was experienced, either in the distribution of the assessment or in the collection of the tax. In that city, some discontent and recusance were manifested. Appeals against assessments were very few, and those preferred did

[1] *Moral and Material Progress Report, 1859-60.*

not relate to the nature of the tax.[1] In consequence of the imposition of this tax, the octroi duties were abolished, which had operated as a restriction on trade.[2]

The legality of these impositions was questioned in the legislature in 1860. The Chief Justice of the Supreme Court of Calcutta, presiding over the Legislative Council of India, observed that no law could be passed except by the Council, and it seemed to him impossible to conceive how the Chief Commissioner of Oudh or the Lieutenant-Governor of the Punjab could impose any tax, either with or without the assent of the Governor-General. He was equally at a loss to comprehend how the Chief Commissioner of Oudh could adopt and enforce within the province a measure for taxing the people in a lump sum. He had been informed that the Lieutenant-Governor of the Punjab was also levying a tax in a similar way. At Simla there was what was called a town duty. These measures were defended on the ground that they were based, to a great extent, upon the Bill brought in by the member

[1] *Moral and Material Progress Report, 1859-60.* The Chief Commissioner of Oudh reported that the wealthy mercantile classes were always those who most objected to being called on to contribute to the expenses of the State, though they endeavoured "to conceal their selfishness under their mask of sympathy for the poor." He further asserted that expressions of discontent had mainly arisen "from the delay in introducing a similar system of taxation in the North-Western Provinces."

[2] The collection of octroi duties was now confined to large towns, where it was necessary to defray the cost of the special police. Octroi duties only existed as a substitute for the house cess which was general in the older provinces.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

for the North-Western Provinces for licensing trades and professions. But Sir Barnes Peacock said that, although the principle of the Bill had been accepted when it had been read a second time, it could not be regarded as law as it had not been read a third time, nor had it received the Governor-General's assent. Ultimately, it was decided to insert an indemnity clause in the Income-Tax Bill of 1860 to legalise the collections which had been made in the Punjab and in Oudh.[1]

In the meantime, Mr. James Wilson had been sent out to India, charged with the duty of placing the financial system of the country on a sound basis. Immediately after taking his seat as the Finance Member of the Government of India, he directed his attention to the question of additional taxation. On the occasion of presenting the Financial Statement, he expressed the view that the objects embraced in the Bill introduced by Sir Henry Harington could be best achieved if they were dealt with in two separate Bills, namely, a License-tax Bill and an Income-tax Bill. He proposed that a small license duty should be imposed upon traders of all classes, high and low, without any attempt at graduation. In a great majority of cases, this duty would operate rather as a registration tax, and only on the lowest classes, who would be exempted from the income-tax by reason of the smallness of

[1] *Proceedings of the Legislative Council of India, 1860.*

GSL

their incomes, would it be really felt as a tax. The license duty was to consist of three rates, namely, first, one rupee a year on artisans, including weavers, leather workers, &c., but excluding the agricultural and menial classes in village communities; second, four rupees a year on retail shop-keepers and small manufacturers, who worked for local retail sale; and, third, ten rupees annually on wholesale traders, bankers, manufacturers, and professional men. These rates, that is to say, at one, four, and ten rupees, were to be uniform, and to apply to all persons of each class without any discrimination as to income or extent of business. The licenses were to be taken out at the beginning of each year. No time-limit was fixed in the License-tax Bill.

The Bill for the Licensing of Arts, Trades and Professions was read a first time on the 4th March, 1860, along with the Income-tax Bill. When the second reading of the Bill was moved, Mr. A. Sconce, member for Bengal, pointed out the practical difficulties to which the Bill was likely to lead. He said that he had no objection to a system of specific licenses, but it seemed to him that "the adoption of any arbitrary, indeterminate, and unnecessary scheme was altogether unworthy of the Council". It would, in his view, amount to a double income-tax. Sir Mordant Wells confessed that he entertained much the same objections as those raised by Mr. Sconce. Sir Barnes Peacock observed that

GSL

he failed to understand the object of the Bill. If the real object was to get money, he thought that it could be attained in a much less offensive mode than by putting a first-class merchant on the same footing as a pawn-broker or a pedlar. He also failed to see why the Bill should omit to tax a civil servant or a judge, or a member of council.[1] The Bill was referred to a Select Committee,[2] where it was discussed at considerable length, and was then ordered to be re-published for general information. No further action was taken with regard to it at the time. The Income-tax Bill was passed.

Mr. Wilson died before the end of the year. In the following year, Mr. Samuel Laing expressed the opinion that the license-tax was ready to his hand as a means of extinguishing the deficit. But he felt reluctant to proceed with it until he could combine it with an amendment of the Income-tax Act, "so as to make the united measure one of relief and satisfaction to India, rather than of oppression and burden". Mr. Laing regarded a graduated license-tax as a better mode of taxing the capital and trade of the country than an income-tax. But instead

[1] *Proceedings of the Legislative Council of India, 1860.*

The Chief Justice added that the Bill exempted a landlord or fund-holder, not because he had done anything for the benefit of society, but because he happened to be the son of a particular father, from whom he inherited property, while the professional man, who lived by his own industry, would be obliged to pay. It appeared to Sir Barnes Peacock that this was "taxing the bees and allowing the drones to escape."

[2] This Bill and the Income-tax Bill were referred to the same Select Committee.

of imposing it in a crude form as a separate measure, he decided to keep it in reserve till more opportune times. In July, 1861, however, during Mr. Laing's temporary absence from India, the License-tax Bill was passed. By this Act (XVIII of 1861) a duty of one, two, or three rupees was imposed on persons engaged in any art, trade, or dealing. This Act was to have effect for five years. But as the financial position of the Government improved soon afterwards, collections under the Act were suspended during the last quarter of the financial year. The Act itself was repealed in 1862. The license-tax affected 5,000,000 persons. Its abolition gave satisfaction to all classes of the community.

The Government of India was again faced with deficits a few years later.[1] In view of the fact that the people of India were not at that time subjected to any direct tax, except the land tax, and also that indirect taxation did not reach the large classes of the population engaged in lucrative occupations and trades, Mr. Massey, the Finance Member, proposed a license-tax in 1867. He described the measure as one "of an exceedingly moderate character". It started at the point at which the income-tax originally commenced, namely,

[1] In 1866, Sir John Lawrence proposed to renew the income-tax; but he was unable to obtain the concurrence of his Council. *Vide* Temple, *Lord Lawrence*.

GSL

Rs. 200 yearly, and terminated at Rs. 10,000. It was divided into five classes, the maximum assessment, that is, the assessment on the lowest estimated income of each class, being 2 per cent. Joint-stock companies were placed in a separate class. Thus the tax upon the lowest class, which included incomes ranging from Rs. 200 to Rs. 500 yearly, would be Rs. 4; the highest payment by any person or partnership business would be Rs. 200 a year; while the maximum amount payable by a joint-stock company would be Rs. 2,000.

There was no general exemption for public servants. But military officers, under the rank of field officers, drawing pay and allowance not exceeding Rs. 6,000 per annum, were not subject to payment of the tax. Non-commissioned and police officers were also exempted, as well as subordinate civil servants, drawing less than Rs. 1,000 yearly. There was, further, a clause empowering the Governor-General in Council to exempt from payment any person who might be able to substantiate a claim to such exemption, and to suspend the operation of the Act in any part of India where, for local reasons, it might not be just or expedient to enforce it.[1]

[1] By an order of the Government of India, all Christian missionaries and Hindu priests were exempted from this tax, so far as the religious character of their profession was concerned. The enforcement of the tax on professional courtezans and female dancers and singers was also prohibited. Special exemptions were authorised in certain parts of the country where civilization was backward, or in consideration of the

GSL

The produce of the tax was estimated at £500,000 only. The Finance Member admitted that double or treble the amount might be obtained by a more comprehensive scheme of direct taxation. But he thought that the license-tax did not stand in the way of an income-tax or take up the ground which an income-tax would cover. He added that the Government, without giving a definite pledge, did not propose that the license-tax should form a permanent source of imperial revenue, and that he intended, after a year, to transfer it to Provincial Governments.

This measure met with some opposition, which came chiefly from the European community. The Bill, however, was passed by the Governor-General's Council and became Act XXI of 1867. The British merchants held protest meetings, and approached the Secretary of State urging him to disallow the Bill.[1] This unreasonable request, however, was not acceded to.

In the following year, the Finance Member in-

precariousness of the trade carried on there. During the cyclone of 1867 the operation of the tax was suspended in the Presidency Division of Bengal on account of the great damage caused by it. Persons living on the rents of their own houses were also exempted from this tax. *Vide Moral and Material Progress Report, 1867-68.*

[1] The Governor-General, Sir John Lawrence, condemned this attitude on the part of the European community, and wrote to the Secretary of State : "If the license-tax is vetoed, I cannot conceal from myself the conviction that all taxation which can affect, in any material degree, the non-official English community, will be impracticable. So far as their voices go, they will approve of no tax of the kind. They desire that all taxation should fall on the natives, and more specially on the poorer classes". *Vide* Bosworth Smith, *Life of Lord Lawrence, Ch. XIII.*

formed the Council that the license-tax had been financially successful. He pointed out that it had yielded nearly 30 per cent. more than the amount estimated, and that it had been collected at a very small cost. As for its alleged vexatious and oppressive character, he remarked that the small number of appeals preferred against it disproved the suggestion. In his opinion, the tax, after the first ebullition of resistance had subsided, was collected with as much ease as any other tax. The Government, however, he said, was not disposed to close its ears against the voice of public opinion, and was willing to give its best consideration to suggestions regarding other sources of revenue. Three substitutes had been suggested by the Bengal Chamber of Commerce, the most influential of the associations of British merchants, namely, an increase of the salt duties, the levy of a tobacco tax, and the imposition of a succession tax. As for the first, Mr. Massey observed that the salt tax was in effect a poll-tax upon the masses of the population; besides, increased salt duties were likely to diminish consumption. As an enhancement of these duties would fall heavily on the poorer classes, it was incumbent on the Government to enquire whether other classes contributed their share to the resources of the State. The equalisation of salt duties was not in itself undesirable, but little increase in revenue was to be obtained by adding a

few annas to the salt duties of Madras and Bombay. A tax on tobacco was out of the question, because it would be extremely oppressive in its incidence, would be collected at an enormous cost, and would fall mainly upon the classes which paid the salt duty. Lastly, in the opinion of the Finance Member, many of the more serious objections which had been urged against the income-tax applied with at least equal force to a succession tax. There was the impossibility of making fair assessments, a difficulty which was avoided in a license-tax. Then, again, as the Finance Member pointed out, the novelty and, therefore, the unpopularity of a succession tax would certainly be greater than that of an income-tax or a license-tax. He thought that the fact that the succession tax would be paid once for all, and at the time most convenient to the payer, pointed in reality to one of its most serious defects, namely, that the tax would fall on capital, instead of on income.

The Finance Member also rejected the idea of reviving the income-tax. He, therefore, proposed to retain the license-tax, but in a modified form. He admitted that the tax, in its then existing form, was open to criticism and was capable of material improvement. The principle upon which the license-tax was based was that of a rough income-tax.[1] It

[1] As Mr. Massey pointed out, this tax resembled very much the excise license-taxes which had existed in England before the levy of the income-tax and which had gone on during the operation of the income-tax and still continued.

was not defensible on the ground of strict equity of assessment; but its chief merit lay in the lightness of its mean incidence. As the professions and trades contributed nothing to the public revenues, a tax on these was justifiable. Mr. Massey, therefore, introduced a Bill repealing the then existing law and substituting provisions which, in his view, would be less objectionable. This measure imposed a license-tax, varying from Rs. 8 to Rs. 6,400 on persons exercising professions or trades, whose annual profits exceeded 500 rupees. The mean incidence of the tax was not much more than $1\frac{1}{2}$ per cent. It ceased to fall on the lowest class of the population with the minimum now raised. The services were to be taxed all round upon their salaries at 1 per cent. The amount expected to be realised from the amended tax was £500,000. The Bill, as it was ultimately passed, transformed the license-tax into a certificate-tax.

In spite of additional taxation, the financial difficulty continued in the following year, and the Government was unwilling to appear again before the public with a deficit in the budget. It was, therefore, decided to convert the certificate-tax into an income-tax. Act IX of 1869 was passed to give effect to the conversion.

In 1871, after the introduction of Lord Mayo's scheme of provincial finance, a License Bill was placed before the Governor-General's Council for

GSL

imposition in the North-Western Provinces and Oudh. This Bill was one of the measures intended to supplement the incomes assigned to the Provincial Governments under the new system. It was proposed that the tax would be levied only on certain specified trades and dealings. Artisans were excluded from the operation of the Bill. Trades and dealings were divided in the Bill into three classes charged respectively with six, four, and two rupees a year. The measure was welcomed by Mr. John Strachey, who described it as "the very best Bill of the kind that had come before the Council." He said further: "We had, of late years, over and over again, had so-called license-taxes and certificate-taxes, which had been imposed on the mercantile classes. But all these Bills, whatever they might have been called, had been in reality income-taxes in disguise. This Bill was nothing of the kind." The Bill, however, was subsequently withdrawn, and it never became law.

The license-tax reappeared a few years later as one of the "famine taxes". During the decade 1868 to 1877, three severe famines occurred in different parts of the country. After the famine of 1874 in Northern Bengal, the Government of Lord Northbrook declared that such calamities could no longer be treated as abnormal or exceptional, and that sound financial principles required that due provision should be made by the State for meeting them. In

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

the opinion of the Governor-General, an attempt to find the resources needed for the purpose merely by borrowing, without a simultaneous increase of income, would be financially ruinous. He, therefore, came to the conclusion that it was necessary to secure, in prosperous times, a substantial surplus of revenue over expenditure, in addition to the margin needed for the ordinary requirements of the administration. Lord Northbrook argued that, if this surplus were devoted to the reduction of debt, or the prevention of an increase of debt, or the construction of reproductive public works in years of ordinary prosperity, there would be no objection to the charges on account of famine being met out of borrowed funds. The Secretary of State agreed with the Government of India in the view that the periodical occurrence of famine ought to enter into the calculation of the Government at the time of making provision for its ordinary wants from year to year, and that such a surplus should be provided in each year as would make a sensible impression on the debt in times of famine.

In 1877, Sir John Strachey estimated the yearly average cost of famines in loss of revenue and actual expenditure at £1,500,000. The Government of India thought any reduction of expenditure to be impracticable. The other alternative which presented itself to it was additional taxation. The form which this fresh taxation ought to take was

carefully examined. Several methods of taxation, such as a tax on tobacco, succession duties, and taxes on marriage expenses, were considered; but they were all rejected. The question of re-imposing the income-tax was also given a serious consideration, but this course was thought to be both impolitic and unjust at the moment. It was, therefore, ultimately decided to raise the required sum partly by imposing an additional burden on agriculturists, and partly by levying license-taxes on traders and artisans.

License-taxes were imposed in nearly the whole of British India in the years 1877-78. Acts of the Indian legislature were passed for some of the provinces, while provincial measures were enacted for the others. These Acts differed in some of the details, but in matters of importance they were similar in character. It was estimated that the total yield of the various license-taxes to the Government of India would be about £700,000, after meeting charges of collection and allowing a margin to the Provincial Governments.

License-taxes were imposed in the Punjab, the North-Western Provinces, and Oudh by an Act of the Governor-General in Council. The Northern India License Bill was introduced in December, 1877.[1] It met with a mild form of opposition. When the Finance Member moved that the Bill be

[1] This Bill became law as Act VIII of 1877.

GSL

referred to a Select Committee, Maharaja Jatindra Mohan Tagore suggested that the operation of the Bill might be limited to a definite period of two or three years, in the hope that greater economy in military expenditure would render the retention of these taxes unnecessary. He also argued that the money to be raised by taxation should be formed into a separate fund with a separate account, so that the people might have an opportunity of knowing what portion of it was applied to the repayment of previous famine loans, and what portion was spent on the construction of famine insurance works. Although some other alterations were made in the Bill by the Select Committee, neither of these two suggestions was acceptable to the Government. In regard to the second proposal, the Finance Member, during the final stages of the Bill, observed that to create a separate fund "would be to make a perfectly arbitrary and artificial distinction between a small part of the outlay, say 1½ millions, and the larger part, say three millions, on works in themselves not really distinguishable in their character or objects." "Such a division," he added, "would be not only useless but mischievous, and could not practically be maintained."[1] The motion that the Bill be passed was carried in the Council without a division.

The tax-payers were, for the purpose of assess-

[1] *Proceedings of the Governor-General's Council, 1877.*

ment, divided in this Act, according to their presumed incomes, into three classes. The first class was subdivided into four grades, licensees paying Rs. 500, Rs. 200, Rs. 150, and Rs. 100 respectively, according to the grade in which they were placed. The second class consisted of four grades, the fees payable being Rs. 75, Rs. 50, Rs. 25, and Rs. 10 respectively. The third class consisted of three grades, the fees being respectively Rs. 5, Rs. 2, and Re. 1.[1] Every person falling under any of the heads specified in the schedule annexed to the Act and carrying on his trade or dealing in any district situated in these territories, was compelled to take out a license, for which a fee was payable. Although no taxable minimum was fixed in the Act itself, each Provincial Government was given the power to exempt from the operation of the Act any persons whose annual incomes were less than such sum as the Provincial Government might fix in that behalf.

This license-tax was thus, in effect, as defined by

[1] The Collector was to prepare an annual list of persons to be licensed under this Act. It was also the duty of the Collector to determine under which of the classes and grades mentioned in the schedule a licensee should be charged.

The first class consisted of registered companies, bankers, money-lenders, owners of cotton screws, shop-keepers selling European goods, hotel-keepers, wholesale dealers, dealers in precious stones, sugar manufacturers or refiners, indigo manufacturers, and tea manufacturers. Cloth sellers, metal vessel sellers, chaudhuris, contractors, printers and publishers, commission agents, brokers, money-changers, dealers in gold and silver lace, druggists, retail dealers in grain, timber merchants, woollen and silk manufacturers, auctioneers, etc., fell into the second class. The third class was composed of artisans, traders, and dealers not specified above, and of persons falling under any head mentioned in class I or class II, whose annual earnings were not so large as to warrant their assessment in either of those classes.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
CSL

Sir John Strachey, "a limited income-tax assessed on a system of classification according to approximate income." The sum realised in the North-Western Provinces in the year 1878-79 was £132,640, and that in Oudh, £20,460. The total number of persons assessed in the whole province was 150,669, or 4.9 per cent. of the population. Some alterations were made in the law by Act II of 1878.

The Bengal License-tax Bill was introduced in the provincial legislature.[1] It was passed on the 14th February, 1878. The Act did not apply to cultivators or to landholders receiving rent in kind. No person, whose annual earnings were less than Rs. 100, was required to take out a license. The provisions of the Act applicable to the town of Calcutta were somewhat different from those applicable to the districts. Outside the city of Calcutta,

[1] In presenting the Report of the Select Committee on this Bill on the 9th February, 1878, Mr. (afterwards Sir) Alexander Mackenzie observed that he could understand and even sympathise with those who grumbled at the measure, but he thought it was not sufficient to condemn the measure to say that it was not a license-tax but an income-tax. He added: "When men say that income-tax in India is a hateful measure, they mean '*the* income-tax', technically so called and known, embodied in certain repealed enactments of the Indian Statute Book, by which direct perquisition was made into the precise amount of a man's profits from every source derived, and under which the amount he had to pay was a strict percentage on his total income. The tax now proposed is not '*the* income-tax' or anything like it. The bogey style of argument has only to be looked at to make it disappear. I frankly admit, per contra, that the tax provided for in the Bill is not a license tax in the European acceptation of the term. A license tax properly so called prohibits the carrying on of any occupation, unless the tax for it is paid and admits of no exemption. This is a tax upon the trading and industrial wealth of Bengal, operating by means of a system of licenses, and limited ultimately, as regards individual licensees, by consideration of the amount of their trade income".

GSL

licenses were to be taken out for the exercise of trades, dealings, and industries; in Calcutta, licenses were made necessary not only for these but also for certain callings, such as those of accountants, auditors, and surveyors. In both cases, licensees were divided into six classes, some of the classes being again sub-divided into grades.[1] The maximum fee payable in Calcutta as well as in the districts was Rs. 500, while the minimum in both

[1] Fees for licenses applicable throughout Bengal, except the town of Calcutta, were fixed as follows :—

Class I—Joint-stock company, banker, wholesale merchant, dealer, commission agent, or manufacturer, money-lender, ship-owner, mill-owner, screw-owner,—

	First grade ...	Rs. 500
	Second „ ...	„ 200
Class II—Every person adjudged by the Collector to be a licensee of this class		„ 100
„ III— „	„	„ 50
„ IV— „	„	„ 20
„ V— „	„	„ 5
„ VI— „	First grade ...	„ 2
„ „	Second „ ...	„ 1

Fees for licenses applicable only in the town of Calcutta were as follows :—

Class I—Joint-stock company; banker, shroff, or banyan; wholesale merchant, dealer, commission agent, or manufacturer; builder; contractor, carrying company; owner or farmer of *hats* and bazars; owner of cotton, jute, hide or other screws; ship-owner, dock-owner, or owner of *chauks*, auctioneer,—first grade Rs. 500; second grade, Rs. 200.

Class II—Broker or *dalal* employed in the sale or purchase of imported or exported goods, landed property, securities, bills of exchange, freight, etc., owner or lessee of a place of amusement; wholesale *bepari*;—Rs. 100.

Class III—Professional accountant, auditor, appraiser, surveyor, mill-owner, etc.—Rs. 50.

Class IV—Manufacturer of ærated waters, dealer in gold or silver, or building materials, stevedore, etc.—Rs. 25.

Class V—Brazier, coppersmith, die-sinker, engraver, etc.—Rs. 12.

Class VI—Every person carrying on any trade, dealing, or industry not charged under any of the foregoing classes,—first grade, Rs. 5; second grade, Rs. 2; third grade, Re. 1.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

cases was Re. 1. Licensees were exempted from payment of the house cess under the Road Cess and the Public Works Cess Acts.

The total demand of the tax in the province for the year 1878-79 was £473,494, but the actual collections amounted to only £208,516. Remissions amounted to £143,964, including £2,540 allowed as refunds. This great discrepancy between the demand and the realisation was due in part to the nature of the procedure adopted under the Act. The assessing officers, not being allowed to make any precise enquiry into income, were compelled to settle, on general grounds, the classes in which the assessees should, in the first instance, be placed, leaving them to object. Outside Calcutta, there was, on an average, one assessee to every 71 persons, and the cost of collection was 12·1 per cent. of the demand. In the city of Calcutta, the number of assessments was 32,833, of which 6,600 had to be cancelled as unrealisable. The tax caused much discontent, and gave rise to considerable agitation.

In the Madras Presidency, a license-tax was imposed on all trades, dealings, and industries under Act III of 1878 of the local legislature. The tax was leviable on all incomes above 200 rupees, agricultural and professional incomes being exempt. The licensees were divided into twelve classes according to their income. The maximum annual fee payable by a licensee was Rs. 800, and the

minimum, Rs. 4.[1] The total collections for the year amounted to £80,000, of which £14,000 was raised in the municipalities. The tax was unpopular from its very nature, and the working of the Act gave some amount of trouble.

License fees were levied in the Bombay Presidency under Act III (Bombay Council) of 1878. The Act did not apply to agriculturists. The Government was given power to exempt from the operation of the Act (a) any local area, or any person or class of persons, and (b) any person whose net annual earnings were less than such sum as the Government might, from time to time, prescribe. The taxable minimum was fixed by the Government at

[1] Fees payable annually by the different classes of licensees were fixed as follows:—

		Rs.
Class I—	Persons whose incomes were Rs. 40,000 and upwards,	800
„ II—	„ „ „ 35,000 and upwards, but less than Rs. 40,000,	700
„ III—	„ „ Rs. 30,000 and upwards, but less than Rs. 35,000.	600
„ IV—	„ „ Rs. 25,000 and upwards, but less than Rs. 30,000.	500
„ V—	„ „ Rs. 20,000 and upwards, but less than Rs. 25,000.	400
„ VI—	„ „ Rs. 15,000 and upwards, but less than Rs. 20,000.	300
„ VII—	„ „ Rs. 10,000 and upwards, but less than Rs. 15,000.	200
„ VIII—	„ „ Rs. 5,000 and upwards, but less than Rs. 10,000.	100
„ IX—	„ „ Rs. 2,500 and upwards, but less than Rs. 5,000.	50
„ X—	„ „ Rs. 1,250 and upwards, but less than Rs. 2,500.	25
„ XI—	„ „ Rs. 500 and upwards, but less than Rs. 1,250.	10
„ XII—	„ „ where more than Rs. 200, but less than Rs. 500.	4

GSL

Rs. 100. The licensees were divided under the Act into fifteen classes.[1] The maximum fee payable by a licensee was Rs. 200, and the minimum, Rs. 2. Fees levied during the first year produced a gross revenue of £249,066. The cost of collection was £5,425, and refunds amounted to £9,492. There were altogether 425,799 individual assessments. The taxable minimum was Rs.100.

In the Central Provinces, the license-tax was not imposed, the continuance of the old *pandhri* tax being regarded as its equivalent. The limit of assessable income in the case of this tax was Rs. 150.

During the first year of their operation, the administration of the license-taxes disclosed many defects. On the whole, the Acts could not be said to have been administered equally. In some parts of the country, as much revenue as the Government had a right to expect was realised; but in others, the case was just the reverse. While there was severity of assessment in some areas, in others, persons who should have been taxed escaped pay-

[1] Licensees under this Act were: Companies registered under the Indian Companies Act, 1866; bankers; commission agents; brokers; manufacturers; contractors; hotel-keepers; money-changers; owners of ships or boats; letters-out of conveyances; horses or cattle; owners of conveyances, horses or cattle, plying for hire; and all persons carrying on trades, dealings, or industries of any kind whatsoever.

Fees payable by persons required to take out licenses under this Act were as follows :—

Class I, Rs. 200;	II, Rs. 150;	III, Rs. 100;	IV, Rs. 80;
„ V, Rs. 60;	VI, Rs. 40;	VII, Rs. 30;	VIII, Rs. 25;
„ IX, Rs. 20;	X, Rs. 15;	XI, Rs. 10;	XII, Rs. 7;
„ XIII, Rs. 5;	XIV, Rs. 3;	XV, Rs. 2.	

ment. The taxable minimum was considered generally to be high.

In the course of the year 1879-80, the Bengal license-tax was modified by an order of the Government of India, which enjoined the exemption of all incomes below Rs. 250 per annum. This measure curtailed nearly one-third of the demand, and removed from the list of assessees 579,674 out of 740,432 persons assessed at the commencement of the year. It led, naturally, to some abatement of the feeling of discontent. The gross collections amounted to £151,559, of which Calcutta contributed £30,069. In the North-Western Provinces and Oudh, the number of licenses granted was 195,902. Considerable labour was involved in the working of the tax, the principal source of the difficulty being the assessment of the numerous small incomes of the third class. In the Madras Presidency, the operation of the License Act was suspended during the last quarter of the year, in anticipation of a modification of the Act. The total collections amounted to £80,643. License fees levied in the Bombay Presidency produced a revenue of £242,981 in 1879-80. The total number of persons assessed was 403,199. The incidence per head thus came to about 12·5 shillings. In the Central Provinces, no change was made during the year in the mode of imposing the local tax called *pandhri* on non-agriculturists.

GSL

The financial position of the Government having improved to some extent, it was considered desirable in 1880 to afford relief to the poorest classes from the burden of the license-tax. A Bill to amend the License Acts was, therefore, introduced in the Governor-General's Legislative Council. This Bill sought, among other things, to make an equitable adjustment of taxation by bringing within its scope the professional classes. It was, however, withdrawn, and a new Bill was substituted. This was a comparatively small measure. It made a re-distribution in the classes and grades of licensees. But the most important provision of this Bill was the raising of the taxable minimum to Rs. 500. The effect of this change was to restrict the operation of the tax to persons in the enjoyment of fairly substantial incomes. Objections, however, were once more raised to the principles of the tax. The anomaly was pointed out that while the trader, earning a little over Rs. 40 a month, would have to bear his share of the tax, the professional and salaried classes, earning much larger amounts, would not be required to pay anything. Doubts were also expressed as to the necessity of retaining the tax. The Finance Member, Sir Auckland Colvin, did not seriously dispute the anomalous nature of the imposition, but he thought that an extension of the tax to other classes was not called for at that moment. The Governor-General, Lord Lytton,

GSL

admitted that the limited direct tax was "not strictly scientific or completely logical," but he took no steps to remove its defects. The Bill was passed without any material alterations.

In the course of the year, the Governor-General addressed a confidential circular to the heads of the Provincial Governments, with a view to obtaining their opinions as to the desirability of maintaining the license taxes. The Duke of Buckingham, Governor of Madras, and his colleagues were of opinion that the tax, though suitable for municipal purposes, was objectionable as an imperial resource, owing to the defective nature of the staff available in the districts for its assessment and collection. The Government of Bombay was disposed to prefer another form of direct taxation to the license-tax. The Lieutenant-Governor of Bengal remarked that the tax could never be popular, but it was a necessary evil. With these exceptions, there was unanimity of opinion on the following points, namely, (1) that the doubt and uncertainty produced on the minds of the people by frequent changes in the mode of taxation were greater evils than the taxes themselves, and that, therefore, any hasty change was much to be deprecated ; (2) that any objections which originally existed on account of the pressure of the license-tax on the poorer classes had been met by raising the minimum assessable income to Rs. 500 ; (3) that the people

were becoming accustomed to the tax, and that the method of its assessment and collection had been much improved.

The license-tax at this time yielded an annual net income of a little over half a million sterling, and this sum was paid by 228,447 persons. In regard to the justice of imposing some tax upon the trading classes of the community, there could be no difference of opinion. Major Baring, the Finance Member, went so far as to declare that the fact that these classes, who perhaps more than any others, had benefited by British rule in India, paid so little, had long been recognised as "a blot upon the Indian fiscal system." He did not deny that there were some practical objections to direct taxation, which perhaps applied to a somewhat greater extent in India than elsewhere. But the question to be decided was the degree of urgency to be attached to these objections. In the Finance Member's opinion, only a small number of people would be benefited by the repeal of the tax, but the mass of the tax-payers would obtain no relief ; while, on the other hand, the general financial position would be weakened. He admitted, however, that the defects and inconsistencies of the tax ought to be removed.

Many of the inconsistencies, as pointed out by the Finance Member, were glaring. Thus, except in the Madras Presidency, a summary license-tax was levied throughout the greater part of India.

GSL

In Madras, the tax approached, in some respects, nearest to an income-tax. Again, everywhere except in the Bombay Presidency, the maximum fee leviable was Rs. 500; in Bombay, it was Rs. 200. In Northern India, there were two classes, subdivided into eight grades. In Bengal, there were six classes; in Madras, eight; and in Bombay, eleven. In British Burma and Assam, the tax was not levied at all. And not only were there great inequalities in its incidence in the various provinces, but it was open also to two very serious objections, namely, that in respect of those classes which were taxed, it fell with disproportionate hardship on the less wealthy, and that other classes which might justly be called upon to pay the tax, were altogether exempt. The license-tax thus, in its then existing form, could not be incorporated into the permanent fiscal sytem of the country. But frequent changes, as Major Baring rightly observed, tended to exercise a baneful effect upon the minds of the tax-payers;[1] and it was thought desirable that whatever changes were to be made should be final.

[1] Major Baring said in this connexion: "Fixity of policy has been conspicuous by its absence. In the last 22 years no less than 23 Acts of the Legislature have been passed in which successive Governments have either rung the changes on the various expedients for imposing direct taxes, or have for the time being adopted a policy opposed to any direct taxation whatsoever. It was impossible under such a procedure that any system of direct taxation should take root in the country. It was certain that these frequent changes would keep alive rather than allay the unpopularity originally attendant on the imposition of any direct tax. The practical result of the system which has been followed has been that the fundamental principle, that the tax which each individual is bound to pay ought to be certain and not

GSL

The raising of the taxable minimum afforded considerable relief to large numbers of people in both the Presidencies of Bombay and Madras. No changes took place in Bengal during the year 1880-81, either in the nature of assessment of the tax or in its incidence. Out of the number of assessees on the list, one in every three objected. This was scarcely satisfactory, though it was an improvement on the previous year, when objections had come from 62 per cent. of the assessees. Thirty-nine per cent. of the objections were successful, thus proving the administration to have been defective. The gross demand for the year 1881-82 was £187,804, and the amount realised was £143,915. The net collections in the North-Western Provinces and Oudh amounted to £116,315. The number of objections was very large. The total number of assessees was 49,129. Of this number, no less than 22,189 were taxed as professional money-lenders, 5,415 as retail dealers in grain, and 4,003 as sugar manufacturers. The demand on account of the license-tax in the Punjab for 1881-82 was £43,984, and the collections amounted to £43,252. The average incidence of the tax was Rs. 23-3 as. per 1,000. In Madras, the collections amounted to £47,700. In Bombay, the raising of the taxable minimum in 1880 to Rs. 500

arbitrary, has been violated. Frequent changes have rendered it difficult for the tax-payers to ascertain the true amount due from them and have facilitated arbitrary and illegal exactions on the part of the tax-gatherer." *Proceedings of the Governor-General's Council, 1880.*

GSL

relieved 11/13ths of the people taxed, and did away with a large proportion of the complaints against the tax. One in every three hundred of the population now paid the tax in this province, and the incidence on the tax-payers was Rs. 24½ per head, being highest in Bombay city, where it amounted to Rs. 39. The net collections were £124,089.

No alterations were made in the tax in the three following years. The average rate of the tax was equivalent to about 1½ per cent. on the income of those who paid the tax. The total receipts amounted in 1884-85 to £496,873, of which Bengal contributed £146,486; Bombay, £122,498; and the North-Western Provinces and Oudh, £116,507. The year 1885-86 was the last year in which the license-taxes were levied.[1] These were assessed on about 250,000 persons and the total yield was £485,271. At the end of the year, the license-taxes were transformed into an income-tax collected from sources other than agriculture.

[1] The state of popular feeling in Bengal regarding the license-tax in the year 1885-86 may be gathered from the following extracts: The Commissioner of the Presidency Division reported: "Those who pay the tax dislike it, but as they have been accustomed to it for some years, they pay it with less grumbling, though it continues to be distasteful." The Commissioner of Burdwan wrote: "The tax is not popular, but those who pay it have accepted it as an inevitable burden." The Commissioner of the Chittagong Division wrote: "The outcry against the license-tax has almost died away, not because the people have learnt to like it, but because they must pay it. The tax is, therefore, now paid in regularly and without friction, the people submitting to it as a necessity which they cannot avoid." Other Government officers also expressed similar views.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

The license-taxes levied in 1877-78 had a longer lease of life than any of the direct taxes imposed since the termination of the Company's rule. The opposition originally encounterd by these imposts had considerably subsided by the time of their abolition. The license-taxes were a very incomplete and imperfect form of direct taxation. But while they were unsatisfactory in many respects, they prepared the way for the permanent adoption of an income-tax which was to be more equitable in character and less open to criticism. Besides, the experience gained in the administration of the license-taxes helped to reduce to a minimum the difficulty of working the income-tax.

GSL

CHAPTER III

INCOME-TAX

Mr. James Wilson's financial statement of 1860 marks the commencement of a new chapter in the financial history of the country. This was the first occasion on which a budget was presented to the Indian legislature for discussion. In the course of a forceful address Mr. Wilson surveyed the financial situation in India, laying stress on the fact that the suppression of the Mutiny had entailed very heavy expenditure and made a large addition to the public debt. He then outlined the measures which he considered necessary to secure the solvency of the Government. He placed before the Council several proposals for additional taxation, the most important of which were contained in two Bills,—one seeking to impose a license-duty and the other an income-tax.[1] The two measures were supplementary to each other, and their burden was expected to fall on different classes of the population.

In the Income-tax Bill there were two rates, namely, a two per cent. rate on incomes ranging

[1] The latter measure was entitled "An Act for imposing Duties on Profits arising from Property, Professions, Trades and Offices."

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

from Rs. 200 to Rs. 500, and a four per cent. rate on incomes above Rs. 500. Of the latter, 3 per cent. was to be collected for the imperial treasury, and one per cent. for local purposes.[1] No tax was to be levied on incomes below Rs. 200. The Finance Member defended so low a taxable minimum on the ground that a wide incidence of taxation tended to secure greater justice. As the security of the Government, Mr. Wilson argued, extended to all classes, they must all contribute to the public exchequer. He, however, drew a distinction between the wealthy and the less well-to-do. Therefore, incomes up to Rs. 500 were, in his scheme, to be taxed at a somewhat lower rate.

The Income-tax Bill provided that a separate account should be kept of the collections in respect of the one per cent. duty, which should be allocated to the Provincial Governments to be applied, according to their discretion, for the construction of roads, canals and other productive works.[2] The Bill contained four schedules: No. 1 included incomes

[1] Sec. III of the Act ran in part thus: "There shall also be collected and paid, under the rules contained in this Act, for the purposes hereinafter mentioned and described as roads, canals, or other reproductive public works, for and in respect of the property and profits mentioned in the said several four schedules respectively, the further yearly duty of one rupee for every hundred rupees of the amount thereof."

[2] Sec. CXCIII of Act XXXIII of 1860. In regard to the appropriation of this portion of the tax, Mr. Wilson said that the municipalities, where they existed, would have a voice. In defending this provision, the Finance Member observed that its object was to help the improvement of localities, and while the charge would be small, the benefit to be derived from such a contribution might be very great.

from lands and houses; No. 2, incomes from trades and professions;[1] No. 3, incomes from public funds; No. 4, incomes from public salaries. There were in the Bill some provisions for exemption. All government property, salaries of military, naval and police officers of the inferior ranks, and travelling allowances of public officers were excluded from assessment. Raiyats and other persons actually engaged in the cultivation of lands were not chargeable unless the full annual value of such lands amounted at least to Rs. 6,000 per annum. Deductions were allowed on account of repairs of houses and on insurance policies. Lastly, the Provincial Governments were given the power to exempt property used for charitable or religious purposes.

A claim for exemption was put forward on behalf of landholders, especially those under the Permanent Settlement. The Finance Member considered this

He cited in this connexion the example of the United States, where a property tax was collected in every State and applied in part to general and in part to local and municipal purposes. *Financial Statement, 1860-61.*

[1] Schedule No. 2 consisted of four categories of income, namely, "For and in respect of the annual profits arising from any person residing in India from any kind of property whatever, whether situate in India or elsewhere; and for and in respect of the annual profits arising from any person residing in India from any profession, trade or employment, whether the same shall be carried on in India or elsewhere; and for and in respect of the annual profits arising from any person whatever, whether a subject of Her Majesty or not, although not resident in India, from any property whatever in India, or any profession, trade, or employment carried on within India; and for and in respect of all interest of money, annuities, and other annual profits arising from any person residing in India, and accruing and payable in India to any person, whether residing in India or not, not charged by virtue of any other Schedule of this Act".

GSL

claim to be groundless. He also dismissed as worthless the demand for exemption made on behalf of the fundholder. The people of Bombay and Madras urged that, as the financial difficulties had been occasioned by the Mutiny which had taken place in Upper India, those provinces ought not to be made liable for its consequences. Mr. Wilson strongly deprecated this attitude. "The bane of India", he observed, "has been these sectional principles and pretensions. Let us see an end to them, and feel that we are all one for weal or for woe".[1]

The Finance Member proposed to make the operation of the Bill as simple as possible. The zemindars would be assessed at one-half of the revenue they paid to the Government as their profits in respect of land. All the safeguards which existed in the income-tax law of England were inserted in the Indian Income-tax Bill. The general provision for assessing profits was the same as in the English law, namely, that voluntary returns were to be made by traders to the Collector or the Commissioner[2] to his satisfaction. All inquisitorial

[1] *Financial Statement, 1860-61.*

[2] The duties imposed by this Act were to be under the direction and management of the Governor-General of India in Council, the several Governors, Lieutenant-Governors, and Chief Commissioners. The revenue divisions and districts were to be made use of for the purposes of this Act, but the Presidency towns and stations in the Straits Settlements were to be regarded as separate districts. The Collector of land revenue was entrusted with the execution of the Act in the districts. In the Presidency towns, not less than six Commissioners were to be appointed by the Provincial Governments, of whom not less than two were to be persons not in the service of the Government.

GSL

practices were to be prevented,[1] and the necessity of exhibiting accounts and books was to be avoided so far as possible. Further, it was provided that the assessment might be made by *panchayats* in such areas as the Government might think fit to prescribe. In order to avoid the annoyance of annual assessments, power was given to the Commissioner or the Collector to compound the tax for a fixed sum for the whole period of five years or for a shorter period.

The Income-tax Bill was read a first time on the 4th March, 1860.[2] The Bill met with a hostile reception at the hands of the public, and petitions from various quarters were presented urging its withdrawal.[3] But a few persons expressed their approval of the measure. Among these was Maharaja Mahtab Chand of Burdwan. In a letter addressed by him to Mr. James Wilson, he expressed his willingness to contribute his share to the public

[1] If, however, the Collector or the Commissioner was dissatisfied with any return, the Act gave him the power to surcharge such person in such sum as he might think fit. Sec. LIV.

[2] Mr. Wilson cited this Bill as an instance of the Government's policy to deal equally with all classes of the Queen's subjects; for it was proposed that the whole public service, from the Governor-General down to the youngest civilian, should "contribute by an income-tax, equally levied on all to the exigencies of the State."—*Proceedings of the Legislative Council, 1860.*

[3] These emanated, among others, from the British Indian Association, the landholders of Dacca, the clerks employed in the Government and other offices, the landholders and raiyats of Eastern Bengal, and the proprietors of permanently settled estates in Bengal. At a meeting of the inhabitants of Madras, presided over by the Sherift, Mr. H. Nelson, a protest was recorded against the Bill.

GSL

necessities in the emergency which had occurred; and though some other landholders had claimed exemption from the tax, he was emphatic in the opinion that the tax was an equitable one.[1] The Finance Member naturally welcomed this support to his scheme of taxation, but the importance which he seemed to attach to this letter was surely much greater than it deserved. Amongst Europeans, there was at first a tendency to support the measure; but after a time a marked change took place in the opinion of this community.

The second reading of the Bill was taken up on the 14th April. In the course of the speech delivered by Mr. Wilson on this occasion, he replied to the various objections which had been raised against the Bill. Urging the need for additional resources, he argued that the deficiency could not be made good by retrenchment in expenditure. He also pointed out that the substitutes suggested were less

[1] This view was expressed in a letter to Mr. James Wilson from the Maharaja Bahadur. The following extract from this letter forms interesting reading: "Permit me, Sir, most respectfully to assure you that the immediate cause for this expression of my opinion is the attempt which has been made to oppose your admirable system of taxation—this opposition being founded upon the false assumption that it is a breach of the perpetual settlement.

"No doubt that at the time the settlement was made it was considered as sufficient for the exigencies of those days, but I cannot find anything in the terms of the settlement to convince me that the zemindars of India have for ever been exempted from contributing to assist the Government when they incur unavoidable expenses in preserving property, life, the honour, and all that is dear to them, of those very zemindars. Sir, I, as the greatest zemindar of Bengal, disclaim all such exemptions. I am willing to submit most cheerfully to your wise system of taxation which places this unavoidable impost equally on all classes". *Vide Proceedings of the Legislative Council of India, 1860.*

suitable than the income-tax. One objection to the tax was embodied in a petition from the clerks in the public and other offices. Their prayer was that, in place of a uniform rate upon all incomes above the taxable minimum, there should be a graduated scale, beginning with 1 per cent. upon lower incomes and going up to 6 per cent. upon higher incomes. To this reasonable suggestion Mr. Wilson's reply was that it was "no part of the functions of fiscal arrangements to equalise the conditions of men." He added: "But this at least we may say in favour of an income-tax which cannot be said in favour of any other tax, that the incidence falls upon each person in the exact proportion to his means".[1] The principle of progression was thus brushed aside by the Finance Member.

Another objection to the measure was the novelty of the tax. It was also averred that an income-tax was distasteful and repugnant to the feelings of the people. To this Mr. Wilson replied that there was considerable difference of opinion on this question, and that some officers had expressed a view favourable to it. Before concluding, he referred to the most cordial and unanimous support which he had received from all officers of the Government, with one single exception, namely, Sir Charles Trevelyan, Governor of

[1] *Proceedings of the Legislative Council of India, 1860.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
50
GSL

Madras.[1] Though there were various difficulties, Mr. Wilson did not hesitate to persevere in a measure which, in his opinion, was based on "equitable, broad and intelligent principles", and calculated to promote "the lasting good of the country."

The details of the Bill were considered at great length when the Council resolved itself into a Committee. The question of the exemption of landholders under the Permanent Settlement was again discussed. Mr. A. Sconce observed that the clear purport of Regulation I of 1793, which legalised the settlement of estates in Bengal, was that the re-assessment of these estates was for ever barred, but the law did not guarantee that the landholders should never be called upon to aid in the relief of the future necessities of the Government, by contributing according to their means or incomes.[2] He argued, further, by referring to the first sentence of Regulation XIX of 1793,[3] that the right to revenue from land was inherent in the State

[1] "The opposition in that case", said Mr. Wilson, "has assumed a character which, I will venture to say, has no parallel in Indian history". As has already been noticed, it was Sir Charles Trevelyan's opposition to Mr. Wilson's measures of taxation and the publication of letters addressed by him in this connexion to the Government of India that led to his recall.

[2] Mr. Sconce asked the question, "Is the revenue assessed a tax in the sense that it is a deduction charged upon the profits or gains of zemindars diminishing their gains to the same extent, or is it levied in virtue of a substantive and paramount title vested in the State?" The law of 1793, he thought, left no doubt on this point.

[3] It runs as follows: "By the ancient law of the country the ruling power is entitled to a certain proportion of the produce of every *bigha* of land, demandable in money or kind, according to local custom".

and was not a deduction by way of a tax from the profits of the landholders. He added that the same fact was brought out in a still stronger light in Regulation VIII of 1793, the 75th section of which provided that the assessment should be so regulated as to leave to the proprietors a provision for themselves and their families equal to about ten per cent. of the amount of their contribution to the Government. Mr. Wilson quoted extracts from the Minutes of Lord Cornwallis and Sir John Shore to prove that it was not their intention to exempt the zemindars from a scheme of taxation which would reach others. Nor, in his view, were the holders of rent-free tenures absolutely free from liability in respect of the general taxation of the country.

Several members of the Council expressed the hope that the income-tax would not be a permanent measure. Mr. H. B. Harington, member for the North-Western Provinces, observed that in England almost all those who had written or spoken on the subject, although they all admitted that, in a case of emergency, an income-tax was perfectly justified and might be unavoidable, were of opinion that it should be given up as soon as possible, and indirect taxation reverted to. The objections to an income-tax were, Mr. Harington thought, aggravated in India by the character of the agency which was employed to carry it out.

The Bill was carefully considered in the Select

GSL

Committee; and although its essential features remained unchanged, considerable improvements were made in its details.[1] The third reading of the Bill was taken up on the 21st July, 1860. On this occasion, Mr. Wilson expressed his satisfaction at the fact that a Bill containing so many sections as this should have passed the Council not only unchanged in its main provisions, but without a single division, from first to last, having taken place. In concluding the debate on the Bill, Sir Barnes Peacock observed that it had his entire approval. He also concurred in all that had been said by the Finance Member regarding the justice of taxing landholders under the Permanent Settlement.[2]

The Income-tax Bill was passed by the Council on the 24th July, 1860, and it received the assent

[1] The modifications were as follows: (1) The original Bill proposed to assess the zemindars under the periodical system of settlement at one-half of the government *jama*; the Select Committee reduced it to one-third. (2) In the matter of double taxation, it was decided to exempt incomes from foreign funds, except so far as such incomes might be brought into India. (3) The same rule was applied to income derived from other property, such as lands, houses, or investments in England or any foreign country. (4) Pensions of persons resident in India and drawn from the Secretary of State were exempted. (5) With regard to commercial profits, the same rule was to be pursued as nearly as possible. (6) All officers in the army and the navy were to be charged, whose incomes and emoluments were not less than those of a captain in the army.

[2] With reference to the assertion which had been made that his opinion now was different from that expressed in a previous Minute, the Chief Justice explained that his opinions on the two occasions were entirely consistent with each other. The Minute was written on the subject of taxing zemindars and zemindars alone for the propose of maintaining chaukidars; this was an exceptional measure, and the Government would be violating the promise they had made at the time of the Permanent Settlement. The income-tax was a general tax affecting the whole country, from which the zemindars could not reasonably claim exemption. *Vide Proceedings of the Legislative Council of India, 1860.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

of the Governor-General on the same day. It was to continue in force for a period of five years. Some minor modifications were introduced by Act XXXIX of 1860[1] with the object of remedying the defects which had come to light since the passing of the Income-tax Act. The law, as amended, came into force in September, 1860. The yield during the financial year 1860-61 was rather small.

In the following year, Mr. Samuel Laing, the successor of Mr. Wilson, described the income-tax as "a failure". He admitted that it laid down a great and just principle, namely, that the capital and the trade of India, as well as her land, should contribute, in a fair proportion, towards the support of the State. From that principle no Government, he believed, would ever recede. He thought so far as fixed and certain incomes were concerned, which could be ascertained without prying into people's private affairs, there was no fairer mode of levying a tax than by a percentage on these amounts. But as for trading and professional incomes, or incomes which could not be ascertained without calling for complicated returns and instituting private enquiries, some fixed scale of assessment under a graduated license-tax, was, in his opinion, a better mode of applying the principle. He held the view that it was a fatal objection to the income-tax that it

[1] This Bill was sponsored by Sir Bartle Frere in the absence, owing to illness, of Mr. James Wilson.

GSL

conduced to extensive demoralisation by holding out a premium to fraud. Besides, its inevitable tendency was to embark the Government in a constant struggle with a large section of its subjects,—"a struggle carried on by vexatious interference and inquisition on the one hand, and by evasion and chicanery on the other".[1] Lastly, he was of the opinion that India was no place for such a tax going as low as £20 a year. But the financial condition of the country did not permit him to amend this portion of the tax on the occasion, although he hoped before long to be able to do so.

A few months later, a temporary Act was passed to continue the then existing assessments under the income-tax for one year. At the time of the presentation of the Budget for 1862-63, Mr. Laing expressed the opinion that, if the income-tax were being imposed for the first time, he should have had no hesitation in recommending that it should be converted into a tax on the principle of Mr. Harington's Bill, and made over to the Provincial Governments. He said further that, if the income-tax were to be perpetual, he would rather see it transformed into a local tax than continued as an imperial tax. But the one paramount consideration was whether the income-tax was to be looked upon as a permanent or as a temporary measure. On this point Mr. Laing

[1] *Proceedings of the Legislative Council of the Governor-General, 1861.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · GSL

himself had no doubt. The tax had been imposed for a limited term, and it was necessary at all hazards to keep faith with the people of India by not prolonging it. He said that while the abolition of the tax was the great object of his endeavours, it was not possible to carry it out on this occasion, as only a small surplus was anticipated in the budget.

But the Finance Member proposed certain measures which were calculated to alleviate materially the pressure of the tax. In the first place, the temporary Act of the previous year was renewed, dispensing with all further returns and enquiries for the next three years. Secondly, all incomes between Rs. 500 and Rs. 200 were exempted, not on the ground that such payers were poor,[1] but on two other grounds, namely, first, that while the number of persons who paid the lower rate of 2 per cent. was two-thirds of the total number of income-tax payers, the money they paid amounted to only one-fifth of the whole preceeds; and secondly, that the cost of collection of this portion of the tax was very large, which might be taken as an index to the annoyance and oppression it caused.[2] As the op-

[1] Mr. Laing was no believer in socialism which was, in his opinion, destructive of social order; and it was the middle and working classes who, he thought, would in the long run, "suffer most from the seductions of the political demagogues and from the sickly sentimentality of injudicious philanthropists."

[2] "A tax", said Mr. Laing, "which affects 600,100 persons, to produce £350,000 gross, of which at least £100,000 is absorbed by cost of collec-

GSL

position to the income-tax had emanated chiefly from the European community, Mr. Laing made an earnest appeal to its intelligence and public spirit. "I do not believe", he said, "in ignorant impatience of taxation on the part of educated gentlemen like the great majority of official and non-official Europeans in India, when they are fairly dealt with. On the contrary, I am conviced that, however strongly they may feel the natural desire of every body to escape his own peculiar burden, they will be satisfied with the assurance that the Government is sincerely desirous not to perpetuate the income-tax, and with the pledge given for the future by the remissions already made."[1]

From the 1st August, 1863, the four per cent. rate was reduced to three per cent. Before the expiry of the Income-tax Act, the question whether it should be continued or not was discussed in the Executive Council of the Governor-General. The Finance Member, Sir Charles Trevelyan, was strongly opposed to the renewal of the Act. He thought that,

tion, is condemned by the mere statement of figures". "But the numbers alone", he added, "do not adequately represent the real relief, for it is beyond all question that men of property and intelligence can defend themselves against mistakes or attempts at extortion by native officials, far better than the class who just come within the limit of the 2 per cent. assessment".—*Financial Statement, 1862-63.*

[1] The Finance Member said further: "The prosperity of India is their prosperity, and I am much mistaken in their intelligence and right feeling, if they are disposed to use the dog-in-the-manger argument, that because we cannot afford to relieve them, 600,000 of our fellow-subjects of the humbler classes shall, for the sake of £250,000 which we do not want, be kept under the bondage of an unpopular tax."

GSL

provided proper economy was observed, the other sources of revenue would suffice for the expenses of administration. One of the greatest objections to the income-tax, in his opinion, was that it might "induce a relaxation of the habit of economy."[1] The Governor-General, Sir John Lawrence, on the other hand, thought that, in the then existing financial situation of the Government, it was inexpedient to allow the tax to lapse. But he failed to secure the assent of the Council to his proposal to continue the income-tax.[2] He, therefore, recorded his protest in a Minute in which he observed as follows: "It has been my earnest desire ever since the income-tax was established that I might see the day when it would be fairly given up. And of course, the circumstance that it would conduce to the credit of my administration if it be now allowed to lapse has not diminished this wish. But I view with apprehension the loss of this source of income under present circumstances.[3] It is very

[1] Sir Charles said in the Legislative Council: "The disposition will always be to spend up to an income-tax. In order to prevent, I will not say profuseness, but a feeling of indifference about the spending of public money, there must be a sense that we are dealing with limited funds. The resources still to be derived from a judicious frugality are extremely important."—*Minute dated the 30th March, 1865.*

[2] Bosworth Smith says that the Council had come round reluctantly to the conclusion that the income-tax must be retained for another year; but that on the day before the promulgation of the budget, it was found at a meeting of the Council that Sir Charles Trevelyan had returned to his old hate, and that all the members of the Council present, except the Governor-General himself, had "harked back with him".—*Life of Lord Lawrence, Ch. XIII.*

[3] Sir John Lawrence himself had written to Sir Charles Wood, on May 29, 1864: "I am myself very strongly opposed to further taxation.

GSL

easy to give up a tax, but it is still more difficult to revive it."[1]

The Governor-General might, of course, have overruled his Council,[2] but he shrank from the step lest he should hurt the feelings of Sir Charles Trevelyan. The Council decided to impose certain export duties as a substitute for the income-tax. These, however, were disallowed by the Secretary of

We now hardly make the two ends meet. Our expenses are yearly increasing, and will increase. We have not a sufficient income for improvements, and a considerable slice of our revenue, as you know well, is uncertain. In August, 1865 the income-tax must cease. We must, as soon as practicable, provide for this loss. I greatly deprecate additional taxation; for I know the complications which are likely to ensue. The minds of the natives are unsettled. It is far better to reduce expenditure than to increase taxation. I have always advocated this policy as you know". *Vide* R. B. Smith, *Life of Lord Lawrence, Ch. XII.*

[1] Sir John Lawrence wrote further: "If therefore the income-tax is renewed, or, in other words, if a new income-tax is passed, it will be as completely additional taxation as if it were a succession tax or any other tax. The case is even stronger than this; for we are under a moral obligation not to renew the income-tax except in the event of imperative necessity. This point is put with perfect correctness in Mr. Laing's financial statement for 1862-63".

Two years later, Sir John Lawrence wrote to Sir Stafford Northcote: "The English community have objected to the income-tax. It was mainly through their influence that it was not continued in 1865-66. It was mainly in deference to their wishes that the license-tax was adopted this year in preference to an income-tax. The English community almost universally lend their influence in favour of increased expenditure of various kinds. But when it comes to taxation to meet the extra cost, they resist their share of the burthen".—Letter dated the 28th March, quoted in Bosworth Smith, *Life of Lord Lawrence.*

[2] Mr. H. B. Harington and Mr. W. Grey, members of the Executive Council, wrote a joint Minute in which they observed as follows: "The Minute on the record by the Governor-General renders it necessary that we should state the considerations which led us to think it right that the income-tax should not be re-imposed. In coming to this conclusion we are chiefly influenced by a belief that the Government had pledged its faith to the people that the tax should not be re-imposed unless the financial condition of the country should be such as to make the imposition of such a tax an imperative necessity."—*Minute dated the 13th April, 1865.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

State. On the 31st July, 1865, the provisions of the Income-tax Act of 1860 expired.

The figures relating to the proceeds of the income-tax and the persons assessed to it are interesting. In the first official year of its imposition, the collections amounted to £1,100,000. In 1861-62, the income-tax (together with the license-tax) produced £2,000,000. In the three following years, the collections were £1,900,000, £1,500,000, and £1,300,000.[1] The net receipts from the different provinces in the last complete year of its enforcement were as follows: Bengal, £385,005;[2] North-Western Provinces, £169,059; Oudh,[3] £29,754; Punjab, £52,280; Central Provinces,[4] £29,868; Hyderabad Assigned Districts, £1,248; British Burma,[5] £13,095; Madras, £147,867;

[1] The tax was in force during only one quarter of the year 1865-66, and the receipts amounted to £671,900.

[2] In the province of Bengal, the number of persons assessed in 1860-61 and 1861-62 was a little over 250,000, and the amounts realised in these years were £187,786 and £635,585 respectively. In 1862-63, on the passing of the Act exempting incomes under £50, the number of persons assessed fell to 64,677, while the receipts amounted to £629,197. In the two following years, the persons paying the tax numbered 59,927 and 53,773 respectively, and the receipts were £478,392 and £385,905. The total receipts during the four years in Bengal amounted to about a million and a half pounds sterling. The cost of collecting the tax was about 3½ per cent. on the collections in Calcutta and the suburbs, and nearly 9 per cent. in the remainder of the province. The moral obligation to furnish trustworthy statements was generally evaded, and only 6 per cent. of the payers were taxed on the returns made by themselves, while the amount of surcharge was 300 per cent.

[3] The charges were only £288, or less than 1 per cent.

[4] The number of persons taxed in the Central Provinces was about 5,000, and 98 per cent. of the demand was realised during the year.

[5] It is worthy of note that so great was the repugnance felt for the tax that many of the Chinese withdrew to the Straits Settlements in order to avoid it.

GSL

Bombay,[1] £337,250. Bengal was thus the largest contributor among the provinces, with Bombay as a good second.

On the occasion of the presentation of the budget for 1865-66, Sir Charles Trevelyan described the income-tax as "a potent but imperfect fiscal machine," which should be regarded as "the great financial reserve of the country." It was laid on the shelf "complete in all its gear, ready to be reimposed in case of any new emergency".[2]

It was not long before such an emergency arose. No sooner had the income-tax expired than did its resuscitation in another form become necessary. In 1867, the financial difficulties of the Government of India compelled it to impose a license-tax.[3] This tax having lasted for a year, Mr. Massey resisted all demand for its repeal, and continued it in an improved form as a certificate-tax. But this change

[1] A report submitted by the Income-tax Commissioners, on the working of the Act for four years in the island of Bombay, showed that, at any rate in the Presidency towns, this was by no means a difficult mode of taxation. The assessment in the first year amounted to only £92,500, when the rate was at 4 per cent; but in 1864-65, although the tax had in the meantime been reduced to 3 per cent., the realisations amounted to about nearly four times that amount. The prosperity of the community in the latter year no doubt contributed largely to this result, but a great deal was due to the improved means of ascertaining what was really the amount assessable, and to the taxpayers having become better acquainted with the obligations imposed upon them. —*Moral and Material Progress Report, 1865-66.*

[2] *Financial Statement, 1865-66.*

[3] Sir John Lawrence had himself been in favour of an income-tax rather than a license-tax, and had written to the Secretary of State, Lord Cranborne, to that effect. The mode in which the License-tax Bill was carried was objectionable, for it was introduced and passed at one and the same sitting.

did not solve the financial difficulty; and in 1869, another deficit, the fourth in succession, was apprehended. Sir Richard Temple, therefore, proposed to convert the certificate-tax into an income-tax. In explaining the provisions of the Bill, he observed that as the principle of the certificate-tax was in fact that of an income-tax on particular classes, the substitution of an income-tax proper would practically not much alter the demand on those who paid the certificate-tax. The effect of the change would be virtually to extend the tax to those classes which had previously been exempt. The tax would thus apply equally and justly to all classes alike without any distinction. The principle of rough assessment, avoiding individual assessments and inquisitorial processes, was to be kept up. The mean incidence of the certificate-tax, namely, 1 per cent. on profits, was also to be maintained. The minimum limit of income--Rs. 500 per annum--was to be observed in the case of the income-tax. Officers of the Government, drawing salaries below Rs. 1,000 and above Rs. 500, were to be taxed at 1 per cent. It was calculated that not more than 150,000 persons would be assessed to this income-tax, or, in other words, the tax would hardly touch one in a thousand. "In short," observed Sir Richard Temple, "our hope is that by eschewing change in respect to those who now pay a direct tax; by refraining from demand for returns; by removing the measure from any

GSL

contact with the poorer and more ignorant classes, we shall keep it comparatively free from much of the unpopularity which attached to the income-tax and, as it were, rob the measure of its sting".[1]

In answer to the suggestion that some other means might have been devised for improving the resources of the Government, Sir Richard Temple said that they had over and over again thought of every tax that had been suggested, and found that some insuperable economic objection or other was apparent in the case of each one of them, the income-tax alone remaining comparatively free from objection, "as hampering no particular trade and fettering no particular industry". Besides, experience had shown that they could not afford altogether to dispense with direct taxation. He, however, refused to accept the suggestion to raise the rate to 2 per cent., because he thought that the 1 per cent. rate was sufficient, and that it was not desirable to trench more than was absolutely necessary upon the chief fiscal reserve of the Government. The Finance Member appealed to the fundholder, the landholder,[2] the house-owner, and the European

[1] *Financial Statement, 1869-70.*

[2] "The landholders", he said, "especially the zemindars under the Permanent Settlement, convinced from long experience of the inviolable faith kept with them by the State, cannot regard this measure with any distrust, but will submit to the law, if it shall be enacted, with that loyalty which befits gentlemen of accumulating wealth and liberal education, recollecting that the question of their liability was settled long ago, and that in each cycle of years the progress of Bengal—with its staple profitably exported to England, its net-work of water communications, its patient and thriving peasantry—enhances their debt of grati-

community for aid in bearing the burden of the tax, and concluded with the expression of the hope that every person, European or Indian, would "appreciate the justice of taxing all classes without exception". Though some objections were made against the Bill, it was passed.[1]

The income-tax imposed by Act IX of 1869 came into force from the 1st April of that year. It was levied at the rate of 1 per cent. on all incomes and profits from Rs. 500 per annum and upwards. It fell on the landed classes as much as on the other classes of the population. Persons subject to the income-tax of 1869-70 were divided into five grades. Grade I, being the lowest, included those whose annual incomes ranged from Rs. 500 to Rs. 1,000, while grade V, the highest, consisted of those whose incomes amounted to Rs. 1,00,000 or more a year.[2] The rate was subsequently enhanced by Act XXIII of 1869 to 2 per cent. for the second half of the financial year. The financial results of the Acts of 1869 were satisfactory.

In 1870, a deficit of a million and a third sterling

tude towards the Government under whose sway their property has been vastly benefited".

[1] The Maharaja of Jaipur, a member of the Legislative Council, said that, "in his opinion, of all modes of direct taxation the income-tax was most unsuited to this country, as it was most opposed to the feelings of the people". This opinion of a ruler of an Indian State was quoted in 1873 with approval by Lord Northbrook as that of a friendly neighbour, who himself was not affected by the tax, nor were his subjects.

[2] The total number of persons assessed to the income-tax in Bengal in 1869 was 182,779. The total collections in this province amounted to £373,146, about £107,000 being derived from the lowest, and about £62,000 from the highest, incomes. The collections in Calcutta alone amounted to £102,000.

GSL

being apprehended, recourse to further taxation became unavoidable. The Finance Member proposed to raise the income-tax to 6 pies in the rupee, or about $3\frac{1}{8}$ per cent. On this occasion, the rate was not fixed, as heretofore, as a percentage of the income. The system of rough assessment by classes was dispensed with on the ground that, while it worked well when the rate of duty was low, it would not work satisfactorily with a higher rate. Individual assessments were now substituted, and the submission of compulsory returns of income by tax-payers became essential. As to the duration of the new income-tax, the Finance Member declined to make any promise whatsoever. He, however, expressed the hope that the tax would not last beyond that year at the rate of 6 pies in the rupee; but he made it clear that the realisation of such hope would be dependent on circumstances.

The probable yield of the tax was estimated at Rs. 2,180,000, but the actual revenue from this source fell somewhat short of the expected amount. The income-tax of 1870-71 did not thus yield a sum commensurate with the increase in the rate. In Bengal, for instance, there was a decrease in the number of assessees as compared with that of the previous year, though the result was favourable in comparison with other years. There is no doubt that the people had been over-taxed under the Acts of 1869, and there was naturally a disposition

GSL

towards leniency of assessment in 1870-71.[1] Another cause of the falling-off was a deterioration in the circumstances of some of the tax-paying classes. A third cause was perhaps to be found in a certain amount of passive resistance engendered by the unpopularity of the tax.

The enforcement of the provisions of the Income-tax Acts of 1869 and 1870 led to many cases of oppression.[2] In Bengal alone, relief outside the law had to be given in 994 cases in 1869-70 and in 478 in 1870-71. The general view even among officials was that the rate was too high and that the limit of exemption was too low.

Mr. A. Money wrote: "There was a belief at the beginning of the year that the tax was the result of a temporary pressure for money, and would cease with the year. The assessors seem generally to have held this opinion, and to have impressed it on the people. Partly for this reason, and partly because to dispute a small assessment involved more trouble and expense than the demand was worth, a very large number of assessees paid, without objection, assessments to which they were not legally liable. Many a man with an income under 500 rupees, could afford to pay 6 rupees, that is, could pay that amount without any great privation, and thousands did so pay on no other grounds. When, however, the supposed possession of an income of 500 rupees produced a demand of Rs. 19-8 under the tax of 1870-71, all those who were really not liable came forward with objections and got exempted." And further: "The disclosure of the large number of illegal assessments made during the previous year, the outcry in the press when some such cases which occurred near Calcutta came to light, the fear of blame, the trouble consequent on a second enquiry into a case to which the Government's or the Board's attention had been called, the honest wish not to repeat the errors of the previous year, the heavy incidence of the tax, so heavy that on incomes of a little over 500 rupees its operation was necessarily attended with suffering and privation, all these causes combined to turn the scale during 1870-71 generally in favour of the assessees. I do not think this is to be regretted. The feeling against the tax at the beginning of the year was so strong that I am confident it is better for the Government, in a political sense, to have realised less than it was entitled to at the full rate, than to have given occasion for any increase of that feeling." —*Minute on the Income-tax Administration Report for 1870-71.*

[1] The Finance Member, however, thought that the number of cases of oppression was small.—*Financial Statement, 171-72.*

GSL

The Government of the North-Western Provinces thought that the assessable income of 500 rupees was a source of maladministration.[1] "No one," they said, "with an income of less than 1,000 rupees ever keeps regular accounts. There are no data on which assessments on the lower incomes can be made by subordinates, or controlled, had they the time to control them, by their superiors." Mr. A. Money, member of the Bengal Board of Revenue in charge of Income-tax, was even more emphatic. In his Minute on the Income-tax Administration Report for 1870-71 he wrote: "At the bottom of the misery and pain in these cases, of which there were hundreds, lie two or three facts; one, the inexpediency, as I take it, of extending the tax to incomes so small, that if, in regard to them, under such a rate as $3\frac{1}{8}$ per cent. the assessor makes a mistake, the result is something very like ruin to the assessee; another, the error of making over the power of punishment to a court which cannot look at the merits". The Government of Bengal concurred in this view.

The actual work of assessment was not in many

[1] Mr. Money was not sure whether the word 'oppression'—which was vague—could be used with regard to these cases of hardship, but he gave instances of gross injustice caused by the operation of the Act. He added: "Under the operation of the law, the magistrates became blind instruments of punishment. If, then, by cases of oppression are meant cases of wrong assessment, in which, either with or without the magistrate's assistance, the demand, or the realisable portion of it, has been collected, it is clear from the figures I have already given that such cases under the operation of the Acts of 1869 were very numerous."—*Parliamentary Paper No. 289 of 1872.*

cases done at all well. In Bengal, the operation of the succeeding year showed that a very large number of persons were assessed under the Acts of 1869 who were not assessable. Sir George Campbell, in a Minute on the Income-Tax Report for 1869-70, pointed out certain startling results. For instance, there were no lawyers in the highest class, while the next highest class included 58 ministers of religion, 17 legal practitioners, and no medical men, which led the Lieutenant-Governor to remark sarcastically that "religion was more lucrative than law after all".[1] But the most surprising fact was that the most numerous class of income-tax payers consisted of cultivators, of whom no less than 34,375 were assessed to the tax in Bengal, as distinguished from 25,483 proprietors and sub-proprietors. Undoubtedly, the cultivators were over-assessed as compared with the other classes, and Sir George Campbell was perfectly justified in remarking that he should have expected that, "in this country of very small holdings, cultivators would have been almost entirely free of income-tax instead of being the most numerous class assessed".[2]

The misery of the poor man was increased in the ignorant parts of the country, where the landholder's burden was transferred to the shoulders of the

[1] *Parliamentary Paper 289 of 1872.*

[2] "These seem," observed Sir George Campbell rightly, "to lead to a singular inversion of our preconceived ideas".

raiyat. The mode of assessment was also very unsatisfactory. Under Mr. Wilson's Act, every man was called upon by a general notification to give in returns of his income. If he failed to do so, he could not complain of the subsequent action taken against him. But under the Income-tax Acts of 1869 and 1870 the initiative rested with the Government office, and it was scarcely equitable that, owing to the Collector's omission to serve a notice during the previous year, a man should at one and the same time be called upon to pay the entire tax for the current year. Such delay not only deprived the taxpayer of his legal right to pay in instalments, but the cumulative demand invested it with additional severity.

Another defect of the system was to be found in the great disparity and variation in the assessment of some districts. The yield was not the largest in the districts around Calcutta, which had the greatest advantages by way of roads, railways, commerce, education, and all that was known as civilisation, but in the inaccessible and non-Regulation district of Manbhum. The arbitrary character of the assessments was further proved by the fact that, out of 90,784 objections filed, more than 50,000, were successful.

There was an even more serious evil. The changes from year to year were, to use the words of a high officer of the Government, "like the effects of

a kaleidoscope". At each turn of the legislative machine, he observed, the districts altered their relative positions, and occupied new places, according to the character and proclivities of the assessors or collectors whom chance or the Government might give them.

In 1871-72, the opinions of the provincial rulers and of other officers of the Government were invited on the nature of the income-tax. The Lieutenant-Governor of the North-Western Provinces wrote that he did not object to the main principle of the income-tax. "But", he added, "it may be questioned whether the tax should be resorted to as a means of squaring the accounts of the year, its rate and reach varying with the amount of the annual deficit or the prospects of the coming revenue. It would be wise and more statesmanlike, in dealing with a people so impatient of inquisition, so suspicious of change, and so difficult to reach by our explanations, to make the tax precise and unvarying both in its reach and in the conditions of its assessment".[1]

[1] The Offg. Collector of Ghazipur wrote: "The chief cause why the tax is at the same time unproductive, unpopular and unequal is the very high rate of the minimum assessment and the defective nature of the means available to us for ascertaining actual incomes....The tax is disliked not only by the persons who ultimately pay it, but also by those who after assessment obtain remission at last with considerable trouble, and also by those who are actually never assessed but who expend considerable sums in fees to *pargana* and village accountants and other subordinate officials to save themselves from being mentioned." The Collector of Azamgarh wrote: "The task of assessing the income-tax, therefore, cannot be looked upon in any other light than that of an odious one; for while highly invidious to the people, it is equally unsatisfactory to oneself. The more I see of the working of the income-

GSL

The Lieutenant-Governor of the Punjab said that, in his opinion, the income-tax, in its modified form, did not give rise to any general discontent in the province. It fell on a very small percentage of the population. The agricultural classes were practically exempted altogether, the tax being paid by the inhabitants of cities and officers in the service of the Government. The collection of the tax had been carefully supervised, and the number of complaints was few. The novelty of the tax appeared to the Lieutenant-Governor to be the chief reason for any dislike felt for it, but this feeling was growing less year by year. The uncertainty of the rate at which the income-tax was levied and the frequent changes in the administrative procedure were further reasons for its unpopularity.

In 1871, the financial position of the Government having improved, it was decided to lower the rate of assessment from 6 pies in the rupee (or $3\frac{1}{8}$ per cent.) to 2 pies in the rupee (or a fraction over 1 per cent.), and to raise the minimum income liable to assessment to Rs. 750. Sir Richard Temple explained to the Council that the retention of this small tax was indispensable, as without it they would have to produce a budget with a deficit. He also pointed out that the rate to which the

tax year by year the more I feel convinced of the utter hopelessness of expecting to ascertain with any degree of accuracy what a native's income is."—*Parliamentary Paper 289 of 1872.*

tax was now reduced was the lowest at which it had ever been levied in India, and indeed the lowest at which it could be levied, if retained at all. The Finance Member expressed his satisfaction at being able to relieve, by the reduction, 240,000 persons heretofore taxed. It had been in respect of the small incomes below Rs. 750 that complaints of over-assessment, exaction, or vexation, had mainly arisen, and the pressure of the tax had fallen heavily upon these small incomes.[1] He added that the policy of the Government with regard to the income and license taxes had been to extend, from time to time, the exemption more and more among the poorer classes liable to assessment. No limit of duration was fixed in the Bill which was introduced to give effect to these amendments.

In the Legislative Council, individual members of the Government of India expressed their own views on the question whether the tax should be permanently maintained or not, and a great deal of divergence was observable in their remarks. The Government collectively, however, abstained from expressing any opinion on the subject. Lord Mayo refused to be drawn into the controversy. But he felt it his duty to record his opinion that a feeling of discontent existed among every class, European as

[1] Sir Richard Temple added that while the rate remained low as in 1867-68 and 1868-69, these complaints were not perceptible at all or were much less rife; and no doubt the inherent difficulties of the case had been aggravated by the increased rates.

GSL

well as Indian, on account of the constant increase of taxation which had been going on for years, and expressed his belief that "the continuance of that feeling was a political danger, the magnitude of which could hardly be over-estimated". The reduction in the rate and the raising of the taxable minimum failed to give satisfaction to the members of the Council, who urged the entire abolition of the tax. The Income-tax Amendment Bill was, however, passed in spite of strong opposition.[1]

During the years 1871-73, the Indian income-tax engaged the attention of the Select Committee of Parliament, when considerable divergence of opinion was exhibited on the question. Three former Finance Members[2] of India, namely, Mr. Samuel Laing, Sir Charles Trevelyan, and Mr. W. N. Massey, expressed themselves as strongly opposed to the tax. Lord Northbrook, who was shortly afterwards to be sent out to India as Viceroy, also gave his opinion against it, the main ground of his objection being that it was essential for the safe government of India that taxes, if they could not always be in accordance with the feelings of the

[1] *Proceedings of the Legislative Council, dated the 17th March, 1871.*

[2] Mr. Samuel Laing thought that the income-tax was about "as bad and obnoxious a mode of raising revenue as it was possible to imagine in a country" like India. Sir Charles Trevelyan held the income-tax to be "totally unsuited to the character and habits of the natives of India, and singularly odious to them." Mr. W. N. Massey, having pointed out the objections to the maintenance of the tax, even at a low rate, said that "nothing on earth should induce him to hold office in India as the Finance Minister if the condition imposed on him was the maintenance of an income-tax as an ordinary source of revenue."

people, "should not altogether be opposed to them".[1]

In the budget estimates for 1872-73, a small deficit was apprehended if the income-tax was to be given up. It was decided, therefore, to continue the tax for a year longer as a provisional arrangement. But it was understood that the question of abandoning it or maintaining it as an integral part of the financial system would be considered by the Government after the arrival in India of the newly-appointed Governor-General. The taxable minimum was now raised to Rs. 1,000. Thus the income-tax lost a part of its objectionable character by being confined to comparatively high incomes. The tax was estimated to produce a gross return of £585,100 in 1872-73.[2]

In 1873, Lord Northbrook, after reviewing the entire financial situation of the country found that, without re-imposing the income-tax, there would probably be a surplus of from £200,000 to £300,000 in the budget for 1873-74. He took into account the opinion of Europeans as well as Indians, both official and non-official, and came to the conclusion that the re-imposition of the income-tax was unnecessary and inexpedient.[3] He thought that the opportunity which the prosperous condition of the

[1] *Vide answer to Q. 7474, Select Committee, 1872.*

[2] This was distributed as follows : land, £160,674 ; houses, £15,211 ; employment, private, £34,876 ; employment, Government, £103,567 ; commerce, £237,750 ; funds, £23,796 ; miscellaneous, £9,226.

[3] *Minute of the Governor-General, dated the 14th April, 1873.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

finances afforded at this time of reducing the pressure of taxation was a great political advantage, and that no single act could produce so salutary a political effect over the whole of India as the announcement that the Government had determined not to re-impose the income-tax.[1] A Resolution was, therefore, published announcing the withdrawal of the income-tax. The Finance Member, Sir Richard Temple, however, wrote an elaborate Minute intimating his dissent from the Resolution. He expressed the opinion that the income-tax was just as suited to India as to England, and that he could not contemplate its remission until the Government was able to produce a budget estimate with a surplus of one million and a half at the least. He objected to the relinquishment of the tax on the ground that it would be injurious to the stability of the finances, to the administration of the public service, and to the welfare of the general community. With regard to the last point, he observed: "As recently levied, it is essentially the one tax which falls on the rich. It helped in some degree to redress the balance which, in India, inclines too much in favour of the richer and more influential classes, and too much against the poor. It also helped to distribute the burden of taxation between the various industries, interests, and

[1] *Minute of the Governor-General, dated the 14th April, 1873.*

GSL

classes in the country. Its relinquishment deprives the Government of the means of mitigating taxation which falls unduly upon the poor, or which either injures trade and industry, or might at any moment prove detrimental to those interests".[1]

Mr. B. H. Ellis, another member of the Executive Council of the Governor-General, also wrote a Minute expressing in emphatic terms his dissent from the Resolution. He held the view that an income-tax, levied at a light rate, and affecting only the upper classes, was specially suited to India, and its maintenance was a source of great financial strength. He concluded his Minute with these words: "I repeat, then, that the income-tax has been removed without due cause, and that its removal has weakened the financial resources of the country. We have, moreover, lost the opportunity of so dealing with the salt duties as to effect a great administrative and fiscal reform by getting rid of the customs line in the British territory, and at the same time giving relief to the poorer classes of a large part of India, and placing the finances on a sounder basis by furnishing an additional reserve in time of need. We have crippled our means of

[1] *Minute dated the 2nd April, 1873.*

Sir Richard Temple concluded his Minute with these words: "I maintain, firstly, that we cannot financially afford to dispense with the tax; secondly, that if we could afford any remission of taxation, preference ought to be given to other imposts before the income-tax; and, thirdly, that, even if these imposts had been reduced or remitted, still the income-tax ought to be retained, with a limited incidence and at a light rate, as a part of the ordinary fiscal system of India."

GSL

aiding the Local Governments...I regret greatly the course that has been resolved on, and I beg to record my protest against it".[1] On the other hand, Major-General H. W. Norman supported the decision of the Governor-General, and urged seven reasons in favour of it. With regard to the argument that the income-tax alone of all taxes reached the rich, he thought that this was not strictly or entirely true. "The tax", he wrote, "pressed on many who are not rich, and many who are well-to-do are affected already by other taxes. The landholder, for instance, pays the land-tax, and the European who, however, is rarely rich, pays customs duty on very many necessary articles of consumption. So far, however, as the abolition of the tax exempts the rich native traders from taxation, I regret it, and if any substitution could be devised as respects this class, it would be advantageous."[2] A policy of racial discrimination in the matter of taxation such as was suggested by this gallant officer deserves severe condemnation.

When the question reached the Secretary of State, it was placed before the Council of India. Neither the Duke of Argyll nor any member of his Council was satisfied that there were substantial grounds

[1] *Minute dated the 31st March, 1873.*

Lord Napier of Magdala was also in favour of the retention of the tax.

[2] *Minute dated the 2nd April, 1873.* Mr. (afterwards Sir Steuart) Bayley, who subsequently rose to the position of Lieutenant-Governor of Bengal, also sided with the Governor-General.

GSL

for the abolition of the income-tax. But, in view of the fact that the circumstances attending the income-tax of 1869-73 were exceptional, they gave their reluctant assent to the withdrawal of the tax.[1]

Five years later, direct taxation was again levied, this time in the form of license-taxes. These taxes lasted till the year 1885-86. During the period of their continuance they were often assailed as unsatisfactory and unfair in incidence. In 1880, for instance, when the License Act Amendment Bill was before the Legislative Council, Maharaja Jatindra Mohan Tagore said that he failed to understand why the burden of the direct tax should not be distributed over all sections of the commu-

[1] The Duke of Argyll wrote: "After full consideration of the whole subject in Council, I do not see that any conclusive objection has been shown to the policy of an income-tax in India, a subordinate element in a general system of finance. On the contrary, it appears to me that it is better calculated than any other tax which has yet been proposed to reach the wealthy mercantile and trading classes, and to counter-balance the much heavier pressure of some other taxes on the less wealthy portion of the community. I am aware that opinions have been confidently expressed as to the unsuitability of the tax to the people of India, and it is certainly possible that direct taxes which were in reality much more objectionable, but which were common under native systems, would even now from long familiarity be less disliked. These, however, we have wisely abolished. In substituting an amended form of direct taxation, we must be liable to encounter some not unnatural opposition. But too much account need not be taken of a feeling which would probably subside.

"It is certain, however, that special objection had arisen to the tax in connexion with the raising of its amount in the middle of the year 1869-70, and its further increase in 1870-71, and this opposition was encouraged by the fact that in each of the years 1870-71 and 1871-72 the result of the finances was a surplus of so considerable an amount as to suggest that the tax was not called for in order to produce a sufficient excess of income over expenditure. In such circumstances, the policy of an income-tax, assessed in a manner as little objectionable as possible, and steadily maintained at a low fixed rate (except under extraordinary emergencies) could not perhaps be considered under favourable conditions".—*Despatch dated the 6th August, 1873.*

nity. Sir Alexander Arbuthnot also spoke of the incompleteness and inequality involved in the license-tax, and pointed out that the real remedy lay in reverting to a light income-tax with a high taxable minimum. The Governor-General said on this occasion that no form of direct taxation, short of an income-tax, could be wholly free from objection, and gave the broad hint that in the event of a deficit occurring in the budget in future, an income-tax would be levied. And it was not long before such an eventuality occurred.

In 1886, the Government of India was faced with a very difficult financial situation, owing chiefly to a considerable increase in military expenditure and a rapid and continuous fall in the rate of exchange. Four courses were now open to the Government which might enable it to balance income and expenditure. The first was economy. Although the Finance Member, Sir Auckland Colvin, did not lightly set aside this possibility, yet he felt that there were practical difficulties in the way of enforcing it. The second course was borrowing.[1] This was rejected on the ground that the best way out of pecuniary difficulties was not to add to them. To call upon the Provincial Governments for aid was the third alter-

[1] In this connexion Sir Auckland Colvin remarked: "We have been told that, if economy is a good dog, borrowing is better. A passed master in the art of meeting pecuniary obligations, whose authority as we know, is unimpeachable, was obliged at last to confess that he could get no remedy against this consumption of the purse."—*Proceedings of the Governor-General's Legislative Council, 1886.*

native. While not entirely rejecting this expedient, the Finance Member thought that as this was the fourth year of the provincial contracts, such a step was hardly desirable. Besides, what was needed was as much an increase of existing revenues as a re-partition of those already available. The last resource thus was additional taxation. This, again, gave rise to the question of direct *versus* indirect taxation. In the opinion of the Finance Member, resort to indirect taxation was undesirable. An addition to the salt duty could not be thought of, as it would increase the burden on the poorest sections of the community. The re-imposition of the import duties had been urged in some quarters. But Sir Auckland Colvin rejected the proposal on the ground that, while such a measure would be popular with the class on whom the burden would not fall, it would add to the burden on the masses of the people, who were the chief consumers, and whose income at the best was barely sufficient to afford them the sustenance necessary to support life, living, as they did, "upon the barest necessities of life."[1]

After carefully considering the various aspects of the question, the Government came to the conclu-

[1] "It is always popular", added the Finance Member, "to pass obligations on to other people; but it is a kind of popularity which no Government anxious for the equitable adjustment of the burdens to be imposed upon tax-payers can possibly wish to acquire. Nor would it be possible to escape the difficulty of the local industries." In the concluding portion of his speech, Sir Auckland Colvin justified the imposition of the tax. He said: "In the necessities of the time; in the interests of all classes of the community; in the present incidence of our Indian taxa-

sion that additional taxation was inevitable and that such taxation should be direct. It is interesting to note in this connexion that this decision of the Government had behind it the support of the Indian National Congress[1] which, during its first session held in 1885, had passed a resolution recommending, in default of other expedients, the extension of the license-tax to those members of the community who had hitherto enjoyed an undeserved immunity from the visit of the tax-collector. The Government had also by this time become fully convinced that those classes in the country which derived the greatest benefit from the administration, by reason of the security afforded by it, contributed the least towards its maintenance. It was, in fact, strange that the upper and the upper middle classes enjoyed the greatest immunity from taxation. Sir Auckland Colvin rightly remarked: "Efforts have, indeed, at various times, been made to remedy this scandal, for scandal it is of the greatest magnitude, when the poorest are called upon to pay heavily for the support of the Government, and the wealthier classes are exempted; but from one cause or another

tion; in the legitimate and necessary result of the financial policy pursued by our predecessors; in the admissions of those who oppose an income-tax, will be found the justification of the measure which I have now the honour to ask your Lordship to allow me to introduce." —*Proceedings of the Governor-General's Legislative Council, 1886.*

[1] This attitude of the Indian National Congress, composed though it was of men belonging mainly to the learned professions, sufficiently justified its claim to represent the entire Indian population, including the poorest classes.

the measure has not been carried out, except for short and broken periods of time".[1]

There was another important point which arose in this connexion. As a result of the fiscal policy under which a large portion of the indirect revenues ceased, a permanent system of direct taxation proved to be unavoidable. The direct taxation which the Government had imposed in previous years was in a very incomplete form and was open to severe criticism. The license-tax was unsatisfactory in many respects. Besides, its yield was insufficient for the needs of the Government. As it was neither desirable nor possible to do away with direct taxation altogether, it now became absolutely necessary to place the system of direct taxation on an equitable as well as a remunerative basis.

The Income-tax Bill which the Finance Member introduced in 1886 was in many respects different from similar measures which had previously been placed on the legislative anvil. As the Finance Member pointed out, it was built upon the foundations laid nine years ago for the license-tax, and was not an introduction, but an enlargement,—an extension and equalisation,—of direct taxation. It left the then existing license-tax undisturbed in the case of the lowest classes of income, except so far as it added professions and offices to trades and dealings.

[1] *Proceedings of the Legislative Council of the Governor-General, 1886.*

GSL

The combined scheme was expected to affect not more than 300,000 persons, officials included, out of the whole population of British India. One of the main features of the tax was that incomes of Rs. 500 a year or less were exempt, while those between Rs. 500 and Rs. 2,000 were assessed at less than the full rate. The principle of graduation was thus recognised ; but the Government was not prepared to give effect to it in any appreciable degree. Incomes were placed by the Act in four categories,—salaries and pensions in Part I, profits of companies in Part II, interest on securities in Part III, and income from other sources in Part IV. Incomes in Parts I and III were to pay 5 pies[1] in the rupee if they amounted to Rs. 2,000 or more a year, otherwise 4 pies[2] in the rupee.[3] In the case of Part II, the rate was 5 pies in the rupee throughout. In Part IV, the rate was 5 pies per rupee for incomes of Rs. 2,000 or more ; between that amount and the untaxed minimum, there was a graded scale,—incomes up to Rs. 750 paying Rs. 10, those above Rs. 750 and up to Rs. 1,000 paying Rs 15, and so on up to a tax of Rs. 42 for incomes between Rs. 1,750 and Rs. 2,000.[4] Incomes derived from land were excluded from the

[1] That is to say, approximately 2½ per cent.

[2] Or approximately 2 per cent.

[3] The Finance Member, following the precedent of 1870, thought it more convenient, for purposes of calculation and assessment, to take so many pies in the rupee rather than a percentage.

[4] *Moral and Material Progress (Decennial) Report, 1901-2.*

operation of the Bill.[1] Most of the objections which had been urged against the previous Income-tax Bills were eliminated from this measure.

The Bill did not meet with any serious opposition in the legislature. It was accepted as a necessity, but nevertheless was criticised from various standpoints by members of the Council. Dr. (afterwards Sir William) Hunter said that, while an income-tax was equitable in its character, it might prove most oppressive in its incidence. He urged the deduction of payments for life insurance or deferred annuities from the assessable income, which was particularly necessary in the case of professional men, "whose brains were their sole stock-in-trade". Mr. Richard Steel, a representative of the European mercantile community, thought that direct taxation was less suited to the country than indirect, but as the choice lay between the license-tax and the income-tax, he unhesitatingly preferred the latter.[2] Mr. Griffith Evans, a leading lawyer of Calcutta, expressed the view that an income-tax in India was not the powerful instrument which an income-tax

[1] This was done because this income-tax was really an expansion of the license-taxes. When the license-taxes were levied in 1877-78 on the trading and professional classes, cesses were simultaneously levied on the landed classes.

[2] He laid down certain principles. These were: "The first principle of a proper system of taxation is that it should be fair in its incidence, and the second that no unnecessary wastage should be involved in its collection. Besides these, it is obvious that the form of taxation should cause no unnecessary oppression or irritation, and should be framed in accordance with the wishes and even the prejudices of the people." Judged by this standard, Mr. Steel thought, direct taxation was less suited to this country than indirect taxation.

GSL

in England was, nor an instrument suited to the country or easily worked. He, therefore, thought that it could not be trusted to meet the deficit which threatened constantly to arise from the fall in the value of silver.

Some members of the Legislative Council warned the Government that in its working the tax was likely to cause much difficulty, and might give rise to practical injustice. Mr. (afterwards Raja) Peary Mohan Mukherji asked for a pledge as to the duration of the tax, but the Finance Member refused to give any, and observed: "If the principle is sound, it is unreasonable and inconsistent to promise that its application shall be of limited duration. If it is good for to-day, it is good for to-morrow and thereafter. So that I must decline to give any such pledge as I am asked for, nor would it be of any value if I gave it. No pledge can bind my successor, who must be guided by the exigencies of the day on which he is called upon to administer our finances". Another non-official member, Mr. V. N. Mandlik regretted that the cotton duties had not been re-imposed, and implored the Government not to insert the income-tax in the budget as an ordinary source of revenue, for he thought that it pressed hard on the honest and that its effects were demoralising.

The Select Committee altered the Bill in several respects. The principal modifications were the following: First, houses of persons engaged in the

GSL

pursuit of agriculture were exempted; secondly, life insurance premiums or deferred annuities, to the extent of one-sixth of the total income of a person, were excluded from the computation of the amount of income liable to the tax; thirdly, the special exemption of Government servants with salaries under Rs. 100 per month was omitted; but the other exceptions were retained as in the original Bill.[1]

In the course of the debate on the Bill, the Governor-General, Lord Dufferin, pointed out that while the other classes of the population bore their due shares of the burden of taxation, lawyers doctors, members of the other learned professions, officers of the Government and other persons occupying an analogous status, and gentlemen at large paid little or nothing. "Now, surely", he observed, "this cannot be right, and to such an anomaly it is no answer to say that direct taxation is repugnant to oriental customs. Justice is the inhabitant neither of the East nor of the West. She admits no geographical limits to her supremacy, her throne is on high, and sooner or later, in spite of

[1] The following sources of income were exempted: (*a*) any rent or revenue derived from land used for agricultural purposes; (*b*) any income derived from agriculture; (*c*) buildings owned and occupied by cultivators or receivers of rent or revenue; (*d*) profits of shipping companies incorporated or registered out of British India; (*e*) income derived from property employed for religious or public charitable purposes; (*f*) income of a member of the joint family or of a company when the family or company itself was taxed; (*g*) income devoted to provident fund purposes to the extent of one-sixth of the total income of a person; (*h*) interest on stock; (*i*) salaries of officers in the Army not receiving more than 500 rupees a month; (*j*) the income of any person whose total income from all sources was less than Rs. 500.

GSL

prejudice or custom, she never fails to vindicate her title to the respect and veneration of mankind. It is then in the name of justice that we propose the imposition of the tax, and we feel assured that every fair and right-thinking man in the country, no matter how his private interests may be affected by our action, will recognise that no other course was open to us". The Governor-General emphasised the fact that the Government had carefully eliminated from the Bill everything that had rendered former measures of the kind odious and obnoxious. He added: "In fact, our project is merely an expansion of the license-tax. The license-tax is a one-storeyed house, and on the top of it we are putting up a second storey, but the order of architecture in both will be the same; and as the foundations of the one have stood the test of time and of popular criticism, so I trust will the walls of the other possess the same solid characteristics."[1]

During the final stages of the discussion of the Bill, Mr. Peary Mohan Mukherji suggested the collection of the tax in quarterly instalments; but the suggestion was not accepted by the Government. He also moved several amendments to the Bill. The first was to limit the duration of the measure to one year; the second, to raise the taxable minimum from Rs. 500 to Rs. 1,000; the third, to exempt buildings occupied by owners thereof from the oper-

[1] *Proceedings of the Governor-General's Council, 1886.*

ation of the tax. All these amendments were negatived. The Bill was then passed, as amended, without a division.[1]

The actual net collection of the income-tax in the year 1886-87 amounted to Rs. 1,27,75,100. The increase of the yield of this tax over that of the license-tax was Rs. 80,47,410. The percentage of total collections was 26 in Bengal, 24 in Bombay, 17 in the North-Western Provinces and Oudh, 11 in Madras, 8 in the Punjab, 3 in the Central Provinces, and 1½ in Assam, while the remaining 9½ per cent. was derived from the collections in Ajmere and Coorg and from officers serving immediately under the Government of India. Thus the two first-named provinces together furnished just one-half of the total revenue. The towns of Calcutta and Bombay contributed very largely to the result, being 50·4 and 50·6 per cent. respectively of the provincial yield. The collections from these two cities, therefore, formed more than one-fourth of the whole amount collected in India. The number of persons assessed was 1 in 37 in these two cities, and 1 in 80 in Madras City; 1 in 311 in the Bombay Presidency, apart from the capital; 1 in 555 in the Punjab, 1 in 602 in the North-Western Provinces; 1 in 655 in the Madras Presidency outside the chief town; 1 in 811 in Assam; 1 in 853 in Bengal, excluding

[1] This Act repealed the Northern India License Acts, 1878, the Indian License Acts Amendment Act, 1880, and the Acts of the Provincial Legislative Councils relating to the license-tax.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

Calcutta; 1 in 866 in Oudh; and 1 in 1,136 in the Central Provinces. On the persons assessed the incidence of the tax was 22 rupees in Bengal (excluding Calcutta) and in the Punjab; 23 rupees in Madras and Bombay (excluding the capital); 24 rupees in Oudh, 28 rupees in the North-Western Provinces; 29 rupees in the Central Provinces and Assam; and as for the great cities, 62 rupees in Madras, 68 rupees in Bombay and 82 rupees in Calcutta.[1]

About 30 per cent. of the amount collected was charged on salaries and pensions (three-fourths of those paying in the schedule being Government servants). There were 774 companies, paying an average of Rs. 964, whose contributions were less than 6 per cent. of the total proceeds. Rather more than 5 per cent. was derived from interest on securities. The remaining 59 per cent. was obtained from other sources of income, one-third of those assessed in this schedule being money-lenders paying about 24 rupees each on the average, and nine-tenths of the whole number being assessed on incomes of Rs. 2,000 or less.[2] On this occasion, the method of working was more satisfactory than on previous occasions. The assessments in respect of the fourth schedule (that is, miscellaneous sources of income), were, on objection, reduced by 19

[1] *Moral and Material Progress Report, 1886-87.*

[2] *Ibid.*

per cent., and the number of persons absolved from taxation, by 11 per cent. Excluding the portion of the tax derived from interest on securities, 90 per cent. of persons assessed had incomes below Rs. 2,000, and they paid nearly Rs. 50,00,000 or 38 per cent. of the total amount collected. Persons with incomes between Rs. 1,000 and Rs. 750 numbered 13 per cent., and paid only 6 per cent. of the total revenues; while those between Rs. 750 and Rs. 500 numbered 51 per cent., and paid 15 per cent. of the whole amount. The number of persons taxed on incomes exceeding Rs. 10,000 was 6,926, of whom 3,350 were Government servants. 338 assessments exceeded Rs. 50,000, of which 102 were assessed at over Rs. 1,00,000 and paid 7 per cent. of the whole sum collected; the latter class included 37 companies, paying Rs. 6,39,010.[1]

The arrangements for assessing and collecting the tax were rendered somewhat smoother in 1887-88, and there was a slight increase in the net receipts. Objections were promptly heard in that year; and in only less than ½ per cent. of the assessments was

[1] The following comparison between the Indian income-tax of this period and that levied in the United Kingdom is interesting: "The taxable minimum of income is lower than in the United Kingdom; but the average of earnings and of the cost of living is also much lower in India. The total assessment represents, in round numbers, a taxable income of Rs. 64 millions from securities, companies, trades and professions; and this total, though not in all respects comparable, is small by the side of the total annual value of 377 millions assessed to income-tax under Schedules C. D. & E. of the British Act during the year 1888. The contrast is the more marked because the population of British India is more than five times as great as that of the United Kingdom."—*Moral and Material Progress Report, 1889-90.*

it necessary to have recourse to a sale of the property of defaulters. In the following year, the exemption from income-tax which hitherto, for administrative reasons, had applied to Lower Burma, ceased. It was not, however, extended to Upper Burma. The tax legally applied to the whole of Lower Burma, but it was decided that assessment and collection would be made only in selected towns and centres of trade.

No changes were made in the system during the decade 1892-93 to 1901-2. Objections against assessments continued to be made in all the provinces, and in a fair proportion of cases, they were allowed. The work of assessment, however, continued to present great difficulties. To meet these, official agency was, is some cases, reinforced, as in the United Provinces, by unofficial assessors. In Burma, headmen were employed for doing the work of assessment, and were granted a commission of 3 per cent. on their collections. As a matter of fact, there was, very often, a tendency to fix the assessment too high rather than too low. But this practice was discouraged by the Provincial Governments, whose desire was to obtain accurate assessments, and to keep down the number of appeals.[1] The cost of collection in the districts was small, as the work was done for the most part by the existing agency. In the

[1] *Moral and Material Progress* (*Decennial*) *Report, 1901-2.*

GSL

towns, however, the collection charges were considerable. As in previous years, Bengal and Bombay stood out in 1901-2 far above the other provinces, the contributions of the two cities of Calcutta and Bomby being very large.

During the years 1898-99 to 1902-3, there accrued to the Government large annual surpluses, which were due mainly to the appreciation of the rupee. Therefore, in 1903, the Government decided, among other measures of remission of taxation, to raise the taxable minimum from Rs. 500 to Rs. 1,000. Mr. G. K. Gokhale and other non-official members of the Governor-General's Legislative Council had urged such a measure for some years past, on the ground that persons of small means whose incomes ranged from Rs. 500 to Rs. 1,000 could ill afford to pay the tax. This raising of the taxable limit gave great satisfaction to the poorer middle class.[1] It is worthy of note that the exemption of incomes between Rs. 5,000 and Rs. 1,000, while it reduced the number of assessees by more than

[1] Sir Edward Law observed on the occasion of the annual budget debate: "As regards the raising of the limit of exemption of the income-tax, we believe that the tax on incomes under a thousand rupees is, in the main, paid by petty traders, by clerks in commercial and Government offices, and by pensioners, who, small as is the present impost, feel it to be a severe burden. We are very glad to relieve a generally highly deserving class of the community of this burden, which weighs particularly heavily on widows and orphans in receipts of small pensions barely sufficing for the necessaries of life. Moreover, we have reason to fear that it is in the lower categories of incomes that hardship is perhaps felt in the matter of inquisitorial proceedings on the part of assessors, who, possibly, sometimes fix assessments at unjustifiably high rates, and we hope that by raising the limit of taxation to greatly reduce and simplify the work of assessment".

GSL

a half, produced a comparatively slight effect on the total revenue.[1]

In the following year, the income-tax became once more the subject of criticism in the legislature. Dr. (afterwards Sir) Asutosh Mookerjee, a non-official member of the Council, suggested the abolition of the tax, and urged various grounds in favour of his proposal. Although the arguments advanced by Dr. Mookerjee against some of the details of the system were quite valid, his condemnation of the principle of the tax was hardly convincing.[2] He was, however, on very firm ground when

[1] The total gross receipts for the year 1902-3 were £1,403,492, while in 1903-4 they amounted to £1,206,845. In 1911-12, that is, at the close of the decade, the income-tax yielded £1,652,878. The largest proportionate increase was in Burma. The increase was partly due to the extension of the area of assessment. The growth of revenue in the Presidency towns was the main factor in the increase which occurred in Bengal and Bombay. In 1902-3, the proceeds of the tax in Calcutta, amounted to £193,268, while in 1911-12, these were £236,109. The contribution of Bombay increased during the decade from £144,838 to £241,419.

[2] The grounds were: first, the tax was imposed at a time of great financial exigency, which had passed away; second, the income-tax was looked upon by every nation as a great financial reserve, which might be drawn upon in times of emergency, and as there was no emergency at the time, it might be put aside; third, if the revenue from income-tax continued to be raised even after the emergency was over, it was merged in the ordinary revenues of the Empire, and at last it would become difficult to abolish the tax without greatly dislocating the balance sheet; fourth, taxation was usually resorted to at a time when the Government found itself face to face with a sudden and grave financial difficulty, in order to enable it to balance revenue with expenditure; but to retain a tax so imposed side by side with a large surplus appeared to be contrary to all sound principles of finance, and liable ultimately to encourage extravagance; fifth, evasion was so entirely the rule that forms and returns were declared to be perfectly useless, and surcharge, or in other words, arbitrary assessments, made almost at random, had been universally necessary to attain anything like a decent financial result; sixth, the assessment proceedings were of an inquisitorial character, and led to oppression and corruption, necessarily rendering the tax most unpopular; seventh, it violated one of the primary canons

GSL

he made his alternative proposal. If the income-tax, with all its defects, was to be retained, he suggested the method of a graduated tax. He pointed out that one uniform rate under Rs. 2,000 and another for all incomes above Rs. 5,000 caused great deal of hardship to many middle class men. The vision of the Government was, however, too narrow to allow it to entertain such a sound and reasonable proposal at the time. The Income-tax Act was applied to Berar in 1904. In 1905, it was extended to the whole of Lower Burma.

The number of persons assessed to income-tax in India was very small, in proportion to the population till 1903, and after that date it was much smaller. The number of assessees, including companies in 1902-3 was about 526,000 or less than 23 in 10,000 of the population; in 1910-11, the number was about 270,000 or 11 in 10,000. A classification of incomes assessed to the tax showed that nearly two-thirds of these were below Rs. 2,000 in 1902-3. But the proportion of the higher incomes tended to increase during the decade ending 1911-12.[1]

of taxation handed down from the days of Adam Smith, namely, that all persons should contribute as nearly as possible in proportion to their respective abilities, for the Indian income-tax was extremely unequal in its incidence.—*Vide Proceedings of the Governor-General's Council, 1904.*

[1] The total number of incomes (including "profits of companies") in the highest class, that is, over one lakh, increased from 239 in 1902-3 to 363 in 1910-11.

Of the incomes assessed under Part I—salaries and pensions,—about one-half was paid by the Government, and these included the great bulk

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

No changes of importance took place till the year 1916. In that year, the financial distress caused by the European War compelled the Government to impose additional taxation. One of the measures adopted to cope with the difficulty was an increase in the rate of the income-tax. All the then existing exemptions were left untouched. Nor was the taxation of persons whose incomes were less than Rs. 5,000, altered. But above this limit, the tax was enhanced in the following manner: (i) incomes from Rs. 5,000 to Rs. 9,999 were to pay 6 pies in the rupee; (ii) incomes from Rs. 10,000 to Rs. 24,999 were to pay 9 pies per rupee; and (iii) incomes of Rs. 25,000 and upwards, 1 anna in the rupee. A definite, though not full, effect was thus given to the principle of graduation. This increase of taxation was expected to bring an additional revenue of £900,000.

In 1917, the Indian Income-tax Act of 1886 was amended, with the object of improving the machinery so as to avoid the leakage which was taking place. The rule regarding the submission of returns of income was made more strict. On

of the highest salaries. Under Part II, cotton spinning and weaving, banking, mining, railway and jute spinning and weaving companies made the largest contributions. Under Part IV, bankers and money-lenders constituted more than a third of the total number of assessees, and contributed in almost as large a proportion to the receipts. Commerce and trade accounted altogether for three-quarters, or more, of the assessees, and of the receipts under Part IV, the professions provided about 13,000 assessees, about two-thirds of whom were attorneys and pleaders.—*Moral and Material Progress (Decennial) Report, 1911-12.*

this occasion, the ordinary income-tax was supplemented by a super-tax on the largest incomes such as had been in force in England for several years previously. The rates of the ordinary income-tax were left unchanged; but people having incomes in excess of Rs. 50,000 per annum were called upon to pay super-tax in addition. The bulk of the then existing assessees were thus left alone, and the burden was laid on the shoulders of the rich who were best able to bear it, and many of whom had made large profits in consequence of the war. The super-tax receipts were all required for central purposes, and they were placed under a special sub-head, which was entirely central. The rates were: in respect of (1) the first fifty thousand rupees of taxable income—one anna in the rupee; (2) the next fifty thousand rupees of taxable income—one and a half anna in the rupee; (3) the next fifty thousand rupees of taxable income—two annas in the rupee; (4) the next fifty thousand rupees of taxable income—two and a half annas in the rupee; and (5) all taxable incomes over two lakhs of rupees—three annas in the rupee.

Mr. (afterwards Sir) B. N. Sarma, then a non-official member of the Council, proposed an amendment to the Bill to the effect that the super-tax should be in force for the duration of the war and for six months thereafter. This amendment was not accepted by the Goverment, and it fell

GSL

through. Objections were also made to some of the details of the Bill. One non-official member, curiously enough, objected to the principle of graduation on the ground that it was likely to "check industrial enterprise" and "cut at the root of saving".[1]

In 1918, the Government of India introduced a Bill to consolidate and amend the law relating to income-tax. The aim of the Bill, as pointed out by the Finance Member, was to remedy certain defects in the machinery of assessment provided by the existing Act. Such defects had resulted "in unequal assessment of persons of equal means" and in loss of Government revenue. The most important proposals were three in number. First, Section 4 of the Bill provided that, in determining the rate at which the income-tax was to be levied, the aggregate of an assessee's taxable income from all sources, including agricultural income, should be taken into consideration. Secondly, in regard to the period with reference to which the assessment was to be made, the income of the preceding year, and not of the current year, was now to be taken as the basis. Thirdly, Section 32 of the Bill was intended to enable the Government of India to tax the Indian profits of foreign firms which had previously escaped taxation.

The first of these proposals gave rise to much

[1] *Proceedings of the Indian Legislative Council, 1917.*

controversy. The Finance Member, Sir William Meyer, defended it on the ground that it was an anomaly that an income derived from more sources than one should pay tax at a lower rate than an income of equal amount but derived from one source only. He also observed that it was not fair for the wealthy landlord to pay the tax at rates "intended only for the poor".

The main ground of objection of those non-official members of the Council who opposed this provision of the Bill was that its effect would be to tax agricultural incomes in an indirect way. Maharaja Sir Manindra Chandra Nandi opposed the section on the ground that it was likely "to contravene the very spirit of Lord Cornwallis's understanding with the owners of permanently-settled estates". The existing exemption of all agricultural incomes was, in his view, "based on solemn pledges for well over a quarter of a century".[1] Pandit Madan Mohan Malaviya thought that this was not the right way to proceed about the business of raising the rate of taxation; nor was it proper to bring forward a proposal for taxation without any justification being presented for it.[2] Mr. B. N. Sarma, on the other hand,

[1] Evidently this is a misprint; the speaker perhaps intended to say "a century and a quarter."

[2] Several other members also opposed Section 4 of the Bill. Sir Gangadhar Chitanavis spoke of the resentment felt by "loyal citizens", who had been ever ready to do what they could during the war and on

GSL

supported the principle of the Bill, and, in so doing, observed: "Graduated income-tax proceeds on the principle that a man who has a superabundance should give to the State a little more out of his excess than his unfortunate brother. Once this principle is accepted, I cannot see how we can escape from the conclusion that whether income is derived from agriculture, from commerce, or from any other source, it ought to be included within the total aggregate assessable income for the purpose of the graduated income-tax." Sir William Meyer pointed out that there could be no question of a breach of faith, as the first Income-tax Act of 1860 had "deliberately taxed all landed profits."[1]

At a later stage of the Bill, Mr. Sitanath Roy, a rich landholder, moved an amendment with a view to excluding agricultural income from the computation of the rate of tax. He spoke of the Government's proposal as merely the thin end of the wedge, and expressed the apprehension that it was a prelude to a tax on landed incomes. This amendment was supported by many non-official members of the Council, including Mr. (afterwards Sir) Surendranath Banerjea. But it was opposed by men of an

other occasions. Mian (afterwards Sir) Mahomed Shafi also opposed it.—*Proceedings of the Indian Legislative Council, 1918.*

[1] Sir William Meyer observed on this occasion: "An Income-tax Bill always calls forth what some theologians call a rational love of self. In some cases voiced in to-day's speeches, I might even call it irrational." —*Proceedings of the Indian Legislative Council, 1918.*

advanced school of thought like Mr. Srinivasa Sastri, Mr. M. A. Jinnah, Dr. Tej Bahadur Sapru, and Mr. B. N. Sarma. The official whip was not cracked at the time of division, with the result that the amendment was carried, thirteen officials, including the Commander-in-Chief, recording their votes in favour of it.[1] Thus ended a strange episode in the history of debates in the Indian legislature.

It is not perhaps altogether idle to speculate on the causes which brought about the defeat of the Finance Member on this occasion. Though the proposal had been sanctioned by the Government, it did not show any keenness in the matter. The amount expected to be realised from the proposed alteration in the law was not large, and this was probably one of the reasons for the apathy displayed by the official members. But a more important reason was their disinclination to provoke any discontent among the "loyal" section of the people during the most serious stages of the war. An impartial critic cannot help observing in this connexion that, however desirable might be the proposal in its essence, the method adopted by Sir William Meyer was hardly correct. He ought to have proceeded in a more direct and straightforward way to accomplish his object. If this

[1] Five non-official Indian members voted against the amendment. They were: Sir Dinshaw Wacha, Mr. Srinivasa Sastri, Dr. Tej Bahadur Sapru, Mr. M. A. Jinnah, and Mr. B. N. Sarma.

GSL

had been done, he might have secured the support of a large section of the enlightened public of the country.

The first post-war financial measure was one of remission of taxation. In 1919, the minimum of taxable income was raised from Rs. 1,000 to Rs. 2,000. This proposal did not require any defence, for it was universally recognised that there was no class which had been so heavily hit by the enormous rise in the cost of living as people with small fixed incomes.

In the same year, the Finance Member introduced the Excess Profits Duty Bill, the object of which was to raise money for meeting the cost of the measures proposed to give effect to the Resolution of the Indian Legislative Council of the 10th September, 1918. By this Resolution the members of the Council had agreed that India should take a greater share, than she had so far done, of the burden of military charges of the war incurred by Great Britain. The Bill applied, with certain large exceptions, to business enterprises in India, returning profits exceeding Rs. 30,000 during the year. The main exemptions were: agriculture, salaried employments, professions, income depending on the personal skill of the earner, and concerns which were already paying excess profits duty in England. The average profits of four years, that is to say, two years before and two years since the

commencement of the war, were to be taken as the standard. Any sum by which the ascertained profits of the year exceeded that standard was to be treated as excess profits, and the Government would demand one-half of that sum. The Bill provided for an appeal, and one of its important provisions was the setting up of special tribunals for dealing with questions of general importance. The excess profits duty and the super-tax would not both be levied on the same individual or firm, but the Government proposed to take whichever was greater.

Anticipating the criticism that such a measure should not be brought forward after the termination of the war, the Finance Member, Sir James Meston, replied that war was an evil the consequences of which remained after the cessation of hostilities, and that those consequences had to be paid for by means of taxation. He gave the assurance that the Government was prepared to make all possible allowances for hard cases, and to correct the valuations with the help of business men.[1]

This Bill gave rise to a storm of opposition on the part of the community engaged in business. Two of the representatives of commercial interests, however, took an enlightened view of the situation and made their own position clear by stating that their personal views were not in accord with the views of

[1] *Proceedings of the Indian Legislative Council, 19th February, 1919.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

their constituents. Mr. Malcolm Hogg observed: "Few, I think, will deny the inherent justice of the underlying principle of the Bill, namely, that those to whom circumstances arising out of the war have brought exceptional profits should contribute a portion of those profits to the cost of the war. It is when we come to try and embody this principle in legislation that difficulties arise". He added that, in England, an excess profits duty had been accepted as a necessary war evil, and it would have been similarly accepted in India if it had been introduced at an earlier stage. Mr. Ironside thought that the Bill was largely the outcome of the wrong financial policy of the past, and urged that steps be taken to avoid thoughtless expenditure and to ensure economy in the spending departments.[1]

The excess profits duty was not continued in the following year. In March, 1920, the Government introduced a Super-tax Amendment Bill. The main purpose of this Bill was to substitute a super-tax at a flat rate of one anna on the income of companies for the then existing rates which ranged from one anna to three annas on individual profits. In other words, a new form of super-tax similar to the 'corporation tax' levied in other countries, was to be substituted for a portion of the super-tax. It was estimated to bring in about 2 crores and 20

[1] *Proceedings of the Indian Legislative Council, 1920.*

lakhs, that is to say, 44 lakhs more than the replaced portion of the super-tax. The super-tax on individuals, unregistered firms, and Hindu undivided joint families was continued as before.

When the report of the Select Committee on the Bill came up for discussion, Mr. B. N. Sarma moved an amendment with the object of giving relief to Hindu joint families by raising the minimum of exemption from Rs. 50,000 to Rs. 75,000.[1] Sir Fazulbhoy Currimbhoy moved another amendment, namely, "Where the income of an individual or a company assessed to super-tax under this Act includes a dividend paid by a company assessed during the year, the said assessment shall be reduced by the amount of tax payable on the dividend at the rate of one anna in the rupee". His main point was that the proposal of the Government involved the payment of super-tax twice over. Mr. W. N. Crum, a representative of the British commercial community, supported this amendment. The Finance Member, Sir Malcolm Hailey, however, did not agree with the view, and refused to accept the amendment. He said: "Are we really and effectually taxing twice over?

[1] Mr. Sarma, in the course of his speech on the amendment, observed: "Ever since the introduction of Super-tax Bills into this Council, there has been a lively controversy going on as to whether Hindu undivided families have not unnecessarily suffered by reason of the theory that, for legal purposes, the undivided Hindu family should be treated as a unit, and that some relief should be given to the Hindu families so that the hardship which has been caused may not be so great as it is at present." —*Proceedings of the Indian Legislative Council, 1920.*

GSL

What we are putting on now is a form of taxation well known in many countries of Europe as a corporation tax. It is considered justifiable to tax a corporation, partly because it enjoys the use of what may be called public capital, but even more because its shareholders enjoy protection against liabilities incurred, up to the amount of their shares. The company is, therefore, taxed definitely as a corporation, and that taxation may very justifiably be regarded almost as one of the working expenses of the company. The super-tax we place on the shareholder afterwards is really an individual tax". He also controverted the opinion that the tax was likely to prove prejudicial to industrial interests or Indian interests.[1]

In 1921, the Government of India, faced with another deficit, found itself obliged to have recourse to additional taxation. Besides other measures of taxation, an increase in the rates of income-tax and super-tax was decided upon. With regard to the former, it was considered undesirable to raise the rates of tax on the smaller incomes. But the rates on the upper grades were so increased as to work up to a maximum of sixteen pies instead of twelve pies. At the same time, the rates on the higher grades of income liable to super-tax were so

[1] *Proceedings of the Indian Legislative Council, 1920.*

GSL

raised as to work up to a maximum of four annas in the rupee on any excess over $3\frac{1}{2}$ lakhs.[1]

[1] The following schedule was substituted for the schedule to the Indian Income-tax Act, 1918:

	Rate
When the taxable income is less than Rs. 2,000	nil
When the taxable income is Rs. 2,000 or upwards and—	
(i) the total income is less than Rs. 5,000	Five pies in the Rupee.
(ii) the total income is Rs. 5,000 or upwards, but is less than Rs. 10,000	Six pies.
(iii) the total income is Rs. 10,000 or upwards, but is less than Rs. 20,000	Nine pies.
(iv) the total income is Rs. 20,000 or upwards, but is less than Rs. 30,000	One anna.
(v) the total income is Rs. 30,000 or upwards, but is less than Rs. 40,000	One anna and two pies.
(vi) the total income is Rs. 40,000 or upwards	One anna and four pies.

The Super-tax schedule was amended as follows:

(1) In respect of the first lakh of rupees of taxable income—	
(a) in the case of a Hindu undivided family	
(i) in respect of the first seventy-five thousand rupees of taxable income	Nil
(ii) in respect of the next twenty-five thousand rupees of taxable income	One anna in the rupee.
(b) In all other cases—	
(i) in respect of the first fifty thousand rupees of taxable income	Nil
(ii) in respect of the next fifty thousand	One anna in the rupee.
(2) In respect of the first fifty thousand rupees of taxable income over one lakh of rupees	One and a half annas in the rupee.
(3) In respect of the next fifty thousand	Two annas.
(4) In respect of the next fifty thousand	Two and a half annas.
(5) In respect of the next fifty thousand	Three annas.
(6) In respect of the next fifty thousand	Three and a half annas.
(7) In respect of all taxable income over three and a half lakhs of rupees	Four annas in the rupee.

GSL

The financial difficulty of the Government of India continued in the following year, and it was found necessary once more to levy additional taxation. It was consequently decided, among other measures, to make a further call on the payers of income-tax and super-tax. The Government did not effect any alteration in the rate of tax payable by persons whose incomes were Rs. 30,000 or less a year. But the rate on incomes between Rs. 30,000 and Rs. 40,000 was raised from fourteen to fifteen pies, and that on incomes above Rs. 40,000 from sixteen to eighteen pies. At the same time, the higher rates of the super-tax were re-graded, working up to the highest rate of six annas as against the then existing highest rate of four annas. The combined maximum of the two taxes was thus fixed at five and a half annas.[1] These two measures,

[1] The actual rates were as follows:—

INCOME-TAX

A. In the case of every individual, every unregistered firm, and every undivided Hindu family—

	Rate
(1) When the total income is less than Rs. 2,000	Nil
(2) When the total income is Rs. 2,000 or upwards, but is less than Rs. 5,000.	Five pies in the rupee.
(3) When the total income is Rs. 5,000 or upwards, but is less than Rs. 10,000	Six pies in the rupee.
(4) When the total income is Rs. 10,000 or upwards, but is less than Rs. 20,000	Nine pies in the rupee.
(5) When the total income is Rs. 20,000 or upwards, but is less than Rs. 30,000	One anna in the rupee.

taken together, were estimated to produce an extra revenue of 2¼ crores. There was practically no opposition to this particular clause of the Finance Bill in the legislature, although the opinion was expressed that the financial necessity for the imposition of additional taxation had arisen, not from any attempt on the part of the Government to secure the social or economic development of the country, but from an erroneous and extravagant

	Rate.
(6) When the total income is Rs. 30,000 or upwards, but is less than Rs. 40,000	One anna and three pies in the rupee.
(7) When the total income is Rs. 40,000 or upwards	One anna and six pies in the rupee.
B. In the case of every company, and every registered firm, whatever its total income	One anna and six pies in the rupee.

SUPER-TAX

In respect of excess over fifty thousand rupees of total income:—

	Rate.
(1) In the case of every company	One anna in the rupee.
(2) In the case of every Hindu undivided family—	
(i) in respect of the first twenty-five thousand rupees of the excess	Nil
(ii) for every rupee of the next twenty-five thousand rupees of such excess	One anna in the rupee.
(b) in the case of every individual and every unregistered firm, for every rupee of the first fifty thousand rupees of such excess	One anna in the rupee.
(c) in the case of every individual, every unregistered firm and every Hindu undivided family—	
(i) for every rupee of the second fifty thousand rupees of such excess,	One and a half anna in the rupee.

GSL

policy, both civil and military[1]. The rates of income-tax and super-tax have not been altered since 1922.

It was in the course of the year 1922 that the law relating to taxes on income was consolidated and placed on a more satisfactory basis. The increasing weight of taxation led to a demand for more accurate assessment and, to meet this demand, a complete revision of the previous Acts was found necessary. The provisions of Act XI of 1922 were largely based on the recommendations of the All-

	Rate.
(ii) for every rupee of the next fifty thousand rupees of such excess, .	. Two annas in the rupee.
(iii) for every rupee of the next fifty thousand rupees of such excess, .	. Two and a half annas in the rupee.
(iv) for every rupee of the next fifty thousand rupees of such excess, .	. Three annas in the rupee.
(v) for every rupee of the next fifty thousand rupees of such excess, .	. Three and a half annas in the rupee.
(vi) for every rupee of the next fifty thousand rupees of such excess, .	. Four annas in the rupee.
(vii) for every rupee of the next fifty thousand rupees of such excess, .	. Four and a half annas in the rupee.
(viii) for every rupee of the next fifty thousand rupees of such excess, .	. Five annas in the rupee.
(ix) for every rupee of the next fifty thousand rupees of such excess, .	. Five and a half annas in the rupee.
(x) for every rupee of the remainder of the excess, ...	. Six annas in the rupee.

[1] One member of the Legislative Assembly, however, considered it necessary to voice "the rich man's grievance," and expressed the view that the effect of the proposed increase of the income-tax would be "to kill the desire on the part of the capitalists of the country to enter into industrial and commercial enterprises."—*Proceedings of the Indian Legislative Assembly, dated the 22nd March, 1922.*

India Income-tax Committee which had been appointed in 1921 to consider questions relating to the taxation of income.[1] The principal changes introduced by this Act were as follows: (1) The income of the previous year was made the basis of assessment, and the adjustment system was abolished. (2) It was made clear that the tax would be chargeable not necessarily on "income" calculated on actual receipts and expenditure, but on the "income, profits or gains" as set out and defined in the Act. It was also made clear that no uniform method of accounting was prescribed for all taxpayers, and that every taxpayer might, as far as possible, adopt such form and system of accounting as was best suited for his purposes. (3) The distinction between 'taxable income' and 'total income' which had been adopted in 1918, was abandoned, and the Act provided that the 'total income' of an assessee should determine his liability to the tax as well as the rate at which the tax should be assessed. (4) No account was to be taken of any income derived from a Hindu undivided family by an individual member of the family in determining the rate at which that individual member should pay income-tax on his separate income. (5) The Act provided that a loss under one head

[1] The Government of India appointed in 1920 committees consisting of officials and non-officials in each province. The All-India Committee was appointed after the Reports of the Provincial Committees had been submitted.

of income might be charged against profits under another. (6) In cases in which there had been a change in the proprietorship of a business, it was provided that the liability for payment of the tax based on the income of the preceding year should attach to the business itself. (7) The organisation of the department was completely changed. The Act prescribed that the head of the income-tax department in a province should be known as the Commissioner of Income-tax, the appellate authority as the Assistant Commissioner of Income-tax, and the assessing authority as the Income-tax Officer. A Board of Inland Revenue was created which was to be the highest authority in regard to income-tax, and to which the Government of India was empowered to delegate its authority under the Act. The appointment of the departmental staff was transferred from the hands of the provincial Governments to those of the Central Government. (8) The Act made it obligatory on the Commissioner of Income-tax to refer a case to the High Court on the application of an assessee. (9) The provisions relating to the disclosure of particulars regarding income-tax assessments were made more stringent. (10) The Act made it obligatory on all employers, including private employers, to collect income-tax at the time of payment of salaries. (11) Wider powers were given to assessing officers

GSL

in regard to returns, documents, etc. (12) The procedure relating to refunds was simplified. (13) The Act provided for relief from double taxation.[1]

It should be noted here that neither the Act itself nor its schedules contained any provisions relating to the rates of taxation, which were left to be determined by the annual Finance Act. The Income-tax Act, 1922 merely regulated the basis, the methods, and the machinery of assessment, and was thus a purely administrative measure.[2] The passing of this Act was followed by the creation of an expert staff for the department.

The different aspects of the question of taxation of income were considered at considerable length by the Taxation Enquiry Committee[3] of 1924-25. Their investigations disclosed certain defects in the system which are discussed below.

The present basis of assessment is, as has already been noticed, the income for the previous year, as compared with the average of three years which is the basis in England. This is open to the serious objection that while profits are taxed in every year

[1] *Vide Statement of Objects and Reasons relating to the Income-tax Bill, 1922*; also Sundaram, *The Law of Income-tax in India.*

[2] This Act, as Mr. Sundaram points out, also marks the first step in the disengagement of the Provincial Governments from the administration of central subjects.

[3] The Committee was presided over by Sir Charles Todhunter, and the other members were Maharajadhiraj Sir Bijoy Chand Mahtab of Burdwan, Sir Percy Thompson, Sardar Jogendra Singh, Dr. R. P. Paranjpye, and Dr. L. K. Hyder. Mr. B. Rama Rau acted as Secretary.

GSL

in which a profit is made, no provision is made for the setting off of losses against profits of subsequent years. The system leads to injustice and hardship, and the Taxation Enquiry Committee are right in proposing that a loss sustained in any one year should be allowed to be set off against the profits in the next subsequent year.

Under the existing law, the charge of income-tax extends to all income which accrues or is received in British India, but it does not extend to income which accrues abroad and is not received in British India. Moreover, the profits of a business accruing outside British India are not chargeable if they are brought into British India after the lapse of three years. This involves a loss of revenue to the State. The Committee doubt whether the loss of income is very great and they are afraid that administrative difficulties would arise if a change were made. They, therefore, express themselves in favour of leaving things as at present. But Dr. Paranjpye dissents from the view.

In order to determine the liability of non-residents, four classes of cases have to be considered, namely, that of persons drawing in other countries pensions and leave salaries earned in India, that of persons resident out of India who draw interest on the sterling debt of India, that of non-resident firms which have agents or branches in India, and that of owners of shipping resident in other

countries who do business with India. A cognate question is that of refunds to non-resident assessees whose incomes from Indian sources are liable to a rate less than the maximum.

In the first class of cases, the Committee think that the claims of domicile should prevail. But Dr. Paranjpye holds the view that leave salaries of persons employed in India should be regarded as having accrued in India, and, therefore, should be liable to income-tax. With regard to the second, opinion is almost unanimous in India that the country suffers a loss because Indian income-tax is not deducted from the interest on sterling loans payable in London. The Committee express the view that whether interest on a loan should be liable to payment of income-tax or not should depend on the terms of the loan, and they advise that in future there should be a definite statement in the prospectus as to whether Indian income-tax is to be charged on the interest on the loan or not.

In regard to the third class of cases, the Committee desire to draw a line of distinction between a selling branch and a buying branch. In the former case, they think that, as is done in England, the income-tax should be assessed on the basis of the profits which may reasonably have been earned by a merchant who had bought from the manufacturer or producer direct. In the case of

a buying agency, the Committee are of opinion that the maximum which ought to be charged to Indian income-tax is the extra profit made by the establishment of a branch or agency in India. The same principle, in their view, should apply if the goods have been subjected to some process of manufacture in India after purchase. In this connexion, the Committee refer to certain High Court judgments in which the words "accruing from any business connexion or property in British India" in Section 42(1) of the Act were so interpreted as to tax not only the profit arising from operations conducted in India, but also the profit arising out of the sale of goods abroad. The Committee, therefore, recommend that this section should be so amended as to limit its operation in the manner indicated above.[1] The last class of cases arises in connexion with shipping concerns. Reciprocal arrangements have been entered into by several countries for mutual exemption of income-tax payments, but in view of the fact that such action would involve India in considerable loss with no corresponding gain, the Committee are unable to make any recommendation in the matter.

On the question of refunds to non-residents, the Committee recommend a change in the law on the lines of the English law which restricts the privilege

[1] Provision has since been made by Act III of 1928 for some of the cases mentioned by the Committee.

of refund to British subjects and certain others, and even in these cases to a partial extent.

The exemption limit in India is at present fairly high; it is actually higher than in England. But there are no allowances in respect of wife, children and dependents. It was urged before the Committee that provision should be made for allowances on the lines of the English law; but in view of the administrative difficulty of verifying claims, the Committee recommend the maintenance of the *status quo*. This seems to be very unsatisfactory. The difficulty referred to by the Committee is not really insuperable, and, as is remarked by Dr. Paranjpye, no assessee is likely to make a false declaration without being easily found out. Dr. Paranjpye's suggestion that an abatement of Rs. 200 for a wife and Rs. 150 for each minor son or unmarried daughter up to a maximum of Rs. 950 seems to be a reasonable one.

Another defect of the present system is that no distinction is made in India between earned and unearned incomes. But in most advanced countries, these two categories of income are treated differently, the reasons underlying such differentiation being, first, that unearned income is in its nature more precarious than income derived from capital, and secondly, that the whole of an income which is earned is not available for spending, if provision has to be made for old age or for

GSL

dependents. The Taxation Enquiry Committee hold the view that these considerations apply with much diminished force in India for two reasons, namely, first, that there is no large class of rentiers depending on incomes from investments; and secondly, in so far as there is such a class, by far the greater part of its investments is in land, and so long as income from land escapes income-tax altogether, it would be invidious to impose a differential rate of tax on the small balance of investment income that remains. While admitting that there is considerable truth in this contention, it may be regarded as certain that the time is not distant when the question will have to be reconsidered.

The system of graduation adopted in India is different from that in force in England at the present moment. The defect of the Indian system is that, in the absence of a provision to meet the case, an income just above each limit at which the rate increases, would pay an amount of tax which would exceed the amount paid by an income at or just below the limit, by more than the difference between the two incomes, the result being that the taxpayer with the higher income would be worse off than the taxpayer with the smaller income. This defect is not entirely removed by section 17 of the Indian Income-tax Act, 1922. The Taxation Enquiry Committee, while admitting the injustice of

the present system, do not consider it necessary to recommend any change. This hesitancy on the part of the Committee is much to be deplored.

In regard to the sufficiency or otherwise of the rates applied to incomes of various sizes, the tabular statement prepared by the Committee shows that, in the case of incomes up to £500, the Indian rates are comparable with those in other countries, and that on the largest incomes they do not fall far short of them, but that in the case of incomes from £1,000 to £10,000 they are decidedly low by comparison. The Committee decline to recommend any far-reaching change in the scales; nor do they consider it desirable to increase the maximum rates. They, however, think that it would be equitable to make a moderate addition to the intermediate scales, for instance, by applying the 9 pie rate to incomes from Rs. 10,000 to Rs. 15,000, the 12 pie rate to incomes from Rs. 15,000 to Rs. 20,000, the 15 pie rate to incomes from Rs. 20,000 to Rs. 25,000, and the 18 pie rate to incomes from that point upwards. They further suggest that the exemption limit for the super-tax be reduced to Rs. 30,000, and that a new rate of 6 pies be levied on the first Rs. 20,000, or part thereof, in excess of that sum. They also recommend that, in the case of a joint Hindu family, the limit of exemption be reduced to Rs. 60,000, the anna rate being applied to the first Rs. 40,000 of the excess.

GSL

The provisions for appeal leave considerable room for improvement. At present appeals lie on questions of fact to the departmental officers, while on questions of law a reference can be made for the opinion of a High Court. In the former case, the procedure is open to the objection that the department responsible for the assessment acts as judge in its own case. The majority of the Committee find considerable difficulty in recommending the introduction of a system on the lines of the General and Special Commissioners in England, and, consequently, advise that the matter be left in *status quo*. Dr. Paranjpye is of opinion that advisory bodies should be constituted in large centres so that an assessee might ask that their opinion be taken. On points of law, different judgments have been given by different High Courts. The Committee, therefore, suggest that an appeal to the Privy Council should be provided for.[1]

With regard to the super-tax on companies, the Committee suggest that the present designation of the tax should be replaced by that of a 'Corpo-

[1] Provision has since been made for appeals to the Privy Council by Act XXIV of 1926.

Another suggestion of the Committee relates to the question of secrecy. There exist provisions for complete secrecy in the present law relating to taxes on income. The Committee suggest a departure from the present practice in two respects. First, they urge the adoption of the practice of publishing in the annual reports a list of persons penalised for income-tax offences. Secondly, they suggest that, where a local tax similar to an income-tax is levied, in order to obviate the necessity for a double assessment, the law may be so amended as to permit income-tax officers to draw up lists of persons and sums for which they are liable.

ration Profits Tax' and that the exemption limit be abolished. In this connexion, the majority regard as unfair the present practice of charging super-tax on those parts of a holding company's profits which represent dividends of subsidiary companies already charged to super-tax. It is not right, in their view, that the same profits should be taxed twice or thrice, and they suggest that in future these should only be taxed in the hands of the subsidiary company. Dr. Paranjpye, however, does not agree with this view.

The Committee make some suggestions for dealing with the evasion of taxes on income. These are quite sound, and are likely to prove useful, if accepted. They regard as satisfactory the present arrangements for giving relief in respect of double taxation between the United Kingdom and India, but they do not offer any opinion on the arrangements which exist with the Indian States.

One of the peculiar features of the Indian income-tax is the exemption of incomes derived from the land. It has already been pointed out that such incomes were subjected to taxation when the earlier measures relating to income-tax were enacted. In order to equalise the burden on all classes of the people, the income-tax of 1886 (which was based on the license-taxes of 1877-78) was not extended to the landed classes, as separate cesses had already been levied on them. These cesses,

GSL

however, were, subsequently, either removed or made over to local bodies. On grounds of equity, therefore, the Committee, see no reason why the landholders should be exempt. Coming to the question of the additional revenue which may be derived from the taxation of landed incomes, the Committee are of the opinion that it is not likely to be very large, while the administrative difficulties are considered to be great. Nor are they disposed to ignore the political aspect of the question. On the whole, the Committee find the situation so puzzling that they refrain from making any recommendation with regard to this matter. But it is plain to everybody that the problem cannot be shirked and that the situation will have to be faced before long.

In connexion with this question, the Taxation Enquiry Committee briefly notice some side issues. The first is the proposal that income from agriculture should be taken into account for the purpose of determining the rate at which the tax on other incomes of the same persons should be assessed. The Committee hold that there would be ample justification in theory for the proposal, if it should prove administratively feasible and practically worth while.[1] The second is that of the tea planter or other manufacturer who derives his income partly from cultivation and partly from manufacturing the produce. This has been settled by an

[1] For a discussion of the subject see *ante*.

arbitrary rule, which the Committee regard as very favourable to the planter, in view of the terms under which much of the land under plantation is held.[1]

Some of the recommendations of the Taxation Enquiry Committee relating to taxes on income have been accepted by the Government and embodied in amending Acts, while others are still under consideration.

Several legislative measures have been enacted to amend the law relating to income-tax since Act XI of 1922 was passed. The most important of these measures are the following: (i) Act IV of 1924, which substitutes the Central Board of Revenue for the Board of Inland Revenue; (ii) Act XI of 1924 which provides for (a) the withdrawal of exemption in respect of Provident Insurance Societies and (b) the taxation of associations of individuals other than firms, companies, and Hindu undivided families; (iii) Act XVI of 1925, which provides for the taxation of sterling overseas pay received in the United Kingdom; (iv) Act III of 1926, which determines the liability

[1] The decision of the Calcutta High Court raised a point of great importance. Rules were subsequently framed under the Indian Income-tax Act of 1922 to provide for such cases. Further, it was notified that only 25 per cent. of the dividends on shares held by tea companies should be taken into account in calculating the total income of the shareholder. This notification was withdrawn in 1927. Rule 24, as it now stands, provides that "income derived from the sale of tea grown and manufactured by the seller shall be computed as if it were income derived from business, and 40 per cent. of such income shall be deemed to be income, profits and gains liable to tax."

GSL

of the Governments of British Dominions to taxation in India in respect of trading operations; (v) Act XXIV of 1926, which provides for the levy of super-tax at the source on dividends paid to non-residents and allows appeals to the Privy Council; and (vi) Act III of 1928 which contains miscellaneous amendments. Another Bill[1] is at present under the consideration of the Central Legislature.

The law relating to income-tax has been considerably affected in recent years by judicial decisions. It does not fall within the scope of this work to discuss this question. But a few of the more important rulings may briefly be noticed here. In the matter of *Bhikanpur Sugar Concern*,[2] it was decided in 1919 that it was liable to income-tax in respect of that portion of its produce which was derived from sugar-cane grown by its servants on its own land. The Calcutta High Court decided in 1920 in *Birendra Kishore Manikya* versus *Secretary of State for India* (i) that the premium paid for the settlement of waste lands or abandoned holdings might be regarded as included in agricultural income, (ii) that the *salami* or premium paid for recognition of a transfer of a holding was not agricultural income, and (iii) that income derived from illegal *abwabs*, such as *uttarayan*, was not

[1] This is Bill No. 9 of 1929. This Bill is designed to bring together a number of minor amendments relating mostly to points of machinery and administration and not designed to affect the incidence of taxation except by granting relief in two cases of hardship.

[2] *Patna High Court Case No. 74 of 1919.*

GSL

exempt from assessment. In the case of *Killing Valley Tea Company*, the Calcutta High Court held that profits derived by a tea concern should be regarded as profits from two businesses, one of which was exempt from duty, while the other was not. The Court expressed the view that a tea company was liable to the tax to the extent of its manufacturing operations. The Patna High Court gave an important ruling in 1920 to the effect that the amount paid in respect of cesses could not be deducted before a person's income was assessed to income-tax. In *King-Emperor* vs. *Raja Prabhat Chandra Barua*, it was held by the Calcutta High Court that certain kinds of income derived from land, such as *jalkar*, ground rent for potteries, *punyaha* or other sorts of *nazar*, stall fees paid by sellers in bazars, etc., were liable to be assessed to income-tax even in permanently settled estates.[1] One of the most recent decisions is that given by the Allahabad High Court in *King-Emperor* vs. *The Tehri State*. It has been held that the Government Trading Taxation Act is applicable to an Indian State, and that a trading Government as a company becomes liable to the payment of income-tax.

The total revenues collected under the head 'Taxes on Income' during the first six years of the reformed system of administration were as

[1] This decision was arrived at by a majority of three Judges against two.

GSL

follows: 1921-22, Rs. 22,17,54,823[1]; 1922-23, Rs. 18,14,44,485[2]; 1923-24, Rs. 18,49,12,358; 1924-25, Rs.16,22,85,645; 1925-26, Rs.16,18,19,871; 1926-27, Rs.16,05,62,948; 1927-28, Rs.15,42,98,663. The amounts of revenue collected in the different provinces in the year 1927-28 were: Madras, Rs. 1,39,49,173; Bombay, Rs. 3,24,35,551; Bengal, Rs. 4,88,34,357; United Provinces, Rs. 82,54,112; Punjab, Rs. 75,12,874; Burma, Rs. 2,15,21,790; Bihar and Orissa, Rs. 44,60,154; Central Provinces and Berar Rs. 29,47,896; Assam, Rs. 19,61,455; Minor Provinces and India General, Rs. 1,24,21,341.

It may be mentioned here that, until 1920-21, the proceeds of the ordinary income-tax were divided between the Government of India and the Provincial Governments, but the super-tax formed entirely an imperial resource. At the time of the inauguration of the Montagu-Chelmsford Reforms, it was decided to do away with divided heads and to allocate separate sources of revenue to the Central and Provincial Governments. Under this scheme, taxes on income were to form a central resource. The two industrial provinces, namely, Bengal and Bombay, protested against this proposal, and urged that at least a portion of income-tax revenue should be credited to the provinces. The Parliamentary Joint Committee was unable to

[1] Includes Rs. 26 lakhs derived from excess profits duty.

[2] Includes Rs. 1¼ lakhs derived from excess profits duty.

accede to this request, but they expressed the opinion that "there should be granted to all provinces some share in the growth of revenue from taxation on incomes so far as that growth is attributable to an increase *in the amount* of income assessed."

This recommendation was embodied in Devolution Rule 15. The Rule has undergone several modifications; in its ultimate form it runs thus: "Whenever the assessed income of any year subsequent to the year 1920-21, exceeds in any Governor's province or in the province of Burma the assessed income of the year 1920-21 there shall be allocated to the local Government of that province an amount calculated at the rate of three pies in each rupee of the amount of such excess." The following shares of the proceeds of the income-tax accrued to the different provinces in 1927-28 under this Rule: Madras, Rs. 5,94,325; Punjab, Rs. 4,83,189; Burma, Rs. 13,94,359; Bihar and Orissa, Rs. 3,19,531; Central Provinces and Berars, Rs. 1,72,124; Assam, Rs. 5,62,205; Bengal, Bombay, and United Provinces, *nil*; total amount paid to Provincial Governments, Rs. 36,24,733.[1]

Thus we find that, although the purpose of this Rule was to secure to the larger industrial provinces a share in the growing revenue from taxation of incomes, these provinces have not derived any benefit from it. The effect of Devolution Rule 15 has, in

[1] Finance and Revenue Accounts of the Government of India for 1927-28.

GSL

fact, been "to give bonuses to individual provinces on a haphazard basis, while leaving the Government of India to bear all losses."[1]

This review of the history of the income-tax shows that the impost has had a somewhat chequered career in India. The fact that it was an unfamiliar tax made it unpopular in the beginning, and the frequent changes which were made in the rates helped to add to its unpopularity. The earlier measures did not prove successful owing to various defects in the assessment and the administration of the tax. But by gradual steps many of its defects have been overcome, and, in the course of time, the people have become reconciled to it. The tax was in the earlier days levied to meet temporary emergencies; but, after a great deal of hesitation and deliberation on the part of the authorities, it has at last found a permanent place in the financial system of the country. The imposition of the tax has helped, in some measure, to secure a fairer distribution of the burden of taxation among the different classes of the population. Based as it is on ability to pay, the income-tax is now regarded by the enlightened opinion of the country as the most equitable of all the available forms of taxation. The revenue it brings into the public exchequer is substantial, if not large, and is expected to expand with the industrial and commercial progress of the country.

[1] *Report of the Taxation Enquiry Committee, ch. xvi.*

GSL

CHAPTER IV

CUSTOMS

During the greater part of the rule of the East India Company, the Presidencies of Bengal, Madras, and Bombay had their separate tariffs and independent customs departments. A considerable element of similarity, though not uniformity, was, however, secured by the fact that the Regulations enacted by the Presidency Governments were subject to the approval of the Court of Directors and the Board of Control. Various experiments were made with the customs rules and rates by the Company after its acquisition of political authority. But it was not until the beginning of the eighteenth century that a more or less stable system was established.

The customs in each province were divided into two parts, namely, land customs and sea customs. The inland customs system of the Bengal Presidency (including the Agra Province) was founded on the indigenous method which had prevailed from olden times. In 1788, Lord Cornwallis abolished all the inland customs-houses in Bengal and Behar. In 1801, however, internal duties were re-established in these provinces at the rate of $3\frac{1}{2}$ per cent.,

GSL

with the proviso that articles which had once paid inland duty should not again be liable to it. Until 1810, duties were levied at varying rates in the different parts of the province. In that year, a system of uniform and consolidated duty was introduced, and customs houses were established at a few important places. The new system, while it facilitated long-distance trade, was injurious to trade between neighbouring places. In addition to the transit duties, town duties were levied in various towns. These were a source of much inconvenience and interfered with the growth of manufacturing industries.

Till the year 1810, the rates of duty prevalent in Bengal on exports and imports were, with a few exceptions, 3½ per cent. customs and 4 per cent. town duties. There were, besides, various other payments to be made, such as stamps on *rawannas*, commission and fees to customs masters, etc., which caused much vexation and raised the prices of goods. By Regulation IX of 1810, all previous enactments regarding customs were rescinded, and an improved system was established. Export and import duties were fixed ordinarily at 7½, in some cases at 5, and in the remainder at 10 per cent. A few articles were exempted from payment of duty, and, in some cases, drawbacks were allowed.

Regulation III of 1811 introduced an important alteration into the sea customs law, with the object

of giving preference to British over foreign shipping. The duties leviable on exports and imports carried in foreign vessels were raised to double the rates charged on goods conveyed in British ships. In order to reserve the coasting trade to British shipping, this Regulation provided that foreign vessels leaving British Indian ports should proceed direct to their own countries. Further changes of a momentous character were made in 1815 in order to encourage the manufactures, trade, and shipping of Great Britain. It was provided in that year that certain imports from Great Britain should be admitted free, and some others on payment of a $2\frac{1}{2}$ per cent. duty, if carried in British or Indian-built ships. It was also provided that such goods were not to be subjected to any tax in transit from port to port. With regard to exports, the provision was made that certain articles, such as indigo, cotton, wool, hemp and *sunn*, should, on exportation by sea to Great Britain in British or Indian-built vessels, be entitled to a drawback equal in amount to the entire duty paid on them, while other articles were to secure such a drawback as would leave the amount of duty actually retained at $2\frac{1}{2}$ per cent.

This policy was further pursued in the enactment of additional Regulations in 1815 and 1817. The result of this policy was to impart a great impulse to British commerce and industry, but its effect

GSL

on Indian industry and trade was disastrous. It should be noted in this connexion that Indian goods exported to England were about this time subjected to very heavy duties, and the entry of some articles was actually prohibited.

These changes caused a great loss of public revenue. In 1823, the transit and sea import duty leviable on Indian piece-goods (cotton, silk and mixed) was reduced from 7½ to 2½ per cent., the object being to place the piece-goods of India on the same footing as those of Great Britain. But this partial relief came too late.

In 1825, the entire customs law of Bengal was recast, but the main provisions of the previous enactments were kept unaltered. Imports by sea were classed under three heads: first, goods produced in the United Kingdom; second, products of foreign Europe and of the United States of America; and third, goods of places other than those from countries in Europe or America. Of imports under the first head, some were exempt from duty, while most of the others were chargeable with a 2½ per cent. duty. Imports of the second class were, with a few exceptions, subject to duty at the rate of 5 per cent. Imports under the third head were mostly liable to duty either at 7½ or at 10 per cent. These rates were fixed for goods imported in British vessels; when imported in foreign ships, double the rates were charged. Almost all goods

for export were subject to taxation. The rates varied, as in the case of imports, according to the place to which goods were exported and the nationality of the vessels in which they were carried.

The land customs of the Bombay Presidency were based on the ancient system, and were preserved largely in their original form until the beginning of the second quarter of the nineteenth century. An essential feature of the system was to levy transit duties in small sums according to distance. There were many irregular additions to the transit duties, and petty exactions were often made. At many of the towns and some of the villages town duties were levied.

The Bombay Presidency contained a large number of seaports. The duties originally levied at Bombay were on a low scale, and to this fact was due, to a large extent, the prosperity of the port. All export duties were withdrawn in 1779. So late as 1805, the rate of import duty was 2½ per cent., higher rates being levied in the case of foreign goods and foreign vessels. In that year, an addition of 1 per cent. was made to the duty. In 1813, the rates levied on foreign goods and those exported or imported in foreign vessels were largely increased. In 1827, the system of sea customs was revised.

The inland customs of the Madras Presidency were similar to those of Bombay till 1803. In

GSL

that year, the old system was abolished, and general duties, at 6 per cent., were imposed on all goods (except those belonging to the Company) which were (a) imported by sea or land into the town of Madras or certain provincial towns or manufactured within their limits, (b) exported from the subordinate ports, (c) imported or exported across the frontiers of the Madras territories. In some cases, goods might thus be subjected to three distinct duties making an aggregate of 18 per cent. Besides these, town duties were levied at some places.

In the Madras Presidency, several changes took place in the customs system in the early years of British administration. In 1794, the Court of Directors sent out instructions to regulate their tariff according to the system prevailing in Bengal. In 1816, a Regulation was enacted with the object of encouraging British imports. Its provisions were similar to the Regulations enacted in Bengal and Bombay.

Soon after the establishment of a centralised system of administration under the provisions of the Charter Act of 1833, the question of revising the customs regulations in all the Presidencies was taken up for consideration. In 1834, Mr. Charles Trevelyan submitted a valuable Report on the inland duties, in which he pointed out the various defects of the system. Lord Ellenborough, the

President of the Board of Control, invited the attention of the Court of Directors of the East India Company to this Report in 1835. He pointed out that no less than 235 articles, including almost everything of personal or domestic use, were subject to inland duties, and that the operation of the tariff, combined with the system of search, was of the most vexatious and offensive character, without materially benefiting the revenue. He also remarked that while the cotton manufactures of England were imported into India on payment of a duty of 2½ per cent., the cotton goods produced in India often paid 17½ per cent. in internal and other duties. "The effect of these and similar duties", observed the President of the India Board, "is to virtually prohibit the manufacture in towns of articles not absolutely required for their own consumption".[1]

A Committee was appointed about this time to consider the customs and post office regulations of the different provinces. This Committee submitted several reports in 1836. In anticipation of their recommendations, the Governor of the Agra province had already abolished almost all the inland customs stations within those territories. By Act XIV of 1836, all inland transit duties levied within the Bengal Presidency, except on the Jumna frontier line, were abolished. Similar measures were taken in Bombay and Madras in 1838 and 1844 respectively.

[1] Letter dated the 18th March, 1835.

GSL

The abolition of inland duties entailed a loss of revenue to the Government, and an addition to the customs tariff became necessary. The principles on which the customs tariff ought to be regulated were discussed by the Court of Directors in a despatch sent to India in 1846. In 1848, the duties on 'port to port' trade were abolished, and the discrimination between British and foreign vessels was discarded. In 1850, the coasting trade of India was thrown open to vessels of all nations.

On the eve of the Mutiny, we find that the duties on goods imported into or exported from India by sea were regulated by separate Acts for the three Presidencies and the other territories of the Company. By the tariffs existing in 1857 the following articles were allowed to be imported free, namely, animals, books (if British), bullion and coin, coal and coke, etc., grain (except rice at Madras), ice, precious stones and pearls, and machinery (at Bombay only). A duty of 5 per cent. was paid on all British goods included under any of the following heads, namely, military or naval stores, metals, woollen and cotton and silk goods, foreign manufactures paying 10 per cent. Foreign books paid 3 per cent. *ad valorem*. Cotton thread, twist, and yarn, paid $3\frac{1}{2}$ per cent., if British, 7 (at Bombay 10) per cent., if foreign. Certain drugs, spices, and tea paid 10 per cent.; coffee and rattans, $7\frac{1}{2}$; malt and liquor, 5. Wines and spirits paid specific duties. All other

manufactured articles paid 5 per cent. *ad valorem*. Tobacco, which in Bengal was unenumerated, paid 10 per cent. in Madras, and variable rates in Bombay. The tariffs of those two Presidencies differed in one or two other respects from those existing in Bengal. As for exports, bullion and coin, precious stones and pearls, books printed in India, animals, raw cotton if sent to Europe, the United States, or any of the British possessions outside India, and sugar and rum to the British possessions, were free. The last mentioned articles paid special rates if sent from Bengal or Madras to other British possessions. Grain paid half an anna per maund; lac, 4 per cent. (from Madras 3); silk and tobacco, special rates; spirits from Bombay, 9 annas a gallon; and all other Indian articles 3 per cent.

A large addition was made to the public debt of India in suppressing the Sepoy Mutiny, while the decision to increase the strength of the British portion of the army entailed a considerable addition to the recurring expenditure of the Government. An augmentation of resources was thus found necessary; and, among other measures, it was decided to enhance the customs duties. On the 4th March, 1859, a Resolution was issued by the Governor-General in Council with the object of enlightening the public on the necessity of improving the finances of the country. On the

12th March, a Bill was placed before the Legislative Council. The Governor-General himself moved the first reading of this Bill; and in the course of the speech made by him on the occasion, Lord Canning pointed out the extent of the pressure which had compelled the Government to resort to this measure.

In explaining the nature of the changes proposed in the Bill, Lord Canning said that everything which bore the semblance of a differential or protective duty was to be done away with, and that if the Bill was passed, not a rupee would be raised in India except for the purpose of revenue. He then gave a detailed account of the provisions of the Bill. On all articles of luxury such as tea, coffee, tobacco, spices, haberdashery, hosiery, grocery, provisions, perfumery, and jewellery, a duty of 20 per cent. *ad valorem* was fixed in the Bill. The articles which were subjected to specific rates, nearly equivalent to the 20 per cent. *ad valorem* rate, were wines, spirits, and beer. On wines and spirits, the Bill proposed to levy a duty of Rs. 3 per gallon, and on beer, 4 annas a gallon.[1] On most of the articles not included in the above enumeration, a duty of 10 per cent. was proposed. In this connexion, Lord Canning thought it fit to refer to cotton piece-goods. Although the rate of increase was considerable, he observed that, in view of the

[1] The Governor-General pointed out that these rates were below those levied in England.

fact that the import trade in the article had taken a deep root and had steadily increased, he had no apprehension that the proposed enhancement would affect it in the slightest degree. An exception was, however, made in the case of cotton thread, yarn, and twist, which were proposed to be taxed at 5 per cent., the reason being that the trade in these articles had not yet taken so firm a hold of the country as that in the manufactured product. Certain articles such as bullion, grain of all sorts, raw cotton, cattle, coal, books and machinery required for improving the communications and developing the resources of the country, were to be imported free.[1]

In the list of exports, the only article on which it was intended to levy any increase of duty was grain.[2] The tax on grain was proposed to be raised from half an anna and one anna a maund to two annas a maund. There were two articles on which the export duties were proposed to be abolished altogether, namely, silk and tobacco. The ground of removal in the former case was that it was desirable to leave the competition of India in silk with other countries unshackled. The export duty on tobacco was removed because its yield was inconsiderable.[3]

[1] Most of these articles were already on the fr e list.

[2] The Governor-General remarked in this connexion that, from the information available to the Government, he believed that the increase would not affect the export of grain in any appreciable degree.

[3] In regard to this provision, Lord Canning said that it was not to be supposed that the duty was abandoned because tobacco was not a fit subject of taxation, but that, if a tax was to be levied on the article, it would be better to levy an excise duty than an export duty.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

The Governor-General proposed that the Bill be passed on the very day it was introduced, but exception was taken to the proposal by two members of the Council, including Sir Barnes Peacock. It was, therefore, referred to a Committee of the whole Council, and was passed on the 14th March. By this Act (VII of 1859) a uniform tariff was established for the whole of India, superseding the varying tariffs of the three Presidencies. The alterations were expected to bring an additional sum of 93¼ lakhs into the public exchequer. The total yield of customs duties for the year 1859-60 was estimated at 1 crore and 97¼ lakhs. The enhancement of duties on cotton manufactures gave rise to some opposition. A memorial was submitted to the Secretary of State by the European mercantile community of Bombay, in which it was pointed out that a local cotton industry had already been started and that it was impolitic to place imposts on articles imported from Britain.

The Tariff Act of 1859 was passed under a very pressing emergency, and in a somewhat hurried manner. The changes in the tariff proved financially successful on the whole. But the enhancement of the duties afforded greater inducement to evasion than before, while the falling-off in imports showed that the increase in duties had been carried too far. Mr. James Wilson took this as a warning, and he introduced a Bill into the

Legislative Council on the 18th February, 1860, to amend the tariff. The main alterations made by the Bill were as follows: First, all 20 per cent. import duties were reduced to 10 per cent. with the exception of beer, spirits, wines and tobacco. Secondly, the duties on cotton thread, twist, and yarn, were raised to 10 per cent. Thirdly, in regard to export duties, the only change was that the tax on saltpetre was increased to two rupees a maund. Fourthly, some articles were added to the free list, namely, among the imports,—wool, flax, hemp, jute, maps, prints and works of art, and hides; and among the exports,—wool, flax, hemp, jute, hides, tea, and coffee. The Finance Member wished it had been in his power to reduce the general duties to 5 per cent., but that was impossible at the time.

With regard to export duties, the Finance Member agreed that these were impediments in the way of developing the produce of the country. He observed : "As a general rule, when the products of our soil have to find a foreign market, and in cases in which they enter into competition with those of other countries, the direct effect of export duties must be to place our products in those countries at a disadvantage with their foreign competitors ; in point of fact, it cannot be denied that in such cases an export duty falls chiefly upon the producer who cultivates the article." The

GSL

Finance Member pointed out that the exports of wool had been very important, but had shown some tendency to decline during the two previous years. The Government was especially interested in encouraging hemp and hides, because they competed in the English market with articles of unfriendly foreign nations. Jute was in the same category, and with regard to it, he expressed the opinion that it was one of the great raw materials used in England, which competed with the coarse hemp of Russia and the production of which it was "much our interest to promote." It was necessary to give every encouragement to the incipient efforts made in the Punjab to grow flax. As for tea, Mr. Wilson said that the experiment made by the Government, at a great cost, of introducing it as an article of cultivation had proved eminently successful, and steps were being taken to hand it over entirely to private enterprise. He regarded the tea industry as one of the few means that existed in India "of attracting European capital and European settlers."

The reductions and abolitions were estimated to involve a loss of £82,000 to the exchequer. But as the Government was faced with a large deficit, the Finance Member was obliged to make additions to the rates in some cases. The enhanced duty on the export of saltpetre was defended on the ground that the article was produced almost exclusively

in India, and fetched a large price and a high profit. Mr. Wilson thought this article did not stand in the same position as other articles produced by the cultivators of the soil, and could bear a high duty without any risk of its being interfered with by foreign competition.[1] As the total quantity of saltpetre exported annually from India was 100,000 maunds, it was expected that the increase in the rate of duty would yield £180,000 or an additional amount of £164,000.[2] He also proposed to raise the duty on unmanufactured tobacco to 8 annas a seer and that on manufactured tobacco to one rupee a seer.

The proposal to raise the import duty on yarn and twist to 10 per cent. was one which the Finance Member made with regret, and to which he was driven by sheer necessity. He failed to discover any good reason for allowing cotton twist and yarn to be imported at a lower rate of duty than cotton piece-goods. He was not impressed with the argument that it was an earlier stage of manufacture. Nor did he attach much importance to the view that a low duty on yarn and a higher duty on cloth encouraged the indigeneous weaving industry. Another source from which an increased revenue was likely to be obtained was tariff revaluation.

[1] For some time past, a small duty had been levied on the export of this article.

[2] Mr. Wilson proposed to allow the saltpetre refiners, subject to payment of the duty, to turn to profit the salt which was necessarily made in the process.

Mr. Wilson considered the then existing tariff valuations to be too low, and took steps to revise them and apply a uniform system to the whole of India.

A considerable net gain to the exchequer was estimated as the result of these alterations. An increase in the export duty on indigo had been suggested in some quarters, but Mr. Wilson refused to accept the suggestion, because, in the first place, a rival production was supposed to exist in Mexico, and secondly, it was not thought desirable to place any impediment in the way of the extension of an industry which was one of the few cultivations in India which attracted "British capital and skill to direct native labour."[1]

In the following year, another large deficit was estimated. But this fact did not prevent Mr. Wilson's successor, Mr. Samuel Laing, from reducing the duty on imported twist and yarn from 10 to 5 per cent. on the ground that "it ought not to be maintained at a rate which might stimulate the growth of a protected interest." He added: "The principle of free trade is to impose taxes for purposes of revenue only, and if yarn be a fit subject for taxation, there ought to be an

[1] "This is the kind of industry", Mr. Wilson added, "which, above all others, the Government would wish to encourage, and on that account alone they would feel precluded from placing any impediment in the way of its extension. It would be more consonant with our views to remove what little duty there now is as soon as circumstances will permit. The value of the influence of European gentlemen settled in our country districts cannot, in our opinion, be over-estimated, and it will be the steadfast policy of the Government to encourage it in every fair way we can".—*Financial Statement, 1860-61.*

excise duty on the native manufacture equal to the customs duty, unless the latter be so small in amount that it would be palpably not worth while to establish a countervailing system of excise." Mr. Laing thought that, with a 5 per cent. import duty, this might be the case, but at any higher rate, untaxed Indian yarn would manifestly be a protected article. Mr. Laing wished that he could at once reduce the duty on piece-goods and other manufactures from 10 to 5 per cent., but unfortunately, the amount of sacrifice was too large to enable him to propose it without imprudence.[1] In the case of yarn, however, the amount was small, the failure of the high duty palpable, and the case was urgent, because parties were "actually building mills and importing machinery on the strength of the high duty."[2]

Thus, even in this year of deficit, a revenue of £40,000 was sacrificed to maintain what were called the principles of free trade. At the same time, an addition was made to the duty on salt, an article of necessity which even the poorest could not do without.

The financial position of the Government improved to some extent in the course of the year, and the Finance Member estimated a surplus of £900,000 for 1862-63. He proposed to reduce the duties

[1] *Financial Statement, 1861-62.*
[2] *Ibid.*

on imported manufactures. Some eminent persons, among them the then Lieutenant-Governor of Bengal, thought that a 10 per cent. duty was "one of the most legitimate sources of revenue". But the Government of India held a different opinion for two plain and obvious reasons. The first of these was thus explained by the Finance Member: "The duty applies almost exclusively to British manufactures. Now as long as England and India remain parts of one great Empire, it is impossible to apply precisely the same rules as if they were separate and independent countries. I have opposed, as stoutly as any one, any attempt to ease English finance unduly at the expense of India; but I cannot deny that England, having founded the Indian Empire, and being ready to sustain it, and having given up all pretensions to exact a tribute, as Holland does from Java, or Spain from Cuba, and all claim on a monopoly of the Indian market, may, with some reason, ask India so to levy the necessary revenue as not to interfere injuriously with trade between the two countries. Apart from moral and political considerations, the extension of commerce is the most direct and palpable advantage derived by England from the possession of India. A heavy import duty, therefore, on trade between England and India, comes very near in principle to a transit duty between different parts of the same Empire, and what is more important

GSL

than theory, it is a tax which, in practice, is not likely to be permanently maintained."

There was also another argument against the permanent retention of a 10 per cent. duty. "Either the clothing of the people", said Mr. Laing, "is a proper subject for taxation, or it is not; if it be so, on what possible principle can we impose a considerable duty on clothing which comes from abroad, and levy no duty at all on clothing produced at home ?"[1] No exception, Mr. Laing added, could be taken to an old accustomed duty of 5 per cent. on manufactured goods; but if it was to be kept at 10 per cent., this was a rate which required the Government, unless it was prepared to abjure the principle of free trade, at once to impose a countervailing excise duty on every loom in India. Such a step, however, the Government did not think it desirable to take. Mr. Laing did not wish to discourage manufactures of certain descriptions in which India had a natural advantage. But he was anxious "not to bestow on Indian manufactures the fatal boon of a temporary and precarious protection."[2]

[1] *Financial Statement, 1862-63.*

[2] Mr. Laing said further: "With cheap raw material, cheap labour, and many classes of the native population patient, ingenious, and endowed with a fine touch and delicate organisation, I see no reason why the interchange between India and Europe should be confined to agricultural produce against manufactures, and why, in course of time, manufactures of certain descriptions where India has a natural advantage, may not enter largely into her staple exports."—*Financial Statement, 1862-63.*

GSL

For these reasons, the import duties on piece-goods and yarns were reduced to the rates of 5 and $3\frac{1}{2}$ per cent. respectively.[1] The Finance Member was not, however, prepared to extend this policy of reduction to the other articles of the tariff, because they were not extensively produced in India as well as imported, and the same arguments which applied in the case of piece-goods did not apply in the other cases. A moderate duty of 10 per cent. on those articles was not, therefore, in his opinion, an objectionable mode of raising revenue. Paper was placed in the free list on the ground that a duty on the raw material was indefensible, while the finished article 'book' was admitted free.[2] The duty on beer, which was "to many European constitutions almost a necessary," was reduced by one-half, the duty on wines of less value than Rs. 12 per dozen was reduced to Re. 1, while the duty on tobacco[3] was reduced from Re. 1 per seer to 20 per cent. *ad valorem*.

The finances of the Government continuing to be prosperous in the following year, the duty on beer,

[1] Objections had been made in some quarters to the reduction taking effect immediately. But the Government saw no sufficient reason to depart from the usual and accustomed course in such cases, which was clearly best for the interest of the public. The Finance Member, therefore, proposed that the reduction of the duty should take effect from the passing of the Act on the following Wednesday.

[2] Mr. Laing refused to enter upon a discussion of the larger question, namely, whether a tax on paper was obnoxious as a "tax on knowledge".

[3] From beer to tobacco the transition was "easy and natural," according to Mr. Laing. He did not mention whether the reverse was also true.

which was, according to Sir Charles Trevelyan, the new Finance Member, "the most wholesome of stimulants and the best suited to this climate," was reduced to a registration fee of one anna, while the duty on every kind of wine was reduced to Re. 1 per gallon. Iron, which was a material of industry essential to the development of great works, but which had been charged with a duty of 10 per cent., was now subjected only to a registration fee of 1 per cent. No further reduction was made in the duty on piece-goods, because the 5 per cent. *ad valorem* duty, charged on a valuation which had been fixed when prices had been half of what they were at this time, really amounted to 2½ per cent. Besides, the so-called protective duty had failed to give protection to indigenous manufactures. The handloom weavers, as Sir Charles Trevelyan stated in the Council, had been "prostrated by the blow which staggered Manchester. They had gone down before the excessive price of the raw material, and had migrated or gone upon the railways or other public works, or had given themselves up entirely to agriculture." The Finance Member prophesied that, when Manchester set to work again, she would "find her rival local manufacturers converted, to an unexpected extent, into readymoney customers."[1]

[1] The absorption of the handloom weavers, who had been half agriculturists before, in the agricultural class was regarded by the Finance Member as a benefit both to England and India. He observed:

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

It was suggested in many quarters that the plan, which had been adopted in England a few years ago of confining customs duties to a small number of principal articles of import, might with advantage be adopted in India. But Sir Charles Trevelyan expressed the view that, in the special circumstances of India, "our policy should be to levy a wide-spread but moderate duty, so as to give free scope to trade in time of peace, and to cherish the increase of a fund which would be our first financial reserve in time of war."[1]

By the end of the year, the finances of the Government of India had shown signs of further improvement. On the occasion of the discussion of the Financial Statement for 1864-65, Sir Charles Trevelyan remarked: "The great embarrassment of the trade of India has always been the want of imports to meet the vast quantity of export-able produce which the country is capable of sending forth. If we desire to relieve the trade of India, and to give free scope to its further extension, we should give all possible encourage-

"There has been occasional severe distress, particularly where the manufacture was carried on for general sale at marts, but on the whole, it is a remarkable proof of the healthy, progressive state of India, that the transition has been got through with so little difficulty." Discussing the causes of the trade depression, Sir Charles pointed out that the unusual combination of large stocks with high prices was the cause of the depressed state of the trade. It was the 40, 50, or even 60 per cent. advance of price which paralysed trade, "and not the nominal 5 per cent. duty."

[1] *Financial Statement, 1863-64.*

GSL

ment to her imports." Accordingly, the general import duty of 10 per cent. was reduced to 7½. The import duty on tobacco was reduced to 10 per cent.[1] The loss of revenue arising from these reductions was expected to be balanced by increased receipts from the readjusted valuation of piece-goods. As a matter of fact, however, there was an appreciable decline in customs receipts.

In the following year, some important alterations were made in the customs tariff, in view of the growth in expenditure and the cessation of the revenue derived from income-tax. The Finance Member expressed the opinion that Indian exports had such a hold on foreign markets that they could easily bear some duty without being seriously checked.[2] He showed, by reference to the trade figures, that the exports of jute, wool, tea, and coffee had increased considerably during the preceding four years, and he proposed to

[1] This was done because foreign tobacco had to compete with the untaxed produce of this country.—*Financial Statement, 1864-65*.

[2] In defence of this policy of imposing export duties, Sir Charles Trevelyan said: "The old policy of the East India Company was to levy low rates of duty both upon exports and imports. However contrary this practice may have been to some received maxims of political economy, it was suited to the circumstances of the country, for owing partly to the abundance and richness of the productions of India, and partly to the simple habits of the people, the exports of merchandize have always greatly exceeded the imports... This policy has of late years been departed from to a certain extent...So far as India possesses the monopoly of the foreign market, or a decided superiority over all other countries taken together, an export duty must be paid by the consumer. So far as exported articles are met by an effective competition in the foreign market, the duty must be paid by the producer."—*Financial Statement, 1865-66*.

GSL

levy an export duty of 3 per cent. on each of them. Hides, sugar, and silk, the trade in which had not increased in the same proportion, were subjected to a duty of 2 per cent. The export duty on rice and other grains was raised from two annas to three annas a maund. On the other hand, the duty on saltpetre—which was now in a decadent condition—was reduced from Rs. 2 to Re. 1[1].

There were no changes of any importance in 1866-67, except that the duty on saltpetre, which had been unable to compete with the new manufacture, was reduced from Re. 1 a maund to 3 per cent. *ad valorem*, that is to say, the old rate. The relief, however, came too late, for the industry had already received a blow from which it could not possibly recover.

In 1867, in compliance with the request of the Bengal Chamber of Commerce, a Committee was appointed for the revision of tariff valuations. In accordance with the recommendations of this Committee, the customs tariff was revised with a view to the better classification of articles, to a readjustment of values and charges, and to the removal of duties which were not valuable as sources of revenue, but were obstructive to trade. The new classification was far more simple and

[1] The import duty on hops was reduced from 7½ to 1 per cent. in order to assist the Indian breweries.

intelligible than the old one. The plan was adopted of enumerating the articles which were to pay customs duties, every article not enumerated being free.[1] The number of articles to be taxed was greatly reduced, forty heads being removed from the list of imports liable to duty, leaving sixty-five classes chargeable. Further, the export duties on eighty-eight articles, among which was saltpetre, were abolished, retaining only nine classes of articles on the list. The adoption of the new plan involved some sacrifice of revenue, but the liberation of commerce from many vexatious charges was regarded as more important than revenue. The loss of revenue resulting from the adoption of the new system was met by an increase in the export duty on grains from 2 to 3 annas a maund and an alteration of the wine duties. The Committee had advocated the raising of the duty on grains not only as a legitimate mode of improving the revenue, but also on the ground of its healthy tendency to check the exportation of staple articles of food during a period of famine.[2] The

[1] This was the mode in which the English tariff was framed.

[2] Mr. Massey was able to cite high authority besides that of the Committee in support of his view. In 1857, in the prospect of scarcity, a prohibitory duty on the export of grain had been proposed in the legislative council; but this extreme measure had not been adopted. In 1859, the duty was raised from half an anna to two annas per maund, but it did not check exportation.

Some of the grain merchants of Burma memorialised the Secretary of State against the increased duty, basing their opposition "not on the ground of its tendency to check the trade but in the prospect of its decreasing their profits."

GSL

duties on cotton piece-goods and twists were retained at the rates of 5 and 3½ per cent. *ad valorem*, but the valuations were reduced to correspond with the then existing state of the market. Machinery, together with component parts thereof, was placed on the free list.[1]

By Act XI of 1868, the importation of timber and wood was declared free. The customs tariff was again carefully revised with the assistance of a Committee in 1869. The tariff values of cotton goods and of the principal metals, were reduced by about 15 per cent.[2] On the occasion of the annual budget debate, Sir Richard Temple, reviewing the customs receipts for a decade, remarked that, in Mr. Wilson's time, the revenue had been just under 2¾ millions, but it was a little over this figure at this time, notwithstanding the fact that the duties had been reduced from 20 and 10 per cent. to 7½ and 5 per cent. and that no less than 130 articles had been removed from the list of dutiable merchandise at the customs house.[3]

In 1870, the export duty on shawls and a few

[1] In this respect, the Government went beyond the recommendations of the Committee.—*Moral and Material Progress Report, 1865-66.*

[2] This decision did not take effect till 1871.

[3] A volume of the statistics of the foreign trade and navigation for British India was issued about this time. The latest trade returns disclosed, according to Sir Richard Temple, some striking facts indicative of that sort of prosperity which was the real basis of national finance. "That these results", he observed, "should be achieved through the direct agency of a handful of non-official gentlemen, is one among the many wonders of the time."

insignificant articles was remitted, while some others were included in the tariff.[1] Act XVII of this year removed from the list of imports paying duty, blacking, carpets, China and Japan ware, felt, grass and other China cloth, horns, jute manufactures, lac, marble, shawls, tallow and grease, trunks, materials for carriages, chemicals, and telegraph materials.[2] Corals and matches were included in the list of goods paying 7½ per cent., and steel rails were, like iron, to pay a duty of only 1 per cent. By Act XIII of 1871 all materials for railways were admitted at 1 per cent., and asphalt was charged 7½ per cent. In 1873 and 1874, the export duties on wheat and lac dye were removed.[3]

The question of the abolition of the export duty on rice gave rise to much controversy about this time. In response to an enquiry made by the Government of India in 1872, the Chief Commissioner of British Burma observed that the rice duties fell exclusively upon the agricultural classes, and that they were in fact a supplement to the land tax. He

[1] In 1870, a remission of the export duty on Indian and Burmese rice was suggested in view of the dulness in the trade; but an improvement having occurred in the course of the year, the Government did not make any change.

[2] Some of these articles, however, probably paid duty under other denominations. *Vide Waterfield's Memorandum on Fiscal Legislation in India.*

[3] In 1872, the *farman* privilege was withdrawn from the Portuguese at Surat. This privilege had been granted by the Moghul Emperor in 1714 and recognised by the British Government. Under it, goods belonging to Portuguese subjects, and carried in Portuguese vessels, were subject to only 2½ per cent. on importation at Surat.

also said that the import duties were not an important item, but that the export duties in Burma were expected during the year 1872-73 to exceed the export duties of the whole of Bengal which included, of course, a great portion of the exports of the North-Western Provinces, Oudh, the Central Provinces and the Punjab.

Major Duncan, Inspector-General of Police in British Burma, thought that the rice duties were unsound in principle. But the Chief Commisssioner expressed the view that it was a legitimate way of supplementing the light land tax. The latter was a direct tax, and it was quite right to supplement it by an indirect tax on the surplus produce of the soil. He did not believe that, if this duty were taken off, a single additional acre of land would be brought under cultivation. The objections to the rice duty were, in his opinion, purely theoretical and based on a false analogy between the conditions of Burma and of other countries. In regard to the operation and effects of the rice export duty, the Chief Commissioner observed that it was paid by the producer, and that the land, which was taxed lightly, was able to bear this supplementary burden. He showed that the exports of rice had grown enormously during the previous five years. He added : "It is seldom that any State has the means of raising a large revenue with absolutely no injury to commerce and no pressure

GSL

on the people. In the rice duty the Government of India has this opportunity, and it seems to the Chief Commissioner that any surrender of its favourable position in this respect would inflict a serious injury on the revenues of the country, with absolutely no corresponding advantages to compensate for this sacrifice. It is not as if the duty were unpopular, or that a concession to public opinion on the subject were expedient. Not a voice is raised against the duty in Burma, on the score that its retention is a wrong and an injury to the country; the memorial of the mercantile community to the late Viceroy, on the occasion of his visit to Burma, did allude to the subject, but it asked that a greater portion of the proceeds of the duty might be spent in the province, rather than that it might be taken off altogether."[1]

[1] *Letter from the Chief Commissioner of Burma to the Government of India, dated the 16th November, 1872.* A brief history of the rice duty may be given here. Act XVII of 1867 came into force in British Burma under which the duty on grain exported from India was raised from two to three annas per maund. It was expected by many that this enhancement of duty would have a prejudicial effect on the rice trade of this province, which formed the staple of its commerce; that that trade would no longer be able to compete with other countries, which were, it was supposed, anxious to become competitors with Burma in the European markets, and that as a consequence the material progress of the province would be retarded. As a matter of fact, there was a large increase in the export of rice.

In Bengal, previous to 1866, the export of grain was free, whether in English or foreign vessels. By Reg. IX of 1810, Sec. 13, cl. 2, grain of all sorts was declared free on export. By Reg. X of 1810, Sec. 3, cl. 1, rice,—whether cleaned or in the husk,—wheat and barley, were subjected to a town duty of 2½ per cent. levied on a rated value, if cleaned, of one Calcutta sicca rupee per maund of 8 Calcutta sicca weight to the seer, and rice in the husk or paddy at 8 annas per maund Under Section 30, cl. 2, if expressly intended for exportation by sea,

Another article which was the subject of discussion at this time was sugar. In 1872, the Government of the North-Western Provinces wrote: "As soon as financial considerations will admit, His Honour would be glad to see the export duty on sugar crossing the frontier line taken off. So long as these provinces had the exclusive privilege of supplying Rajputana and Central India with sugar, being the only source from which

no duty was levied; but the boats which brought rice to Calcutta were to be conducted to the customs house in charge of a peon, who was not to leave the boat or to prevent the grain to be landed elsewhere than at the customs house, there to remain until shipped or passed for export. Regulation XV of 1825, which imposed a great variety of duties, specially exempted grain of all sorts from duty when exported, no matter to what place, or by what vessels, foreign or English. Thus matters remained till 1836. Under Act XIV of that year, schedule B, grain and pulse of all sorts, if exported in British vessels, were subjected to a duty of one anna per bag not exceeding 2 maunds of 80 tolas to the seer; or if exported otherwise than in bags, ½ an anna per maund. These rates were doubled on exports in foreign vessels.

In 1859, under Act VII of that year, the duty on grain was raised to 2 annas a maund. The effect of this change was apparent on the exports of the succeeding years. The shipments of rice and paddy for the five years preceding 1859 averaged 111,585,697 maunds, whilst for the period 1859 to 1863-64 the average was only 8,146,364 maunds. The duty of two annas continued to be levied down to the 31st March, 1865. In April, 1865, it was increased to 3 annas per maund under Act VII of that year. This increased rate was disallowed by the Secretary of State for India, and the rate of two annas was reverted to. In 1867, it was again raised to 3 annas a maund on the recommendation of the Committee appointed in 1866 to revise the tariff, composed of the Commissioner of Customs, Bombay, the Collector of Customs, Madras, the President of the Chamber of Commerce, the junior Secretary to the Board of Revenue, and the Collector of Customs, Calcutta. The rate of 3 annas continued, and was in force in 1872.

The raising of the rate of duty had an adverse effect on the exports from Bengal. There was a strong feeling against the duty. But the Indian community considered it an excellent tax, on the ground that it tended to keep food in the country. The Collector of Customs, Calcutta, thought that any reduction of the duty on grain would be received with the greatest satisfaction by the mercantile community.—*Letter from the Government of Bengal to the Government of India, dated 13th December, 1872.*

GSL

it could be procured, the duty by raising the price was virtually a tax on the consumer, and was consequently paid by Rajputana and Central India. But as soon as, by the additional facilities afforded by the railway, Central India was enabled to import foreign sugar from Bombay, and the two sugars came into competition, it is evident that the produce of the North-Western Provinces no longer ruled the market; its price must be adjusted with reference to that of the other sugar, and consequently the tax is liable to fall on the producer and to discourage the production and manufacture of the staple in the North-Western Provinces." Sir William Muir came to the conclusion that the time for reviewing the expediency of this export duty had arrived, and that, as soon as the state of the finances might admit, the producers of these provinces should be relieved from a burden which must depress their trade.[1]

The Government of Bengal observed that the export of rice varied with the harvests and the prevailing price of grain in Bengal and in Europe. It remarked further that it might, to a small extent, check export, but that indirect effect in checking the production of rice must be inappreciable. As the export trade had flourished in spite of the small duty, the Lieutenant-Governor did not consider that

[1] *Letter from the Government of the North-Western Province to the Government of India, dated the 11th December, 1872.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

this duty should be "the first for reduction or abolition".[1]

Early in 1874, the Manchester Chamber of Commerce submitted a memorial to the Secretary of State complaining that the import duties of 3½ per cent. on yarns and 5 per cent. on cotton manufactures were "absolutely prohibitory" to the trade in yarn and cloth of the coarse and low-priced sorts, that a protected trade in cotton manufacture was thus springing up in India to the disadvantage both of India and Great Britain, and that the duties increased the cost of their articles of clothing to the poorest of the people, thereby interfering with their "health, comfort, and general well-being." The Chamber, therefore, prayed that early consideration might be given to the subject with a view to the abolition of the duties. A few months later, the Manchester Chamber addressed another letter to the Secretary of State in which they said: "A large number of new mills are now being projected, and the revenue from import duties will be consequently diminished. The impost is, therefore, defeating its own object, as well as inflicting an injustice on the consumer and importer."

In November, 1874, a Committee was appointed by the Government of India to consider the whole

[1] *Letter dated the 13th December, 1872.*

Of the Bengal exports, more than half consisted of rice about this time; indigo, oil-seeds, and lac came next in order. The exportation of jute, cotton, silk, tea, saltpetre, wheat, and sugar was free.

question of the tariff. They made recommendations relating to the export duties, tariff valuations, and other matters. In regard to the duties on cotton manufactures, they observed: "The demand that, because one class of goods, represented by 4 lakhs of duty in all India, has in one part of India, to meet a local competition, the Government shall remit the remaining 77 lakhs which competition cannot affect, appears to the Committee quite unreasonable." They also rejected the alternative of an excise duty on Indian mill products as they saw "no need for establishing a cumbersome and expensive excise machinery."

The Government of India accepted the recommendation of the Committee in regard to a lower scale of valuations. In the matter of export duties, it went further, and decided to free from all fiscal burdens the entire export trade, except in three articles, namely, rice, indigo, and lac.[1] The general import duty was reduced from 7½ to 5 per cent. As a concession to the sentiments and fears of Manchester, an import duty of 5 per cent. on long-stapled cotton was decided upon. A Bill embodying these provisions was passed on the 5th August, 1875. Mr. T. C. Hope, in the course of an able speech, showed that the case for the abolition of all duties "must inevitably fall to the ground. He further observed

[1] The export duties on cotton goods, oilseeds, and spices were removed.

that Mr. Massey had remarked with truth that the Indian import duties were the lightest in the world. Lord Northbrook, in summing up the debate on this occasion, explained that the Indian customs duties had never been regarded as protective, and observed that, in a financial question, the true interest of the people of India was the only consideration which the Government of India ought to have in view.

The Secretary of State, Lord Salisbury, took exception to the procedure adopted by the Government of India in placing the measure before the Legislative Council without obtaining his sanction. Shortly afterwards, Lord Salisbury sent a despatch to the Governor-General in Council in which he strongly urged the latter to abolish the import duty on cotton manufactures as soon as the condition of the finances might permit such a step being taken. He thought that the duty was open not only to economic, but also political, objections. On the 30th September, Lord Salisbury sent a telegram to the Governer-General expressing his disapproval of the newly passed Tariff Act and practically enjoining the removal of the cotton duties. In a despatch dated the 11th November, 1875, Lord Salisbury again urged the removal of the cotton duty which he considered to be "a matter of serious importance both to Indian and Imperial interests." Minutes of dissent were,

however, recorded to this despatch by several members of his Council.

Lord Northbrook and his colleagues, in their reply to the despatch, said that the duty could not be removed "without danger to the Indian finances, and that the imposition of new taxes in its stead would create serious discontent." Other despatches to and from India followed. The Secretary of State continued to insist on the abolition of the cotton duties, while the Government of India maintained its objection to the proposal. The opinion of the Council of India was often divided on the question. In these despatches, the question of relations between the British and Indian Governments was discussed with enthusiasm on both sides. The resignation of Lord Northbrook, however, helped to smooth matters over. Immediately after his appointment, Lord Lytton, the new Governor-General, publicly declared his view in favour of the abolition of the cotton duties.

On the 30th August, 1877, the following Resolution was adopted by the House of Commons: "That in the opinion of this House, the duties now levied upon cotton manufactures imported into India, being protective in their nature, are contrary to sound commercial policy, and ought to be repealed without delay as soon as the financial condition of India will permit." On the financial effects of the proposed abolition, Sir John Strachey,

the Finance Member, said: "The truth is that cotton goods are the sole article of foreign production which the people of India largely consume, and there is no possibility of deriving a large customs revenue from anything else". But he added: "I don't know how long a period may elapse before such a consummation is reached; but whether we see it or not, the time is not hopelessly distant when the ports of India will be thrown open freely to the commerce of the world."[1]

In March, 1878, the Finance Member said in the Council that the Government of India was bound to give effect to the principles on which the customs legislation of Great Britain was based. As a first step towards giving effect to the policy enjoined by Parliament and the Secretary of State, he exempted those coarser qualities of cotton goods with which the Indian manufactures were likely to compete successfully. This involved considerable financial sacrifice, and that in a year of deficit when the imposition of fresh taxes was found necessary.

The relief thus granted to the imported cotton goods failed to give satisfaction; and in 1879, Lord Lytton decided to exempt from duty cotton goods containing no yarn of higher number than 30's. At the same time, the valuations were reduced. Instead of placing a Bill before the Legislative Council, the Governor-General decided to take executive action.

[1] *Proceedings of the Governor-General's Council, 1877.*

GSL

The majority of members of his Executive Council, were, however, opposed to the reduction. But the extraordinary step was taken by Lord Lytton to overrule the Council under the authority vested in him for use only on emergent occasions.

The objections of the dissenting members were based mainly on financial considerations, as this was a period of extreme financial embarrassment for the Government, owing to the combined effects of war, famine, and loss by exchange. Mr. Whitley Stokes, in the course of an admirably written Note of Dissent, urged seven cogent reasons against the measure. One of these was that the people of India would be convinced that the step had been taken "solely in the interest of Manchester and for the benefit of the conservative party." "Of course", he added, "the people of India will be wrong: they always must be wrong when they impute selfish motives to the ruling race. Nevertheless, the evil political results likely to follow from this popular conviction should not be ignored and should, if possible, be avoided." He also observed that the adoption of such an important measure by a mere executive order would "resemble what lawyers call a fraud on the power; and there is, unfortunately, no court of equity to relieve the people of India against it."[1]

[1] The other dissentients were: Mr. (afterwards Sir) Rivers Thompson, (who subsequently rose to the position of Lieutenant-Governor of Bengal) Sir Alexander Arbuthnot, and Sir Andrew Clarke.

This action was strongly resented by the entire Indian community, and the feeling was shared by the leading representatives of the European mercantile community in India. The reduction in duties was, of course, heartily approved by the Secretary of State, but no less than seven members of the Council of India expressed their disapproval of the step. This measure caused a reduction in revenue amounting to about £200,000. On the 4th April, 1879, the House of Commons passed the following resolution: "This House accepts the recent reduction in those duties as a step towards their total abolition to which Her Majesty's Government are pledged."

In 1879, the inland sugar duties were abolished, which had been characterised as the most discreditable relic of the dark ages of taxation that existed in India. This abolition involved a loss of revenue amounting to about £155,000. The removal of the sugar duties made it possible for the Government to abolish the Inland Customs Line, one of the greatest reproaches on British administration in India. In the same year, materials for railways were exempted from payment of duty. It was felt that it must be a short-sighted fiscal policy to add artificially to the cost of railways, in view specially of the fact that many of them were constructed under the guarantee system.

As a result of the changes made in 1879, there

now remained, out of the 62 tariff numbers of schedule A of the Indian Tariff Act, 1875, only 35 numbers. These alterations, including the remission of duties on cotton goods and minor articles were carried out with a loss of about £77,000. In 1880, the export duties on indigo and lac were removed, leaving rice as the only export liable to duty.

One of the consequences of the modification of the cotton duties was that the revenue from grey goods showed a tendency to disappear very fast. In 1882, Mr. Evelyn Baring, the Finance Member, said that the existing system caused considerable administrative inconvenience and that it was open to objection on the ground that the immediate effect of the partial repeal of the cotton duties had been to protect one class of Manchester grey goods against another. The line drawn being an arbitrary one, the result was that the manufacture and trade in grey goods for India had, in fact, been forced artificially in one direction by the customs duty. Another anomaly of the system, according to Mr. Baring, was that Manchester was protected against India. The defects could not, however, be rectified merely by abolishing the duty on grey goods; for if grey goods were exempted, it would be difficult to justify the taxation of white and coloured goods. As for the general import duties, the Finance Member quoted, approvingly, the view expressed by the Calcutta Trades Association in

GSL

1879 when they had characterised these duties as "protective, capricious, and opposed to economic principles." Besides, they yielded only a small revenue, and were not only open to numerous economic and practical objections, but caused an amount of friction, scrutiny, and interference with trade quite incommensurate with the net revenue they produced. He held, therefore, that the arguments in favour of abolishing the general import duties were even stronger than those which might be adduced in respect of the abolition of the cotton duties.

This was a year of financial surplus, and the Finance Member formulated the real issue in these words: "The ordinary revenue of India exceeds the ordinary expenditure. A remission of taxation is, therefore, possible. What form should that remission take?" After a full consideration of the various alternatives, the Government came to the conclusion that the form which a remission might most beneficially assume was the abolition of the whole of the cotton duties and of the general import duties. The net loss of revenue from the abolition of the import duties was expected to amount to £1,108,000, which was much less than the estimated surplus for the year 1882-83 (£2,105,000). In conclusion,[1] the Finance Member

[1] He added: "As an incident of her connexion with England, India has a right to profit from English experience and English economic history. That experience and that history show that by the adoption of

GSL

expressed the hope that the solution which the Government of India now offered would set at rest the controversy which had raged for so many years.[1]

Not only were cotton goods of all sorts as well as metals placed on the free list, but also all other articles except five, namely, arms and ammunition, liqueurs, wines, opium, and salt. During the discussion of the Bill in the legislative council of the Governor-General, Maharaja Jatindra Mohan Tagore expressed his regret that the interested cry of Manchester carried greater weight with the Government than justice to the millions of India entrusted

Free Trade, a country benefits, indeed, all the world, but more specially benefits itself . . . The wealth of India, like that of other countries, is in proportion, not only to its natural resources, but to the degree of liberty it may possess in the use of the measures now proposed. India will be more free to exchange her exportable produce for the products of foreign lands than would be possible were the import duties maintained." In addition to these arguments, another was advanced by the Finance Member, namely, that the reform would contribute to the extension of the railway system of India. The Government, therefore, brought forward these proposals in the firm belief that their adoption would be of the utmost benefit to India, and with the knowledge that, under present circumstances, they would be unaccompanied by any counterbalancing disadvantages.

Two minor reforms were also made at this time, namely, the duty on methylated spirit was reduced to 5 per cent., and that perfumed spirit would be taxed at the rate of Rs. 4 per imperial gallon.—*Financial Statement, 1882-83.*

[1] Sir Auckland Colvin afterwards observed: "The capricious and uncertain elements in Indian finance should have been allowed more weight in the counsels of those who carried out the reforms of 1882 . . . . The exemption from duty in March 1878 by the Government of Lord Lytton of certain descriptions of grey cotton goods made the abolition of the import duties on all cotton goods a question only of time, and of a very brief time. If Apollos was constrained to water, it was because Paul had sowed. The corner-stone was taken out of the edifice in 1878, and the whole fabric of import duties was bound shortly to be removed, under pain of becoming a nuisance and a danger."—*Proceedings of the Governor-General's Council, 1888.*

to its care. His voice, however, fell on deaf ears. The Bill was passed without any real opposition.

The expectation regarding an enormous increase in consumption due to the abolition of the cotton and general import duties was not realised, and the Finance Member attributed this failure to the low rate of exchange, the Egyptian complications, and the economical habits of the people.[1] In his opinion, the remission of the duties did not in any way affect the Indian mills; nor did any injury to the sugar trade result from the measures adopted. The reduction in the salt duty, however, showed a favourable result in the increased consumption of that article which helped considerably to recoup the loss of revenue. In 1883, Mr. Baring said that it was most desirable to develop the export trade of India, and with that object in view to remove the export duty on rice. He then cited the instance of the wheat trade which had been making steady progress.[2]

[1] "The relief afforded to trade in general," said the Finance Member, "owing to the cessation of all the embarrassment and delay consequent on the levy of duties at the customs house, cannot be represented in arithmetical form. It is, however, a very important factor in the consideration of the question."—*Financial Statement, 1883-84.*

[2] This trade, as was pointed out by Mr. Baring, might for all practical purposes, be said to date from the year 1873. In 1882-83 the amount of export was 14,000,000 cwt. Almost the whole of the wheat trade was with Europe, and the largest market for Indian wheat was England. As the total production of wheat was decreasing in England, it was likely that the demand for wheat would increase. But the United States was the greatest rival of India in this respect. The comparative advantages of the two countries were summarised by Major Baring thus: On the one hand, the Indian outturn was capable of very considerable increase; on the other, the processes of American agriculture were

The improvement which had shown itself in the financial position of the country did not last long. Deficits began again to appear from 1884. Even the levy of the income-tax in 1886 did not place the finances of the Government on a firm basis. In 1888, when the financial situation in India became very unsatisfactory, an import duty of 5 per cent. was levied on petroleum. It was expected that this would give an income of Rs. 65,000. The Finance Member justified the imposition on the ground that money was badly needed, and that petroleum was an article in respect of which most of the theoretical objections to an import duty did not apply. He added that this article lent itself to a convenient and certain collection of duty; the oil was for the most part of a few well-recognised brands, so that there was no difficulty in fixing its value for purposes of duty. The production was a monopoly of one or two countries (namely, America and Russia), with which the production of India or of other countries could hardly enter into competition.[1] The Finance Member did not deny

superior to those of Indian agriculture. Besides, the land in the North-Western and Western States was unexhausted, and was of very great natural fertility. The yield per acre was larger than in India. The United States possessed further advantages in matters of ocean freight and railway communication and rates. Indian wheat was quoted in the London market at a lower price than American or Australian wheat, this being due not so much to its quality, which was generally good, but to its admixture with dirt and inferior grains. At the same time, India possessed one great advantage over the United States in her enjoyment of free trade.

[1] So far as the consumer was concerned, he would certainly, said Mr. Westland, even after the tax was levied, be better off than he was only

that import duties in India were matters that required delicate handling, but, in his opinion, there was not the slightest occasion for the Government to take up questions affecting such duties generally. The question of imposing a countervailing excise duty on oil produced in India was considered by the Government but decided in the negative, because the small quantities extracted in Burma, Assam, the Punjab, and Baluchistan represented at the best mere nascent industries, which were utterly out of any chance of competition with imported oils. The machinery of an excise duty was not, therefore, required, and it was decided not to apply it.[1]

Raja Peary Mohan Mukerji hesitated to lend his support to the Bill for imposing a duty on petroleum. This was, in his opinion, an insignificant article of commerce, and the duty would touch even the poorest classes. He, therefore, suggested that import duties might be levied on hardware and metals, if the Government were disinclined to re-impose duties on cotton goods. When, however, the Bill was referred to a Select Committee he withdrew his opposition. On the other hand, Sir Dinshaw Manockjee Petit thought that an *ad valorem*

a year or two ago, for the Government was taking from him only a small part of the benefit he had received through the development of the trade during the preceding few years.

[1] *Proceedings of the Governor-General's Legislative Council, 27th January, 1888.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

duty on petroleum was the least objectionable way of raising additional revenue and that it was not likely to prove oppressive on the poorest classes. Mr. Steel, while approving of the principle of the Bill, suggested, on behalf of the mercantile community, the substitution of a tax on measurement for an *ad valorem* duty on the ground that a tax on value would give rise to disputes in appraising the article and that it would tend to discourage imports of the purer qualities of oil.[1] At the final stage of the Bill, two important amendments were made in it, namely, a fixed duty was substituted for an *ad valorem* duty, and secondly, the rate was raised to about 8 per cent.[2]

In 1890, the duty on spirits was raised from Rs. 5 to Rs. 6 a gallon. The reasons which in-

[1] Anothor objection to an *ad valorem* duty, in Mr. Steel's opinion, was that, if oil were imported in tanks and landed in bulk, such oil would practically be admitted at one-half the duty imposed on goods landed in the customary packages, as the value of a case of petroleum consisted in about equal proportion of the cost of the oil itself and that of the tins and box in which it was packed.

[2] The Finance Member said: "It is obvious that the levy of a fixed duty is much more convenient than a duty assessed *ad valorem*. The objections to it are mainly that the poorer classes, who naturally use the cheaper qualities of oil, are, by a fixed duty, made to pay a higher rate of taxation than the wealthier classes, who naturally use the more expensive qualities of oil. But enquiries show that, in the case of kerosene oil, there is very little difference in price between the lowest qualities which are imported and the highest...The values, therefore, being so near uniformity, it is obvious that a fixed duty will in its operation differ not very essentially from an *ad valorem* duty; and therefore, it may by preference be adopted, as in other respects its simplicity recommends it. I may mention that there is a very small quantity of high-priced oil imported. This high-priced oil will escape its proper proportion of taxation, but it is better to accept the inconvenience of an inequality like this than the greater inconvenience of applying all the difficulties of an *ad valorem* duty to the much larger quantity of the ordinary oils which are imported."—*Proceedings of the Governor-General's Legislative Council, 1888.*

fluenced the Government in deciding to raise the duty were as follows : (i) On general grounds, it was desirable to increase, within reasonable limits, the cost to the consumer of intoxicating liquors ; (ii) it was an accepted principle of excise administration in India to endeavour gradually to raise the duty on spirits made in India to the tariff rate, and as it had been found possible in some places to increase the duty to the tariff rate, the occasion for a further increase of that rate had arrived ; (iii) it was hoped that the increase might check the increasing import of cheap deleterious foreign spirits ; and (iv) the increased duty would make a substantial addition to the public revenue. On the occasion of the Tariff Act Amendment Bill, it was pointed out that, in recent years, the rates of duty on spirits manufactured in India had been increased in a higher proportion than the duty on imported spirits ; and that, in order to restore the ratio that used to exist between the duty on imported spirits and the duty on Indian spirits, the rate of duty would have to be increased considerably. The Finance Member also cited the opinion of the Government of Bengal which had stated that low-class European spirits competed considerably with country liquor, and recommended an increase in the tariff rate chiefly with reference to that inferior class of imported spirits, on the ground that it was "if not absolutely deleterious,

certainly less wholesome than either country spirits or country rum."[1]

The situation again became acute in 1893. In the following year, the Government found itself face to face with another heavy deficit caused by the exchange difficulty. It was, therefore, decided, in March, 1894, in addition to the adoption of other measures, to impose general import duties at the rate of 5 per cent. The Secretary of State accepted the proposal to re-impose the general duties, but refused to sanction the inclusion of cotton yarn or cotton fabrics in the list of articles liable to duty. Six members of the Council of India, however, expressed their dissent from this latter decision. During the debates which took place in the Legislative Council, several members, Indian as well as European, urged the inclusion of cotton goods.[2] Even a high officer of the Government, Mr. C. C. Stevens, considered it his duty to raise his voice of protest against the decision.[3] Various public bodies, including the European Chambers of Commerce, protested against the exclusion of cotton goods. Many public meetings were also held in various parts of the country. But the Government of India

[1] *Proceedings of the Governor-General's Legislative Council, dated the 21st March, 1890.*

[2] Among these were Mr. (afterwards Sir) Patrick Playfair, Dr. Rash Behari Ghosh, Sir Griffith Evans, Mr. (afterwards Sir) Fazulbhai Vishram, Mr. G. Chitnavis, the Maharaja of Durbhanga, and the Maharaja of Ayodhya.

[3] Mr. Stevens soon afterwards rose to the position of Acting Lieutenant-Governor of Bengal.

was helpless. The Tariff Bill was passed in the form in which it had been introduced. The duties levied at the time were estimated to give a net return of Rs. 1,140,000.

The opposition to the measure continued unabated, while the financial position of the Government showed no signs of improvement. On the 31st May, 1894, the Secretary of State sent a despatch to the Governor-General in Council, in which he suggested that, if a duty was to be levied on cotton goods, the change must be accompanied either by an exemption from duty of those classes of cotton goods which were likely to compete with Indian manufactures or the imposition of an excise duty equivalent to the import duty. In reply to this despatch, the Government expressed its readiness to accept an excise duty as a solution of the difficulty, and forwarded proposals for the imposition of import duties at the rate of (a) 5 per cent. on all cotton goods, and (b) 3½ per cent. on all cotton yarn of counts above 24's; together with an excise duty of 3½ per cent. on all machine-made cotton yarn produced in Indian mills of counts above 24's. Sir Henry Fowler accepted these proposals with two amendments, namely, that the rate of import duty on yarn should be 5 per cent., and that the duties on yarn, both import and excise, should begin with counts above 20's. These proposals were embodied in Bills which were introduced in the Council on the 17th December, 1894.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · IV · सत्यमेव जयते

GSL

The proposal to levy an excise duty gave rise to a storm of opposition from the commercial community and the public generally. The European as well as the Indian non-official members of the Governor-General's Legislative Council also strongly opposed the proposal.[1] But as it had been recommended by "superior orders," which, officers of the Government of India "were obliged to obey,"[2] the Bills were passed with the help of the official bloc in the Council.[3]

The concession of an excise duty on yarn, however, did not satisfy Manchester. Representations were made to the Secretary of State by the Lancashire merchants, and a deputation waited upon him. The new Secretary of State, Lord George Hamilton, assured them of "his firm resolve to accord them perfect equality of treatment." Accordingly, early in 1896, two Acts were passed which abolished the import and excise duties at 5 per cent. on cotton yarn, reduced the import duty on manufactured cotton goods from 5 per cent. to 3½ per cent., and imposed an excise duty of 3½ per cent. on cotton goods of all counts manufactured in Indian mills. These measures involved a sacrifice of about

[1] Among others, Sir Griffith Evans, Sir Patrick Playfair, and Sir Fazulbhai Vishram protested against the levy of an excise duty.

[2] *Vide* Sir James Westland's Speech in the Governor-General's Legislative Council, 1894.

[3] It may be noted that one official member, Mr. C. C. Stevens, refrained from voting on this occasion.

Rs. 5,00,000. It is worthy of note that when the matter went up to the Secretary of State, two of the members of his Council took strong exception to these measures on the ground that they were "not logically defensible, and, therefore, politically unwise."[1]

In 1899, Sir James Westland introduced a Bill which conferred on the Government the power to impose countervailing duties in the case of bounty-fed sugar imported from European countries. These duties were to be in addition to the ordinary tariff, and the rates were to be equal to the amounts of bounties granted by foreign nations. It was a measure of defence on the part of India, and it was welcomed by some non-official members of the Governor-General's Council as marking a departure in the fiscal history of the country. But the general public was not sure whether the real object was to help India, or to benefit the British colony of Mauritius, or to strike a blow at Germany and Austria. The Bill was passed without any opposition.

As for the yield of the duty, the Finance Member estimated in 1900 that he would obtain 17 or 18 lakhs of rupees annually from this source. He expressed his satisfaction at the fact that this addition to the revenue was realised at the expense of the European tax-payers, taxed by their

[1] *Parliamentary Paper 229 of 1896.* The dissentients were Sir James Peile and Sir Alexander Arbuthnot.

GSL

respective Governments to provide the bounties. "The fact is," added the Finance Member, "that the Government of India has added 17 lakhs to its resources by taking, for revenue purposes, the approximate difference between cost price and the artificially maintained selling price of bounty-fed imported sugars, whilst the Indian consumer pays no more for his sugar than he would have to pay if the bounty systems were abolished."[1]

In 1902, the Finance Member pointed out that the countervailing duties on bounty-fed sugar had brought in a very handsome addition to Indian revenues, but it could not be said that they had any important influence in checking importations of foreign sugar. "The fact is," he said, "that the direct bounties granted by some foreign Governments on the export of sugar, form but a portion, and not always the larger portion, of the profits derived by sugar manufacturers from the export of their produce. The reason was that, in addition to the fixed direct bounty paid per ton by foreign Governments on the exported article, there existed arrangements whereby railway companies undertook the carriage of sugar to the seaports, at reduced rates, and government-subsidised steamers to transport the sugar to countries across the seas, at rates of freight quite unobtainable for ordinary goods. Besides these special concessions, refiners combined

[1] *Financial Statement, 1900-1.*

to maintain the price of sugar consumed in the country of production at such abnormally high rates as to permit of the exported surplus being sold at a considerable loss, while still maintaining a high average rate of profit on the sale of the total output."[1]

In the meanwhile, the question of sugar bounties, both direct and indirect, had been fully discussed at an International Conference held at Brussels. It was agreed at this Conference to restrict by international agreement the protective duties that might be imposed in the sugar-producing countries, and to abolish all kinds of bounties on the production or export of sugar. A convention was drawn up giving effect to this decision and requiring the contracting Powers either to impose countervailing duties on the sugar imported from countries which continue to grant bounties, directly or indirectly, or to prohibit altogether the importation of sugar from such countries. The Government of India was represented at the Conference, but it did not become a party to the convention preferring to retain for the time being complete liberty of action. But on the 6th of June, 1902, a Bill was passed, empowering the Governor-General in Council to impose a special duty on the sugar imported from any country in which the excise duty on home-grown sugar exceeded by more than a fixed minimum

[1] *Financial Statement, 1902-3.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

of 6 francs per 100 kilos of refined sugar, and 1½ francs per 100 kilos of raw sugar.

The parties to the Brussels Conference, however, considered that a protective duty of this amount would not allow a sufficient margin for the operations of cartels or combinations of sugar refiners, and they held that, when the protective duty exceeded the above rates, a special duty of half such excess would be sufficient to neutralise the depressions in prices that might be created by the cartels. This formula appeared to be suitable to the conditions prevailing in Germany and Austro-Hungary, where the cartel system had been elaborated, and the rate of duty, worked out on the above principle, corresponded roughly with the difference, as calculated by experts, between the export price of sugar and the average cost of production in those countries. The Government of India, therefore, adopted this formula as a provisional measure, and special duties were imposed, under a new Act, on sugar imported from Germany and Austro-Hungary. The provisions of the Act were subsequently extended to sugar imported from France, Denmark, Russia and the Argentine Republic. Measures were also taken to ascertain the countries of origin of all sugar imported into India, in order to prevent the evasion of the countervailing duties by importation by indirect routes. The practical effect of the new duties was to close,

temporarily, the Indian market to the direct importation of German and Austro-Hungarian sugar, and to encourage imports from such beet-growing countries as Holland and Belgium, which did not maintain high protective duties. The imports of cane sugar from Hongkong, Java and the Straits Settlements were also largely increased. The net receipts from countervailing duties during these four years were: 1899-1900, £56,783; 1900-1, £140,465; 1901-2, £244,398; 1902-3, £70,381.

In 1904, the Finance Member referred to the quantities of imports of sea-borne sugar into India, and pointed out that the importations from the United Kingdom and Java had been remarkable, and that there had been a great decrease, practically amounting to a cessation of imports, from Austro-Hungary and Germany. The decisions of the Brussels Conference were still in force, and their execution was entrusted to a permanent Committee on which the United Kingdom was represented. The position of the Government of India in connexion with this arrangement was unfortunately complicated and involved a constant necessity of taking most difficult decisions.[1]

No changes were made in the tariff until 1910,

[1] An opinion given by the law officers of the Crown and communicated as an instruction to the Government of India by the Secretary of State, showed that India was unfortunately not entirely free from the effects of the Brussels arrangements. This opinion obliged the Government of India to cancel, at short notice, the arrangements which had been embodied in the Act passed in Simla in August 1903.

GSL

except slight increases in the duties on liquors and substantial reductions in the salt tax. In that year, the Government of India found it necessary to impose fresh taxation. The import duties on liquors, silver, petroleum and tobacco were raised. The Finance Member remarked on this occasion that the Indian tariff was a revenue, and not a protective, tariff; and said that substantial duties on wine, beer, spirits, and tobacco were in no way inconsistent with that principle, as these constituted a most legitimate form of taxation in every civilised country.[1] He added: "I hope I shall not be charged with framing a *swadeshi* budget. In the sense which may be indicated on Bryant and May's match boxes ('support Home Industries') I think *swadeshi* is good; and if the outcome of the changes I have laid before the Council result in some encouragement of Indian industries, I for one shall not regret it; but I would emphasise the fact that the enhanced customs duties are attributable solely to the imperative necessity of raising additional revenue. There is not the slightest inclination towards a protective customs tariff."[2]

[1] *Financial Statement, 1904-5.*

[2] He further observed: "Even in free trade England we have always imposed considerable customs duties, not to protect industries but to raise revenue. That is all we are doing in India; and I cannot but think that in countries which depend mainly on agriculture, where the population is poor, and there are no large and profitable manufactures, it will be long before you can dispense with customs receipts as part of the revenue essential for the administration of the country."—*Proceedings of the Governor-General's Council, 1910.*

Immediately after the enactment of these measures, a vigorous agitation was started in England on behalf of the tobacco trade, and the Government of India found itself obliged in 1911 to reduce the duty on imported tobacco. A bill was passed by the Governor-General's Council which fixed the duties on tobacco at the following rates: Unmanufactured Re. 1 a lb.; cigars, Re. 1-10 as. a lb.; cigarettes weighing less than 3 lbs. per thousand, Rs. 3-2 as. per thousand; cigarettes weighing 3 lbs. or more per thousand, Re. 1-4 as. per lb.; manufactured tobacco of other sorts, Re. 1-2 as. per lb. In the statement of objects and reasons accompanying the Bill, it was asserted that the new duties which had been imposed upon tobacco a year ago had not realised the revenue which had been expected from them, and it was considered probable that a somewhat lower range of duties would be more productive. The Bill accordingly provided for a reduction, by about one-third all round, in the existing rates upon tobacco of all classes.

Customs revenue received a great impetus during the Great European War. The exigencies of this unprecedented struggle necessitated the imposition of fresh taxation. In 1916, the general import duty was raised from 5 to $7\frac{1}{2}$ per cent. *ad valorem*; the duty on sugar was increased to 10 per cent.; that on iron and steel to $2\frac{1}{2}$ per cent., and the duty on other metals to $7\frac{1}{2}$ per cent. The free list

was considerably curtailed, and some of the articles which had previously been imported free were now subjected to a duty of 2½ per cent., while others were taxed at 7½ per cent. The import duties on arms, liquors, tobacco, and silver manufactures were also considerably enhanced. Finally, an export duty was levied on two important staples, namely, jute and tea. The duty on cotton goods, however, was left untouched. With regard to this last decision, Sir William Meyer, the Finance Member, informed the Council that the Government of India had represented their view to the authorities in England that there should be a material increase in the cotton import duties, while the cotton excise should be left unenhanced, subject to the possibility of its being altogether abolished when financial circumstances were more favourable. But as the British Government considered a revival of old controversies undesirable at the moment, no steps were taken in this direction. The proposals were accepted without question. But the non-official members of the Legislative Council expressed their disappointment at the decision to leave the cotton duties alone, and Sir Ibrahim Rahimtoola moved an amendment with the object of raising the 3½ per cent. import duty on cotton goods to 6 per cent. This amendment was rejected.

In the same year, an Industrial Commission was appointed, but the tariff question was excluded

from the scope of its enquiries. In 1917, resort to further taxation was found necessary, in order that India might make an adequate contribution towards the expenses of the War. Various steps were taken to improve the revenue, and customs came in once more for their share in the scheme. The export duty on jute was doubled. The import duty on cotton goods was raised to $7\frac{1}{2}$ per cent.,—the general tariff rate; but the excise duty on cotton was left at $3\frac{1}{2}$ per cent. The proposal relating to cotton duties was welcomed by the non-official members of the Indian Legislative Council. Later in the year, an excise and customs duty of six annas a gallon was levied on motor spirit as a war measure. The main object was not the raising of revenue but the restriction of consumption. The Act was to be in force for the period of the war and six months thereafter.

The first post-war tariff measure was a Bill which sought to impose an export duty of 15 per cent. on hides and skins, with a rebate of 10 per cent. on hides and skins exported to any part of the British Empire. The object was two-fold, namely, first, to give some encouragement to the tanning industry of India; and, second, to give an advantage to the tanners and the hide merchants of the British Empire over those of foreign countries. The first part of the Bill was welcomed by the Indian members of the Council; but they saw no justification for the other proposal, namely, the grant of a

GSL

rebate.[1] One prominent member, Mr. B. N. Sarma, who, shortly afterwards, rose to the position of a Member of the Viceroy's Executive Council, moved an amendment to delete the second part of the Bill. His chief ground was that it raised, in an indirect manner, a large and important question, namely, the question of preference between the various parts of the Empire. Sir George Barnes, on behalf of the Government, however, assured the Council that the rebate had not been proposed as part of any general scheme of Imperial Preference.[2] The amendment was lost, and the Bill was passed in its original form. During this year, a Bill was passed to continue the excise and customs duty which had been first levied in 1917 on motor spirit as a war measure, but which had produced a revenue of 25 lakhs a year.

The question of tariff policy was incidentally referred to by Mr. Montagu and Lord Chelmsford in their Report on Indian Constitutional Reforms. They observed that educated public opinion desired a tariff, and they sympathised with this desire. The Parliamentary Joint Committee of 1919 went further and recommended the question of the tariff "as a special case of non-intervention" on the part of the Secretary of State in Indian affairs.[3] This

[1] This was the view expressed by Pandit Madan Mohan Malaviya.

[2] *Proceedings of the Indian Legislative Council, March, 1919.*

[3] For a fuller discussion of the subject see Banerjea, *Fiscal Policy in India, Ch. IV.*

GSL

view was endorsed even by an imperialist of the type of Lord Curzon.

The Government of India was again faced with a large deficit in 1921. To meet this deficit, the Finance Member proposed, among other measures, a large addition to the customs tariff. In the first place, he desired to increase the general *ad valorem* duty of 7½ per cent. to 11 per cent., except in the case of matches and certain articles of luxury, but inclusive of cotton manufactures. The excise duty on cotton was to be left at 3½ per cent. The concession of the free importation of machinery and stores required for use in the cotton mills was, however, withdrawn, and most articles of this sort were made liable to a duty of 2½ per cent. Sir Malcolm Hailey estimated that this measure would produce an additional revenue of Rs. 384 lakhs.

Secondly, the Finance Member proposed to levy on matches a specific import duty of 12 annas per gross boxes in place of the *ad valorem* duty of 7½ per cent. His third proposal was an increase of duty on liquors. The fourth measure proposed by him was the raising of the general *ad valorem* duty of 7½ per cent. to 20 per cent. in the case of certain articles of luxury, such as motor-cars, motor-cycles, silk piece-goods, fire-works, clocks, watches, musical instruments, cinematograph films, and umbrellas.[1]

[1] It is rather strange that umbrellas should have been regarded as articles of luxury in a country where excessive heat and torrential rain are normal occurrences.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
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His fifth proposal was to raise the import duty on foreign sugar to 15 per cent. Lastly, the Finance Member proposed that the duties on tobacco, other than manufactured, be raised to 50 per cent. All these proposals were accepted by the Legislative Council without any opposition.[1]

The action of the Indian Government and the Indian legislature gave rise to much consternation in Lancashire. A deputation from the Manchester Chamber of Commerce waited upon Mr. Montagu, Secretary of State for India. He replied that the law gave him the power to recommend to the King the vetoing of the measure, but in that case the whole Bill, which included various items of taxation, must be vetoed. This was clearly impossible, for it would leave the Government of India with none of their increased resources to meet their increased charges. Besides, after the recommendation of the Parliamentary Joint Committee on this matter and Lord Curzon's speech in the House of Lords, it was absolutely impossible for him to interfere with the right of the Government of India to consider the interests of the country.

In spite of the heavy taxes levied, the revised estimates of the year showed a deficit, and another large deficit was estimated for the following year. The Finance Member, therefore, felt compelled to bring forward in March, 1922, a

[1] *Proceedings of the Governor-General's Council, 1921.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

number of fresh proposals for taxation, the most important of which were the following : the raising of the general import duty on all articles including cotton goods to 15 per cent.; the increase of the cotton excise duty from 3½ to 7½ per cent.; the raising of the duty on machinery, iron and steel to 10 per cent.; the increase of the duty on foreign sugar to 25 per cent.; the doubling of the duty on petroleum; the levy of a duty of 5 per cent. on imported yarn; the raising of the duties on luxuries to 30 per cent.; and lastly, the enhancement of the duties on alcoholic liquors, except wines, by approximately 20 per cent. The Finance member expected a sum of 14 crores and 90 lakhs from the proposed increases in the customs duties.

Some of the proposals of the Government did not find favour with the legislature. The two most important modifications related to cotton goods. The Legislative Assembly refused to increase the excise duty on cotton manufactures, whereupon the Government decided to leave the import duty on cotton goods at 11 per cent. Towards the end of March, a deputaion of Members of Parliament and others representing cotton textile interests waited upon Lord Peel, then Secretary of State, and Lord Winterton, then Parliamentary Under-Secretary for India. Lord Winterton assured the deputation that the fullest consideration would be given by the Secretary of State to their representations.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
GSL

In the following year, the Government of India was faced with another deficit. But this time it thought it desirable to meet it by an increase of the salt duty instead of by an alteration in the customs tariff.

After the war, the principle of Imperial Preference was adopted in the tariff of Great Britain and in the tariffs of several of the Dominions. The question, consequently, became one of practical politics for India, and it seemed to the Government that the time had come for examining the question afresh.[1] Therefore, on the 19th February, 1920, Sir George Barnes, the Commerce Member of the Government of India, moved a resolution recommending to the Governor-General in Council the appointment of a Committee to examine the trade statistics and to consider whether or not it was desirable to apply to the Indian customs tariff a system of preference in favour of "goods of Empire origin". In moving this resolution, Sir George said that there were two aspects of the question which deserved serious attention. In the first place, the adverse decision of Lord Curzon's Government had been based in some measure on the danger of reprisals by foreign nations, but it was doubtful whether this danger was a real one in 1920.

[1] In January, 1920, the Governor-General, in the course of his address to the Association of Chambers of Commerce observed that the Government did not wish to make any general change in tariff matters without the support of public opinion.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

Secondly, the position had been changed by the adoption of a policy of preference in other parts of the Empire, including the United Kingdom. He further observed: "We must remember, I think, that we hope in the fuutre to be something more than a source of supply of raw materials for other peoples' industries to work up. We look forward to the development of our own industries. I think we are even justified in looking forward to the possibility of finding export markets for our manufactured products either within the Empire or without. I think I might reasonably say that there are some portions of the Empire, not far from our own shores, which we might justly look upon as a natural outlet for our goods. If we are to compete on favourable terms in those markets which are admitted to preferential duties, it would seem *prima facie* that we should be placing ourselves at the outset at a disadvantage."

An amendment was proposed to the resolution urging the addition of the words "and as to the best methods of considering the future fiscal policy of India". This amendment was carried; and the original resolution, as amended, was passed.[1]

In March, 1920, this Committee reported their provisional conclusions. In regard to the best method of considering the future fiscal policy of

[1] On the 20th February, 1920, Mr. V. J. Patel moved a resolution urging the appointment of a committee to investigate the question of fiscal policy, but it was rejected by the Council.

India they wrote: "We think that this can only be effectively enquired into by means of a commission with power to take evidence in various parts of the country from all the interests concerned".

On the 23rd February, 1921, Mr. (now Sir) Lalubhai Samaldas moved in the Council of State the following resolution: "The Council recommends to the Governor-General in Council that His Majesty's Government be addressed through the Secretary of State for India, with a prayer that the Government of India be granted full fiscal autonomy under the direction of the Indian Legislature".[1] An amendment was moved to substitute for the words "under the direction of the Indian Legislature" the words "subject to the provisions of the Government of India Act". This amendment was accepted, and the resolution, as amended, was carried.

On the 1st March, 1921, in reply to a question asked in the Legislative Assembly by Mr. Jamnadas Dwarkadas, Mr. (afterwwards Sir Charles) Innes announced that the Government of India had decided to appoint a Fiscal Commission with the following terms of reference, namely, "to examine with reference to all the interests concerned the tariff policy

[1] In moving this resolution, Mr. Lalubhai said: "By getting fiscal autonomy we can, by arranging tariffs in particular fashions, give protection to such struggling indigenous industries that cannot at present stand against free trade competition of the West. We can at the same time set up and build up new industries under the protection of tariff walls of desirable heights".— *Proceedings of the Council of State, 23rd February, 1921.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations".[1] The Government of India, also took this opportunity to make their own attitude towards the question of Imperial Preference clear. Mr. Innes said: "In the event of some scheme of Imperial Preference being found consistent with India's interests, the Government of India hope that India will not stand aloof from such a scheme so that India's solicitude for the solidarity of the Empire may be established. But they propose to take no decision until the question has been examined by the Commission. If, on the Report of that Commission, the principle is accepted, the principle can be given effect to only by legislation, and it will be for this Assembly to decide whether that legislation should be passed or not."[2]

The successive additions made to the customs duties during and after the European war substantially altered the character of the Indian tariff. Although these duties were levied for revenue purposes, their protective tendency, in some instances at least, could hardly be mistaken. The Government had so far held itself aloof from all discussions relating to the theoretical aspects of its fiscal policy, but the submission of the Report

[1] *Proceedings of the Legislative Assembly, dated the 1st March, 1921.*
[2] *Ibid.*

of the Indian Fiscal Commission in 1922 changed the situation.

The Commission, after tracing the history of the tariff in India and describing her existing economic position, discussed at some length the question of the importance of industrial development for the well-being of the country. They observed: "We have no hesitation in holding that such a development would be very much to the advantage of the country as a whole, creating new sources of wealth, encouraging the accumulation of capital, enlarging the public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture, and finally stimulating the national life and developing the national character."

On the main subject of their enquiry, namely, the tariff policy of the Government of India, the Commission recommended "in the best interests of India the adoption of a policy of protection to be applied with discrimination". They suggested that such discrimination be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as was consistent with the due development of industries. They recommended the creation of a Tariff Board whose duties would be, *inter alia*, to

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

investigate the claims of particular industries to protection, to watch the operation of the tariff, and generally to advise the Government and the Legislature in carrying out the policy indicated by them. They urged that, in dealing with claims for protection, the proposed Tariff Board should satisfy itself (i) that the industry possessed natural advantages, (ii) that without the help of protection it was not likely to develop at all, or not so rapidly as was desirable ; and (iii) that it would eventually be able to face world competition without protection. They further recommended (a) that raw materials and machinery be ordinarily admitted free of duty, and that semi-manufactured goods used in Indian industries be taxed as lightly as possible ; (b) that industries essential for purposes of national defence, and for the development of which conditions in India were not unfavourable, be adequately protected, if necessary ; and (c) that no export duties be ordinarily imposed for purely revenue purposes, and if imposed at all, the rates should be very low.

The Commission unreservedly condemned the then existing cotton excise duty in view of its past history and associations, and observed : "The whole question is permeated with suspicion and resentment ; and these feelings have been kept alive by the action taken by the representatives of the cotton industry in 1917, in 1921 and again

GSL

within the last few months, to try to secure through the Secretary of State a reversion to the system which their influence had for so many years imposed upon India." They thought that the cotton excise duty could not be dealt with purely on economic grounds, and therefore, suggested that the Government and the Legislature should "start again with a clean slate, regulating their excise policy solely in the interests of India."

On the question of Imperial Preference, the Committee made the following recommendations :—

"(a) That no general system of Imperial Preference be introduced.

(b) That the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian Legislature after preliminary examination of the several cases by the Tariff Board.

(c) That, if the above policy be adopted, its application be governed by the following principles:

(i) That no preference be granted on any article without the approval of the Legislature.

(ii) That preference given must not in any way diminish the protection required by Indian industries.

(iii) That preference should not involve on balance any appreciable economic loss to India.

(d) That any preferences which it might be found possible to give to the United Kingdom be granted as a free gift.

GSL

(e) That in the case of the other parts of the Empire preference be granted only by agreements mutually advantageous."

The position of non-Indian enterprises was discussed at some length by the Commission. After describing the economic advantages of the use of foreign capital, they expressed the view that, where the Government granted anything in the nature of a monopoly or a concession, where public money was given to a company in the form of any kind of subsidy or bounty, or where a license was granted to act as a public utility company, it was reasonable that the Government should make certain stipulations. But the Commission thought that, with the exception of such special cases, it would be "undesirable to attempt to differentiate between foreign and Indian capitalists."

Although the Commission urged some important changes in the tariff system of India, many of their recommendations were considered inadequate to the needs of the country. Five members of the Commission,[1] therefore, submitted a Note of Dissent in which they suggested certain additions to, and alterations in, the main Report. The first objection of the dissentients was to the statement in the Report regarding the policy of discriminating protection. They thought that the formulation of

[1] These were: Sir Ibrahim Rahimtoola (President of the Commission), Sir T. V. Sheshagiri Ayyar, Mr. G. D. Birla, Mr. Jamnadas Dwarkadas, and Mr. Narottam Morarjee.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

the policy in the words used in the Report was open to objection because,—in the first place, it mixed up policy and procedure ; secondly, by emphasising the method of carrying out the policy, the vital issue of the problem was observed ; thirdly, it ignored the fact that every country applied protection with discrimination suited to its own conditions; and, fourthly, the outlook of the majority was different from that of the dissentients.

In the opinion of the dissentient minority, it was necessary to make an unqualified pronouncement to the effect that the fiscal policy best suited to India was *protection*. While they agreed that the policy of protection should be applied with discrimination, they did not think that any limitations should be made a condition precedent to its adoption. The dissentients recognised the necessity of caution in the application of the principle of protection in the interests of the masses, but they thought that it would not be right "to hedge the policy in such a manner as to lead to inadequate results."

The dissentients also differed from the majority of the Commission in regard to the policy of levying excise duties. These duties, except when levied on alcohol, tobacco, and other articles of a similar character, were, in the opinion of the dissentients, unsound in principle. They, therefore, urged that excise duties should be restricted only to articles the comsumption of which it was desirable to check in

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

the interests of the community, and to a few articles of luxury. On the question of the levy of cotton excise duty, the minority did not endorse the half-hearted recommendation of the majority, but expressed the emphatic view that, for maintaining India's self-respect and promoting cordial relations between India and England, it was necessary to abolish the duty immediately.[1]

In regard to Imperial Preference, the minority after discussing the different aspects of the question, came to the following conclusions :—

(1) "We are in favour of the principle of Imperial Preference on the distinct condition that India should in this matter be put on the same footing of freedom as is enjoyed by the Self-governing Dominions, and that the non-official members of the Legislative Assembly should be given power by legislation or other equally effective means to initiate, grant, vary, and withdraw preference as may be necessary in the interest of India in all its aspects.

(2) "That the condition precedent to any agreement with a British dominion in trade matters

[1] The dissentient minority wrote in their Report: "We should like to invite attention to the political effects in India of such agitation by Lancashire representatives. It is, in our opinion, essentially necessary that cordial relations should subsist between India and England. The imposition of cotton excise duties is one of the principal causes of estrangement between the two countries. Far-sighted statesmanship demands that this cause should be removed. The Indian sentiment on the question is decisive. The evidence placed before us conclusively proved this. It would be unwise to deal with the question by resorting to expedients which would not be acceptable to the Indian people."—*Minute of Dissent, Ch. III.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

on the basis of reciprocity should be the recognition of the right of the Indian people to a status of complete equality and the repeal of all anti-Asiatic laws so far as they apply to the people of India."

The recommendations of the majority of the Commission relating to foreign manufacturing ventures in India were regarded as unsatisfactory by the dissentients. They recommended that (1) all such companies should be incorporated and registered in India in rupee capital; (2) there should be a reasonable proportion of Indian Directors on the Board; and (3) reasonable facilities should be offered for the training of Indian apprentices.

Finally, the minority suggested that the proposed Tariff Board should consist of three members, of whom the Chairman should be a trained lawyer who had occupied for a reasonable period the position of a Judge of an Indian High Court, and the two other members should be men of wide general attainments to be elected by the Legislative Assembly. The Note of Dissent concluded with the expression of the hope that the economic problem of India would "be examined in a spirit of broad-minded statesmanship".

The Government of India accepted the policy of "discriminating protection" as recommended by the Fiscal Commission. A Tariff Board was established, whose duty was to consider the case of every

industry that might put forward a claim for protection. The steel industry was the first to come under examination by the Tariff Board. The Board said that the steel industry satisfied the three conditions which had been considered by the Fiscal Commission as essential for the grant of protection to any industry. They also observed that it was an industry essential for purposes of self-defence and of great importance on national grounds. The grant of protection was recommended by the Board, which led to the passing of the Steel Industry Protection Act of 1924. Under this Act, import duties on steel were increased, and duties were levied on certain kinds of wrought iron. Bounties were also given on the production of steel rails and fish-plates in India. The operation of the provisions of the Act was limited to a period of three years. A further enquiry was made towards the end of the first year, when the Tariff Board recommended large increases in the import duties. The Government of India, however, decided to grant a bounty, in view of the fact that the duties proposed would lay a burden on the consumer of approximately two crores of rupees in a year in order to confer on the industry a benefit of only 50 lakhs of rupees, and also in view of the fact that a surplus revenue of 71 lakhs of rupees had been received from the protective duties on steel up to the end of December, 1924. This decision was arrived at because a bounty

was considered to be the most effective form of aid which could be given to the steel industry, and would at the same time not impose any additional burden either on the consumer or on the general taxpayer. Accordingly, a resolution in the Assembly was moved by the Commerce Member, Sir Charles Innes, recommending the payment of bounty not exceeding Rs. 50 lakhs in twelve months. This resolution was carried.

During this period, the industry made satisfactory progress, which showed the success of the policy of protection. While the assistance given was not excessive, it improved the position of the Indian steel industry. The whole question was again investigated before the expiry of the Act of 1924. On this occasion, the Board recommended the continuance of a policy of protection until India was self-sufficient in the production of steel. They treated British and continental steel as different kinds of steel, the former being equivalent to standard steel and the latter to non-standard steel. As Indian steel had to compete with the products of Great Britain as well as those of the Continent, it was considered desirable, on economic grounds, that two scales of duties should be imposed, a basic duty fixed with reference to the price of British steel, and an additional duty in respect of the margin between British and continental prices. The basic duty was to be levied on steel coming from all countries, while the additional

GSL

duty would be confined to non-British steel. The Board also recommended that the payment of bounties should be discontinued.

A Bill was introduced in the Legislative Assembly to give effect to the main recommendations of the Tariff Board. This Bill marked a notable departure from the principles adopted in the previous Act in this that it included a provision for giving preference to manufactures of Great Britain. Strong exception was taken by the non-official members to this provision of the Bill, but it was passed in its original form in 1927.

The claims of various other industries to protection have since been examined by the Tariff Board, the most important among these being paper, coal, matches, petroleum, ply-wood tea chests, cotton manufactures, shipbuilding, and various subsidiary branches of the steel industry. In some cases, protection has been granted, but in others it has been refused. The manufacture of paper in India from bamboo pulp has been granted protection. But the coal industry has been refused protection on two grounds, namely, first, that imports are insignificant, and secondly, that it is undesirable in the economic interests of the country to tax the source of power.

We must now resume our historical narrative. In 1923, the export duty on raw hides and skins was reduced from 15 to 5 per cent. *ad valorem*,

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

and the system of preference was done away with. These measures were adopted because neither of the two objects, with which the 15 per cent. duty had been levied in 1919 and the rebate of 10 per cent. had been decided upon, had been achieved. Besides, the duty was considered to be wrong in principle.[1] Opportunity was also taken to make certain minor amendments in the tariff schedule necessitated by administrative reasons. The substantive changes were: (1) the adoption of a clear definition of the head 'machinery and its component parts', and consequential changes in the entries relating to railway and building materials, ships, etc.; (2) the raising of the duty on saccharine; and (3) the withdrawal of the concessional rate in respect of tea chests and of lead t' erefor.

In 1924, it was decided to make Government stores liable to customs duty. This step was taken partly because of the complications caused during the previous year by the decision of the Bombay High Court which brought stores purchased for Company railways into the category of 'Government stores'; and partly because the Government of India held the view that 'Government stores' should, for customs purposes, be treated like any other imports. Some small changes were also made in the tariff, the most important being the reduction of

[1] The Indian Fiscal Commission observed: "We cannot approve in its existing form the export duty on raw hides and skins which was avowedly imposed for protective purposes".—*Report, ch. XI.*

GSL

the excise duty on motor spirit to 4½ annas a gallon.

In the following year, certain minor alterations were made in the customs tariff. These included the abolition of the import duty of 2½ per cent. on grain and pulse, the reduction from 15 per cent. to 2½ per cent. the *ad valorem* of the duty on reeds, healds, and some other articles, chiefly used in power-looms, and finally the modifications of the duties imposed on petrol in such a way as to fix the duty to be paid by all petrol alike, whether imported or produced in India, at 4 as. a gallon in place of the then existing duty of 6 as. a gallon for imported petrol. These proposals were urged by the Government in the interests of the trade. Another customs measure enacted in the course of this year is worth noticing. Owing to an increase in the world production of sugar, there had been for some time past, a heavy fall in sugar prices. This led to a large increase in the imports of the article into India. An Act was, therefore, passed to convert the previous *ad valorem* duty into a specific duty. Apart from affording some protection to indigenous sugar, this measure proved of considerable benefit to the revenues of the country.

It was towards the end of this year that the Taxation Enquiry Committee submitted their Report. They pointed out that the revisions of the tariff which had taken place during the previous

GSL

decade had produced far-reaching effects. They showed that, apart from the duties that had been levied for protective purposes, there were others which were protective in effect. On the question of incidence, they remarked that the additions to import duties had, in some cases, resulted in shifting the burden of taxation from the richer classes to the general population. In their opinion, a higher rate of duty could be safely imposed on wine, beer and spirits, while a reduction of the duties on the conventional necessaries of life, such as sugar, and on the raw materials of industry and means of production, was desirable. The Committee endorsed the opinion of Dr. Gregory that the customs tariff should be the object of periodical survey, and recommended that an expert enquiry be undertaken forthwith.

They suggested that section 30 of the Sea Customs Act should be so amended as to make the charge on invoice price *plus* cost of freight the normal procedure, and the charge on a price which included the wholesaler's profit the exceptional one. They recommended the comparison and coordination of the arrangements in the different provinces and at all the ports for the prevention of smuggling. Lastly, they observed that the ideal arrangement would be the institution in India of a customs *zollverein*, although this was not practical politics at the moment.

In regard to export duties, the Taxation Enquiry Committee made the following recommendations: (i) export duties should be levied on articles of which India had a complete or partial monopoly, that the rates in any case should be low, and that an export duty should not be utilised for the purpose of protecting an industry; (ii) the rate of duty on jute and rice should not be increased; (iii) the duty on tea should be removed when the conditions of the trade would show signs of a prejudicial effect being produced; (iv) the duty on hides, being wrong in principle, should be abolished at an early date,[1] but the duty on skins should be retained; (v) an export duty on lac should be imposed; and (vi) that an export duty should be levied on oil-seeds and manures.[2] The advisability of an export duty on raw cotton had been pressed on the Commission by a number of witnesses, partly as a revenue measure and partly as a measure of protection to the Indian cotton mill industry. But a majority of the Committee considered such a duty to be unsound, because it would fall on the producers of Indian cotton and might do considerable harm to the export trade.

[1] Dr. Paranjpye and Sardar Jogendra Singh were of opinion that the experience of the previous few years could not be regarded as conclusive, on account of the abnormal conditions due to the war and its after-effects. They considered that a vigorous effort should be made to encourage the Indian tanning industry, and that the export duty should not be given up.

[2] The Committee were not unanimous regarding the advisability of levying an export duty on oil-seeds, bones and other forms of manure.

The cotton excise duty was examined by the Committee from two points of view, namely, first, on its merits, and secondly, in the light of history. They thought that, so far as the consumer was concerned, this tax was better than that on salt. They were not fully satisfied as to the injurious effect of the duty on the cotton industry.[1] But they observed that, taking the case as a whole, there was probably some element of truth in the contention that, if the excise duty were abolished, this industry would benefit, assuming that the customs duty remained at 11 per cent. The Taxation Enquiry Committee, after tracing the history of the duty since its inception in 1894, pointed out that in 1916, Lord Hardinge had given an assurance that the excise duty would be altogether abolished as soon as financial considerations would permit, and that this pledge had been repeated since by more than one high officer of the Government, including Lord Reading. They then summed up the position in these words: "If for revenue purposes a general excise is necessary, an excise duty on locally manufactured cotton goods, coupled with an adequate customs duty on imported goods, need not necessarily be condemned so long as the burden on the consumer is not too great, and is less objectionable than some others, inasmuch as it falls on

[1] The Committee, however, pointed out that the corresponding duty in Egypt had recently been removed, and that the duty in force in Japan had been condemned by the Taxation Commission of 1920-22.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · CSL

the consumer and not on the producer, and is collected with a minimum of trouble. It affects the industry only in so far as it has the result of increasing the price and reducing consumption; but the Government of India are pledged to remove it as soon as financial considerations permit, and therefore, it must be classed by the Committee among the taxes to be abolished".[1]

The Committee considered the excise duty on petroleum to be satisfactory. But they suggested that, when remission of taxation would become possible, the tax on kerosene, which involved a burden on all classes of the population should be withdrawn. They disapproved of the idea of an excise duty on matches, but they considered excise duties on ærated waters and patent medicines to be legitimate. Further, they recommended the levy of an excise duty on locally-made cigarettes and pipe-tobacco, accompanied by an indirect excise through a system of licensing in the case of country tobacco.

The recommendation of the Committee relating to the cotton excise duty was quite a sound one. Their other suggestions were also good, with the exception of the proposal to levy a tax on country tobacco. Such a tax would be in the nature of a poll-tax as it would fall almost on the entire population. Tobacco is regarded as a conventional

[1] *Report Ch. VI.*

necessary by agriculturists, artisans, and all others who live by the sweat of their brow, and a duty on this article would surely be felt as a heavy burden by the poorest classes of the people. Its incidence would be similar to that of the salt tax, and its imposition is sure to provoke much discontent. Such a duty is likely also to affect the production of the article.

The Government of India lost no time in giving effect to the recommendation of the Taxation Enquiry Committee in regard to the cotton excise duty. In December, 1925, the cotton excise duty was suspended by an ordinance of the Governor-General. In framing the budget estimate for 1926-27, the Finance Member anticipated a surplus of a little over 3 crores of rupees. He, therefore, decided to abolish the duty, and the Government of India had now the privilege of sharing with the legislature "the credit for this historic achievement". The abolition of this duty involved a loss of about Rs. $1\frac{3}{4}$ crores to the Government.

This measure gave satisfaction to all sections of the community. But it was not adequate for the purpose of placing the cotton industry on a firm basis. The reasons were various. The Bombay Millowners' Association demanded protection for the industry. A special Tariff Board to whom the question was referred expressed the view that there existed an unfair competition beween Japan and

GSL

India, and that the cotton industry had been handicapped by the fixing of the value of the rupee at 1s. 6d. The majority of the Board recommended an additional import duty of 4 per cent. on all cotton manufactures other than yarn. They further suggested the grant of a bounty of 1 anna per lb. on yarn of 32's and higher counts, the money required for which was to be obtained out of the proceeds of the additional duty levied. The President of the Board, Mr. F. Noyce, did not consider that an all-round increase in the import duty on piece-goods could be justified, and recommended the imposition of a differential duty of 4 per cent. on all cotton manufactures imported from Japan. The Government of India declined to accept the recommendations either of the majority or of the minority of the Tariff Board. It decided not to increase the import duty on cotton cloth nor to grant a bounty to the spinning of yarn. But it introduced a Bill to levy a specific duty of $1\frac{1}{2}$ annas per lb. of yarn imported into the country irrespective of its origin. This Bill was passed. The cotton manufacturers were not, however, satisfied with the measure.

Another surplus was estimated in the budget for 1927-28, and the Finance Member took this opportunity to make some minor reductions in taxation. The export duty on hides had been condemned by the Fiscal Commission; and as the

trade in the article was at this time in a depressed condition, it was decided to abolish the duty. This abolition was expected to involve a loss of revenue amounting to about 9 lakhs of rupees. The export duty on skins was also open to objection; but as it was both more productive than the duty on hides, and the loss was more positively harmful, the Finance Member did not propose its reduction or abolition. When the Finance Bill came up before the Legislative Assembly, the provision relating to the abolition of the export duty on hides was strongly opposed by the non-official members. When a division was taken, there was an equality of votes against and in favour of the retention of the clause. The President gave his casting vote against such retention. The clause was, therefore, deleted.

The export duty on tea brought a revenue of about 50 lakhs a year; but as the finances of the country were not in a position to bear the loss entailed by its abolition, the Government of India decided to couple the removal of the duty with a compensatory measure, namely, the assessment of the tea companies on 50 per cent. instead of 25 per cent. of their total profits. The loss on the one hand was thus expected to be nearly compensated by the gain on the other. The Government of India also reduced the import duty on motor cars from 30 per cent. to 20 per cent. *ad valorem* and the import duty on tyres from 30 to 15 per cent. The import

GSL

duty on rubber seeds and rubber stamps was removed. In order partially to cover the loss entailed by the reduction and abolition of duties, the import duty on unmanufactured tobacco was raised from Re. 1 to Re. 1-8as. per lb.

No changes were made in the customs duties in 1928-29. But in order to give effect to the recommendations of the Road Development Committee, it was decided in March, 1929, to increase the import and excise duties on motor spirit from 4 to 6 annas per gallon. This measure of taxation was designed not for the advantage of the general revenues of the Central Government, but for a specific purpose. The proceeds were to be credited to a Road Development Fund, from which disbursements were to be made, from time to time, to Provincial Governments and other bodies.

A few words may be said here about export cesses. The object of these cesses is not to secure revenue but to help the development of the industries concerned. The first of such cesses to be levied was that on tea in 1903. The proceeds of the cess were made over to a committee for the purpose of encouraging the use of tea. A Lac Cess Bill was passed in 1921 which levied a cess of four annas a maund on all exports of lac.[1] The object

[1] In introducing the Lac Cess Bill in September 1921, Mr. C. A. Innes said: "Shellac is one of our most important trades and the total value of the exports amounted in 1917-18 to 2½ millions., and in 1918-19

was to improve the quality of the article. In 1923, the Cotton Cess Bill was passed to provide for the creation of a fund for the improvement and development of the growing, marketing and manufacture of cotton in India. In September, 1929, a committee was appointed to consider the question of imposing a nominal cess in place of the export duty on raw hides. This committee has not yet concluded it labours.[1]

With the phenomenal development of the foreign trade of India, the income derived from customs

to 2 millions sterling. Apart from small quantities of somewhat indifferent lac grown, I believe, in Indo-China, India may be said to have a monopoly of lac and shellac. Shellac is being used in increasing quantities for various purposes notably the manufacture of gramophone records...Before the war the price varied between Rs. 30 & 40 a maund. In 1920, the price touched Rs. 250. Now these high prices induce a very real danger, namely, the danger that some synthetic substitute may be found. A valuable report was written by two Forest officers. They tell us that for the present state of affairs there are two remedies. In the first place, the production of the best quality of lac must be stimulated...Secondly, a scheme of research is required on the chemical and entomological side. A committee was appointed, and an Indian Lac Association for research has been founded. This Association has approached the Government with a request that a small cess should be placed on exports of lac at the rate of 4 annas per maund for shellac and 2 annas per maund for refuse lac. We propose a cess of only four annas a maund. The cess will yield an income of about 1 lakh a year." —*Proceedings of the Governor-General's Council, 1921.*

[1] Giving evidence before the Hides Cess Enquiry Committee in Calcutta, Mr. Abdul Ghunny, President of the Calcutta Skins and Hides Trades Association, advocated the imposition of a one per cent cess *ad valorem* on raw and half-tanned hides and skins exported from India. The principle to be adopted in the imposition should be to benefit the industry and not to give protective effect to one part of it. He expressed the view that the cess should be levied for five years to see if any of the stipulated improvements were possible and also to see if the rate of cess was more or less to cover the expenses of schemes. He was in favour of the formation of a committee to administer the proceeds of any cess or cesses which might be imposed, and the head-quarters of such a committee should be located in Calcutta which was central so far as Cawnpore, the Punjab, Karachi and Madras were concerned. The cess could be spent profitably only on the removal of the defects in the trade.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

tended continually to grow from the date of re-imposition of import duties, and this tendency was greatly accentuated by the levy of fresh taxes during and after the war. The revenue derived from customs did not much exceed 1 crore of rupees in the first year of the direct administration of India by the Crown. In the three years just preceding the war, the customs revenue stood thus: 1911-12, Rs. 9,70,28,499 ; 1912-13, Rs. 10,79,58,640. In the first year of the war, there was a falling-off in the revenue derived from this source; but it gradually rose again, and in 1917-18, stood at 16½ crores. During the last decade, the receipts from customs were as follows: 1918-19, Rs. 18,18,09,614; 1919-20, Rs. 24,38,32,802; 1920-21, Rs. 31,89,85,157; 1921-22, Rs. 34,40,98,381; 1922-23, Rs. 41,34,65,362; 1923-24, Rs. 39,69,64,296; 1924-25, Rs. 45,75,34,515; 1925-26, Rs. 47,77,95,049; 1926-27, Rs. 47,38,10,721; 1927-28, Rs. 48,21,41,872. In the revised estimates for 1928-29, the customs revenue was taken at a little over 50 crores.

It thus appears that import and export duties form a very elastic and expansive source of revenue. At the present moment nearly one-half of the net income of the Government of India is derived from customs.

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CHAPTER V

SALT

UNDER the Mahomedan rule, a duty was levied on salt as part of the general system of transit duties. Akbar abolished the salt tax along with transit duties on all other articles. But it is doubtful whether his orders were carried out in the distant provinces. It is possible that in some parts of the country the salt and other transit duties were collected by the provincial rulers for their own benefit in spite of these having been prohibited by the Emperor. In any case, a tax on salt was collected in the eighteenth century[1]; whether it had been continued from the time of Akbar or re-imposed later is not quite clear.

In 1760, the claim of the East India Company's servants to trade in salt, duty free, was first avowed. Mir Kasim, the Nawab of Bengal, however, ordered that no customs whatsoever should be collected in future. But a majority of the

[1] *Vide* Vincent Smith, *Akbar*.

Towards the end of the Mahomedan administration, an *ad valorem* duty of 5 per cent. was levied on Hindus, and 2½ per cent. on Mahomedans, upon all salt passing the town of Hughly on its way into the interior of the country.—*Ninth Report of the Select Committee, 1783.*

GSL

Council of Bengal resolved in 1763 that this general exemption being a breach of the Company's privileges, the Nawab should be required to revise the order and collect duties as before from the country merchants and all other persons who had not the protection of the Company's *dastak*.[1] The Directors disapproved of these transactions and ordered in 1764 a final and effective stop to be put to the inland trade in salt. Soon after this, however, under pressure from the Court of Proprietors, the Directors ordered the Governor and Council to form a plan, in concert with the Nawab, for regulating the trade in the article.

Under the administration of the Company, the salt systems of the different Presidencies grew up independently of one another. Let us consider the Bengal system first. After the Company had acquired possession of the district in the neighbourhood of Calcutta, they imposed a salt tax in the double form of ground rent for the *khalaris*[2] and a transit duty; but about the year 1762, these were consolidated into a single duty of Rs. 30 upon every *khalari*, the estimated produce of each *khalari* being from 250 to 300 maunds of salt. To this duty was subsequently added a further tax of Rs. 10 on every 100 maunds of salt manufactured. In 1765, on the acquisition of the *diwani*, Lord Clive

[1] Pass.

[2] Salt works

formed an exclusive company known as the 'Society of Trade' for carrying on inland trade in betel-nut, tobacco, and salt. This concern was started for the benefit of the senior European servants who enjoyed its profits as a supplement to their salaries. The action, however, was disapproved by the Court of Directors, who considered it disgraceful and below their dignity to allow such a monopoly. The 'Society of Trade' ceased to have any connection with the trade in betel-nut and tobacco from September, 1767, but the monopoly of the trade in salt was continued for another year. This arrangement was condemned by the Court of Directors, who insisted that the manufacture and trade in salt should be perfectly open to all Indians, subject to the payment of such a tax as would not raise the wholesale price of the article beyond 140 *sicca* rupees for every 100 maunds.[1]

Accordingly, the system of free manufacture and trade under an excise tax was introduced in 1768. The restrictions were that no one person should make more than 50,000 maunds and that all the salt manufactured should be brought to one or other of two specified places, to be there taxed with the excise duty. This duty was fixed at 30 *sicca* rupees for every 100 maunds. The system, owing largely to the malversations of Clive's exclusive company, proved very unfavourable to the Government

[1] *Fifth Report, 1812.*

revenue, which declined from £118,296 in 1766-67 to £45,027 in 1772-73. The Government of Warren Hastings, therefore, resolved in 1772 again to assume the management of the manufacture of salt. It was determined that all salt should be made for the Company, and that the salt manufactories in each district should be let in farm for five years. By the conditions of the farm, a certain quantity of salt was to be delivered at a stipulated price, which was then to be dealt out at a fixed rate to the traders who had advanced money to the farmers for payment of the labourers. But this complicated farming system resulted in a loss of revenue. Therefore, another change in the system was made in 1777, when it was decided to continue the practice of farming the manufactories, but the salt produced was left at the farmer's disposal. This simple system of farming also did not succeed.

In 1780, Hastings framed a scheme under which the salt-producing tracts were divided into separate agencies, over each of which a civil officer of rank presided, who himself was subject to a Comptroller, the head of the whole department. The Comptroller and the agents, in addition to their salaries, were allowed a commission of 10 per cent. on the net profit derived by the Government under their management. The *malangis*[1] received advances from the agent at the beginning of the season,

[1] Salt makers.

stipulating to deliver their salt, to him on account of the Government at a price agreed upon, and were prohibited from selling it to any other person. The agent stored the salt, and sold it to wholesale dealers, at prices fixed from year to year by the Government. The difference between the contract price agreed upon by the *malangis* and the fixed price at which it was delivered to the salt merchants was, in effect, the duty taken upon the salt. The salt cost the Government 8, 12, or 14 annas a maund at the different places of manufacture, and the sale price to merchants was fixed at 2 rupees a maund. The amount of duty thus varied from Re. 1-2 as. to Re. 1-8 as. a maund.[1]

This assumption of strict monopoly was strongly opposed in the Governor-General's Council.[2] But the system was completely successful from the financial point of view. The net receipts reached the unprecedented amount of £625,747 in 1784-85. As, however, there was some decline in the two following years, Lord Cornwallis established, in 1788, the system of salt sales by public auction in Calcutta. From this period the revenue continued to rise. The average net profit from salt in the three years which preceded the Report of the Select Committee of 1812 was 1,17,25,700 *sicca* rupees.

In the same year, a set of regulations was promul-

[1] Report of the Salt Commissioner in British India, 1856.

[2] *Fifth Report, 1812.*

GSL

gated for the protection of the *malangis*. The regulations of 1788, with some improvements, were embodied in the Code of 1793 as Regulation XXIX of that year. This Regulation was afterwards repealed, but its more important provisions were reenacted and were in force till the date of abolition of the monopoly. Various other regulations were also enacted between 1793 and 1851.

The great increase in the net revenue derived from salt was due, in a large measure to the substitution by Lord Cornwallis's Government of quarterly sales in limited quantities to the highest bidder, for sales to an unlimited extent at fixed prices. Another effect of the auction system was to establish a sub-monopoly on a large scale and on a farm basis. Great fluctuations occurred from year to year in the sale price, in the quotations actually offered for sale, and in the stock of purchased, but uncleared, salt.

Considerable divergence of opinion prevailed from very early times on the propriety or desirability of the system of salt monopoly. In 1776, Philip Francis wrote: "The idea of monopolising this necessary of life, whether for the advantage of the Government or of individuals, has been at all times invariably reprobated by the Company." He added: "The single act of throwing open the trade in salt and opium will, I am convinced, in a few years give a totally new face to the country."[1] The

[1] *Sixth Report of the Select Committee, 1783, App. 14.*

Parliamentary Committee of 1783 observed : "Even if the monopoly of this article was a profitable concern, it should not be permitted. Exclusive of the general effect of this and of all monopolies, the oppressions which the manufacturers of salt, called *malangis*, still suffer under it, though perhaps alleviated in some particulars, deserve particular attention. There is evidence enough on the Company's records to satisfy your Committee that those people have been treated with great rigour, and not only defrauded of the due payment of their labour, but delivered over like cattle in succession to different masters who, under the pretence of buying up the balances due to their preceding employers, find means of keeping them in perpetual slavery. For evils of this nature there can be no perfect remedy as long as the monopoly continues."[1]

In later times, the controversy became a very keen one. On the one hand, it was argued that every monopoly was bad in principle, and that the salt tax had all the defects of a monopoly ; on the other, it was maintained that the monopoly in salt was an easy and cheap method of obtaining revenue, that it was very productive, and that it gave employment to large numbers of labourers. In 1827, the Court of Directors sent a despatch to the Governor-General in Council in which they

[1] *Report of the Select Committee, 1783.*

questioned the soundness and expediency of the auction system, and suggested the system of sale at fixed prices, and in unlimited quantities. This led to a prolonged discussion of the subject.

The different aspects of the question were discussed in considerable detail in the course of evidence tendered before the Parliamentary Committee of 1832-33. The Committee pointed out in their Report that salt in Bengal was publicly disposed of by auction, at sales held monthly. The price at which salt had been sold, on an average of three years, had amounted to Rs. 4-0a.-8p. per maund, corresponding to 12s. 9d. per cwt. This price was about 288 per cent. above the original cost and charges. The Committee reported that the average annual revenue derived from salt had, during the three previous years, amounted to £1,600,000. This was too large an amount to be given up, and the Committee did not think that it could be commuted for any other tax less onerous to the inhabitants of the country. As a substitute for the then existing monopoly, two other modes of collecting revenue from this article had been suggested, namely, an excise duty on salt manufactured in Bengal, and a duty on importation. The Committee expressed the view that the collection of an excise duty on salt manufactured on private account could not be easily carried into effect, in consequence of the expense and difficulty of establishing an efficient method of

GSL

supervision. It had been stated before the Committee that Bengal might obtain a cheaper supply of salt by importation from the coasts of Coromandel and Malabar, Ceylon, the Gulf of Persia, and even Great Britain, than by any system of home manufacture.

As the manufacture of salt by private individuals was likely to endanger the security of the revenue, it did not appear to the Committee expedient to interfere with the existing regulations on the subject, but they considered it desirable to adopt means for encouraging a supply of salt by importation, in lieu of manufacture by the Government. Further, they thought it would be advisable so long as the manufacture continued, to contract by advertisement for the delivery of salt into the public warehouses of the port of Calcutta at a certain price per ton. They expected that, under this system, the home manufacture would be gradually diminished, beginning in those districts in which the cost of production and loss of human life were the greatest, and expressed the hope that, under such an arrangement, a material reduction might be effected in the price of salt.

The subject was fully investigated by a Select Committee which was appointed to consider the question of salt administration in India. Mr. H. M. Parker, junior member of the Salt Board, submitted a Minute to this Committee in which he advanced

various arguments against an excise system. Mr. J. Crawford, on the other hand, a persevering opponent of the salt monopoly, gave evidence before the Committee in favour of a combined system of excise and customs. The Committee submitted their Report in 1836. In the following year, the Report of the Select Committee was received in India, along with a despatch from the Court of Directors. The Select Committee stated that the evils usually incident to a Government monopoly in a great article of consumption were not wanting in the salt monopoly of India, and that they had not been convinced by the evidence tendered before them that the same amount of revenue as was realised by the Bengal salt monopoly could not be collected, "with equal security, and with great advantage to the consumer and to commerce, by a combined system of customs and excise."

They further expressed the view that, however modified the monopoly might be, the evils of the system could never be eradicated except by its extinction. They commended to the early attention of the Government "a considerable reduction of the duty, under a system of free competition," but in the then existing state of India's finances they were unwilling to recommend the immediate abolition of the system of monopoly. They further urged that the following recommendations of a practical character might be given effect to without delay:

GSL

First, that the system of public periodical sales should be abolished. Secondly, that the *golahs*[1] should be kept open at all times for the sale of salt in quantities of not less than 100 maunds. Thirdly, that the price to be paid by the purchaser should be fixed at the cost price to Government added to a fixed duty. Fourthly, that the import into Calcutta of salt manufactured in any other country should be permitted, and such salt should be sold at such times as the proprietors might please, in quantities of not less than 100 maunds. Fifthly, that such imported salt should be subject only to the same duty, as that sold by the Company, and to no other duty or charge whatever except a fair and reasonable rent on such salt as might have been fixed. Sixthly, that the duty to be imposed should not exceed the average rate of the salt profit of the Company's monopoly for the last ten years.[2]

In the meantime, all the recommendations of the Committee, except those on the third and sixth points, had been anticipated by the spontaneous action of the Bengal Government. After the withdrawal of the order prohibiting imported salt in 1817, a new element of difficulty had begun to affect the system of auction sales, namely, the importation for private sale of large and rapidly increasing quantities of foreign salt. The difficulty

[1] Places of storage.

[2] *Report of the Select Committee on Salt, 1836.*

became serious about the year 1835. In 1836, auction sales were discontinued, and Mr. Hastings's original system of sales at fixed prices, and in unlimited quantities was reverted to. The duty on the importation of foreign salt for private sale had been fixed at 300 *sicca* rupees per 100 maunds in 1817. This duty was converted by Act XIV of 1836 into the nearly equivalent duty of 325 Company's rupees.

Considerable difficulties were, however, found with regard to the other recommendations. The principles on which the calculations were to be made became a matter of prolonged discussion, and it was not until 1847 that the Government found itself in a position to adjust the sale prices of Bengal salt in strict conformity with the recommendations of the Select Committee. From 1836 to 1844, the regulation of wholesale prices was left entirely to the Salt Board.

The duty fixed in 1836 remained unaltered till 1844, when a reduction of 4 annas a maund was made. Simultaneously, a corresponding reduction of Rs. 25 per 100 maunds was made in the sale price of Bengal salt. This was an experimental step taken towards the reduction of taxation, whereby it was hoped that a two-fold advantage would be gained, namely, first, "the provision of an adequate supply of a necessary of life to the people at a price so moderate as to prevent the necessity of

their having recourse to an illicit, or unwholesome substitute, and, secondly, the greater stability and probable extension of the public revenue, by encouraging the consumption of salt by the mass of the population at a cheap price, instead of restricting it to portions of it only, by a dear price." The amount of reduction was small, because the Governor-General considered it "impossible to hazard large reductions at once, owing to the enormous amount of revenue that would be risked by their adoption".

In 1847, a further reduction of 4 annas a maund was made, bringing the duty down to Rs.2-12 as. a maund. At the same time, the differential duty which salt from the North-Western Provinces paid on passing below Allahabad was reduced from 1 rupee to 12 annas. The prices of salt at the various agencies were, for the first time, fixed at the cost price *plus* the amount of the reduced duty. In 1849, a further reduction of 4 annas a maund was made, bringing the duty down to Rs. 2-8 as. a maund. The same reduction of 4 annas was made in the Allahabad differential duty. The fixed sale prices of Bengal salt were again adjusted in conformity with this reduced duty, and a new settlement of the cost price was made according to the latest accounts. The net effect of the reductions of these years on consumption was an increase of more than 16 per cent. Its effect on revenue,

however, was different. The average annual net revenue from salt for the three years preceding the reduction was Rs. 1,59,03,903, and that for the years 1852-3 to 1854-55 was Rs. 1,44,46,755, showing a decrease of a little more than 9 per cent.

From 1835, the quantity of imported salt increased year by year until 1851-52. After this date a decrease occurred in the three following years. Salt was allowed to be bonded under certain rules. As imports increased, the quantity of salt manufactured in Bengal was reduced. For this reason, the salt agency of the Twenty-four Parganas was closed in 1848, and manufacture in the Chittagong agency was suspended in 1852. But an increase in consumption and a decrease in the quantity imported rendered it necessary to recommence manufacturing salt in Chittagong in 1853, and to reopen the Twenty-four Parganas Agency in 1855. In 1856, there were seven salt agencies at work in Bengal, namely, Puri, Cuttack, Balasore, Hijli, Tamluk, Twenty-four Parganas, and Chittagong.

It may be mentioned here that several steps were taken between 1835 and 1855 towards the substitution of a system of excise for the system of manufacture. In 1835-36, the Government agreed to assist and support an experiment by Mr. George Prinsep to manufacture, for sale to the Government, salt by the English process at Narainpur. In 1838, the Bengal Salt Company established works at

GSL

Soordah for a similar manufacture of salt. Persons, however, wishing to make salt by the indigeneous process were not allowed to do so. The Court of Directors negatived, in 1840, the proposal of the Government of India to introduce an excise sytem. In 1853, the Government of Bengal suggested to the Salt Board the expediency of trying the experiment of manufacturing on the excise system. This was supported in a modified form by the Board. In 1854, the Bengal Government recommended the whole of the old agency of the Twenty-four Parganas for the experiment of private manufacture under an excise, which was sanctioned by the Government of India.

In December, 1853, the Government of India appointed Mr. G. Plowden as Commissioner for the enquiry. Mr. Plowden submitted his report in 1855-56. The principal objections which were urged against the levy of an excise upon salt manufactured by the indigeneous process were: (1) That the supply of salt in the interior would be deranged; (2) that a few capitalists would obtain a monopoly of the supply; (3) that there would be more evasion of the tax by illicit manufacture and sale than under the existing system; and (4) that the preventive system necessary under an excise would be more expensive to the Government, and more vexatious to the *malangis* than Government manufacture. Mr. Plowden refuted all these arguments,

and expressed his opinion in favour of converting the monopoly of manufacture into a system of excise. He added, however, that the desired change should be introduced gradually.

The Salt Commissioner expressed the opinion that, regarded as a means of supplying the threatened deficiency of salt in Bengal, the experiment was a failure, but as a practical test of the possibility of applying the general principles of free trade and manufacture to the salt manufacture in Bengal, the experiment was perfectly successful. In 1855, the Salt Board, in consequence of the very low state to which the stock of salt had been reduced, recommended that the 24-Parganas agency should be reopened; but the Bengal Government deprecated such a course. The Government of India, however, came to the conclusion that it would not be safe to postpone the reopening of this agency any longer. Accordingly, this step, as has already been mentioned, was taken. The western portion of the 24-Parganas agency was reserved for excise salt, and the eastern portion for the manufacture of Government salt.

In the meanwhile, the question had been receiving attention in England. In 1853, during the passage through Parliament of the Government of India Bill, the House of Commons inserted a clause which recited that, under the Act of 1833, the East India Company had no right to engage in any

commercial undertaking, and sought to declare the continuance of the salt monopoly as unlawful. This clause, however, was expunged by the House of Lords, and its omission was subsequently agreed to by the House of Commons. Soon after this, the Court of Directors, apprehending the re-agitation of the question in Parliament desired the Government of India to institute an enquiry as to the practicability of carrying into effect any system under which the manufacture and sale of salt in India should be absolutely free, subject only to such excise, or other duties, as might be levied upon salt so manufactured. The revenue derived from salt in Bengal in 1854-55 amounted to Rs. 1,41,88,000.[1]

The question of establishing a monopoly in the Madras Presidency was first mooted and advocated by the Board of Revenue in 1799. In permanently assessing the land tax in some parts of the Presi-

[1] The following table shows the fiscal results of the year 1854-55.

Proceeds of wholesale sales of indigenous salt, including cost, and a duty of Rs. 2-8 as. a maund	Rs.	1,21,00,800
Proceeds of retail sales in the saliferous districts, at various prices, realising a small rate of duty	,,	18,15,000
Excise of Rs. 2-8 as. a maund on private manufacture	,,	48,000
Customs duty of Rs. 2-8 as. a maund on foreign salt imported by sea	,,	42,00,000
Miscellaneous credits to the Department	,,	84,000
Total receipts	Rs.	1,82,47,000
Deduct charges of manufacture of Government salt	,,	27,06,000
Gross salt revenue	Rs.	1,55,41,000
Deduct charges of prevention, collection, etc.	,,	13,53,000
Net salt revenue	Rs.	1,41,88,000

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · सत्यमेव जयते · GSL

dency in 1802, the exclusive right of manufacturing salt was reserved to the Government. Till the year 1805, the manufacture of salt was either farmed out, or managed by the officers of the Government, but upon what system the records do not clearly show. The gross revenue amounted, on an average of five years ending 1804, to 80,000 star pagodas (or Rs. 2,80,000), exclusive of all charges. In 1804, the gross receipts amounted to Rs. 2,21,607, and the charges of establishment to Rs. 11,467.

The Board of Revenue declared the introduction of monopoly impracticable, and advocated the imposition of a high duty on all salt, manufactured or imported, the home manufacturers being required to take out permits and to register their pans. One of the members of the Board, Mr. Falconer, however, dissented from the proposal, and suggested a close monopoly such as existed in Bengal. The Collectors, in general, preferred a fixed duty to a monopoly. The Madras Government rejected the excise proposal in favour of a monopoly. In 1815, a regulation was passed establishing a monopoly in all parts of the Presidency, except Malabar and Canara, to which areas it was afterwards extended in 1807. The subsequent Regulations and Acts relating to the salt revenue did not affect the original plan. The revenue was further protected by the rules for the management of the salt department. The peculiar feature of the system was that the manu-

GSL

facture was conducted exclusively on account of the Government. The manufacturers contracted to furnish salt at a fixed price, and the Government disposed of the salt, also at a fixed price, through their own agents, to the dealers and others. The manufacture, sale and transit of salt within the limits of the Madras Presidency, excepting on account of the Government or with their sanction, was expressly forbidden. The removal of salt from the depots without a *rawanna* was prohibited.

The administration of the monopoly was originally subject to the immediate direction and control of a General Agent, acting over the Collectors, and in subordination to the Board of Revenue. In 1808, the office of General Salt Agent was abolished, and a commission of 1½ per cent. on the salt revenue was granted to the Collectors and their head assistants.[1] In 1836, the payment of commission was finally discontinued, and the management of the salt revenue constituted one of the ordinary duties of the Collectors, in subordination to the Board of Revenue.

The regulation establishing the monopoly fixed the sale price of salt at Rs. 70 per *garce*[2], including duty and all cost of manufacture. In 1809, the price was raised to Rs. 105 per *garce*, but the revenue did not rise proportionately. The price was,

[1] *Report of the Salt Commissioner, 1836.*

[2] A *garce* is equivalent to 120 maunds.

GSL

therefore, reduced in 1820 to the original rate. The Board of Revenue, on several occasions, proposed an increase of price, but the Government did not agree until 1828. In that year, the Government acquiesced in the recommendation of the Board, and the sale price was raised to Rs. 105 per *garce*, at which rate it remained for sixteen years. The transit duties were abolished throughout the Presidency in 1844, and the net revenue relinquished by such abolition was about 31 lakhs per annum. The price of salt was, consequently, raised to Re. 1-3 as. per maund (or Rs. 180 per *garce*) in order to compensate for the loss. The Madras Government had remonstrated against the price being raised to this extent, and the Court of Directors ordered in July of that year the reduction of the rate to Re. 1 per maund (or Rs. 120 per *garce*) which continued to be the price in the Presidency till the termination of the Company's rule.

Marine salt in the Madras Presidency was made exclusively by solar heat. The sea-water was let by graduations into small shallow beds, and after evaporation the salt was scraped off and dried. The cost of manufacture differed in different localities. The average cost of manufacture was Rs. 8-11 as. per *garce* in 1855, and the establishment and other charges amounted to Rs. 3-6 as. The total cost price was, therefore, Rs. 12-1a.

The mode of taxation was of a rough and ready character. The salt was placed heap upon heap, and the mounds were taxed according to the number of men and cattle employed upon them; but, like *moturfa*, the tax was arbitrary and regulated on no fixed principles. Schemes were formulated for placing the manufacture under a more defined system of regulation and for taxing the produce moderately, but it was found difficult to give effect to them.

A charge of Rs. 15 per 100 maunds free on board was made for the exportation of salt. By a Regulation of 1805, the importation of salt into the Madras territories by sea or land was prohibited. But Regulation II of 1818 permitted such importation, subject to the payment of a duty of 100 pagodas (or Rs. 350) per *garce*. This was replaced by Act VI of 1854, which imposed a customs duty of Rs. 3 per maund, on all foreign salt imported into the Madras territories by sea or land. In 1849, however, an exception was made in favour of Goa salt, which was admitted into Canara by land, at a reduced duty of 12 annas per maund. In 1851, the court of Directors desired that the trade in salt in Madras should be placed, as far as possible, on the same footing as in the other Presidencies, that is to say, all foreign salt should be allowed to enter the Madras territories on payment of a customs duty equal to the profit derived from the manufac-

tured salt of the Presidency. In 1853, foreign salt was admitted to equal competition with the manufactured salt of the Presidency at certain specified ports. The import duty was fixed at 12 annas per maund, because this rate represented the average net profit per maund accruing from the monopoly sales. No foreign salt was ever imported into the Madras Presidency on private account, except a small quantity across the Goa frontier.[1] In 1852-53, the profit to the Government, on salt transactions amounted to Rs. 45,25,925. Deducting from this the charges of collecting and protecting the revenue, there remained a net salt revenue of Rs. 42,89,765.

The Salt Commissioner reported in 1856 that, regarded simply as a plan for the realisation of an indispensable revenue, the salt monopoly did not afford much room for practical objection. But he held that it was objectionable from one point of view, namely, that a Government monopoly in a great article of consumption in any form or degree, and any participation by a Government in the business of a trader, were such deviations from true principle as could not fail to be productive, directly or indirectly, of evil consequences. Regarding the question of substituting an excise for the monopoly, the Board of Revenue admitted the practicability of the proposal.

[1] Report of the Salt Commissioner, 1856.

Mr. Plowden thought that, although it was not practicable to render the manufacture of salt absolutely free, the possibility of substituting the Bombay system of excise appeared to him to admit of no question. He was of opinion that the adoption of the Bombay system would involve no material change in the details of local management, or in the general administrative system, and urged that such substitution should be carried into effect without delay.

In the Bombay Presidency, originally, salt revenue was one of many small miscellaneous items of State income. The first enquiries in connection with the realisation of an improved revenue commenced as early as 1816. In 1823, the Government wrote to the Court of Directors pointing out that no salt monopoly existed in the Presidency and that the duties were of a trifling nature; but that it was practicable to improve the resources of the Presidency by enhancing the duty on salt to a substantial extent, without inflicting any hardship on the people. In 1824, the Court of Directors negatived the proposal of the Bombay Government to establish a salt monopoly. Enquiries on the question of realising an improved revenue without the establishment of a monopoly were then renewed. In 1830, the Court of Directors sanctioned the proposed Regulation of the Bombay Government which fixed a maximum duty of 13 as. 3 pies per maund. This

GSL

Regulation, however, was not promulgated, and the question was referred for the consideration of the Committee which was appointed in 1836 for revising the customs laws of India. This Committee recommended the immediate abolition of the transit duties throughout the Presidency and the simultaneous substitution of an excise duty of annas 8 per maund on salt, together with an import duty of the same amount. In 1837, a law was passed for imposing and enforcing an excise duty of 8 annas per maund. In January, 1838, another Act was passed, under the provisions of which the levy of transit or inland customs duties in the Bombay Presidency was finally abolished, and a customs duty of 8 annas a maund was levied on all salt imported from any foreign territory.

The substitution of an eight-anna excise on salt in commutation of the transit duties, resulted in an annual loss of revenue to the Government amounting to Rs. 2,51,607. In 1844, the excise as well as the import duty on salt was raised from 8 annas to Re. 1 per maund. The Court of Directors, however, ordered that the rate of duty should on no account be fixed at a higher rate than 12 annas per maund; and, in compliance with this order, the Government of India, reduced the rate to 12 annas by an Act passed in the same year. The net increase of revenue realised from the increased excise, on an average of eight years from 1845-46

GSL

to 1852-53, was Rs. 7,31,720. In 1850, an Act was passed for the better protection of the salt revenue. In 1852, two other Acts were passed with the same object.

The salt of the Bombay Presidency was obtained entirely by evaporation. The produce was of two sorts, namely, sea or coast salt and salt manufactured in the inland districts. The former was the most extensively produced, constituting about nine-tenths of the entire salt of the Presidency. All foreign salt, including salt produced in any other part of India, was admitted to full competition with the locally produced salt on equal terms.[1]

Some of the salt works were the absolute property of the Government. Others were owned by individuals, subject to the payment of land rent, which was exclusive of the excise duty. The excise duty was payable before the removal of the salt from any of the salt works. The duty having been paid, the salt might be carried by sea or land to any part of the Presidency, and might also be exported out of the Presidency by sea or land, without the levy of any further duty, either customs or excise.

When the salt excise duty was first established in 1837, the collection and management of the new tax were, so far as the salt works of the province were concerned, made over to the Collecter of

[1] *Report of the Salt Commissioner, 1856.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

Customs in Gujrat and the Konkans. The salt works in the island of Bombay were at the same time entrusted to the Collector of Land Revenue. In 1852, the charge of salt works in the island of Bombay was transferred to the Collector of Customs. Three years later, the entire charge of customs and salt excise was placed in the hands of a Commissioner, aided by deputies and assistants.[1]

The gross revenue derived from the excise on salt in the Bombay Presidency in the year 1852-53 amounted to Rs. 24,62,262, the charges to Rs. 2,03,995, and the net revenue to Rs. 22,58,267. The import duty yielded a sum of Rs. 1,00,112. The total net revenue (including both excise and customs) from salt was thus Rs. 23,58,379.

In comparing the merits and demerits of the two systems of monopoly and excise, Mr. Plowden found that the only question to be solved was, which of the two alternatives would present greater difficulties in the way of the prevention of smuggling? The Bombay Government decided that the difficulties would not be greater under a system of excise than under a monopoly, and the Salt Commissioner held the view that the decision was a correct one. He expressed the opinion that the history of the salt tax in the Bombay Presidency presented no objectionable

[1] *Report of the Salt Commissioner, 1856.*

features; but, on the other hand, it bore the impress of a beneficent policy.

The manufacture of salt in the Bombay Presidency was essentially—though not absolutely—free. Mr. Plowden, therefore, did not consider it desirable that the then existing restrictions should be relaxed. The system had, however, certain defects, and the Salt Commssioner made detailed suggestions for their removal. He urged the Government to withdraw from the manufacture of salt without delay. Further, he recommended that the export of salt by sea beyond the Presidency should be free.[1]

Salt required for consumption in the Punjab and the North-Western Provinces was obtained partly from the salt rocks and partly from the Sambhar lake. Such salt paid duty on passing the inland customs lines. The net revenue derived from salt from the whole of India, exclusive of customs duty levied on the import of the article, amounted to £2,501,881 in the year immediately preceding the Mutiny, and to £2,131,346 in 1857-58. Including the yield of the customs duty, the salt revenue was £3,812,217 in 1856-57, and £3,249,978 in 1857-58.

The income derived from this source thus represented nearly 10 per cent. of the total revenue of the country at the close of the Company's

[1] *Report of the Salt Commissioner, 1856.*

administration. The mode of collecting the revenue from salt, as has already been noticed, varied in the different provinces of India. In some cases, it was derived from a system of Government sale ; in others, from excise ; and in the rest, from customs duties.

The burden of the salt tax formed a subject of discussion during the entire period of the Company's administration. Even in the early years, the high rates at which the tax was levied were condemned by many eminent persons. In 1776, Philip Francis expressed the view that "salt should be as free and unburthened as possible." But, in 1824, St. George Tucker defended the salt tax by pointing out that, if a certain tax be required beyond what the land would produce, the best method of raising it would be to levy an indirect tax on some article of general consumption. In regard to direct imposts, he remarked : "It can never answer any useful purpose to tease and torment a country with taxes and tax-gatherers, when such taxes are unproductive, or produce little more than is sufficient to maintain a host of revenue officers. These officers are an evil in any country ; but, in India, where it is almost impossible to prevent their malpractices, they are a serious evil." He observed further : "The Government have selected it as an article of general consumption, which can be rendered productive, and as a medium or instrument for levying contributions by a sort of volun-

GSL

tary process, without the intervention of the tax-gatherer. It approaches, I own, to a poll-tax; but it is a very light poll-tax, which is paid almost insensibly; and whereas in India the great mass of people, with few exceptions, are in nearly the same condition, there is no injustice, and little inequality, in applying to them one common scale of taxation, regulated by the scale of their consumption."[1]

In the course of his evidence before the Select Committees of 1832-33, Raja Ram Mohun Ray said: "As salt has by long habit become an absolute necessity of life, the poorest peasants are ready to surrender everything else in order to procure a small proportion of this article...If salt were rendered cheaper and better, it must greatly promote the common comforts of the people."[2] In some of the petitions presented before the Select Committees of 1852-53, the salt duty was described as a tax which pressed very heavily on the poor. Not a few of the witnesses who appeared before these Committees were emphatic in their condemnation of the tax. Mr. W. Keane described it as an "oppressive tax" and as "the greatest temporal curse on the country".[3]

[1] Tucker, *Review of the Financial Situation of the East India Company*. St. George Tucker held many high positions in India including that of the Accountant-General. On his retirement, he became a Director of the Company, and ultimately rose to the position of Chairman.

[2] *Report of the Select Committee, 1832-33.*

[3] *Report of the Lords' Committee, 1852-53.*

GSL

In 1853, the House of Commons adopted a resolution urging the abolition of the duty. But the Government did not see its way to accept it, as it was, in its opinion, the only tax paid by the masses of the people, who had long been accustomed to it and on whom it did not press heavily.[1] John Bright characterised the salt tax as "economically wrong and hideously cruel."

At the time of the transfer of the administration of India from the Company to the Crown, the rates of salt duty differed in the various provinces. In 1859, these rates were as follows : Bengal, Rs. 2-8 as. a maund ; Madras, 14 as. ; Bombay, 12 as. ; North-Western Provinces, Rs. 2 ; the Punjab, Rs. 2 ; Oudh, Rs. 2. On account of the financial distress caused by the Mutiny, the Government of India proposed to raise the duty generally by 8 annas per maund. But before the step was actually taken, it was considered desirable to consult the Provincial Governments. The Government of Madras took a strong exception to any increase. Sir Charles Trevelyan, then Governor of the province, wrote : "On every ground of justice and policy, it would not be desirable to increase this tax. The salt tax is of the nature of a poll-tax ; and it is already so heavy that the labouring population, who form the bulk of the consumers, and consequently of the tax-payers, are unable to provide

[1] *Vide* Speech of Sir Charles Wood in the House of Commons, 1854.

a sufficient supply for themselves and their families." Some of the other Governments agreed to smaller rates of increase. Ultimately, the following additions to the previous rates were decided upon :— Bengal, 8 annas.; N. W. P. and Oudh, 8 annas; Madras, 2 annas; Bombay, 4 annas; Punjab, 2 annas. The expectation of an additional revenue was fully realised. The slight additions to the duty produced £1 million sterling. There was no adverse effect on consumption.

In 1861, Mr. Samuel Laing remarked that the amount per head paid for salt was small, and the general rise in prices and wages had made this amount, comparatively speaking, smaller still. He therefore, thought that a further slight increase might easily be made without inflicting any hardship on the people and checking consumption. Accordingly, the following further additions were made to the rates of duty in the different provinces: Bengal, Bombay and Madras, 4 annas per maund; North-Western Provinces and Oudh, 8 annas ; Punjab, Re. 1 ; Central Provinces, Re. 1 and 8 annas ; Sind, Re. 1. Corresponding additions were also made to the customs duties on imported salt. An enhanced revenue of over half a million was expected.

At the end of the year, it was found that the salt receipts were less than had been estimated. The Finance Member thought that the reason was

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

to be found not in the falling-off of consumption, but in the fact that large stocks had been carried over from the previous year. In the following year, there was an increase in the receipts, while the charges of the department were considerably less. This latter result was due to the contraction of the Government salt manufacture in Bengal, where one Government agency had been abolished and two others consolidated into one. In the budget for 1863-64, a further increase in receipts was estimated, in view of "the growth of the consumption from the improvement of the circumstances of the people and of the means of communication with the interior, and of the increased quantity likely to be sold in Bengal in consequence of the cessation of the Government manufacture and the disposal of the remaining stock".[1]

In the course of this year, owing to the inability of Government salt to compete with the low price of imported salt it was decided finally to withdraw from the manufacture of salt in Bengal. The consequence was that the production in Bengal ceased at once and entirely, for there was no one who had sufficient capital to manufacture the article under the system of excise which was now introduced. In British Burma, the manufacture

[1] Sir Charles Trevelyan observed on this occasion : "As this is an article of general consumption and the price of the consumer kinds is not liable to much variation, the effective demand for it is a good test of the circumstances of the country".—*Financial Statement, 1863-64.*

GSL

of salt continued to decline as the people found the cultivation of rice more profitable. The import duty was reduced in 1864-65 to 4½ d. a maund, in order to equalise it with the excise. In the Presidency of Madras, where salt was manufactured and sold on behalf of the Government, the revenue from this source amounted to over a million pounds sterling. The great stagnation in the saltpetre trade caused a decline in the salt revenue in the North-Western Provinces and the Punjab.

In 1865, Sir Charles Trevelyan, then Finance Member, expressed the opinion that, if additional revenue should thereafter be required, a sure and perfectly unobjectionable resource would be found in a moderate increase of the salt tax. Owing to the greatly increased importations from Liverpool, the average price of salt in Bengal, exclusive of duty, had considerably decreased, while in the south and the west of India the price had greatly diminished by the reduction in the cost of carriage, arising from the opening of railroads. He observed; "No tax can be collected more cheaply or with less annoyance to the people than the salt tax. In India, where the interference of subordinate fiscal agents is more than usually disliked, this is one of the greatest recommendations of a tax. The really productive taxes are those which are paid by the body of the people. Clearly, they ought to pay their fair share, for they profit even more than the

rich by the advantages of good government. A rich man can generally protect himself, but if the interests of the poor man are not cared for by the State, he is ground down by the rich and is rarely able to rise in the social scale".[1] It is difficult to account for this change in the views of Sir Charles Trevelyan during the brief period of five years.

A different view was, however, held by Sir Charles Trevelyan's successor in office, Mr. W. N. Massey. In 1867, when the financial position of the Government was very unsatisfactory and extra taxation was found unavoidable, an addition to the salt tax was suggested in certain quarters in preference to a license-tax. But Mr. Massey was unwilling to accept the suggestion. In the following year, when the Finance Member proposed an increase of taxation, an addition to the salt duty was again suggested. He again rejected the idea, and expressed his opinion in these words: "I suppose it will not be disputed that the salt tax is in effect a poll-tax upon the masses of the population... Then, Sir, before we increase a tax which falls exclusively on the lower classes, we are bound to enquire whether other classes contribute their share to the burdens of the State... We have been assured by the Governments of Bombay and Madras that the tendencey of increased salt duties would be to diminish consumption; and that the financial results

[1] *Financial Statement, 1865-66.*

of any increase of that duty at present would be extremely doubtful."

In 1867-68, a sudden rise in the price of salt in some parts of Cuttack drew the attention of the Government to the general question of supply of the article in the province of Bengal.[1] The expediency of reviving salt manufacture on account of the Government or of undertaking by the Government of the importation and retail sale of salt was considered. The first of these propositions was rejected at once. With regard to the second, after due enquiry, the interference of the Government was considered unnecessary. A proposal to supply the province with Government salt at reduced rates, in order to lessen the inducements to illicit manufacture or smuggling, was also disapproved. The Government of India, however, granted permission for the maintenance of an increased preventive force in the Balasore and Cuttack districts, a measure which was found necessary for the purpose of suppressing smuggling.

In 1868, when the Madras salt duties were only Re. 1-8 as. per maund, while the salt duty was

[1] The main reason why the manufacture of salt in Bengal did not prove successful was that the districts in which salt agencies were established were ill-suited for the production of the article. The sea-water becomes diluted at the mouths of the Ganges and the Brahmaputra. Therefore, salt could not be evaporated by the sun's rays, and an expensive boiling process became necessary. But in the *Moral and Material Progress Report for 1868-69* it was observed: "Looking at the small cost of its production there seems no reason why, with proper arrangements and facilities for carriage, Bengal coast salt should not eventually beat all imported salt out of the market."

levied in Bengal at Rs. 3-8 as. and in the Upper Provinces at Rs. 3, Lord Lawrence's Government sent a despatch to the Secretary of State in which it observed: "We consider that there can be no justification for maintaining this excessive difference any longer than financial necessity shall require. There is no real reason why the people of Bengal and Northern India should pay a higher salt tax than the people of Madras and Bombay, or why the people of Madras and Bombay should not pay as much as the people of Northern India. The population of Madras is at least as well-off as, and the population of Bombay is even better off than, the population of the Bengal Presidency. The prices of salt in Madras and Bombay are generally lower, the cost of production cheaper, and the distance of transit less than in most other parts of India; and the North-Western Provinces, where such a high rate prevails, are subjected to particular disadvantage relative to most parts of India, by reason of distance from the source of supply and difficulty of transit; so that the difference of duty ought to be in favour of these provinces, instead of being as it now is, much against them." In the same despatch it was further observed: "Financially, it is not possible to bring the standard of the Bengal Presidency down to the standard of Madras and Bombay. We ought, however, to give Northern India the relief which it needs, and

GSL

to which it is justly entitled; and we might reasonably call upon Southern India to bear a somewhat fairer share than it now does of the burden falling on the salt consumption of the country generally." Finally, Lord Lawrence's Government declared that the equalisation of salt duties, by raising the rates of Madras and Bombay and lowering those of Northern India, was an object to be kept steadily in view.

In 1869, the Duke of Argyll, then Secretary of State for India, in a despatch to the Government of India, gave his opinion on the nature of the salt duty. He wrote: "On all grounds of general principle, salt is a perfectly legitimate object of taxation; it is impossible, in any country, to reach the masses of the population by direct taxes; if they are to contribute at all to the expenditure of the State, it must be through taxes levied upon some articles of universal consumption. If such taxes are fairly adjusted, a large revenue can be thus raised, not only with less consciousness on the part of the people, but with less real hardship than in any other way whatever: there is no other article in India answering this description upon which any tax is levied: it appears to be the only one which, at present, in that country can occupy the place which is held in our own financial system by the great articles of consumption from which a large part of the imperial revenue is

GSL

derived. I am of opinion, therefore, that salt tax in India must continue to be regarded as a legitimate and important branch of the public revenue. It is the duty, however, of the Government to see that such taxes are not so heavy as to bear unjustly upon the poor, by amounting to a very large percentage upon their necessary expenditure. The best test whether an additional tax is open to this objection is to be found in its consumption."[1]

During the financial year 1869-70, the duties on salt were slightly raised in the Madras and Bombay Presidencies. In 1877, Sir John Strachey discussed at length the question whether the salt tax pressed heavily and unjustly upon the people. He pointed out that the circumstances under which the duties were levied varied greatly in different parts of India. Bengal and Assam got nearly the whole of their salt supply from Cheshire, a result mainly of the fact that the exports which India sent to

[1] "I observed", added the Duke of Argyll, "that several of those officers whose opinions on this question have been given in the papers before me, founded that opinion upon what they have heard, or what they have not heard, in the way of complaint among the native population: but this is a very unsafe ground for judgment: it is one of the great advantages of indirect taxation, that it is so mixed up with the other elements of price, that it is paid without obvservation by the consumers: even at home, where the people are so much more generally educated, and more accustomed to political reasoning, the heavy indirect taxes formerly levied upon the great articles of consumption were seldom complained of by the poor: they were not themselves conscious how much more of these articles they would consume if the duties were lower. But whilst this peculiarity of indirect taxation makes it a most convenient instrument of finance, it throws additional responsibility upon all governments which resort to it, to bring the most enlightened consideration to bear upon the adjustments of taxes which may really be very heavy and very unjust, without the fact being perceived by those on whom they fall."

Europe greatly exceeded the imports, and salt came virtually as ballast. The manufacture of sea salt in Bengal was not cheap. In Madras or Bombay, and the greater part of the Central Provinces, on the other hand, the sea was the greater source of supply. The Punjab possessed inexhaustible supplies of rock-salt, while the Sambhar lake was the great source of supply for Rajputana, the North-Western Provinces, and a part of the Central Provinces.

The rates of duty varied in the different provinces. In Madras and Bombay, the rate was Re. 1-13 as. per maund. In Madras, it was collected under a monopoly by which all salt was manufactured on behalf of the Government, and sold to the people at a price which gave a profit equivalent to the duty. In Bombay, the duty was levied as an excise. In Bengal, the tax was Rs. 3-4 per maund, and was levied chiefly in the form of a sea customs import duty. In the North-Western Provinces and Oudh, the rate was Rs. 3 per maund. In the Punjab, the duty was included in the selling price of the rock-salt, which was the property of the Government. In the rest of the Upper Provinces, the duty was levied when the salt was imported from Rajputana.

For this purpose, and to prevent the ingress of salt taxed at lower rates, a customs line was maintained, extending from near Attock to the

GSL

Berar frontier, a distance of more than 500 miles. Similar lines, some hundreds of miles in length, also existed in the Bombay Presidency to prevent the untaxed salt from the Indian States entering British territory. This physical barrier, which could be compared only to the Great Wall of China, consisted principally of an impenetrable hedge of thorny trees and bushes, supplemented by stone walls and ditches, across which no human being, or beast of burden or vehicle, might pass without being subjected to detention and search. It was guarded by an army of some eight thousand men.

Naturally, very serious obstruction to trade, and great annoyance and harassment to individuals took place. The magnitude of the evil called for an immediate abolition of the customs line; but this could not be done so long as the salt tax was levied at varying rates in the different parts of the country. A cheap and ample supply of salt was a desideratum, but the price depended on the cost of transport as well as the duty. The opening of Rajputana railways and the lease taken by the Government of the Sambhar lake had effected some reduction in the price of salt in Northern India. In 1874, the abolition of the southern customs line had had the effect of equalising the price of salt in some parts of Central and Southern India. But owing to a famine the Government was unable to take effective measures

to deal with the evils and inconveniences connected with the salt tax.

In the course of the financial year, however, throughout the Presidencies of Madras and Bombay, including Sind, the duty on salt, whether imported or manufactured at home, was raised to Rs. 2-8 as. per maund. The object of this measure was not to increase the burden on the people or to derive a larger revenue, but to take as large a step towards the equalisation of the duties as was possible under the circumstances, a condition of taxation desirable in itself and an essential preliminary to the abolition of that great opprobrium to British administration, namely, the inland customs line. At the same time, the mileage duty which was levied on salt brought by rail from Bombay into the Central Provinces was abolished, so that Rs. 2-8 as. was the rate for these provinces also. The duties in Lower Bengal, both import and excise, was reduced to Rs. 3-2 as. per maund; and the duty on salt imported across the inland customs line for consumption in the Upper Provinces, as well as the duty on salt manufactured in these provinces, was reduced to Rs. 2-12 as. per maund. The price of the salt obtained from the Punjab mines, the property of the Government, was diminished by 4 annas per maund. The price of Sambhar salt, purchased for importation into British territory, was reduced by 2 annas a maund.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

The policy of the Government of India, considered as a whole, was successful. Although the duty was, on the whole, considerably reduced, yet the net salt revenue, which in 1868-69 stood at £5,176,000, was, according to the estimate of the year 1881-82, £6,809,000. Thus it was found financially more profitable to levy the salt duty at a moderate rate on a maximum consumption than at a high rate on a restricted consumption. There was, however, some disadvantage to counterbalance the advantages which the policy bestowed on the country in general. Whilst the inhabitants of Bengal and Northern India were given a partial relief, those of Madras, Bombay, and the Indian States of Rajputana and Central India were obliged to pay a higher price for their salt. But the number of persons who had been relieved of taxation was larger than the number of those on whom additional taxation was imposed.

The position of the salt tax in 1882 stood thus: A duty of Rs. 2-6 as. was levied all over British India, except on salt imported by sea into or manufactured in Bengal, and on salt consumed in the trans-Indus districts of the Punjab and in Burma. In Bengal, the tax was Rs. 2-14 as. a maund. In the trans-Indus districts of the Punjab, salt produced at the Kohat mines was consumed, and on this a duty varying from 2½ to 4 annas a maund was levied. A preventive line extended

for some 320 miles along the Indus. In Burma, the duty was only 3 annas a maund. The Finance Member now proposed to reduce the salt duty to Rs. 2 a maund everywhere except in Burma and the trans-Indus districts of the Punjab. The differential duty of 6 annas then levied in Bengal was thus to disappear. It was not proposed to make any change in Burma or in the trans-Indus districts of the Punjab on this occasion.

As the Finance Member pointed out, the advantage to be gained from this reduction was two-fold. In the first place, it was exceedingly desirable to reduce the price of a necessary of life which was used by the poorest classes. In the second place, the general financial position would be strengthened because, should an emergency arise diminishing the other sources of revenue or increasing the expenditure, the Government would be in a better position to meet it by enhancing the salt duty if that duty was Rs. 2 a maund than if it were levied at a higher rate. The intention of using the salt duty as a fiscal reserve was thus clearly indicated. The Finance Member expected an increase of consumption, consequent on a reduction of the duty.[1]

This expectation was realised, and increased

[1] Major Baring added that in matters of this sort the wisest policy was generally to act with boldness; a slight reduction in the duty would very probably not reach the consumer. *Vide Financial Statement, 1882-83.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

consumption of salt during the following year resulted, in its turn, in an increased revenue.[1] But in 1885-86, there was an appreciable decrease in consumption. The Finance Member said on the occasion that the materials for forming an opinion on the causes of the falling-off were not available, and he declined to hazard a conjecture on the point beyond observing that the decrease might be in a considerable measure due to the periodical oscillations which were known to be a feature of the salt trade.[2] The decrease was, however, temporary, and in 1886-87 there was again an increase in consumption.

Meanwhile, the financial position of the Government had became steadily worse, and early in 1888 the Government found itself obliged to have recourse to an increase of the salt duty. The Governor-General in Council, in exercise of the powers given him by the legislature under the Salt Act, raised the salt duty from Rs. 2 to Rs. 2-8 as. in continental India and from 3 annas to 1 rupee in Burma. The Finance Member, Mr. Westland, pointed out on this occasion that the circumstances which, in his predecessor's opinion, would justify the enhancement of the salt duty had now materialised. The Finance Member expected that the extra duty

[1] In 1882-83, the revenue from salt was £5,674,954; in 1883-84, £5,698,777; in 1884-85, £6,057,926.

[2] *Financial Statement, 1886-87.*

of eight annas would bring in an extra revenue of Rs. 1,600,000, and the enhancement of the Burma salt duty would add to the revenues about Rs. 125,000. In view of the improvement in the means of communication and the generally improved condition of the people, Mr. Westland hoped that the burden of a duty of Rs. 2-8 as. would not have any effect in restricting the rate at which the consumption was increasing.[1]

Regarding the method of increasing the duty, opinions were expressed in some of the newspapers to the effect that the Government was not justified in resorting to what was considered an extraordinary means of raising the duty, namely, by issuing suddenly an executive order for raising an additional revenue of Rs. 1,600,000. To this objection Mr. Westland replied: "I think we are justified, in the first place, by the consideration that, the legislature having laid down a definite mode of imposing the salt duty, it was not open to the Government of India to proceed in any other way. Besides, to announce the imposition of the duty beforehand

[1] The Finance Member, in reviewing the figures of consumption of salt and the duty paid on it for the years 1871-72 to 1881-82, explained that the whole period might be divided into two parts; during the earlier of these, which preceded the reduction of duty in 1882, the rate of consumption averaged annually 2.2 per cent, while since the reduction of duty the annual increase had averaged 2.7 per cent. The case of Burma was different from that of the rest of India. After the Government of India had bound itself by treaty to permit salt to enter Upper Burma at a very low rate of duty, it was impossible, while that treaty was in force, to levy in the shape of salt tax, on the people of Lower Burma the same contribution as was paid by the rest of India.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · सत्यमेव जयते

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would only be to disturb and disarrange the whole trade. If we were to announce to those who were engaged in the salt trade that the duty of 2 rupees, which was at present levied, would at some future date be raised to Rs. 2-8 as., the only result would be that everybody would make a rush at once to clear out the whole of the salt they could possibly get, and the result would be that a great part of the duty which we intended to impose would be evaded, to the advantage of a few individuals and the general loss of the State. It is always advisable, in the case of the imposition of new tariff duties, that the new measures should be taken suddenly and at once, so that all persons may, as far as possible, be placed upon a precisely equal footing."[1]

On the question of the incidence of the salt duty, the Finance Member said that it was not possible to state exactly what was the average annual rate of consumption of salt in any particular province, but it was certain that the consumption varied very much. The average rate of consumption for all India was a little under 10½ lbs. per head of the population. At the rate of half an ounce a day the

[1] *Proceedings of the Governor-General's Council, 27th January, 1888.* Mr. Steel said: "A salt duty produces a large revenue without complaint from any quarter; that my honourable friend can find a million and three quarters of revenue which will not cost an additional rupee to collect; that the consumer who will now be taxed a half penny per month for his salt will continue to use as much as he wants, and that if the tax were a farthing per month, he would use no more; that there will be as little cause for complaint now the duty is increased, as there was for gratitude when it was recklessly reduced."

average consumption would be 11 lbs. 6 oz. Assuming for the purpose of the moment that it was as much as 12 lbs., observed the Finance Member, it might be taken that a man with a wife and three children would consume 42 lbs. in the year between them. At the average price which prevailed at the time, namely, Rs. 3-14-1 a maund, the salt of the family would cost about two rupees and six annas in the year. This was about 16½ per cent. in excess of the cost before the duty was raised, so that the man's contribution to the salt duty might be taken as having been raised from about two rupees to two rupees six annas and nine pies a year.

In 1888-89, there was an appreciable falling-off in the quantity of salt on which duty was paid. But the Finance Member pointed out that the quantity of salt paying duty in any year was not a perfect test of the salt actually consumed in that year by the people. There was always a large amount of salt in the hands of the dealers, and a falling-off in any one year might represent a reduction in the quantity of salt in the hands of dealers, and not a reduction in the quantity of salt actually consumed.[1] Discussing the effect on the real consumption of a rise in duty, the Finance Member said; "Some authorities hold that it has very little effect; others that it has a considerable effect. Experience seems to show that

[1] *Financial Statement, 1889-90.*

GSL

the truth lies between the two opinions, and that a rise in the rate of duty has an appreciable, but not a very great, effect on the real consumption. But a rise in duty may have a considerable temporary effect on the trade, and on the quantity of salt on which duty is paid, especially when rumours prevail that the rise in duty is not likely to be permanent."[1]

In 1889-90, there was an increase in consumption in all the provinces except Bengal. In July, 1896, the duty on Kohat salt was enhanced from 8 annas to Rs. 2-8 as. a Lahori maund. The main object of this increase was to enable the Government of India to abolish, at an early date, the troublesome Indus protective line, the maintenance of which was necessary so long as there was a material difference in the rates of duty on Cis-Indus and Trans-Indus salt.

Early in the twentieth century, the prosperous financial condition of the Government enabled it to take the question of reduction of the salt duty into consideration. In 1903, Sir Edward Law said that the salt tax, at the rate then levied, did not press hard on the mass of the people, the actual amount paid per head being small. But he added: "It is, however, paid in the main by those who can least afford to contribute anything, and we hope that the remission of even a trifling burden may prove a boon to the poorest class of tax-payers. Further, we hope

[1] *Financial Statement, 1889-90.*

that a reduction in the salt duty combined with the progressive cheapening of the carriage of salt by the development of communications, will lead to such greater consumption as will not only benefit the health of the people, but will also permit the greater use of salt with profitable results, for cattle and in various processes of manufacture. Finally, from the financial point of view, a reduction of the salt tax has a very special recommendation, in that it will provide a reserve which can be immediately and rapidly made use of by once more increasing the rate, should such exceptional misfortunes as war or disastrous famine, suddenly create an abnormal strain on our resources. At present we have no such reserve as is provided by the conditions of the income-tax in England, and from the financial point of view, it is of the highest importance that in such exceptional circumstances as I have indicated, and as might possibly arise, we should be in a position without delay or complications, to add, say at least one million, to our annual revenue." The duty was reduced from Rs. 2-8 as. to Rs. 2 per maund. The reduction in the duty was followed by an increase in consumption.

In 1905, a further reduction of 8 annas a maund was made in the salt tax, thus fixing it at Re. 1-8 as. a maund throughout India, exclusive of Burma where the rate was already only Re. 1. The reduction was estimated to involve a loss of revenue

GSL

of 103 lakhs in 1905-06 (besides a loss of 6 lakhs for the remainder of the year). It was expected that some portion of the loss would be made up by increased consumption. The rate of duty became thus at least 25 per cent. lower than it had existed at any date since the duties had been made uniform throughout India in 1878. On this occasion, Mr. (afterwards Sir Ernest) Cable, a representative of the European commercial community, doubted whether a reduction in the duty would lead to a lowering of retail prices, so that the benefit might reach the consumer. Mr. G. K. Gokhale said that, even with the present reduction, the impost amounted to about 1,600 per cent. of the cost price, as it took only about an anna and a half to manufacture a maund of salt, and it was clear that this was a "very heavy tax on a prime necessary of life." He added: "The salt duty question is essentially a poor man's question; for it is the poorer many—and not the richer few—who eat more salt when it is cheap, and less when it is dear. The soundest policy in the matter—even financially—would, therefore, seem to be to raise an expanding revenue on an expanding consumption under a diminishing scale of duties."[1]

In 1907, the salt tax was further reduced to Re. 1 a maund throughout the whole of India. It was estimated that this would involve a sacrifice of revenue to the extent of 190 lakhs of rupees in

[1] *Proceedings of the Indian Legislative Council, 1905.*

1907-08. On this occasion, the Finance Member pointed out that the manner in which the consumption of salt had responded to a lowering of the duty was as remarkable as it was gratifying.[1]

The Finance Member pointed out that the incidence of the duty at the time worked out to rather less than $2\frac{3}{4}$ annas per head of the population, a rate "which can only be regarded as extremely moderate when it is remembered that the salt tax is the only contribution towards the public expenditure that is made by a large number of the people." The reduction gave great satisfaction to the people. Dr. Rash Behari Ghose voiced the opinion of the entire educated community of India when he observed: "In lightening the salt tax the Government have lightened, in some measure, the hard destiny of the toiling masses who constitute the real people and who ought to be their first care. The successive reductions of the duty have all been steps in the right direction. But the greatest still remains behind—the total repeal of a tax which is such a heavy burden on those who are the least able to bear it."[2]

[1] The first reduction, said the Finance Member, to Rs. 2 a maund had been made, broadly speaking, with effect from 1903-4, and the second, to Re. 1-8 per maund from 1905-6. [Excluding Burma, which had not been affected, the consumption had increased by 9,68,000 maunds in 1903-4, 15,97,000 maunds in 1904-5, and 13,32,000 maunds in 1905-6, and during the first eight months of 1906-7 it exceeded that of the corresponding period of the previous year by 14,41,000 maunds.—*Proceedings of the Indian Legislative Council, 1907.*

[2] *Proceedings of the Indian Legislative Council, 1907.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

With this closed the chapter of reductions. A new chapter was opened by the exigencies of the European war. In 1916, the salt duty was raised to Re. 1-4 annas a maund. In proposing this addition, the Finance Member recalled the fact that the salt tax had always been looked upon as a reserve to be drawn upon in the event of a war or any other financial calamity. But as the burden fell largely upon the poorer classes, the addition to the duty he proposed was a small one. No Bill was introduced to carry out the proposal, but effect was given to it by a notification of the Governor-General in Council.

During the later stages of the War, various taxes were levied to meet the increased expenditure. But the salt duty was left untouched. And it was not until 1922 that an increase in the salt tax was proposed. In the four previous years in succession, there had been deficits in the accounts of the Government of India, and it was considered undesirable to add another deficit to the list.

In presenting the budget for 1922-23, the Finance Member estimated a deficit of about 31¾ crores. After examining the three alternative courses which were open to him to meet the difficulty, namely, to budget for a deficit, to reduce expenditure, and to increase the revenue,[1] he came

[1] The Finance Member discussed these matters at considerable length. On the suitability of the first alternative, he observed: "Putting aside all theoretical considerations of principle and of sound financial policy,

to the conclusion that it was imperative to take every possible step to increase the revenues. The burden which the country was now invited to shoulder was a heavy one ; but the Finance Member assured the Council that it was the earnest desire of the Government to distribute it as equitably as possible. Among other proposals of taxation, Sir Malcolm Hailey suggested the raising of the salt duty to Rs. 2-8 as. a maund. He thought that it had become absolutely necessary now to draw upon the "ultimate reserve."[1] He expressed the view that the increase of the tax would not be "felt

the financing of a further deficit next year of an amount anything like the 31¾ crores estimated is simply not a practicable proposition. I should be much mistaken if we should not have already reached the limit of safety. To attempt to increase our floating debt beyond the figure at which it is likely to stand on April 1st next would be to invite not only grave monetary stringency, but possibly even a severe crisis. To raid the Gold Standard Reserve, which has been built for an entirely different purpose, would be merely putting off the evil day, and would be an expedient which could be adopted only as a last resort and even then purely as a temporary measure. To rely on the proceeds of our annual rupee or sterling loans to finance our deficits would, as I shall show later in my speech, be equally impracticable, seeing that we shall fully need the whole of those for financing our existing capital liabilities and productive expenditure on our railways. The inevitable result, in short, of any attempt to finance a deficit of this size would, in my opinion, be to force us to large issues of unbacked currency notes, and I am sure the House will agree with me that the effect of such inflation upon the general level of prices in the country, and upon our general credit, would be very serious. My conclusion, then, is, and I state it with perfect confidence, that the problem before us is one that cannot be shelved or left to look after itself." With regard to the second alternative, Sir Malcolm indicated the difficulties which had to be encountered in the matter of reducing military expenditure and told the House that in the civil departments all new expenditure which could not be proved to be of imperative necessity had been cut out. —*Financial Statement, 1922-23.*

[1] The Finance Member said that the existing consumption of salt worked out at about 6 seers per head of the population. The increase of Re. 1-4 as. would, therefore, be 3 annas per head per annum, or 12 annas per annum for each household of four.

GSL

appreciably by even the poorest classes." The extra revenue expected from this addition was 4.30 crores in the first year, and 5 crores in subsequent years.

The Government of India possessed the power under Act XII of 1882 to increase the rate of salt duty, subject to a maximum of Rs. 3 a maund; but it was considered undesirable to proceed by executive order in a matter of such importance to the legislature and to the country at large. It was, therefore, decided to include a provision in the annual Finance Bill for the enhancement of the tax. When the Finance Bill came up for consideration by the Legislative Assembly, amendments seeking to delete this clause were moved by all the non-official groups. Mr. N. M. Joshi moved that for the words "two rupees and eight annas" the words "one rupee and four annas" be substituted. He said that the salt tax was an obnoxious tax, inasmuch as it fell upon every man, woman and child irrespective of their ability to pay. He remarked that, as past experience had shown, a diminution in consumption was likely to follow a raising of the rate of duty. Mr. Joshi also observed that, as salt was required for maintaining the health of the people, an increase in the tax was likely to prejudicially affect the entire population of the country. In regard to the argument that the poor people must pay some tax, he expressed the view that the land

tax, many of the local taxes, and a large part of the indirect taxation fell upon them. He, therefore, felt that the Government was not justified in levying this taxation at all, and that there was even less justification for increasing a tax which was already very heavy.

Mr. Seshagiri Ayyar and many other non-official members strongly opposed the increase of the duty and supported Mr. Joshi's amendment. But the amendment was opposed by Sir Montagu Webb, a representative of the European commercial community. He made a fairly long speech and concluded with these words : "The poorer classes are quite able to contribute a small additional sum towards the cost of government, that is the first argument; secondly, if we do not provide the necessary means, the Government will have to meet more deficits with more inflation of the paper currency and still higher prices. If perhaps the Government can meet the sentimental feelings of the House by raising the duty only to Rs. 2 instead of Rs. 2-8 as., I think perhaps that might go a good way to meet the sentimental feelings of the House, but I submit that no case has been made out for not raising the salt duty at all."

Mr. C. A. Innes, on behalf of the Government of India, said that this proposal was justified in the circumstances of the case. He admitted that, theoretically, the salt tax was a bad tax, that

it was a tax on a necessity of life, and that, since the consumption of salt did not vary materially with the wealth of the consumer, relatively the tax pressed more heavily upon the poor than upon the rich. But he was unable to agree that the enhancement of the tax would be any hardship to anybody, even to the very poor. He then pointed out the disadvantages of leaving the deficit uncovered, and concluded his speech with the following appeal to the House : "You can take the honest course, the straightforward course and the difficult course of giving us this taxation we require, or you can take the easy course which will enable you to go back to your constituents and say, 'We have saved you from the duty on salt.' That is the popular and easy course, but, Sir, what I fear is that, if we take that course, we shall start India on an inclined plane which may lead to financial chaos." The amendment was, however, carried by an overwhelming majority.

When the Bill went to the Council of State, an amendment was moved on behalf of the Government to restore the original proposal of the Bill relating to the salt duty. The non-official members opposed the amendment, and it was rejected. The Government accepted the decision of the legislature.

The year 1922-23 ended with a deficit. In the following year, the new Finance Member, Sir Basil Blackett, compared the progress of India to that of

a rake. He pointed out that, in spite of additional taxation, for five years in succession, India had had deficits, and that the accumulated total of these deficits had amounted to no less a sum than 100 crores of rupees. He also apprehended a further deficit of 4¼ crores in the year 1923-24. This deficit, in his opinion, should not be left uncovered. But the only way by which it could be met was additional taxation. After examining the different expedients, the Finance Member came to the conclusion that the right course was to ask the legislature to agree to an increase in the salt tax.

The Finance Bill was, accordingly, so framed as to include a provision for the enhancement of the salt duty from Re. 1-4 as. to Rs. 2-8 as. This provision met with stubborn opposition in the Legislative Assembly. An amendment to substitute "one rupee and four annas" for "two rupees and eight annas" in Section 2 of the Bill was carried. Thereupon, the Governor-General recommended to the Council of State that "it do pass the Finance Bill in its original form." A keen debate took place in the Council of State on this question. Ultimately, however, this Chamber accepted the recommendation of the Governor-General and restored the original provision of the Bill relating to the salt duty. The Bill was again sent to the Legislative Assembly with a similar recommendation from the Governor-General. But the Assembly disregarded

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

the recommendation and again reduced the rate of salt duty to Re. 1-4 as.

A certificate was then issued by the President of the Assembly to the effect that the Assembly had failed to pass the Finance Bill in the form recommended by the Governor-General. On the 29th March, 1923, Lord Reading, in exercise of the power conferred on him by sub-section (1) of section 67-B of the Government of India Act, certified that the passage of the Bill in that form was essential for the *interests* of British India, and on signature by the Governor-General it became an Act. Further, the Governor-General declared that a state of emergency existed which justified a direction by him that the Finance Act should come into operation forthwith, and he, therefore, directed accordingly.

On the same day, Lord Reading issued a statement in the course of which he dwelt on the vital necessity of securing financial equilibrium, specially in view of the representations of the provinces for a reduction in their contributions. He also remarked that, as the need for large capital funds for material improvement obliged the Indian Government to enter the money market for loans both in England and India, the rehabilitation of India's credit by preventing a balanced budget was not a measure which could be delayed. He also said that the most careful consideration had been given to the possibility of finding an alternative to the salt

tax as a means of raising the necessary amount of additional revenue, but none had presented itself. The Governor-General then observed: "I hold strict views regarding the exercise of my special powers; their use can only be justified, in the words of the Government of India Act, when it is essential for the interests of British India. This requirement has throughout been present to my mind. In the present case the interests of India only and no other interests are in question. A balanced budget is absolutely essential to her interests at the present time, and I believe that it is my duty to take the necessary action to secure this in the discharge of the responsibility placed upon me as Governor-General by the Imperial Parliament."[1]

The matter was not allowed to rest there. Several members of the Assembly resigned their seats as a protest against the action of the Governor-General, and were again returned by their constituents. It

[1] Lord Reading's statement concluded with the following observations: "It may be that the scheme of reforms introduced by the Government of India Act will be attacked on account of the action taken by me. This would be unfortunate and could only be due to misapprehension; for the constitution is embodied in the Act, and I do not believe that there is any substantial difference as regards the meaning of the important provisions under which I am acting. Unbalanced budgets appear to me to involve dangers to the future of India perhaps inherently greater than any constitutional or political issue, while their immediate effect is to stifle the development in the provision of all those beneficent activities, e.g., Education, Public Health, Industry, which should be the first fruits of the reforms. I am convinced, therefore, that my action will prove of ultimate benefit in the development of the reforms and the advancement of India and for these I shall continue to labour in the discharge of the responsibilities entrusted to me as Governor-General."—*Statement of the Governor-General, dated the 29th March, 1923.*

also gave rise to a storm of public opposition both in the press and on the platform. A petition was also sent to the House of Commons against the doubling of the salt tax.

The matter was brought up when the House of Commons considered the India Office grant in connection with the Civil Service Estimates. Mr. Charles Trevelyan moved a reduction of the grant by £1,000 in order to challenge the policy of the India Office in supporting Lord Reading's action in certifying the Finance Bill of 1923. An interesting debate then took place in the House. The line taken by the speakers on behalf of the Conservative Party which was then in power was that the deficit had to be covered and that there was no alternative. The Liberals condemned the certification in very mild but unmistakably clear terms. But several members of the Labour party, such as Mr. Charles Trevelyan, Colonel Wedgwood, Mr. Lansbury, and Mr. Buxton made excellent speeches in condemnation of the action of the Governor-General. Mr. Ramsay Macdonald did not believe for a moment that certification was essential on financial grounds, for the credit of India was steadily recovering itself "in spite of bad budgets." He expressed the view that the significance of the doubled salt duties was "not so much financial as political," and observed that the Governor-General had made a great political mistake in regarding this matter as "chiefly a

GSL

financial problem." The motion seeking to reduce the India Office grant was rejected by 213 votes to 74, all Liberals abstaining from voting.[1]

In the following year, the financial situation considerably improved, and the Government proposed a reduction of the duty to Rs. 2 a maund. This, however, did not satisfy the Assembly; and when the Finance Bill was placed before that body, it reduced the duty to Re. 1 and 4 annas.[2] This time the Governor-General accepted the decision of the popular Chamber, and the duty was lowered to the amount at which it had been fixed in 1916. No alteration in the rate of this tax has since taken place.

A few words may be said here about the changes which have taken place in the system of production since the seventies of the last century. In 1872, an enquiry was conducted by Mr. W. G. Pedder into the salt system of Bombay. His views differed from those of Mr. Plowden, and he expressed his doubt as to "whether it would not have been a wiser measure to buy up the existing rights

[1] Sir Montagu Webb considered the salt debate in the House of Commons to be satisfactory. He observed: "The political mistake is perceived, and freely admitted by leading statesmen in England." *Vide* Sir Montagu Webb's leaflet, *The Salt Duty Debates*.

[2] This had, indeed, been anticipated by the Governor-General in his statement of the 29th March, 1923, in which the following significant words occur: "It must be clearly understood that my action merely imposes an enhancement of the tax until March 31st, 1924, when the matter must again come before the legislature. It will then have had a year's experience of the operation of the tax, and it will be in a position to determine whether, in view of the condition of the country and having regard to our obligations to the provinces, it will vote for its retention."

GSL

of *shelotrees* and thus to introduce the Madras system." It was, however, too late to make the change. In 1875, the Madras Salt Commission was appointed to investigate the question of introducing an excise system. This Commission reported that there were no practical difficulties in the way of a change from monopoly to excise and that the measure was not likely to prove injurious to the interests either of the consumers of salt or of the imperial revenue. In pursuance of this recommendation, a change was made in some factories, but it was soon found that the anticipated advantages did not ensue, and some of the factories reverted to the monopoly system, while in the case of others the modified excise system was adopted, under which the licensee was bound to sell his produce or part of it to the Government if required. A Salt Commission was appointed in Bombay in 1903-4, who gave a divided opinion on the question of a radical change. They were unanimous, however, in recommending that steps should be taken when new factories were to be erected or old Government lands were to be given on fresh leases, for the adoption of licensing on the modified excise plan to enable the Government to secure a greater command over stocks and prices.

During the European War, the imports of salt were cut off to a very large extent, and a salt famine was threatened, particularly in Bengal, which

GSL

depended almost entirely on imported salt. Prices rose very high, owing mainly to the want of railway facilities for carrying salt from the Northern India sources. The Bombay factories were unable to increase their output, but a large expansion was secured in Madras.

The salt tax formed one of the subjects of investigation by the Taxation Enquiry Committee. They said that there was no reliable evidence that the quantity of salt used in India was inadequate to the requirements of health.[1] They, therefore, thought that the effect of the duty had not been such as to unduly restrict consumption. They admitted that the 3 annas per head per annum, which was what a duty of Re. 1-4 as. a maund would roughly represent, might involve a hardship on the very poorest. But they doubted whether a complete abolition of the duty would result in any considerable increase in the well-being of classes.[2]

[1] The following figures are extracted by the Taxation Enquiry Committee from *Dr. Ratton's Hand-book of Common Salt* regarding annual consumption per head in different countries: "England, 40 lbs.; Holland, 11½ lbs; Sweden and Norway, 9½ lbs., (Schleiden) Switzerland, 8½ lbs." Dr. Ratton adds: "Assuming that the people require 10 lbs. per head of taxed salt for their use, everything above that represents so much industrial activity."

The following statement shows the annual consumption per head in the different provinces of India in 1921-22: Punjab, 10.26 lbs., Sind, 10.41; Rajputana and Central India, 10.59; Behar and Orissa. 10.97; United Provinces, 10.98; Central Provinces and Berar, 11.56; Bombay (excluding Sind), 13.94; Bengal, 15.24; Burma, 18.54; Madras, 18.88.—*Report of the Taxation Enquiry Committee, 1924-25.*

[2] Sir Josiah Stamp says in this connexion; "I should work out the tax burden on a low income (*via* salt) and ask, if abolished, or altered, in what probable respects well-being would be improved by the ordinary exercise of the improved purchasing power. If inconsiderable, I should

GSL

The Taxation Enquiry Committee, therefore, came to the conclusion that, if it was desirable to impose any tax on the mass of the community at all, there was much to be said for the continuance of the salt tax. "The present rate of duty", they said further, "is appropriate and causes no hardship. The retention of the machinery for collection makes it possible to secure additional revenue with ease in case of a grave emergency which should be the only ground for raising it. It seems desirable to add that changes in the rate should neither be made nor officially adumbrated except in cases of such grave emergency."[1]

On the question of production of salt, the Taxation Enquiry Committee considered it desirable that India should be made self-supporting in the matter of supply, and suggested that the matter should be enquired into by the Tariff Board. They also made some suggestions with the object of removing the defects of the excise system. Dr. Paranjpye expressed the view that the aim of the Government policy should be to make salt manufacture a monopoly in the hands of the State and that no new steps should be taken which might militate against the attainment of this aim.

About one-third of India's requirements is now

continue the burden."—*Quoted in the Report of the Taxation Enquiry Committee.*

[1] Dr. Paranjpye wished the rate to be reduced to about 8 annas in normal times.

GSL

produced by, or for sale to, the Government, another third is imported, and the rest is manufactured by licensees subject to a payment of excise. The experience of the war period and the desirability of rendering the country independent of foreign countries in the matter of supply of a prime necessary of life have, in recent times, led some public men to urge the Government to grant protection to the salt industry. A resolution was moved in the Legislative Assembly in March 1929, and a few months later, the Government of India decided to refer the question to the Tariff Board.

GSL
314

CHAPTER VI

OPIUM

CONSIDERABLE divergence of opinion exists as to the nature of the opium revenue. The view of most officers of the Government is that it is a profit derived from a commercial transaction, and as such cannot be looked upon as a tax. This opinion was supported by the majority of the Finance Commission of 1880, who expressed the opinion that the opium revenue was "in no proper sense raised by taxation." One of the members of this Commission, Mr. H. E. Sullivan, however, said that he failed to understand this view of the matter. He observed: "There is no question as to opium being a valuable product of the soil, which in spite of a very heavy duty is in great and increasing demand, and it is equally certain that, were the present restrictions on its manufacture and sale removed, a considerable portion of the nine millions which now form a principal asset of the public revenue would go into the pockets of the agricultural and mercantile classes. By intercepting these profits it seems perfectly clear to me that a heavy tax is imposed

GSL

by the State on this branch of agricultural and commercial industry, a tax far exceeding in amount the share of produce and profits which by prescription the ruling power in India is entitled to claim. When the matter was discussed at a meeting of the Commission it was alleged that the profits of the monopoly were derived from the foreign consumers, and to a large extent this is doubtless correct; but I contend that, if the monopoly were abolished, the growers would command their own terms with the merchants, and as the growth and manufacture of the commodity is confined to a comparatively limited tract of country, there would be keen competition amongst the latter to secure it in view of the enhanced profits to be obtained from the trade being thrown open. To maintain the proposition that the opium revenue is not in any way raised by taxation of the people of India it must be shown that the price paid by Government to the growers is as much as they would receive if there were no State monopoly, and that the merchants' profits suffer no diminution thereby."

There is a great deal of substance in this line of argument. But apart from this view, there can be no doubt that revenue derived from the opium consumed in India is obtained by taxation. As a portion at least of opium revenue falls within the category of a tax, convenience points to the

desirability of the whole question being discussed at one place.

Opium occupied the third place in Indian finance in respect of the amount of its yield as a public resource during the first three quarters of the East India Company's rule. In the last quarter it advanced to the second place, and stood next to land revenue. Opium maintained this position till the beginning of the twentieth century, when owing to an agreement with China, its importance began gradually to diminish. It has now ceased to be an important source of Indian revenue. A history of the rise, decline, and fall of opium is, therefore, likely to be found interesting.

It is difficult to say definitely when or how the drug was first introduced into India. But it is believed that it was brought into this country from Persia by the Moslem invaders. In any case, there is no doubt about the fact that, during the Mahomedan rule, considerable income was derived by the State from this source. The monopoly of the East India Company in this article in Bengal began at Patna in 1761, when it was managed by the civil servants of the factory "for their own benefit."[1] The acquisition of the *diwani* opened a wide field

[1] *Report of the Select Committee, 1783.*

For a fuller account of the system which prevailed in the early period, see the author's *Indian Finance in the Days of the Company, ch. V.*

GSL

for the project. It was then adopted and owned as a resource for persons in office. The monopoly was strongly condemned by Philip Francis, but other persons in authority sought to justify it on various grounds. The real motive, as was mentioned by the Select Committee of 1783, seems to have been "the profit of those who were in hopes of being concerned in it." In 1773, Warren Hastings took into his own hands the administration of the monopoly, and for twelve years the privilege of farming was granted to persons of his own choice. This system led to great abuses.[1] Forcible means were often employed in order to induce the cultivators to grow poppy. On one occasion, it was reported that fields green with rice had been "forcibly ploughed up to make way for that plant."[2]

After the departure of Warren Hastings, the contract was thrown open to public competition in 1785, and the highest offer was accepted. The contract was made for four years, and on the expiry of this period, it was renewed for another term of four years. In 1792, the opium regulations were revised. In 1799, it was decided to discontinue the farming system, and the agency of a covenanted

[1] This monopoly grew day by day to be a greater object of competition. When Mr. Sullivan, son of the Chairman of the East India Company, came to India, he was given the contract, and extraordinary concessions were made in his favour.—*Report of the Select Committee, 1783.*

[2] *Report of the Select Committee, 1783.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · सत्यमेव जयते

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servant of the Company was substituted. One result of this change was a large increase in revenue. Rules for enforcing the monopoly, and at the same time for protecting the cultivators, were embodied in a regulation in 1816.

The opium question was fully considered by the Parliamentary Select Committee of 1832-33. This Committee held that the monopoly of opium, like all other monopolies, had certain defects,—it was uneconomical in production, and imposed restrictions on the employment of capital and labour. But, in their view, it was not productive of very extensive or aggravated injury. They thought that it would be highly imprudent to rely upon the opium monopoly as a permanent source of revenue. They further expressed the belief that the time was not very distant when it might be desirable to substitute an export duty, and thus by increased production under a free system it might be possible to obtain some compensation for the loss of monopoly profit.[1]

In 1839, there was serious trouble with China over the trade in opium. In 1847, the Board of Control observed that the system of sales tended to identify the Government completely with the opium trade in the Far East, which was hardly desirable in view of the complaints of the Chinese people. They, therefore, urged that it should be

[1] *Report of the Select Committee, 1832-33.*

considered whether a fixed duty added to the cost of manufacture might not be conveniently substituted for the constantly fluctuating profits then derived from the speculative competition of bidders at the opium sales, or whether it would not be advisable, in the first instance, to introduce the principle of fixed prices instead of sale by auction. The advantages of the proposed changes were summed up by the Board in these words: "By an arrangement of the above description the Government of Bengal would be relieved from all share in the opium speculations based on upset prices, and the speculators would have no occasion to invest a single rupee in purchasing opium before the time they required it for export. The value of the opium would be paid by each purchaser into the government treasury, without any notoriety being given to the extent of the traffic in that article between British India and China."[1]

In 1852, Lord Dalhousie introduced important changes into the system of opium administration in British India. The main features of the system as it existed at the close of the Company's rule were as described below. The management of Bengal opium[2] continued to be vested in the Bengal Board

[1] *Parliamentary Paper No. 146 of 1852.*

[2] It was called Bengal opium, though nearly one-half was both cultivated and manufactured within the jurisdiction of the North-Western Provinces. The reason was that the North-Western Provinces originally formed part of the Bengal Presidency.—*Vide Moral and Material Progress Report, 1882-83.*

of Revenue. There were two opium agencies, with headquarters at Patna and Ghazipur. These were under the control of European agents, who were assisted by a large staff of sub-deputy and assistant deputy agents, all of whom were also Europeans. The entire system was a strict Government monopoly. Nowhere in the British territories in Northern India (except to a slight extent in the Punjab, where a few thousand acres were grown for local consumption), was either the cultivation of poppy or the manufacture of opium permitted, except on account of the Government. The poppy might be grown only under license from an authorised officer of the department. Annual engagements were entered into with the cultivators who undertook to cultivate certain areas and to deliver their whole produce at specified prices, according to quality. A pecuniary advance was made to every cultivator before he commenced operations, this amount being deducted from the price of the opium when delivered. A portion was issued for consumption in India under the excise regulations, but the bulk of it was sent to the Government stores in Calcutta where it was made into balls and packed in chests. These chests were sold in Calcutta by auction as "provision opium" to the highest bidders at monthly sales. The price obtained in Calcutta sales, *less* the cost of production, was the revenue from Bengal "provision" opium. The quantity of the produce varied

according to the area sown and the nature of the harvest. The average price per chest in Calcutta was £89 in 1856-57.

In the Bombay Presidency, the revenue was obtained from opium manufactured in the Indian States of Malwa and Gujrat. Passes were given, at a certain price per chest, to merchants who wanted to send opium to the port of Bombay. The original rate of duty was Rs. 175 per chest, but it was subsequently reduced to Rs. 125 per chest. From the year 1843, the duty was gradually raised. An attempt was made to equalise the duties on Bengal and Malwa opium in two ways, namely, first, by increasing the quantity and lowering the price of Bengal opium, and secondly, by raising the duty on Malwa opium. In 1858, the duty on Malwa opium was Rs. 400 per chest. The poppy was not cultivated in the Presidency of Madras.[1]

At the time of transfer of the administration of India to the Crown, the Government derived about 5 millions of pounds sterling a year from the sale of opium. As was pointed out by Mr. James Wilson, this was perhaps one of the most unique facts in the history of finance, that a Government, without calling upon its people to make any sacrifice whatever, on the contrary by affording a profitable cultivation to a large class, should be able to derive

[1] The cultivation of poppy was prohibited in Assam in 1858-59, as it was found to interfere with the supply of labour in the tea plantations.

GSL

so large a revenue for the benefit of the State. It was also a rare instance of one country having succeeded in raising a large revenue from the people of another. But Mr. Wilson thought that there was no certainty of the continuance of this source of income. The true policy with regard to opium, in his opinion, would be to keep the supply up to the full demand and, in order to avoid competition, to obtain a moderate price for a large quantity, rather than a large price for a small quantity. But still, at the best, the Finance Member considered it impossible not to regard this resource as more or less precarious.

Mr. Samuel Laing, however, saw no reason why the opium revenue should be considered as precarious. He believed that the cry of the precariousness of the opium revenue had originated from the strong aversion felt to it in certain quarters on ethical grounds. The most contradictary opinions had been held on the moral bearings of the question. But Mr. Laing believed that the truth lay between the two extremes, and that opium was neither very much better nor very much worse than gin.[1] At the bottom of the opium revenue, therefore, there was one of those great natural instincts of a large population upon which English Chancellors of the Exchequer confidently relied for half their revenue. There was, however, one

[1] *Financial Statement, 1862-63.*

important distinction between the two sources of revenue in the two countries. It was that while, in the case of England, the revenue was derived from the natives of the country, in the other, it was derived from foreigners.

Mr. Laing further expressed the opinion that, notwithstanding great fluctuations of price and of supply from year to year, the opium trade with China was amenable to certain general laws. There had been a progressively increasing demand, which being met by a stationary supply of about 70,000 chests a year, had in ten years, nearly doubled the price, and called into existence a supplemental native supply. The conclusion, therefore, was irresistible that there was no risk of the actual opium revenue diminishing, on the other hand, there was a probability of the realisation of a progressive increase of revenue. In 1862-63, the actual receipts considerably exceeded the estimates.

Sir Charles Trevelyan agreed with the views expressed by Mr. Laing in regard to the character of the opium revenue. He felt inclined to regard this resource as "anomalous", but not "precarious". There was, he thought, as little likelihood of the Chinese going without opium as of Englishmen foregoing the use of spirits. Then, again, the idea of the Chinese becoming independent of India by growing their own opium was a mere chimera. The great division of labour established by nature

was in India's favour in this respect. The moral justification of the opium revenue, in the opinion of Sir Charles Trevelyan, was that it was better to check the consumption of opium by placing the highest possible tax upon it than to give the Chinese the means of unlimited indulgence by leaving the cultivation and exportation of the drug entirely free.[1]

In 1864-65, opium, the great disturbing element of Indian finance, failed, converting an estimated surplus into a considerable deficit. In the following year, Mr. Massey described this head of revenue as "a source of distraction" to the finances of the Government. The revenue derived from opium was, however, one million in excess of the budget estimate in 1867-68. Mr. Massey remarked on this occasion: "Opium is the source of our income more calculated than any other to disconcert our financial arrangements. It is a source which is very obscure. It depends upon a market of which we have very little information. It is subject to the most violent fluctuations."

In the years 1868 and 1869, the province of Behar, the home of poppy, suffered from a severe drought, and the crop was short. The result was a

[1] Sir Charles thought that the alternative to deriving any revenue from opium was to maintain an army of preventive officers in the interior and round and coasts of India, to secure the entire cessation of the cultivation. But it would not do to stop there, for it would be necessary to suppress other intoxicants which were truly brutalising.—*Financial Statement, 1863-64.*

GSL

shrinkage in opium revenue. The question of the cultivation of poppy was at this time the subject of consideration by the Government. Sir Richard Temple observed: "It is clear that unless Bengal produces enough opium, the Chinese will raise it for themselves. And if the Chinese will have opium, they may as well get it first rate from us as second rate at home, and they may as well consume it taxed as untaxed. Again, if they do not procure it from us, they might procure it from other countries of Asia. The culture of the poppy in Persia is increasing, and some 4,000 chests are exported annually from that country to China." He then said that the desirability of substituting an open excise system in Bengal for the existing direct governmental agency, had been under consideration, but the propriety of such a change, on either moral or practical grounds had not been as yet established to the satisfaction of the Government. On the other-hand, it is a serious thing to make a change in a case where such critical interests are concerned."[1]

In 1877, the Finance Member pointed out to the legislative council that the cultivation of the poppy was a source of prosperity to the agricultural population of Behar and the North-Western Provinces, and was popular with them. He further said that

[1] *Financial Statement, 1869-70.*

it did not tend to any objectionable consumption of the drug by the people.[1] About this time, an opium reserve was accumulated in pursuance of a policy the object of which was to make the supply of Bengal opium to the market as far as possible steady and independent of calamities of seasons.

The opium administration of the Bombay Presidency was far from satisfactory. Under the system which existed till the time of Lord Lytton, the cultivation of opium was permitted in only a few districts of the Presidency, but was unrestricted in the Indian States. The result was that large quantities of opium escaped taxation. Consequently, the opium revenue of Bombay was small. An Act of the Bombay legislature was passed in 1878 for regulating the transit trade as well as the retail trade for local consumption. The cultivation of poppy was prohibited throughout the Bombay Presidency, both in the British territories and in Indian States (with the exception of Baroda). The importation of Malwa opium[2] was restricted to certain specified routes. The transit trade was entirely separated from the retail trade. The Indian States were required to adopt regulations for the local consumption of opium similar to those in force in the British territories; and, in return, a remis-

[1] *Financial Statement, 1877-78.*

[2] 'Malwa opium' is a technical term used with reference to the opium produced in the Indian States of Central India, Rajputana, and the Bombay Presidency.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

sion was granted to them of the whole or part of the British duty levied on opium consumed within their limits. The Government maintained scales and weighing staffs at nine places. These arrangements led to a considerable addition to opium revenue.[1]

The opium crop was particularly sensitive to seasonal influences, and the out-turn was variable. An opium reserve was accumulated in pursuance of a policy deliberately adopted, the object of which was to enable the Government to make the supply of Bengal opium to the market as far as possible steady, and independent of calamities of season.[2] The price of opium varied from year to year. The average price in 1861 was as high as Rs. 1,850 per chest. But it gradually became smaller in the years following. At the start there was very little competition of Indian opium with the home-grown drug of China. But in later years competition became keen as Chinese cultivation increased and the quality of the article improved.

In 1882, the opium policy of the Government was discussed by the Finance Member. He pointed out that the crop was precarious and that it was difficult to extend its cultivation. He also expressed the view that the competition of Persian opium constituted a danger to Indian revenue, but that

[1] *Moral and Material Progress Report, 1882-83.*

[2] *Financial Statement, 1877-78.*

danger was not very serious at the moment. Regarding the competition of Chinese opium he held that the production of opium in China had greatly increased and was steadily increasing, but that the Indian drug, owing to its superior quality, had been able to hold its own amongst the wealthy classes. He, therefore, considered it not impracticable—although the amount derived during the previous five years had been large—that the opium revenue might undergo some diminution. On the moral aspect of the question, Mr. Baring said that, while there was a wide field for difference of opinion, the problem ought to be treated as a practical one.

In this connexion Mr. Baring discussed the two points as to which the position of the Government of India had been specially attacked. He admitted that the economic objections to the methods by which the opium revenue was raised, namely, in Bengal, by the Government itself engaging in private manufacture, and in Bombay by the levy of a heavy export duty, were considerable. But if the trade was opened to private enterprise, this would be no advantage to China, for that country would be flooded with opium. It was just possible that at some future date the Government would be able to deal with this question. He held that, if the policy was to be productive of some practical good, it must aim, not only at the disconnexion of the Indian

Government with the manufacture and sale of opium, but at the total suppression of the cultivation of poppy. Secondly, he contended that it was wholly incorrect to say that the Chinese had been forced to admit opium when the treaty of Tientsin had been signed; nor were they forced to admit it at this time.

The Finance Member expressed the opinion that the Chinese Government, though willing, was unable to stop the use of opium. The total suppression of poppy cultivation in British India, would give a stimulus to the Malwa trade and involve a total loss of revenue amounting to £5 millions. The sacrifice of this revenue could not be recouped and would render India insolvent. Such a step would also be unfair to India. Mr. Baring thought, that many influential persons, animated by a laudable zeal to benefit the population of China, were somewhat forgetful of their duty to the population of India. The tax-paying community in India was exceedingly poor, and to derive any very large increase of revenue from so poor a population was obviously impossible; and even if it were possible, it would be unjustifiable. Mr. Baring observed that it ought be remembered that no large increase of revenue was possible unless by means of a tax which would affect those classes. "To tax India", he said, "in order to provide a cure, which would almost certainly be ineffectual, to the

vices of the Chinese, would be wholly unjustifiable."[1]

Mr. Baring said further that Indian opinion would strongly resent any additional burdens being placed upon the taxpayers with a view to the abandonment, either wholly or in in part, of the opium revenue, that the views of the British Government would be misunderstood and that such a step would alienate from the British the feelings of the people of India.

The Finance Member drew the attention of the Council to the total net revenue derived from opium during the years 1871-72 to 1881-82, which had varied between 6¼ crores and 8½ crores. The revenue from this source for 1882 was estimated at £7¼ millions. The Finance Member announced that this justified some reduction of taxation and that it had been decided to afford some relief to the taxpayers in the shape of a reduction of the salt duty.[2] The estimated net revenue from opium for the year 1882-83 was less than the actual receipts for the

[1] *Financial Statement, 1882-83.*

[2] In answering the question how far taxes might be taken off in reliance on the opium revenue, Mr. Baring said: "A great deal depends on the nature of the tax we take off. If we abandon a source of revenue which involves a permanent and absolute loss of money, and which, moreover, from whatever reason, it would be difficult in the event of the opium revenue failing, to restore to its former position, then the course would be open to great objection. If, on the other hand, we reduce a duty with a fair hope that the reduction will increase consumption, and thus, after a while, recoup us for any loss, and if, moreover, the duty can, without any great fiscal disturbance, be reimposed in the event of the opium revenue falling off, then the reduction of taxation would be unobjectionable. The salt duty falls within the latter of those two categories."—*Proceedings of the Governor-General's Council, 1882.*

two previous years. The main cause of this progressive diminution was to be found in the increased competition of the indigenous Chinese drug. During this year, the duty on Malwa opium was reduced by Rs. 50 a chest.

In 1883, a Commission was appointed to consider the opium question. They made a number of recommendations, the most important of which was that the Government should in the matter of purchase of crude opium, deal direct with the cultivators instead of dealing through middlemen.

The opium convention with China came into operation in the year 1886-87. During the period 1881-82 to 1887-88, with the exception of one year, namely, 1884-85, there was a steady downward tendency in the prices of opium. The fall in 1887-88 was in a large measure due to the additional article of the Chefoo Convention, which came into operation on the 1st February, 1887. The inland or *likin* duties, which used formerly to be levied but were often evaded by foreign merchants, were now commuted for a fixed sum payable at the port of entry. Evasion now became impossible, and the foreign drug had to compete with the indigenous product which was subject to less onerous taxation. The increased duties levied under the Chefoo Convention thus operated in favour of the consumption of the native drug. In the following year, however, there was a recovery.

The special character of the opium revenue attracted attention in England about this time, and communications passed between the Secretary of State and the Government of India. In accordance with a resolution passed by the House of Commons, a Royal Commission was appointed in 1893 to consider certain aspects of the question. The terms of reference to the Commission were as follows :—

1. Whether the growth of the poppy and the manufacture and the sale of opium in British India should be prohibited except for medical purposes, and whether such prohibition could be extended to the Indian States :

2. The nature of the existing arrangements with the Indian States in respect of the transit of opium through British territory, and on what terms, if any, those arrangements could be with justice terminated :

3. The effect on the finances of India of the prohibition of the sale and export of opium, taking into consideration (a) the amount of compensation payable, (b) the cost of the necessary preventive measures, and (c) the loss of revenue :

4. Whether any change short of total prohibition should be made in the system at present followed for regulating and restricting the opium traffic and for raising a revenue therefrom :

5. The consumption of opium by the different

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

races and and in the different districts of India and the effect of such consumption on the moral and physical condition of the people :

6. The disposition of the people of India in regard to (a) the use of opium for non-medical purposes ; (b) their willingness to bear in whole or in part the cost of prohibitory measures.

Sir David Barbour, a former Finance Member of India, in the course of his evidence before the Commission of 1893, discussed the probable effect on the finances of India of the prohibition of the sale and export of opium. He said : "We may fairly take the total net revenue from opium at Rs. 6,00,00,000 yearly at the present time. I have no hesitation in saying that it would be impossible to carry on the administration of India if the revenue was reduced by Rs. 6,00,00,000. As it is, there is considerable difficulty in making revenue balance expenditure ; and for my part I would positively refuse to attempt the task if the revenue were reduced by Rs. 6,00,00,000. Some revenue could of course be raised by additional taxation, but not Rs. 6,00,00,000. I have no doubt that people in this country will bear some additional taxation if the taxation were imposed in consequence of some disaster which we could not have avoided ; but the imposition of a heavy or perhaps of any considerable amount of taxation on the people of India, in order to make good the loss of revenue caused by inter-

ference with the consumption or export of opium would cause most serious discontent among the people of India."

In 1895, the Finance Member remarked that, as India had long ceased to have a monopoly of opium supply in China, it was now necessary to steer between the two opposing policies of risking her position in the market by restricting the quantity supplied, and risking the prices obtained by sending too much into the market. At the moment the risk the Government was taking was the first of these two risks, and it was desirable to restore the standard of production with a view to increasing the amount sold, as well as setting aside a revenue which would enable the Government to maintain a pretty equal supply.

The Commission submitted its report in 1895. They did not recommend the prohibition of the production or sale of opium in India for non-medical purposes, though they thought that the regulation for the restriction of its consumption could be amended. They found no evidence of extensive moral or physical degradation from its use in India. They considered that the people of India would be unwilling to bear the cost of prohibitory measures, and that the finances were not in a position to bear the loss of revenue and the expenses which such measures would entail. With regard to the export of Indian opium to China,

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

in the absence of any declared wish by the Chinese Government to prohibit the traffic, they did not recommend any action tending to destroy it. On the question of the purchase of crude opium, the Commission recommended direct dealing with the poppy cultivators. Another important recommendation of the Commission was that no licenses should be granted for the sale of opium prepared for smoking and that smoking saloons should be prohibited.

The price of opium continued to vary from year to year. In 1892-93, the budget estimate was based on the expectation of an average price of Rs. 1,050 per chest, but the price actually realised was Rs. 1,147. The lowest price on record, Rs. 929 per chest, was obtained at the June sale of 1898. But in October, 1900, the price realised was Rs. 1,450 per chest. The local production of the drug in China had by this time become much larger than the imports from India.

Towards the end of 1906, edicts were issued by the Chinese Government ordering that within ten years the growth and the consumption of opium in China should be suppressed. Proposals were made that the Government of India should co-operate in this object by gradually restricting the amount of opium exported from India to China. Negotiations were carried on with the Chinese Government for the gradual diminution, and ultimate extinction of

the export of Indian opium to China. These negotiations gave the Government of India much cause for anxiety as they involved the loss of a large amount of revenue. For several years a great deal of controversy had raged round the question of opium traffic. At last, in 1907, an Agreement was made by which the exports from India were to be gradually reduced and the trade finally extinguished in the course of ten years, China on her part engaging to curtail and ultimately to prohibit local production. After the lapse of three years there were fresh negotiations which culminated in another Agreement. The principal terms of this Agreement were as follows: India was to reduce progressively the quantity of opium exported to China; but if China was able to completely eradicate the cultivation of poppy before 1917, India would shut down her exports at the same time. In the interval, as each Chinese province stopped its production and import of native opium, the admission of Indian opium to that province would cease; China was to levy a consolidated import duty of Rs. 689 a chest, along with an excise duty equivalent to the import duty; all other taxation and all restrictions on the wholesale trade in Indian opium were to cease.

The opium question was discussed by an International Opium Commission at Shanghai in February 1909, and again at an International Conference at the Hague at the end of 1911. The convention drafted

at the latter created no new position in regard to opium so far as India was concerned ; while in regard to morphia, cocaine, and other similar drugs, the Conference by accepting the view long held by the Indian Government that these drugs were a greater danger to the East than opium, and by inviting the European countries which manufactured them to agree to concerted action, took a notable step forward.[1]

On the question of the opium policy of the Government of India Sir Guy Fleetwood Wilson said in 1911 : "We have accepted and are loyally carrying out a policy which subordinates financial to ethical considerations. The Indian people will be called upon to make sacrifices in the interest of humanity. They are a sensitive and sympathetic race inspired by lofty ideals and I dare prophesy that they will not shrink from bearing their share of the burden since it will contribute to the uplifting of a sister nation.[2]

The price paid at the monthly auctions held for Bengal opium, which had always been subject to considerable fluctuations, rose to unprecedented heights at the close of the decade 1901-2 to 1909-10. Up till 1909, the average price was, generally speaking, about Rs. 1,300 or 1,400 a chest, the extremes being Rs. 1,074 in May, 1902 and Rs. 1,765 in February, 1904. In November, 1909,

[1] *Moral and Material Progress Report, 1911-12.*
[2] *Financial Statement, 1911-12.*

the average rose to Rs. 1,800, and from that time onwards a strong upward tendency continued, though still with marked fluctuations. After the beginning of 1911, when the distinction between "certificated" and "uncertificated" opium was introduced, the former was sold at much the higher price. Speculation reached its zenith in October, 1911, when opium certificated for exportation to China fetched the phenomenal price of Rs. 6,015 a chest.[1] Prices remained high in 1912. The rates of duty on Malwa opium were also largely enhanced. New arrangements were at this time made with the Indian States, and a portion of the surplus profits was made over to them.

But the sudden increase of opium revenue was like the last flicker of a dying lamp. There was a large drop in 1913-14. The stringent anti-opium measures adopted by the Chinese authorities, and the consequent accumulation of stocks at Shanghai and elsewhere, led to the suspension of sale of opium destined for China. In January, 1913, the Government of India gave notice that the sale of "certificated" opium would be suspended in April, and fixed an enhanced upset price for sales before that date. This in effect operated as an immediate suspension of sales. Shortly afterwards, it was decided to stop the export to China of Indian opium altogether, although the production of native

[1] *Moral and Material Progress Report, 1911-12.*

opium continued in some of the provinces of China.[1] But the trade with the other Far East Countries, such as the Straits Settlements, Hongkong, and the Dutch East Indies continued, though to a reduced extent.

From the year 1915 the Government of India continuously pursued the policy of endeavouring to supply opium direct to the Governments of consuming countries in substitution for sales by public auction. In the year 1920-21, about three-fourths of the total exports were made direct to such Governments. Negotiations were carried on for direct contracts with the remaining large importers of Indian opium, which included Japan, Portugal, and France. India exported no opium to any country which prohibited import; nor did she export any opium in excess of the quantities which the Government of the consuming country desired to admit; and in practice she voluntarily placed a limit on the total exports from India irrespective of what the particular demands might be.

[1] For a long time, there were two agencies for the manufacture of 'Bengal opium'. In the course of the decade 1891-92 to 1901-2, there was some discussion upon the method of dealing with poppy cultivation in the Behar agency. It had been usual there to employ the agency of middlemen, but as it had been found that this gave an opening to fraud against the raiyats, the question was raised whether it was possible to assimilate the practice to that of the Benares agency, where the Government dealt with the cultivator direct. Ultimately, it was considered best to adopt an intermediate system. In 1910, the two agencies were amalgamated, the single agent being stationed at Ghazipur, and the control was transferred to the United Provinces Government. In 1911, the head factory at Patna was abolished. The opium department in Bombay was abolished from the 1st January, 1914.

The opium question received attention from the League of Nations immediately after its establishment. At its first session, the Assembly recommended to the Council the appointment of an advisory committee to make suggestions regarding the more effective execution of the Hague Convention. At the second session, the committee proposed the appointment of a Board of Enquiry which would investigate and report on the quantity of opium required for strictly medicinal purposes, and thus would enable the League ultimately to restrict the cultivation of opium to this amount. But the delegates of the Government of India protested, on the ground that the recommendation took no account of the fact that, in several countries, the use of centuries sanctioned the employment of opium in certain circumstances. They further pointed out that India was the one important opium-producing country which had rigorously observed and even improved upon, the recommendations of the Hague Convention. The view of the Government of India was that the more effective observance of the terms of that Convention should be for the present the object of the League's efforts; but that if an enquiry was to be instituted, its scope should be extended so as to include all legitimate uses of the drug. This view made a great impression upon the audience and finally prevailed.[1] In

[1] *Moral and Material Progress Report, 1921-22.*

1923, the 'import certificate system' was adopted in India as prescribed by the League of Nations. The effect of this was that opium could be exported to any country only on the production of a certificate from the Government of that country that the drug was required for legitimate purposes.[1]

A very substantial decline took place in exports between 1913 and 1923, the total number of chests exported from India fell from 15,760 to 8,544. The exports to China fell from 4,612 chests to zero, those to Singapore from 2,367 chests to 2,100; to Hongkong from 1,120 to 240; to Penang, from 200 to nil; to Colombo, from 150 to 30; to Batavia, from 3,535 to 900.[2] Only in the case of two destinations was there a noteworthy rise. The chests exported to Bangkok rose from 1,350 in 1913 to 1,600 in 1923; and those to Saigon rose from 450 in 1913 to 2,975 in 1923.[3]

[1] In addition to the fixed sales under agreements with Governments, 3,000 chests were offered for sale every year by auction at Calcutta. But the international discussions regarding opium introduced much uncertainty into the trade; and between October 1924 and February 1925, very few chests were sold.

[2] *Moral and Material Progress Report, 1924-25.*

[3] The Finance Member observed in 1924:—"In regard to the exports they are carrying out their agreement under the Convention to the full. They have in one or two cases gone beyond it. In the case of Macao where they were convinced that the amount imported under license was more than the colony could possibly require for internal consumption, they did go beyond the Convention and seriously restricted the amount for export. The Government will be perfectly happy to see these exports further reduced. They do not wish to secure revenue out of the degradation of the other countries, but they do not see that they are going to help forward any useful work if they themselves suddenly or even over a period of years, without co-operation from elsewhere, deprive India of her revenue and the cultivators of their employment by refusing to send exports of opium to countries whose Governments

During the last decade, the international anti-opium movement, which has for its object the reduction of the consumption of opium and its derivatives to such quantities as are in accordance with medical and scientific needs, has gathered considerable strength. The discussions of the League of Nations Opium Committee and of the Assembly in 1923 centred in the two following propositions: (1) If the purpose of the Hague Opium Convention was to be achieved according to its spirit and true intent, it must be recognised that the use of opium products for other than medicinal and scientific purposes was an abuse and not legitimate; (2) In order to prevent the abuse of these drugs, it was necessary to exercise the control of the production of raw opium in such a manner that there would be no surplus available for non-medical and non-scientific purposes.[1] The representatives from India associ-

continue to license their import, in pursuance of the policy which those Governments have themselves agreed to carry out, of gradual reduction; since the only result so far as the Government of India can see of such an action on their part would be to mulct the Indian taxpayer in a considerable sum of money and have no effect whatsoever on the amount of opium imported to and consumed in these places.

[1] *Moral and Material Progress Report, 1921-22.*

Lord Reading observed as follows on the 9th February, 1923:

"We have very carefully examined the new obligations undertaken by us under Article 1 of the Protocol to the Convention of the Second Opium Conference at Geneva, to take such measures as may be required to prevent completely within five years from the present date the smuggling of opium from constituting a serious obstacle to the effective suppression of the use of prepared opium. As a result we have come to the conclusion that in order at once to fulfil our international obligations in the largest measure and to obviate the complications that may arise from the delicate and invidious task of attempting to sit in judgment on the internal policy of other Governments, it is desirable that

ated themselves with these resolutions, subject to the reservation that the use of raw opium according to the established practice in India, and its production for such use, were not illegitimate under the Convention.

In June, 1926, it was announced that the extinction of exports of opium for other than medical and scientific purposes would be accomplished in ten years, so that no opium would be exported, except for those legitimate purposes, after the 31st of December, 1935.[1] With effect from the 19th March 1925, the transhipment at any port in British India of any of the drugs included in the Hague Convention was prohibited unless covered by an export authorisation, or diversion certificate issued by the exporting country, and this order was revised in the light of the Geneva Convention on the 12th February, 1927.

Between the years 1916-17 and 1927-28, the area under poppy cultivation was reduced by more than 76 per cent. In the former year, the area under poppy stood at 204,186 acres, while by the end of March, 1928, it had fallen to 48,083 acres. The Government of India also entered

we should declare publicly our intention to reduce progressively the exports of opium from India so as to extinguish them altogether within a definite period, except as regards exports of opium for strictly medical purposes."

[1] It was arranged that exports in 1927 would be 90 per cent. of the exports of the year 1926 ; in 1928, 80 per cent.; and so on.

into negotiations with those Indian States in which opium was produced, as a result of which the total quantity of crude opium purchased from the Indian States was considerably reduced. Since January, 1926, the Government of India has prohibited the cultivation of poppy in Ajmere-Marwara, and within British India it is now confined to a limited area in the United Provinces. In March, 1926, a Conference was held to consider what arrangements should be made by the Indian Government to check opium smuggling from Rajputana and Central India into British India. In May, 1927, a Conference was held in Simla between the representatives of the Government of India and of the various Indian States interested in the cultivation and consumption of opium, and the relations of these States to the Government of India's opium policy, both external and internal, was discussed. The Government of India appointed a committee in November, 1927 to investigate the question. This committee submitted its report in 1928, which is now under the consideration of the Government.

Opium contributes to the revenue of India under two heads. The net revenue credited in the public accounts under the head 'opium' is that derived from the export of opium to other countries. There is also a very considerable, though hitherto much smaller, revenue derived from opium consumed in

India, which is credited under the head 'excise'.[1] We shall now briefly notice this part of the subject.

The receipts from excise opium increased year by year from the early days of the Company till in 1881-82 it stood at Rs. 79,94,520. The next decade showed a further increase, and in 1891-92 the income derived by the Government from this source was Rs. 97,65,130. The increase was attributed by the Government to the greater efficiency of the preventive arrangements, by which the consumption of licit opium was largely substituted for that of the article smuggled into the province across the frontier. The whole question of the increase in the consumption of the drug in India was exhaustively treated in a despatch of the Government of India in 1891. The main points on which stress was laid in this document may be thus summarised: The number of licensed opium shops diminished during the previous ten years in just the same proportion as that by which the population had increased. The proportion of such shops to the population was, in 1889-90, about one to 22,000 people, and the shops for the smoking of the drug and preparations from it, one to 197,000. The

[1] Opium is consumed in all provinces in India. It is largely used for medicinal purposes, and is a common household drug of the people. It is commonly taken in the form of pills; but in some places, chiefly on social and ceremonial occasions, is drunk dissolved in water. Opium smoking is not extensively practised in India proper, where it is considered disreputable; the practice of opium eating, as it exists in India, has little or no connexion with what is generally known as the "opium habit."

consumption of opium had risen from 889,666 lbs. in 1880 to 910,224 lbs. in 1890. The local authorities in two provinces had ceased to issue licenses for opium to be consumed on the premises, and steps were in contemplation to restrict or abolish such licenses elsewhere. The consumption of this drug in the Madras Presidency, which had been uncontrolled in the past, had, since 1880, been brought under the same restriction as in the rest of India. The duty on excise opium, again, had been raised in several provinces to an extent sufficient to restrict, in some degree, the amount consumed, or, at all events, to check the spread of the habit of indulging in the use of the drug. The Government of India also had it in contemplation to restrict, if possible, the consumption of opium amongst the Burman population of the Lower Division of the province, as had been done in the Upper. The possibility, however, of enforcing upon a portion of the population a prohibition that did not extend to the rest, especially in a tract containing so large an admixture of foreigners, and one so adapted to successful smuggling as Lower Burma, was, it was thought, extremely doubtful. With regard to the prohibition of the sale of the drug throughout India generally, as had been suggested, the Government of the country considered it neither feasible so long as the poppy was cultivated either in British or protected territory, nor advisable owing to the

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VI · GSL

deep root the habit had taken among the people of the north of India and other classes. Finally, it appeared from the returns that the annual consumption of licensed opium was equivalent to a dose of 45 grains a day for about 400,000 people, in other words, to two in every thousand of the aggregate population.[1]

The methods of distribution of opium for home consumption vary slightly, but in all provinces retail sales are permitted only in licensed shops, and the limit of private possession of the drug is fixed. Consumption of opium on shop premises is forbidden throughout India. The number of shops licensed for the retail sale of opium in 1901-2 was: Assam, 775; Bengal, 1,651; Berar, 433; Bombay, 1,128; Central Provinces, 899; Madras, 1,190; United Provinces, 1,142; Punjab, 1,456; Burma, 56. This was considerably smaller than the corresponding number in 1891-92 in Assam, Bengal, the Punjab, and Bombay; it was about the same in the Central Provinces and in the United Provinces; in Madras it was rather larger.[2]

The incidence of taxation on the licit opium consumed was at this time much greater in Burma than elsewhere, amounting in 1901-2 to Rs. 77 per seer, chiefly from the sale of licenses. In Assam,

[1] *Moral and Material Progress (Decennial) Report, 1891-92.*
[2] *Moral and Material Progress (Decennial) Report, 1901-2.*

the direct taxation was rather heavier than in Burma, but the receipts from vend fees were much smaller, and the result was a total incidence of Rs. 34½ per seer. Bengal stood next, with Rs. 28 per seer, Berar following with Rs. 26⅓, and the Central Provinces and Madras with Rs. 23 and Rs. 20 respectively. The consumption per head of the population was more than twice as large in Assam as it was in any other province, and this fact, combined with the high rate of duty, accounted for the very high proportion of opium receipts per 10,000 of the population, amounting in one district, namely, Lakhimpur, to Rs. 13,761. This was exceeded, in the whole of India by the corresponding figure, Rs. 36,963, for Rangoon town.[1]

The Opium Commission, as has already been noticed, recommended that measures should be taken to restrict the practice of opium smoking. This was not, except in Burma, a common practice in India. In India proper, opium smoking on licensed premises was forbidden in 1891, and the sale of preparations for smoking known as *madak* and *chandu* had been prohibited. Special measures were taken during the decade to discourage the use of opium in Burma. The view was accepted, in 1893, after much discussion, that the consumption of opium was specially harmful to the Burmese race; and from January, 1894 it was made penal for

[1] *Moral and Material Progress (Decennial) Report, 1901-2.*

GSL

the Burmans who had not registered themselves as habitual consumers to possess or consume opium. Further, the taxation of opium in that province was about twice as heavy as in those provinces of India where the taxation was the highest. These restrictions resulted in a large increase in smuggling and illicit consumption in Burma, and it was decided in 1900 to revise the arrangements.[1]

In most of the provinces the issue price was raised during the following decade, and the legal limit of the amount of opium which might be held by private persons was reduced. In regard to opium smoking, the then existing law imposed severe restrictions. The sale of smoking preparations was absolutely prohibited throughout India proper, while private manufacture was only allowed to the smoker himself or on his behalf and, generally speaking, to the extent of one tola (180 grains) at a time. These restrictions, however, were found inadequate, and the Government announced its intention of taking further steps in the direction of direct unqualified prohibition.[2]

[1] Dealing in opium was regulated by rules framed under the Indian Opium Act of 1878. The details varied in different provinces. The excise revenue derived from opium was mainly composed of duty and vend fees, the rate of duty varying with the conditions of the locality and being highest where smuggling was most difficult. Generally speaking, the drug was issued to licensed vendors and druggists at a fixed price from Government treasuries and depots, and the right of retail vend was sold by annual auction, for one or several sanctioned shops. Bengal opium was supplied for internal consumption in most provinces, but Malwa opium was supplied in Madras up to 1908, and in Bombay up to the end of the period (1911-12).

[2] *Moral and Material Progress (Decennial) Report, 1911-12.*

GSL

The use of opium in India was enquired into in 1923 by a non-official agency, namely, the National Christian Council of India, Burma and Ceylon. The main facts revealed by this enquiry were as follows: In many parts of India, the custom of giving opium pills to small children prevailed. The reasons were various. But the commonest was the mother's desire to prevent the child from crying, particularly in the case of mothers who worked as operatives in factories. Opium was also given to children to appease hunger or to allay diarrhoea, vomiting, etc. The drug was often taken by grown-up people to ward off the approach of fatigue. It was also taken mostly by elderly men in the belief that it was a cure for various diseases and ailments, such as asthma, bronchitis, diarrhoea, dysentery, diabetes, and rheumatism. Lastly, addiction to opium

The case of Burma with regard to opium regulation stood by itself. The consumption of opium, which there usually took the form of smoking, was not commonly practised by the Burmans, they appeared to be specially susceptible to injury from it, and viewed it in general with disfavour. Consumption was permitted only to non-Burmans, and to a limited number of Burmans, specially registered as opium consumers in Lower Burma. In Upper Burma, its sale to or possession by Burmans, was absolutely prohibited except for medical purposes, since the annexation of the country in 1886. The prohibition was extended to Lower Burma in 1893, but exception was made in favour of Burmans over the age of 25 who had acquired the smoking habit, and were allowed to register themselves as consumers. The arrangements for the sale of opium were in Burma under the closest official supervision, each shop, though let to a private licensee, being placed in charge of a separate resident excise officer. The Burma opium rules were recast and made more stringent in 1910, while amendments of the law, made in the preceding year, gave increased power in the matter of dealing with persons suspected of unlawfully trafficing in opium and as regards arresting and searching for the drug. The retail price to consumers, moreover, is fixed at a uniformly high figure, except at a few shops in places where it would be easy to obtain smuggled opium at a lower rate.

GSL

eating was nothing more or less than addiction to a pleasurable and harmful drug. In regard to the effects, there was general agreement among the medical men that the use of opium was very injurious, particularly to children. The most normal effect was a general stupor of the child at the very outset of life. The nerves and brain were also affected. Doped children succumbed far more easily to diseases than other children. The infantile death-rate—so tragically high in India—was thus enhanced by the opium habit. In the case of adults and elderly people, the evil effects varied with the degree to which the subject came under the influence of opium. In extreme cases, physical deterioration and intellectual and moral degradation were to be found.[1]

Enlightened public opinion in India is dissatisfied with the opium policy of the Government. But there seems to be less unanimity on the desirability and practicability of measures which have been suggested from time to time to cope with the evil. The question should be thoroughly investigated from all points of view. Indian publicists may not endorse all the suggestions put forward by persons

[1] *Opium in India*,—Published by the National Christian Council of India, Burma and Ceylon. Of the ailments, physical and mental, caused by the use of opium, the following were mentioned by some of the persons consulted by this body: Dyspepsia, constipation, anæmia, loss of appetite, disease of the heart, lungs and kidneys, nervous debility, loss of memory, drowsiness and lethargy, loss of will-power and general moral unreliability.

and organisations who have interested themselves in the question; but there can be no difference of opinion in regard to the following view urged by the National Christian Council in the concluding portion of their appeal. They say: "While much depends upon Government action (and where growing is a Government monopoly, nothing can be done without Government), we feel that no great advance can be made without the education of public opinion. If Provincial Legislatures are to consider the diminution of their opium excise returns, they will need to be supported by public opinion. But, most of all, there is need for the kind of simple education in the elements of public health, not least through the schools which is being undertaken by some public-spirited men and women, and which is the soundest foundation for the health and well-being of the people."[1]

During the decade 1910-11 to 1919-20, there was a decrease in the consumption of opium in all the provinces except the North-Western Frontier Province and Ajmere-Marwara, in which there were slight increases. At the same time, the revenue derived from opium in the various provinces of India, owing to the enhanced price at which the drug was sold, rose considerably. On the introduction of the Montagu-Chelmsford Reforms, excise opium came under the control of Ministers in all the provinces

[1] *Opium in India.*

except Assam. The Indian public was not satisfied with the measures taken by the Government to check the evil. In 1925, the Government was attacked in the Indian Legislative Assembly for the conservative policy which it was adopting in respect of limiting the consumption of opium. The Finance Member explained the view of the Government of India and proved by figures that consumption during the period 1910-11 to 1922-23 had decreased by about 50 per cent. He announced his readiness to appoint a Committee on Opium Consumption to review the conclusions of the Commission of 1893, provided that Provincial Governments agreed that there was a *prima facie* case for such an enquiry. Nevertheless, a censure motion for a nominal cut was carried. In deference to the opinion expressed in some quarters, the Government of India asked the Provincial Governments to consider three aspects of the opium question: the high consumption in certain areas, the practice of administering opium to infants, and the desirability of closer co-ordination of policy between the different Provincial Governments in regard to fixing the sale price of opium.

The revenue derived from opium was at one time one of the most important sources of State income in India. On its variable and somewhat uncertain amount depended not only the character of a budget,—namely, whether it was to be a deficit or a

surplus one,—but also the decision of the Government in regard to its programme of expenditure. For a century, opium influenced the financial activities of the Government in India, and for full fifty years it disturbed the sleep of almost every one of her Finance Members. But to-day opium has lost its dominant position, and the day is not far distant when the few crores now realised from this source will almost entirely disappear.[1]

[1] *Moral and Material Progress, 1924-25.*

The Government point of view is thus set forth in *India in 1924-25*.

"The reduced figures of consumption in recent years suggest that there must now be very little abuse indeed in connexion with opium. Enhanced prices and restricted supply, together with a welcome, though slow, trend of public opinion, are resulting in a decreasing use of opium for ceremonial hospitality or for personal indulgence, and are thus tending to restrict the consumption of the drug to purposes either medicinal or quasi-medicinal. The figures for each province will show to what extent the policy of Government has been justified. Between 1910-11 and 1923-24, the consumption has fallen in Madras from 1,178 maunds to 876 maunds; in Bombay, from 1,436 maunds to 819 maunds; in Bengal, from 1,626 maunds to 998 maunds; in Burma, from 1,306 maunds to 772 maunds; in Behar and Orissa, from 882 maunds to 654 maunds; in the United Provinces, from 1,545 maunds to 603 maunds; in the Punjab, from 1,584 maunds to 834 maunds; in the Central Provinces, from 1,307 maunds to 761 maunds; in Assam, from 1,511 maunds to 911 maunds. Only in the North-Western Frontier Province and in Ajmere-Marwara, there is a slight increase from 69 to 72 maunds and from 69 to 71 maunds respectively. In 1910-11, the consumption for the whole of India was 12,530 maunds; in 1923-24, it was 7,406 maunds.

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CHAPTER VII

LAND REVENUE

A GREAT deal of controversy raged soon after the commencement of British rule in India as to the true nature of the land revenue. Some regarded it as partaking of the character of rent, while others felt disposed to call it a tax. The protagonists of the former theory held the view that the State in India had always been considered the sole proprietor of the soil. They sought to base their arguments on some texts of the ancient Sanskrit works. But a careful reading of these very texts seems to lead to a very different conclusion. The king is described by Manu as *'bhumeradhipati.'* The real meaning of this term, is 'supreme ruler of the country' and not 'lord paramount of the soil' as it was rendered by Sir William Jones. The position is made clearer in another passage of Manu in which the great sage fixes the king's share in the produce of the soil.[1] Nor does Kautilya, a great champion of royal authority, say anywhere in

[1] Dhanyanam ashtamo bhagah shashtho dvadasa eva ba.—*Manu*, ch. vii., sl. 130.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

his *Arthasastra* that the King is the owner of the soil.[1]

The question was discussed later by historians and economists. James Mill favoured the rent theory, while H. H. Wilson advocated the opposite view.[2] John Stuart Mill expressed the view that land throughout India was "generally private property, subject to the payment of revenue, the mode and system of assessment differing materially in various parts." In the course of correspondence with Madras in 1856, the Court of Directors emphatically repudiated the doctrine of State proprietorship, and affirmed the principle that the assessment was revenue and not rent. Sir Charles Wood reaffirmed the principle in 1864.

[1] Yajnavalkya is quoted in Jagannath's Digest to show that the king had no particular property even in unclaimed or uncultivated land. Jaimini, the author of the Mimansa, also denies the king's ownership. "The kingly power," he says, "is for the government of the realm and the extirpation of wrong, and for that purpose he receives taxes from husbandmen and levies fines from offenders; but the right of property is not thereby vested in him, else he would have property in house and land appertaining to the subjects abiding in his dominions. The earth is not the king's, but is common to all beings enjoying the fruit of their own labour."—*Colebrooke on the Mimansa Philosophy.* Vide *Report of the Taxation Enquiry Committee, Vol. II.*

[2] "Notwithstanding the positiveness," wrote H. H. Wilson, "with which it has been affirmed that the proprietary right of the sovereign is indissolubly connected with the ancient laws and institutions of the Hindus, the accuracy of the assertion may reasonably be disputed. In adducing the authority of the Hindu writers in favour of the doctrine, two sources of fallacy are discernible. No discrimination has been exercised in distinguishing ancient from modern authorities; and isolated passages have been quoted, without regard to others by which they have been qualified or explained. If due attention had been paid to these considerations, it would have been found that the supposed proprietary right of the sovereign is not warranted by ancient writers; and that, while those of a later date seem to incline to its admission, they do not acknowledge an exclusive right, but one concurrent with the right of the occupant; they acknowledge *a property in the soil*, not *the property of the soil.*" Mill, *History of India, Vol. I.*

A very interesting discussion took place in 1875 when this question was considered officially by the Council of India in connexion with a paper on the subject written by Sir Louis Mallet. Sir Louis said that an indifference to accurate thought and expression had been and was a source of the greatest difficulty. He expressed the view that the amount of land revenue demanded by the Government was not only large, but also uncertain. Sir George Campbell thought that much good could not come out of "the stirring of the vexed question." Sir Henry Montgomery considered it unlikely to lead to any practical advantage. Sir Erskine Perry regarded the discussion of the matter as a "*speculation oisive.*" Sir Henry Maine, however, took a different view of the matter. He wrote: "If it is absolutely necessary to answer the question whether the land revenue taken from time immemorial by Eastern Governments is or is not rent, I imagine that the answer must be in the negative. It seems to me incredible that any Government, since the beginning of history, should have taken the exact economic rent of the territory occupied by its subjects. In order to obtain this, a Government must have put up the soil in parcels to competition, without recognising any hereditary right in any one person which entitled him to be preferred to another person who bid higher for the occupation. No evidence of any such system

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exists... The rival theory that the land revenue is a tax, is so far more correct that we in Western Europe have agreed to apply the word 'tax' to every exaction of the State from persons recognised as owners, and the English Government has never pushed taxation so far as to obliterate ownership." On the practical aspect of the question, Sir Henry observed: "It is much to be wished that questions whether land revenue is rent or tax, and inferences from one view to the other, would give way to unbiassed enquiries whether the heavy or permanent assessments, which generally go with the theory of rent, or the light assessments, which are usually associated with the tax theory, do most to improve the moral and material condition of the great mass of the population."[1]

Sir Bartle Frere thought that the discussion was a very useful and practically important one. He pointed out that a good deal of difficulty arose from the want of accurate knowledge of the sources from which land revenue was derived. "We talk of the 'land tax',[2] 'land assessment', etc.", Sir Bartle observed, "without recollecting that the land revenue of India, or of almost any district in India, generally includes specimens of almost every

[1] *Minute dated the 13th March, 1875*, quoted in the report of the Taxation Enquiry Committee, Vol. II. Extracts are also given in the volume from the opinions of other eminent authorities, to which reference is made here.

[2] *Minute dated the 10th April, 1875.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

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conceivable form of income, public or private, which can be derived from land."[1]

Sir Louis Mallet, in replying to the criticisms, emphasised the practical character of the question. "Without disturbing past settlements", he wrote, "which we cannot afford to do, and cannot now do without fiscal sacrifices, I shall rejoice to see a limit placed on future assessments, with a view to which the renunciation of the theory of State landlordism would be the most effectual step. In speculating on its future resource, I should like to see the Government steadily putting rent out of view, as only liable to taxation in common with other forms of property".[2] He added: "I regard this question of rent or revenue on financial grounds alone, as one of immediate practical importance. I have never concealed my opinion as to the extreme gravity of our financial position, and I believe nothing but the fact that the present system is almost secure from all independent and intelligent criticism has enabled it so long to survive."

Lord Salisbury, then Secretary of State, did not feel disposed to regard the question merely as "one of words". He said: "To us it may seem indifferent whether we call a payment revenue or rent; but it is not indifferent by what name we call it in his (the modern Indian statesman's) hearing. If we

[1] *Minute dated the 10th April, 1875.*

[2] *Minute dated the 12th April, 1875.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

say that it is rent, he will hold the Government in strictness entitled to all that remains after wages and profits have been paid, and he will do what he can to hasten the advent of the day when the State shall no longer be kept by any weak compromises from the enjoyment of its undoubted rights. If we persuade him that it is revenue, he will note the vast disproportion of its incidence compared to that of other taxes, and his efforts will tend to remedy the inequality, and to lay upon other classes and interests a more equitable share of the fiscal burden... I agree, therefore, with Sir Louis Mallet in desiring that our present non-descript land dues should tend to the form of revenue rather than that of rent."[1]

But if the State is not the sole owner of the soil,[2] the question arises, Who is the owner? The claim of the zemindars to proprietorship was supported by Sir Philip Francis, Sir John Shore, and Lord Cornwallis. But other authorities, equally eminent, contested this view. Sir Thomas Munro expressed the opinion that, if the name of landlord belonged to any person in India, it was the raiyat.[3]

[1] *Minute dated the 26th April, 1875.*

[2] H. H. Wilson expressed the view that the notion of the proprietary right of the sovereign was rather of Mahommedan than Hindu origin. But Colonel Galloway observed in 1824 that, under Mahomedan law and usage, the Emperor was the proprietor of the *revenue* but not the proprietor of the *soil*.

[3] Sir Thomas Munro's *Minute on the Depressed condition of the Bellary District, 1824.*

Mountstuart Elphinstone wrote in 1819: "A large portion of the

The truth seems to be that in India there is no absolute proprietor of the soil, but that several parties, such as the State, the intermediate holders of land, and the actual cultivators possess limited rights in it.[1]

During the early Hindu period of Indian history a share of the produce of the soil was set apart for the support of the King. This share was ordinarily one-sixth,[2] but was liable to be reduced to one-eighth or one-twelfth in the case of poorer soils which required much labour to cultivate them. In special circumstances, the King's share was also liable to be increased to one-fourth. When Mahommadan rulers established themselves over a large part of the country, some of them demanded higher

(Mirasi) raiyats are the proprietors of their estates, subject to the payment of a fixed land tax to the Government." He further expressed the view: "Many of the disputes about the property in the soil have been occasioned by applying to all parts of the country, facts which are only true of particular tracts; and by including, in conclusions drawn from one sort of tenure, other tenures totally dissimilar in their nature".

[1] Jagannatha Tarka-Panchanana, the compiler of Colebrooke's Digest, says, "There is property of a hundred various kinds in land".

Sir George Campbell wrote in 1870: "The long disputed question whether private property in land existed in India before the British rule, is one which can never be satisfactorily settled, because it is, like many disputed matters, principally a question of the meaning to be applied to words. Those who deny the existence of property mean property in one sense; those who affirm its existence mean property in another sense. . . In the sense, then, of the right of holding the land subject to the payment of customary rents, I think that private property in land has existed in many parts of India from time immemorial." *Systems of Land Tenures in Various Countries.* (*The Tenure of Land in India*). Though this statement looks like an evasion of the issue, the view contains a substantial amount of sound commonsense.

[2] Hence the popular designation of the King 'Sharbagha-bhirit' Kautilya, however, fixes the share of the King at one-fourth—'*dhanayanam chaturtham amsam.*' *Arthasastra*, Bk.V., ch. II.

proportions, the exact shares being determined by practical, rather than theoretical considerations. In the reign of Akbar, a settlement of all the territories under the sway of the Great Moghul was made by his able Finance Minister, Turya Mal. The State share was at this time fixed at one-third of the produce, and the rule of money payment was introduced into many parts of the country. This assessment remained in force as the standard till the commencement of the Company's administration, but additional amounts were often demanded by provincial satraps in the shape of *abwabs*.

The produce of the soil was originally divided between the ruling authority and the cultivators. But in the course of time middlemen of various grades established themselves between the State and the actual occupiers of the land. When the East India Company acquired administrative authority in India, the old systems were continued for a time. Before long, however, the divergences which had existed for a long time past became more pronounced. But before we discuss in some detail the history of these differences, a few general observations will perhaps be found desirable.

The first question which demands our attention is the person who pays the revenue. The land revenue is always, on the last analysis, paid by the actual cultivators, and the State alone is entitled to demand its payment. But during the period

of disruption of the Moghul Empire, every power which became predominant for the time being over any area, extorted whatever it could from the tillers of the soil. In order that this object might be better achieved, the system of farming was extensively employed in many parts of the country. The right of collecting land revenues of definite tracts was sold to contractors for short terms. These farmers, in their turn, often used to sub-let portions of their farms to under-farmers, and the process went on till quite a number of middlemen intervened between the ruling authority and the cultivators. This practice, it is needless to say, led to a great deal of extortion and oppression.

It was not until some years after the acquisition of territories by the East India Company that the direct collection of revenue was assumed by its officers. In Bengal and the north-eastern districts of Madras, which were the first to come into the possession of the Company, a class of superior holders was found, who collected the revenue and made it over to the ruling power. It was considered expedient to enter into a settlement with this class. The system is known as the *zemindari* system. This method of revenue collection was afterwards extended to the Benares division of the North-Western Provinces and Oudh. A variant of the system was at a later period established in the Central Provinces. In the greater

part of Southern and Western India, no class with any permanent or hereditary right was found to intervene between the peasant and the State. Here, after ineffectual attempts had been made to introduce the system of village settlements, engagements were entered into with individual raiyats. Hence it was called the *raiyatwari* system. This system was established in much the greater part of the area forming the Madras and Bombay Presidencies, and later in Berar, and with some modifications, in Assam and Burma. In the rest of the country, where the joint village system prevailed, the settlement was made with the community as a body.[1]

The second point which deserves consideration is the period for which revenue settlements are made. In the early years of the Company's administration, settlements were made sometimes annually, and on other occasions for periods of three, four, or five years. These temporary settlements were a fruitful source of many abuses. Orders were, therefore, issued by Lord Cornwallis for a decennial settlement of Bengal and Behar, and these settlements were ultimately declared permanent. The Permanent Settlement was, shortly afterwards, extended to Benares. Settlements in perpetuity were also carried out in several districts of the Madras Presidency

[1] Vide W. G. Pedder's *Memorandum on Land Settlements* (*included in the Moral and Material Progress Report, 1882-83*).

between the years 1801 and 1807. It was at this time the intention of the Company's officers in India as well as of the authorities in England to introduce the system of perpetual settlements into all the territories of the Company. But, gradually, the views of the Court of Directors underwent a change, and in the second decade of the nineteenth century the question was decided in favour of a system of periodical settlements. Some of the experienced officers of the Government, however, continued from time to time to advocate permanent settlements.

The official pendulum, as has been aptly remarked, "swung backwards and forwards' with "periodical oscillations." The discussion was seriously resumed after the Sepoy Mutiny. In 1862, Sir Charles Wood sent a despatch to the Government of India expressing his intention to sanction permanent settlements in places where cultivation had sufficiently advanced to warrant such a measure and where there was no apprehension of an "undue sacrifice" of Government revenue. A long official correspondence was carried on for twenty years. Ultimately, however, the view prevailed that, as the progress of the country would require larger revenues for increased expenditure, it was but right and proper that a portion at least of the unearned increments derived from the land should belong to the State. Therefore, in

1882, it was decided finally to abandon the policy of perpetual settlements.

In 1900, Mr. R. C. Dutt, formerly a member of the Indian Civil Service who had won great distinction as an able officer of the Government, addressed to the Governor-General a series of letters concerning the land revenue system of the country.[1] He expressed the view that one of the causes of the dreadful famines which had occurred in recent years was the system of temporary settlements that had been adopted by the Government in most of the provinces. He observed that, if the policy of permanent settlements had been carried into effect, India would have been "spared these dreadful and desolating famines." He also stated that, in consequence of the Permanent Settlement in Bengal, the cultivators in that province were more prosperous, more resourceful, and better able to help themselves in years of bad harvest, than cultivators in any other part of India, that agricultural enterprise had been fostered, cultivation extended, and private capital accumulated, which was devoted to useful industries, and to public works and institutions. The Government of India was unable either to accept his assertions or to endorse his views. It pointed out that it was not a fact that Bengal had been saved from famines

[1] These letters were subsequently published in book form under the title '*Open Letters to Lord Curzon.*'

by the Permanent Settlement: nor was there any ground for the contention that the position of the cultivators had, owing to the Permanent Settlement, been converted into one of exceptional comfort and prosperity. It was not in the Permanent Settlement, the Governor-General in Council observed, that the raiyat had found his salvation but in the laws which had been enacted by the Government "to check its license and to moderate its abuses."[1]

A question analogous to the one to which we have just referred is that of the effect upon the community of long-term as against short-term settlements. As has already been noticed, settlements originally made were for very short periods. Short-term settlements were also the rule in the first quarter of the nineteenth century. Gradually, however, the evils of the system impressed the minds of the Government in India and of the authorities in England. Under the orders of the Court of Directors, a thirty years' term was introduced in Bombay in 1837. This was then adopted in Madras and the North-Western Provinces. The same principle was followed in an extension of the Orissa Settlement in 1867, and in confirming most of the settlements made in the Central Provinces between 1860 and 1870. In the greater part of the Punjab, the shorter term of 20 years

[1] Vide *Resolution of the Governor-General in Council issued on the 16th January, 1902.*

was the recognised rule. The question was fully examined in 1895, when it was finally decided by the Secretary of State that thirty years should continue to be the ordinary term of settlement in Madras, Bombay, and the North-Western Provinces, but that in the Punjab and the Central Provinces, twenty years should be the general rule. In backward tracts, such as Burma and Assam, and in the exceptional circumstances prevailing in Sind shorter terms were permitted.

The reasons for this differentiation in the periods of settlements were thus stated by the Government of India in 1902: "Where the land is fully cultivated, rents fair, and agricultural production not liable to violent oscillations, it is sufficient if the demands of Government are readjusted once in 30 years, i. e., once in the life-time of each generation. Where the opposite conditions prevail and where there are much waste land, low rents, and a fluctuating cultivation, or again where there is a rapid development of resources owing to the construction of roads, railways and canals, to an increase of population, or to a rise in prices, the postponment of a re-settlement for so long a period is both injurious to the people, and unjust to the general taxpayer, who is temporarily deprived of the additional revenue to which he had a legitimate claim. Whether these considerations, justifying a shorter term of settlement

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

than 30 years, apply with sufficient force to the Punjab and the Central Provinces at the present time; and if they do apply at the present time, whether the force of their application will diminish with the passage of time, are weighty questions to which careful attention will be given by the Government of India upon a suitable occasion."[1]

It may be mentioned here that one of the objections to frequent revisions of settlements was that these processes were very dilatory and that they produced a disturbing effect on agricultural operations. They led to considerable harassment and to no small degree of extortion. The evils were of such a magnitude that these processes were often described even by Government officers as "unsettlement operations." It is true that the improvement of village records has in recent years obviated the necessity of detailed surveys, and the exclusion of subordinate officers from the main task of assessment or the preliminary investigations leading up to it has minimised harassment and extortion to which the agricultural community was in the earlier period subjected.[2] But the objections urged against periodical settlements are still valid to a considerable extent.

One of the advantages derived by the cultivators

[1] Resolution of the Governor-General in Council, dated the 16th January, 1902.

[2] Ibid.

from a long-term settlement is that it leaves more money to the people. But if the enhancement of revenue be large and sudden at its close, the increase is keenly resented. On the other hand, when the enhancement is gradual, it is not felt acutely even though the total increase may be very large as the result of a series of short-term settlements.

This brings us to the question of the amount of land revenue demanded by the Government. After the assumption by the Company of the direct administration of territories in Bengal and Madras, the lands were for several years leased to the highest bidders. The amount of revenue was believed to represent approximately eight-tenths or nine-tenths of what the zemindars or farmers actually received from the cultivators. This system led to many abuses. Attempts were then made to ascertain the real value of each estate, but without much success. In the North-Western Provinces, in Bombay, and in Madras, the principle adopted for the determination of the amount of land revenue in the earliest settlements was that of a percentage of the net produce. This principle proved an utter failure in the North-Western Provinces and was formally abandoned by Regulation IX of 1832. Mr. Pringle's abortive settlement of the Bombay Deccan in 1830 was also based on this principle, but it completely broke down. The method subse-

quently adopted in Bombay was an empirical one. For the purpose of the settlement of any tract, its revenue history for the preceding thirty or more years was ascertained, with particular reference to the amount and incidence of assessment, the ease or difficulty with which the revenue had been realised, the arrears and remissions, the rainfall and the nature of the season, the harvest prices, the extension or diminution of cultivation, the effect of improvements in the means of communication, the selling value of land, the prevailing rates of rent, etc. The total assessment was distributed pretty much in the same way among the different villages, and the total assessment of each village was then distributed over its assessable fields in accordance with the classification determining their relative values in point of soil, water supply, and situation.

The net produce principle was never applied in the settlement of territories which came under British rule after 1840, e. g., the Punjab, Oudh, or the Central Provinces. The only province in which it was maintained in theory for a considerable time was Madras. In practice, however, it was found impossible or dangerous to adhere to it strictly. As a matter of fact, the Madras method did not differ very widely from that of Bombay.[1]

When the Government of India considered

[1] W. G. Pedder's *Memorandum on Land Settlement.*

GSL

it desirable to abandon the attempt to ascertain the net produce of the land for settlement purposes, it decided to substitute as the basis of assessment of each estate its actual 'assets'. These represented the rent actually paid by the tenants, where the land was let out for cultivation. If, in a particular case, the rent was found to be obviously inadequate, a 'fair rent' founded chiefly on the prevailing rates of rent, was substituted for the purpose of calculating 'assets.' Where the land was cultivated by its proprietor, its fair rental value was assumed on a consideration of the prevailing rates of rent of similar lands let in the vicinity and of other circumstances. The former method of calculating the assets was that chiefly adopted in Oudh, the latter in the North-Western Provinces. These methods were applied with considerable modifications in the Punjab and Central Provinces settlements.[1]

Speaking generally, whatever the exact method employed, the principle of settlement throughout Upper India was to ascertain the rental value of each estate and to fix a proportion of that value as its assessment. In the settlements originally effected in the North-Western Provinces, which commenced in 1833-34, this proportion was two-thirds. At the time of revi-

[1] W. G. Pedder's *Memorandum on Land Settlement.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

sion, the Saharanpur Rules, issued in 1855, laid down that about one-half, and not two-thirds, as heretofore, of the well assertained net assets, should be the Government demand. These rules have since remained the accepted canon of assessment on landlords' estates in the North-Western Provinces. They continued to govern assessments in the adjacent districts of the Central Provinces until their constitution as a separate administration in 1862. For the settlement of the Nagpur district, however, assessment up to 60 per cent. of the gross rental had been permitted by separate orders issued in 1860, and this became the maximum standard for the whole of the Central Provinces. The 'half assets' rule, though not formally accepted in the new province, continued to be the guiding principle in the areas in which it had previously prevailed.[1]

In 1883, important correspondence took place between the Secretary of State and the Government of India with regard to land settlements. In 1884, Sir Auckland Colvin gave an outline of the new arrangement the effect of which would be to limit, within narrower bounds than had hitherto been the case, the increased assets accruing to the Government at re-settlements, and, on the other hand, very considerably to decrease the expenses attendant on

[1] *Resolution of the Governor-General in Council, dated the 16th January, 1902.*

survey and settlement. He said: "The substance of the arrangement decided on is, briefly, that when (as in a very large number of districts is already the case) the land revenue of a district has been equitably assessed on the basis of a careful survey, finality, in some sort, should be given to the asessment. The manner in which this may best be effected in each province, without undue sacrifice of public interests, is still under consideration, but the principles which at present have been accepted by the Indian and Home Governments may be summarily mentioned. They are: first, that all improvements made by landlords or tenants shall be exempted from assessment; secondly, that no re-classification or revaluation of the soil shall be allowed in any case in which the soil has once been properly classed and valued; thirdly, that the existing assessment shall be taken as the basis of revision, and shall be liable to alteration only on two or three carefully defined grounds. These grounds the Government of India is disposed to restrict to increase of cultivation, increase of of produce due to improvements executed by the State, and rise of prices."[1]

In reply to Mr. R. C. Dutt's criticism that the half assets rule had not in all cases been enforced, the Government of India, after explaining the real import of the Saharanpur Rules, said that it was

[1] *Speech in the Governor-General's Council, 1883.*

an erroneous assumption that what was known as the 'half assets rule' "anywhere bound the Government to take as its land revenue from a district as a whole not more than 50 per cent. of the actual rental of the landlords". They observed further that not only were there no compulsory orders in the matter, but the construction placed on the word 'assets' at the time, and for many years later permitted the settlement officer to look beyond the actual cash rental, and to take into consideration prospective increases of income, to assume a fair rent for land held by tenants enjoying privileges as against the landlord, and to consider the profits of *sir* or home-farm cultivation (where the land was held entirely by cultivating proprietors) as well as the rental value of home farm lands. Hence it arose that the assessments, though amounting only to about 50 per cent. of the nominal assets, "absorbed as a rule a considerably higher proportion of the realised rental".

The Government of India pointed out, however, that there had been, in recent years, a steady movement in the downward direction. In the North-Western and other *zemindari* provinces, the prospective assets had been excluded from consideration, and allowances had been made for improvements effected by the landlord, for precariousness of cultivation, and for local circumstances; the share taken as land revenue was

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

being brought down to an average of less than 50 per cent. In Oudh, the average had fallen below 47 per cent. In the Central Provinces, there had been a progressive reduction of assessment; and although the level of the North-Western Provinces had not yet been reached, land revenue demand of the districts which had been recently re-assessed had been fixed at less than 50 per cent. of the rental. In Orissa, the gradual reduction of the Government share had been from 83.3 per cent. of the assests in 1822 to 54 per cent. in 1900. The general average in the Punjab had been reduced to 45 per cent. of the net income.

One of the concrete suggestions made by Mr. Dutt in his Open Letters was that one-fifth of the gross produce should be fixed as the maximum Government demand in any area and that the average land revenue for a whole district should not exceed one-tenth of such produce. The Government of India deprecated the suggestion of laying down any hard-and-fast arithmetical standards which, in its opinion, would not only be impracticable, but would lead to the placing of burdens upon the shoulders of the people, from which, under a less rigid system, if sympathetically administered, they would be exempt.[1] The Government of India considered it to be an entirely erron-

[1] In justice to Mr. Dutt it should be observed that he never suggested the laying down of hard-and-fast rules. What he did suggest was the acceptance of certain definite maximum standards.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · सत्यमेव जयते · GCL

eous idea that it was either possible or equitable to fix the demand of the State at a definite share of the gross produce. It pointed out that, apart from the difficulty of ascertaining average produce under the existing practice, the Government was taking much less than it was invited to exact, and that the suggested standard would, if systematically applied, lead to an increase of assessment all round.[1]

In a Memorial addressed to the Governor-General in 1901 by certain former members of the Indian Civil Service, it was urged that in *raiyatwari* tracts assessment should not be enhanced except in cases where the land had increased in value, "(1) in consequence of improvements in irrigation works carried out at the expense of the Government; (2) on account of a rise in the value of produce, based on the average prices of thirty years next preceding such revision." The Government, however, refused to accept this suggestion on the ground that it would amount to a surrender to a number of individuals of an "increment which they had not themselves earned."[2]

In addition to land revenue, cesses are levied on land for the construction and repair of roads, the upkeep of schools and dispensaries and other similar duties of a local character. These cesses are

[1] *Resolution of the Governor-General in Council, dated the 16th January, 1902.*

[2] *Ibid.*

generally assessed on the assets or rental value. In the Memorial referred to above, it was urged that local taxation should be limited to objects directly connected with the land, and that the maximum rate of such taxation should not exceed 10 per cent. The Government of India recorded its emphatic dissent from the former proposal, while in regard to the second it pointed out that the proportion had nowhere gone beyond the limit suggested in the Memorial. In calculating the amount of these cesses, the Government did not take into account the sums payable by the agricultural community for the remuneration of the village officers, such as the headmen, the accountants, and the watchmen, the ground advanced for such omission being that the support of the village staff had been a charge on the community from time immemorial. If these latter charges were included, the Government of India observed, even then local taxation would not exceed the maximum suggested in the Memorial, except in three provinces, namely, Sind, Madras, and Coorg, where the incidence was $12\frac{1}{4}$, $10\frac{3}{4}$ and $13\frac{1}{2}$ per cent. respectively on the *raiyatwari* revenue. The burden on the agriculturists was, however, greatly enhanced by the various illegal cesses exacted by the landlords.[1]

The Government admitted, on this occasion, that three possible cases of hardship were involved in

[1] *Resolution, dated the 16th January, 1902.*

the land revenue system which might be due to (1) a large and sudden enhancement of revenue, (2) the exaction of a fixed demand in bad years as well as good, and (3) a local deterioration. In order to remedy these evils, or at least to minimise their effects, the Government of India expressed its willingness to lay down principles, where the necessity was established, to make a further advance in respect of (1) the progressive and graduated imposition of large enhancements, (2) greater elasticity in revenue collection, facilitating its adjustment to the variations of the seasons and the circumstances of the people, and (3) a more general resort to reduction of assessments in cases of local deterioration, where such reduction could not be claimed under the terms of settlement.

In concluding a review of the land revenue system as it existed in 1902, the Governor-General in Council disclaimed all pretensions to exactitude or freedom from blemish, and remarked that the system was not a science at all. He observed: "In no country can land valuation be so described; and India, in spite of records, estimates and tables, is no exception to the rule. A part of the weakness of the criticisms which have been directed against it, arises from the assumption that it can be regulated by fixed laws, or shaped by arithmetical standards. Assessments cannot be dictated by the theorist in his study; they elude dogmatic treatment, and can only

MINISTRY OF CULTURE GOVERNMENT OF INDIA

CSL

be safely worked out by the Settlement Officer in the village and on the fields".[1] While it may be conceded that there are practical difficulties in the way of treating the land revenue system as an exact science, it is impossible to subscribe to the view that it is incapable of being treated scientifically. The great drawback of the land revenue system of India has been that too much has been left to the discretion of the individual officers, with the result that while in some cases the burden has been comparatively light, in others it has been unbearable.

The principles laid down in 1902 marked a real advance on those which had been in vogue previously to that date. But, unfortunately, these principles were not carried out in the right spirit throughout the country. While there was a general tendency towards a reduction of the percentage of increase, the re-assessments were not conducted on proper lines in all the provinces. Besides, rules were framed by the executive officers ; and owing to the absence of sufficient definiteness in these rules, the excessive zeal shown by some officers in improving the revenues of the Government led to considerable hardships in many areas and in innumerable individual cases.

This brings us to the question of the authority under which the land revenue demand is determined. Various Acts of the provincial legislatures were

[1] *Resolution, dated the 16th January, 1902.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VII

GSL

passed at different dates laying down the procedure to be followed in connexion with the settlements. But, until recently, important questions like rates and periods of settlement were left to be determined by executive action. When the provisions of the Government of India Bill were placed before the Joint Select Committee of Parliament, several witnesses raised objections to the manner in which the land revenue system of India was regulated. The Committee advised that "the process of revising land revenue assessments ought to be brought under closer regulation by statute." "No branch of the administration," the Committee added, "is regulated with greater elaboration and care ; but the people who are most affected have no voice in the shaping of the system, and the rules are often obscure and imperfectly understood by those who pay the revenue. The Committee are of opinion that the time has come to embody in the law the main principles by which the land revenue is determined, the methods of valuation, the pitch of assessment, the periods of revision, the graduation of enhancements, and the other chief processes which touch the well-being of the revenue payers."[1] Since then, legislation has been enacted in some of the provinces and is in contemplation in several others. It is to be hoped that, before long, the entire land revenue system will be placed on a statutory basis.

[1] *Report, paragraph 11.*

The complaint is often made that the land revenue is collected with greater rigidity under British rule than it was under any of the previous governments. As the systems differ, a comparison is hardly possible. The collection is now made generally in two instalments at the end of the two principal harvest seasons. The procedure adopted for enforcing payment of the land revenue differs in the different provinces. In the permanently settled areas of Bengal, if the revenue demand is not met on or before the prescribed date, the estate is put up to sale. In the permanently settled districts of Madras, the personal property of the defaulter is first attached; and if the demand is not satisfied, a sale of the landed estate then takes place. In the rest of the country, the Government proceeds to a sale of landed property only as a last resort. In those parts of Northern India where the *mauzawari* system of settlement prevails, the processes of recovery at first resorted to are a writ of demand, arrest of the defaulter, the distress on movable property; when these processes fail, recourse is had to an attachment of the land. Ultimately, the landed estate of the defaulter is sold. No interest is charged for arrears in Northern India. In the *raiyatwari* tracts of Madras and Bombay, the law provides for the attachment and sale of the movable and immovable property, for the holding being taken under management, for

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

forfeiture of the occupancy, or for the arrest and imprisonment of the defaulter.[1]

The evils of an inelastic system of collection became manifest after the severe famine of 1876-78. The Famine Commission of 1880 discussed this question and made some important recommendations. The Government has since adopted the policy of suspending the collection of revenue on occasions when the people are unable to pay, owing to failure of crops resulting from drought or floods. Remissions are also made in times of severe and widespread famine.[2]

Apart from such remissions on special occasions, the practice of assignment of revenue, in favour of persons who have rendered service or of pious and learned men, has prevailed from pre-British days. These grants have been known by various names, such as *lakhiraj*, *jaigir*, *inam*, and *mafi*. In such cases, lands have been either held revenue-free or have paid revenue at favourable rates. Exemptions of this sort are regarded as cherished privileges, but it is the ruling authority alone which is entitled to exercise the power to grant them. In the early years of the Company's rule, however, exemptions were in many cases granted by unauthorised

[1] *Moral and Material Progress (Decennial) Report, 1901-02.*

[2] The Famine Commission considered the true principle of leniency to be "that nobody should be forced in such seasons as these to borrow in order to pay the land revenue, but that all who can pay it without borrowing should do so."—*Para 167.*

GSL

persons. No steps were taken to remedy this evil till 1788 and 1790. In these years, certain rules were laid down with the object of facilitating the recovery of public dues from lands in the Bengal Presidency held exempt under invalid grants, and preventing any similar alienations being thereafter made. These rules were embodied in two Regulations enacted in 1793.[1] By these Regulations, all grants for holding land exempt from the payment of revenue which might have been made previous to the 12th August, 1765, by whatever authority and whether in writing or not, were to be held valid, provided the grantee had actually and *bona fide* obtained possession of the land so granted previous to that date, and the land had not been subsequently rendered subject to the payment of revenue by the officers of the Government. But all grants made after that date by any authority other than that of the Government, and which had not been confirmed by the Government were declared invalid.

These Regulations were subsequently modified and extended. In the other provinces, investigations were made into the titles of persons holding revenue-free lands. But the delay which occurred in instituting these enquiries gave the possessors of invalid tenures a sort of prescriptive right, and

[1] *Bengal Regulation XIX (Non-Badshahi Grants) and Bengal Regulation XXXVII (Badshahi Grants) of 1793.*

when steps were actually taken, there was a good deal of bitterness and discontent.[1] Towards the end of the Company's administration, the question of alienations of land engaged the serious attention of the Government. A Commission was appointed to investigate the matter. Principles were laid down for the decision of disputes relating to the validity of alienations of lands, and rules were framed for the different classes of *inams*.

The settlement of waste lands is regulated on principles different from those of lands under ordinary cultivation. Towards the close of the Company's rule, many applications were made to the Directors of the East India Company by Europeans, individuals as well as companies, who were desirous of obtaining unoccupied land for the purpose of carrying on the cultivation of cotton, tea, coffee, and other exportable products. Such applications were renewed after the transfer of the administration to the Crown. The applicants were anxious to obtain grants of land "in fee simple," either gratuitously or in consideration of an immediate payment, under which the land should be for ever discharged from all demand on account of land revenue. The extent of land absolutely at the disposal of the Government of India was, of course, limited. In such parts of the country as Dehra-Dun,

[1] Campbell's *India* (a paper included in *Systems of Land Tenure in Many Countries*).

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · CSL

Assam, the Sunderbuns, Kumaun, Garhwal, and other areas similarly situated, rules had already been promulgated under which settlers could obtain allotments under very easy conditions, and for long terms of years. In 1858, Lord Stanley, the first Secretary of State for India, sent a despatch to the Governor-General in Council in which he expressed his desire that steps should be taken for the purpose of permitting grantees to commute the annual payments for fixed sums per acre.[1] After considering the views of the Provincial Governments, the Government of India adopted a Resolution[2] in 1861, in which it was observed that the Governor-General in Council looked for substantial benefits both to India and England which must follow the establishment of European settlers in districts where the climate was not injurious to their health, and whence they might direct such improvements as European capital, skill, and enterprise could effect in the agriculture, communications, and commerce of the country.[3] The Government also laid down the principal rules to be observed in giving effect to this purpose.

Under these rules, land might be granted in

[1] *Despatch dated the 31st December, 1858.*

[2] *Resolution dated the 17th October, 1861.*

[3] There were many officers of the Government who did not attach much importance to the question. Lord Elphinstone, Governor of Bombay, for instance, wrote: "The settlement of Europeans in this country in such numbers as to be worthy of being termed the colonization of India, has always appeared to me to be a chimæra." *Minute dated the 23rd February, 1860.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

perpetuity, as a heritable and transferable property, subject to no enhancement of land revenue assessment and all prospective revenue would be redeemable, at the grantee's option. The price to be paid for unassessed land was not to exceed $2\frac{1}{2}$ rupees per acre for uncleared land, or 5 rupees per acre for land unencumbered with jungle, subject to a deduction of one-fourth of the area for unculturable land. When the question was referred to the India Office, the new Secretary of State, Sir Charles Wood, disapproved of the proposal to fix a uniform price for uncleared land throughout India, and directed that Provincial Governments should be instructed to fix minimum prices suited to the circumstances of the various descriptions of land in different parts of the country. These instructions were carried out, and detailed rules were framed or modified in accordance therewith in all the provinces permitting the grant of waste lands in perpetuity.

In the same despatch, Lord Stanley had asked the Government of India to consider another important question, namely, the expediency of allowing the proprietors of estates subject to the payment of revenue to redeem the land-tax by the immediate payment of a sum of equivalent value. He pointed out the likely advantages of the proposed change, the most important of which would be political. The Secretary of State hoped that the

fortunes of the zemindars, who would be allowed to extinguish their fixed annual liabilities by single payments, would thenceforth be more intimately connected with those of the British Government than previously. The Government of India invited the views of the Provincial Governments and the responsible officers on the question. The correspondence which ensued showed that there existed great divergences of opinion on the subject. The Government of Madras expressed the opinion that as the land tax was the main constituent of the public resources, it would deprecate a curtailment of the State income. It did not, however, object to the redemption of the revenue derived from land used for building purposes, as such land was limited in total extent and was a species of property in which security of tenure was peculiarly important. The Lieutenant-Governor of the North-Western Provinces thought that, if practicable, no more politic and beneficial measure could be carried out. But he was of opinion that the first proposal was not a practicable one, because such redemption could not be carried out except at a very large sacrifice on the part of the Government, secondly, the poverty of the people forbade any hope of its successful execution to any large extent, and thirdly, a partial carrying out of this redemption would not realise either the political, or the economic, or the commercial advantages which were

GSL

expected from it.[1] The opinion of the Lieutenant-Governor was that the proposed measure was a good one ; but he did not think that it would be extensively taken advantage of, owing to the high value of money in this country.[2] The Government of Bombay, as a whole, did not express any opinion, but the Governor and the Members of Council wrote separate minutes on the subject. Lord Elphinstone said : "Provided a sufficient price is paid for the privilege, the price will secure the State from loss. I certainly think that upon every ground, financial, agricultural, and political, it is our true policy to encourage the necessarily gradual and partial redemption of the land tax." He, however, looked upon it as a limited measure. Lord Elphinstone did not apprehend that any sudden or general commut-

[1] Mr. A. O. Hume, who afterwards rose to the position of Secretary to the Government of India, strongly supported the proposal and expressed the view that the conversion of landholders into *bona fide* proprietors might result in an increase of the amount of produce by 50 per cent.—*Letter dated the 15th September, 1859.* With regard to the objection that the redemption of land revenue in the temporarily settled districts would preclude the state from sharing in any increased production of the land, he expressed the view that the State would be able to derive an enhanced income in the shape of various taxes.—*Letter to the Government of the North-Western Provinces, dated the 15th September, 1859.* On the other hand, Mr. J. Strachey, who subsequently became Finance Member of the Government of India, thought that, in those parts where a settlement of the land revenue had been made for limited periods, the evil of abandoning the right of the state to profit by future increase of the rent of land far counterbalanced all the possible advantages.—*Letter dated the 30th September, 1859.*

[2] The Lieutenant-Governor did not feel inclined to attribute great weight to the political results of the measure, as he believed that a permanent settlement of the land tax had in India so strong a political effect for good that the practical operation of a permanent immunity from land tax could hardly be stronger.—*Letter to the Government of India, dated the 9th March, 1860.*

ation would take place; and he suggested that, if necessary, it might be announced that the object of the measure was the repayment of the public debt, and that when this object was attained, the redemption of the land tax would cease. He further expressed the view that, if the whole of the public debt could be paid off by allowing a portion of the land tax to be redeemed at thirtyfive years' purchase, it would be "an admirable financial operation." Mr. Reeves, a member of the Executive Council of Bombay, on the other hand, considered the proposal inappropriate as a financial measure, though he thought that the political aspect of the question deserved consideration. Mr. Mallet, another member, did not think that this was a concession under which numerous applications might be expected, unless the purchase money were fixed so low as to be disadvantageous to the Government.

After carefully weighing the opinions of many experienced officers, the Government of India published in 1861 a Resolution[1] in which it observed that great caution was necessary in dealing with a

[1] *Resolution dated the 17th October, 1861.*

Mr. Cecil Beadon wrote a minute in which he said that he would allow the owners of permanently settled estates to redeem their land revenue, but only on condition that legislative provision was made for the rigid application of the proceeds to the purpose of extinguishing the debt, and that no part of the redemption was regarded as current revenue. He further thought the main objections to redemption would lose much of their force if the rights of all subordinate holders were maintained intact and the right to redeem was conceded only when three-fourths of the culturable land was already under tillage.

financial resource of the greatest importance like the land revenue. It, therefore, proposed, in the first instance, to limit the permission of redemption in any one district to a maximum of 10 per cent. of the estates. Such restriction would, they thought, enable government to ascertain in each province, without undue risk to its permanent fiscal resources, the practical effect of permitting the redemption, both in well-cultivated tracts and in those in which much uncultivated land existed and would thus afford an opportunity of reconsidering afterwards the effect of the measure in the light of ample experience. The price to be paid was fixed at twenty years' purchase of the then existing assessment.

In reply to the despatch which was sent to the Secretary of State on this subject. Sir Charles Wood expressed his disapproval of the main scheme. He observed that, if a right to redeem the land revenue to the extent of one-tenth of the land was allowed, it would be impossible to stop at that point; it would be necessary to go further and recognise the general right to redeem the assessment. Besides, the amount of capital which would be required for the purpose of redemption would be found to be far greater than what existed in the hands of the landholders. And further, if they were in a condition to provide such a sum, the Government would find itself in the embarrassing

position of having its treasury over-flowing with money which it would have no adequate means of employing or investing. Sir Charles added: "The objection arising from capitalising the income of the State and depriving it in future years of the steady and stable resource of the land revenue, on which it can under all circumstances rely, is most serious. It is not a consideration of slight importance that, of all sources of revenue, none is so easily collected, and none so willingly paid. Her Majesty's Government would be sorry to deprive the Government of India in future years of this large and most unobjectionable portion of their revenue, which the people have been immemorially accustomed to contribute, and which consequently has all the authority of prescription and tradition in its favour. These considerations seem to be fatal to a scheme of general, or even of a very extensive, redemption of the land revenue."[1] The Secretary of State, however, sanctioned a measure of a narrow and partial character. The Provincial Governments were given the power to allow, at their discretion, the

[1] *Despatch dated the 9th July, 1862.*

The views of Sir Charles Wood, however, were not shared by all his colleagues. Four members of the Council of India wrote separate minutes dissenting from the opinion of the majority, their main grounds being that it was inexpedient to withdraw the offer of a privilege which had been made by a previous Secretary of State, that the despatch was retrograde in policy, and that there could be no possible objection to the redemption of land tax in parts of India which were under perpetual settlement.

The dissentient members were E. Macnaughten, R. D. Mangles, Sir Henry Montgomery, and Mr. W. E. Baker.

redemption of lands required for dwelling-houses, factories, gardens, plantations, and other similar purposes.

A few words may be said about the applicability of the canons of taxation to the land revenue systems of India. This subject is discussed at some length by the Taxation Enquiry Committee. They hold that, except in the case of fluctuating assessments in the Punjab and Burma and in the variable charges connected with the annual settlements in Madras, the canon of certainty is satisfied. This, undoubtedly, is true so far as the currency of a settlement is concerned. But at a re-settlement the situation becomes different, and the cultivator hardly knows what amount he will have to pay or on what principles the increased demand will be based. So far as the second canon is concerned, the Committee are right in expressing the view that convenience is often sacrified to certainty. On the question of economy, the Committee are of opinion that, if the assessment and collection of the land revenue were the only matter in issue, it would be practicable to devise a less costly scheme; but the justification of the high cost of the settlement is to be looked for in the other advantages derived from the elaborate procedure connected with the land revenue system. In considering the question of ability, the Committee emphasise the statement of Dr. Gregory that land revenue is

essentially a tax on things and not on persons, and as such it is not a tax to which the doctrine of progression can be applied. This argument does not seem to be very sound, for it is now recognised that the distinction between taxes *in rem* and taxes *in personam*, though convenient for certain purposes, has no basis in economic theory.

Some of the other defects of the present systems are thus summarised by the Taxation Enquiry Committee: "The land revenue, viewed as a scheme of taxation, is not only not progressive, but actually tends in the opposite direction. At one end, the large landlords, many of whom are creations of the British Government, form one of the classes who pay a comparatively small part of their surplus towards the upkeep of the State. At the other end of the scale comes the cultivator of the uneconomic holding, in whose case the system of reducing the State's share from a share of the crop of the year to a cash average coupled with the collection of the land revenue at harvest time, has led to extravagant expenditure by an improvident class in good years, followed by indebtedness and transfer of lands to moneylenders in the lean ones." [1]

We now proceed to trace briefly the history of the land revenue systems of the different provinces.

[1] *Report, Ch. IV.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

Bengal, of course, claims our attention first.[1] The East India Company obtained the *Diwani* of Bengal, Behar and Orissa[2] from the Emperor Shah Alam in 1765. In the following year, Lord Clive took his seat as *Diwan* by the side of the Nawab Nazim of Murshidabad at the *punyaha* ceremony. But, as the European officials were not at the time familiar with financial business, the actual work of collection and management of the revenues was left for the time being in the hands of the officers of the Nawab.

In 1769, Supervisors were appointed to check the work of the Indian officers. In the following year, two controlling Councils of Revenue were established at Murshidabad and Patna. In 1772, under the orders of the Court of Directors, the Company decided "to stand forth as *Diwan*" and, by the agency of its own servants, to take upon itself "the entire care and management of the revenues." A settlement of the land revenue for five years was decided upon, and offers were

[1] For a more detailed account of the land revenue system of Bengal during the Company's administration, see the author's *Indian Finance in the Days of the Company, ch. IV.*

[2] The Bengal of those days comprised the present divisions of the Presidency, Rajshahi (with the exception of Darjeeling and the Western Duars), Chittagong, and Dacca, with parts of the Hazaribagh and Manbhum districts, (now in the Chota Nagpur division of Behar and Orissa), and of Cooch Behar. Behar comprised the Patna, Bhagalpur and Tirhut Divisions. Orissa did not include any part of the present division of that name; this term, in those days, was applied only to the tract of country between the Rupnarain and Subarnarekha rivers, now included in the district of Midnapur.—Vide *Moral and Material Progress Report, 1873-74.*

GSL

invited for each *pargana* from landholders, speculators and adventurers, and those of the highest bidders were accepted.[1]

The results of these arrangements proved very unsatisfactory. A change of management was made in 1774. The European collectors were recalled, and Indians were placed in their stead. For the superintendence of the collections, six divisions were formed, each under the direction of a Chief and Council. Shortly afterwards, the question of settlement formed the subject of discussion between the Governor-General and the members of his Council. In 1775, a joint plan was prepared by Warren Hastings and Barwell. In the following year, Philip Francis submitted a rival plan, in which he advocated a system of settlements in perpetuity. For the moment the Directors did not consider it advisable to adopt either of these plans, but directed that a settlement should be made for one year.

Meanwhile, the quinquennial settlements of 1772 had proved a disastrous failure. Many of the revenue contractors had failed in their engagements, and defalcations had occurred to a very large extent.

[1] It was resolved on this occasion to subtract certain oppressive taxes from the public revenue, such as *baxi jama*, *sair chalunta*, *marocha*, and *haldari*. *Nazars* and *salamis* were also forbidden. It was notified that the farmers should neither pay the amount of these taxes to the Government nor be allowed to collect them from the people. These instructions, however, were generally disregarded.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

It was, therefore, resolved in 1877[1] to recall the farmers and put the land under the management of the *zemindars*, if they possessed capacity and agreed to engage for such amounts as the Provincial Council might consider reasonable. During the three following years, settlements were made on the same principles, and by European agency. But the average produce of this period was less than that of the previous period. Another change was made in 1781. By the new plan, the Provincial Councils were abolished and a Committee of Revenue was established in Calcutta. The Committee was required to conclude the new settlement by deputation on the spot. This settlement was made for one year, and annual settlements were made during the next few years.

In the meantime, the unsatisfactory nature of the land revenue system and the frequent changes of policy had attracted the attention of Parliament. By Pitt's India Act of 1784 the Directors of the East India Company were commanded to enquire into the grievances of landholders and others, and to take steps towards "settling and establishing, upon principles of moderation and justice, according to the laws and constitution

[1] In 1776, a committee of three European civil servants was appointed by Hastings for the purpose of investigating the question of land settlements with the assistance of Indian *amins*. The *Amini Report* was submitted in *1778*. This has been reproduced in full in Mr. R. B. Ramsbotham's *Studies in the Land Revenue History of Bengal*.

GSL

of India, the permanent rules by which their respective tributes, rents, and services, shall be in future rendered and paid."[1] When Lord Cornwallis was appointed Governor-General, he was furnished with definite instructions. In the Instrument of Instructions the Directors, after pointing out that heavy arrears of revenue had accumulated, expressed the opinion that the best security for the revenue was the hereditary tenure of the possessor of the land. On the question of settlement, they observed that it was their intention to make it ultimately permanent and unalterable, but that, for special reasons, it should be effected at the time for ten years. The concluding words of this document were these: "A moderate *jama* or assessment, regularly and punctually collected, unites the consideration of our interest with the happiness of the natives and security of the landholders more rationally than any imperfect collection of an exaggerated *jama*, to be enforced with severity and vexation."[2]

On arrival in India, Lord Cornwallis found not only that the collection of revenue had been attended with various difficulties and large arrears had accumulated, but that a considerable part of the province had been turned into an uncultivated waste. He, therefore, made up his mind to change

[1] *Act for the Better Government of India, Sec. 39.*
[2] Vide *Fifth Report, 1812.*

the system; but for the moment he considered it wise to continue the practice of annual settlements. He caused enquiries to be instituted as to the rights of the different classes of persons to the land, the ancient modes of revenue collection, the proper amount of land revenue, and other cognate matters. The results of these enquiries, were embodied in Shore's able Minute of the 18th June, 1789.[1] Most of the officers of the Government, in view of the unfortunate experience of the past, expressed themselves in favour of a settlement being made in future with the zemindars. On the question of the amount of the assessment to be fixed on the land, considerable difference of opinion was revealed. James Grant, the Chief Sheristadar, suggested that the total assessment ought to be over half a million per annum more than what had at any time been collected by the Company. On the other hand, Sir John Shore, President of the Committee of Revenue and a member of the Governor-General's Council, who afterwards rose to the position of Governor-General with the title of Lord Teignmouth, pointed out that, since the acquisition of the *Diwani*, the amount of revenue had generally been fixed by conjectural estimates only, with the result that the impositions had been too heavy to be discharged and that the Government had often fouud it necessary

[1] As Mr. C. D. Field rightly observes, the high encomium bestowed by the Directors on this masterly dissertation was fully deserved.

to grant remissions. By a comparison of the assessment of 1786-87 with that of 1765-66 (the first year of the *Diwani* assessment), he showed that both the gross and the net revenues had considerably increased. He urged various grounds in opposing the proposal of enhancing the assessment, not the least important of which was that a foreign Government should be very cautious in its demands. Sir John Shore also objected to a progressive increase of the assessment.

Sir John Shore held the view that the land revenue demand should be fixed for ever. He did not, however, desire that the proposal should come into force at once. Lord Cornwallis, on the other hand, was extremely eager to introduce without delay a system of settlements in perpetuity[1]; and as a step towards it, he concluded a settlement with the zemindars for ten years. It was notified, on this occasion, that the *jama* assessed upon the lands would be continued after the expiration of the ten years' period and remain unalterable for ever, provided that such continuance should meet with the approbation of the Court of Directors. The Decennial Settlement was commenced in 1789 and completed in 1791.[2] The Directors expressed

[1] For an account of the Cornwallis-Shore controversy see the author's *Indian Finance in the Days of the Company, Ch. IV.*

[2] The Permanent Settlement Regulations were not applied to certain tracts in Bengal, e.g., parts of Chittagong, for special reasons. Nor did it come into force in the territories which came into the possession of

their approval of the Decennial Settlement, but they expressed the view that the fixing of rates in perpetuity was "not a claim to which the landholders had any pretensions, founded on the principles or practice of the native government, but a grace which it would be good policy for the British Government to bestow on them."

When the Decennial Settlement was effected, no attempt was made to measure the fields or to calculate the out-turn. The amount of revenue to be paid in future was fixed by reference to an average of actual collections in former years. The total realisation of land revenue in the year 1790-91, the first complete year of the new system, from the provinces of Bengal, Behar and Orissa amounted to *Sicca* Rupees 2,68,00,989. The Directors expressed their satisfaction that the revenue had come up to a sum which was likely to prove equal to the needs of the Government. In 1793, the Governor-General in Council issued a Proclamation in which he declared the settlement as permanent, and notified that no alteration would be made in the assessment in future. The zemindars were enjoined to pay regularly the revenue in all seasons. They were, further, given clearly to understand that in future no claims for suspensions

the Company later. It was also considered undesirable to settle permanently the waste lands, the deforested areas, and the islands formed in the beds of large rivers.

GSL

or remissions, on account of drought, inundation, or any other calamity of seasons, would be considered, but that in the event of any *zemindar* failing in the punctual payment of the public revenue, a sale of the lands of the defaulter, would positively and invariably take place.[1] The right of the Government to re-establish *sair* collections or any other internal duties was retained.

The entire text of the Proclamation was embodied in Bengal Regulation I of 1793. Regulation VIII of 1793 provided that the allowances of *kazis* and *kanungos*, as well as public pensions, were to be added to the *jama*. It also provided that the assessment was to be fixed exclusive of *sair*[2] and of *lakhiraj*[3] lands. Further, in terms of this Regulation, *nankar*, *khamar*, *nij-jot* and other private lands appropriated by the zemindars, as well as *chakaran*[4] lands, were annexed to the *malguzari*[5] lands. Zemindars were given the right to let out their lands.

During the years immediately following the Permanent Settlement, various inconveniences were felt and grievances complained of. The zemindars were bitterly opposed to the new system as it

[1] *Proclamation dated the 22nd March, 1793.*

[2] Inland duties and collections of a miscellaneous character.

[3] Revenue-free.

[4] Lands granted for the support of public servants.

[5] Revenue-paying.

GSL

proved ruinous to them.[1] The revenue was not realised with punctuality, and large areas of land were periodically exposed to sale by auction for the recovery of outstanding balances. Most of the older families of landholders were swept away. Regulations were, therefore, enacted to facilitate the collection by zemindars of their dues from the raiyats. These measures placed the zemindars in a position of unfair advantage as against the tenants, but they proved successful in effecting a more punctual collection of the Government revenue. The arrears outstanding at the end of each year greatly diminished, and the sale of lands for the recovery of arrears became less frequent. The land revenue system was thus at last placed on a stable—though hardly satisfactory—basis in Bengal.

As for the effects of the Permanent Settlement, the Select Committee of 1810 observed that the system had proved "beneficial both to the interests of the sovereign and the subject." But opinion both in England and in India had begun already to change. It came gradually to be realised that, while the Permanent Settlement had fully assured the immediate revenue position of the Government, it was destined to prove a permanent obstacle to the growth of the State resources. The *zemindars*

[1] Ascoli is of opinion that the larger zemindars were hostile to the Permanent Settlement because of the law of sale.

GSL

of a later date, without doubt, derived great benefit from the measure, but all other rights in the land were adversely affected. The net effect of the law and practice of the Permanent Settlement and the measures connected with it was not only to depress the condition of the peasants, but to place them almost entirely at the mercy of the *zemindars*.[1] If a Permanent Settlement had been effected with the actual cultivators, instead of with the zemindars, the benefits of a perpetual arrangement would have been reaped without its disadvantages.

The subsequent history of the land revenue system of Bengal relates to improvements in the machinery of collection and administration. With this object in view Regulations were enacted in 1801, 1812, and 1814. The law relating to the recovery of arrears of revenue was recast in 1822. Several amendments were made to this Regulation during the next two decades. It was, however, not until

[1] Ascoli observes: "It is true that the settlement may have apparently freed the Central Government for its wars in Southern India, but that freedom was obtained at a heavy price in money and internal administrative tangles; that freedom was obtained, rightly or wrongly, at the expense of the proprietary classes then existing, and wrongly, without doubt, at the expense of the cultivator. The freedom gained by Government was merely temporary; the destruction of the proprietary classes was a permanent bequest to posterity; while the position of the cultivator has remained to this day one of the most difficult and insoluble of administrative problems."—*Early Revenue History of Bengal, p. 81.* Lord Hastings wrote in 1819: "Never was there any measure conceived in a purer spirit of generous humanity and disinterested justice than the plan for the Permanent Settlement." This view can hardly be substantiated. The real motive was security of revenue.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

1841 that the general principles of the system of sales of land for recovery of arrears of revenue were satisfactorily settled. A few other measures were enacted in the course of the next 18 years. The provisions of Act XII of 1841 were embodied in Act XI of 1859, together with various other important matters. The legislation during the years 1799 to 1859 was concerned principally with the sale of estates for the recovery of arrears. Little was done by way of improving the law for the recovery of arrears by any other process. There were also various ambiguities in the then existing law. Act VII of 1868 of the Bengal Legislative Council was passed to remedy these defects. Though a few minor amendments have since been made, almost the entire law on the subject now operative in Bengal is to be found in the two measures, namely, Act XI of 1859 and Act VII (B. C.) of 1868.[1]

Although by the Permanent Settlement Regulations the Government reserved to itself the right to intervene in cases of hardship and oppression to the *raiyats*, the power was not exercised for nearly a century. In fact, as has already been noticed, the Regulations enacted between the years 1795 and 1810, particularly the *Haftam* and the *Pancham*, considerably added to the troubles of the tenants. In 1859, a measure was enacted which secured the

[1] A summary of the main provisions of these Acts is to be found in C. D. Field's *Introduction to the Bengal Code*.

GSL

rights of the holders of under-tenures, farms and leases. But it was not until 1886 that the tenants were given anything like adequate protection. In 1928, the tenancy law of Bengal was completely revised. On this occasion, the tenants were given certain rights which they did not possess before; but the measure was not regarded as a wholly satisfactory one from many points of view.

We come now to Behar and Orissa. It originally formed part of the province of Bengal, but was constituted a separate province in March, 1912. The Permanent Settlement, as we have already seen, was established in 1793 in the whole of Behar, that is to say, the tract of the country now included in the Patna, Tirhut, and Bhagalpur Divisions, and also in the Hazaribagh and Manbhum districts and a few estates in Singhbhum and Ranchi in the Chota Nagpur division. This system has continued to the present day. As in Bengal, the revenue of the permanently-settled estates is realised with great punctuality. Under the conditions of settlement, no pleas based on losses occurring through famines, epidemics, cyclones, or other natural calamities, can be urged as excuses for non-payment of revenue. When a landholder fails to pay, his estate is put up to sale.

Orissa proper came into British possession at a subsequent date. In 1804, a proclamation was issued in the districts of Cuttack, Balasore and

Puri to the effect that a settlement would be made with the *zemindars*, in all practicable cases, for a period of three years, at the end of which a permanent settlement would be concluded with the same persons, provided the lands were in a sufficiently improved state of cultivation. The promise of a settlement in perpetuity was reiterated in subsequent years, but it was not carried out in practice. The settlements actually effected were for short terms, and were based on new principles. The system was known as the village or *mauzawari* system. The settlement was made for five years, and extended for another term of five years. By Regulation IX of 1833, the system was improved, and the then existing settlement was continued for a further period of five years. The first regular settlement with a survey and record of rights, was concluded between the years 1837 and 1845. This settlement was based upon a careful field measurement, and it was made for thirty years. It yielded an increase of revenue to the extent of only Rs. 34,980. The settlement of 1837 expired in 1867, when it was renewed without alteration for another thirty years. Another re-settlement took effect in 1897, but the work extended over a period of nearly ten years. The Government revenue was at this time fixed for over six thousand estates. The re-settlement dealt with an area of 5,897 square miles.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

Till the year 1898, no principle had been adopted for fixing the amount of revenue at a settlement. But in that year, the Secretary of State approved the proposal that from 50 to 55 per cent. of the assests should be taken as revenue, and at the same time directed that the limit of 55 per cent. should be very rarely exceeded. The actual percentage of the assests taken was 54. Nearly 6,400 estates situated in 11,000 villages were assessed to revenue. The total amount of the settled revenue was Rs. 21,05,073. The percentage of increase of revenue amounted to 54 in Cuttack, 67 in Balasore, and 28 in Puri, the average increase being 52 for the three districts. The incidence of revenue at the settlement of 1897 was Re. 1. 1a. 10p. per acre as against 15as. 7p. of the previous settlement.[1] The Government estate at Khurda and the confiscated tributary estates of Angul and Banki were settled on somewhat different principles.[2]

[1] *Behar and Orissa Administration Report, 1911-12.*

[2] The estate of Khurda, comprising nearly half the district of Puri was until 1837 settled *mahalwari* on rough estimates, the persons admitted to engagement being the *sarbarahkars*, or village headmen. In 1837, a regular *raiyatwari* settlement was made after measurement and ascertainment of rates for different classes of the soil. The settlement was for twenty years, but was renewed for a further like period after measurement of new cultivation. Preparations for a revision of the settlement began in 1875. This settlement met with much opposition from the raiyats. The Government ultimately reduced the revenue demand from a quarter to one-fifth of the gross produce, and limited the period of settlement to fifteen years, terminating in 1897. A further settlement for a period of fifteen years was made in that year.

Angul was at one time a tributary state, but it was confiscated by the British Government in 1847. In 1855, a settlement of rents was made with the *raiyats*, the *sarbarahkars* engaging for the amount of the

GSL

As Behar formed part of the administration of Bengal, for much the greater part of its history the tenancy laws enacted in that province were and still are applicable there. A Tenancy Bill is at present under consideration by the Legislative Council.

We come now to the Agra province. Before the commencement of British Rule, the tenure prevalent in most of the places which were afterwards incorporated into this province was *zemindari*. The owner was, or co-owners jointly were, responsible for the payment of the land revenue of the whole village. But in some places the system was *raiyatwari*, where each cultivator was responsible for the payment due on his own land. In 1795, a Permanent Settlement was made with the zemindars of the Benares Division, and most of the Regulations enacted for Bengal were extended to this territory. In 1803, that is to say, soon after the acquisition of the territories known as the Ceded Districts, settlements were made in these areas for three years

Government revenue. The re-settlement of the estate was begun in 1887-88 and completed in 1891-92. With a view to minimising the strain which might arise from the increase in the rental, the settlement was made on the progressive system and for a period of fifteen years. Another settlement was made between 1905 and 1908 for a period of fifteen years. In this settlement the gross rental increased by Rs. 1,24,033, the enhancement taking effect by gradual instalments. The collections continued to be made by the *sarbarahkars* who received a commission of 15 to 25 per cent. Another Tributary State, Banki, was confiscated in 1839. It was first settled in 1844, and re-settlements took place in 1854, in 1888-91, and in 1905-6. Here also, the collections were made by the *sarbarahakars*, who received a commission varying from 10 to 20 per cent. of the demand.

with the landholders in all instances where it was found practicable. In other cases, the lands were let in farm, and in a few instances the collections were left to be made from cultivators by the officers of the Government. These arrangements proceeded in some instances on *rassad* or annual augmentation, founded on an expectation of increased cultivation. When the triennial settlement was made, it was announced that, at the expiration of this term, a settlement for another period of three years would be made, which would be continued for a further period of four years "with the same person, if willing to engage at a fixed annual *jama*, formed by adding to the annual rent of the second three years, three-fourths of the net increase of the revenue during any one year of the period."[1] It was further notified that, at the end of this period of four years, a permanent settlement would be concluded with the same persons if they should be willing to engage, for such lands as might be in a sufficiently improved state of cultivation to warrant the measure, and on such terms as the Government should deem fair and equitable.[2]

The Government also expressed a desire to extend the same policy to the territories acquired from the Mahratta Chiefs and others. In 1807, the Government considered it to desirable to entrust the

[1] *Fifth Report, 1812.*

[2] *Ibid.*

GSL

work of further settlement to a special Commission. The Commissioners submitted their report in 1808, in which they expressed their view to be adverse to the immediate conclusion of a permanent settlement in the Ceded and Conquered Territories.

In the meantime, a change had taken place in the attitude of the Court of Directors towards this question. In reply to the Governor-General's letter they stated that it was not their intention to proceed immediately to the introduction of a Permanent Settlement in the Ceded and Conquered Territories, "because it would be premature to fix the land rents of those countries, at so early a stage of their connexion with them, when their knowledge of the revenue actually derived from them by the zemindars and of their capability must necessarily be imperfect, and when the people are yet so little habituated to their government."[1] They further observed that the mistakes committed in the settlement made in Bengal, and the inconveniences which had resulted therefrom, suggested the danger of precipitancy and emphasised the need for caution and deliberation in proceeding to a measure which was to be irrevocable. On receiving the report of the Commissioners, the Directors adopted a still more decided tone. In the Revenue Despatch of the 27th November, 1811, they observed ; "The proposed final settlement of

[1] *Fifth Report, 1812.*

GSL

the revenues would be premature, supposing the arrangement otherwise to be completely unexceptionable: that it would be attended ultimately with a large sacrifice of revenue; that they were by no means sufficiently acquainted, either with the resources of the country or with the rights and ancient customs of the different classes of landholders to venture upon a step of so much importance, and in its nature irrevocable; and that whether the measure may be eligible at a future period, and what modifications it may be prudent to apply to it, are questions which will remain open for discussion".[1]

On receiving these instructions, the Government notified that the Court of Directors had not deemed it advisable to sanction a permanent settlement, but they expressed their intention to fix the revenue of such lands in perpetuity as might be in a sufficiently improved state of cultivation to warrant that measure. The Board of Commissioners was asked to ascertain what estates were in such condition. Meanwhile, the settlements were made for five years; and on expiry of the period they were continued for a further term of five years.

A remarkable Minute was written by Mr. Holt Mackenzie, Secretary to the Board of Commissioners, in 1819. In it he reviewed the condition of the different districts of the province, and urged

[1] Regulation X of 1812.

that the villages be surveyed and a record-of-rights prepared. He expressed himself in favour of a permanent settlement. In 1822, an important Regulation was enacted with the object of laying down the principles on which the demand of the State was thenceforward to be regulated and the manner in which the future settlements were to be made.[1]

The settlements under Regulation VII of 1822[2] were, in a few cases, made with the *zemindars* or *taluqdars*. In some other cases, they were made with the heads of the inferior proprietary body. But in a still larger number of cases, they were concluded with the village communities as the joint proprietors, the *lambardar* being taken as the representative of the body.[3] The Regulation declared that the settlements would be in force for five years, and after that engagements would be entered into for such periods as the Government might decide, but that no increase would take place unless it should clearly appear that the net profits to be derived from the land by the *zemindars* would exceed one-fifth of the previous assessment, and that in the event of such increase being made, the assessment was to be so regulated as to leave to the *zemindars* a net profit of 20 per cent, on the *jama*.[4]

[1] Regulation VII of 1822.

[2] By Regulation IX of 1824 the provisions of Regulation VII of 1822 were extended to the Conquered Provinces.

[3] Baden-Powell, *Land Systems of British India, Bk. iii. ch. i.*

[4] Regulation VII of 1822.

GSL

The period of settlement was subsequently extended for another term of five years in both the Ceded and the Conquered Territories. The enquiries required by Regulation VII of 1822 were so minute and elaborate that the system was declared unworkable in 1830. In 1832, Lord William Bentinck wrote a Minute in which he laid down the principles which ought to be followed in future. These principles were embodied in Regulation IX of 1833. The method of framing estimates of produce and its value was simplified, and a system of average revenue and rent rates, actual or assumed, for different classes of soil, was introduced. The first "regular" settlements under Regulation VII of 1822 and IX of 1833 were made by Mr. R. M. Bird and Mr. Thomason between the years 1833 and 1849. The term was one of thirty years, except in a few districts where, for special reasons, the settlements were made for shorter periods. Two-thirds of the "gross rental" was adopted as the standard of assessment in cases in which the land was held by tenants. Where the tenants paid in kind, or where there were large numbers of proprietors cultivating their own holdings, the standard was two-thirds of the "net assets." The system of settlement was *mauzawar* or by villages.[1]

[1] Baden-Powell, *Land Systems of British India, Bk. iii. ch. I.* Baden-Powell prefers to call the system *mahalwar*, because the village is not always the unit of assessment.

In 1851, the Directors expressed their satisfaction at the results which had been achieved in the settlements of the North-Western Provinces. They observed that, making allowances for the large amount of nominal balances, the revenue had progressively increased, and that the increase had been "realised without undue pressure on the people".[1] No changes of any importance were made in the system till 1855. In that year, under the instructions of Sir Charles Wood, then Secretary of State, certain modifications were introduced, which were embodied in the Saharanpur Rules. Under these rules, the Government's share of the rental or the assets was reduced from two-thirds to one-half. The assets were to be the "well ascertained" net average assets, after consideration of other data. It was enjoined, however, that time was not to be wasted in "minute and probably fruitless attempts to ascertain exactly" the amount of such assets.[2] This standard has since continued to be in force, and the Government claims that it has been applied with increasing moderation, and that it is at present exceptional to take a full 50 per cent. assessment.[3]

Various improvements were introduced on the occasion of the second regular settlement of the

[1] Despatch dated the 13th August, 1851.

[2] This passage gave rise to some confusion.

[3] *Administration Report of the United Provinces, 1921-22.*

Agra Province. The soils were now classified, and standard rates of rent were fixed for each class. The assessment was based upon this estimated rental, which might be higher than the amount actually paid, but represented the sum which could be realised.

The Sepoy Mutiny and the famine of 1860-61 gave rise to a prolonged discussion on the desirability or otherwise of introducing a permanent settlement into the North-Western Provinces. There had indeed always been some experienced officers of the Government who had regarded settlements in perpetuity as a highly beneficial measure. But these unfortunate events brought the question prominently before the Government and the public. Mr. A. O. Hume expressed the view that a permanent settlement would be a great step towards inducing the people to make the most of the land they held, and was likely to increase the actual amount of agricultural produce by at least one-third in twenty years. Col. Baird Smith, in his now famous Report on the Condition of India argued that, as the intensity of the famine of 1860-61 was less than that of 1837 on account of the increased staying power of the people secured by the limitation of the Government demand on the land for thirty years, the fixing of the revenue for ever was likely to produce even better results. He was not blind to the fact that a Permanent Settlement would

preclude the Government from ever obtaining any future augmentation of income from this source, while the growing cost of administration would of necessity have to be met by taxation in some other shape. But he argued that any sacrifice of public revenue involved in the concession of the land revenue being fixed in perpetuity would be more than compensated by the increased ability of the people generally to bear other forms of taxation, direct or indirect, which would necessarily follow on the improvement in their social condition. An intelligent and powerful Government, he thought, "could not fail to participate in these advantages."[1] The same policy was advocated by Mr. Saunders in his Report on Cotton.

In 1861, Mr. (afterwards Sir William) Muir, then Senior Member of the Board of Revenue, North-Western Provinces, wrote an elaborate Note on the subject discussing the advantages and disadvantages of a permanent settlement. He pointed out two main defects, namely, first, that increase of revenue from future extension of agriculture would be relinquished, especially in the case of Government irrigation works, and secondly, the power of re-adjusting the revenue to fluctutations of agricultural conditions would be given up. The merits of the

[1] "Its intelligence," wrote Col. Baird Smith, "would direct it to the least offensive means of sharing in the general prosperity, and its power would ensure the fair trial and ultimate success of those means."

proposal, in his opinion, were the following: first, the expenses of periodical re-settlements would be saved; secondly, *zemindars* and *raiyats* would be rendered immune from the vexation, oppression, and exaction incidental to a re-settlement; thirdly, permanency would remove the check to agricultural improvement occurring towards the close of a settlement; fourthly, the fixity of demand on land would encourage the investment of capital; fifthly, the value of landed property would increase; and sixthly, it would secure the contentment of the people. He urged, however, that a permanent settlement should be preceded by a careful revision, that the scheme should be applied to such lands as were in a sufficiently advanced state of cultivation, and that the Government should retain the right to levy a moderate water-rate in areas irrigated by Government canals.[1]

Sir Charles Wood, then Secretary of State for India, was greatly impressed by Colonel Baird Smith's arguments. While rejecting the proposal of redemption of the land tax, he accepted the idea of a permanent settlement. He came to the conclusion that periodical revisions of assessment could

[1] Mr. Muir showed that the essential requirements of property would thus be maintained without affecting the financial interests of the State, and quoted, in support of his contention, J. S. Mill who had said: "The idea of property does not necessarily imply that there should be no rent, any more than that there should be no taxes. It merely implies that the rent should be a fixed charge, not liable to be raised against the possessor by his own improvements or by the will of a landlord." *Political Economy, Ch. VII. Sec. 4.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

not fail to be harassing, vexatious, and even oppressive to the people affected by them, while the probability of any considerable increase of land revenue in the fully developed parts of the country was very slight. In 1862, he wrote to the Governor-General in Council: "Her Majesty's Government are of opinion that the advantages which may reasonably be expected to accrue not only to those immediately connected with the land, but to the community generally, are sufficiently great to justify them in incurring the risk of some prospective loss of revenue in order to attain them, and that a settlement in perpetuity in all districts in which the conditions absolutely required as preliminary to such a measure are, or hereafter may be, fulfilled, is a measure dictated by sound policy and calculated to accelerate the development of the resources of India and to ensure, in the highest degree, the welfare and contentment of all classes of Her Majesty's subjects in that country."[1]

The Secretary of State was warmly supported by Sir John Lawrence, then a member of the Council of India. He recommended a perpetual settlement because he believed that such a measure would encourage the investment of money in the land and would thus help the development of the resources of the country. This policy was also advocated

[1] *Despatch dated the 9th July, 1862.* Some members of the Council of India differed from this view and wrote minutes of dissent.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

by some of the administrators in India. The Lieutenant-Governor of the North-Western Provinces agreed generally with the views of Mr. Muir, but he made some suggestions for carrying out the object. A somewhat long correspondence then ensued between the Secretary of State, the Government of India, and the Lieutenant-Governor of the North-Western Provinces in regard to the mode in which the proposal was to be carried into effect.

The policy laid down by Sir Charles Wood was followed by his sucessors in office, Earl de Grey and Ripon and Sir Stafford Northcote. The latter insisted in 1867 that the following rules should be observed before estates in the North-Western Provinces, or elsewhere, were admitted to the Permanent Settlement, namely, first, that no estate should be permanently settled in which the actual cultivation amounted to less than 80 per cent. of the cultivable or *malguzari* area; and secondly, that a Permanent Settlement should not be concluded for any estate to which canal irrigation was likely to be extended within the next twenty years, and the existing assets of which would thereby be increased by 20 per cent.[1]

[1] *Despatch dated the 23rd March, 1867.* In this despatch Sir Stafford Northcote thus described the object which Her Majesty's Government had in view in consenting to a permanent Settlement: "They are giving up the prospect of a large future revenue, which might have been made available for the promotion of objects of general

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

Thus the plan of a permanent settlement of the North-Western Provinces became complete, and, in 1867, orders were actually issued for concluding a such a settlement. For financial reasons, however, the plan could not be carried out at the time. Gradually, the views of the high officers of the Government in India as well as of the authorities in England turned against the policy of settlements in perpetuity. In 1871, the then Lieutenant-Governor of the North-Western Provinces, in asking the deferment of a permanent settlement observed that the sacrifice of revenue, which would be consequent on the carrying out of the measure, would be gratuitous and indefensible. It was suggested, in these circumstances, that a third condition for a permanent settlement was shown to be necessary, namely, the evidence that the standard of rent prevalent, or the estimate of 'net produce' on which assessment would be based, was adequate. In 1871, the Governor-General in Council recommended to the Secretary of State that, pending the further discussion of the entire subject, the orders contained in the despatch of the 23rd March, 1867, should be held in abeyance. This recommendation was approved, and the Government of India was authorised at once to suspend all proceedings

utility, and might have rendered it possible to dispense with other forms of taxation. This sacrifice they are prepared to make in consideration of the great importance of connecting the interests of the proprietors of the land with the stability of the British Government."

towards a permanent settlement.[1] In 1882, proposals were made for a scheme under which an enhancement of revenue would be confined only to an increase of area under cultivation, or a rise in prices, or an increase in production due to improvements made at the expense of the Government. This scheme was considered impracticable. In 1883, the Secretary of State expressed his concurrence with the Government of India that the policy laid down in 1862 should be formally abandoned.[2] The question of a permanent settlement for the Agra province was thus finally dropped.

On the occasion of the third regular settlement, the actual rent roll was adopted as the basis of assessment, and any consideration of a prospective increase was definitely excluded from the assets. Concessions were also made to private individuals for improvements effected by them. The settlement procedure was considerably simplified. The land revenue law was consolidated in 1873. This was revised in 1901.[3]

Legislation for the protection of tenants was undertaken for the United Provinces as elsewhere. The first measure of this kind was the extension of Act X of 1859 to the North-Western Provinces.

[1] This view was based upon the experience gained on the occasion of the re-settlement of the Bulandshahr district, where it was found that the Government would have to relinquish an increase of 14 per cent.

[2] Vide Field, *Introduction to the Bengal Code.*

[3] *Administration Report of the United Provinces, 1921-22.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

This Act was remodelled in 1881, and was further altered by the Tenancy Act of 1901. In 1928, the tenancy law of the Agra Province was completely overhauled.

On the annexation of Oudh in 1856, Lord Dalhousie decided to introduce the system of settlement with the village proprietors. His idea was to do away with the interposition of the middlemen. As a result, the *taluqdars* were outsed from the greater part of their estates. After the Mutiny, however, Lord Canning reverted to the *taluqdari* settlement. By the second summary settlement of Oudh in 1858 the *taluqdars* were given full proprietary rights in all the villages which they had held at the time of annexation. The Government demand was fixed at one-half of the gross rental, the under-proprietors only retaining that share of the profits which they had formerly enjoyed.[1]

The village proprietors were allowed only to claim under-proprietary rights. In 1860, the question of subordinate rights in Oudh came up again. Under-proprietary rights were limited to those who had enjoyed proprietary rights within twelve years of annexation, while occupancy rights were conferred on all tenants who had been in proprietary possession within thirty years of annexation. The land revenue of Oudh in 1872-73

[1] *Moral and Material Progress Report, 1882.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

amounted to Rs. 1,42,19,741. The land revenue law was considered in 1876 and revised in 1901 (together with the law for the North-Western Provinces). A Rent Act was passed in 1886, which was amended in 1921.

The Land Revenue Act of 1901 has recently been amended by an Act of 1929. The main provisions of the new measure are as follows: When the period of settlement in any district or other local area is about to expire, a forecast of the probable results of a re-settlement is to be made. The Government is given power to frame rules, but before they are given effect to, the Legislative Council is to have an opportunity of discussing them. At a re-settlement, the settlement officer is instructed to inspect every village in the local area and divide the area into soil classes and assessment circles and fix circle rates. He is to exclude from assessment lands of certain descriptions. The revenue assessed on a *mahal* is to be ordinarily 40 per cent. of the net assets, and is not in any case to exceed 45 per cent. The revenue assessment may be less than 35 per cent. of the net assets, where the number and circumstances of the proprietors or the existence of heavy charges on account of *malikana* justify a reduction below this percentage, but in no case is it to be less than 25 per cent. The revenue of a *mahal* may not be enhanced by more than one-third of the expiring demand. If the revenue fixed for any *mahal* exceeds

GSL

the previous demand by more than 15 per cent., the enhancement is to be progressive. The term of every settlement is to be 40 years.

In the early acquisitions made in the Central Provinces, short-term settlements were made. But the evils of the system led to the adoption of the policy of long-term settlements. In the Saugor-Narbada territories settlements were effected for twenty years between 1835 and 1839. For the first regular settlement of the Nagpur province, the long-term principle was accepted. In 1862, Sir Richard Temple actually recommended the settlement in perpetuity of those parts of the province which had been settled for the longest periods. The Government of India, however, did not accept his proposals, but directed in 1863 that the settlements in progress in the Central Provinces should be made for a period of thirty years. In 1883, the policy of a permanent settlement for this province along with the rest of India was finally rejected. The period of thirty years fixed for the settlements of the sixties was not adhered to in all cases; but some of the districts were settled for shorter periods. Before the first re-settlements fell due, the question of the period of settlements was again considered, and it was decided that twenty years should be the standard period. This decision was confirmed by the Secretary of State in 1895. When the question was discussed in 1902 in

GSL

connexion with the Open Letters of Mr. R. C. Dutt and the Memorial submitted by a number of retired members of the Indian Civil Service, the Governor-General in Council laid down the principle that, where land was fully cultivated and rents were fair, settlements should be effected for thirty years, but where there was the possibility of a rapid development of resources, a shorter period would be justified.

In the first settlement, the revenue fixed in each village was virtually a competition figure. The twenty years' settlements of 1835-38 witnessed the first attempt to lay down principles for the fixation of the revenue. It was at this time prescribed that a "fair and equal *jama*" was to be fixed. No definite rules, however, were prescribed for calculating the revenue demand. In 1847, for the proprietary settlement recommended for Nimar, it was laid down that the *jama* should be assessed at "two-thirds of the present fair average annual rental, supposing the whole of the lands to be cultivated, or at more than that, supposing a portion of them to be waste and capable of cultivation." When the grant of proprietary rights in the Saugor-Narbada territories was proclaimed in 1854, one of the rules laid down was that, after the extent of the cultivated and cultivable land, the crops, cultivation, soil and various details of agricultural economy had been investigated, the settlement officer should fix what

GSL

he considered to be a fair *jama* with reference to both the *cultivated* and the *cultivatable* area.[1]

No arithmetical standard was prescribed, but the then prevailing rule of the North-Western Provinces fixed the maximum Government demand at two-thirds of what might be expected to be the net produce during the period of settlement.

In 1855, the Saharanpur Rules were applied to the Saugor-Narbada territories, which reduced the maximum from two-thirds to one-half. The *jama* of each estate was not, however, to be fixed at one-half of the net average assets, but in taking these assets with other data into consideration, the Collector was instructed to bear in mind that almost one-half, and not two-thirds, as heretofore, of the well-ascertained net assets, to be the Government demand.[2] For the proprietary settlement of the Nagpur province, the Government of India, sanctioned a margin of 40 per cent., and in some cases up to 50 per cent., of the true gross rental to the *malguzar*, to cover expenses of management and proprietary profits.

In 1863, the Government of India sanctioned the application of the 50 per cent. rule to the whole of the Central Provinces. These orders were not, however, printed in the Settlement Code of 1863, and the officers responsible for the second

[1] *Administration Report of the Central Provinces, 1921-22.*
[2] *Administration Report of the Central Provinces, 1921-22.*

GSL

round of settlements were misled into believing that the former rule stood unaltered. Before the settlements of 1863 and the following years were revised, important changes were made in the principles of assessment. The word 'asset' was given a much more definite meaning, a consideration of the actual income derived from the land, and not, as before, its assumed value, being now the guide to revenue assessment. The assessment was to be based on actual, and not, as under the old rules, on prospective assets. The amount of assets was to be ascertained by both deductive and inductive methods; of the assets, 60 per cent. was prescribed as the ordinary maximum percentage; but 65 per cent. or more might be taken in special cases. The settlements of the nineties were based on these principles.

The question was fully examined in connexion with a resolution of the Imperial Legislative Council in 1911. The principle of half assets was accepted for the districts comprised in the old Saugor-Narbada territories; for the old Nagpur province it was laid down that the percentage of assets should at successive settlements be gradually reduced until it reached 50, enhancements in the meantime being limited to half the increase of assets since the preceding settlement, and that assessments of more than 55 per cent. should only be sanctioned in special cases. A proposal

GSL

to insert a clause in the Land Revenue Bill of 1917 fixing the percentage at 50, except in specially notified areas, was defeated. In accordance with the recommendation of the Parliamentary Joint Commitee, a bill was prepared in 1921 to embody the principles of assessment in a legislative measure. This Bill was passed in 1923. A short amending Act has recently been passed.

It should be mentioned that in the Central Provinces, the rent, as well as the revenue, is fixed by the Government. The tenures are of various kinds. Within the limits of this province are, in fact, to be found almost every form of land tenure which exists in India, namely, feudatory chiefs, *zemindari* tenures, *taluqdari* tenures, and village communities. The prevailing tenure, however, is the *malguzari*.

Berar is, technically, not a part of British India. In 1853, it was assigned to the British Government as security for certain demands made upon the Nizam of Hyderabad. From the commencement of the assignment to 1861, the land revenue administration was carried on according to the discretion of each Deputy Commissioner, tempered by occasional instructions from superior authority. An annual *jamabandi* or settlement was made through the medium of the patel, the account of each man's holding being taken from the *patwari's* papers. This system gave rise to great inconvenience both to the Government and the people and to much

GSL

peculation and corrupt practice. The land revenue, however, increased with marvellous rapidity during these years. In 1861, the Government of India ordered the introduction of the *malguzari* system. But in the following years, these orders were cancelled, and sanction was given to the settlement of Berar on the Bombay *raiyatwari* system.

We come now to the Punjab. The earliest regular settlements were those which took place in the Delhi and Hissar Divisions made between 1836 and 1847, when this tract still formed part of the North-Western Provinces. The rest of the Punjab was summarily settled for short terms immediately after annexation. The assessments then made were based upon Sikh collections in grain, converted into money at ruling prices. The introduction of cash payments and a rigidity of collection was felt as a hardship by the cultivators. Besides, there was a rapid fall in prices. Large reductions had, therefore, to be made. A regular settlement was completed by 1855 in the territories annexed after the first Sikh War, and by 1859 in the districts acquired after the second Sikh War.[1] These settlements were based on the "general considerations" which had governed the assessment procedure of Mr. Bird and Mr. Thomason in the North-Western Provinces. The standard of assessment was reduced from two-

[1] The frontier districts on the Indus were regularly settled for the first time between 1868 and 1880.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

thirds to a half of the 'net assets'. The first regular settlements were for various terms, from 10 to 30 years. The question of the principles on which the assessment of irrigated lands should be based received the special attention of Mr. Prinsep who was appointed Settlement Commissioner in 1862. A revised settlement was begun in 1863. During the whole of this period the "spirit" of the Regulations (e. g., VII of 1822, and IX of 1833) governed the land revenue procedure in the province. Gradually, however, it was felt that all the settlements had been made without legal sanction. To remedy this defect, a Land Revenue Act was passed in 1871. Rules were also made to supplement the provisions of the Act. The revised settlements continued till the eighties. It should be borne in mind in this connexion that, in the Punjab, the settlement is not a unique process, but one of the ordinary duties of administration performed by a special staff.[1]

The village communities existed in the Punjab, in a more perfect from than in any other province of India. The village was, therefore, taken as the unit of settlement. Each village undertook the payment of the revenue assessed upon it, and the payment was distributed among individual members of the community in their old traditional way. The Punjab settlement was thus based on the same

[1] Vide *Moral and Material Progress Report, 1882-83,* also H. K. Trevaskis, *The Land of the Five Rivers.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

system as that of the North-Western Provinces with the essential difference that in the Punjab the bulk of the proprietors were actual cultivators. Though the system adopted was *zemindari*, the *zemindari* tenure was not common; but the prevailing forms were *pattidari* and *bhaiyachara*.

The method of assessment in the Punjab differed considerably from that of the North-Western Provinces. The object kept in view was to ascertain revenue rates at first hand, and not by halving rent rates. The process usually adopted was that known as "from aggregate to detail"; that is to say, a general revenue rate was first obtained for the assessment circle or *pargana*, and then distributed among the component villages. In 1875, rules were issued for the guidance of settlement officers; but the process remained an empirical one, and left much to the discretion of the settlement officer.

The assessment, as has been already pointed out, was calculated on the "net assets", that is, of the average net yield of the crops after deduction of expenses of cultivation. Although the standard of assessment was one-half of the net assets, this was generally regarded as the outside maximum. Besides the land revenue, certain cesses were levied on the land. In 1887, the whole law of the province relating to the administration of the land revenue was codified and arranged. New provisions regarding village cesses, partition of shares in an estate or

occupancy holding, and State rights in mineral oil, and so on, were included, and certain practices were maintained or validated which had previously been based merely on custom. Re-settlement operations generally resulted in moderate additions to the revenue demand. But in the Canal Colonies increases of assessments in some cases amounted to over 200 per cent.

The history of land revenue procedure in the Punjab falls into three periods. The first period included both the pre-Prinsep and the Prinsep settlements.[1] The second period lasted from 1871 to 1887.[2] The third period may be said to have ended in 1928. A movement towards a reform of the system began with the advent of the Reforms. But a new chapter was actually opened in 1928. In that year, an act was passed by the Punjab Legislative Council amending the Land Revenue Act of 1887. The main provisions of this Act are as follows: First, 'net assets' are defined as the estimated average annual surplus produce of an estate or group of estates remaining after deduction of the ordinary expenses

[1] The question of a permanent settlement was considered in the Punjab at the same time as in the North-Western Provinces. Prinsep was in favour of the proposal, but the Lieutenant-Governor was opposed to the idea. The rapid development of means of communication and the opening of new markets for the produce of the province gave the promise of considerable increase in land revenue in future, and this was one of the causes which led to the rejection by the Secretary of State of the proposal of a permanent settlement.

[2] Vide *Report of the Administration of the Punjab, 1921-22.*

GSL

of cultivation.[1] Secondly, it is provided that land revenue is to be assessed in cash. Thirdly, the basis of assessment is prescribed as an estimate of the average money value of the net assets of the estate or group of estates in which the land concerned is situated. Fourthly, the maximum limit of assessment is fixed, so that the rate of revenue must not exceed one-fourth of the estimated money value of the net assets of an assessment circle. Fifthly, it is laid down that in future settlements the average rate of land revenue shall be so fixed that it shall not exceed the rate of incidence at the previous assessment by more than one-fourth, and that on no estate shall the new rate exceed the previous rate by more than two-thirds. Sixthly, forty years is fixed as the period of settlement, except in the case of lands in which canal irrigation is to be introduced.

The question of tenant-right is a subordinate one in the Punjab. The twelve years' rule has not been in force in the Punjab. The occupancy tenants are, for the most part, representatives of

[1] It is explained in the Act that ordinary expenses of cultivation include payments in respect of (1) water rates, (2) maintenance of means of irrigation, (3) maintenance of embankments, (4) supply of seed, (5) supply of manure, (6) improved implements of husbandry, (7) concessions with regard to fodder, (8) special abatements made for fallows or bad harvests, (9) cost of collection of rent, (10) interest charges payable in respect of advances made in cash, free of interest, to tenants for the purpose of cultivation, (12) wages or customary dues paid to artisans or menials. *Vide Section 2 of the Punjab Land Revenue (Amendment) Act, 1928.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

the early right-holders. A Tenancy Act was passed in 1868. But the tenancy law was completely revised in 1887. The steady alienation of land by the agricultural classes in the province necessitated the passing of the Land Alienation Act in 1900. This Act limited the free transfer of landed property belonging to agricultural tribes to members of the same tribe, while restrictions were placed on mortgates of lands to non-agriculturists. Some amendments were made in the Act in 1907. The Land Alienation Act has fulfilled the hopes with which it was passed. A Pre-emption Act was passed in 1905, the chief aim of which was to prevent a non-agriculturist who once gained a footing in a village from buying up other shares in the village. The pre-emption law is unsatisfactory in many respects and gives rise to various abuses. It is, therefore, felt that the system should be swept away.

The East India Company obtained the *Diwani* of the Northern Circars in the Madras Presidency at about the same time as the *Diwani* of Bengal, Behar and Orissa. The territories acquired by the Company in Madras in the earlier years were of two sorts, namely, *zemindari* lands and *haveli* lands. In the former, the old practice was continued of allowing the *zemindars* to collect and appropriate the revenue to their own use, subject to the payment of a certain sum to the Government, which was denominated the *jama*. The *havelis*, or household lands of the

GSL

Government were portions of the territory which were not in the hands of the *zemindars*. The *haveli* lands were let out to *dubashes*[1] or *sahucars*.[2] These professional farmers oppressed the people in many ways, and burdened them with various taxes.

It was decided at first to entrust the management of three of the Circars to experienced Indian administrators. This system was discontinued in 1769, and provincial chiefs and councils were appointed to undertake the civil, political and revenue administration of the country. In 1776, a Committee of Circuit was appointed; but as it did not accomplish much, it was abolished in 1778.

Till the year 1778, the settlements concluded with the *zemindars* were annual. In that year, Sir Thomas Rumbold formed a settlement for five years with the *zemindars* of Masulipatam on the basis of an addition of 12½ per cent. to the previous *jama*. The payment of this addition, however, was not enforced. From 1783 to 1786, annual settlements were made on the terms of the expired leases. Many irregularities prevailed at this time both in the payments and in the accounts. In 1786, a Board of Revenue was established. In the same year, a settlement was concluded on a *jama* increas-

[1] Agents.
[2] Money-lenders.

ed by 12½ per cent.[1] The next settlement was concluded for three, and eventually for five, years with the zemindars on the basis of two-thirds of the gross collections.[2]

In the *havelis*, the settlements were made with the chief inhabitants for the whole of their respective villages, who arranged with each cultivator for the amount he was to pay. These settlements were based on the produce. But they were of a very imperfect kind, there being no survey of the lands nor any fixed principle of assessment.

The revenues of the *jaigir* lands of the Nawab of Arcot had been assigned to the Company before the grant of the *Diwani* of the Circars by the Nizam of Hyderabad. For some years these were leased to the Nawab himself. But in 1780, the management was assumed by the Company. From 1783 to 1789, leases were granted to farmers, who opposed the cultivators in a variety of ways. In 1796, the system of village settlements was adopted. The revenue derived from the *jaigir* in the three following years was far greater than had ever before been obtained from it.

Meanwhile, fresh acquisitions of territory had been made on a large scale by the Company. In some of these territories the lands were at first

[1] It was also during this year that the Court of Directors requested the Government of Madras to express their views on the subject of a permanent settlement for the province.

[2] *Fifth Report, 1812.*

farmed out. But this system having proved unsatisfactory, engagements were entered into with the principal inhabitants of each village for the realisation of the revenue. But this method was found to abound in abuses. For the settlement of these newly-acquired districts, the services of military officers were requisitioned. Captain Alexander Read was sent to the Baramahal districts, with Thomas Munro as one of his assistants. A great deal of discretion was now left in the hands of the settlement officers in regard to the method of settlement. The general idea was that settlements should be permanent, but with whom they should be concluded was not determined. Alexander Read and Thomas Munro introduced the *raiyatwari* system in the Baramahal districts whence it was extended to some other parts of the Presidency.

The question of a permanent *zemindari* settlement continued to engage the attention of the authorities in England as well as of the Government of Madras. In 1795, and again in 1798, the Directors expressed their desire to see the Bengal system introduced in Madras. In 1801, they sanctioned a permanent settlement for the Presidency. This was carried out in several districts[1] between 1801

[1] The permanent settlement was established in the following years: The Jaigir, 1801-2; Northern Circars, between 1802-3 and 1804-5; Salem, Western Pollams, Chittoor Pollams, and Southern Pollams, 1802-3; Ramnad, Krishnagiri, and Dindigul, 1803-4 and 1804-5; Trevandapuram and Jaigir villages, 1806-7.

and 1807. As for the effects of the permanent settlement on the realisation of the revenue, they were favourable in most of the districts; but in some parts the system did not work satisfactorily, which was perhaps due to the fact that the amount of revenue had been fixed on too high a scale.

The territories in which the Permanent Settlement was established comprised a comparatively small proportion of the Company's possessions in Madras. In 1808, the Government of Madras decided to revert to the system of village settlements in the districts in which the Permanent Settlement had not been established. Under this system, the settlement was to be made with the village headman or with the general body of villagers. The revenue was to be assessed on the average of the amount collected from the village in previous years. The leases were to be for triennal periods, but were afterwards to be made decennial. The experiment did not prove a success on the whole, the most general cause of failure being over-assessment. Lessees could not be found for many villages, and in these the *raiyatwari* system was continued. In the meantime, the opinion of the authorities in England had begun to turn against the Bengal system of Permanent Settlement. In 1817, the Court of Directors issued instructions for the abolition of the *raiyatwari* system wherever practicable. But the situation

changed in 1920, when Munro became Governor of Madras. In his opinion, the chief merit of the *raiyatwari* system lay in the strength and security it gave to the Government by bringing it into direct contact with the great body of cultivators.[1] Under Munro's direction the *raiyatwari* system was finally established in the Madras Presidency.

The early *raiyatwari* settlements had many defects. The practical operation of the system depended very largely upon the certainty and moderation of the Government demand. For many years, both these conditions were very insufficiently realised. In most cases, the assessments were too high. The money rents which were substituted for rents in kind became in most cases burdensome exactions.[2] Thus the original *raiyatwari* system did not operate beneficially on the prosperity of the people. Various devices were resorted to from time to time to mitigate the hardship on the community. But the Government moved very slowly. It was not until 1837 that any substantial reform was attempted. In that year, several measures were taken, two of which were quite important. In the first place, it was adopted as a universal rule that no land should be more

[1] *Moral and Material Progress Report of India, 1873-74.*

[2] *Memorandum on the Improvements in the Administration of India, 1858.*

heavily taxed in consequence of its being applied to the cultivation of a more valuable description of crops. Secondly, it was decided that no *raiyat* should be required to pay an additional tax for his land in consideration of the increased value derived from improvements made by himself. Substantial reductions of the assessment were also made in the heavily-taxed districts.

In spite of these reductions, however, the land revenue demand continued to be heavy in the Madras Presidency. This was admitted by Sir Charles Wood, then President of the Board of Control, in the House of Commons in 1854. Considerable reductions were made in the demand on land in the same year. In 1855, the Government of Madras submitted to the Governor-General in Council a plan for a regular survey and a classification of soils which should form the basis of a general revision of land revenue assessments. This plan was approved by the Government of India and sanctioned by the Court of Directors in 1856, with some modifications.

Almost throughout the period of the administration of the East India Company, the limitation in perpetuity of the State demand on the land was regarded as one of the main principles of the *raiyatwari* system in Madras. This had been made clear by Colonel Read in 1796, by Thomas Munro in 1801, by the Madras Board of Revenue

GSL

in 1818,[1] and by the declarations of Government on other occasions. The assessments were in some cases, as in South Arcot, Bellary, Cuddapah, etc., reduced, but in no instance were they ever increased. The advantages of a permanent settlement were thus secured to the raiyats without its disadvantages.

Things, however, began to assume a somewhat different shape towards the end of the Company's rule. In 1855, a survey and settlement was commenced. The object of these operations was to revise the assessments which were generally too high. In order to give the raiyat in all cases a valuable proprietary interest in the soil, and to induce extended cultivation, 30 per cent. of the gross produce was proposed to be taken as the

[1] When Colonel Read first settled the Salem district in 1796, he issued a proclamation to the raiyats, in which the following rule appeared: "The *putkht* (or holding) being measured and valued, the assessment of every individual field in it, when at the full rate, is fixed for ever."—Quoted in the *Letter of the Government of Madras to the Government of India, dated the 8th February, 1862.*

Similarly in 1801, Sir Thomas Munro when explaining the manner in which a *raiyatwari* settlement was conducted, said: "When a district has been surveyed, and the rent of every field permanently fixed, the kulwar (individual) settlement becomes extremely simple; for all that is required is to ascertain what fields are occupied by each raiyat, and to enter them with the fixed rents attached to them in his patta; their aggregate contributes his rent for the year. *He cannot be called upon for more*; but he may obtain an abatement in case of poverty or extraordinary losses."

In a Revenue Despatch to Bengal, dated the 29th February, 1813, the Court of Directors observed: "The survey rents in the Ceded Districts, and in most of the other Collectorships in the Peninsula, where the *raiyatwari* system had been carried into effect, constituted the *maximum* of the annual rent to which the cultivator was liable. The Madras Government, in their Revenue Letter to the Court of Directors, dated the 12th August, 1814, when replying to the Court's orders to

maximum of the Government demand, and it was thought that 25 per cent. would be the average. The Government was of opinion that the assessment should be fixed in grain for a term of 50 years, and that the commuted value of the latter should be periodically adjusted every seven or ten years, according to its average money value in those periods. The Government in England objected to this arrangement, and gave preference to an assessment in money, unalterable for 30 years. The subject was further discussed by the Government which decided that the assessment should be revised after 50 years, if then deemed expedient.

Before this decision was intimated to the people, the Government of Madras was requested to express an opinion on the advantages of a perma-

carry out a *permanent* raiyatwari settlement, stated as follows: "To that paper (Col. Munro's, dated the 15th August, 1807) your Honourable Court's Despatch makes a marked reference, and we accordingly feel ourselves at liberty te regard the project which it contains as the *Permanent Settlement* which your Honourable Court would wish us to introduce."

When, in 1818, the Board of Revenue issued detailed instructions for the general introduction of the *raiyatwari* system under the orders of the Home Government, they made it clear that one of its distinguishing characteristics was that the assessment was a *permanent maximum* fixed on each field. Later on, the permanency of the *raiyatwari* settlement was, on several occasions, acknowledged in unmistakable terms.

The Revenue Board in 1857, in a report to the Government on the new survey and settlement, wrote as follows:—"A Madras *raiyat* is able to retain his land in perpetuity, without any increase of assessment, as long as he continues to fulfil his engagements."

In the same year, the Government, in a review of Mr. Rickett's report, expressed itself strongly in these terms: "The proprietary right of a raiyat is perfect, and as long as he pays the *fixed assessment on his land*, he can be ousted by no one; for there is no principle of *raiyatwari* management more fixed or better known than this, and the Government deny that any right can be more strong."

GSL

nent settlement in connexion with Sir Charles Wood's despatch of 1861. The Government, after tracing the history of the land tenure in the Presidency, expressed the view that, while it was wholly opposed to any extension of the system of the permanent *zemindari* settlement, it was also opposed to settlements for terms of years. There was, however, some difference of opinion between the Governor and the Members of his Council. The former was favourable to the imposition of a permanent grain-rent, but wanted to reserve to the Government the power of periodically determining the money-value of that rent, if at any future time a material alteration in the value of money should render such a measure expedient. The Members of Council, on the other hand, supported the old *raiyatwari* principle of a permanent money assessment—"that is to say, an assessment based on a certain portion of the crop and converted into a money payment at a fair commutation rate, fixed once and for ever."[1] Mr. Maltby, a member of the Governor's Council in Madras, wrote an elaborate Minute in which he pointed out the advantages of a permanent money assessment.[2]

The Governor-General in Council agreed with

[1] *Letter from the Government of Madras to the Government of India, dated the 8th February, 1862.*

[2] *Minute dated the 24th December, 1861.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VII

CSL

the view of the majority of the Council at Madras.[1] No practical steps were, however, taken in this matter, and in 1868, the idea was abandoned. In 1869, the Duke of Argyll directed that the assessments should be revised after a period of thirty years. In 1883, the Government of India addressed the Government of Madras on the proposal made in the despatch of the 17th October, 1882, to eliminate from future settlements the elements of uncertainty, and to give to the raiyat thereby an assurance of permanence and security, while not depriving the State "of the power of enhancement of the revenue on defined conditions." The Government of Madras accepted the proposal that, "in districts in which the revenue had been adequately assessed, the element of price should alone be considered in subsequent revisions, such districts being those duly surveyed and settled."[2] In 1883, however, not only was the idea of a permanent settlement formally abandoned, but the modified policy of Lord Ripon limiting an increase of assessments to a rise in prices was given the go-by.

The discussion of the question of a permanent settlement was revived in 1900 by Mr. R. C. Dutt

[1] Mr. Samuel Laing, Finance Member, laid down two conditions as essential in a permanent settlement, namely, (1) that culturable but uncultivated lands should not be thrown away, and (2) that provision should be made for the land bearing its fair share of local burdens.—*Minute dated the 7th April, 1862.*

[2] *Resolution by the Board of Revenue, Madras, dated the 6th December, 1900.*

GSL

in his Open Letters to Lord Curzon. Mr. Dutt affirmed that by the early *raiyatwari* settlement the Madras raiyat had a declared and indefeasible right to an unalterable and perpetual assessment, and that this right had been confiscated by the Government during the second half of the nineteenth century. The Board of Revenue in Madras controverted this view.[1]

Thirty years' settlements have been the practice in the Madras Presidency for over half a century. During the period intervening between two settlements the rates of assessment are not altered. But as under the raiyatwari system each cultivator is free to hold or relinquish whatever fields of his holding he likes, or to take up other available fields, and as deductions are sometimes made from his assessment in special circumstances an annual settling up is needed to show the amount he has

[1] The Board of Revenue tried to establish the following points, namely, (a) that the words "fixity" and "permanency" as applied to the assessment did not, when used regarding the raiyatwari system, convey the idea of perpetual immutability; (b) that the right claimed was never made a "right either by formal authoritative declaration or by enactment"; (c) that in the intentions of the founders of the system the idea of permanency was absolutely reciprocal, so that if the Government could not demand more, neither was it ever to receive less; (d) that if permanency had been established, it would have proved a hardship on the raiyat owing to the weight and inequality of the assessment; and (e) that, partly owing to the weight of the assessment at the then prices and conditions, partly to the absence of a proper survey, permanency was never established as a fact, but remained a mere intention or guiding purpose which was not binding in perpetuity but was alterable according to circumstances. The Government of Madras said that "save for an unauthorised proclamation" issued by the settlement officer of the Salem district, no declaration had been made to the people "binding" the Government to permanent settlement. The Government of India concurred in this view.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VII

GSL

actually to pay for the year. This process is called the annual settlement or *jamabandi*.

The old rates of assessment were generally based on 50 per cent. of the year's produce for wet lands and 33 per cent. for dry lands. When the revision began, the maximum was reduced to 30 per cent., the average assessment being about 25 per cent. But in the course of time the Government came to entertain the view that a gross produce percentage was not sufficiently accurate. In 1864, the revenue was fixed at half the net produce, which was to be ascertained by deducting the cost of cultivation from the grain out-turns commuted into money.

Mr. R. C. Dutt expressed the view in 1900 that the demand on the land in the Presidency was very heavy and that the revenue had been enhanced at each recurring settlement, which had resulted not only in reducing the raiyats to a pitiable state of poverty and indebtedness, but in leaving three millions of acres of land uncultivated. The Madras Board of Revenue referred to statistics to show that Mr. Dutt was in error. They sought to prove that the land assessment proper had not increased during the previous fifty years even in proportion to the additional area brought under holding, that the tax per acre had decreased, and that the actual weight or proportion of produce had immensely diminished owing to the rise in

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

prices.[1] This view was endorsed by the Government of Madras.

Calculations recently made by the Government show that the *raiyatwari* revenue actually collected at the present time is less than 10 per cent. of the gross produce.[2] In fixing the final money rate on each field, allowances are made for seasonal failure and various other agricultural risks. Remissions are granted, as a matter of grace, under executive instructions in cases of loss of crop.

Much the greater part of the territories in the Bombay Presidency came under British rule in 1818. For some years, no definite plan of revenue management was adopted. In some parts of the Presidency, arrangements were made with the headmen and other persons of influence for leasing certain tracts ; in others, the old *Mahratta* village assessments were followed. This system of management proved an utter failure. After 1822, the Government of Bombay began seriously to consider the merits and defects of the different land revenue systems which had come into operation in the other provinces. It was ultimately decided to adopt the *raiyatwari* system. The experiment did not succeed. The assessments were so excessive that heavy arrears accumulated. The situation

[1] *Resolution of the Board of Revenue, Madras, dated the 6th December, 1900.*

[2] *Madras Administration Report, 1921-22.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

was described in an official Report in these words: "Every effort, lawful and unlawful, was made to get the utmost out of the wretched peasantry, who were subjected to torture, in some instances cruel and revolting beyond description, if they would not or could not yield what was demanded. Numbers abandoned their houses, and fled into the neighbouring Native States. Large tracts of land were thrown out of cultivation, and in some districts no more than a third of the cultivable area remained in occupation."[1]

The principal features of the system which was evolved in the course of time were the following: Where any ancient proprietors, either middlemen or village communities, were found in existence, their rights were respected. But, in general, the settlement was made with the raiyats. In 1835, a revision of the settlement of the Indapur Taluka was taken in hand. This work was entrusted to Mr. Goldsmid and Lieutenant Wingate. A new method of classification was adopted, which was founded on the capability of the land and the general circumtances of the areas. The experience gained at Indapur was then applied to other parts of the country. In 1847, certain changes were made, and the reformed *raiyatwari* system was introduced. It was a field system. Its main features may be described thus: Each raiyat was permitted each year

[1] *Administration Report of the Bombay Presidency for 1872-73.*

GSL

to cultivate what field he pleased and give up what he liked. All joint tenures and common responsibilities were entirely abolished. The unit or basis of the Bombay survey was an artificial field, or area, the size of which was fixed at what one pair of bullocks could plough up to double that size. This varied from 4 to 8 acres for rice cultivation and from 20 to 40 acres for dry crops. The survey was followed by a classing. Numerous considerations were brought into account, which were classed under three heads, namely, distance from the village site, natural productive capability, and nature of the water supply. When the classing was completed, the amount of assessment was fixed, which was calculated with a view to leaving such a surplus to the cultivator as would render him capable of improving his circumstances, and extending his cultivation. The settlement was generally for 30 years.[1] When revision settlements became due, no fresh classification or measurement operations were undertaken.

In 1865, the Bombay Survey and Settlement Act was passed. This Act remained in force till its provisions were re-enacted in the Bombay Land Revenue Code of 1879. This Act contained a new provision whereby a right was reserved to the Government to take into consideration, in fixing revised rates, improvements effected by owners or occupiers.

[1] *Moral and Material Progress Report, 1873-74.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

In 1884, an executive order was issued by the Government giving a general assurance that all improvements effected by occupiers would be exempted from taxation. In 1886, the objectionable provision of the Act of 1879 was amended, and the following principles were laid down for the guidance of settlement officers in fixing rates at the time of a settlement :—(1) that assessments would be revised in consideration of the value of land and the profits of agriculture, and (2) that assessments would not be increased on account of increase in such value and profits due to improvements effected on any land during the currency of any previous settlement by or at the cost of the holder thereof.[1]

Large enhancements in the revenue demand were made at the revision of settlements which commenced in 1866. The assessments were generally heavy. Another cause of complaint was that the assessments were placed beyond the jurisdiction of the law-courts by the Revenue Jurisdiction Act of 1876. By this means the discretion of the settlement officers was made absolute. Sir William Hunter observed in the Governor-General's Council in 1879: "The fundamental difficulty of bringing relief to the Deccan peasantry is that the Government does not leave enough food to the cultivator to support himself and his family throughout the

[1] *Bombay Administration Report, 1911-12.*

year." In the closing years of the nineteenth century, many parts of the Bombay Presidency suffered severely from famine; and the Famine Commission of 1900 found that the Government revenue in Gujrat represented one-fifth of the gross produce of the soil. In 1902 and 1903, therefore, the assessments were lowered in Gujrat.[1]

Meanwhile, Mr. R. C. Dutt's letters had attracted the attention of the Government.[2] The Government did not deny that large enhancements had taken place, but it held that these were justified. In this connexion, the Government laid down four criteria of moderation in assessments, namely, (1) the effect of the assessment on cultivation, (2) the ease with which it was collected, (3) its relation to the net produce and to the value of land, and (4) its relation to the gross produce. Having discussed these criteria the Government came to the conclusion that the enhancements had "not resulted in excessive assessment." It further observed that the resisting power of the Deccan raiyat had considerably increased.[3]

[1] *R. C. Dutt, India in the Victorian Age.*

[2] The Resolution which was issued by the Government of India in reply to Mr. Dutt was drafted by Sir Bampfylde Fuller. But it was thoroughly revised by Lord Curzon. Lord Ronaldshay says, "It was recognised as a notable State document, bearing the impress of a master hand—as, indeed, the most important pronouncement on land revenue policy since Lord Canning's famous scheme of forty years before for conferring a freehold thoughout the country."—*Life of Lord Curzon, Vol. II.*

[3] *Letter from the Government of Bombay to the Government of India, dated the 30th March, 1901.*

GSL

In the revisions of settlement which have taken place in recent years, complaints have again been made of unduly heavy assessments. In pursuance of the advice of the Parliamentary Joint Committee, a resolution was passed by the Bombay Legislative Council urging that a committee be appointed to consider the question of regulating revision of assessment by legislation, and that "no revision be proceeded with and new rates under any revised settlement be not introduced till the said legislation is brought into effect." A Land Revenue Assessment Committee was appointed; but the second part of the resolution was ignored, and revisions of settlement were proceeded with in many talukas. The Committee published its report in 1927. The Legislative Council passed another resolution recommending the enactment of legislation after consideration of this report, and urging that, pending such legislation, orders be issued to the revenue authorities "not to collect the assessments enhanced in revision after the 15th March, 1924." Unfortunately, no heed was paid to this resolution, and the revision settlements were continued.[1]

A difficult situation arose at Bardoli in 1928, where it had been decided to assess the land revenue demand at an enhanced rate of 22 per cent.[2] Objection was taken by the residents of the taluka to this

[1] *Young India, dated the 14th June, 1928.*

[2] *Ibid.*

rate on the ground that it was arbitrary and based on no accurate data. All efforts to convince the Government of the injustice of the new assessment having failed, a *satyagraha* movement was started, and the raiyats pledged themselves to pay no assessment until either (1) the enhancement was cancelled, or (2) an independent and impartial tribunal was appointed to examine the whole case.[1] No attempt was made to redress the grievance. But the Government relied on coercive measures for the recovery of arrears of revenue. A non-official Committee, consisting of seven members of the Bombay Legislative Council was formed to enquire into the grievances of the Bardoli cultivators. This Committee reported that the Government had adopted indefensible methods in resorting to criminal law and that the attachments and distraints had in many cases been illegal. To prevent the recurrence of unfortunate situations like that of Bardoli the Committee recommended, *inter alia*, that the land revenue-policy of the Government should be revised, that the principle of assessment should be brought into line with the civilised notions of land tax prevailing in the West, and that an appeal to civil courts should be allowed where the assessment was considered to be unsatisfactory.

[1] The Settlement Officer proposed an increase of 30.59 per cent.; the Settlement Commissioner reduced this to 29.03 per cent., while the Government of Bombay contented itself with 21.97 per cent.

GSL

The Government afterwards appointed a Committee consisting of two of its officers to consider the question. This Committee reported that the new assessments had been pitched too high and that the Government had made a mistake in proceeding with the re-settlement in the way it did. The Governor of the Presidency declared in the Legislative Council in July, 1929 that the events leading up to the Bardoli enquiry opened up many grave and important issues effecting not only the practice but also the policy hitherto followed with regard to revenue settlements, and he announced that a sound and progressive measure of legislation would be placed before the Council at an early date. He further informed the Council that the Government had no intention of proceeding further with the settlements then pending until these could be reconsidered in the light of any fresh decisions which might be arrived at. A meeting was held soon afterwards at Poona at which resolutions were passed demanding the cancellation of all revision settlements which had taken place since 1920 and the announcement of a definite policy. A Land League was formed with the object of educating public opinion on the question of the land revenue policy of the Government. Mr. V. B. Patel, in the course of the presidential address delivered on this occasion, insisted that profits of agriculture, and not

GSL

rentals, should be the basis of assessing the land revenue.[1]

Besides the *raiyatwari* tenure, there are in the Bombay Presidency several special tenures, such as *taluqdari*, *mehwasi*, *udhad jamabandi*, *khoti*, *izafat*, and *inam*. The *taluqdari* tenure exists in Gujrat. A *taluqdar* is the absolute proprietor of his estate, subject to the payment of the Government revenue, which may be either fixed or subject to periodical revision. The *mehwasi* is also found in Gujrat. It is a system of paying revenue in a lump sum for the village, the amount being fixed at the discretion of the Collector. The payments are made by joint owners of the villages. *Udhad jamabandi* is a fixed assessment, not liable to revision, on villages or groups of villages. The *khoti* tenure is the holding of villages by *khots* or managers, who make annual agreements with the Government. *Izafat* tenures are held by persons who or whose ancestors formerly served under the Government; and who pay revenue at concession rates. *Inams*, *jaigirs*, etc. are tenures, wholly or partly free from assessment, of land allotted for services to the State or for the support of temples, etc.[2]

Sind came into British possession in 1843. It

[1] The best method, according to Mr. Bhulabhai Desai, of arriving at agricultural profits is by ascertaining the actual produce multiplied by its price and deducting the expenses of agriculture. He is further of opinion that no conclusions should be based on sales and leases; these may be utilised as a mere check, but not as a standard.

[2] *Bombay, 1921-22.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
VII

GSL

was administered by a special commission under the Bombay Government. The revenue system of Sind is somewhat different from that of the rest of the Bombay Presidency. The prevailing tenure is *zemindari*. The smaller *zemindars* cultivate the lands themselves, but the larger zeminders receive shares of crops from the actual cultivators according to immemorial custom prevailing in the different districts.

No regular settlement operations were commenced until 1855, and none were actually introduced on the right bank of the Indus until 1862, and on the left until 1863. Until these dates the settlements were for short periods, without regular measuring and classing. The assessments were in some cases very heavy. In the regular settlements the assessments were reduced. Money payments were substituted for payments in kind which had been in vogue in former times. The rates were fixed by the method of irrigational settlement, that is to say, according as the land was watered by the inundation wheel, or the perennial wheel, or by the rains. As the agriculture of Sind was dependent on the irrigation derived from the Indus, the classing of the land had reference mainly to the facilities for obtaining water.[1] The period of settlement is normally for 20 years.

[1] *Vide Moral and Material Progress Report, 1873-74*, and *Bombay, 1921-22.*

The province of Assam is composed of parts which present great divergences in history and in other circumstances. The two districts of Sylhet and Goalpara formed part of Bengal as acquired by the *diwani* grant of 1765, and large portions of these were included in the Permanent Settlement of 1793. Some lands in Sylhet were excluded from the Permanent Settlement, and these were known as *ilam*. The *ilam* lands were first surveyed in 1835, and the cultivated portions were settled with their occupants on a 10 years' lease, which was renewed from time to time. In 1869, a systematic re-settlement of the *ilam* lands was undertaken, resulting in a considerable increase in revenue. The assessment was based on the rates of rent paid by cultivators of similar lands in the neighbourhood, subject to a deduction of 15 per cent. The term of settlement was 20 years; the holders had a permanent and heritable right of occupancy, but the proprietary right remained vested in the Government.[1] The *ilam* leases were extended till 1902, when these lands were resettled for a further period of 20 years.[2]

The district of Cachar has a peculiar tenure of its own, known as *mirasdari*. The characteristic feature of this tenure is that the estates are held in common by a voluntary body of cultivators,

[1] *Moral and Material Progress Report, 1882-83.*

[2] *Report on the Administration of Assam, 1921-22.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VII

CSL

often of different castes, tribes, and religions, who are jointly liable for the revenue. The first settlement was made in 1838-39 for a term of five years, after a rough survey. A fresh survey was made in 1841-42, upon which was based a 15 years' settlement, renewed for an additional term of 20 years. In 1875, a more elaborate survey was begun and a fresh settlement based upon this survey was concluded in 1883-84. The term was for 15 years. The tenure conferred was permanent, heritable, and transferable.

The land system of Assam proper, that is, the Brahmaputra valley, is *raiyatwari*, modified only by the circumstance that a contractor, styled *mauzadar* intervenes between the Government and the actual cultivators of the soil. The entire area, including waste land, is divided into convenient blocks or revenue circles, known as *mauzas*. Each *mauza* forms the charge of a *mauzadar*, and subordinate to him are *mandals* who are in charge of villages. The *mauzadar* is responsible for the due payment of the revenue, and is paid a commission on the revenue collected by him. Besides the ordinary *mauzadari*, there are two other tenures, namely, (1) *chamua* or *khirajkhat*, which only differ from the ordinary tenure in that the holder has the privilege of paying the revenue direct to the Government without the intervention of a *mauzadar*; and (2) the *nisf-khiraj*, a sort of resumed *lakhiraj*, which is

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

assessed at half rates. The *lakhiraj* lands are entirely revenue-free.

Prior to 1870, all *raiyatwari* lands were held on annual leases, but in that year a set of rules for the encouragement of ten-year leases was sanctioned by the Bengal Government, expressly declaring that holdings so settled should be heritable and transferable. These rules were, however, practically inoperative till 1883 when they were recast. It was then ordered that the settlement should henceforth be decennial, wherever cultivation was of a permanent character. At the same time, a trial was made of substituting *tahsildars* or Government revenue-collectors for *mauzadars*. The principle of these rules of 1870 was embodied in the Land and Revenue Regulation of 1886.

A re-settlement of a large part of the Brahmaputra valley was effected in 1893-94. This was followed by some disturbances due to the too abrupt imposition of higher rates. It gradually became apparent that the revenue demand was most unevenly distributed.[1] On account of the havoc caused by the earthquake of 1897, it was found necessary to grant some remissions from the revenue demand. Re-settlement operations were inaugurated in 1902 on a new system, known as the "soil-unit" system, by which the assessment of the land revenue was, as far as posible, fixed by the people themselves, with

[1] *Report on the Administration of Assam, 1912-13.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VII

GSL

reference to the popular estimate of the relative values of the different classes of soils and of the relative natural advantages of the different areas. In none of the districts was the revenue demand greatly enhanced; in the Kamrup district, an actual abatement had to be made.

The assessment was originally based on a simple classification of soils, which was adapted to the uniformly fertile nature of the valley. The ordinary system does not prevail in the hill-tracts, but in some parts of them, a house-tax is taken in lieu of assessment on the land. In 1893, however, a more detailed system of classification was introduced.

Waste land tenures for tea cultivation form an important feature of the land system of Assam. In this matter the policy of the Government has undergone several changes.[1] The total area of land in Assam held under special terms for tea cultivation is large. In addition, a considerable area of land is held by tea planters under ordinary *raiyatwari* tenure in Assam proper and under *mirasdari* tenure in Cachar.

[1] *Moral and Material Progress Report, 1882-83.*

The first rules, drawn up in 1838, sanctioned the grant of leases of not less than 100 nor more than 10,000 acres. One-fourth of the whole was revenue free for ever, the remainder was liable to varying rates of assessment, subject to revision every 21 years. In 1854, a fresh set of rules was introduced. One-fourth of the area was still revenue free for ever; the remainder was free for 15 years, to be assessed thereafter at 4½d. an acre for 10 years, and at 9d. an acre for 74 years more. In 1854, an option was given of redeeming the future assessment at 20 years' purchase. The policy of selling waste lands in fee simple was introduced by Lord Canning in 1861, and modified in 1862, and again

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

The revenue history of Burma presents many features which are entirely different from those of the other provinces. During the rule of Burmese kings, the taxes varied from place to place and from person to person. In most places, however, cultivators paid a tax the amount of which was dependent on the number of ploughs they used. The rates differed according as they cultivated gardens, rice land, or dry land. The assessment was supposed to represent one-tenth of the value of the gross produce.[1]

The plough-tax was continued after the annexation of Arakan and Tenasserim by the British Government. Gradually, the area per plough was standardised, so that the tax became a tax on land rather than on the culivation, and the tax on a standard area of land passed naturally into a tax at acre rates. In Tenasserim, the earliest acre rates were supposed to represent one-fifth or one-fourth of the value of the gross produce. It should be noted that one distinctive principle of the revenue

in 1874. The price might either be paid down at once, or in instalments spread over 10 years, with interest at 10 per cent. In 1876, the policy of leases was reverted to. The term was for 30 years, of which two years were revenue free, the rent thereafter rising progressively to Rs. 25 an acre. On the termination of the lease, the land might be assessed at rates not higher than those prevailing for ordinary cultivation. These rules were revised and re-issued under the Land and Revenue Regulation of 1887. It was decided on a subsequent occasion that all leases of this class which expired in 1912 or would expire later would be renewed up till 1932, on the same conditions as before, together with a few additional provisions; the rates of assessment would be about 6 annas per bigha.

[1] *Report of the Committee on the Land Revenue System of Burma, 1922.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

system of Burma from the commencement of British rule was that no fixed contract was made between the Government and the cultivator regarding the assessment of any given area of land, but acre rates were fixed at which each cultivator paid revenue according to the area of his cultivation. This system has survived to the present day.

The earliest rates in Lower Burma were uniform throughout the whole of a revenue circle extending possibly over hundreds of square miles. In 1847, Capt. (afterwards Sir Arthur) Phayre adopted as the area of uniform assessment the *kwin*, or a sub-division of the village tract. A series of experiments was next made with the object of substituting fixed for fluctuating assessments. Two systems were tried for some years, namely, the village lease and the individual lease. But with the opening of the Suez Canal and the revolution of agriculture in Lower Burma, both varieties of fixed assessment became unworkable. In 1879-80, therefore, fluctuating assessments were reverted to. These years marked the commencement of the modern period of settlement in Burma. In one matter of fundamental importance a marked departure was made from the previous system. It was decided that the basis of assessment should be the net, not the gross, produce of cultivation. The term 'net produce', however, was at this time used in the sense of net profits, which were regarded "as the

GSL

only legitimate fund from which the revenue should be drawn." The standard proportion of the net profits which should be taken by the State was fixed at one-half a few years later.

When Upper Burma was annexed it was found that in these territories some lands recognised as royal lands, paid rent, but on others nothing in the shape of rent, revenue, or taxes was levied, the only general tax being *thathameda*. The rent on royal lands was ordinarily taken as a share of the gross produce. After a great deal of correspondence between the Government of India and the provincial Government, the net produce was adopted as the basis of assessment, excluding home labour from the cost of cultivation. One-half of the net produce was fixed as the share of the Government.

Thus, for some time, two distinct standards of assessment were in force in the province, namely, half the net produce in Upper Burma, and half the net profits in Lower Burma. In the latter part of the province, however, it was found that the nominal standard had never been attained. The Government of India suggested that an approximation to the nominal standard was desirable as a safeguard against evils "so rife in India—the middleman, the rent-receiving landlord, the land grabbing and rack-renting money-lender." Shortly afterwards, the Government of India expressed

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VIF

GSL

the view that net profits were unsuitable as a basis of assessment because the definition rested on quantities which were practically indeterminable and had been discarded elsewhere, and urged the adoption of the net produce as the basis. It was understood at that time, however, that the cost of cultivation should be calculated on the assumption that each holding was cultivated entirely by outside labour, hired cattle, purchased implements and seed, etc. But later on it was decided to exclude the value of home labour from the cost of cultivation. The basis of assessment thus became the value of the gross produce less out-of-pocket expenditure on cultivation. This, since 1900, has been the basis both in Upper and Lower Burma. The standard share of the revenue has, however, remained unchanged. The share was still one-half, but as even with a much more restricted basis the assessment had not yet approached the theoretical rate, a provincial standard of one-fourth was now prescribed for Lower Burma.

In Burma, it has always been the tradition that the assessment should fluctuate with the annual produce of agriculture. The advantages and disadvantages of the system have been considered again and again. The earliest experiments in the direction of substituting fixed for fluctuating assessments were made in 1858-59, and for many years the issue remained in doubt. In 1880, however, it was

decided to revert to fluctuating assessments; and in the directions issued to the settlement officers in that year it was laid down that, in calculating rates, an allowance should be made for fallow areas. Several modifications in detail were introduced later, but the system of fluctuating assessments on cultivated areas continues till the present day in Lower Burma.

In Upper Burma, the people were habituated to a system of assessment more elastic than that in Lower Burma. After its annexation, the question of fixed assessments was discussed and several experiments made. But the insecurity of harvests indicated that even an assessment fluctuating with the cultivated area would be insufficiently elastic. The choice seemed to lie between extensive remissions and a system of assessment on matured areas. In 1898, the Government of India sanctioned the latter method for adoption in the dry zone of Upper Burma. In practice, the system of assessment on matured areas[1] was extended to the whole of Upper Burma.

Proposals were put forward to vary the revenue with the crop sown in Upper Burma, but they were negatived by the Government of India. It is now the general practice that a subsidiary crop shall only be separately assessed on rice land when the

[1] *Report of the Committee on the Land Revenue System of Burma, 1922.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

main crop fails, and that crop rates shall only be imposed on permanent soil or where specially valuable crops occupy a limited but considerable area.

Land revenue in Burma is not only the assessment on culturable land but includes also *taungya-tax*, capitation tax and land rate in lieu therefor, the *thathameda* tax, water rate, and local cesses. The *taungya-tax* is a charge per head or per household imposed in areas of shifting cultivation, usually in the hills, in lieu of land revenue.

A Committee, consisting entirely of officers of the Government, was appointed a few years ago to examine the land revenue system of Burma. This Committee submitted its Report in 1922. It discussed the whole question with great thoroughness and made a number of recommendations. The most important features of the Report regarding the assessment of revenue may be described in these words : The Committee considered the net produce basis as defined in Burma as dangerous and misleading. It held the view that the principles on which the cost of cultivation was calculated were unsound, and that the manner in which they were applied was unsuitable. It, therefore, recommended that the basis of assessment should be the rental produce, that is, the value of the gross produce *less* the true and full cost of cultivation, which would include an adequate allowance for all labour expended by the cultivator and his family on the land.

GSL

As for the Government demand, the Committee recommended that half the rental produce should be recognised as the maximum and not the standard as at present, while the existing demand should ordinarily represent the maximum, it being the duty of the settlement officer to find some point between these limits at which the demand might suitably be fixed.[1]

The land revenue amounted in 1792-93, the year preceding the Permanent Settlement of Bengal, to less than 4 crores. In 1857-58, the closing year of the Company's administration, it had risen to nearly 16 crores of rupees. On the eve of the Montagu-Chelmsford Reforms (1920-21), it stood at 31·97 crores. In 1926-27, the amount of land revenue reached the figure of 34·88 crores.

This increase has been due to addition of territories, extension of cultivation, and increased demand on the part of the Government. For a long time land revenue constituted the most important of all the resources of the State in India; but it now occupies the second place among the sources of revenue. In 1857-58, two-thirds of the State income was derived from the land, but at present land revenue represents less than one-fifth of the total resources of the country.

Of the provincial resources the land revenue now

[1] *Report of the Committee on the Land Revenue System of Burma, 1922.*

forms the largest item in most of the provinces. The shares of the different provinces in the land revenue collections of 1926-27 were as follows: Madras, Rs. 6·22 crores; Bombay, Rs. 4·66 crores; Bengal, Rs. 3·11 crores; United Provinces, Rs. 6·87 crores; Punjab, Rs. 3·21 crores; Burma, Rs. 5·22 crores; Behar and Orissa, Rs. 1·69 crores; Assam, Rs. 1·66 crores; Coorg, Rs. ·18 crores; Territories under the Government of India, Rs. ·41 crores.

The proceeds of the land revenue were divided between the Government of India and the Provincial Governments till 1920-21. But, with the introduction of the Montagu-Chelmsford Reforms, land revenue has been transferred entirely to the provinces. It has, however, so far been a reserved subject and administered by a member of the Executive Council in each province. In the new administrative arrangements which are likely to be effected in the near future, the subject will be under the absolute control of the elected representatives of the people. It is to be hoped that the undesirable features of the system will then be removed and the whole system placed on a satisfactory footing.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

CHAPTER VIII

EXCISE

Spirituous liquors and intoxicating drugs were not absolutely unknown in Ancient India. But their use was severely condemned by sages and law-givers. During the Mahomedan period of Indian history, a tax on intoxicants was levied. Under British rule, the excise systems have differed in the different provinces. A short history of these systems from the early days of the Company to the last quarter of the nineteenth century is given below.

In Bengal, during the period immediately preceding the commencement of British rule, the excise duty was collected through the agency of the zemindars. This system was continued for some time under the Company's administration. In 1790, the Bengal Government determined, on moral grounds, to resume from the zemindars the right of collecting duties on spirits and drugs. The reason assigned for this step was that the immoderate use of spirituous liquors and drugs "had become prevalent among many of the lower orders of people owing to the inconsiderable price at which they were manufactured and sold."

The Regulations issued between 1790 and 1800 prohibited the manufacture or sale of liquors without a license from the Collector. A daily tax was levied on each still, and the officers were instructed to reduce as much as possible the number of licenses, and to fix on stills the highest rates which could be levied without operating as a prohibition. In 1813, an attempt was made to introduce central distilleries in large towns, but after a few years' experience they were closed in all districts except five, because they had not been productive of the advantages expected from them. After 1824, the farming system was tried. This, in its turn, was found to be open to objection, as it led to an encouragement of consumption and involved a sacrifice of revenue. From 1840, changes were introduced which resulted in the general re-introduction of the out-still system except in a few places where central distilleries were continued.

In 1856, the excise law of Bengal and the North-Western Provinces was consolidated and amended. The manufacture of spirit after the English method was confined to duly licensed distilleries, and the rate of duty on such spirit was fixed at one rupee per gallon. Collectors were to issue licenses to any person for the manufacture of country spirit. They were also authorised to establish distilleries for the manufacture of country spirit and to fix

GSL

the limits within which no liquor, except that manufactured at such distillery, should be sold, and no stills established or worked. The levy of a tax or duty on licenses for retail sale was prescribed, and generally wide powers were given for the restriction and taxation of the trade in spirits and drugs.

In 1859 and the following few years, at the suggestion of the Government of India, the central distillery system was introduced almost throughout the province. But before the end of the decade numerous objections to this measure were forced on the attention of the Government. In 1871, it was decided to re-introduce out-stills in certain places, and after 1877 out-stills again became the general rule, central distilleries being exceptions. In 1879, the revenue authorities suspended the rule which had previously been in force limiting the capacity of each out-still, and thus preventing the owner from manufacturing more than a certain quantity of spirit. Complaints followed that the change had cheapened the price of liquor and led to an increase of drinking. From the year 1880, the number of out-stills was reduced. In 1883, a Commission was appointed, whose Report is regarded as a landmark in the history of excise administration in India. The Commission recommended the re-introduction of the central distillery system into several large towns, the more effective regulation of the working

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

of the out-still system and the restriction of the capacities of stills and fermenting vats to sizes sufficient to meet the local demand. In pursuance of the recommendation of the Commission, the central distillery system began again to be re-introduced wherever there was a prospect of its being worked with satisfactory results.[1]

When the territories in the Madras Presidency came under British administration, the excise system found there in force was the farming system. This was continued by the early British administrators. In the first decade of the nineteenth century, considerable discussion took place regarding excise regulations. In 1808, a regulation was enacted, which provided that the exclusive privilege of manufacturing and selling *arrack* should be farmed in each district. The out-still system was tried in a few districts, but was soon discontinued. By a regulation of 1820 the law was amended so as to authorise the treatment of *toddy* and other fermented liquors in the same way as spirits by allowing Collectors to retain the manufacture and sale under direct management if deemed preferable to farming. This law remained in force for over forty years, and under it the farming system was universal, with the exception of the city of Madras.

[1] The rates of duty varied in the different districts of the province. Broadly speaking, it may be said that the duties were doubled between 1870 and 1889.—*Despatch from the Government of India to the Secretary of State, dated the 4th February, 1890, Appendix H.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

In 1864, Act III of that year was substituted as the excise law of Madras. The two main alterations were the grant of power to levy an excise duty on the quantity of liquor manufactured instead of an annual payment for the farm, and the reservation of the right to suppress the home manufacture of fermented *toddy* where that privilege was likely to be used as a cloak for illicit sales or distillation. The power granted by this Act was gradually extended. In 1884, a Committee was appointed to investigate the excise system, and its recommendations were adopted before the end of the year. Under the new system the monopoly of manufacture was let separately from that of sale, the former being granted on condition of payment of a fixed duty per gallon and that liquor should be supplied to the shops at a fixed maximum rate, and the right of sale being given on payment of a fee per shop, or a number of shops, or on payment of a fee determined by auction. After a short trial, this gave way to the system under which no monopoly of manufacture was established. The law was amended by Act 1 of 1866.[1]

The rates of duty in Madras varied in different districts. Before 1884, no separate licensee's fees were levied in addition to the still-head duty. In that year, a committee was appointed by the Govern-

[1] *Despatch from the Government of India to the Secretary of State, dated the 4th February, 1890, Appendix H.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VIII

CSL

ment of Madras to enquire into the excise system of the province. The object of the enquiry was to raise the taxation on country spirit, which was then considerably below the import rate, up to that level. The Madras Abkari Committee agreed with the policy already announced by the Government of endeavouring to realise a "maximum revenue from a minimum consumption." They further observed: "Every right-feeling Government will do all that it can to increase the taxation on intoxicating liquors up to that point (which may be called the limit of taxation) when the people, rather than pay the high price of liquor which can be had in licensed shops, will take to illicit distillation and smuggling in each locality."

In the Bombay Presidency, no revenue was derived by the State from intoxicants during the earlier period of the Peishwa's rule; but in later years taxes seem to have been imposed on them. There was total prohibition in the cities of Poona and Nagar, drunkenness being regarded as a criminal offence. After the commencement of British rule, the tree-tax on date and brab trees was continued, as was also the farm of the monopoly for the manufacture and sale of *mowra* spirit. In 1808, a new system was introduced in Surat and Salsette, under which a tax was levied on each still, the distiller having the right both to manufacture and sell liquor. In 1816, the central distillery system was

GSL

introduced in Salsette and the city of Surat. In 1827, the excise arrangements were consolidated. The main features of these arrangements were as follows: Central distilleries were maintained in a few cities such as Ahmedabed, Broach and Surat, a fixed duty per gallon being levied. In districts where cocoanut, brab and date trees did not grow the right to manufacture and sell spirits was farmed. In most of the other districts where these trees grew, the monopoly of the retail sale of spirits and of the right to purchase spirits from Bhandarees was farmed.

In 1837, a Committee was appointed to advise the Government on the steps to be taken to improve the excise administration of Bombay. This Committee recommended the continuance of the farming system with modifications, such as reducing the number of shops and stills, and freeing raw *toddy* from any tax except the ground-rent on the trees. A Regulation was enacted in 1851, which was found to be defective; and in the following year an Act was passed to remove these defects. In 1857, the Government declared its future policy to be the letting by auction of each shop, with its still, separately. In 1859, the duty at all the central distilleries was raised to one rupee per gallon. In 1864, an officer was placed on special duty to collect information regarding the increase of intemperance and other cognate matters. The farming system continued

GSL

till 1878. In that year, an Act was passed which completely changed the excise system. The farming system was abolished, and the central distillery system, with high rates of duty, was introduced. As in Bengal, the rates of duty varied in the different districts of the Bombay Presidency. From 1877 the rates of duty were steadily raised so as to approximate to those fixed for imported spirits.

The early history of excise in the North-Western Provinces was the same as that in Bengal. The "Directions to Revenue officers" issued in 1838, after the separation of the province of Bengal, mentioned the central distillery system as an alternative to the farming system. Act XXI of 1856 authorised the establishment of that system. But it was not introduced anywhere. In 1859, the Provincial Government, in reply to the reference from the Government of India, opposed the introduction of the central distillery system. The methods then in force in the North-Western Provinces were the licensing of single stills, and also of shops on payment of fees fixed by the Collector; and the farming of manufacture and sale usually for one year for subdivisions on payment of rents fixed by public tender. The Collectors had discretion to resort to auction instead of tenders, but this discretion was seldom used.

The view of the Provincial Government changed in regard to the central distillery system, and that

GSL

system began to be introduced in nearly the whole of the province from 1863.[1] The licenses for retail sale were at first sold by auction. In 1867-68, in one district an experiment was tried in which the still-head duty was relied on as the main part of the tax on liquor, but licenses were granted to open shops on payment of a low fixed license fee at any place for which application was made. The experiment proved a financial success, and in the following year the Excise Commissioner proposed that this plan should be tried everywhere. The proposal was approved by the Government with a modification. In 1870-71, a change was made, and the following rule was laid down: "The Collector will fix the number and locality of the different shops, and determine their letting value according to the advantages possessed by each. It is not intended that they should, as a rule, be put up to public competition; but competition may be resorted to by the Collector and taken into account in determining the sum at which each shall be leased." This rule remained in force for many years, but the difficulties in the way of obtaining accurate information necessary to work the rule effectively led afterwards to the reversion generally to the practice of putting the shops up to auction.

The experience of the working of the central

[1] The rates of duty were fixed at 12 annas a gallon for spirit of lower strength than 25 under proof and one rupee for spirits of higher strength.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

distillery system from 1863 to 1870 proved that it had been much too extensively introduced. In 1871, the Government of the province expressed its conviction that smuggling for the sale of illicit liquor was going on to a very large extent in several districts.[1] A Committee was appointed in 1877 to report on excise matters and, in accordance with its recommendations, numerous measures were adopted for the improvement of the administration. The "modified distillery system" was tried in some districts; but as it was found to be a failure, it was abandoned. In Oudh, the central distillery system was uniformly adopted from the year 1861.[2]

In the Punjab, there was no regular excise system during the Sikh administration. But in several places a duty was levied in the shape of license fees. For some years after the annexation of the province, the farming system was in force. In 1862-64, the central distillery system was introduced in every district, and it continued, with a few minor exceptions.[3] The rates fixed in 1862 were raised in the following year. In 1877, the rates were increased still further. The levy of

[1] The rates fixed in May 1873 were Re. 1 for strengths higher than 25 and 8 as. for strengths lower than 25. In October of the same year these rates were raised to Rs. 2 and Re. 1.

[2] The still-head duty was fixed at Re. 1 for spirit of higher strength than 25 under proof and 12 annas on lower strengths,

[3] The rates in 1862 were Rs. 2 per gallon for spirit of the strength of London proof and Re. 1-8 as. for spirit of the strength of 25 under proof.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · सत्यमेव जयते · CSL

license fees for sale, in addition to the still-head duty, raised the total taxation of country liquor per gallon to a very high figure in the Punjab.

In Burma, the traffic in liquor was altogether forbidden during the Burmese rule. On the annexation of Upper Burma, the strong temperance principles of the people were recognised by the Government of India in a despatch sent to the Secretary of State in 1886. But the wishes of the Burmese people were not long respected, and it was decided to grant licenses for the opening of shops for the sale of liquors "to Europeans, Indians and Chinese." The Burmese were prohibited from purchasing liquor, and it was made penal for the holder of a license to sell liquors to them. The law, however, was easily evaded. It was observed in a Government Report issued in 1893: "There can be no doubt that the prohibition is in practice inoperative."[1]

This brief historical review of excise administration in the different provinces shows that in no province was a consistent and continuous policy pursued. But, generally speaking, it may be said that the line of advance was from the farming system towards the central distillery system. The Government, however, thought that there were various reasons which rendered the central distil-

[1] *Report of the Bombay Excise Committee, 1922-23.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · VIII · GSL

lery system unsuitable in many parts of the country. The complaint was frequently made that the excise policy of the Government had resulted in encouraging the drink evil in India and had thus been productive of immense harm to the people.

In 1886, the British and Colonial Temperance Congress of London submitted memorials to the Secretary of State and to the Government of India to the effect that habits of intemperance fostered by the fiscal system adopted by the Government were greatly on the increase in India, that this was due to the extension of spirit licenses granted for the purpose of excise revenue, which on spirit had more than doubled in the previous ten years. The Government of India admitted that there had been an increase of revenue, but pointed out that this mainly had been due to the prevention of smuggling, increase of population, improved means of communication, and agricultural prosperity.

In 1888, the Secretary of State observed in a despatch to the Government of India that, in controlling and directing the Indian excise administration, the Supreme and Provincial Governments were following and had followed the principle that as high a tax as possible should be placed on spirits without giving rise to illicit distillation. In the interest of the Indian people, he added, as well as in the interest of the Indian treasury the excise

GSL

systems of India must always be based upon two considerations, namely, "(1) that an extension of the habit of drinking among Indian populations is to be discouraged, and (2) that the tax on spirits and liquors should be as high as may be possible without giving rise to illicit methods of making and selling liquor." Subject to these considerations, the Secretary of State urged that, "as large a revenue as possible should be raised from a small consumption of intoxicating liquors."

In 1889, Mr. Samuel Smith moved in the House of Commons a Resolution[1] condemning the excise administration of the Government of India. In the course of the speech delivered by him on the occasion, Mr. Samuel Smith observed that there had been a deplorable increase of drinking in India. Mr. W. S. Caine, in seconding the Resolution, said: "The worst and rottenest excise system in the civilised world is that of India; the worst and rottenest of the various systems of India is that of Bengal." A long and interesting debate followed. Sir John Gorst, then Under-Secretary of State, met the Resolution by a direct

[1] The Resolution ran thus: "That, in the opinion of this House, the fiscal system of the Government of India leads to the establishment of spirit distilleries, liquor and opium shops in large numbers of places where till recently they never existed, in defiance of native opinion and the protests of the inhabitants, and that such increased facilities for drinking produce a steadily increasing consumption, and spread misery and ruin among the industrial classes of India, calling for immediate action on the part of the Government of India, with a view to their abatement."

negative. But the Resolution was carried by a majority.

The Government of India sent a despatch[1] in 1890 to the Secretary of State in which it admitted that an error had been committed in extending the out-still system after 1877 in Bengal, and especially in removing the limitation on the capacity of out-stills. But it asserted that there had been no increase in drinking in that province since 1884;[2] on the other hand, there was evidence which tended to show that there had been a decrease. It also refuted the charge that the British excise administration gave greater facilities for drinking than an administration based on principles approved by Indians would do. It then pointed out the reasons for the existence of the different systems in the provinces. Lastly, the Government of India discussed the objects and principles of excise administration. The Government of India observed in this connexion that, from an historical point of view, the primary objects of an excise system were the raising of revenue and the regulation of the trade for police purposes. No special difficulty was experienced in achieving the

[1] *Despatch dated the 4th February, 1890.*

[2] "One of the earlier effects," observed the Government of India, "of the spread of education and enlightenment in such countries as India may sometimes be an increase in intemperance: old checks based on imaginary sanctions lose their power of restraint, and the result is excess. But this result is, we believe, only temporary: education in time establishes more solid and enduring restraints against intemperance than those which it destroys."

GSL

second object. In respect of the realisation of revenue, the principle to which the Government had given its adherence was to impose as high a tax as might be possible without giving rise to illicit practices. But, in the opinion of the Government, there was no general agreement regarding the extent to which the Government should go in the direction of restricting the consumption of stimulants and narcotics.

After pointing out the difficulties likely to be encountered in the adoption of a policy of restriction, the Government of India expressed the view that prohibition, even if desirable, "was impossible" in India; and that local option was "impracticable," as it would tend to "throw the whole administration into confusion." It said further that the difficulty of ascertaining public opinion on the question of drink was very serious. The Government of India, after considering all the conditions of the very difficult problem, arrived at the conclusion that the only general principles which it was expedient or even safe to adopt were the following:—

(1) "That the taxation of spirituous and intoxicating liquors and drugs should be high, and in some cases as high as it is possible to enforce;

(2) that the traffic in liquor and drugs should be conducted under suitable regulations for police purposes;

GSL

(3) that the number of places at which liquor or drugs can be purchased should be strictly limited with regard to the circumstances of each locality ; and

(4) that efforts should be made to ascertain the existence of local public sentiment, and that a reasonable amount of deference should be paid to such opinion when ascertained."

The Government of India did not anticipate that the carrying out of this policy in a rational manner and with reasonable regard to the circumstances of the country would "lead to any loss of revenue."[1]

Soon afterwards, a special Commission was appointed to investigate matters relating to the hemp drugs. The Hemp Drugs Commission expressed the view, that total prohibition of cultivation and sale was "neither necessary nor expedient." They recommended that a policy of control and restriction should be adopted, the means to be taken towards this end being (1) taxation by a combination of direct duty and vend fees ; (2) prohibition of hemp cultivation except under license ; (3) limitation of the number of retail shops ; and (4) limitation of the extent of legal possession of the drugs. The Commission advised that the methods adopted for carrying out these objects

[1] *Despatch dated the 4th Feburary, 1890.*

GSL

should be systematic, and, as far as possible, uniform ; and further, that a Government monopoly was undesirable for practical reasons. With a view to the adoption of the measures recommended, the Government of India took the necessary powers by an Act passed in 1896, and laid down principles for the guidance of Provincial Governments. These may briefly be summarised thus : In regard to *ganja* and *charas*, the cultivation of the plant should be restricted as much as possible, and a direct quantitative duty should be levied on the drugs on issue from the warehouse in the province of consumption. In regard to *bhang*, the cultivation of hemp for its production should be prohibited or taxed, and the collection of the drug from wild plants permitted only under license, a moderate quantitative duty being levied in addition to vend fees. These principles were adopted with local variations in all provinces.

In 1898, Mr. G. K. Gokhale, speaking at a temperance meeting held in England, said : "They (the Government) do not want to spread drinking, but they are interested in the revenue that arises from it, and that constitutes a serious difficulty in dealing with the question. Therefore, the revenue authorities should not be the licensing authority. My second point is that the system of putting licenses up to auction must be abolished. These are two important steps without which no

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

real improvement in the whole situation can be effected." It is needless to say that Mr. Gokhale's suggestions were quite sound.

In 1904, Mr. (afterwards Sir) Frederick Lely wrote a memorandum in which he suggested that the ultimate aim of excise administration should be to put down drinking altogether ; that, in the meantime, the Government should pay close attention to the locality of existing shops ; that, except in special cases, the grant of licenses to open temporary shops at fairs and religious gatherings should be forbidden ; that provision in liquor shops of accommodation for private drinking should be prohibited ; and that the practice of opening European liquor shops too frequently should be stopped. The Government reiterated its opinion that a total prohibition of intoxicants was impracticable, even if desirable, but impressed upon its officers that the growth of excise revenue was to be regarded as satisfactory only when it resulted from the substitution of licit for illicit manufacture and sale, and not from a general increase of consumption.

The Government of India appointed an Excise Committee in 1905. At this time, the policy followed by the Government was described in these words :

"The Government of India have no desire to interfere with the habits of those who use alcohol

GSL

in moderation ; this is regarded by them as outside the duty of the Government, and it is necessary in their opinion to make due provision for the needs of such persons. Their settled policy, however, is to minimise temptation to those who do not drink, and to discourage excess among those who do ; and to the furtherence of this policy all considerations of revenue must be absolutely subordinated. The most effective method of furthering this policy is to make the tax upon liquor as high as it is possible to raise it without stimulating illicit production to a degree which would increase instead of diminishing the total consumption, and without driving people to substitute deleterious drugs for alcohol or a more for a less harmful form of liquor. Subject to the same considerations, the number of liquor shops should be restricted as far as possible, and their location should be periodically subject to strict examination with a view to minimise the temptation to drink and to comform as far as reasonable to public opinion. It is also important to secure that the liquor which is offered for sale is of good quality and not necessarily injurious to health."

Among the most important of the measures recommended by the Committee and approved by the Government of India were advances of taxation in many cases, the further concentration of distillation, the extended adoption of the contract distillery

system, and improvements in the preventive establishments and in the staff for controlling distilleries and warehouses. The Committee suggested, among other things, the replacement of the then existing excise law by fresh legislation on the lines of the Madras Abkari Act. Legislation, following generally on the lines of the Committee's recommendations, was soon afterwards undertaken in the various provinces.

An investigation was carried out by Major (afterwards Sir Charles) Bedford, into the quality, manufacture, and excise control of alcoholic liquors in India. His report tended to show generally that such injury to health as might arise in India from alcoholic indulgence was due purely to excessive consumption, and not to any specially toxic properties of any particular kind of liquor, and sought to prove that the commonly prevailing idea that cheap imported spirit was specially pernicious was unfounded. So, too, the idea was wrong that out-still spirit, and spirit produced by the crude processes in force in simple central distilleries, were materially worse in quality than even the better classes of imported spirit, or than spirits made in India by European methods.

An advance in the direction of consulting public opinion more systematically regarding the number and location of shops was marked by the orders passed by the Government of India in 1907

as to the administration of excise in the larger towns. The licensing authority in India, outside the Presidency towns, was the district officer ; the orders in question provided for the formation in the Presidency and other large towns of small committees, including revenue or police officers and municipal representatives, to advise the licensing authority. The extension of the system outside the larger among local towns, as to the possibility of which the Government of India was doubtful, was left to the discretion of Provincial Governments. A return laid before Parliament in 1911 showed that nearly 200 committees had been appointed up to that date, many of them with non-official majorities. The formation of such committees was undoubtedly a move in the right direction. But complaints were not infrequent that these committees were unsatisfactory in respect of personnel and that their powers were extremely limited.

The whole subject of excise was reviewed at length by the Government of India and Local Governments in 1913-14. The principal points in this review were as follows: The excise revenue on opium was chiefly derived from duty and vend fees. Hemp cultivation was restricted and controlled, and a duty and vend fees were levied. *Charas* was now prohibited in some districts, and elsewhere was subject to a high duty. The habit of *cocaine* taking had for some years past become common among

certain classes in the larger towns of Burma, Bengal, Bombay, the Punjab, and the United Provinces. Any person found in possession of the smallest quantity without a license was made liable to punishment, but large quantities were smuggled. A conference to consider measures for the suppression of cocaine smuggling was held at Delhi in November 1914.[1]

In 1917, the Government of India, in a despatch to the Secretary of State, reaffirmed the policy laid down in 1889. It pointed out that since 1905-6 country liquor shops had been reduced by 7,788, opium shops by 2,380, and shops for the retail sale of hemp drugs by 1,516. Toddy shops had also been reduced to the extent of 11,150. The Government of India protested against the unfairness of charging Government officers with greater consideration for public revenue than for the well-being of

[1] The following table shows the excise revenue in 1915-16 under the different heads:

License and distillery Fees and Duties for the sale of Drugs and liquors derived from

	£
Foreign Liquors	337,740
Country Spirits	4,441,682
Toddy and Pachwai	1,523,103
Opium and its preparations	424,763
Other drugs	577,135
Other Duties, etc. on Indian Consumption of Opium, etc.	950,656
Ganja	369,653
Fines, Confiscations, Miscellaneous	37,190
Total Revenue	8,632,209
Charges	470,740
Net Revenue	8,161,469

GSL

the people. In a subsequent letter to the Provincial Governments the Government of India reiterated the policy laid down in 1905 and indicated the general measures by which effect was to be given to it.

A fresh chapter was opened in the history of the excise duties with the introduction of the Reforms. The non-cooperation campaign led to a shrinkage in excise revenue and gave an impetus to the temperance movement. But, unfortunately, the impetus did not last long. In most of the legislative councils, resolutions were passed urging the adoption of a policy of restriction in the matter of excise. In some provinces, prohibition was adopted as the ultimate goal of excise policy. In Bombay, an Excise Committee was appointed in 1922. The Committee submitted their Report in 1923. They urged that the Government should declare the total extinction of excise revenue as the goal of its excise policy.

The other main recommendations made by the Committee were: (1) local option should be adopted as the first step towards the attainment of the goal; (2) the policy of rationing the quantity of liquor supplied to shops, with a gradual reduction in the quantity issued to each, should be adopted; (3) no new license should be granted in any locality for the sale of country or foreign liquor; (4) all "on" licenses should be abolished at the first opportunity

GSL

as soon as the old licenses would expire ; (5) the policy of reducing the number of shops should be more vigorously pursued ; (6) the constitution of the excise advisory committees should be improved and their functions should be clearly defined and enlarged ;[1] (7) the excise advisory committees should be granted the power of determining the location of shops ; (8) in all industrial areas, the liquor and toddy shops in the immediate vicinity of mills and factories should be closed ; (9) shops selling liquor in all taluka towns should be closed on market and fair days ; (10) the policy of reducing the consumption of opium by increasing its price should be continued ; (11) *ganja* and *bhang* should be prohibited within a period of 10 years ; (12) instruction in temperance should be given in schools.

On the question of finance, the Committee calculated that there would be an eventual deficit of 3 crores in the revenues of the province if the consumption of liquor and toddy was finally abolished. To make up this deficit, the Committee recommended the levy of the following taxes which might be expected to yield the amounts shown against them : Succession duty, Rs. 50 lakhs ;

[1] Mr. Dhanjibhai Dorabji Gilder, Secretary, Bombay Temperance Council, observed : "The advisory committees constituted at present are nothing if not farcical, as so aptly described by Sir Dinshaw Wacha in his blunt outspoken language : It is high time that their usefulness be increased by the granting of additional powers especially in the direction of opening of new shops, transfer and closing of old ones and inspecting the existing ones."

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · भारत सरकार

totalizator, Rs. 20 lakhs; taxation of "futures", Rs. 50 lakhs; increase of local fund cess, Rs. 30 lakhs; tobacco tax, Rs. 5 lakhs; employee tax, Rs. 40 lakhs; transit tax, Rs. 20 lakhs; terminal tax, Rs. 50 lakhs.

The steps taken by the different Provincial Governments were satisfactory so far as they went. But there was a darker side to the picture. The Excise Commissioner in Bombay in his Report on the Administration of the department remarked in 1924: "The increase in crime, however, shows that more illicit liquor was consumed, but to what extent the one is replacing the other, it is not easy to say. It cannot, however, be controverted that illicit liquor is making headway against licit liquor, and the fact that, in spite of reduced consumption, the licensee can make a present of Rs. 19 lakhs over last year's license and vend fees, leads to more than a suspicion that he is becoming the ally of the illicit distiller". The Excise Commissioner concluded by saying that the growth of illicit distillation, illicit importation and the transition to hemp drugs and denatured spirits were very alarming aspects of the situation.[1]

In the last year of the East India Company's administration, the excise revenue amounted to considerably less than a crore of rupees. But after that date the income derived from this

[1] *India in 1924-25.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

source substantially increased decade by decade. The revenue in each of the decennial years was as follows: 1861-62, Rs. 1,78,61,570; 1870-71, Rs. 2,37,44,654; 1880-81, Rs. 3,13,52,260; 1890-91 Rs. 90,58,030; 1900-01, Rs. 5,90,58,030; 1910-11, Rs. 10,54,54,715; 1920-21, Rs. 20,43,65,359. In 1926-27, the last year for which complete figures are available, the total revenue derived from thie source was Rs. 19,82,68,363. This was distributed among the different provinces as follows: Madras, Rs. 5·10 crores; Bombay, Rs. 4·09 crores; Bengal, Rs. 2·25 crores: United Provinces, Rs. 1·30 crores; Punjab, Rs. 1·24 crores; Burma, Rs. 1.33 crores; Behar and Orissa, Rs. 1·97 crores; Central Provinces and Berar, Rs. 1·35 crores; Assam, Rs. ·71 crores; Coorg, Rs. ·3 crores; territories directly under the Government of India, Rs. ·41 crores.

The details of excise revenue for the year 1926-27 were the following: License and distillery fees and duties for the sale of liquors and drugs, Rs. 15,65, 11,347; acreage on land cultivated with poppy, Rs. 10,743; transit duty on excise opium, Rs. 1,05, 761; gain on sale proceeds of excise opium and other drugs, Rs. 2,60,72,950; duty on *ganja*, Rs. 1,17,18,468; fines, confiscations and miscellaneous, Rs. 30,58,787; recoveries of investments, Rs. 19,275; profits from Government commercial undertakings, Rs. 19,52,767; recoveries of indirect charges, Rs. 75,736.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

The incidence of excise taxation per head of the population in 1926-27 was as follows: India, general, 3 as. 5 p.; Baluchistan, Re. 1-6 as. 5 p.; North-Western Provinces, 3 as. 6 p.; Madras, Re. 1-3 as. 4 p.; Bombay, Rs. 2-1 a. 10 p.; Bengal, 7 as. 9p.; United Provinces, 4 as. 7 p.; Punjab, 9 as. 7 p.; Burma, Re. 1-0 a. 1 p.; Behar and Orissa, 9 as. 3 p.; Central Provinces and Berar, 15 as. 7 p. Assam, 15 as. 2 p.; Delhi, Re. 1.0 a. 1 p.; Coorg, Rs. 2-0 a. 2 p.

The Taxation Enquiry Committee make certain recommendations for regulating the excise system. The most important of these are as follows: (1) In the case of country spirit, a system of supply through a managed monopoly, such as that of contract supply, should be extended wherever possible, and the rate of duty should be raised in Behar and Assam; (2) in the case of foreign liquors, in lieu of vend fees being imposed in the shape of additions to the tariff rate, a definite increase should be made in the tariff itself; (3) in the case of country-made foreign liquors, the tariff rate of duty should be levied; (4) in the case of fermented liquors, the tree-tax system should be extended wherever possible, but only under rigid and systematic control; (5) a system of contract supply or managed monopoly should be introduced in the case of hemp drugs; (6) opium cultivation should be restricted, the stock of the article reduc-

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

ed, the duty made uniform, and the auction system abandoned; (7) a special enquiry should be instituted into the results of prohibition of *ganja* and partial prohibition of opium.

These recommendations are of a very halting and hesitating character. But the reason is not far to seek. As the Taxation Enquiry Committee point out, the excise revenue, together with the customs receipts on imported spirits, represents a total sum of about 22 crores of rupees, while in one province, namely, Behar and Orissa, it represents no less than 40 per cent. of the tax revenue of the province. The Committee emphasise that a policy of prohibition involves not only the extinction of excise revenue, but the effective abolition of drink and drugs, both licit and illicit. In order to achieve this object, to the direct loss of revenue amounting to 22 crores of rupees will have to be added the cost of the preventive force and a large increase in the expenses of the administration of the courts and gaols. Thus the pursuit of a consistent policy of prohibition will involve the exploitation of every alternative source of possible revenue.[1]

India is a country where the people are abstainers by habit, temperament, and tradition. Naturally, the excise policy pursued by the Government till 1920 was the subject of severe criticism by the enlightened public. With the transfer of

[1] *Report, Chapter VIII.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

excise to ministerial control, however, considerable departures have taken place. But a proper handling of the question is not so easy as seems at first sight. While there is a sincere desire on the part of the popular representatives to prohibit the use of intoxicants, there is not the same eagerness to levy fresh taxes in substitution of the excise revenue. A re-distribution of financial resources may help to ease the situation to some extent. But a large degree of courage and foresight will be needed for a real solution of the problem.

GSL

CHAPTER IX

MINOR TAXES

Of the minor sources of revenue, the best known and most widely levied tax in the days of the East India Company was *sair*. The term, however, was one of somewhat variable import. In the accounts of certain parts of Bengal for the year 1771, for instance, we find taxes on cotton, betel-nut and tobacco, duties levied on the manufacture and sale of cloths, dues collected from boats plying on rivers, bazar collections, fines, and licenses for the sale of intoxicating drugs and liquors included in the list of *sair* taxes.[1] The Bengal Revenue Commissioners of 1776-78 described *sair* as rents and taxes which were "uncertain in their amount, and annually liable to considerable variations."[2] According to Thomas Law, *sair* implied all duties levied by the *ijaradar*[3], exclusive of land revenue. The author of *British India Analysed* thought that the term included every kind of impost except the land revenue "levied chiefly on personal property, fluc-

[1] *Fort William Consultations, 30th May, 1771. Ms. Records of Bengal.*

[2] *Extract from the Report of Anderson, Croftes and Bogle in Harington's Analysis of the Bengal Regulations, Vol. III.*

[3] Farmer of land revenue.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

tuating and uncertain in its amount", "of an unsettled, precarious nature, ascertainable only at the close of the year", and embracing "almost the whole system of taxation in Europe."[1] He further expressed the view that the total amount of these imposts never exceeded one-tenth of the public income in any part of India.[2]

On the 11th June, 1790, the *sair* duties were resumed by the Government of Bengal, and it was laid down that no landholder, or other person of whatever description, should be allowed in future to collect any tax or duty of any denomination, but that all taxes should be levied on the part of the Government and collected by officers appointed for the purpose. As, however, these imposts were of a very vexatious nature, it was decided on the 29th July, 1790, to abolish all duties, taxes, and other collections coming under the denomination of *sair*, with the exception of the Government and Calcutta customs, pilgrim taxes, the *abkari* tax,

[1] *British India Analysed*, published in 1793. Part I, Ch. III.

[2] The author adds: "They were thought of such little account to the State, so oppressive in their nature for the most part to the poor, consequently so repugnant to the principles of the established as well as every other system of religion, that the wife of the politic Alamghir, the last great Emperor of the Hindusthani race af Timur, abolished by edict *seventy* of these several articles of taxation; though the selfish levity of the prince, and a degree of refractoriness of Faujdars and Jaigirdars, whose fiefs continued to be valued without abatement, according to *jama kavil*, or old standard assessment, which included recently prohibited *abwabs*, combining with the subsequent disorders of the Empire, virtually prevented then, and even since, the carrying into effect the royal mandate, which remains an historical record of what ought to be done in policy and humanity, but could not be realised by the equivocal benevolence of an eastern despot." Pt. I, Ch. III.

collections made in the *ganjes*, bazars and *hats*, and rents paid to landholders under the denominations of *phalkar*, *bankar*, and *jalkar*. Compensations were granted on a calculation of the average net produce of past years.[1]

Even after the abolition of the tax in Bengal, the term was retained in the Finance Department. The revenue derived from saltpetre in Tirhut was regarded as a *sair* collection. The pilgrim taxes were often placed under this head in the accounts. In Madras, the transit duties were often designated *sair* duties. So also was a small amount of revenue derived from cardamum. In fact, all inconsiderable collections from miscellaneous sources were lumped together under this head. In the Bombay Presidency, originally, a great variety of *sair* was collected. The income consisted of all items of demand not forming any portion of the land revenue or the revenue derived from customs or salt. The *sair* duties were abolished in most of the provinces in 1844. The abolition gave great relief to the people. The revenue collected under this head in the last year of the Company's rule was a mere trifle, namely, £268,360.

Another well-known tax was *moturfa*. It was inherited from the Mahomedan system of administration. This tax seems to have been levied generally on artificers and manufacturers. In the Madras

[1] Harington's *Analysis of the Bengal Regulations*, Vol. III.

GSL

Presidency, it was imposed on all weavers, carpenters, metal workers, and salesmen.[1] Originally, it was confined to only certain parts of this Presidency; but it was made general in 1832. The rate of the impost varied from place to place. The tax fell more heavily upon the poor than upon the wealthy. It operated everywhere as a discouragement to industry, while the discretionary power under which it was collected afforded a wide field for inquisitorial visits and extortion.[2] The revenue derived from this source sometimes formed part of the item "Small Farms and Licenses", and was sometimes shown under the head 'Customs'. Another tax of the same nature as *moturfa* was *visavadi*. Its incidence was also similar. It was levied in the Ceded Districts of Madras. Not very dissimilar was *bullooteh*, a tax levied on the fees received in kind by the village artisans from the cultivators.

Moturfa and *bullooteh* were abolished in the Bombay Presidency in 1844. Taxes akin to these had been abolished in Bengal as early as 1793. But the question of abolishing these taxes in the Madras Presidency gave rise to much correspondence between the authorities in India and those in England. At first it was thought that the evils of the system might be minimised by a modification of

[1] Vide *Appendix D to the Report of the Lords' Committee, 1853.*
[2] *Ibid.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

the rates and a change in the mode of collection. Subsequently, however, it was found that the abuses were inseperable from the taxes themselves. In 1853, the Madras Government urged the abolition of these taxes, the Governor dissenting from the resolution. In 1855, Lord Dalhousie recorded a Minute in which he condemned these taxes and expressed the view that they should be abolished "wholly and unreservedly". But, at the same time, he suggested that the abolition might be deferred till there was a substantial improvement in the financial position of the country. Three members of the Governor-General's Council, however, urged the immediate abolition of the taxes. The Court of Directors considered the arguments in favour of abolition to be irresistible, and in 1856 they conveyed to the Government of India their authority to abolish these taxes at such time and in such manner as might seem expedient to them.[1] The Mutiny delayed the abolition. In 1857-58, the *moturfa* taxes yielded a revenue of £107,826. In 1859, Sir Charles Trevelyan again condemned the continuance of these taxes. They were abolished in 1861.

During the early years of the Company's administration, various small taxes were levied.

[1] For a fuller account of the views of the Governor-General and of the Court of Directors, see the author's *Indian Finance in the Days of the Company, pp. 252-53.*

One of these was *rahadari*, or an inland toll collected at different *chaukis*,[1] on account of merchandise carried to the market. As this impost was exacted at an indefinite rate, according to the discretion of the zemindars or the officers of the Government, it was intolerably burdensome to the poorer classes of the people. This tax was abolished early along with the other transit duties levied by the zemindars. Akin to *rahadari* was *gali mangan*, a boat tax. This was abolished in 1771. There was a wheel tax levied in Bombay which was oppressive but yielded little revenue to the State. There were ferry funds for the repair of roads and maintenance of ferries across rivers. These funds, though really local in character, were sometimes applied to the general purposes of administration. *Pulbandi* and *pushtabandi* collections were made for the construction and repair of bridges and embankments.

Various taxes were imposed for purely local purposes. In Calcutta, there was a tax on houses. At Benares, the attempt to levy a house tax led to passive resistance, and the tax was withdrawn. It was, however, successfully introduced in a modified form in several towns of the North-Western Provinces. A resistance offered at Bareilly was quelled.[2]

[1] Stations on the roads for collecting duties.

[2] For an account of the two movements at Benares and Bareilly, see Wilson, *History of India*, *Vols. I and II.*

GSL

Taxes were, on some occasions, levied for special purposes by the Company. In Bengal, a police tax was imposed in 1793. It was collected from Indian merchants, shopkeepers and traders throughout Bengal, Behar, and Orissa. The assessment and collection of the tax were, however, found to give rise to much fraud and exaction. It was, therefore, decided in 1797 to abolish the tax.

Pilgrim taxes were collected at some of the great temples of India as well as at the large religious gatherings which were held from time to time at holy places. As early as 1809, a strong Minute was recorded by a high officer of the Government condemning the pilgrim taxes generally and urging their abolition. In 1814, the Commissioner of Cuttack urged the abolition of the pilgrim tax levied at Puri. The Government, however, declined to accept these suggestions. The subject was again considered in 1827. But on this occasion also, it was decided to continue the taxes. Meantime, the principle of these taxes had excited much reprobation in England, under the belief that these taxes had tended to identify the British Government with the idolatrous practices of the Hindus.

In 1829, the Governor-General consulted the officers in charge of the districts in which these taxes were levied. Their opinions differed, and Lord William Bentinck, while considering the

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

principle of the taxes objectionable, thought it inexpedient to repeal it. In 1831, he wrote a Minute in which he expressed the view that it was the bounden duty of a Government ruling over Hindu and Mahomedan communities to protect and aid them in the exercise of their harmless religious rites. He, therefore, considered a tax on pilgrims just and expedient, and thought it proper that the income derived from this source should be applied in the first place to the repair of temples, and that the surplus should be applied to the construction of roads and rest-houses. In 1832, the Court of Directors sent a Despatch to the Governor-General in Council, in which they expressed their desire that the pilgrim taxes should everywhere be abolished. But they observed that much caution would be needed in giving effect to the decision and that the desired end should be reached by several stages. In 1839, the Governor-General in Council intimated to the Directors his decision to carry out their wishes in the Presidency of Bengal at once. A law was enacted in 1840, by which all taxes and fees payable by pilgrims resorting to Allahabad, Gaya, and Jagannath were abolished.[1]

Another obsolete tax was the *pandhri* of the Central Provinces. It was a special impost handed

[1] The taxes imposed at present in many places of pilgrimage are of a different character. They are purely local.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

down from Maharatta times. The *pandhri* was orginally supposed to be a house tax, but it really resembled a license-tax. When, therefore, license-taxes were levied in 1877-78 in many of the provinces in order to create a famine insurance fund, it was decided to devote the collections from *pandhri* to this object. Originally, the *pandhri* was levied in only seven districts, but it was subsequently extended to the other districts of the Central Provinces. The *pandhri* was abolished in 1902.

A considerable amount of revenue was at one time raised under the head 'Provincial Rates.' This head was first introduced in 1877-78, under which were entered the receipts from the special taxation imposed on the land in 1877. In 1878-79, local funds previously accounted for separately were brought into the general account under the head 'Provincial Rates.' The taxes included in this category differed in the different provinces, and were assessed for various purposes. They were collected with the land revenue, but were separate and distinct from it. In the temporarily settled provinces the rates took the form of a percentage on the land revenue. In Bengal, they were levied by a rate upon the rental and were payable partly by the landlord and partly by the tenant. The purposes to which they were devoted were, among others, roads, schools, hospitals, district post, village

GSL

services, village police, canals, and local railways. The largest item under the head was the general cess for local purposes. Then came the cesses for village purposes, such as those for village accountants, etc., in the North-Western Provinces and the Punjab, and for corresponding functions in Madras and the Central Provinces.[1]

In Bengal, there were the Road Cess levied under Bengal Act X of 1871 and the Public Works Cess levied under Bengal Act II of 1877. The former was a local tax, but the latter was a tax originally levied for general purposes. The Road Cess and the Public Works Cess were to be assessed on the annual value of lands and on the annual net profits from mines, quarries, tramways, railways, and other immovable property. The rate at which each of these taxes was to be levied for any one year was not to exceed half an anna on each rupee

[1] In the Resolution issued by the Government of India on the 16th January, 1902, it observed: "The support of this village staff has been a charge on the community from time immemorial. In the Central Provinces and Bombay watchmen are still remunerated, according to the ancient custom, by grants of land and by fees collected by them directly from the people. Elsewhere they are supported by the proceeds of a cess to which, in some provinces, non-agriculturists not unreasonably subscribe. The headman is a functionary of more importance in ryotwari than in zamindari villages; and except in Madras, Sind, and Coorg, his remuneration in ryotwari Provinces has been accepted in whole or in part as a charge upon the land revenue which he collects. In the zamindari Provinces (the United Provinces, Central Provinces, and the Punjab) the proprietor of a village is also its headman; but where there are several sharers in the proprietorship of a village, one or more of their number represent the remainder, and have a right to a commission on the revenue payable through them, the rate being generally 5 per cent. This represents a communal arrangement of very long standing."

GSL

of the annual value or the annual net profits. The proceeds of the Road Cess in each district was to be paid into the District Road Fund. But the proceeds of the Public Works Cess was to be paid into the public treasury, and was to be applied (1) to the payment of contributions to the District Road Fund at the discretion of the Lieutenant-Governor, and (2) to the construction charges and maintenance of provincial public works, and to the payment of interest on capital expended on such works. There was also a cess for the district postal service, known as the *zemindari dak* cess, yielding a small amount of revenue.[1]

The *patwari* cess levied in the North-Western Provinces was abolished in 1882-83 but, owing to financial exigency, was re-imposed in 1889-90. In this year, the total receipts under the head 'Provincial Rates' amounted to Rs. 3,40,34,330. In 1904-06, many of the cesses levied under the head were abolished, including the village service cesses in all the provinces. The district post cess in Bengal and Eastern Bengal and Assam was abolished in 1906. Besides, some of the petty appropriations formerly made from the local funds were discontinued. The income shown under the head thus gradually diminished. In 1910-11, it amounted to £554,378. In 1913-14, owing to the surrender

[1] The increase to both sides of the Account caused by this alteration was about £2,830,000.

GSL

of the Public Works Cess to the District Boards in Bengal and Behar and Orissa, a further decrease took place. The appropriation by the Government from local rates for the payment of the rural police in the Agra province was discontinued in 1914-15. In 1920-21, the revenue under "Provincial Rates" amounted to Rs. 6,33,025 only. From the following year, this head disappeared altogether.

Of the taxes which have now ceased to be levied, the so-called "famine cesses" deserve attention. In order to provide means for defraying expenditure incurred in connexion with the relief and prevention of famine, the Government of India thought it necessary in 1877 to effect a permanent increase of the revenue. In its opinion, there were two classes of the community on which the duty of contributing towards the prevention of famine more specially fell. License taxes, as we saw in a previous chapter, were imposed on persons engaged in trades and professions. But it was also thought desirable to impose additional taxes on the community deriving its sustenance from the land. "The mere fact," said Sir John Strachey, "that the agricultural classes constitute by far the greater portion of the population, and when famine occurs, form the great majority of those who require relief, is alone sufficient to show that these classes ought to pay their quota of the sum required for their own protection."

The North-Western Provinces Local Rates Bill

GSL

was introduced in the Governor-General's Council on the 27th December, 1877. This Bill provided that every estate, in which the settlement was liable to revision, should be liable, in addition to the then existing rate, to an additional rate not exceeding 1 per cent. An estate of which the land revenue was not liable to periodical revision was made subject to the payment, in addition to the rate of two annas for each acre under cultivation, of a further rate not exceeding half an anna.[1]

In Oudh, the Chief Commissioner was given the power to impose on every estate a rate not exceeding $2\frac{1}{4}$ per cent. on its annual value. In the Punjab, all land was made liable to the payment of a rate not exceeding eight pies for every rupee of its annual value. In the Central Provinces, every estate was made liable to a maximum rate of 1 per cent. on the annual value. In the course of the speech made by him on this occasion, Sir John Strachey observed that he was aware of the objections which had been, and would be, urged against the imposition of fresh taxation on the class interested in the land. Claims had, for many years past, been made to the effect that the settlement of the land revenue had debarred the State from imposing additional burdens on the land; but such

[1] These famine rates were to be paid by the landlord independently of, and in addition to, the land revenue assessed on the estate and the rates and cesses already in force.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

claims had, in his opinion, been argued out. The decision had been declared to the effect that the State had an undoubted right to impose on persons in possession of income derived from land, taxation separate and distinct from the ordinary land revenue, in order to meet the natural growth of the public requirements, local or otherwise. He reminded the Council that the Secretary of State had said: "The levying of such rates upon the holders of land irrespective of the amount of their land assessment, involves no breach of faith upon the part of the Government, whether as regards holders of permanent or temporary tenures."

Two objections were urged against these famine rates, namely, first, that the land was unable to bear the additional burden which was sought to be thrown upon it, and secondly, that the proposed rates were merely an addition to the land revenue demand and thus constituted a breach of the engagements made at the time of settlement. In regard to the first objection, it was said on behalf of the Government that, although the cultivators were poor, the landholders were in a flourishing condition and that the burden of the land revenue which fell upon them had become progressively lighter. One of the official apologists for these measures, Mr. A. Colvin, who afterwards rose to the position of the Lieutenant-Governor of the

North-Western Provinces observed: "I agree with the honourable member in charge of the Financial Department in demurring to the next step in the argument, which is, that imposing 1 per cent. upon the landlords will make the cultivators poorer. The class which is taxed is that of landed proprietors, of men who live, not by cultivating the soil, but by enjoying the rent which is paid for its occupation by the actual cultivator." It would have been a good thing if this statement had been a correct one. But under the provisions of the Bill, the landholders were permitted to shift a large part of the burden to the tenants. Sec. 5 of the North-Western Provinces Local Rates Act, 1878 ran thus: "The landlord may recover, from every tenant of land on which such rate or such further rate has been assessed, and for the payment of which the landlord is liable, an amount equal to one-half of the rate or further rate assessed on the land held by such tenant."

The legislative measures proposed for Oudh, the Punjab, and the Central Provinces were also of a similar character. These Bills were taken into consideration and passed in February, 1878. Doubts were expressed in the Council as to the necessity for imposing fresh taxation, but little opposition was offered to the provisions of these Bills. Outside the Council chamber, however, great dissatisfaction was expressed in regard to

these measures. In Oudh, as in the North-Western Provinces, a portion of the burden fell on the tenants. Every landholder was given power to realise from an under-proprietor, or a permanent lessee, or a tenant with a right of occupancy, a share of the rate bearing the same proportion to the whole rate that the share of such under-proprietor, or lessee, or tenant bore to half the annual value of such land. In the Punjab also, the landholder was entitled to recover a share of the rate from the tenant. In the Central Provinces, where the *malguzari* system prevailed, the additional rate fell upon the tenants.

These additional rates on land were not levied in Bengal, because in that province there had been imposed, in the course of the previous few years, a charge of £600,000 in the shape of local rates, of which £300,000 had been assigned to the Government of India as a permanent contribution. It was also decided not to levy these rates in the Presidencies of Bombay and Madras. In the case of these provinces, the reason for the decision was twofold. In the first place, after two years of severe famine, the agricultural classes of Southern India were scarcely in a condition to bear any increase in their direct contributions to the State. But the second reason was perhaps the more important one, and it was that, quite independently of the requirements of the Government on account

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

of famine, it had become necessary to increase the salt duties in those Presidencies.

All sums due on account of the rates imposed under these Acts were made recoverable as if they were arrears of land revenue. The proceeds of all these rates were credited to the Provincial Governments, which were authorised to appropriate such amounts as the Governor-General in Council might direct, for the purpose of increasing the revenues available for defraying the expenditure incurred for the relief and prevention of famine in their respective territories or in any other part of British India. In some provinces, the additional rates were consolidated with the previous rates, and in such cases, the Provincial Governments were given the power to make allotments out of the proceeds of the rates for local improvements.

The financial condition of the Government of India having become prosperous in the early years of the twentieth century, the famine cesses levied in the United Provinces, the Punjab, and the Central Provinces were abolished in 1905. These cesses at the time of their abolition produced about £150,000 a year.

In the list of existing sources of revenue stamps occupy an important place. The revenue from stamps is a complex item in the Indian accounts. It consists of several kinds of small fees levied by

the Government, in the form of impressed or adhesive stamps, upon litigation[1] and commercial documents. As a matter of fact, as has been rightly pointed out, "stamp duties do not themselves constitute a separate tax, but are a method of collecting taxes of various kinds."

A stamp duty was first levied in Bengal in 1797. The main object was to make good the deficiency in the public revenue caused by the withdrawal of the police tax. Discouragement of litigation was also one of the subsidiary objects kept in view in enacting Regulation VI of 1797. The rates fixed were, in the main, as follows: Land papers, varying from two annas to one rupee; pleadings, from four annas to two rupees; copies of judicial and revenue papers, from four annas to one rupee, according to size; obligations for money, from four annas to one rupee; customs-house *rawannas*, from four annas to ten rupees, *sanads* to *kazis*, twenty-five rupees. The revenue derived from stamps in the first year of the imposition of the tax was only £1,975. The amount of revenue having proved inadequate, new rates were fixed in 1800, and the use of stamped paper was further extended. Various modifications were made in the stamp law between 1806 and 1813. In 1814, the old rules

[1] There are also other fees on litigation; when levied in cash, instead of by stamps, they come under the head 'law and justice'; where they are levied on documents of title, they come under 'registration'.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

were rescinded; and a new and uniform set of stamps, as well as a revised rate of *ad valorem* stamp duties, was established.[1] Further modifications took place in the course of the following decade. In 1824, the duties were altered and extended. In 1826, the stamp duties were for the first time made leviable in the town of Calcutta.[2]

In Madras, stamp duties were first imposed in 1808. The object of Regulation IV of that year was "to discourage the preferring of litigious complaints." Another Regulation was enacted in the course of the year, which was based on Bengal Regulation VII of 1800. It levied stamp duties on copies of judicial and revenue papers, *rawannas* issued from the customs department, licenses for the manufacture or sale of intoxicants, instruments for the transfer of property and for payment or receipt of money. In 1816, stamp duties were extended to papers relating to commercial dealings, such as bonds and bills of exchange, as also to deeds, leases and mortgages. Various other amendments were made in the law in subsequent years.

A stamp tax was introduced into the Bombay Presidency in 1815. The main purposes for which Regulation XIV of that year was enacted were the improvement of Government revenue and the

[1] Harington's *Analysis of the Bengal Regulations.*

[2] This gave rise to a strong agitation on the part of the European merchants of the city.

facilitation of the despatch of business in the law-courts. This Regulation was modelled on Bengal Regulation I of 1814. The law relating to stamps was amended for the Bombay Presidency in 1827, 1831, and 1849.

The revenue derived from stamps increased slowly but steadily. The increase was particularly marked in Bengal and the North-Western Provinces; in Bombay, it was substantial, while in Madras it was stationary.

The law relating to stamps in force in India was consolidated in 1860. Act XXXVI of that year repealed all the Regulations of the different Presidencies. This Act gave place two years later to Act X of 1862. Various other Acts were passed during the next sixteen years. A revision of stamp law took place in 1869. This Act was repealed by Act I of 1879, which, in its turn, was superseded by Act II of 1899.

Several amendments of the Act of 1899 have since taken place. In 1910, the Government found it necessary to impose additional taxation, and one of the measures adopted for the purpose was an increase in the stamp duties on the issue of debentures, share warrants to bearer, transfers of shares and debentures, agreements for the sale of shares and debentures and securities, bills of exchange and probate. The increases in the rates of duty were not very large. Bengal Act V of

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

1911 enhanced the duty on certain classes of instruments by 2 per cent. for the improvement of the city of Calcutta. In 1922 and 1923, the legislative councils of the various provinces passed provincial Acts by which they substantially enhanced the stamp duties for the purpose of augmenting provincial resources. By the Indian Finance Act of 1927, the stamp duty on cheques and on bills of exchange payable on demand was abolished.

The stamp revenue is derived from two main classes of stamps, namely, non-judicial and judicial. In the early years of the Company's administration, no tax was levied on litigation in India. But in the last decade of the nineteenth century, it was considered desirable to levy fees in order to meet the expenses of the judicial establishment.

A Regulation was enacted in Bengal in 1795 for imposing institution fees in civil suits.[1] This fee was amalgamated with the stamp duties levied by Bengal Regulation VI of 1797. Duties on criminal suits were imposed by Regulation X of 1797. Duties were levied on applications for review by a Regulation enacted in 1798. These Regulations

[1] Regulation XXXVII provided that, at the time of institution of every original suit or appeal, a fee should be paid at the following rates: In the court of a *Munsif*, 1 anna per rupee, and in the courts of European judges, on the first fifty rupees, 6¼ per cent., the rate gradually diminishing as the value increased.

GSL

were repealed or amended in subsequent years. In Madras, the first Regulation levying judicial fees was passed in 1782. This was amended by various Regulations enacted in the course of the next half-century. In Bombay, the earliest Regulation was that enacted in 1802, which was subsequently amended by various other Regulations.[1]

Court-fees continued to be regulated along with other stamp duties till 1870. In that year, a separate piece of legislation was undertaken to deal with judicial stamps. The Court Fees Act of of 1870 is still in force, though several amendments have been made subsequently. Fees are levied *ad valorem* in some cases, while in others fixed fees are charged. They are collected by stamps. These are impressed or adhesive, or partly impressed and partly adhesive. The fees are different in the High Courts and the Courts of Small Causes at the Presidency towns. Besides, fees are levied on probate, and letters and certificates of administration.

On the eve of the introduction of the Montagu-Chelmsford Reforms, the question arose as to the allotment of stamps as a source of revenue. The authors of the Joint Report suggested that judicial stamps should be made over to the provinces, but commercial stamps should be retained by the Central Government. The Meston Committee recommended that both sorts of stamps should

[1] Vide Basu, *Court-fees and Suits Valuation Acts.*

constitute sources of provincial revenue. The Parliamentary Joint Committee agreed with this recommendation; and under the Devolution Rules, non-judicial stamps became provincial, in addition to judicial stamps, subject to legislation by the Central Legislature in the former case.[1]

The Devolution Act of 1920 empowers the Provincial Governments to fix the rates of court-fees within their respective jurisdictions. Since then, some of the provinces have found it necessary to revise the rates of court-fees in order to provide larger resources to their Governments. The financial difficulties which followed the introduction of the Reforms also compelled several Provincial Governments to apply to the Governor-General for sanction to the proposed legislation for enhancing the stamp duties. The Governor-General reserved certain items for central legislation and allowed the Provincial Legislatures to deal with the rest. Thereupon, duties on many of the items were increased.

The Taxation Enquiry Committee devote considerable attention to the question of stamp duties. They point out that an important limit to their imposition lies in the fact that, beyond a certain stage, their productiveness begins to diminish. Excessive rates not only retard business, but defeat their object by tempting persons to resort to

[1] *Schedule, Part II.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

evasion. In their opinion, the principal guides to the rates of stamp duty are : (1) the point at which the value of the convenience or utility attaching to the use of a particular kind of transaction approches the amount of the stamp duty involved ; (2) the point of diminishing returns, or, in other words, what the traffic will bear ; and (3) the point at which hardship on any class of the community is involved. On the whole, however, the Committee consider that the Indian Stamp law fulfils its purpose satisfactorily. They do not, therefore, recommend any drastic changes, but merely suggest some alterations in the details of the system. *Inter alia*, they urge that the issue of a contract note be made compulsory in stock and produce transactions, and that the duty on contract notes be raised to 4 annas for every Rs. 10,000, subject to a maximum of Rs. 40. In the case of produce exchanges, they express the view that the taxation of "futures" is not only practically impossible, but that it would be undesirable to recognise these gambling transactions and to attempt to secure a revenue from them.

The Taxation Enquiry Committee point out the difficulties which arise in connexion with adjustments between provinces when the duty is paid in one province on account of another. They also refer to the difficulty which has arisen in the matter of the unified postage and revenue stamps

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CC SL

between the Government of India and the provinces. They, therefore, come to the conclusion that uniform legislation and uniform rates are desirable, and suggest that commercial stamps should be made over to the Central Government. To this proposal there are, however, various objections, the most serious of which is that it will cripple the resources of the Provincial Governments.

The Taxation Enquiry Committee point out that, in several instances, the court-fees are inadequate, while in others these are excessive. They, therefore, consider it necessary to undertake a thorough revision of the Act of 1870 and its schedules. With regard to probate duties, the Committee point out that duties on inheritance are levied in most countries, and that, as a form of taxation which falls pre-eminently upon accumulated wealth, they have found special favour with democratic thinkers. In their opinion, the objections which have been urged against inheritance taxes in the past are not valid to any great extent. They, however, express the view that a succession duty is impracticable in India, but a duty on the lines of the English Estate Duty, which may initially take the form of a transfer or mutation duty on death, is more practicable. This involves representation of the deceased. The existing law provides for representation in certain cases, but is limited to particular communities. The taxation which the

existing law involves is, in the opinion of the Committee, very inequitable in its incidence. The Committee, therefore, recommend its modification and extension to all communities. They do not find the law of the joint Hindu family an insuperable further obstacle. The Taxation Enquiry Committee further recommend that legislation dealing with this question should be undertaken by the Central Legislature.

The revenue derived from stamps for the whole of India was less than half a crore of rupees in the last year of the Company's rule. But the changes made in the law relating to this subject in the following decade led to a large enhancement of the revenue. After that period, the income from this source steadily increased until in 1920-21 it stood at 10·95 crores. The additions to the rates of stamp duties which were made in Bengal, Bombay and some of the other provinces during the early years of the reformed system of administration, caused a further substantial expansion in the yield of this resource. In 1925-26, the revenue from stamps amounted to Rs. 13·65 crores. Subsequently, however, the additional rates were taken off in those provinces which showed surplus budgets. In 1926-27, therefore, there was a slight shrinkage in the income derived from this source. In the following year, however, there was a recovery, and stamp revenue stood at Rs. 13·57 crores.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

The income derived from judicial stamps amounted in 1927-28 to Rs. 8·65 crores, while that obtained from non-judicial stamps was Rs. 4·92 crores. The shares of the different provinces in stamp revenue in 1927-28 were: Madras, Rs. 2·50 crores; Bombay, Rs. 1·75 crores; Bengal, Rs. 3·46 crores; United Provinces, Rs. 1·71 crores; Punjab, Rs. 1·18 crores; Burma, Rs. ·70 crores; Behar and Orissa, Rs. 1·09 crores; Central Provinces and Berar, Rs. ·65 crores; Assam, Rs. ·23 crores; Territories under the Central Government, Rs. ·27 crores. Thus at the present moment stamps constitute one of the most important resources of every Provincial Government, while in one province, namely Bengal, this item forms the largest of all the sources of revenue.[1]

Registration fees form a considerable source of revenue for all the provinces. The system of registering titles and other deeds of importance in India dates from the closing years of the eighteenth century. A Regulation on the subject was passed in 1799 by the Government of Bombay, and between that year and 1827, when the law was consolidated, no less than ten enactments found their way on to the local statute-book. It was found that it was conducive to the preservation of titles to immovable property, and would greatly facilitate the transfer of

[1] Of the total amount of stamp revenue, Rs. 2·21 crores is contributed by judicial stamps, and Rs. 1·25 crores by non-judicial stamps. This fact led Sir John Simon, Chairman of the Statutory Commission on Indian Reforms, to remark that Bengal lived on the proceeds of litigation.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

such property by sale, mortgage, gift, or otherwise, if a register were kept in every district, and if deeds entered therein were to be allowed preference to an extent that would give the holder an interest in presenting them for registration. At the same time, a general register, relating to the same territorial unit, was prescribed for all other deeds, obligations and writings, in order to provide for the record of copies of such documents, and thus afford facilities for proving them in case the original happened to be lost or destroyed, a contingency by no means unlikely in the ordinary conditions of Indian life.

The question was not taken up, except in the Western Presidency, until 1864, when a general Act was passed by the Governor-General in Council relating to registration. This was followed by several amending Acts. In 1877, the law on the subject was consolidated. The registration law was affected by the Transfer of Property Act of 1882. The provisions of the law relating to registration were consolidated by the Indian Registration Act of 1908 which, however, did not make any substantial change. The administration of this important department is conducted through a provincial Inspector-General and a staff of local inspectors. The actual work of registration is performed by a large establishment of sub-registrars a few of whom are attached to each sub-

GSL

division. The District Officer is usually the registrar for his territorial charge.

Registration is compulsory in some cases and optional in others. Registered documents thus fall into two classes. The first class consists of (i) deeds of gift and other non-testamentary documents (including receipts) affecting immovable property of a certain minimum value; and (ii) leases of immovable property for fairly long terms. Registration is optional in the case of (1) deeds of gift of immovable property and other non-testamentary documents (including receipts) affecting immovable property of a certain maximum value; (2) leases of immovable property for a term not exceeding one year; (3) documents affecting movable property; (4) wills or deeds of adoption; (5) deeds, bonds, contracts, or other obligations. The most important categories of documents registered are sales and mortgages of immovable property. Under the Reforms, registration has become a provincial subject.

'Registration' first appears as a separate revenue head in 1879.[1] The mode of payment is by *ad valorem* fees and copying fees. The fees charged for registration vary in the different provinces. In 1925, the registration fees were substantially increased in Bengal by executive order. The net income derived from registration fees from the

[1] Till the year 1879 'registration' formed part of the head 'law and justice.'

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

CSL

whole of India amounted to Rs. 36·43 lakhs in 1914, Rs. 56·78 lakhs in 1920, and Rs. 75·80 lakhs in 1926.[1]

Coming to what are known as the 'Scheduled Taxes' we find that a tax on amusements was first levied in Bengal and Bombay in the years 1922 and 1923. This tax consists of a simple levy on tickets of admission to places of entertainment. Objection has been taken to the tax on the ground that it falls on the proprietors of places of amusement. But the argument does not seem to be convincing, and the tax, falling as it does into the category of a luxury tax, appears to be an eminently desirable one. Its productiveness, however, is not large, for it can be levied only in the larger towns where organised entertainments are common. The Taxation Enquiry Committee suggest that the imposition and administration of the tax should be retained in the hands of the Provincial Governments, but a share of the proceeds should be made over to the local bodies concerned. The amusements tax yielded a total sum of Rs. 11·69 lakhs in the year 1927-28, of which Rs. 7·32 lakhs was derived from Bombay and Rs. 4·37 lakhs from Bengal.

[1] The total receipts in the different provinces in 1926 were: Madras, Rs. 39·25 lakhs; Bombay, Rs. 12·37 lakhs; Bengal, Rs. 39·19 lakhs; United Provinces, Rs. 13·64 lakhs; Punjab, Rs. 9·31 lakhs; Burma, Rs. 6·51 lakhs; Behar and Orissa, Rs. 15·18 lakhs; Central Provinces and Berar, Rs. 6·13 lakhs; Assam, Rs. 2·16 lakhs. The total expenditures in these provinces respectively were: Rs. 27·82 lakhs; Rs. 6·39 lakhs; Rs. 17·95 lakhs; Rs. 4·57 lakhs; Rs. 2·25 lakhs; Rs. 1·67 lakhs; Rs. 5·82 lakhs; Rs. 1·78 lakhs; and Rs. 1·14 lakhs.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

A tax on betting has been in force in Bengal since 1922. A betting tax was also levied in Bombay in 1925 and in Burma in 1928. This is a proper tax, as it has a restrictive as well as a revenue aspect. The betting tax produced a total sum of Rs. 27·03 lakhs in 1927-28, of which Rs. 13·94 lakhs was obtained from Bombay and Rs. 13·09 from Bengal. No tax on advertisements has yet been levied in India, for it is not expected to bring in much revenue.

The capitation tax is the most profitable source of revenue in Burma next to land revenue. It is a peculiar form of tax adopted from the Burmese Government by the British when the latter came into the possession of Burma. Up to the end of 1860 the rate of the capitation tax was for a married man, Rs. 4, and for a widower or a bachelor of 18 years and over, Rs. 2. When under great financial pressure the Government of India had to seek fresh sources of income and the income-tax was introduced in India, this rate was increased to Rs. 5 for married men and Rs. 2-8 for bachelors and widowers. In the frontier districts slightly decreased rates were levied. The increase of rate was suggested by Sir A. P. Phayre, then Chief Commissioner, on the ground that, with the exception of the larger towns, the income-tax could not, with any prospect of success, be introduced into British Burma. The Government of India, however, while not accepting Sir

A. Phayre's view in regard to the inexpediency of introducing the income-tax, accepted the suggestion relating to an increase of the capitation tax.

An enquiry was made in 1872 as to the nature and incidence of the various taxes levied in different parts of India. On this occasion, considerable difference of opinion was expressed with regard to the capitation tax. The general feeling among officials seemed to be that this tax was not oppressive or distasteful to the people. It was said that it was a form of taxation to which the people had always been accustomed from days long antecedent to Burma coming under British rule, that little oppression was exercised in its collection, and that it was very slightly evaded. The Chief Commissioner of Burma, however, expressed the view that, while the tax was not irksome to the people at large, being one to which they had been reconciled by long usage, it was too much to believe that there was not some oppression and some waste in its collection. He was willing, however, to concede that, if the unquestionable evil of a system of direct taxation was to be resorted to, it was less objectionable in Burma in this form than in any other. The tax was in accordance with the notions of the people and long established custom; every man knew exactly what he had to pay, and knew where to obtain redress if more than his due was demanded. It had, too, the advantage that it was a tax

MINISTRY OF CULTURE · GOVERNMENT OF INDIA
IX
GSL

levied across the frontier, as well as in British territory, and the amount of the tax, the certainty of the demand, and the mode of collection on the British side of the frontier, bore very favourable comparison with the system on the other side.

"At the same time," observed the Government of Burma, "it does not follow that because a tax is not obnoxious, or because the people can afford to pay it, it is therefore right and proper that it should be levied. The margin of discontent or inability to pay is not, as is too often apparently held to be, the proper limit of taxation. There is no reason why the people of Burma should be taxed at a higher rate than the rest of Her Majesty's Indian subjects because they pay willingly. The subject of their claim to decreased taxation will be alluded to further on, and all the Chief Commissioner desires to say now on this head is that, if it should be determined to decrease taxation in British Burma, it should, in his opinion, take the form of a decrease of direct taxation. He considers it of paramount importance, if we desire, as we must do, to attract a large population from the surrounding States and countries, to keep our machinery for raising revenue as much out of sight as possible; to decrease our visible taxes, and if necessary, maintain or increase our invisible taxes. The form which this modification of the capitation tax should take, in Mr. Eden's opinion,

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

is that which is favoured by several of the officers consulted and which was formerly in force in Tenasserim, and that is, the exemption from capitation tax of every man who has *bona fide* under cultivation, excluding fallow, 10 acres of land."[1] Independently of these reasons, however, it did not seem to the Government of Burma that the people of the province had a claim to the reduction of the capitation tax.[2]

The *thathameda* is an impost levied only in Upper Burma. It is a tax on income derived from sources other than agriculture. Under the Burmese regime, the *thathameda* was a tax on property. Villages were ordinarily assessed at the rate of ten rupees a household, and this was distributed according to the opinion of the local officers (*thamadis*) selected by the village as to what each household should pay. The poorer villages

[1] "There is no doubt", added the Government of Burma, "that the agriculturist who now pays land revenue, capitation tax, and a duty of 14 per cent. *ad valorem* on his rice crops, pays more than his proportionate quota to the revenue, when compared with the people of other parts of India, and when compared with the non-agricultural classes of Burma, has a claim to relief; and if the relief took the form of an incentive to hold a larger farm, its effect would be to increase the land under cultivation and to give back in land revenue and rice-duty, what was lost in capitation tax. This change seems specially called for in Akyab, where it is very generally believed (though this is not admitted by the officials) that the pressure of capitation tax prevents the people of the neighbouring districts of Bengal, with their characteristic distaste for direct taxation, from settling in the province."

[2] *Letter from the Secretary to the Chief Commissioner of Burma to the Secretary to the Government of India, dated the 16th November, 1872.*

The Deputy Commissioner, Shwe Gwyn district wrote: "With regard to the reduction of the capitation tax, I consider that, from the same cause, the people being all very much on a level in regard to

GSL

sometimes paid less than Rs. 10 a household. The main objection to it was that the poorer classes were assessed too highly. The original intention was that the *thathameda* tax should be known as the capitation tax without any change in the customary rate and method of assessment; the Government of India in their earliest communication on the subject of the resources of Upper Burma even contemplated the abolition of the *thathameda* and the substitution of a tax on the lines of the capitation tax of Lower Burma. This course was frequently advocated in later times. But the problem of assessing wealthy non-agriculturists presented difficulties and the *thathameda* tax has been retained.

One great objection to *thathameda* has been diminished by the introduction of the land revenue.

wealth, which is felt in the income-tax to be oppressive, makes this tax the most fair. I am in favour of equalising the tax upon bachelors and married men, but *not* by reducing the tax. I think bachelors should pay the full amount. This was the case in Tenasserim before the amalgamation of the provinces in 1861.

"The half rate for bachelors is an importation from Arakan. In that province, after trying every form of taxation, commencing with a lump sum from each Thoogyre, and embracing successively trades and professions, cattle, ploughs, boats, etc., the taxes settled down to two, viz., the capitation and land tax, the same as in Tenasserim, with this difference that bachelors only paid half the capitation tax. Capt. Phayre, on being appointed to the newly acquired province of Pegu, imported the Arakan taxes there, and those were again extended to Tenasserim on amalgamation.

"I considered at the time that the reduction was unwise and uncalled for; the tax caused no complaint, nor was it felt as a hardship; and I consider the unnecessary reduction of permanent taxes as almost as injurious as the imposition of new ones; one indeed almost invariably must follow the other; it unsettles people's minds and causes them anxiety as to what is coming."

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

It has become possible to enhance revenue without at the same time enhancing the rates on the poorer classes, as the assessment of all land to land revenue has in theory converted the *thathameda* into a tax on income from all sources other than the ownership or occupation of land, and agricultural and non-agricultural income can now be assessed separately. But this changes the nature of the tax; it becomes, in theory, no longer a tax on property, but a tax on income. Whether a man has property or not is usually self-evident; his income can only be ascertained by enquiry. In practice, *thathameda* often remains a tax on property; the lowest rate is the highest which the poorest can pay, and in the assessment of the wealthier people the assessors take into consideration the fact that they pay land revenue. In many cases, however, it is assessed at a flat rate, and all classes down to the agricultural labourers pay the same rate per household.[1]

After the introduction of the Reforms, the levy of the capitation tax led to a great deal of agitation which in some places took the form of passive resistance. In 1925, the Burma Legislative Council adopted a resolution recommending the appointment of a Committee to consider the possibility of substituting some other form of taxation for the capita-

[1] *Report of the Committee on the Land System of Burma, 1922.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

GSL

tion tax levied in Lower Burma. In the following year, another resolution was passed by the Council urging the inclusion, in the terms of reference to the proposed Committee, of the *thathameda* tax levied in Upper Burma. In May, 1926, a Committee, consisting mostly of non-official members, was appointed by the Government of Burma.

The problem before the Committee was the provision of 102½ lakhs of rupees by methods more suitable than the *thathameda* and capitation taxes and the land-rate levied in lieu of the capitation tax. The evidence of a majority of the witnesses who appeared before the Committee may be summarised as follows: "We do not wish to pay 100 lakhs in taxation; but if it is necessary for Government to have this amount to carry on as at present, then we would rather raise the sum required by capitation and *thathameda* taxes than in any other way; at all costs we pray to be saved from the multiplicity of new fangled substitutes which have been suggested."[1]

The Committee agreed, in the main, with the view expressed above. If, however, the taxes were to be retained, the Committee considered that they should cease to be sources of provincial revenue and be applied to local purposes, such as, education, sanitation, public health, and communications. This, in substance, was scarcely different from

[1] *Report, paragraph 7.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · सत्यमेव जयते · GSL

the view taken by the Taxation Enquiry Committee.

The *Thathameda* and Capitation Taxes Committee recommended unanimously that the capitation tax be abolished. The Chairman and one of the members desired to introduce a *circumstances* tax in Lower Burma and to retain a modified *thathameda* in Upper Burma. The rest of the members wished to abolish the *thathameda* also. The Committee thought it necessary to discuss the argument which had been advanced to the effect that Burma was already so overburdened with taxation that it was essential that the capitation and *thathameda* taxes should go and no substitutes whatever be provided. They observed that, if the *thathameda* and capitation taxes were abolished and no substitutes provided, material welfare would be seriously hampered. With reference to the objection that capitation and *thathameda* taxes were peculiar to Burma, the Committee pointed out that similar taxes were levied in other parts of India with other names, and that capitation taxes actually existed in many countries of the world.

After discussing the various suggestions offered by witnesses, the Committee made the following recommendations regarding the replacement of the capitation and *thathameda* taxes by other sources of revenue: (1) a share, amounting to one-fourth,

of the customs duties including the rice export cess, and of the income-tax; (2) the excise duties on petrol and kerosene collected from Burman consumers; (3) a cess of 3 annas per maund to be levied on rice exported to India; (4) a cess on the export of teak; (5) a tax, varying from Rs. 2 to Rs. 10 according to the circumstances of the assessees, to be levied on non-permanent residents; (6) a tax on betting; (7) a duty on the sale of *ganja*; (8) an additional amount of opium excise revenue by the re-opening of opium registers to Burman addicts; (9) an increase in fees for fire-arm licenses; (10) a tax on emigrants to be levied at the rate of one rupee per head. The proposals were expected to yield a sum of Rs. 2·61 crores and thus provide a large margin to meet the expanding needs of the Government.

While recognising the earnestness of the Committee in the matter of abolishing the capitation and *thathameda* taxes, it must be remarked that some of their recommendations are of a reactionary character. When one finds that the sale of *ganja* and the re-opening of opium registers to Burmans are among the suggested substitutes, one feels tempted to observe that the remedy proposed is worse than the disease itself.

A discussion took place in the Burma Legislative Council on the subject in 1928 on the occasion of voting the demands for grants. A token cut

was moved by a Burmese member. Mr. S. A. Smyth, on behalf of the Government, opposed the motion. He said that there had been no agitation against the capitation and *thathameda* taxes before the introduction of the Reforms, and that the feeling recently expressed against them was due to the teaching of the political agitators. He further asserted that the taxes were not oppressive; nor did he consider them to be a badge of servitude. The motion was lost.

The capitation tax is open to all the objections which may be urged against a poll-tax. It falls on the rich and the poor alike; it is particularly unfair in its incidence on the labourers. It is also expensive to collect, and opens a wide door to corruption. Most of these objections apply also to the *thathameda*. The only justification for the continuance of the taxes is that they are familiar to the people and that new taxes may cause greater discontent. These taxes ought to be abolished as soon as proper substitutes are found for them.[1]

Another inequitable tax, but one of recent imposition, is the sea passengers tax of Burma. The object of the Burma Sea Passengers Tax Bill was stated in the Preamble to be "to prevent the loss to the public revenues of Burma from the non-

[1] Another tax levied in Burma is the *taungya*. It is a charge per head or per household imposed in areas of shifting cultivation, usually in the hills, in lieu of land revenue.—Vide *Report on the Land Revenue System of Burma, 1922.*

MINISTRY OF CULTURE · GOVERNMENT OF INDIA · IX ·

GSL

payment of capitation tax in Lower Burma and *thathameda* tax in Upper Burma by immigrants." In moving for leave to introduce the Bill in the Burma Legislative Council in March, 1925, the Finance Member emphasised that the object of the measure was to prevent the evasion of the payment of the capitation and *thathameda* taxes by non-Burmans.[1] The Bill proposed to tax everyone who entered Burma by sea at the rate of Rs. 5. It provided for the refund of any capitation tax which the person assessed to the sea passengers tax had already paid and of five rupees of any amount already paid as *thathameda* tax.

Sir Adam Ritchie, a representative of the European commercial community, opposed the Bill on economic as well as other grounds. He said : "The Bill appears to me to be protection in one of its most pernicious forms, that is, protecting the province against its own best interests. It is idle to argue that there is a sufficiency of

[1] The Finance Member said ; "There is a very large annual influx into Burma from India, mainly of labourers who are employed both in the districts and in the towns. These labourers, except when they settle down in a town, move from place to place, and as a rule, they escape all taxation. They usually arrive after the annual capitation tax assessment rolls in Lower Burma have been completed. Headmen are required to submit supplementary rolls. In many cases they collect nothing at all. The names of these migratory labourers are always a difficulty to Burman headmen, and identification by name is rarely possible. In the next place, although the great majority of these labourers are married men and therefore liable to pay capitation tax at the married rate, they are always assessed at the unmarried rate." *Proceedings of the Burma Legislative Council, dated the 10th March, 1925.*

labour in this province. Everybody knows that it is not so. There is not a single industry in the province which is not dependent upon foreign supplies of labour, and the present supply of unskilled indigenous labour is far below the requirements of both the agricultural and industrial interests. To place any impediment whatsoever on the free flow of labour into this country must prejudice not only the existing interests but the future development of this province." The Bill was also opposed by Mr. F. H. Wroughton, representative of the Burma Chamber of Commerce, who said that the measure was not acceptable to the commercial community. He described the Bill as "a definitely obstructionist measure to check the inflow of labour." Some of the members described it as an anti-Indian measure. The Select Committee made one minor amendment in the Bill, which was accepted by the Government. Various other amendments were moved by European and Indian members, but all of them were rejected by the Council. The Bill was passed by a large majority.

The sea passengers tax of Burma is, for all practical purposes, a poll-tax. It is crude in its nature, and unfair in its incidence. It takes no account of a person's ability to pay, and is thus opposed to one of the chief canons of taxation. Besides, the tax has to be paid before any income has been

earned. This is contrary to the principles on which a sound system of taxation ought to be based. Lastly, the tax is open to the objection that it seeks to place inter-provincial barriers between parts of the same administrative unit. The sea passengers tax thus possesses many serious defects, and it is to be hoped that it will be removed from the statute-book at the earliest possible moment.

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