

FINANCIAL SCHEME
FOR INDIA:

THE
FIRST STEP TOWARDS POLITICAL REFORM;

IN
A LETTER
TO THE
RIGHT HON. THE PRESIDENT OF THE BOARD OF CONTROL.

BY GEORGE NORTON, Esq.,
LATE ADVOCATE GENERAL OF MADRAS.



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FINANCIAL SCHEME FOR INDIA.

*To the Right Hon. ROBERT VERNON SMITH, M.P.,
President of the Board of Control, &c., &c.**

November, 1857.

RIGHT HONORABLE SIR,

A QUESTION of much moment was adverted to in a letter inserted in the money article of the "Times" of the 16th October last, and declared in that article to be well worthy of the public attention—I mean that of the gradual redemption of the Land Tax in India.

I have been in the habit for these ten years past of opening at large my views on this subject to many whose opinions and information I valued; and for the last four years, particularly, I have availed myself of various opportunities of circulating my

* I feel it proper to state that these sheets contain the substance of a real letter addressed to the President of the Board of Control, and published with his permission.

notions among gentlemen versed in mercantile affairs. In April 1854, I addressed a long letter to Mr. Russell Ellice, then the Chairman of the Court of Directors, at his own request, upon this topic, in which I endeavoured to develop the nature of a scheme adapted to this purpose. A copy of this letter I soon after placed in the hands of Sir Charles Wood, then President of the Board of Control. Having failed to gain the attention I expected from the authorities, partly perhaps from some want of perspicuity in my treatment of the subject, I encouraged too little hope of attracting that of the public at large to induce me further to prosecute the discussion. The present crisis, however, in India, and the prevalent demand of a general review of its civil administration, tempt me to resume the consideration of a subject which I deem the very first and most important step to be taken in political reform—recommended as the task is by so influential a source of public opinion as I have above alluded to.

I purpose, however, in this paper to confine myself to a general sketch—1st. Of the *nature* of the measure I advocate. 2ndly. Of the *principles* on which it is founded ; and, 3rdly. Of the *effects* likely to be produced.

My scheme is this:—To allow all holders of land paying “kist,” or rent, (which the Indian assessed Land Tax really is,) to redeem for ever that rent, and to hold in fee simple. A Board might be appointed to regulate, under the superintendence and orders of the local Government, the rate and mode of redemption. This Board might lay down rules and facilitate arrangements by which aggregate communities might redeem—by which under-tenants, and ryots holding in perpetuity at fixed rents, might redeem from their immediate landlords—by which separation of fees among individual owners should be encouraged—and by which Government itself might sell its own lands and wastes in fee, and purchase lands with a view of so disposing of them in fee.

A detailed explanation of the *principles* on which this measure is founded is beyond the scope of the present paper. I will limit myself to a more compendious exposition of them.

It is obvious that the tendency of such a measure, indiscriminately and extensively acted upon, would be to swallow up the principal out of which the great bulk of the fiscal income now arises—encumbering the Government with wealth beyond its requirements—and, eventually, absorbing the main source of the

national revenue. The measure, however, if beneficial at all, must be based on principles the very reverse of this.

Such a result can only be effected through a *gradation in the process*, which, while it served to increase continually the immediate revenue, would not impair, eventually, the adequate sources of taxation to meet the exigencies of the State. This is a problem of some difficulty and complication. In general terms the solution is this. The price of redemption should be so regulated, as that a very small proportion of the Land Tax should be annually redeemed. The consequence would be, that, though the immediate annual supply to Government would be considerable, the loss in the annual tax would be so trifling as scarcely to be felt—and the time to elapse before even a fourth part of the whole Land Tax would be redeemed should be so long, as that ample opportunity would arise for replacing the deficit from those other sources of taxation, which the increasing national wealth and newly created property (if such can be shewn to be the beneficial result of the measure) would afford.

The mode of securing such a *gradation* would be by increasing or decreasing the price of redemption,

according to a sound calculation of the present requirements of Government, and of what was neither too rapid nor too slow an encroachment on the existing source of taxation from land. If the price of redemption was so low that more money was proffered than Government had occasion for or could employ profitably, or if more of the Land Tax was in course of being extinguished than there was a prospect of early replacing from other source Government would of course put on the screw and raise the price. Nay, Government might arrest the sale of their rental altogether; and the money taken up by such previous sales would prove in effect mere loans to Government at a rate not higher than at present usually borrowed at. If, on the other hand Government needed money, and if the purchases of the Land Tax advanced so slowly as that the proportionate extinction of so small a part of the annual revenue was in course of immediate replacement by other sources of taxation, the price of redemption might be safely lowered. In the meantime the positive gain to the national wealth would be certain, for the measure must necessarily foster the profitable outlay of capital, and encourage agricultural and commercial enterprise.

For instance, it is suggested by the writer to the "Times" above alluded to, that redemption should be offered at 25 to 30 years' purchase. I will suppose it offered at 20 years' purchase. Now, I reckon—at a proximate guess and in round numbers—the Land Revenue of India* at 20 millions. Let it be assumed that the tenants paying $\frac{1}{1000}$ th part of the "kist" to Government redeemed annually their proportion of this tax. At 20 years' purchase the sum thus annually paid would amount to £400,000, and Government would lose but £20,000 annually. This would only be the ordinary interest of the money so received by Government; and if Government applied it merely to pay off a portion of the Indian Debt, instead of any more profitable mode of expenditure, it could be no loser. The indirect gain to Government, by opening the land to improvements, by encouraging profitable outlay of capital, and investments in enterprises, would however be palpable. At the end of 100 years Government would have lost for ever one-tenth of its revenue as derived from the Land Tax, *i. e.*, two millions per annum; but, if nothing better was done with the price of this Land Tax so redeemed, it would have paid off forty millions of debt.

But suppose Government desired, for public and profitable purposes, (in other words, for increasing the wealth of the country and consequent sources of revenue,) a larger amount of annual redemption money. This might be done in either of two ways—by lowering the price and attracting a larger proportion of purchasers, or by raising the price to the same, or even to a larger, proportion of purchasers. In the latter case the measure would be doubly profitable to Government. It would increase its revenue without any loss, in case the surplus (after paying off, if so deemed expedient, a portion of the national debt) was required for exigencies of unprofitable expenditure, and it would at the same time benefit the purchasers with all the gainful results already alluded to. If the surplus, or increased revenue, was directed to public improvements, and was not required for such exigencies, of course the advantage to Government would be greater still. Should, however, the former of these two ways be adopted, still the measure would be very profitable. For supposing Government admitted $\frac{1}{20}$ th part of the “kist” payers to redeem at the price of twenty years’ purchase, or a less proportion, (say $\frac{1}{10}$ th,) at a lower price, it would take 100 years to reduce the

Land Tax revenue by one-fifth, *i. e.*, by four millions per annum; and Government would, in the meanwhile, have had its revenues much more largely increased, wherewith to make that public and beneficial outlay which would have been the inducement for admitting a more extended redemption, and might thus provide new sources of taxation more than adequate to replace the loss.

From these attempted illustrations, perhaps, I may have succeeded in showing that no real loss could possibly be suffered by Government; unless by heedless ignorance it should violate the principles on which the measure is founded, and sell the Land Tax in a greater proportion than would be requisite to supply profitable outlay, or at a lower rate than would answer its legitimate objects. Experience, indeed, if not common foresight, would soon warn Government against any error of this kind; and its progress in a mischievous course could in a moment be arrested by a rise in the rate. The principle to be observed is—the adaptation of the redemption rate to the exigencies, or to the profitable objects, for which the proceeds of such sales are required, and to the ability, immediate or prospective, of replacing the eventual loss of revenue thereby. It would be

the business of Government to watch the bearings and results of the measure with a special view to the latter object, and it is a business which would not too much tax the sagacity of ordinary statesmen. The position may be safely laid down, that the national wealth cannot be increased without the Government having its full needful share. A rich people and a poor Government is an anomaly.

I will here bring my elucidation of the *principles* of this measure to a conclusion, as it would require a more elaborate series of calculations than I am able to put in a clear way, to exhibit the amount of eventual losses of permanent revenue by these proportional remissions of the Land Tax, and the time it would take for these losses to overbalance the annual increase of revenue derived from the proceeds of these sales (apart from the consideration of the replacement of the deficit)—and I am unwilling to occupy the reader's attention with such details. This is plain: that such eventual and overbalancing permanent loss must necessarily occur at some time or other, however distant, if the principles I have adverted to are not observed. But it is to my mind equally clear that the period of such loss never can arrive, if Government shall fix the rate of sales at

an amount which shall suffice for payment of its debt without loss, and extend these sales no further; or, if Government, raising the rate or extending the sales beyond this object of paying its debt, shall in the meantime have provided materials for taxation adequate to replace the revenue so extinguished.

I will now point to some of the more prominent *effects* likely to be produced by the measure proposed.

Of these some cursory notice has already been made. No greater stimulus could be devised for advancing agricultural improvement and commercial enterprise than that of the independent security of landed property. It does not seem to have occurred to consideration that permanence of tenure in land is necessary to its full use and enjoyment. By the limitations imposed by Government on landed tenure—whether by the exaction of a high rental instead of a small Land Tax and the consequent risk of accumulating arrears or of forfeiture, or by the more direct substitution of leasehold instead of a fee—half of the profits of land are confiscated and utterly lost, without any compensating gain to Government; inasmuch as those profits are proportionate to the outlay of capital, the requisite amount of which

neither the tenant nor the Government, as landlord, will expend. A profitable investment may be reckoned on as the sure result of redemption of the Land Tax; for it may be assumed, as a general rule, that none would purchase such redemption except for that purpose. Without an exemption from this heavy and harassing fiscal burden, we may be very certain that neither the English capitalists, nor English capital, will be drawn to India. In agriculture proper it is not to be expected, indeed, that English speculation can compete with the ordinary routine of native husbandry. But in the cultivation of cotton, of sugar, of silk, of indigo, in the manufacture of iron and steel, and in the supply of various other products connected with the ownership of land, there is a very wide field open to British enterprise. Much is publicly said about encouraging the development of the natural resources of India. Any early success in this object can only be looked for through the introduction of British capital.

But I hold even these considerations, important as they are, of little account compared with the effect to be produced through the liberation of India from the evils inherent in the Ryotwarry as well as

Zemindary system of tenure. The burden of the Government land assessment, or "kist," may, perhaps, amount in value to but one-fourth of the ordinary produce of the land; but I believe most tenants would be willing to pay twice the fair price of its redemption to be relieved from it. The capricious uncertainty—the interferences—the oppressions—the extortions which necessarily attend the collection of revenue under the former of these systems of taxation more especially—not its amount form the real grievance; and it is one which weighs down all spirit of exertion, by stifling the hope of independent enjoyment of its fruits. I have heard and read much in defence of the Ryotwarry system. I know what its merits are under able and honest administrators; but experience has plainly proved its overbalancing and overwhelming defects. I have heard it stated in Parliament that its peculiar benefit consists in substituting Government as the direct landlord, without "middlemen," and so the great curse of Ireland has been avoided. Alas! the Ryotwarry system is one of sole management by middlemen, and those the worst of any, namely, the officers of Government; and those officers the worst of any, namely, the corrupt Natives, who oppress and ex-

tort, with little gain to themselves, and to the eventual ruin of the people at large.

It may be urged, however, that it would be vain to expect any considerable amount of purchases of this redemption from Natives—they are too poor; too much ground down. However desirable, the capital is not forthcoming for the object. There is some ground for this apprehension; the tendency of a high land assessment has been to produce this evil, and the more strongly to recommend the appropriate remedy. But I have no doubt that more than the proportion I have above specified have means as ample as their inclination to elevate themselves from degradation into independence and wealth, which the free tenure of land would give them scope to earn. And there seems to be another source of such means which has often drawn the notice of the monied interests. Curious enquiry is frequently directed to what becomes of the enormous amount of bullion continually poured into India beyond what can be traced out of it. A great mass of it is generally believed to be hoarded. There is good reason for the impression. I have heard Indian judges and other functionaries express their surprise at the great amount of coins and

bullion, the produce of detected thefts and robberies among a community steeped apparently in abject poverty—struggling for every fraction they can withhold from the Government or other creditors, and spending for nothing beyond the necessities of a bare subsistence. It is very notorious how much costly ornaments abound among the poorest families. In what does native expenditure, in fact, for the most part consist? A great portion is exhausted in presents and offerings, on occasions of public or family ceremonies, to temples, to the priesthood, and to various friends or dependents; and the money does but, in fact, change hands, and is hoarded as before. Another large portion goes to feed pauper Brahmins, and is little better than wasted. The same may be said of the profuse expense in gaudy pageantry. There must necessarily be a great accumulation of the useless representative of capital, where much is received, and where there are but few objects for the luxurious, or agreeable, or profitable employment of it. The most useful, and at the same time the most tempting application of it, would be that for obtaining free property in land.

The policy of a large expenditure on public works,

and of encouraging the application of commercial capital in improving the sources of the national wealth upon guaranteed dividends, has been recognized. But it is checked by the want of means, although the profits on such outlay, direct or indirect, are rated enormously high, more particularly in works of irrigation. Nature has been profusely bountiful in pouring forth its fertilizing waters over this thirsty land ; but, its flow being periodical, its storing and application can only be effected by artificial means. As much labor and ingenuity, in fact, are required in adapting these definite supplies of water as in adapting the soil itself to the growth of produce. We might as well neglect periodical ploughing as periodical irrigation ; yet we complacently watch the transit of vast columns of this national wealth into the sea, while it is not too much to say that the rental of such wasted water might equal the present rental of the land itself.

By the plan I propose, Government could ensure prompt means adequate to all the legitimate aims of public expenditure, and need not levy more than the expedient supply. It is a mark of political wisdom to remit taxation whenever an increase of taxable material is thereby produced. If that

principle is acted upon, it signifies nothing in what way. It may be done by sacrificing a portion of the Land Tax in order to increase in a greater ratio the remaining general sources of revenue, as well as by any other mode. But if, further, the remission of the Land Tax, paid for at its value, shall conduce to the production, without the cost of Government, of taxable material which did not exist before, how can the sagacity of the measure be doubted; and what risk can there be in an experiment which can be arrested before any loss is incurred?

In concluding these suggestions I must add one more, bearing immediately on the question I have discussed. It is, that the measure I have advocated cannot be complete, or effectual in any great degree, unless an improved system of judicial administration is introduced. Neither will British capitalists be desirous of holding land, nor will Natives be tempted much to exonerate their land from the Government "kist," unless their possessions and the produce of them are secure under the known law of the land.

One most powerful inducement to the purchase of the Land Tax, and to investment in land generally,

and a truly valuable boon, would be the acquisition of an indefeasible Government title. And this would be accomplished upon the same principles, and under the same rules for just investigation, as obtain under the Irish Encumbered Estates Act; an Act which would be more beneficial in India, where scarce any titles in land are considered safe, or unexposed to litigation. But the real and permanent security for landed possessions can only be looked for through a code of *substantive* local law, instead of the jumble of uncertainties, inconsistencies, and controversies, which pass by that name—and through a body of legal functionaries, who must be instructed and trained for the practice and administration of it.

The first object can only be obtained by the appointment of a competent Board to revise the law as it exists, if not to reduce it to a systematic code. The second object can only be accomplished by local institutions, through which judicial degrees, or certificates, may be conferred on those duly qualified. I was at the pains four years ago of drawing up a sketch of the quality of such institutions. I should be glad to invite attention to it in the appropriate quarters, if nothing of

this kind is about to be attempted ; but I could hardly hope to gain the public ear upon such a subject.

I submit these projects to your consideration, Sir, as both definite and practicable, if founded on just data. I feel that they demand great labor and length of time to bring them all into operation ; but it needs that a comprehensive view should be taken of the political requirements of India in its civil administration, and that the foundations of any new or better system should be laid deep and broad. •

Much vituperation has been expended upon the assumed misgovernment of India, and particularly on the alleged neglect of employing the most competent men in its administration. I freely say that I do not consider the Imperial Government obnoxious to the latter imputation. Such a general charge is easily made, and is as easily followed up by general advice. I do not observe, however, that there has been any indisposition of late years to select men of recognized ability for employment. The appointments of the Government Directors seem to me unexceptionable. I know not where better men, willing to engage in their duties, are to be

found than Sir Lawrence Peel, Sir Frederic Currie, Mr. J. P. Willoughby, and Sir Robert Vivian, each acting in his appropriate sphere; and I should be justified in adding the name of Sir Henry Rawlinson, if he was not a personal stranger to me. It would be difficult to select a public functionary equal to Sir George Clerk as permanent Secretary to the Board of Control. Of those entrusted with the highest offices in India some have deservedly earned the highest reputation, and all have justified their selection by their distinguished services on the most trying occasion of political difficulty that has ever occurred in history. When a new code of judicial procedure for India was projected, ~~the~~ very highest qualified men that England could produce were chosen for the task. Have any of these appointments been denounced, or can they justly be so? If not, how purposeless is general abuse, and how ~~weak~~ is general advice. The local and the constitutional system of the Indian Government may be wrong, and need a thorough reform; but the faults of the system are not the sins of the administrators of it.

For my own part, Sir, I am content to submit the measure of financial reform which I have

sketched out to the reflection and judgment of such men as I have denoted, and to your own. I have an unqualified confidence in the soundness of the principles on which it is founded. I am fully convinced that sooner or later it will be adopted; and, if well founded in principle, its important influence cannot be exaggerated. It is a matter of wonder to myself, that in a country surpassing in exuberant fertility the most favored climes in the whole world—teeming beyond all others with a submissive and industrious population, content with one-tenth of the ordinary rate of European labour-wages—no greater annual revenue should be derived to the State than thirty millions sterling; being but half of that levied from one-sixth of that population inhabiting Great Britain. I have attempted to explain the main cause, and the obvious remedy. If promptly adopted, the present generation may anticipate ~~not unreasonably~~ an increase of the revenue two fold, and of the national wealth and prosperity fifty fold.

I am aware of many surmised objections and impediments to the working out of this proposed scheme in details. I have often had to combat and I feel that I am able to refute them, should

occasion arise for entering on such a discussion. No refutation could reconcile those who argue in a cavilling spirit. I appeal to those who will apply a thoughtful and statesmanlike consideration to the subject—who have opportunities of making their sentiments publicly known who will neither be puzzled nor repelled by operative difficulties from supporting principles which, having examined with candour, they in their mature judgment shall approve.

I have the honor to be,

RIGHT HONORABLE SIR,

Your very obedient servant,

GEORGE NORTON.

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