

While the land tax prevented the prosperity of the agricultural industry the customs taxes hampered the manufactures of the country. There were internal customs and external customs, and both were equally injurious to trade and industry. The internal customs¹ were made up of transit and town duties. For the purposes of transit duties the country was artificially divided into a number of small customs areas. Goods may be manufactured and consumed *ad libitum* within each customs area, but the moment they left their own division they became liable to duty. The injurious effects of this regulation, though concealed, were none the less real. The transit duties held up trade, which in its turn reacted adversely on the manufacturers of the country. Adam Smith has told us how the growth of industry depends upon the extent of the market. Here for the purposes of the transit duties the whole country was cut up into small bits after the manner of squares on a chess board. What wonder is there if trade, and its handmaid, industry, both languished to a serious extent. The adverse effect on the transit duties was also felt in another way. In every country somewhat industrially advanced there is not only a social division of labour, but there is also a territorial division of labour, otherwise called localization of industry. Evidence is not wanting to show that the localization of industry formed a prominent feature of Indian economy.² Under it each locality in India specialized in a particular art or industry; for instance, cotton was grown in one locality, woven in another, and bleached in a third place. But it often happened that these localities were situated in different customs areas, and a raw good might have had to pay the transit duty many a time before it reached its finished stage. To avoid this each locality was obliged to waste its energies along unprofitable lines in order to escape the transit duties.

The town duties, which formed a part of the internal customs, also worked in their effects towards de-urbanization. Commercial entrepôts are admittedly vast instruments of the trade of a country. The opportunity of ready purchase and sale of almost every kind of commodity in any quantity, accumulated capital, extended

¹ Mr. Traveleyan, who closely studied the system, was so much horrified by its injurious effects that he wrote "although we now have ocular demonstration of its existence, yet when it has once been abolished the world will find it difficult to believe that such a system could have been tolerated by us for the better part of a century."—*System of Transit and Town Duties in the Bengal Presidency*, p. 6.

² See M. Martin's *Eastern India*, 3 vols.

credit, general information all meet here as in a centre. They support, encourage and give lift to commerce and to the trade of a country. But the direct effect of the town duty was to distract and drive away trade, for under the system every article which was subject to it had, after the payment of transit duty, to pay on entry, in the town, the town duty and, if it underwent any change of form by manufacture within the town of entry, it could not have been furnished to any neighbouring place without a second impost being paid upon it under the transit duty system, enhanced in proportion to the increase of value it might have acquired from the labour and the skill bestowed upon it. The consequence was that towns dwindled both in trade and industry owing to the reason that merchants ceased to frequent them and that no manufactures of articles subject to the transit duty were capable of being established in them except for their own supply.

It was in this depressed condition that the Indian industries were called upon to meet foreign competitors. But the external customs cannot be said to have protected, much less fostered them. As a rule commercial tariffs are based upon what is called commodity competition. The import tariffs are designed to check by means of higher duties the importation of such foreign commodities as are likely to interfere in the successful manufacture of the same commodities at home and the export tariffs are framed principally with a view to give bounties to such of the home commodities as have a chance of securing a foothold in foreign markets. But the theory of external customs in India had no connection with the theory of commodity competition. In comparison with the policy actually adopted even a protectionist would have preferred to see trade left perfectly free, for the tariff was based on political rather than economic considerations. The Indian Import Tariff varied not with the nature of the imports but with the origin of the imports and the bottom on which they were shipped. Being political in character it was preferential in design and in its framework. It is to be regretted all the more that the preference involved an unmitigated loss to the people and to the government. It was excusable to have admitted into India goods of English origin and shipped on English bottoms at a rate half of what goods of foreign origin and shipped on foreign bottoms were charged with. But nothing can extenuate the sacrifice imposed upon the Indian industries by letting in British goods at lower rates than what the Indian goods had to pay under

the internal customs; and this was done when, be it remembered, England was prohibiting by high tariff the entry of India-made goods and India-built ships ! But while the import tariff made it easy for the foreigners to compete successfully with Indian manufactures burdened as they heavily were by the weight of the internal customs, Indian goods found it considerably difficult to compete in foreign markets under the incubus of export duties which formed one of the most lamentable features of the Indian tariff and which endured long into the nineteenth century.¹ Thus the customs laws internal and external blockaded trade and smothered industry. The comparatively paltry revenues derived from them is the best proof of their ruinous effects.²

When these resources failed the Government resorted to some very questionable means of raising revenue.

On an impartial survey of the revenue system as prevailed under the Imperial regime one is constrained to say that justice in taxation was conspicuous by its absence. It was a cruel satire, or at best an idle maxim, for the lancet was directed not where the blood was thickest but to that part of the body politic which on account of its weakness and poverty most meekly bore the pang. The landlords who passed their lives in conspicuous consumption and vicarious leisure on the earnings of the poor tenants, or the

¹ It is difficult to cite references to every statement made above. The tariff history of India is yet unwritten, but ample evidence bearing on the point will be found in the Parliamentary Committee on Trade in 1821 and the Evidence submitted to the Committees appointed by Parliament to investigate into the affairs of the East India Company in 1813 and 1853. Particular attention is invited to the Report and Evidence of the Committee on East India Produce, 1846.

² The following table gives the ratio of the Customs Revenue to the total revenue :—

Year	Ratio	Year	Ratio	Year	Ratio
1792-3 to 1796-7 }	2.38	1817-8 to 1821-2 }	8.32	1842-3 to 1846-7 }	6.02
1797-8 to 1801-2 }	3.10	1822-3 to 1826-7 }	7.58	1847-8 to 1851-2 }	5.40
1802-3 to 1806-7 ¹ }	4.16	1827-8 to 1831-2 }	8.12	1852-3 to 1855-6 }	5.52
1807-8 to 1811-12 }	5.04	1832-3 to 1836-7 }	7.19	Average for 64 years }	6.22
1812-13 to 1816-17 }	6.68	1837-8 to 1841-2 }	6.76		

many European civil servants who fattened themselves on pay and pickings, were supremely exempted from any contribution towards the maintenance of the Government whose main activities were directed towards the maintenance of pomp and privilege. On the other hand, the salt tax¹ and the Moturpha,² and other oppressive taxes³ continued to harass the industrious poor. It is indeed true that many petty and vexatious taxes prevalent under the native rule were abolished; there is, however, enough evidence to show that the revenue thus lost was made up by enhancing those that were continued to be levied, particularly the land tax. The latter charge has always been officially denied,⁴ but none the less it remains true that the land tax has been consolidated and increased concurrently with, if not consequently upon,

¹ The percentage ratio of the salt revenue to the total revenue at different times was as follows :—

Year	Ratio	Year	Ratio	Year	Ratio
1792-3 to 1796-7 } 1797-8 to 1801-2 } 1802-3 to 1806-7 } 1807-8 to 1811-2 } 1812-3 to 1816-7 }	14.13 12.10 11.09 11.14 10.92	1817-8 to 1821-2 1822-3 to 1826-7 1827-8 to 1831-2 1832-3 to 1836-7 1837-8 to 1841-2	11.25 11.87 12.03 9.72 12.37	1842-3 to 1846-7 } 1847-8 to 1851-2 } 1852-3 to 1855-6 } Average, for 64 years }	11.65 9.14 9.17 11.07

Hendricks, *op. cit.*, p. 283.

² In a petition drawn up by the Madras Native Association to the House of Commons in 1858 it was described as “a tax on trades and occupations embracing weavers, carpenters, all workers in metals, all salesmen whether possessing shops which are also taxed separately, or vending by the road-side, etc., some paying imposts on their tools, others for permission to sell, extending to the most trifling articles of trade, and the cheapest tools the mechanics can employ, the cost of which is frequently exceeded six times over by the Moturpha, under which the use of them is permitted.” Quoted by Raghuvaiyengar in his *Progress of the Madras Presidency*, 1893, p. 113.

³ Dr. Francis Buchanan in his *Journey from Madras*, Vol. II, notes that “at Sati-Mangalam in Coimbatore, South India, a new stamp duty of $\frac{3}{4} + \frac{1}{3}$ of a Vir-Raya Fanam, or about

$5\frac{1}{4}d$, has been levied on every two pieces of fine cloth; and of $\frac{3+\frac{3}{4}}{8}$ of a Vir-Raya Fanam, or of about $2\frac{3}{4}$, on every two pieces of coarse cloth. The weavers in consequence have given

up work, and gone in a body to the Collector, to represent their case. The tax is levied in place of a duty of 4 or 5 Fanams a year, that was formerly levied on every loom; by the weavers it is considered as heavier”—pp. 240-1. He also notes “at Dodara Pallyam which contains 50 houses of weavers, the weavers are quite clamorous about the new stamp duty; which, they say, will for every loom cost them 20 Fanams in place of 5 which they formerly paid.” *Ibid.*, p. 242.

⁴ Parliamentary papers, Vol. V of 1831, Minutes of Evidence on the East India Company’s affairs, Q. 3864-66.

the abolition of such other taxes as being raised from the poor cost the Government more than their yield.

Under the injurious revenue system described above, the taxing capacity of the people decayed so that notwithstanding its numerous resources¹ from which it derived its revenues the Imperial Government was unable to make both ends meet. It ought to serve as an object lesson to all financiers to show that when their revenue laws are harmful to the resources of the people they must blame none but themselves for their empty treasury.

¹ The following is a conspectus of the taxes levied :—

Source of Revenue	Amount of Revenue raised in Millions	Period		Locality and Date of Commencement
		No. of Years	Dates	
Land Revenue	662.308	64	1792-3 to 1855-6	Throughout the period in Bengal, Bombay and Madras since 1834-5 in N.W.P. and 1849-50 in the Punjab.
Sekyer & Abkary	9.729	20	1836-7 to 1855-6	Throughout the period in Bengal, N.W.P., Madras and Bombay, and since 1849-50 in Punjab.
Excise	4.987	,,	,,	Bengal accounts exclusively.
Moturpha	6.455	,,	,,	Madras accounts exclusively.
Salt	135.532	64	1792-3 to 1855-6	Bengal since 1792, Madras 1822, Bombay 1822, N.W.P. 1839.
Opium	106.707	,,	,,	Bengal since 1792, Bombay since 1820.
Post Office	8.888	,,	,,	Bengal and Madras since 1792, Bombay since 1813, Punjab 1849, N.W.P. 1835.
Stamps	16.697	59	1797-8 to 1855-6	Bengal from 1797, Madras from 1813, Bombay from 1819, N.W.P. from 1834, Punjab from 1849.
Customs Duties				
Internal :	76.179	64	{ 1792-3 to 1855-6	Bengal, Madras and Bombay from 1792-3, N.W.P. from 1834-5, Punjab since 1849-50.
1. Transit				
2. Town				
External :				
1. Import				
2. Export				
Mint Revenue	3.221	,,	,,	Bengal from 1792, Madras and Bombay from 1813.
Tobacco	1.437	18	{ 1836-7 to 1853-4	Madras 1836 on.
Miscellaneous	194.777	64	{ 1792-3 to 1855-6	Same as under land revenue.

Was the money raised by such injurious taxes without reference to their effect on the productive powers of the country spent on such public utilities as were calculated to enrich and elevate the economic life of the tax-paying population? A glance at the following table giving the distribution of the expenditure by decades on the different services will show how the money was spent :—

Distribution of the Expenditure*

Percentage Ratio of Total Expenditure on	In the Year					
	1809-10	1819-20	1829-30	1839-40	1849-50	1857
Military ...	58.877	64.290	53.754	57.721	51.662	45.55
Interest on debt ...	18.010	12.805	12.124	9.756	10.512	7.19
Civil and Political ...	7.221	8.900	9.575	12.296	8.902	9.62
Judicial ...	7.525	6.800	7.107	9.565	7.180	
Provincial Police ...	1.991	2.093	1.535	2.062	2.062	} 9.38
Buildings, Fortifications, etc.	1.639	1.756	2.810	1.428	1.661	

* "Past, Present and Prospective Financial Condition of British India," by Colonel Sykes, *Journal of the Royal Statistical Society*, 1859, Vol. XXII, p. 457.

Prominent among this array of figures are those on the military expenditure and though they have dwindled in years they have invariably consumed more than one half of the total revenues of the country. But the stupendous figures opposite military do not represent the true burden of that expenditure. To them must be added the figures for the interest charge on debt, for the debt incurred was entirely a war debt. India was all throughout this period a battle-ground between the Country Powers and the East India Company. The two Mahratta Wars, the three Mysore Wars, the two Burmese Wars, the two Afghan Wars, and the Carnatic Wars, not to speak of the numerous other minor engagements, were fought in the interests of adding India to the dominions of the Company and of the Crown. While Parliament claimed that the dominions of the East India Company were the dominions of the Crown it must be borne in mind that it refused to pay a farthing of the purchase money. On the other hand, the entire cost of these wars was borne by India as so much dead weight on her scanty resources. The charges shown separately under buildings and fortifications must also be included in the military expenditure, to which category they really belonged. On making these needful additions we find the unparalled fact of a country wasting between 52 to 80 per cent. of its precious little money on war services. It

may, perhaps be argued on the other hand that much of the military expenditure, large though it was, went back into the coffers of the Indians themselves as they formed the bulk of the forces employed in the country. The Indians of course, formed a very large portion of the military,¹ and if the scales of salaries fixed for the European and native forces were equal the result would have been favourable to the natives of the country, though it cannot be said to have excused that huge military expenditure. But the scales of salaries for the Europeans and natives were so grossly unequal² that one European drew on an average more than the salaries of four natives put together. So this expenditure, whether from the standpoint of public utility or private employment, did not benefit the population which contributed to the revenues of the State.

¹ This may be seen from the following figures :—

STRENGTH OF THE INDIAN ARMY BEFORE THE MUTINY*

		European	Native	Total
Artillery	...	6,419	9,138	15,577
Sappers	...	110	3,043	3,153
Cavalry	...	3,456	30,533	32,989
Infantry	...	29,760	188,660	218,420
Total	...	38,745	231,374	270,119

*Report of Major-General Hancock on the Reorganization of the Indian Army, Parliamentary paper of the year 1859, p. 21.

² This is indicated by the following table :—

COST OF AN INFANTRY REGIMENT PER MONTH

EUROPEAN							
				Details			Total
				Rs.	As.	Ps.	Rs. As. Ps.
<i>Officers</i>							
37 Officers	...	...		14,734	14	3	21,779 2 7
Staff and Establishment	...	...		4,515	12	4	
Command and other allowances				2,528	8	0	
<i>Men</i>							
117N.CO.S.	...	...		2,289	4	5	25,999 8 0
950 Privates	...	...		11,203	8	4	
Rations, clothing and other charges				12,506	11	3	
Total							47,778 10 7

The civil and political charges which absorbed nearly 10 per cent. of the revenue can hardly be said to be recuperative in their effect. This part of the expenditure again was not shared by the native population which bore its burden. As a result of conquest the natives naturally came to occupy a secondary position; but the conquest had done more than merely degrade their status. It had engendered a certain sense of distrust for the natives in the minds of Englishmen. Conquered and distrusted the natives since the commencement of British rule had come to be excluded from the higher administrative posts of the country.¹ It was to remove this injustice that Parliament in the Act of 1833 provided

“that no native of the said territories, nor any natural-born subject of His Majesty resident therein, shall, by reason only of his religion, place of birth, descent, colour or any of them be disabled from holding any place, office, or employment under the said Company” (sec. 87).

NATIVE									
			Details			Total			
<i>Officers</i>			Rs.	As.	Ps.	Rs.	As.	Ps.	
26 Europeans	...	...	9,861	2	1	13,527	8	7	
20 Natives	...	...	940	0	0				
Staff and	...	...	1,209	1	4				
Establishment									
Command and other allowances		...	1,517	5	2				
<i>Men</i>									
140 N.C.O.s.	...	...	1,780	0	0	9,606	14	0	
1,000 Sepoys	...	...	7,000	0	0				
Charges	...	...	826	14	0				
Total						23,134	6	7	

It is evident from this table that if we deduct the salary of 26 European officers and command and other allowances shown under the heading “Native” which amounts to Rs. 11,378 7. 3. we shall find that 1,104 Europeans drew Rs. 47,778 10. 7. while 1,160 natives drew only Rs. 11,755 15. 4.

¹ Before 1833 the very meagre scale on which they were employed is disclosed by the following figures :—

Native Civil Servants of the 1st Class attached to the Secretariat of the 3 Presidencies Receiving per Month Salaries of :—	Bengal		Madras		Bombay		Total	
	No.	Total Salary Drawn	No.	Total Salary Drawn	No.	Total Salary Drawn	No.	Total Salary Drawn
Rs. 500 and upwards	5	2,700	...	...	5	2,500	89	20,690
Rs. 400 ”	2	800	...	...	1	400		
Rs. 350 ”	4	1,400	1	350	1	350		
Rs. 300 ”	3	900	...	...	2	600		
Rs. 250 ”	5	1,250	...	...	1	250		
From Rs. 250 to 200	17	3,460	5	1,155	1	200		
From Rs. 200 to 150	10	1,590	4	682½	...	...		
From Rs. 100 to 150	5	550	5	525	5	330		
Below Rs. 100	6	470	1	87½	2	140		
Total	57	13,120	16	2,800	16	4,770		

But, as a matter of fact, till after the Mutiny not one of the natives was appointed to any office except such as they were eligible for before this Statute was passed, because the Court of Directors in interpreting it advised the Government of India at the very start that by this enactment

“practically.....no very marked difference of results will be occasioned. The distinction between the situations allotted to the covenanted service and all other situations of any official or public nature will remain generally as at present.”¹

The Judicial and police charges, which together absorbed something like 10 per cent. of the total revenue raised, can only be regarded as protective in their character. Thus the bulk of the money raised by injurious taxes was spent in unproductive ways. The agencies of war were cultivated in the name of peace, and they absorbed so much of the total funds that nothing practically was left for the agencies of progress. Education formed no part of the expenditure incurred and useful public works were lamentably few. Railways, canals for navigation or irrigation and other aids to the development of commerce and industry for a long time found no corner in the Imperial budget. For a total area of 837,000 square miles there were constructed a few miles of railways, 2,157 miles of land ways, 580 miles of waterways and 80 miles of telegraph. Or speaking in terms of money spent, we find that for the entire period of fifteen years from 1837-8 to 1851-2 the average expenditure of a productive character amounted only to £ 299,732

¹ Despatch to Bengal No. 44 dated December 10, 1834, para. 107.

*Report of the Civil Finance Committee on Native Establishment at the three Presidencies,—Bengal Financial Consultations dated April 13, 1830. India Office Records. The subordinate establishments of uncovenanted Christian and native servants attached to the several presidencies were divided by the Committee into four classes, (1) comprehending Head clerks, Registrars, Managers and their assistants, Examiners, Investors, etc., employed under the Secretaries in superintending and conducting the business of the office; (2) Current Business Writers, and permanent Copyists; (3) Sectioners or copyists paid by piece work, and (4) all inferior servants. The Committee found that

Para. 35. The salaries received by the Current Business Writers in Calcutta vary from Rs. 20 to Rs. 300 per mensem, an average for each individual Rs. 104; in Bombay they vary from Rs. 15 to 120, an average Rs. 48; at Madras it is an established rule that the average remuneration to servants of this description in the Secretariat at that Presidency is Rs. 27½, which is distributed at various rates from 10½ to 87½, rupees, according to the claims of the individuals from length of service and utility.....

Sectioners in the Secretariat office, Bengal, were paid at the rate of 750 words per rupee; while at the other two Presidencies it was about 1333 words for a rupee.

Para. 51. The present charge for servants attached to the Secretariat in Bengal is Rs. 1,142 per month; at Madras, including mochiees (cobblers), Rs. 455; and at Bombay, Rs. 261. In Bengal there were 186 servants; in Madras 56; and in Bombay 42.

a year.¹ There is a principle well known to farmers that constant cropping without manuring ends in the exhaustion of the soil. It is, however, capable of wider application, and had it been observed in the State economy of India the taxing capacity of the country would have grown to the benefit of the treasury and the people. Unfortunately it was lost upon the financiers of India to the detriment of both.

But if the chance of augmenting the resources by judicious taxes and productive expenditure to cover the chronic deficits was forfeited, there was at least the way open for economy in expenditure. As might be supposed, a strong Central Government of the kind established in 1833 was capable of effecting economy wherever possible. As a matter of fact, the centralization was of the weakest kind. *De jure* there was an Imperial system of administration, but the *de facto* administration was conducted as though the primary units of executive government were the Provinces and that the Government of India was only a co-ordinating authority. This was obvious from a variety of circumstances. Legislation was, it is true, centred in the Government of India; none the less the laws that were passed by the Government of India were passed *for* the different provinces as though the initiative in legislation still lay in the Provinces and that the Government of India was only a sanctioning authority. Each Province had its own customs, internal as well as external, a survival of their sovereign status. Each Province continued to have its own Army. Notwithstanding centralization, the account system still remained provincial, sustaining the sense of their financial independence. The work of administration and collection of revenue being still conducted by them, the provinces behaved as though they were the lawful authorities charged with the responsibilities of Government. This spirit of independence bred insubordination, and some of the Provinces, particularly Bombay and Madras, endeavoured to resist the attempts of the Government of India to tax the people under their jurisdiction when the cost of the mutiny compelled it to levy fresh burdens. The point to be borne in mind is that the Act of 1833 made an unfortunate divorce between the legal and administrative responsibility. The Imperial Government were responsible in law but did not administer the country. The Provincial

1 *Statistical paper relative to British India*. Edited by Thornton, 1853.

Governments administered the country but had no responsibility in law. This divorce had a fatal effect on the economy in the finances of the country. As was inevitable extravagance in expenditure had become the rule in practice and it was inherent in the Imperial system itself. Economy is begotten of responsibility, and responsibility is obtained where a government has to *find* the resources to meet the charges it desires to incur. Prior to the inauguration of the Imperial system the Provincial Government had the obligation to raise money for the charges included in their budgets. Consequently they had to be economical. But under the Imperial system, while the budgets for the various services were prepared by the provincial authorities, the responsibility for finding the ways and means rested on the Government of India. Formerly they knew the limits of the purse they had to draw upon, but under the Imperial system they

“had no means of knowing the measure by which their annual demands upon the Government of India ought to be regulated. They had a purse to draw upon of unlimited because of unknown depth. They saw on every side the necessity for improvements, and their constant and justifiable desire was to obtain for their own provinces as large a share as they could persuade the Government of India to give them out of the general revenues of the Empire. They found by experience that the less economy they practised, and the more importunate their demands, the more likely they were to persuade the Government of India of their requirements. In representing these requirements, they felt that they did what was right, and they left to the Government of India, which had taken upon itself, the responsibility of refusing to provide the necessary means.”¹

To these extravagant demands the Government of India had often to yield; for, till very late, it did not possess the machinery to appraise the demands and to control the expenditure on them. It is not usual to expect much efficiency from any Imperial system of administration, much less when it covers not a department, not a province, but a country as big as a continent. Merely from being huge it is slow to move. Much slower would it necessarily be if it were a system as unorganized and unconsolidated as the Indian system was. First of all, the Imperial system in India was without

¹ The *Administration of the Earl of Mayo, as Viceroy and Governor-General of India— a Minute by the Honourable John Strachey*, a member of the Council and late acting Governor-General, dated April 30, 1872. Calcutta Office of the Superintendent of Government Printing, 1872, p. 46.

its executive machinery of control. The Act which created it must be said to have grievously erred in uniting into one the Government of Bengal and the Government of India. As a result of this fusion the machinery was overstrained. Its duties as the Government of Bengal left it very little time to attend to its duties as the Government of India. There was not only a common executive, but there was also a common Secretariat charged with the work of the two Governments. Overworked as the Secretariat was, its efficiency was considerably lowered by the absence of any officer specially charged with the duty of handling the finance of the country till 1843. It was in that year that Lord Ellenborough, the then Viceroy of India, separated the Secretariat of Bengal from that of India,¹ and attached to the latter a distinct office called the Financial Secretary to the Government of India,² unencumbered with the details of any other Department of State except that of finance. But while the want of a scrutinizing officer was thus made good by this appointment of a distinct Secretary of Finance, it was not possible for him to enforce economy in expenditure in the absence of a centralized system of audit and account and of an appropriation budget. Notwithstanding the establishment of the Imperial system of finance, the officers of audit and account remained attached to the Secretariats of the various Provincial Governments. They were not accountable to the supreme Government on whom the responsibility for the ordering and the management of the revenues of India had by law devolved. Being attached to the provincial Secretariat the Government of India could issue orders with regard to the accounts and the audits not directly but only through, and with the interpretation of, the Local Government concerned. Secondly, the budget system, though good enough for the purposes of mercantile accounts, that is, record, was useless for the first and elementary purpose of all good State accounts, namely, check. There were indeed three estimates (sketch, regular, and budget) prepared for the purposes of the financial administration of the country showing the amount of money required for the carrying on of each of the different services. But this distribution of public money on the different services was not held to mean appropriation. It was only treated as cash requirements. Owing to this fact the grants were never carefully prepared nor was the limit set on them observed in

¹ Government of India Resolution, Home Department, April 29, 1843.

² Government of India Resolution dated January 4, 1843.

practice. As there was no budget of specific votes or sanctions for each of the services the audit and account was simply concerned with noting whether record was kept of all the money that was received and paid through the public treasury. It is evident that in the absence of an appropriation budget the primary object of all State accounts and audit, namely check on the spending authority to abide by the sanction, was never achieved. The Provincial Governments, extravagant in their demands, were also careless in the matter of expenditure. So long as the Government of India remained without an appropriation budget and a centralized system of audit and account, it continued to be only a titular authority in the matter of financial control, and the provinces, though by law the weakest of authorities in financial matters, were really the masters of the situation.

To its inability to curb the extravagant habits of the provincial authorities generated by a financial irresponsibility on the part of the Provincial Governments and inefficiency on the part of the Central Government must be added the general spirit of apathy which marked the Executive Council of the Government of India in matters of finance. While it was true that nothing could be spent from the revenues of India without the specific vote of the Executive Council, it does not appear that the Council from its way of working could have taken any keen interest in promoting economy in expenditure. The Council acted collectively, and there was no distribution of executive work among the different members which composed it. With the exception of the Department of War and Legislation the whole work of the Government was brought before the Governor-General and his Councillors. As a result of its collective working

“every case actually passed through the hands of each member of the Council, circulating at a snail’s pace in little mahogany boxes from one Councillor’s house to another.”¹

Under such a system nobody was a Chancellor of the Exchequer to urge economy, because everybody was supposed to be one. The result was that finance in being everybody’s business

1 W. W. Hunter, *Life of Mayo*, Vol. I, p. 190.

suffered from being nobody's business, so that funds were distributed not according to the genuine needs of the services, but according to the relative claims and persistency of the clamour made for them.

Sufficient evidence has been given to show that the collapse of the Imperial system was due to a faulty fiscal system marked by injurious taxes and unproductive and extravagant expenditure. It must not, however, be supposed that this faulty fiscal policy commenced with the inauguration of the Imperial system. On the other hand, it was a heritage which descended to the Imperial system from the past. None the less it is obvious that a timely revision of the fiscal policy and the strengthening of central control would have solidified the foundation of the Imperial system. But a much too long continuance thereof undermined its financial foundations, and as it could get no more money to meet its rising expenditure from a people whom it had beggared, the Imperial system succumbed to the shock of the Mutiny, never to rise again in its original garb.

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CHAPTER II

IMPERIALISM V. FEDERALISM

As the result of the cost of the Mutiny of 1857 the already precarious condition of the Imperial Finance became so grave that no problem during the succeeding decade can be said to have engrossed the attention of responsible authorities as the one relating to the rehabilitation of that tottering system. Although the controversy as to the proper line of reconstruction to be adopted was long drawn out, the causes of the collapse were so patent that all those who had anything to do with Indian Finance unmistakably laid their finger on one supreme defect in the system whose breakdown they had witnessed, namely, the irresponsible extravagance it engendered in the Provincial Governments. To obviate this evil it was sought on the one hand by some responsible authorities

“to make the Local Governments partners in the great joint stock of Indian Finances, and, so to enlist their interest and animated co-operation with the Government of India, instead of keeping them on the footing of agents and servants, who, having no motive for economy and using the means of their masters, think only of enhancing their own demands by comparisons more or less well founded, with the indulgence conceded to others.”¹

This view gradually led to the formation of a considerable body of well-trained opinion for changing united India into the United States of India,² by making the provinces into separate and sovereign States. The aim was to substitute a Federal system for the Imperial system and to assimilate the financial position of the Central authority in India to that of the Central authority in the

¹ Minute by H.E. Sir W. R. Mansfield, Commander-in-Chief, dated October 17, 1867. *Papers, etc. on the extension of Financial Powers to Local Governments*, pp. 99-103.

² Cf. the Note of Col. R. Strachey dated August 17, 1867, in J. F. Finlay's *History of Provincial Financial Arrangements*, List of extracts, p. 3.

United States. For the consummation of the Federal plan it was urged that the revenues of India should not be dealt with as one income, collected into the Imperial Treasury and thence distributed among the different Provincial Governments. According to the plan each province was to be allowed to keep its revenues and meet its charges from them. The Central Government was to have its own separate resources and, if need be, supplemented by contributions from the provinces as their share of the expenditure of the Central Government based on some equitable standard. Thus under the Federal plan the consolidated Imperial Budget with its formal division between Imperial and Provincial was sought to be replaced by the creation of distinctly separate budgets, Central and Provincial, based on a genuine division of services and allocation of revenues.

Many advantages were claimed in favour of the Federal plan. First it was believed that the separation of the revenues and services would lead the ways and means of the Central as well as of the Provincial Governments to be clearly defined, so that each one of them would be responsible for administering its affairs within the funds allotted to it. Heretofore the Provincial Governments sent up their estimates of revenue and expenditure as returns unconnected with each other, and the task of balancing them was left to be done by the Supreme Government upon the aggregate of the different provincial estimates submitted to it. Under the Federal plan the provincial estimates would have to be balanced accounts of receipts and charges made over to them. Though primary it was not the only advantage which the Federalists claimed for their plan, for it was advanced not only as a measure to set bounds to the extravagant expenditure of the Local Governments by limiting the funds on which they were to draw, but also as a measure for setting bounds to the growing expenditure of the Central Government as well. The Federalists did not conceal the fact that the Central Government, being in a position to draw upon the total resources of India as a whole, was inclined to be extravagant in its own expenditure. They therefore thought that the Federal plan, involving as it did the allocation of revenues and services, would result in enforcing economy on the Central as well as on the Provincial Government.

The Federal plan was not only proposed by its advocates in the interests of economy and responsibility, but also in the interests of plenty. The Federalists denied that India offered few sources of revenue for the growing expenditure of the State. Though the Indian Finance ferry was water-logged, it was their view that there were many sources of taxation with the outpourings of which it could be set afloat. But they argued that these available sources were left untapped, as the Imperial Government, which could tap them, would not do so because of their restricted *locale*; and Provincial Government, which would like to tap them, because of their restricted *locale* could not do so under the existing constitutional law. But if the Provincial Governments were vested or rather re-vested with the powers of taxation as they would be under the Federal plan, such sources of taxation as were given up for being too regional-in character by the Imperial Government would be used by the Provincial Government to the great relief of Indian Finance as a whole.

Not only was Federalism advocated in the interests of economy and plenty, but also in the interests of equity. It was contended that the existing system resulted in an iniquitous treatment of the different provinces. If we take public works of provincial utility and the expenditure incurred upon them in the different provinces as the criterion, the criticism of the Federalists cannot be said to have been unfounded. On the other hand, the following figures go to substantiate a very large part of their arguments :—

OUTLAY ON PUBLIC WORKS

Average for the years 1937-8 to 1845-6

Province	Population in thousands	Area in sq. miles	Revenues in hundreds of Rs.	Expenditure on Public works in hundreds of Rs.
Bengal	40,000,000	1,65,443	10,239,500	1,79,812
N.W. P.	23,200,000	71,985	5,699,200	1,41,450
Madras	22,000,000	1,45,000	5,069,500	30,300

Compiled from *Calcutta Review*, 1851, Vol. XVI, p. 466.

Thus the outlay on public works was in Bengal $1\frac{3}{4}$ per cent.; in North-Western Provinces, $2\frac{1}{2}$ per cent.; and in Madras a little over $\frac{1}{2}$ per cent. of their respective revenues. This favoured treatment of some provinces as against the others was justified by the Imperial Government, which distributed the funds, on the ground that the favoured provinces showed surpluses in their accounts. But the Federalists pointed out these deficits and surpluses ascribed to the different provinces were grossly fictitious. They were the result of a bad system of accounts. The system was bad for the reason that it continued to show the accounts of the financial transactions of the country not according to Heads of Account but according to the provinces in which they occurred as used to be the case before 1833 when there was no common system of finance. With the passing of the Act of 1833 this system of accounts had become quite out of keeping with the spirit and letter of that Act. This would not have mattered very much if the All-India items were separated from the purely provincial items in the General Heads of Account. In the absence of this the evils of the system were aggravated by entering exclusively into the accounts of a province the charges for what was really an All-India Service, so that it continued to show deficits, while others which escaped continued to show surpluses and claim in consequence the favoured treatment given to them. The Presidency of Bombay offered to the Federalists a case in point. The demands of the Presidency were invariably received with scant courtesy by the Government of India, for in its history Bombay seldom showed any surplus in her accounts. But, if it had been realized that the deficits were caused by the barbarous system of accounts which kept on charging the Presidency with the cost of the Indian Navy, it undoubtedly would have fared better. Such vicious ways of appointment were not the only evil features of the system of accounts. Under it it was quite common to charge one Presidency with the cost of a service and to credit another with the receipts thereof. How the deficits found in the Madras accounts were inflicted upon it by the erroneous system of accounts may be seen

from the following :—

Cost of the Army of Occupation.		Revenues derived from the Occupied Territory		
Debited to	Amount	Credited to	Amount	
	Rs.		Rs.	
Madras	79,83,000	Bombay	...	20,00,000
		Bengal	...	1,04,22,870

Compiled from *ibid*, p. 475.

Taking into consideration the iniquities involved in such a system of accounts, it is beyond dispute that the advantage claimed by the Federalists for their plan was neither fictitious nor petty. A division of functions between the Federal and Provincial Governments would have in itself been an advantage by comparison with the existing chaos. And, if it did not result in equity, it had at least the merit of opening a way for it.

When however the Federal plan was put before the authorities in the form of a practical proposal, it gave rise to a determined opposition. The challenge was at once taken up by the supporters of the Imperial system who, be it noted, were mostly military men in civil employ. They opened their attack on the Federal plan from two sides, that of practicability and expediency.

Is it possible, asked the Imperialists, to localize the revenues and charges of India as belonging distinctively to one particular province ? They insisted that

“from the commencement of (the British) power (in India).....the interests and affairs of (the) presidencies and the provinces have been interwoven and interlaced—one often overlapping the other, and vice versa—in a manner from which extrication or disentanglement is now impossible, without making changes which would entail inconveniences greater than any entailed by the existing system..... The army of Bengal Presidency is quartered not in the rich districts of the Lower Ganges, but mainly in the poorer districts of the Punjab. Thus placed, that army defends virtually the whole Presidency. The Madras army is not kept within that Presidency, but holds, besides the Madras country, the Deccan, the Central Provinces, and British Burma. Similarly the Bombay army holds,

besides its own Presidency, the State of Rajputana and of Malwa. The Lower Provinces or Bengal proper are in themselves rich; but besides their own revenues they receive large customs receipts, which belong partly to them, but largely also to the other Divisions of the Bengal Presidency. Even Bengal opium does not entirely belong to Bengal, a large portion being raised in the North-Western Provinces. In Bombay the opium revenue does not, strictly speaking, belong to that Presidency at all, being raised beyond its limits, in the territories which, if included in any Presidency at all, would pertain to that of Bengal. Some of the Salt Duties, both of Madras and of Bombay, are raised on salt destined for consumption in Central India, and, in strictness, should be credited to the Government of India. Instances might be multiplied; but it becomes instantly evident that, if an adjustment of these matters with a view to complete localization of finance were to be attempted, many difficulties, perhaps even disputes, would arise.....”¹

Arguing in the same strain, Lord Lawrence, the then Viceroy of India, wrote :

“Experience has shown that it is convenient that the resources of British India should be considered in the aggregate and not with reference to the particular province in which it is raised. If the rule were otherwise, we must enter into the question—what are the revenues which each province may fairly claim? What are the items of expenditure which may justly be charged to each? Is the Punjab, for instance, to be charged for all the British troops located in the hills for sanitary considerations? Is the whole of the force ranged against the North-Western border to be similarly debited? Are the troops quartered in Rajputana to be charged to the Bombay Presidency to which they belong, or in what manner is their cost to be arranged for? On the other hand, we may be asked, why should not Bengal in particular—which, having no foreign neighbours, and a docile and timid population, requires only a minimum garrison—have the benefit of her surplus revenues? Why on the

¹ Note by Sir Richard Temple dated November 7, 1868, Papers, etc., on the *extension of Financial Powers to Local Governments*, pp. 197-208.

opposite view of the question should not Bengal bear her share of the cost of the troops located in the North-Western Provinces, the Punjab and Central India, which guard her from such invasions as those of the Rohillas, the Mahrattas and the Pindaries of former times ? These are all questions which would require solution if each were to have a financial system of its own.”¹

and in his opinion the question was impossible of solution.

But the Imperialists went further than this and argued that, even if it were possible to distinguish and localize the charges and the revenues into provincial and central, it was inexpedient to do so. Under the existing system of finance, they held that

“the Imperial Government, disposing of financial resources of the whole of India, can carry those resources at once where they are most needed. There are objects which have a truly national importance, though they may appear chiefly beneficial to a particular district. There may be evils, necessities and dangers in particular districts, which it is the duty of the supreme Government to correct and remedy at the charge of the whole. The creation or improvement of a part may have a national importance, though the expenditure on it may seem unfairly beneficial to a particular locality. A road, a canal, a railway from a cotton district or a coffee district, or a tea district, may have a vital significance to the whole people and commerce of India; and yet the expenditure on such a work be out of all proportion to the present revenue of the district which it is destined to develop..... or the supreme Government may find it necessary to lay out, for moral and social purposes, larger sums on recently conquered, savage, or dissatisfied provinces than the revenues of those provinces seemed to warrant, in order to remove causes of disturbances or dangers, and to force those provinces into some degree of harmony with the long settled, pacified, reclaimed portions of the Empire..... The old provinces of the Empire conquer the new provinces. The old are bound in duty to civilize what they conquer. We have no right to

annex a country and then throw it on its own resources. Conquest has its own duties as well as its rights."

"I venture to demur," wrote Lord Napier of Merchiston, President of the Council of Madras," to the policy of those who would restrict the benefits of the supreme Government to its receipts, and who would measure out in a parochial spirit to every province appropriations proportional to its specific returns. On the contrary, it ought to be a satisfaction to the rich to help the poor; to the old to protect the young; to the good to improve the bad; for thus all can co-operate in building up the glorious fabric of a—United India. Such ends can only be attained by a Central Government disposing of the financial resources of a whole Empire"¹

It is evident that arguments or sermons such as the above by themselves could never have supported the cause of the Imperialists. Notwithstanding the emphasis laid upon the difficulty of separating the revenues and charges into Imperial and Provincial, it must be conceded that the task was by no means so insuperable as the Imperialists made it out to be. The difficulty of apportioning the military charges could have been easily obviated by centralizing the military and making it a charge of the Central Government. On the same basis all those services charged to a particular Presidency or Province, but which from their nature benefited the whole Empire, could have been easily incorporated into the budget of the Central Government. Similarly it was possible in practice to allocate the existing sources of revenue between the Central and the Local Governments. The Central Government could have been allowed to retain for its use such sources of revenue the *locale* of which extended beyond the limits of a Presidency or the maximum yield of which depended upon a uniform administration of the same throughout the country. While on the other hand the Provincial Government could have been allowed to appropriate such sources which were restricted in their *locale* or the yield of which depended upon local vigilance. For instance, the customs duties could have been easily made a central resource, not only because their incidence was wider, but because they required a common and uniform policy of legislation and administration. The opium revenue could have been treated

¹ Cf. his Minute dated February 15, 1868, para. 9, op. cit., pp. 186-90.

as a central source of revenue, and the same treatment could have been granted to the salt revenue. Of course it would have been difficult to effect a separation of the sources of revenue in such a way as would have granted to each of the several Governments concerned resources adequate to meet the charges devolving upon them. A certain adjustment of funds by contributions from the provinces to the Central Government or from the Central Government to the provinces would have been inevitable; neither could it have been possible to obviate the adoption of principles more or less arbitrary in the matter of apportionment of revenues or of charges. But admitting the difficulties and arbitrariness involved in the problem of separating the Imperial Budget into a Central and several Provincial Budgets, it must still be said that it was quite capable of satisfactory solution. Colonel Chesney in response to the challenge thrown out by the Imperialists had made a notable attempt to distinguish the existing heads of charges into Imperial and Provincial. In his *Indian Polity* he says :

“The items of Imperial expenditure for which contributions would be required consist apparently of—(1) the Home Establishment and charges disbursed by the Secretary of State ; (2) interest on Indian debt; (3) Establishments of the Government of India ; (4) Diplomatic establishment; (5) Army ; (6) Imperial Services—Post Office and Telegraph Department ; (7) interest guaranteed on railway capital; to which must be added (8) grants in aid to some of the poorer provinces (which do not at present pay their expenses).”

This and other efforts convinced the Imperialists that their argument from practicability was bound to fail. Consequently they shifted their emphasis from the argument from practicability to that from expediency. Expediency furnished a better ground for attacking the Federal plan. Can a Federal Government be as efficient as the Imperial Government ? Can its credit be as high ? Can its prestige be as great as that of the existing Imperial system ? It must be premised that it was fresh in the minds of the people that it was the Imperial system with a strong power of control that had saved the country to the British from the hands of the mutineers of 1857. The survival value of the Imperial system had been proved in the struggle. By a clever manoeuvre the Imperialists turned to e authorities and asked them to consider what had sustained the

Imperial system throughout the struggle. They did not fail to emphasize the point that it was because the Imperial system of finance had given into the hands of the Imperial Government the control over the management of the revenues and disbursements of the Empire that the latter, in an emergency like the Mutiny, could stimulate every source of income, close every avenue of outlet, and concentrate all its expenditure on the capital object at stake—the energetic prosecution of hostilities. They showed that, without the Imperial system of finance, the Imperial Government would have had to deal with lukewarm, reluctant, hesitating or even hostile partners, perhaps not directly concerned in the struggle or convinced of its necessity, and solicitous for exoneration or delay. Further they made out that the Imperial management of finance was vital not only in heightening the efficiency of government, but also in maintaining the high state of credit. Credit, it was argued, depended upon the magnitude of the revenue, and to disintegrate the revenues was tantamount to lowering the credit. The Federal plan was also accused of abrogating the European tradition which has given prestige a very high place in its code for Asian government. It was inconceivable to the Imperialists that the Central Government could maintain its prestige without centralization in finance, for it was the system of Imperial Finance which, having collected the leading strings in political and administrative matters into the hands of the Imperial Government, enabled that Government to dictate a policy and have it executed to its own satisfaction. But who could uphold the prestige of the Central Government, if it became a pensioner of the Local Governments subordinate to it?

Looked at from the vantage ground of detachment from the time of the controversy one may wonder what strength there was in the argument from expediency which gave the Imperialists such an easy victory over the Federalists. Federal Governments such as those existing in America, Germany or elsewhere do not lend support to the view that in their working there is bound to be a loss of efficiency, credit, or prestige. Their history has belied all these gloomy forebodings. But it should be remembered that at the time the controversy raged in India, much of the history of Federalism was a blank page, for Federalism was itself in its infancy. People, however, sided with the Imperialists, not because they could not