

UNIVERSAL
LIBRARY

OU_166316

UNIVERSAL
LIBRARY

OUP—557—13-7-71—3,000.

OSMANIA UNIVERSITY LIBRARY

Call No. 336.54

Accession No. PG. 19029

Author

C 74C
Indian National Congress

Title

Congress select Committee on
India. vol. 4. Report. 1931.

This book should be returned on or before the date last marked below.

CONGRESS SELECT COMMITTEE
ON THE
FINANCIAL OBLIGATIONS
BETWEEN
GREAT BRITAIN AND INDIA

REPORT

VOLUME I

BOMBAY

1931

[PRICE ONE RUPEE]

VOLUME II

is an annexure in which Prof. K. T. Shah has elaborated certain aspects of the problem in point of law as well as general policy.

The Working Committee's Resolution

ON THE REPORT

passed on 7th July 1931

“The Working Committee, having received the report of the Committee appointed by it on financial obligations between Great Britain and India, places on record its thanks to the authors of the report and appreciates the great pains which they have bestowed on their work.

“The Secretaries are instructed to arrange for the early publication of the report.”

FIRST PRINTED . . *July 1931*
SECOND PRINT . . *August 1931*

CONGRESS SELECT COMMITTEE
ON THE
FINANCIAL OBLIGATIONS BETWEEN
GREAT BRITAIN AND INDIA

65, Esplanade Road,
BOMBAY,
6th July 1931

Sjt. Vallabhbhai J. Patel,
PRESIDENT, THE INDIAN NATIONAL CONGRESS,
AHMEDABAD.

SIR,

I have pleasure in presenting to you a copy of the Report of the Select Committee appointed by the Working Committee to scrutinise the Financial Obligations between Great Britain and India.

I remain,
Yours faithfully,
J. C. Kumarappa,
Convener.

CONTENTS

PART I

	Para.	Page.
Terms of Reference	2	1
Method adopted	3	2
No Popular Control over Finances	4	2
“Ratification” and not “Repudiation”	5	3
“Sanctity” of Contracts	6	4

PART II

Under the East India Company's Rule.

Historical Survey	7	5
Amount of the Company's Debt on 30th April 1857	8	6
Origin of the debt	9	7
Confusion in Company's Accounts	10	8
Burden imposed by External Wars	11	10
Dividends and Redemption of Capital Stock	12	12
Cost of the Mutiny	13	14

PART III

Under the British Crown.

“UNPRODUCTIVE” DEBTS.

Public Debt : Amount and Classification	14	17
“Unproductive” Debts	15	20
External Wars : Schedule		21
Abyssinian War	16	22
Perak Expedition... ..	17	23
Second Afghan War	18	23
Egyptian Operation of 1882	19	25
N. W. F. Expeditions, 1882-92	20	25
Third Burmah War	21	25
Soukim Expedition	22	26
European War	23	27
War “Gifts”	24	29
Other War Burdens	25	30
War Costs	26	32
Dominions compared	27	33
Budget Deficits	28	35

(ii)

	Para.	Page.
Miscellaneous Charges : India Office...	... 29	36
Aden ...	... 30	36
Persian Mission ...	... 31	38
China Consulates ...	... 32	40
Zanzibar and Mauritius		
Cable ...	... 33	41
Red Sea Telegraph ...	... 34	42
Ecclesiastical Charges ...	... 35	42
Burmah : Deficits,		
Defence and Railways...	36	42
Famine Charges ...	... 37	43
Exchange Losses ...	... 38	44
Loss on Reverse Councils ...	... 39	45

PART IV**Under the British Crown,****"PRODUCTIVE" DEBTS.**

Classes of "Productive" Debts ...	... 40	46
Railways : Origin ...	... 41	47
Guaranteed Interest System ...	... 42	49
Costly Acquisition by the State ...	... 43	54
Fixed Rates of Exchange ...	... 44	54
Strategic Railways ...	... 45	56
Irrigation ...	... 46	57
Postal and Telegraph Service ...	... 47	58
Provincial Debts ...	... 48	58
Debts of Local Governments, Port Trust, etc. ...	... 49	58
Conclusion ...	... 50	59

PART V

Summary of Claims ...	... 51	60
Recommendations ...	... 52	60
Acknowledgments ...	... 53	63

NOTES

1. Annual Military Expenditures ...	J. C. Kumarappa	64
2. Interest on Claims ...	"	68

APPENDIX

Schedule	A,	A list of a few of the Payments made by the East India Company which should have fallen on the British Exchequer	Table 1	i
„	B,	Return of the Rupee Debt of the Government of India for 31st January 1931,—		
		Floating and Unfunded Debt bearing Interest	„ 2	ii
		Terminable Loans	„ 3	iii
		Non-Terminable Loans	„ 4	iv
		Railways Loans	„ 5	v
		Public Debt not bearing Interest	„ 6	vi
„	C,	Return of Sterling Loans	„ 7	vii
„	D,	Details of Acquisition of Railways by the State	„ 8	ix
		INDEX		x

THE WORKING COMMITTEE,
ALL INDIA CONGRESS COMMITTEE,
ALLAHABAD.

1. We, the undersigned appointed by the Working Committee of the All India Congress Committee "to carry out a scrutiny into the financial transactions of the East India Company and the British Government in India and the so-called Public Debt of India and to report on the obligations, which should, in future, be borne by India or England," beg to report as follows:—

PART I

2. We conceive the purpose of our enquiry to be to collect such materials, by way of facts, figures, circumstances and conditions, supported by such opinions, analogies and precedents, as appear to us to bear upon the case, and submit our report on that basis. The terms of reference made to us involve a threefold enquiry :

- (a) The aggregate of the transactions of the East India Company and the British Government which have resulted in considerable financial burdens or obligations being imposed upon India by Parliamentary legislation, or otherwise.
- (b) The transactions of the British Government of India since the transfer of the Government of India from the Company to the Crown form the next block of items resulting in financial burdens on India.
- (c) A report on the obligations which should in future be borne by India or by England.

We understand it to mean that we are to consider the fitness and propriety, the equity and justice of liability for obligations hitherto placed on India.

In arriving at our conclusions, we have taken into account considerations which include matters which are in the nature of counterclaims by India against England. The main

reason, we believe, for including in the reference the third part is to indicate that there is no intention on the part of the Congress to summarily disown or reject all obligations placed upon India by the irresponsible Executive Government.

3. For a convenient discussion of the subject of this enquiry, we have divided it into three main parts, substantially following the lines laid down in the reference. In the first place, we take the totality of the transactions of the East India Company upto 1858. We next consider the totality of the financial obligations and the so-called public debt of India in two main divisions: (i) the debts which are not backed by any assets and (ii) the debts which are incurred for purposes which have left or created some material assets. We finally consider the question of apportionment between India and Great Britain of the burden of the obligations arising out of the said transactions on the grounds of justice and equity between a nation and a nation.

4. The outstanding feature of India's case is, that until now, the Indian people have had no voice, much less effective voice in the matter of the imposition of the burdens which are the subject of this enquiry. And in this connection, it is useful to trace the various stages through which the Government of India has passed, in so far as they are relevant to show the entire absence of control over the finances of India by the Indian people or their representatives. The first Indian Budget in the modern form was presented in 1860 to the then Legislative Council, which was in no sense representative of the Indian people. Under the Act of 1861, the Council to which were added a few nominated Indians could not meet for any other than legislative business and no discussion on the budget was allowed, and the budget was in fact presented and explained only when some new financial legislation became necessary to be passed by the Council. This state of things continued up to the Indian Councils Act of 1892, but, under that Act as well, no discussion of the budget was permissible though an obligation was laid on the Government to explain the same. Though the members were allowed to offer observations upon it, they had not the power to move any resolution or divide the Council on any part thereof. The Indian Councils Act of 1909 enlarged the Councils by the addition of a certain number of members elected by indirect election, and under that Act certain items of revenue and

expenditure were specified, which were open to discussion by the Council. The right to move resolutions and divide the Council related to these subjects; but the resolutions were purely of a recommendatory character. The resolutions moved, however, had not any practical value by way of effective control, as the Government had a standing official majority in the Council. Since the year 1920, further changes have been made in the machinery of the Central as well as the Provincial Government, but the effective control still rests with the irresponsible executive. A division of heads of expenditure has been made under votable and non-votable items, and the non-votable items aggregate to 75 per cent. of the total net expenditure. This fact together with the power of restoration and certification vested in the Governor-General and the Governors, have rendered practically nugatory, the supposed transfer of control to the representatives of the Indian people over any part of the expenditures or the revenues of India. Under the rules, moreover, proposals regarding taxation or borrowing can originate only with the executive. Thus, during the whole of the period of the British rule, it can be justly said, that no burden has been undertaken by the Government of India, for the time being, with the assent or cognizance of the Indian people. It is, therefore, but fair that at this juncture, when two countries stand face to face with each other for the purpose of negotiation that the question of apportionment of these liabilities imposed upon the Indian people, (partly discharged and partly remaining undischarged) should be examined with reference to their justice and propriety.

5. The Congress has often been accused of attempting to repudiate "Public Debts". Far from being a "repudiation", the effort of the Congress is to "ratify" burdens, which have been undertaken in the country's interest. The present "Public Debts" cannot be truly called "National Debts", for they have been incurred really by Great Britain and imposed upon India. Sir George Wingate wrote over 70 years ago:—

"When the subject is carefully examined, it will be found that the Government of India, so far from being the government of a distinct State, has been, from the first, simply a department of the British Government. The British Ministry, acting through the President of the Board of Control, formed the real motive power which decided the policy of successive Indian administration, and the East India Company was simply a convenient screen under cover of which the Ministry was enabled to make use of the revenues and resources of

India with a less degree of interference on the part of Parliament than would have been exercised, had the responsibility of the Ministry for every act of the Indian Government been openly avowed. If the facts be so, then, and they cannot be gainsayed, we seem to be shut up to the conclusion that the acts of the Government of India, from first to last, have been the acts of the British nation. India has never had even the shadow of a constitution, or of a national Government, but has been ruled as a conquered country, according to the views of successive British administrations. The Indian debt has really been incurred by the Government of this country; and how, then, can we possibly shake ourselves free of Indian liabilities? Good faith and justice alike hold Great Britain accountable for the obligations incurred by the Indian Government just the same as for the obligations contracted by the Imperial Government. Every million added to the debt of British India is a million added to the debt of Great Britain, and it is this consideration which makes the question of Indian finance of vital importance to the public of this country. Since the commencement of the late Mutiny, the Indian Government has raised about ten millions in India at an interest of 6 per cent., while the money could have been raised by the same Government in this country at 4 per cent. and by the British Nation at $3\frac{1}{2}$ per cent. By this thriftless policy, our national obligations cost us half a million a year more than they might have done, and every day's persistence in such a suicidal course is running up a heavier score for the day of the final reckoning. The British public may avert its gaze; but this day of reckoning is not the less surely coming."

(*Our Financial Relations with India*, pp. 23-24)

And that day of reckoning has arrived.

6. It has been suggested in some quarters that all these obligations have some degree of sanctity and should not be disputed. We are unable to see any basis of sanctity in this matter. These burdens were involuntarily imposed upon the revenues of India and, if they are not shown to have been incurred for the benefit of the Indian people, it is difficult to understand the use of the word "Sanctity" in this connection. In fact, the scrutiny entrusted to this Committee is intended to examine that very issue, *viz.*, how far any of these liabilities are to be borne by India on the ground of justice and equity. Sanctity would undoubtedly attach to all the obligations, which are found to have been incurred justly and for the benefit of the people of India. If any of these obligations cannot be shown to have been incurred for their benefit or welfare, every principle of public morality would commend exoneration from, rather than imposition of, such liability. The only proper view of the matter is, that it is but just, that the burden should now be placed on that party, who ought to have borne the same, at the time it was created.

PART II

UNDER THE EAST INDIA COMPANY'S RULE

7. *History of the East India Company.*—We shall begin with an examination of the settlement of the financial transactions affecting India which was arrived at by, and between, the East India Company and the British Government at the time of the transfer of the Government of India from the East India Company to the British Crown. Before entering upon such an examination, it may not be out of place to trace, briefly, the growth of the East India Company, from a private trading concern to a territorial power.

The East India Company started as a trading corporation under a Royal Charter in 1600 A. D. and continued to be such, with various modifications of the chartered privileges for 173 years thereafter. In 1773, its affairs were regulated by the Regulating Act, which made the East India Company in effect the Agent of the British Crown, so far as the government of the territorial acquisitions and possessions in India was concerned. Its commercial side was distinguished from its territorial side by the said Act and the Acts which followed, and from the year 1814 separate accounts were required to be kept for the two sides. The trading monopoly of the Company, so far as India was concerned, was abolished by the Charter Act of 1813, and its trading character was put an end to by the Charter Act of 1833, Section 4.

Section 9 of the said Act provides as follows:—

“All the bond debt of the said Company in Great Britain and all the territorial debt of the said Company in India, and all other debts, which shall, on that day, be owing by the said Company and all sums of money, costs, charges and expenses which after the said 22nd day of April 1834, may become payable by the said Company, in respect of, or by reason of, any covenants, contracts or liabilities, then existing and all debts, expenses and liabilities whatever, which, after the same day, shall be lawfully contracted and incurred on account of the government of the said territory and all payments by this Act directed to be made shall be charged and chargeable upon the revenues of the said territories and that neither any stock or effects which the said Company may hereafter have to their own use nor the dividend by the said Act secured to them nor the directors or proprietors of the said Company shall be liable to, or chargeable with any of the said debts, payment, or liability.”

Section 11 of the said Act provided for the payment in Great Britain of a yearly dividend of $10\frac{1}{2}$ per cent. on the Company's Stock. The effect of these provisions is to charge the revenues of India with the payment of :—

- (a) The trading capital of the East India Company, with interest.
- (b) All the Company's territorial debts.
- (c) All the Company's other debts and liabilities then existing.
- (d) All the Company's liabilities which may become payable after that date.
- (e) All the debts the Company may incur on account of the Government of the territory after that date.

Section 12 provides for redemption by Parliament of the Capital Stock of the Company at any time after the 30th of April 1874 on payment to the Company of two hundred pounds sterling for every one hundred pounds of the said Capital Stock.

Section 13 provides, if, at any time before 1874, the Company is deprived of the possession and the government of the territory, the Company would be entitled to demand the redemption of the Stock as provided in Section 12.

Section 14 provides that the Company shall pay into the Bank of England into an account called "the account of the security fund of the India Company" a sum of two million pounds annually until such time as such amount, calculated with compound interest at $3\frac{1}{2}$ per cent. per annum, shall amount to twelve million pounds sterling, required for the redemption of the Capital Stock of the Company.

Section 17 provides that the annual payment of two million pounds required by Section 14 is to be paid by the Company out of the revenues of the territory.

8. *Company's Debt, 1857.*—The Indian Expenditure Commission, 1895, popularly known as the Welby Commission, reported as follows in paragraph 117 in their report :—

"The debt of India, for purposes of account, is divided at the present time into two heads, (1) ordinary or unproductive debt, (2) productive or public works debt, We deal first with the ordinary debt.

The history of this debt during the last 60 years conveys an interesting lesson in finance. From 1838-9 to 1861-2 deficit was the rule and surplus the exception, for 19 years of the former were arrayed against five of the latter. The statistics of the Company leave much to be desired in precision, and the figures of the early years must be taken only as approximate. The India Office, however, consider that the Return of the Debt presented to Parliament in 1881, on the motion of Sir George Balfour, is trustworthy for purposes of comparison. It begins with the year 1857, and from 1857, therefore, we use that return. The permanent debt of India, whether raised here or in India, amounted, on the 30th April 1842, to £33,577,414. On the 30th April 1857, immediately before Mutiny, it amounted to £51,327,958, an increase of 53 per cent. in 15 years. The 30th April 1862 marks the close of the Mutiny expenditure, and the permanent debt had then risen to £97,037,062, an increase in 20 years of nearly 190 per cent."

9. *Origin of the Debt.*—We shall now consider how the said public debt of 51 million pounds came to be incurred. Since the year 1783, the surplus revenues from the territories, administered by the East India Company, were for all practical purposes, appropriated by them towards the commercial side and must have eventually been distributed amongst the shareholders. While the deficits in the territorial side were allowed to accumulate and ultimately became a part of the item of 51 million pounds which was the public debt as at 30th April 1857. The said public debt was largely caused by the expenses of warlike operations and acquisitions of territories.

Against the costs of the internal wars during the period may be set off the accession of the territories resulting from these operations or tributes or indemnities obtained from the vanquished powers. In each successive period, though the total expenditure increases, the increase in the revenues also keeps pace with it. The surpluses on the territorial side were taken over to the commercial side and were absorbed. Had this process not been followed, no public debt would have had to be incurred even for the purposes of the costs of the wars. Apart however from the fact that the surpluses on the territorial side would have met the expenses of the wars, Great Britain ought to have borne the same in any event. Even the directors of the East India Company on some occasions protested against the costs of these wars being saddled on India's revenues and claimed that these should be borne by Great Britain.

10. *Confusion in Accounts.*—Among the difficulties which render impracticable any useful analysis of the general financial transactions during the Company's regime in India, at the end of which the above-mentioned public debts existed, the most considerable is the one caused by the mixing up of the accounts of their commercial and territorial branches. It is only in 1814 that the accounts of the commercial and their territorial sides were separated. Long prior to that date, the Company had acquired large territorial possessions including the Diwani of Bengal, Bihar and Orissa, and derived considerable sums by way of territorial revenues, as well as from levies made upon the Company's allies and dependents, like the Nabob of Oudh and the Rajah of Benares. The territorial revenues were subject to certain charges under the terms of the Act of 1813 and the surplus remaining thereafter was made applicable to the commercial branch. Under Section 55 of that Act, territorial revenues were required to be applied:—

- (1) To the maintenance of forces and forts and the provision of warlike and naval stores,
- (2) To the payment of interest on Indian debts including such portion of it as might be demanded in a bill on the Court of Directors, to meet which provision was required at all times to be made by consignment or remittance to England,
- (3) To defraying expenses of civil and commercial establishments,
- (4) Towards the liquidation of territorial debts or of the Bond debt in England or to such other purposes as the Court of Directors with the approval of the Board of Commissioners should direct.

(Report of the Parliamentary Committee, 1832)

Under Section 56 of the same Act, a sum was required annually to be issued in India for commercial investments or remittance to England equal to the payments made from the commercial funds in England, on account of the territorial charges in the year preceding. According to the Report of the Common's Committee of 1832 (Vol. II, Finance), from 1814-15 to 1826-27 the application of territorial funds to the purchase of the Company's investments for remittance

averaged £2,028,000, of which £1,155,000 were applied to the purchase of Indian investments in China. Whatever further sums were necessary were mainly derived from the profits of the China trade and advanced from these to the territorial account.* On the other hand, under Section 57, the commercial profits of the Company and other receipts in England were required to be applied:—

- (1) To the payment of Bills of Exchange,
- (2) To the current payment of other debts except the Home Bond Debts interest and commercial expenses,
- (3) To the payment of dividends, and
- (4) To the reduction of the Indian debt or the Home Bond Debt.

On account of these mutual payments and receipts, the account was never quite clear as between these two branches considered separately, all that the investigators at this time of the day can do in the matter is to take notice only of the net result or the ultimate balance as shown at the date of the Company's dissolution as a governing body, subject to such adjustments as the known facts of history at that date warranted. The only source of light that we have is to be derived from the periodic investigations of the Parliamentary Committee into the affairs of the East India Company, notably those which were made before the passing of the Acts of 1784, 1793, 1813, 1833 and 1853. At the last but one renewal of the Charter in 1833, when all trading rights and privileges of the Company were completely put an end to, exhaustive investigations were made into these accounts. A special investigator, Mr. Pennington, who was a qualified accountant, was employed by the Parliamentary Committee in 1832. He observes in his report as follows:—

“ All the statements which have been drawn out with a view to an enquiry into the relative position of the two branches of the Company's affairs antecedently to the commencement of the present Charter, differ materially from each other, as well in point of principle as in their details and results, and show the extreme difficulty or *rather the impossibility* of arriving at any certain conclusion upon a point

* Mill's History of India, Vol. IX, Chapter IX, p. 341.

of which the accounts, whence the statements are drawn, do not afford either the perfect illustration or the proof." (*Italics ours.*)

The accounts which were prepared, were necessarily affected by the point of view which the Directors of the East India Company had before them to justify themselves. The Company's Directors had been insisting for a long while on certain items, the cost of which they had borne in the first instance, as being chargeable not to India but to England, aggregating to 11½ million pounds, of which the details were given showing that the expenditure was really liable to be met by England. (For details see Schedule A.)

Notwithstanding these difficulties, the subsequent paragraphs show that the bulk, if not the whole, of the public debt shown as at 30th April 1857, mainly resulted from items which were not chargeable to India at all. It may further be observed that numerous disbursements of large amounts took place by way of pensions, bounties, gratuities etc. to the civil and military servants of the Company from Governor-General downwards, which could never have been properly charged to India. But these items have not been taken into account among those as to which questions have been raised in this report.*

11. *External Wars.*—As regards the burden imposed upon India by the Company's wars beyond the geographical limits of India, the costs may be difficult to estimate precisely. The cost of the first Afghan war has been estimated at fifteen

* "The following amounts were received as pensions or gratuities; Clive, the income from his jaghir; Marquis of Cornwallis, £5,000 a year; Warren Hastings, £4,000 a year (besides his law expenses amounting to £71,080 and a loan of £50,000); Marquis of Wellesley, £5,000 per annum; Sir John Macpherson £1,000 per annum; Sir George Barlow, £1,500 a year; Marquis of Hastings, a lump sum of £60,000; Lord Hardinge, £5,000 a year; Marquis of Dalhousie £5,000 per annum."

(Bannerjea's *Indian Finance*, p. 333)

"The Commander-in-Chief received, besides his salary and various allowances, seven and a half shares of the commission. In 1774, the Court of Directors instructed that the Commander-in-Chief be permitted to occupy a suitable house and that he be paid a sum of £6,000 (Rs. 60,000) per annum in lieu of travelling charges and all other advantages, in addition to his salary of £ 10,000 as member of the Governor-General's Council. Curiously enough, these emoluments were not considered sufficient for the head of the military department, and it was resolved in the Governor-General's Council in 1779 that Sir Eyre Coote (then Commander-in-Chief) should be allowed to draw Rs. 7,500 per month for the expenses of his table and Rs. 6,326 for travelling and incidental charges when in the field."

(Bannerjea's *Indian Finance*, p. 345)

millions. The first two Burmese Wars, of 1825-26 and 1852-55, have been also estimated at about fourteen millions. The smaller expeditions to China, Persia and Nepal have been reckoned to have cost about six millions. The external wars, therefore, have been roughly estimated to have cost in all about thirtyfive millions. Obviously, it is unfair to charge this item upon the revenues of India; for, these wars were waged outside the frontiers of India, for British interests, and, at the instance of the British Ministers of the day, and India derived no material benefit from these wars. Sir George Wingate says:—

“Most of our Asiatic Wars with countries beyond the limits of our Empire have been carried on by means of the military and monetary resources of the Government of India though the objects of these wars were, in some instances, purely British, and in others but remotely connected with the interests of India. They were undertaken by the Government of India in obedience to instructions received from the British Ministries of the time acting through the Presidents of the Board of Control; and for all consequences they have involved, the British Nation is clearly responsible. The Afghan War was one of the most notable of these, and it is now well understood that this war was undertaken by the British Government without consulting the Court of Directors, and in opposition to their views. It was, in fact, a purely British war, but notwithstanding this, and in defiance of a solemn expression of unanimous opinion on the part of the Court of Directors, and of a resolution of the Court of Proprietors of the East India Company that the whole cost of the war should not be thrown upon the Indian finances, the ministry required this to be done. By this injustice, ten millions were added to the debt of India. The late Persian War was proclaimed by the British Ministry in pursuance of a policy with which India had no real concern; but the war not the less, was carried on by the troops and resources of India, and one half only of the total cost was subsequently settled to be borne by the revenues of this country. India, in fact, has been required to furnish men and means for carrying on all our Asiatic Wars and has never, in any instance, been paid a full equivalent for the assistance thus rendered which furnishes irrefragable proof of the one-sided and selfish character of our Indian Policy.”

(*Our Financial Relations with India*, pp. 17-19)

The following is an extract from a letter, dated the 6th April 1842, from the Chairman and Deputy Chairman of the East India Company to Lord Fitzgerald:—

“It is doubtless known to your Lordship, that previously to the expedition into Afghanistan, the Finances of India were in a highly prosperous condition, yielding a surplus of a considerable amount , , . . , and that now there is a serious annual deficit to meet which

a loan has been contracted at 5 per cent. . . . Under these circumstances it has become the duty of the Court to claim, on behalf of India, to be relieved from any charges to which, upon a fair and impartial view, she may not justly be liable; and whilst it is very far from the Court's desire prematurely to raise any question regarding the objects of the expeditions beyond the Indus, yet they are constrained to submit that, in no view of the case, it can be just or expedient that the whole charge of these operations including that of the military reinforcements about to be effected, should be thrown on the finances of India."

(*Our Financial Relations with India*, p. 18)

We give below an extract of the Resolution on the the subject passed by the General Court of the East India Company on 27th June 1842:—

"That upon consideration of all the circumstances connected with the British intervention in the affairs of Afghanistan as they appear from the papers already laid before Parliament it is the opinion of this Court that the whole expense of that war ought not to be thrown on the people of India, but that a part of it should be borne by the Exchequer of the United Kingdom."

(*Our Financial Relations with India*, p. 19)

In contesting this item we have not taken into account the actual loss which India herself suffered in men and materials and also the cost of the up-keep of the existing standing army in India which was in itself considerable. It would be pertinent here to refer to what John Bright said in the House of Commons:—

"Last year I referred to the enormous expenses of the Afghan War the real burden of which ought to be thrown on the taxation of the people of England, because it was recommended by the English Cabinet for objects supposed to be English."

(*Dutt's History of India*, page 217)

12. *Redemption of Capital Stock etc.*—In 1858, when the Company was deprived of the possession and the government of the territory, the Company became entitled to the redemption of their Capital Stock by a payment of twelve million pounds in terms of Section 13 of the Charter Act of 1833. It appears, however, as the Company's Stock was not redeemed until 1874, until that date the Company was paid the stipulated dividend of $10\frac{1}{2}$ per cent. per annum, which amounted to £630,000 per year. This amount was paid

out of the revenues of India. Thus the total burden thrown on India in virtue of these provisions was as follows :—

Dividend	1833-58	....	....	15,120,000
„	1858-74	....	....	10,080,000
Capital Stock Redemption		....		12,000,000
				£ 37,200,000

As against this charge upon the revenues of India, India received no substantial benefit. It practically amounts to the purchase price paid to the East India Company for the surrender of such rights and properties as they may have had in the trade of India and for such properties as they then possessed. The actual charge was the outcome of the arrangement made between the East India Company's Directors and Proprietors on the one hand, and the British Government representing the British Parliament and the British Public, on the other. In this the Indian people had absolutely no say, nor had their interests any consideration whatsoever. This one-sided arrangement cannot, in equity and good conscience, be held to be binding on the Indian people. India, as already mentioned, received no benefit from the transactions between the British Government and the Company's Directors, either in the shape of the assets claimed to be valuable and surrendered by the Company or in the tangible form of any special advantage such as that which results from having sole charge of one's country's Government; or even from having a fair share of the opportunities of service and development of the country's resources. Indians were denied these privileges in their own country all through the Company's rule. The British Government, on the other hand, received many a considerable, as well as valuable, advantage from the operations of the East India Company, both as a territorial and a commercial body. In return for the grant of a charter of monopoly of trade all through the East Indies, including China, the Company came to the rescue of the British Government time and again throughout the 18th century and rendered substantial assistance. If justice and good sense demanded that compensation should be paid to the Company for their Capital Stock and goodwill, it ought to have been the British public, rather than the Indian people, who should have borne the burden of that compensation,

In further support of our claim, we cite, briefly, the case of the Nigerian Territory. This is a case of the Dominion of a Chartered Company being taken over for direct administration under the British Crown. The Royal Niger Company was formed in 1886, out of the United African Company, by a Royal Charter. Certain territories in Western Africa were placed under that Company by the Charter. Thereunder, the Company conducted the administration of these territories, and made wars and treaties, with the neighbouring States leading to the imposition of Western domination upon the indigenous races, almost in the same manner as the East India Company did. The pressure, however, of rival powers, particularly French and German,—the one operating from the North-West through Morocco, the other from the South-East, through the Cameroons,—made it impossible for that Company to hold these territories from its own private resources. In these circumstances, it was arranged that, in consideration of a compensation of £565,000 paid out of the British Exchequer for private rights, the Company should surrender its Charter and transfer all political rights in the territories to the Crown. This transfer took place on January 1, 1900, when the Company dropped the word "Royal" from its title, and became a purely trading corporation.

The points of interest in this case are: (1) that the compensation to a private corporation, acquiring territories, is allowable only in respect of private rights of the corporation; (2) that the compensation is paid from the purse of the State acquiring or taking over these territories,—and not by or from the territories. In the Indian case, the East India Company, when its governing powers were taken over by the British Crown, was paid a lavish compensation for both its commercial (or private) and territorial or political assets and privileges; and the payment was decreed by the British Government to be made out of Indian revenues, without any consultation with, or concurrence of, the Indian people.

13. *Cost of "Mutiny".*—This brings us to the item of forty million pounds being the cost of military operations of 1857 and 1858, which was added to the public debt of India. Sir George Wingate says:—

"If ever there was an occasion which called for great sacrifices on the part of the British people, it was certainly this, when the brightest

jewel in the British Crown was in danger of being torn from our grasp; but even in this crisis of our history, the selfish traditions of our Indian policy prevailed, and with unparalleled meanness, we have sought to transfer the entire cost of a perilous struggle to uphold our own empire to the overburdened finances of India."

(*Our Financial Relations with India*, p. 13)

"In the crisis of the Indian Mutiny, then, and with the Indian finances reduced to an almost desperate condition, Great Britain has not only required India to pay for the whole of the extra regiments sent to that country, from the date of their leaving these shores, but has demanded back the money disbursed on account of these regiments for the last six months of their service in this country, previous to sailing for India. There may be good reasons for the adoption of a course that reminds one of Brennus throwing his sword into the scale, which determined the ransom of the vanquished Romans; but as we had the services of the men, and as their pay for the period in question was spent in supporting the industrious classes of this Kingdom, and could have been of no benefit to India, we are laid under a moral obligation to explain the principles of justice, or of honest dealing, by which we have been guided in throwing this additional heavy charge upon the overburdened finances of India.

"The cost of transporting British troops to India is also charged upon the Indian revenues; but as this outlay is expended upon the British shipowners and is made for the maintenance of the British authority in India, it would clearly be reasonable and fair that the charge, as in the case of troops sent to any of our other foreign dependencies, should be borne by the British Exchequer."

(*Our Financial Relations with India*, pp. 15-16)

John Bright in his speech on the East India Loan, March 1859, said:—

"I think that the forty million pounds, which the revolt has cost, is a grievous burden to place upon the people of India. It has come from the mismanagement of Parliament and people of England. If, ever men had what was just, no doubt, those forty million pounds would have to be paid out of the taxes levied on the people of this country."

(*Dutt's India under the Victorian Age*, p. 219)

The above quotations from Sir George Wingate and John Bright support us in the claim here made that this cost ought not to have been charged on the revenues of India. As the revolt resulted from the mismanagement and misgovernment of India by those who were in charge of it, the British Government, for whom the Company was carrying on the Government of India at the time, is necessarily the proper party to shoulder that burden.

But apart from the question of misgovernment, the costs of these operations should be treated as the cost of the reconquest of India and should be borne by Great Britain. The observations of the Secretary of State for India as to the liabilities of England for costs of such an operation as that of 1857-58 are worthy of note. The Secretary of State for India in a letter dated 8th August 1872, in reply to the letter of the War Office of 14th April 1872, says:—

“The extraordinary case of the great mutiny of 1857-58 is the only case which gives even plausibility to the war office representations; in that case, altogether unprecedented in this history of British India, the Imperial Government was compelled, under the imminent risk of losing its Empire in the East, to make one of those efforts which are at times inseparable from Imperial powers and Imperial obligations. It must be remembered, however, that, if similar exertions had been called for by war in any other part of Her Majesty’s dominions not only must the same effort have been made, but the burden of it must necessarily have been borne, in greater part, at least, by the Imperial Government; but, in regard to the Indian Mutiny, no part of the cost of suppressing it was allowed to fall on the Imperial Exchequer; the whole of it was or is now being defrayed by the Indian Tax payer.”

(*Indian Expenditure Commission*, 1895, Vol. II, p. 292)

The cost of the Boer War, which resulted in the conquest of the Transvaal, is an instance in which the principle enunciated above was accepted by Great Britain. The British cost of the Boer War was neither charged on the revenues of the Transvaal after the conquest when it was constituted into a colony, nor was the South African Union called upon to bear its own cost when the Union was formed. In addition to bearing the cost, Britain also agreed to pay, under the terms of the treaty of Vereeniging, three million pounds to assist the Boers, the erstwhile enemies, in restoring the devastated farms. After the conquest of the Transvaal, Britain does not appear to have derived any benefit from that colony; whereas after the year 1858, Britain has continued to enjoy dominion over, and derived incalculable benefit from, and through, India.

To quote a further similar instance, Great Britain also bore the cost of the suppression of the insurrection in Canada (1838-43) out of Imperial revenues.

Thus the burdens and obligations which have fallen upon the people of India from the East India Company amounts to

over 112 million sterling made up as follows:—

Cost of the first Afghan War	15,000,000
,, two Burmese Wars	14,000,000
,, Expeditions to China, Persia, etc.	6,000,000
On account of Company's Capital and dividend as shown under para 12	37,200,000
Cost of the Mutiny	40,000,000
	<hr/>
	£ 112,200,000
	<hr/>

It is but fair that India should now claim to be relieved from the burdens of expenditures which were wrongly put on her shoulders.

PART:III

UNDER THE BRITISH CROWN: "UNPRODUCTIVE" DEBT

14. *Public Debt to-day*.—We shall next consider the financial transactions of the Government of India since 1858. In order to understand properly the volume of these transactions and the obligations resulting from them, the annexed table (Schedule B) of the aggregate Debt outstanding, both floating and funded, will serve to illustrate as well as to give point to the remarks following. The figures in the table include the debts passed on from the East India Company.

Summary of Public Debts.

In India:

Rupee Debts as at 31st January 1931—	CRORES
Floating and unfunded Debts	Rs. 202.37
Terminable Loans	,, 289.07
Non-Terminable Loans	,, 125.52
Railway Loans	,, 2.97
Not-bearing Interest	,, .68
	<hr/>
	Rs. 620.61
	<hr/>

In England:

Sterling Debt:

	MILLIONS
Loans as at 31st March 1931	£ 292.70 @ 1/6 Rs. 390.26
War Contributions as at 31st March 1930.	16.13
Railway Annuities „ „	51.86
India Bills „ „	6.00
Provident Funds etc. „ „	2.66
	<u>£ 76.65 @ 1/6 Rs. 102.20</u>

The classification adopted in the annexed table makes a distinction from the point of view of the country in which the debt is held or the currency in which it is expressed. There is, also, underlying a distinction between the debt which is "Productive" and the debt which is not Productive. This is not indicated in the above division. The following figures are, therefore, given as indicating the division of the debt on the basis of productivity of the debt:—

<i>Interest yielding Assets.</i>	<i>31st March 1930</i> In Crores
Capital advanced to Railways.	731.90
Capital advanced to other Commercial Departments.	23.05
Capital advanced to Provinces.	142.45
Capital advanced to Indian States and other Interest bearing loans.	17.57
	<u>Rs. 914.97</u>
Cash, bullion and securities held on Treasury Account.	Rs. 46.78
Balance of total interest bearing obligations not covered by above assets.	<u>Rs. 176.48</u>

The figures represent the estimated value of the productive assets, as up to the end of March 1930. It will be noticed

that the amounts mentioned as Capital advances to other Commercial Departments (23 crores), to Provinces (142.45), and to Indian States (17.57—total 183) are not all, really speaking, debt which has created assets that yield a revenue sufficient at least for paying the Interest Charges and the Sinking Funds established in respect of these debts. The other Commercial Departments include the Post and Telegraphs principally. The Debt on this account is not all strictly productive. The Provincial Debt includes outlay on Irrigation Works, which are, of course, truly productive assets. But not so the cost of New Delhi, or Bombay Development. In any case, out of a total value of 915 crores in round figures of the so-called productive assets, perhaps not more than 850 crores can be taken to be really productive, in the sense of yielding both interest and surplus sufficient to provide for capital redemption of the debt.

It must be added that the foregoing distinction between the "Productive" and "Unproductive" Debt is only a conventional distribution that is made up by means of records from the Finance Department. Since the debt, as already remarked, is not specifically charged and connected with any particular assets, apart from the railway annuities, it is hardly possible to correlate precisely the several items as given in the above table. Nor does that table of "Productive" assets really represent the full value of the capital investment in these assets. For example, a good proportion of the railway enterprise in India has been built up out of current revenues as also from the Famine Insurance grants. The capital figure shown above does not probably include this expenditure from revenue, which, nevertheless, must be assumed to have added to the total volume of the debt. For, had this revenue not been spent in these assets, the surplus represented by such revenue would have been utilised for the reduction or avoidance of the ordinary debt. Moreover, the reduction of the ordinary "Unproductive" debt, as they used to do before 1913, did not always correspond to a reduction in the aggregate of the volume of debt charged on the Indian revenues. The only difference made was addition to the "Productive" Debt, even greater than the reduction in the so-called ordinary "Unproductive" debt. All these considerations go to show that the above figures must not be taken as anything more than the conventional estimates, though as conventional estimates, they are useful in appreciating fully the financial position in India,

15. "*Unproductive*" Debts.—Taking now the "Unproductive" debt incurred during the period of the direct administration of India under the British Crown, (1858-1931), we may consider that debt under four main headings, under which it has been incurred or occasioned: (a) the first most considerable division of such debt is that caused by Wars. This group may be further sub-divided into: debt due to internal wars within the political entity called India, or on its frontiers, and debt caused by foreign wars and expeditions, outside and beyond the frontiers of India. (b) The second group of such debt is the result of mere financial mismanagement or incompetence resulting in ordinary Budget deficits that we cannot trace directly to any single factor; and this also accounts for no small proportion of the obligations making up the aggregate of India's "Unproductive" Debt Charges borne by India, for Civil or Military administration of British possessions outside India; or for the safeguarding of British interests, ought also to be regarded as having created a hiatus in India's ordinary finances that led to proportionate Debt of a wholly unproductive character. (c) The third group will include all debt occasioned or traceable to relief of distress in times of famine. (d) The fourth group comprises debt due to loss on account of Exchange, a perennially fruitful source of Budget difficulties and indebtedness in consequence.

16. The following table shows various wars since 1857 and the approximate expenses incurred in connection with them so far as we have been able to ascertain the same and the proportion, if any, thereof borne by Great Britain.

Table of Wars and Expeditions, 1857-1896.

(Prepared from the Indian Expenditure Commission, 1895, Vol. II, p. 305 and Vol. IV, p. 111.)

Year	Expedition.	Borne by India.		Borne by G. Britain		Reference	Present Claim. £.
		Ord.	Extra.	Ord.	Extra.		
1867	Abyssinian	all	None	None	all	I. E. C. Vol. III, p. 23.	6,00,000
1875	Perak	all	None	None	Col. Govt. all		41,000
1878	2nd Afghan	all	all but 5 mil.	None	5 mil.	I. E. C. Vol. III, p. 500.	17,500,000
1882	Egypt	all	all but $\frac{1}{2}$ mil.	None	$\frac{1}{2}$ mil.	I. E. C. Vol. III, p. 20.	1,200,000
1882-92	Minor ones of N. W. Frontier.					I. E. C. Vol. IV, p. 187 & Vol. I, p. 222.	13,000,000
1885	Soudan	all	None	None	all		4,705,000
1886	Burma	all	all	None	None	C. N. Vakil.	200,000
1896	Soukim Soudan	all	None	None	all	I. E. C. Vol. III, p. 23.	

In terms of Rupees
say 37.5 crores

Abyssinian War, 1857.—Discussing the question as regards the decision to charge the ordinary costs of the Abyssinian expedition to India, Lord Salisbury said:—

“Having regard to the future, I do not like India to be looked upon as an English Barrack in the Oriental Seas from which we may draw any number of troops without paying for them. It is bad for England and it is always bad for us, not to have that check upon the temptation to engage in wars which can only be controlled by the necessity of paying for them.”

The Secretary of State in his letter to the War Office of the 9th August 1872, referring, amongst others, to the Abyssinian War, said:—

“It is certain that all these wars were dictated entirely by the Imperial Government, and that the interests of British Commerce, the grievances of British Merchants and the honour of the British Crown, were the determining considerations in them all.”

(*Indian Expenditure Commission*, 1895, Vol. II, p. 293)

Sir Charles Trevelyan in his evidence before the Fawcett Committee says:—

“The Abyssinian War arose out of the Imperial sentiment affecting the whole British Empire and in a much greater degree in my opinion our European and American relation than our Indian relation. . . . In fact, the people of India know nothing about Abyssinia. They consider it as one of the regions of the World they know nothing about. . . . India had nothing to do with the proceedings which brought about the Abyssinian War and was not much concerned with the result.”

A further question on the subject was put to him by the Commission and his answer thereto is so instructive that we quote it in full:—

Question 1600: “In fact, India was in no way more concerned with our expeditions to Abyssinia than were Australia and Canada, and that the only reason why we did not make similar demand from Australia and Canada to help to pay the expenses of that War, was that we knew perfectly well that they would indignantly scout such a proposal; they would not listen to it for a moment, would they?—Well, I am bound as an honest man to say that I see no real difference. India had nothing to do with the proceedings which brought about the Abyssinian War and was not much concerned with the result.”

(*Parliamentary Committee on East India Expenditures*, 1876, Vol. III, p. 151)

Mr. S. Laign, the Finance Member of the Viceroy's Council, in 1860, in his evidence before the Fawcett Com-

mittee, referring to instances where "finances of India had been frequently sacrificed to the Horse Guards and the exigencies of the English estimate," says :—

"If anything was charged to India for the Abyssinian War, I should say that that was another instance of it."

(*Parliamentary Committee on East India Expenditures*, 1875, Vol. II, p. 404, question 7678)

The Earl of Northbrooke, in his evidence before the Welby Commission, given in February 1897, has maintained that the ordinary charges of the Abyssinian War estimated at £600,000 "is a sum of money which India has a fair and equitable ground to claim." (*Indian Expenditure Commission*, 1895, Vol. III, p. 23, 14166.)

17. *Perak Expedition*.—India was burdened with a payment of £41,000 being the ordinary charges of the troops borrowed from India. As regards the injustice of charging India with any portion of the cost of this expedition, it would suffice to quote what the Rt. Hon. Earl of Northbrooke says in his evidence before the Welby Commission :—

"It was a very small one; but in this Perak case I cannot conceive anyone doubting that India has been hardly treated. Here was an expedition beyond the frontier of India, and for which, in order that any portion of the Indian revenues should be applied, it is by statute necessary that there should be an address to the Crown from both the Houses of Parliament. I happened to be the Governor-General at the time, and I protested against this charge being put upon India. Not only was no notice taken of the protest made by the Government of India but not even were the statutory addresses from both Houses moved, so that the law was broken, and the charge so made upon India has never been repaid. It has remained charged upon India from that time to this, contrary to the law and contrary to the protest of the Government of India. That is the case of Perak; that is the second one I have got to deal with and I think this case is perfectly clear."

(*Indian Expenditure Commission*, 1895, Vol. III, p. 20, Q. 14121)

18. *The Second Afghan War*.—The cost of this War amounted to over twentytwo million pounds towards which Great Britain contributed five million pounds, leaving India to bear the balance of over seventeen million pounds. It is a matter of history, that for some time prior to 1872, the Government of India, at the instance of the British Government, was pursuing an aggressive policy on the North-West

Frontier. It was as a protest against such policy that Lord Northbrooke resigned his Viceroyalty in 1876. He was succeeded by Lord Lytton. The policy he was instructed to pursue may be given in his own words :—

“I came to India and yet before leaving England for India, I had frequent interviews with Lord Salisbury, the then Indian Secretary, and I came out specially instructed to treat the Indian Frontier question as an indivisible part of the great Imperial question, mainly depending for its solution upon the general policy of Her Majesty’s government.”

(*Quoted in Indian Expenditure Commission, 1895, Vol. III, p. 467, from Hansard, Volume 251, p. 923*)

It was not long after Lord Lytton’s arrival here that this war was undertaken. In the course of Parliamentary debate as to the payment of the cost of this war, Mr. Fawcett observed :—

“What was our policy towards self-governed colonies and towards India not self-governed? In the self-governed colony of Cape we had a war for which we were not responsible. Who was to pay for it? It would cost the English people something like five millions. In India, there was a war for which the Indian people were not responsible,—a war which grew out of our own policy and actions in Europe,—and we are going to make the Indian people, who were not self-governed and who were not represented, pay every six pence of the cost.”

(*Indian Expenditure Commission, 1895, Vol. III, p. 467, quoted from Hansard, Vol. 251, p. 926*)

Mr. Gladstone supporting Mr. Fawcett, said :—

“ . . . This Afghan war has been distinctly recognised as partaking the character of an Imperial War. . . . but I think not merely a small sum like that (*referring to the contribution of five million pounds*) but what my Right Honourable friend, the Chancellor of the Exchequer, would call a solid and substantial sum ought to be borne by this country at the very least.”

(*Indian Expenditure Commission, Vol. III, p. 467, quoted from Hansard, Vol. 251, p. 935*)

We see no reason, having regard to the occasion of the war and the motive for which it was waged, why India should bear any part of the cost of this war. We may add, that India has been further burdened at the end of that war by an annual payment to the Amir of six lakhs a year subsequent-

ly raised to twelve lakhs in 1894, the total of which payment would come to a considerable sum. In the words of the late Mr. Gokhale:—

“All such expenditure, therefore, as is represented by the subsidies to the Amir and other tribal chiefs, is strictly imperial in furtherance of Imperial interests in mid-Asia.”

(*Indian Expenditure Commission*, 1895, Vol. III, p. 244, Q. 18528)

19. *Egyptian Operation of 1882.*—Lord Northbrooke, who, according to himself, had a good deal to do with these operations suggests in his evidence before the Welby Commission that England should have borne half the cost of the expedition, instead of contributing only £500,000 towards the total cost of £1,700,000. Being himself in the government at the time, we can well understand his difficulty in admitting the unfairness of charging India with any portion of the cost whatsoever. (*Indian Expenditure Commission*, 1895, Vol. III, p. 20, Q. 14124.) We submit, that India had no interest at all in these operations and India should not have borne any part of the cost. We are supported in this view by Major General E. H. H. Collen,—Military Secretary to the Government of India,—who emphatically stated before the Welby Commission that India should not have had to pay even a farthing for such an expedition. (*Indian Expenditure Commission*, 1895, Vol. I, p. 401, Q. 6126.)

20. *Minor Expedition on the North-West Frontier.*—As regards the expeditions which resulted in the annexations of the territories of the North-West Frontier, it cannot be disputed that those expeditions “were for purposes avowedly Imperial”. “For all these wars so far as they were an indivisible part of the great Imperial question, the Imperial Exchequer should primarily have paid.” (*Indian Expenditure Commission*, Vol. IV, p. 187, para 98.) Between April 1882, and March 1891 nearly thirteen million pounds were spent on these expeditions. This amount did not include the ordinary pay of the soldier. (*Indian Expenditure Commission*, 1895, Vol. I, p 222, Q. 5347-50.)

21. *Burmah War, 1886.*—This war was the result of the aggressive policy pursued towards Burmah. The annexation of Burmah added to the possession of Great Britain which has enabled Great Britain to extend and add to her trade

and to exploit its rich natural resources and add to her own wealth. So far as India is concerned, such benefits cannot be claimed to have resulted in her favour. It is but just that the cost of the War, which is estimated to be 4·7 million pounds sterling, should be borne by Great Britain as she is the only party who has profited by this war.* It may also be pointed out that the cost of the "Civil administration of Burmah became a heavy burden on Indian Revenue for many years". (C. N. Vakil, "*Financial Development in Modern India*," p. 130.) India may legitimately claim these costs, so borne by her, even, if, as is contemplated, Burmah is separated from India. In his evidence before the Welby Commission, Mr. D. E. Wachha, (now Sir Dinshaw), observed as follows:—

"As to Upper Burma, the entire cost of the Military expedition and the subsequent cost of the administration, should be wholly refunded by England to India, and the province separated from India and made into a Crown Colony as was suggested by the Congress. The occupation was made out at the suggestion of the English merchants in Rangoon and Mandalay. Indians never demanded the annexation and it is unfair to India that for the promotion of the interests of English Capitalists and extension of the British Empire any charges be paid out of the revenues of India."

(*Indian Expenditure Commission*, Vol. III, p. 204, Q. 17821)

The late Mr. Gokhale, in his evidence before the same Committee, stated:—

"Upper Burma lies beyond the Indian frontier and we have had no interest in its conquest and annexations except as a province to be held and administered as an imperial trust. The conquest was effected in furtherance of imperial policy and the Commercial interests of the Empire and no special Indian interest was ever here at stake."

(*Indian Expenditure Commission*, 1895, Vol. III, p. 243)

22. *Soukim Expedition*.—As regards the injustice of charging these costs on India, we need only refer to the protests made by the Government of India:—

"In order to strengthen Soukim and to set free Egyptian troops for employment on the Nile, we have been asked to provide for garrison

* On the close of the first Burmese War of 1824-26, the Burmans paid an indemnity of one million sterling under the terms of the Treaty of Ava, in addition to the cession of the two districts of Tenasserin and Arakan. On the conclusion of the Burmese War of 1852, the Burmans ceded the districts of Pegu under the Treaty of Rangoon. The cost of the three Burmese wars may be put down at Rs. 19 crores (13, plus 1, plus 5) in round figures; from which may be deducted the value of the Cash Indemnity received (one crore), as also the value of the district ceded or annexed. The latter, however, was a minus quantity for a long time to come, as also the whole of Burma after its annexation 1886.—and so a drain upon India.

composed of troops from Native army in India. We cannot perceive any Indian interests, however remote, which are involved in carrying on the policy above described. It cannot be alleged that safety of the Suez Canal is involved and the Tax Payers of India, who have to bear the ordinary costs of the Indian troops proceeding to Soukim will hardly comprehend the reasons for taxing them for troops which are not serving in India in order to maintain order on the Egyptian Frontier to re-conquer part of an Egyptian province or to assist the Italian forces.

"In these circumstances, we feel it our duty, in the interests of the country of which the administration is entrusted to us, to protest once more in the strongest terms against the policy which burdens the Indian revenues with the expenditure connected with services in which India has no interest ; which is unjust to India, because it applied, to the payment of the Indian troops lent to England, a different principle from that which England imposes when English troops are lent to India ; and which is inexpedient, because it exposes our government to attacks to which there is no adequate answer."

(Quoted by C. N. Vakil, "*Financial Development in Modern India*", p. 131)

23. *The European War.*—We next come to the Great War, 1914–1919. Immediately on the outbreak of the war, large draft of Indian troops were transported to the European fronts, and as the war progressed, larger numbers of Indian troops were sent to various other fronts. It seemed to be the feeling of the Government of India that Great Britain should be helped in that war, not only with troops, but that, if possible, India should also relieve Great Britain to some extent of the heavy financial burden which the war would impose on Great Britain.

On the 8th September 1914, a resolution was staged in the Imperial Legislative Council in which the Officials constituted the majority. The resolution stood in the name of Sir Gangadharrao Chitnavis. After giving expression to sentiments of devotion and loyalty to the King-Emperor, it ran as follows :—

"They desire at the same time to express the opinion that the people of India, in addition to the military assistance now being afforded by India to the empire, would wish to share in the heavy financial burden now imposed by the war on the United Kingdom and request the Government of India to take this view into consideration and thus to demonstrate the unity of India with the Empire."

The resolution, it will be observed, was in very wide terms. But, the then Viceroy, Lord Hardinge, being alive to

the very meagre financial capacity of India, limited it to India taking upon herself the burden of the ordinary charges only of the troops derived from India. In winding up the proceedings of the debate on the said resolution, he said :—

“But I must tell you that we have actually had this matter under our consideration and we felt that it would not be in accordance with the wishes of the people of India that in a crisis like the present, India should gain a material advantage at the expense of the Home Government in the savings effected on the despatch of a large expeditionary force to Europe, a feeling which has received full confirmation in the resolution which has been moved and in the speeches which have been made. On behalf of the Government, I accept that resolution and shall not delay in communicating its terms to the Secretary of State, and it will strengthen our hands in the recommendations we felt disposed to make and shall now proceed to make, that, under present circumstances, we should accept such portion of the costs of the expeditionary force as would have fallen upon India, had our troops continued to be employed in this country under normal circumstances. So far as a rough estimate can be made at present, and it must necessarily be a rough one, the net amount which the Government of India would in this way contribute to His Majesty's Government, assuming that the war lasted till towards the end of the current financial year, would be about one million sterling. . . . A contribution on more liberal lines than this would not, we think, be fair to the Indian Tax payer. . . .”

(*Imperial Legislative Council proceedings*, Vol. 53, pp. 35–36)

Thus, upto this stage the burden proposed to be imposed upon India was to let her off with bearing the ordinary charges of the troops lent by her to Great Britain. As under the statutory authority, (*Sec. 55 of 21-22 Vic. Ch. 106*), the Government of India had no power to impose such a burden on the revenues of India without the consent of both the Houses of Parliament, a resolution was passed by Parliament in November 1914, sanctioning the step taken by the Government of India. The resolution was in these terms:—

“That, His Majesty having directed military forces charged upon the revenues of India to be despatched out of India for service in the war in which this country is engaged, this House consents that the ordinary pay and other ordinary charges of any troops so despatched, or that may be so despatched during the continuance of the war, as well as the ordinary charges of any vessels belonging to the Government of India that may be employed in these expeditions, which would have been charged upon the resources of India if such troops or vessels had remained in that country or seas adjacent, shall continue to be so chargeable, Provided that, if it shall be necessary to replace the troops or vessels so withdrawn by other vessels or

forces, then the expense of raising, maintaining and providing such vessels or forces shall be paid out of any moneys which may be provided by Parliament for the purposes of the said expeditions."

(Financial Statement, 1917-18, Vide Imperial Legislative Council proceedings, Vol. 55, p. 487)

It may be observed that by this resolution, Parliament went a step further and imposed on the revenues of India, not only the ordinary charges of the troops, but also the transportation charges. This was doubly unjust to India. For, according to the Secretary of State, the practice hitherto observed was :—

"In every instance in which re-inforcements from Home have been sent to India the whole pay of the troops so sent have been charged to India from the moment of their departure from the shores of England. On the other hand, when India has been called upon to provide troops for foreign expedition, it has been the general practice to continue to charge the ordinary pay of the troops to the Indian Exchequer during their absence from India."

(Letter of the 9th August 1872 from India Office to the war Office. Indian Expenditure Commission, 1895, Vol. II, p. 293)

That is, the transportation charges were not paid by India when India provided troops. Departing from that practice, which in itself was unjust, the Parliament by their aforesaid resolution made India pay also the transportation charges.

24. War "Gifts".—It would appear that prior to the introduction of the Budget for 1917-18 in the then Legislative Council, the Government of India had been in communication with the Secretary of State for India, and a gift of a hundred million pounds out of the revenues of India to Great Britain towards the expenses of the war had already been arranged, and decided upon. The first time that this matter of gift to Great Britain was brought to the notice of the Legislative Council was in the Budget statement made by the Finance Member, Sir William Meyer, in March 1917, in these words :—

"We have always felt, however, that if and when our circumstances warranted, we should take up the question of making a further direct contribution by India towards the struggle in which her own political and economic future is closely involved; and throughout which her trade and security have been so materially assisted by command of the Sea established by His Majesty's Navy, and we have been in constant touch with his Majesty's Government in regard to this matter. We hold that the time has now come, at which we can safely put our wish

into effect and thereby gratify still further the patriotic feeling unan-
imously expressed in this Council on the occasion of the resolution
moved by Sir Gangadharrao Chitnavis.”

That hundred million, in the words of Sir William Meyer, “amounts to nearly double our total Imperial revenues as it stood before the War”. The proceedings of the Council on that occasion show that this gift of a hundred million pounds was made by an executive act of the Government of India and was not a voluntary offer from the people of India. The Government of India, under the statutes, by which it is regulated, had no power, whatsoever, to make a gift to Great Britain out of the revenues of India.

In September 1918, the Finance Member, Sir William Meyer, brought forward a resolution before the Legislative Council to defray various expenses connected with the War to the extent of forty-five million pounds. It was suggested that this could be done by considering the “normal strength”, of the Indian forces as 500,000 men instead of 160,000 as hitherto and thus bring within the range of the resolution of Parliament a much larger expenditure and charging it on Indian revenues. After considerable discussion certain conditions were imposed which in effect reduced the contribution to twenty-six million pounds. (*Vide Imperial Legislative Council Proceedings*, Vol. 57, pp. 167-68.)

25. *Other War Burdens.*—We next consider the magnitude of the burden imposed upon India owing to this War. We shall give figures, approximate, where we cannot find actual figures, hereafter. But let us first try and understand the large variety of ways in which India has helped Britain in the last struggle, and what return Britain has made for that help given by India. (1) India sent practically *all her trained troops* to France right at the outbreak of the War, so that at one time she had not for her own border defence and internal security more than 30,000 troops of all arms—a situation of risk and danger unparalleled since the days of 1857, if even then. What precisely this risk meant to India, no one has cared to—perhaps because no one can—compute in money value. Even when we got substitutes for our trained troops sent to France, the substitutes were only raw, untrained, ill-equipped levies of British Territorials, who could not possibly compare to our trained soldiers in efficiency, though they were twice or thrice as costly to India as the Indian

troops they replaced. (2) India, next, raised, equipped, and despatched large numbers of additional armies,—with all their auxiliary accompaniment of man and beast and machine,—to several minor theatres of the War in Africa, Europe, and Asia. These brought the most welcome relief to the hard pressed armies of Britain on the main Western Front. The exact value, however, of help, again, has escaped pecuniary computation, though the money value of this burden on India is not difficult to assess. (3) As though all that was not enough, India made a substantial money contribution, as already pointed out,—paid partly out of loans raised in India, which helped materially to ease the growing strain on the Indo-British Exchange,—to the disadvantage of India; and partly by taking over proportionate burdens of Britain in the War. This is a clearly measureable—and measured—money contribution; so there can be no dispute about its valuation. We shall, however, indicate below some considerations why we think the monetary burden of this gift to Britain is far greater in real values to-day than it seems in the simple money accounts. Over and above this monetary gift, India's "normal" military and civil expenditure was largely inflated as the direct consequence of this War, which she has, nevertheless, borne ever since. The presence of these additional burdens upon the Indian Exchequer led, in the five years immediately following the European War, to deficits in India's ordinary Central Budget, which occasioned corresponding increase in India's burden of Debt that must necessarily be accounted for as a War legacy. This also is capable of a clear monetary evaluation as will be shown below. (4) Lastly, there is the indirect harm done to India, by that horde of regulations governing India's foreign trade during the War, the exact effect in monetary terms of which it is, again, difficult to assess. Those regulations or restrictions curtailed India's foreign trade, and limited the demand for currency upon the Government of India, which was finding itself increasingly embarrassed on account of Exchange. The War gave an intense, though artificial, stimulus to India's exports; and as the same cause had tended to restrict imports, the balance of trade in favour of India was increasing by leaps and bounds. This balance was further increased by expenditure defrayed by the Indian Government out of Indian funds on behalf of the British Government. All this made the Rupee more than ever in demand. As its Exchange value

in terms of sterling rose, Government were bound in honour to maintain it at 16*d.* as undertaken in 1898-99. But when the coinage of the Rupee involved a loss, they went back on the arrangement made by themselves in 1898-99. At a time when the Exchange value of the Rupee was soaring, and the balance of accounts in favour of India was very high, they could have easily bought out the two hundred million pounds worth of India's Sterling Debt, on easy terms; converted that into Rupee Debt; and so saved themselves a great deal of financial embarrassment and discredit attaching to the Currency and Exchange Policy of the Indian Government, and saved the country at large immense loss and damage, from which it has not even now recovered. Instead, the Indian Government raised loans in India to remit to England, and so added new burdens to the volume of India's Sterling indebtedness.

26. *War Cost.*—In a despatch from the Commander-in-Chief, of July 1919, His Excellency gives the following figures showing the extent of India's contribution in terms of men:—

“On the outbreak of the War the combatant force of the Indian Army, including Reservist, was 194,000 Indian ranks. Enlistments during the War for all branches of service amounted to 791,000, making a total combatant contribution of 985,000. Of this number, 552,000 were sent Overseas. As regards the non-combatant, the pre-war strength was 45,000 and additional 427,000 were enrolled during the war and 397,000 were sent Overseas. The total contribution of Indian personnel has thus been 1,457,000 men, of whom 953,000 have served Overseas. Casualties amounted to 106,594, which included 36,696 deaths from all causes. The number of animals sent Overseas was 175,000.”

What precisely this contribution means in money, it is impossible to estimate exactly. But the following totals of Indian expenditure on defence by India in the eight years, 1914-15 to 1921-22 would be instructive.

			<i>In crores of Rupees.</i>
1914-15	...	....	30·80
1915-16	...	....	33·39
1916-17	...	....	37·48
1917-18	...	....	43·56
1918-19	...	....	66·72
1919-20	...	....	86·97
1920-21	...	....	87·38
1921-22	...	....	69·81

If we take the normal or standard military expenditure, required for the defence of India exclusively, at 1914-15 figure of 30·80 crores per year net, in the five years during which the War continued, there was an excess of Rs. 114 crores over the standard. It was a very heavy additional burden imposed upon India. The War effects continued for two years after the War, during which there was a further excess over the standard charge, in Defence Expenditure alone, of Rs. 95·59 crores or an aggregate excess over the pre-war standard of Rs. 209 crores. The Defence Expenditure was then reduced; but it has continued to be at a very enhanced figure, practically double of the standard figure of 1914-15. In our claims, we do not include the excess over the standard charge ever since. These figures indicate some measure of the extra burden which owing to the European War India was made to take upon herself, and which passed into her normal defence expenditure; and which escapes our attention altogether so far as the computation of the contribution towards Britain's struggle in European war is concerned. The total expenditure increased between 1914-15 and 1918-19 from eighty-seven million pounds to £106·14 millions. The extra military burden upon India of (355·50-184·80) Rs. 170·7 crores, from 1915-16 to 1920-21, caused by the European War, ought never to have been charged upon India; the same ought to be re-imbursed to India by Britain. In considering this claim, however, regard should be had for the rise in prices.*

* In addition to the foregoing, India defrayed, on account of the British Government, roughly £240 millions worth of War and connected expenditure in Mesopotamia and other theatres of War, in the four years 1914-15 to 1918-19. The actual figures given in the several Budgets are as under:—

<i>Millions Sterling.</i>				
1915-16	...	...	...	18'60
1916-17	...	...	...	38'50
1917-18	...	...	...	65'00
R. E. 1918-19	...	...	...	99'83
B. E. 1919-20	...	...	...	42'31
				264'24

This was, of course, recovered from Britain in a large measure at least. But its service to Britain—free of interest loan—is not inconsiderable. At one time, as much as £93 million of Indian Government money was invested in British Government Securities, which was transferred to India when the exchange was against India in 1920. Even allowing for the Home Charges during this period, the net excess of India's credit was about 381 crores, which was not utilised to buy out India's foreign liabilities as they would have been able to do; but instead the emergency was used to fasten upon India new burdens in the shape of loans raised to meet the promised war contributions.

27. *Comparison with the Dominions.*—Before concluding this part of our Enquiry, we advert to two further considerations in this connection. In the first place, India's contribution, as compared with that of the other Dominions of Britain, and her gains in the results of the War, show a very disproportionate balance. While on the outbreak of the War, the other Dominions only offered to protect their own frontiers, or protect the Overseas Commerce within their regions, India alone, in addition to protecting her own territory, made large contributions to the Empire's fighting forces in the European War. The defence of the local frontier meant a considerable obligation only in the case of South Africa where there were German interests which might conceivably involve that territory in danger. But the contribution of Australia in Gallipoli and in policing the seas does not at all compare favourably with that of India. India received no particular advantage as a result of the success in the great struggle. The Dominions shared along with Great Britain, in the Reparations, such as they are, that have been received from Germany so far; but even this share, comparatively speaking, does not advantage India at all proportionately to her contributions and sufferings. India has hardly any say in the mutations of these Reparation payments. The second consideration, still more material, is as regards the actual incidence of War burden upon this country. It is seldom remembered that the amount of the debt occasioned by the War carries a stipulated interest, the real value of which, in terms of commodities, is much greater than appears on the face of it, if we consider only the figure of percentage allowed by way of interest. The six per cent. of war time charge, when the price index was 250, had a commodity value which is to-day perhaps doubled. And this is quite apart from the artificial variation in the rates of exchange brought about by the Indian Government's finances. The amount, therefore, that the Indian tax-payer has to pay to make good the interest and sinking fund charges of these Loans, though fixed in percentage, is, in terms of the commodities that the Indian producer has to give in exchange for the money, very much more increased. While the creditors received, let us say, only £6, the Indian tax-payer has to give out of his produce double or treble the quantity that he used to give in 1919 for the same £6 on every hundred pounds of debt. The unrelieved burdensomeness of the War

Debt has been objected to in every debtor country; and many have adopted heroic measures to get over this burden. Britain herself has asked for, and obtained, substantial relief in her War Debt burden from her principal creditor; and she has accorded very liberal treatment to her own debtors. India's claim, therefore, for this war contribution and service rendered by her in Britain's hour of need must be considered sympathetically; and relief must be given to her, whether on the ground that others have got or taken such relief or in grateful memory of the timely service rendered.

28. *Budget Deficits.*—Attention should next be drawn to the debt occasioned by deficits in the ordinary budget since the year 1858. These deficits were almost invariably caused, either by War or warlike operations, by exchange mischances, by the cost of Famine relief, or by reason of financial incompetence. Of these, we have already dealt with the influence of war and warlike operations, and so need not repeat our arguments on that head, beyond observing that the deficit in the ordinary Budget, which we are here concerned with, represents only that portion of the war cost or burden which was not met out of borrowed monies in the actual years of the War. The years following the Great War were years of heavy and rising deficit as shown below:—

Deficit in crores, in the Central Indian Budget.

1918-19	....	Rs. 5·73
1919-20	....	„ 23·65
1920-21	....	„ 26·00
1921-22	....	„ 27·65
1922-23	....	„ 15·01

Rs. 98·04 crores

These figures do not include the Provincial deficits, which also were very considerable in the three Post-Reforms years. If we take in review the entire period since the transfer of the Government of India to the Crown, *i.e.* from 1858-59 to 1929-30, we find that first 40 years of the period show a net deficit of about £3½ millions; which may be represented as five crores. In the next fifteen years, there was a net surplus of about fiftyfour crores. The four war years show a nominal surplus of eighteen crores; the five post-war years a net deficit

of ninety-eight crores; the next five years, an artificial surplus (due to enhanced exchange value of the rupee) of about sixteen crores; and the last two or three years a recurring and rapidly increasing deficit, the last year (1929-30) alone showing an aggregate deficit of eighteen crores. On the whole, the Budget deficits aggregate one hundred and twentyone crores, without counting the Provincial deficits ever since the Provincial finances were separated in 1920; the aggregate surplus is eighty-eight crores; the balance of net deficit, leading eventually to so much fresh indebtedness, is thus thirty-three crores. As we account separately for the losses—and debt—directly due to Wars, Famines, or Exchange complications, we must hold this amount as the price India has had to pay for the general financial incompetence or mismanagement.

29. *Miscellaneous Charges.*—Amongst the items not backed by any assets, may be considered the expenses incurred outside India under the head of Civil and Miscellaneous charges such as those connected with the India Office, Aden, Persian Mission, China Diplomatic and Consular establishments and others.

India Office.—According to the report of the Welby Commission, the Home Charges in connection with the India Office amounted to £240,000 in 1897-98. Upto the year 1900, the entire charge of India Office was borne by India. This charge was a varying one. The Colonies contributed nothing towards the costs of the Colonial Office. The Welby Commission recommended a contribution of fifty thousand pounds a year towards the costs of India Office “in order that there may be no ground for allegation that India is treated less favourably than other parts of her Majesty’s Empire”. The Welby Commission appear to justify the difference in treatment of the Colonies and of India on the ground that it “is sanctioned by tradition and long practice”. The tradition and long practice however ancient, could not be pleaded in support of an inequitable and an unjust charge. If India claimed a refund of the total of the excess amount charged to her annually, India would be asking for nothing more than what, in fairness and justice, is due to her.

30. *Aden.*—Aden was acquired by the East India Company in 1838. Ever since then, and upto the Report made in 1900 by the Indian Expenditure Commission of 1895 all the charges

civil and military in connection with Aden have been borne by India. The military charges for the year 1894–95 were calculated by the Indian Government at Rs. 206,000. The civil charges, including works, were Rs. 52,000, the receipts Rs. 23,000, leaving a deficit of Rs. 29,000. (Cf. *Report of the Indian Expenditure Commission, Vol. IV, p. 92.*)

The Indian Expenditure Commission (also commonly known as the Welby Commission) in their report recommended that Great Britain should contribute one-half of military charges, observing:—

“If the Empire were organised as a whole, Aden would be an imperial charge towards which the members of the Empire would contribute, but in the absence of such an organisation, another arrangement must be made, and the equity of the case would, perhaps, be met if the United Kingdom were to contribute one-half of the military charges.”

One fails to see the equity of the arrangement whereby India is required to pay even half the military charges in connection with Aden, and none of the other members of the Empire are called upon to contribute towards such charge. Aden is a post of imperial importance, and its occupation concerns not only the trade of Great Britain with India, but also her trade with Australasian colonies and the East. The importance of Aden to Great Britain may best be described in the words of Major General E. H. H. Collen. Giving his evidence before the Welby Commission in March 1896, he said:—

“Aden is the key of great commercial route, not only to India, but to Australia and China. It is a position which is essential to Great Britain, and not only to India. I have some statistics from the Board of Trade, and I find that the total value of the trade between the United Kingdom and British India in 1894 was £67,553,348; that the trade between the United Kingdom and other countries in Asia was £42,868,618; and that the trade between the United Kingdom and Australasia was £54,824,476; so that the total under the second and third heads was considerably more than under the first head. Then the trade between the United Kingdom and the East Coast of Africa was comparatively small, and the steam tonnage in 1894,—which is practically the only tonnage which passes through the Suez Canal,—between the United Kingdom and India was 2,442,252 tons; and the tonnage of vessels between the United Kingdom and other countries in Asia was 1,407,565 tons; while the tonnage of vessels carrying trade between the United Kingdom and Australia and New Zealand was 993,991 tons. . . .”

(*Indian Expenditure Commission, 1895, Vol. I, p. 415*)

To quote another opinion,—Mr. Stephen Jacob, C. S. I., speaking on the same subject before the Welby Commission in February 1897, stated as follows:—

“The grounds on which India has urged that England should bear some share of the cost are that England is very largely interested in the maintenance of Aden from many points of view. The commercial interests involved have been laid before the Commission at some length, and I have very little to add as far as that point is concerned. The necessities of trade, especially since the opening of the Suez Canal, have rendered Aden peculiarly valuable to England as a commercial nation. It has been well called the key of the commercial high way to the East; and it is not exaggeration to say that the whole commercial world is interested in its maintenance, and most of all, England, the principal commercial nation of the world. But from a naval, and consequently from the military point of view, Aden is equally important to England. In the event of war, it would furnish our navy with a fortified coaling and re-fitting station on a main line of imperial communication, and would thus form a naval base for defending communications in the East. England has indeed admitted her interests in this respect by bearing a share of the cost of fortification and armaments of Aden, and it may be urged that she is equally interested in the maintenance of an adequate garrison. Then, further, politically Aden derives a considerable part of its importance not from the consideration of Indian interests, but from its relation to the general foreign policy of the Empire.”

(*Indian Expenditure Commission, 1895*, Vol. III, pp. 74–75)

The figures show that the trade to other parts of the East and Australia was about thirty million pounds more than the trade to India.

Gibraltar and Malta are the two other posts which guard the trade interests of Great Britain, both of which posts are maintained by Great Britain at her own cost. There seems to be no reason nor any element of justice or equity in the claim of Great Britain to impose on India the whole cost of maintaining the third post, *viz.* Aden. We submit that the cost paid by India in connection with Aden, from the time that the post was occupied by Great Britain upto date, should be borne by Great Britain. We are not in a position, having regard to the materials at present in our possession, to calculate the total amount paid by India towards such cost, but we have no doubt that there should be no difficulty in ascertaining the same hereafter.

31. *The Persian Mission.*—The Persian Mission was established in 1810 and was maintained till 1823 at the charge of Great Britain. From 1823 to 1831 it was maintained

wholly out of Indian funds. In 1835, it was re-transferred to the British Foreign Office, but India was made to contribute £12,000 a year towards its maintenance from 1835 to 1859. In 1859 it was re-transferred to the Government of India for one year and Great Britain contributed £3,000 towards the costs of its maintenance which then amounted to £15,000 a year. In 1860, the mission was again taken over by the British Foreign Office and India contributed £12,000 a year towards its maintenance upto the year 1880. From the year 1880, India's contribution was reduced to £10,000 a year which amount was paid upto the year 1890 when it was reduced to £7,000 a year. (*Indian Expenditure Commission, 1895, Vol. IV, p. 92, para 242.*) In 1899, the Welby Commission recommended that the charge on India for the diplomatic service in Persia should be reduced. It was so reduced and was finally abolished in 1905. (*Financial Developments in Modern India, C. N. Vakil, p. 316.*)

We submit that the charges paid by India towards the maintenance of the Persian Mission from their very commencement should be refunded by Great Britain to India. One fails to find any just ground for imposing such a charge on India. The maintenance of the Mission was an imperial question. It would seem that the money was claimed from India on the ground of her interest in Persia ; but what special interest India had in Persia, apart from the interest of Great Britain or any of her colonies and dependencies, does not appear to have been precisely stated anywhere. In reference to this and similar other charges imposed upon India, the Welby Commission Report says :—

“The countries in which the diplomatic and administrative charges arise extend from Arabia to China, and there is no doubt of the interest of India in many questions of policy connected with them ; but it must be admitted that the imposition upon India of contributions towards the cost of these services connected with these places has no parallel in our relations with other colonies and dependencies. Canada is extremely interested in our diplomatic relations with the United States, very many, and probably the most important of the questions arising between us and the States have their origin in Canada ; but no contribution has ever been made by Canada towards the cost of the Embassy of Washington.”

(*Indian Expenditure Commission, 1895, Vol. IV, p. 91, Para 235*)

The total of the amount levied from India on this account would be difficult to ascertain in rupees as the payments were

made at varying rates of exchange; but the amount roughly calculated from material available to us total about nine hundred thousand pounds.

32. *The China Consular Establishments.*—In the days when the East India Company had a monopoly of trade with China, the Company had established a few Consulates in China to look after its trade interests, and the Company naturally bore the costs of such Consulates. In the year 1834 that monopoly ceased, and it was then arranged that India should thenceforth pay one-third of the costs of the establishments of the British Superintendents of Trade in China. India's share of such costs came to about £4,000 a year. India had no voice in the expenses to be incurred in connection with the Consular establishments in China. The costs of these establishments kept growing continuously with the result that India's burden increased to twenty thousand pounds annually at certain periods. The Secretary of State for India protested against such a heavy burden and contended that about ten thousand pounds was the utmost that India could be called upon to pay. In spite of the protests the toll of twenty thousand pounds a year was exacted from India upto 1876. From 1876 to 1890, the charge was reduced to fifteen thousand pounds a year. In 1890, by reason of the continued protest of the India Office, the question of the amount of contribution was referred to what is called the "Foreign Office Conference," and the Conference reduced the contribution to £12,500. India was thus made to pay about £4,600 annually from 1835 to 1843,* over twenty thousand pounds annually from 1867 to 1876 and from 1876 to 1890 fifteen thousand pounds annually. From 1890 to 1900, India was made to pay £12,500 annually. In 1901, after the report of the Welby Commission, this charge on India was given up.

On what principle is India chargeable for any proportion whatever of the costs of the Consular establishments of Great Britain in China? It appears that the contribution was taken from India on the basis of her trade interest in China. India's trade with China, it was said, was 25 per cent. of Great Britain's trade with China; and putting the divisible charge at sixty thousand pounds a year, India's share of it was fixed at fifteen thousand (*See Indian Expenditure Commission, 1895, Vol. I, p. 481, Q. 12431*), and it was claimed that that was a

* We have no means to ascertain the annual charges paid from 1844 to 1866.

fair charge. If India was to be charged on that principle, then on the one hand India should have taken a share in consular establishments at the Cape, Australia, in all places in Europe and America with which India traded, and on the other hand, all the British colonies and dependencies should have been debited with charges proportionate to their trade with China. It is obvious that the principle on which India was made to contribute cannot be defended as being just and equitable. India was made to contribute because, to use the words of Mr. Fawcett, "We can make India pay, and she has no power to resist". (*East India Finance Committee's Report, 1871*. Vol. II, p. 41, Q. 925)

Under the circumstances, it would be but bare justice to India if Great Britain refunded to India the whole amount taken from her from 1834 to the year 1901, which on a rough estimate cannot amount to less than a million pounds.

33. *The Zanzibar and Mauritius Cable*.—India has been made to pay two hundred thousand pounds, the subsidy paid to the Eastern Telegraph Company, which did the work of laying the Cable. The cable was laid mainly on strategic grounds. The result of laying the cable was that Mauritius and Seychelles were connected with the telegraph system of the world. "It did not afford India any new route of communication with England; that had already been secured *via* Aden and the Eastern and Western Coasts of Africa." All messages on the service of the Imperial, Colonial, and Indian Governments were to be transmitted by the Eastern Telegraph Company at one and the same fixed rate. India does not appear to have derived any special advantage from this cable, yet India was made to pay from 1893 ten thousand pounds a year for twenty years as her share of the subsidy of twenty eight thousand pounds per year paid to that Company, Great Britain, Mauritius, Seychelles paying ten thousand, seven thousand and one thousand pounds a year respectively. (*Indian Expenditure Commission, 1895*, Vol. II, p. 370; Vol. I, p. 470, Q. 12308; and Vol. II, p. 402, appendix 64).

This contribution cannot be based on the principle of justice and equity. A memorandum by Mr. Stephen Jacob, C. S. I., on the subject of this cable submitted to the Welby Commission, (*Indian Expenditure Commission 1895*, Vol. II,

p. 402, appendix 64), shows clearly that the contribution was taken from India on the principle enunciated by Mr. Fawcett and hereinbefore referred to. India is entitled to a refund of this amount by Great Britain.

34. *Red Sea Telegraph*.—The Red Sea and India Telegraph Company was formed in 1858. The Treasury gave a guarantee for 50 years to make up $4\frac{1}{2}$ per cent return on the capital. The Guarantee, it is alleged, was given by the Treasury with the consent of the Secretary of State in Council. The Company transmitted messages for a day or so and the line broke almost immediately. (*Indian Expenditure Commission, 1895, Vol. 1, p. 476, Q. 12314/15*).

“In 1861, an Act was passed declaring that the guarantee was not conditional on the telegraph being in working order. By a further Act of 1862, the line having ceased to transmit messages, the property was transferred to a new company; and the guarantee of the old company was converted into an annuity of thirtysix thousand pounds for 46 years. It was further provided that India should pay £18,027 annually to Her Majesty’s Exchequer, being half the annuity and cost of management, upto August 4th, 1908.”

(*Indian Expenditure Commission, 1895, Vol. II, p. 370*)

India was thus made to pay over £ 829,000 for which she had not made herself responsible and for which she received absolutely nothing in return. India is entitled to claim refund of the whole of this amount. If interest at 4 per cent for 22 years be added to the amount, the claim would be over one and a half million pounds.

35. *Ecclesiastical Charges*.—We should also draw attention to the large amounts paid under Ecclesiastical Charges. This department alone has cost the taxpayer in the last 35 years about seven million pounds, which ought not to have been charged on Indian Revenues.

36. *Burmah*.—As regards Burmah, a further claim by India would naturally arise by reason of the deficits arising out of the administration of Burmah since 1887 to 1907, when the budgets began to balance, amounting in all to fifteen crores, which the Indian revenues bore, and also a claim of twentytwo crores in respect of the economic development of the country, mainly consisting of the deficits and interest charge on the capital of the Burmese Railway. India has a right to a refund of a proportion of the cost of India’s defence,

since the date of the annexation to date. This is not included in the ordinary Provincial Budgets. It is estimated at 45 crores on an average charge of a crore a year. Thus we make a total claim in respect of Burmah of eightytwo crores.*

37. *Famine Charges.*—The periodical shortage, or uneven distribution of rains in India, leads to a substantial reduction in the people's productive capacity, which occasions a serious distress to them. The relief of this distress, when it takes the shape of saving millions of souls from sheer starvation, imposes a heavy strain on the finances of the country. In the past, before a proper systematic financial provision for relief of famine had been evolved, the Government of India used to incur heavy debt for the purpose, since their ordinary revenues naturally could not be equal to such a strain. The famines of the decade 1870–80 are estimated to have cost £ 14,607,000 ; while the single one of 1896–97 cost Rs. 10½ crores, and that of 1899–1900 cost Rs. 17·08 crores. This debt, however, may well be borne by the revenue of India, since it was incurred for the relief of distressed Indians. While on this subject, we may point out, that ever since 1879, wiser by the experience of the heavy cost of famine relief in 1878, additional specific taxation was imposed, which was estimated to yield about a million pounds a year. This was intended to create a special insurance fund against famine. This fund was to be applied to :—

- (1) The relief of the famine-stricken people in the years when there was an actual famine ;
- (2) To the construction of protective irrigation works or railways ; and
- (3) To the reduction or avoidance of debt of non-famine years, so that in the year when there was an actual famine to fight, the Government's credit may be strong enough not to involve a disproportionately higher cost for the borrowing necessitated by the famine.

In course of time, however, Government frequently used the proceeds of this taxation in non-famine years for purposes other than those mentioned above. The result was that when

* I am of the view that the claims referred to in this paragraph should not be made except in the event of Burmah being separated. B. J. D.

a considerable famine occurred, as in 1896-97, and in 1899-1900, there was no adequate reserve at the disposal of Government, and so they had to incur fresh debts for the relief of the famine. Had the fund been properly managed, such a contingency could have been easily avoided. Whatever may be the immediate reason for this debt, and whatever its amount and burden,—India cannot object to accept liability for such debts.

38. *Loss on Exchange.*—The rupee sterling exchange ratio has been the cause of considerable difficulty and has resulted in immense losses; in many cases such loss is not capable of being actually measured or calculated. It is not intended to enter upon a critical examination of the whole of the exchange policy of the Government of India, but the recent efforts to maintain the artificial standard resulting in losses are sufficient to convince even the Government of India of the disastrous results of that policy. The case we propose to submit has reference to actual or traceable loss or damage or burden imposed upon India through this channel. The exchange policy of the Government of India has caused substantial and tangible loss to India, and thereby added to her public debt. The necessity to manage the rupee sterling exchange arose because of the two standards of monies in India and England and also because of their having to make every year considerable payments in sterling in respect of the "Home Charges". The revenues of India were all collected in rupee, while these payments were fixed in sterling, and, so long as the rupee sterling exchange remained economically stable, the conversion operations did not present any difficulty nor occasion any serious loss. From and after the year 1873, however, the rupee began to decline steadily in relation to gold, and the Government of India in consequence were obliged to raise more and more revenues to meet their sterling obligations. The wiser course would have been, as the Welby Commission pointed out, to reduce, and ultimately to extinguish, these obligations in foreign currency. On the contrary, the Government of India adopted the alternative to fix the value of rupee in relation to the pound sterling. The Government were obliged to adopt this policy in consequence of bringing about the artificial scarcity of rupee by closing the Indian mints to free coinage of silver in 1893. The mints having been closed, the value of the rupee, as a coin, necessarily grew, and the Government fixed the value of

the rupee coin at 16*d*. As a preliminary to the introduction of a gold standard in India, certain measures were adopted for this purpose in 1899, and for the next sixteen or seventeen years, the exchange value of the rupee, thus fixed, was maintained. The intention to introduce the automatic gold standard was abandoned in the meanwhile, and the profits arising out of the coinage of silver, owing to this enhanced artificial value of the rupee, were carried to a reserve fund, known as the Gold Standard Reserve, and kept in London invested in Securities amounting to forty million pounds, in round figures.

We should here also point out the losses suffered by the trade and the large depreciation in India's silver stock arising out of the same causes. By reason of the exchange, special benefits were given to the public servants of the Indian Government, who claimed to be of non-Indian domicile, on the ground that the exchange value of the rupee, in which their salaries were received, had declined. When the rupee sterling exchange was falling, the Government introduced a special exchange compensation allowance to their non-Indian public servants. There was absolutely no justification for this exchange compensation allowance, inasmuch as the Government of India were bound to pay the salaries only in rupees in which they were fixed. Taking the average burden on this account at fifteen lakhs per annum, and without making any allowance for the increase in the non-Indian staff, their leave and pension allowances, a thirty five years' charge on this account alone would aggregate to over five crores of rupees.

39. *Loss on Reverse Councils.*—But the most noticeable and, perhaps, the most lamentable, are the operations which took place in 1920-21. In the hope of maintaining the standard which had been previously fixed upon, the Secretary of State was obliged to sell some twenty million worth of Securities belonging to the Government of India to provide the funds for Reverse Council Bills sold upon him (London) by the Government of India. These Securities had been bought from the Indian funds at a time when the rupee stood at 16*d*. These were sold at a time when the rate was thirtyfive pennies to a rupee. This loss alone is shown in the budget for the year 1920-21 to amount to 23½ crores, over and above the loss involved in the ordinary Government remittances of that year. The loss resulting from the re-valuation of securities in the Paper Currency Reserve, consequent on a new ratio, and the

subsequent losses on all cognate accounts are difficult to measure in money. Taking only the figures brought to account in and from the year 1920-21, the total loss may be put down to about thirtyfive crores of rupees. Thereafter, there have been two or three years during which the exchange has caused a serious loss to the Government of India of about eight crores of rupees.

PART IV.

UNDER THE BRITISH CROWN : "PRODUCTIVE" DEBTS.

40. "*Productive*" Debts.—The principal classes of these "Productive" Debts of the Indian Government may be described as follows:—

1. Debt or obligation of the State in respect of Railways constructed, owned and worked by the State, or those purchased from the corporations which originally built these Railways. This amount is shown, at the end of 1929-30, to be Rs. 736·93 crores, in addition to Rs. 33·20 crores being capital supplied by the guaranteed companies to whom several of the lines had been leased for working after the acquisition of the enterprise by the State. The figure, however, includes Rs. 146·467 crores being the Government Debt in respect of North Western Railway, which was originally constructed for purely strategic reasons, and of which a part is even now admitted to be and classed as strategic railway accounting for Rs. 33·387 crores of such Debt.
2. Debt or obligation of the State in respect of Irrigation Works, both productive and protective, which is shown at the end of 1928-29 to be Rs. 123·02 crores.
3. Debt in respect of other Commercial Departments of the State like the Post Office with all its incidental or connected services, representing, at the

end of 1929-30, a total Capital charge of Rs. 23·05 crores. Not all of this Debt is outstanding.

4. Balance of provisional indebtedness, after deducting the amount chargeable to Irrigation Works in the provinces, and representing the so-called developmental borrowings which have been passed on to Municipalities, Port Trust, etc. or utilised in such ventures as Bombay Development,—amounting in the aggregate to 19·00 crores of rupees in round figures.
5. Loans to Indian States etc. aggregating Rs. 17·5 crores.

41. *Railways*.—Taking these several classes of the so-called “Productive” Debt in the order named, let us next consider the nature of the Debt on account of the Railways. These are aids or facilities in the general economic organisation of the country, which can be said to be productive only in the sense that they add place value to the material transported from its original place of production to the market for its ultimate consumption. By widening the scope of the market, these may add to the demand, and so lend an indirect stimulus to production of new wealth. They are, however, not primarily productive of additional material wealth by themselves, as irrigation works may, in contrast, be said to be. From the narrower financial point of view, however, the assets of the Government of India, which can and have been made to yield a revenue sufficient to meet the burden of debt in connection with them,—even with an element of taxation embodied in the Railway rates and fares,—we may admit the Railway Debt to be of a productive character, or as one which has earning assets to back it.

But we must examine the origin and development of India’s so-called Public Debt on this account, before accepting finally liability for the same, so as to see if any taint attaches to its creation or growth which could render any part of it not binding.

Perhaps the largest single item of the existing Public Debt is under the head of the Railways. The whole of this debt had not been incurred by Government on Railway account, as originally a considerable proportion of it was in the form of

Capital of Railway Companies. The figure of Government debt on account of Railways is given above in paragraph 40, viz. Rs. 736'93 crores, and is made up of the following items:—

- (a) Money raised for Railways constructed directly by the State, of which the capital cost is difficult to estimate exactly. The policy of constructing Railways directly from funds raised by Government remained in effect only for about 10 or 12 years between 1869 to 1881; and in this period the total outlay by the State on State-owned and State-built ventures was £ 26,689,000 according to Sir John Stratchey's *Finance and Public Works of India*. This does not, of course, include monies spent by Government on Railway construction and extension from current revenues, or from the Famine Insurance Fund.
- (b) Railways purchased from the old or new Guaranteed Companies and now worked as State Railways. This is really the biggest block of existing obligations on this account.
- (c) Railways constructed by subsidised Companies.

Whatever the real value of the asset in the first group, no question need be raised as to the equity of the obligation on this account. As regards the second, it must be observed that the system of guaranteeing a minimum interest to companies for the purpose of constructing a railway, was objectionable and has been objected to for substantial reasons, almost from the very outset. These reasons may, for convenience sake, be stated under the following main heads:—

- (1) The original guarantee of a minimum yield from the guaranteed Railway system was excessive as compared to the then prevailing market rates for such capital.
- (2) The existence of the Guaranteed Interest took away all incentive for economy from the Companies responsible for the construction and working of the railway systems, with the unavoidable consequence of heavy inflation in the capital cost

incurred and tremendous wastage in working making the burden of the guaranteed interest needlessly heavy.

- (3) The grant of free land &c. to these Companies has involved an additional burden to the Indian Exchequer, and a very valuable benefit to the railway companies concerned, which is not the less heavy because it has not always been properly accounted.
- (4) The acquisition of these assets, on the expiry of the original period of guarantee, or on the date when the first option to acquire became due, was made on terms which resulted in additional burdens upon the people of India, while the arrangements made for the subsequent working of the acquired enterprise were no less onerous.
- (5) The terms of the revision of the original guarantee contracts, as also those with the subsidised companies or branch line enterprise, in many cases added to these burdens.
- (6) Specific provisions in the contract of Guarantee like that in connection, with the fixed rate of exchange (22d.=1 Rupee) added materially and unfairly to these burdens.

42. *Guaranteed Interest System.*—Taking these reasons in the order given, the fact is evident from a study of the contemporary accounts, that while the Original Guaranteed Railway Companies were being given an assurance of a guaranteed minimum return of 5 per cent, to be made good from the general revenues of India in the event of the receipts of the Railways themselves proving insufficient for the purpose, the same central money market of India or Britain was lending monies to the same Government of India at $3\frac{1}{2}\%$.* Govern-

*In the triennial statement of account of the territorial revenues and disbursements, submitted to Parliament by the East India Company, for 1851-52 to 1853-54 (ordered to be printed by the House of Commons on 13th March, 1856) the following are the rates of Interest shown against the registered Debt in India :—

<i>Bengal Loans</i>	Rs.	lakhs	at	%
	36'07			6%
	124'48		" "	5%
	4148'38		" "	4%
	4'53		" "	$3\frac{1}{2}\%$

Total Rs. 4313'46 lakhs.

The other Presidencies, had, comparatively very little debt; so that, though the average rate of interest there worked out a little higher, 5% or $5\frac{1}{2}\%$, that does not affect the main point about Government credit.

ment were borrowing, it need hardly be added, for wasteful unproductive purposes of War and Civil Administration deficits in the newly annexed provinces. They had no definite assets to inspire particular confidence in the lender; nor had the lender of the ordinary loans of Government any hope of participating, some day, in the surplus profits of an earning concern like a Railway. And yet, while Government could themselves borrow in India at 4%, they chose to offer as high a guarantee of minimum return as 5% in those years! And that despite the fact that the earliest adventures in this field of railway enterprise, seeking a guarantee of return from the Government, had themselves asked for only 3%. (*Cf. Railway Policy in India* by H. Ball, 1894, p. 2.)

Of the Guaranteed Companies which were incorporated between the years 1849 and 1855, several have been already acquired by the State under the terms of their respective contracts. For a proper appreciation of the arguments advanced in the following sections, it would perhaps be best if we set out the main features of the agreements. The main terms of the original Guaranteed Railway Company Contracts may be summarised as follows:—

1. Government to provide all land required for Railway purposes—free of charge for a term of 99 years.
2. Companies to raise the required Capital, and Government to guarantee the interest on that Capital at 5% (in some cases $4\frac{1}{2}$ or $4\frac{3}{4}$ %) p. a. to be paid in London.
3. Company to pay Capital into Government Treasury in London or India, and Government were to advance monies as required for construction in India or England, all sums of money being paid or drawn by the companies in India being set off at $\frac{1}{10}$ for each rupee.
4. Affairs of the Railway Companies to be under general supervision and control of the Government.
5. Profits of Railways, after deducting working expenses, were to be applied, in the first instance, towards the discharge of guaranteed interest paid by Government, the rupees being converted at

the fixed exchange of 1/10. Any surplus profits, after meeting the interests deficit, were originally for the shareholders exclusively; but later on arrangements were made by which profits, after deducting working expenses and allowing for the Guarantee, were to be divided equally between the Government and the Companies.

6. Government Mails were to be carried free, and troops and stores at concession rates, or lowest rates chargeable for carriage of corresponding goods.
7. Companies to allow use of Railway to public on such terms, rates and fares, as were approved by Government.
8. On the expiry of the term of 99 years, the permanent way and immoveable fixtures became Government property free of all debts and charges, save those sanctioned by Government; Companies to sell and Government to buy, all rolling stock, plant and machinery at a valuation made by referees.
9. After the first 25 years, or after 50 years, Government to be entitled to purchase Railway upon paying the value of all shares or Capital Stock of the Company concerned, calculated according to the mean market value in London during the 3 years immediately preceding the date of purchase in London.
10. Companies were also entitled, after the line had been in working order for 3 calendar months, to surrender and relinquish Railway to Government, who were in that case bound to pay to the Company concerned the capital expended on the Railway.

These were the main features of the Contracts with the original Guaranteed Companies. The Contracts were renewed in 1866-67 when the main change made was to fix the exchange at *2sh.* instead of *22d.* as was the case before. In 1872, the Secretary of State further revised the Contract, over the head of the Government of India,

The presence of such an assured and substantial guarantee of an unfailling minimum yield, made the authorities of these guaranteed Railway Companies utterly indifferent to considerations of economy in construction or operation of their enterprise. The footnote attached hereto shows clearly the most obvious tendency to waste-fulness and extravagance in the Guaranteed Railways, as contrasted with the State-built Railways, at a time when both were being simultaneously constructed and worked. Since the Guarantee was given on the capital invested, the return would increase in proportion as more capital was shown to be invested in the enterprise.*

The obvious evils of the original Guarantee System were not unknown to the authorities in India and Britain concerned in the matter. The resultant burden on the Indian revenues

* The costliness, relatively speaking, of the constructions of Railways in India under the Guarantee System is borne out by the sub-joined figures, compiled from the Report of the Select Committee of 1884 (pp. 771-781).

I. Old Guarantee System, as on December 31, 1880.

Name of Railway System	Miles Open	Gauge	Capital cost per mile upto 1880.
E. I. Railway	1504'25	5' 6"	Rs. 2,19,643.
G. I. P. Railway	1275'75	"	1,95,945.
C. & S. E. Railway	28'00	"	2,87,137.
Madras Railway	858'00	"	1,29,572.
B. B. & C. I. Railway	444'00	"	1,86,582.
S. P. & D. Railway	663'50	"	1,66,470.
Eastern Bengal "	158'00	"	2,08,035.
Oudh & Robilkhand Rly.	546'75	"	1,05,709.
South India Railway	645'25	3' 3/8"	64,584.

II. State Railways constructed directly by the State since 1869.

Indus Valley	653'00	5' 6"	1,06,099.
Punjab Northern	224'75	"	1,78,138.
Sindhia	66'50	"	1,22,585.
Nagpur Chalisgar	53'00	"	57,315.
Wardha Coal Railway	46'50	"	1,11,156.
Dhond Manmad Railway	145'75	"	71,755.
Patna Gaya Railway	57'00	"	56,508.
Dilder Nagar Ghazipur Ry.	12'00	"	60,480.
Northern Bengal	248'50	3' 3 3/8"	80,796.
Tirhat	85'00	"	62,821.
Matra Hathras	27'00	"	37,523.
Cawnpur Farrukhabad	86'50	"	36,196.
Rajputana	826'57	"	62,989.
Holkar-Sindhia Nimach	189'22	"	1,09,500.
Rangoon & Irrawaddy Valley	161'00	"	76,443.
Western Rajputana	82'63	"	76,452.

For the same kind of Railway construction, *i.e.* for the same Gauge and the similar character of the country traversed, the Guaranteed Railway Companies constructed their Railways at a rate twice as costly as that resulting from the direct State enterprise. And this apart from the fact, that the Guaranteed Companies having entered the field earlier, had naturally taken up the more easy and more paying regions for their own enterprise, the State being thus left to attempt the less paying.

may not have been fully perceived, or appreciated properly, at the time, by all those in power in regard to Indian affairs. But the subjoined few extracts from the opinion of experienced officers pronounced before responsible Committees of Investigation would serve to show how tainted at the very source was the very principle of the Guarantee System.*

* The wastefulness of the Guarantee system was perceived almost as soon as the high officers of Government were freed from their political pre-occupations, following upon the events of 1857-8. In a Despatch, dated 29th November, 1861, (No. II), the Government of India wrote to the Home authorities advising restraint in the use of Capital so raised, as it was burdensome. Sir J. P. Grant, President of the Viceroy's Council, objected to the dual management of Railways resulting from the Guarantee system; and also to the financial basis. He considered that system implied the raising of money by a special Public Works loan, but under conditions most advantageous possible for the public, who must be taxed for the payment; that the money was not raised at the lowest market rate, and that instead of repayment being at the option of the borrower, (the Government), this could not be done, whatever the loss might be in keeping it, while the lender could at any time reclaim it or an equivalent annuity, whatever the financial position of the Government might be at the time. The Finance Member of the Viceroy's Council Mr. S. Laing writing in April 1861, also recorded his opinion against the system, on the ground that the management was non-resident, that the data about the initial cost and probable traffic were so uncertain and that therefore the Companies looked exclusively to the Guarantee for their dividends. (P. 65-66, summarised from "*Railway Policy in India*" by H. Ball.)

Before the Select Committee of Parliament in 1884, witness after witness, of acknowledged experience in these matters, condemned the Guarantee system. Direct State enterprise having commenced in this field from 1869, it was possible to make comparisons in initial as well as operating costs, which could not by any means be regarded as invidious. Sir Jutlan Danvers, for several years Government Director of Railways in India, did not quite share the view of the critics hostile to the Guarantee system; but even he had to admit that:—

"The cost of lines now constructed (*i.e.* under direct State enterprise) . . . has been much less than the average cost of these railways which form the original main system. Instead of £ 18,000 and £ 20,000 per mile, we now see lines constructed on the 5 feet 6 inches gauge for £4,000, £5,000 and £9,000. (Note to the Annual Report on Railways in India, 1872-73.) Gen. Stratchey, whose experience in Railway matters was not second to that of anyone in India, was clear as he was in condemning the Guarantee system. 'Not only has it been productive of waste money, but it also has created a very valuable property at the expense of the taxpayers of India, which has passed into the hands of third parties without their having incurred, in any sort of way, any risk.' (Answer to question 19, Select Committee of 1884.)

Mr. Westland, who afterwards became Finance Minister of India, and Sir R. (Gen.) Stratchey, were clear about the Guaranteed rate of Interest having been disproportionately high. (see Answers to Questions 5297-5298). Stratchey's reply to Question No. 309 leaves nothing to be desired by way of clearness:—

- Q. "But is it not the case that the Government of India of the day, when they sanctioned this guarantee to the East India and other Railways could not have practically borrowed the money themselves?"
- A. "I do not know whether they could not. There is no evidence that they could not, at all events; they thought that it was better that they should not. My own impression is that that was a delusion, the probability is, in fact it is almost a certainty, that they could have borrowed the money on better terms than the Company."

To this we might add the actual fact of Government having borrowed large sums in 1857-8, the cost of suppressing the rising of 1857. If they could borrow for unproductive objects like this, which left no assets, why could they not for clearly productive objects?

In the first place, the payment of all the deficits in the Guaranteed Interest, out of the Revenues of the country, has cost this land Rs. 58 crores from the day these payments first began to be made to the day when these Guaranteed Companies earned sufficiently to pay their own Interest charge.

43. *Acquisition by the State.*—But the injustice in connection with the Railways in India, considering only their financing, does not stop there. Under the contract, Government were entitled to acquire these Railway properties at the end of the first 25 years. This valuable right was waived, in regard to the original Guaranteed Companies, by the Secretary of State under the revised arrangement made in 1872, referred to above. When, however, these original Guaranteed Companies' properties were actually acquired, the acquisition was made under conditions that added considerably to the burdens of the people on this account. The Companies were entitled, under the terms of their contracts, to be paid the market value of their shares, or stock, at the date of the acquisition; and as they had been in receipt of a heavy guaranteed interest, the market price of their stocks or shares went up enormously when it became known that the State would be acquiring the properties. The table in Schedule D, would serve to give some idea of the excess payments made to these Companies for their Capital Stock, when the properties were acquired by the State. As the payment was made in the form of bonds of the State for the amount agreed upon as the price of the Stock, the burden on the people laid by that arrangement was heavy, and unjustifiable. The aggregate amount of that burden is thirty-three million pounds which may be taken in terms of Rupees at fifty crores. After these properties were acquired by the Government, the same were leased to the Companies for working the Railways. The terms of these contracts were even more wasteful from the point of view of Indian interest and national economy. The result is that the asset which had been built up at such heavy sacrifices, still failed after fifty years, to bring any relief to the people of India; and instead served only to impose on them additional burdens.

44. *Fixed Rates of Exchange in Railway Contracts.*—One further incident of the Railway contracts, and general Railway policy in India, which cannot be passed over in silence, is the clause in the Original Contracts with the first Guaranteed Companies, which offered them a fixed rate of

exchange. The original contracts had fixed the conversion rate between the Rupee and the Pound Sterling at *22d.* per Rupee; but the revised arrangement of 1870 fixed it at *24d.* According to the appropriation Report on the Accounts of the Government of India, Paragraph 103, of 1885-86, the Exchange rate, so fixed, worked in practice as follows:—

The guaranteed and other Railway Companies first deposited their subscribed capital with the Secretary of State in England, of which they withdrew one part there, and the other part in India, for expenditure on the construction of their lines.

The question of gain or loss did not arise in connection with the amount deposited and withdrawn in England, but the balance was received in England at the average rate of Exchange of the Secretary of State's Bills, and repaid in India at the rates fixed in the contracts with the Companies. When the Contract rates were higher than the rates obtained for the Council Bills, there was gain to Government on these transactions; but when the Contract rate was lower, there was loss to Government. When the money was brought out from England for the construction of the railways, the gain or loss increased with the amount of the withdrawals by the Companies in India, and with every fall or rise in the Council Bill rate of exchange.

Next, there were Capital receipts in India on account of these Companies against corresponding payments in England and in this case the position was reversed, there being less to Government when the contract rate of exchange was lower than the market rate. One of these receipts consisted of transfers to revenue account of stores purchased in England on Capital account; but these transfers were computed at the average rate of Council bills drawn during the previous half-year; and they involved, therefore, only so much gain or loss as arose from the average rate of exchange of the year differing from that of the previous half-year.

For the first twenty years after the commencement of the Railway enterprise in India, this problem was not very severe. Capital had in those days to be remitted from England, where every pound received from the Companies brought them

Rupees at 22*d*. But the amount at charge remained throughout in sterling. When, therefore, remittance began to be made from India, on Guaranteed Interest and Surplus Profits Accounts, the Exchange had gone against India. Every rupee brought only 15 or less pennies. Hence, on an aggregate payment to Railways on their Interest and Profit account, of one million pounds, India would have to supply 1½ crores, as against the previous supply of Rs. 110 lakhs for the same amount. How much India had to pay extra on this account is all but impossible to state in exact monetary form. But that this amount must be very considerable; and that it has, nevertheless escaped being properly taken into account, may safely be assumed to be true. The Railway properties valuation must, therefore, submit to a deduction on this account, before it can be taken over as an asset against the debt said to be incurred on Railway account.

45. *Strategic Railways*.—Before closing this Section of Railway burden finally, mention may be made of the admittedly strategic Railways on the frontiers of India, on which the Government of India have not even now been making any profit. The classification, which considers only certain railways as strategic, is open to question; but, without pressing that point and taking only the accepted classification of the Government, the Capital charge on the admittedly strategic lines, on the North-West Frontier and Aden, is given in the latest Railway Administration Report at Rs. 33,38,72,000. These Railways are admittedly a losing concern, and have been so ever since their start. A portion of the North-Western Railway has been, of late, converted into a profit making concern, thanks to the canalisation of the rivers in these regions, and the opening up of these otherwise waste areas. But even so, the net loss shown to be such in the Railway Accounts, is given in the year 1929-30 at Rs. 1,90,10,000. This is purely a military concern; and before, therefore, the country can be asked to take over the Railways as a valuable asset, valued simply at the figures of the Capital at charge on account of all the Railways, allowance must be made for such contra items.

We may point out, in this connection, that scarcely a single line of railway can be said to have been constructed on exclusively commercial considerations. Lord Dalhousie, the late Governor-General of the Company and father of the

Railway enterprise in India, placed the political and military considerations in the forefront of his plea for the assistance of Government in construction of Railways. His Lordship had no illusion on the subject, and advised quite clearly that even if the Railways he had sketched did not prove remunerative, the Company's Government should nevertheless afford the projected Companies for Railway construction some aid. And ever since this double idea has been kept steadily in view by the authorities of the Government of India.

The claim in respect of Railways will be :—

The 20% Premium paid on acquisition of Railways by the State	50 crores
The cost of Strategic Railways	33 „
	—————
	Rs. 83 „
	—————

46. *Irrigation.*—The total capital debt incurred for irrigation projects, both productive and protective, amounts to Rs. 123'02 crores not all of which may be outstanding. No question need be raised as to the liability of the Indian people for this as the country has got substantial revenue yielding assets as against this debt. We must, however, point out the striking contrast between this debt and the debt incurred on account of other heads of a so called productive character. In the first place, the debt incurred on account of Irrigation Works, both protective and productive, has been employed in a manner which adds directly to the sum total of the material produce in the country. The extra produce raised every year as the result of these works is valued at Rs. 142 crores more than equal to the total capital invested on that account. Moreover, the principles of accounting adopted in this connection have been so rigorous that no projects of irrigation are allowed to be classed as productive unless, within ten years from the date when the first sod was cut, every such project is able to pay all its working expenses and interest from the date of commencement. Such a rule has resulted in a rigid scrutiny being constantly exercised on all proposals for Irrigation Works, which has made them in the aggregate so productive. There have, besides, been no

private corporations in this field, who, being guaranteed a minimum of fixed return from these works need pay no attention to economy in construction or working.

47. *Postal and Telegraph Service.*—The debt in regard to other assets or departments, described as productive or commercial, is not, comparatively speaking very considerable. Nor are the principle of chargeability in relation to the same at all complicated, as in the department of Railways. The debts, for instance, in connection with the Posts and Telegraphs &c. is returned as Rs. 23 crores. The assets in respect of this and combined Department may not unreasonably be expected to be an equivalent in the aggregate, which may thus well be assumed to bear their own burden.

48. *Provincial Debts.*—The remainder of the Provincial Debt, after deducting the Debt charge in respect of Irrigation Works, is of a doubtful productive utility or value. The Bombay Development scheme is admittedly a failure, and it ought never to have been undertaken.

49. *Debts to Local Governments, Port Trust etc.*—As for the amounts advanced to Municipalities, Port Trusts, Improvement Trusts and other similar semi-governmental bodies through the provinces, not all the amounts spent through these bodies are productively employed, in the correct sense of that term; the collective balance sheet of the local self-governing bodies does not show these to be self-supporting or earning corporations. Their burden of debt is maintained, no doubt, but that maintenance comes rather from their powers of taxation, than from the real earning capacity of the assets created by these means.

The debt incurred in building up afresh a new capital for the Government of India at Delhi is strictly speaking, not of a productive character. The amount spent upon it,—some fourteen crores—may, therefore, be regarded as a debt without any real assets to support it. As, however, the amount is relatively small and as the new capital may have a political, if not a material value, the question of the liability in regard to it need not be pressed very hard, so as to relieve the Indian people altogether from this charge.

The remaining item of the “Productive” debt of India, *viz.*, capital advanced to Indian States or local bodies, is by no means all made up of productive or earning assets.

50. *Conclusion.*—The general conclusion, then, of this whole survey of the so-called “Productive” Debt of India is:—

- (a) That of the five or six items of productive character only two, *viz.* Railways and Irrigation Works can, strictly speaking, be classed as such ;
- (b) That the Productivity of the Railways and their contribution to the economic development of India is wholly different from that of Irrigation Works ;
- (c) That the aggregate capital at charge on account of the Railways must admit a counterclaim of eighty-three crores at least as detailed above, before liability on that account can be accepted by the Indian people ; though in strict commercial accounting and rigorous justice the counterclaim would be at least doubled ;
- (d) That the debt on account of the Irrigation Works and other Commercial Departments may be admitted as covered by sufficient earning assets transferred automatically to the new Government of India ;
- (e) That the “productive” character of the debt due from the Provincial Governments, Local Self-governing bodies or Indian States is extremely doubtful, the only support for the maintenance of this burden being found in the Taxable capacity of the people within the respective jurisdiction.
- (f) That even if full liability is assumed in regard to these, an exception must be made in respect of the Bombay Development Debt, (fifteen crores), which was incurred in the teeth of the protests of the people concerned, and against which therefore very little of valuable assets of a productive or earning character are available.

PART V.

51. *Summary of Claims.*—We summarise below the various claims put forward in the previous paragraphs:—

<i>Year</i>	<i>Subject of Claims</i>	<i>Page</i>	<i>Crores</i>	<i>Amount</i>
Prior to 1857	External Wars of the Company.	17	35'000	
	Interest on Company's Capital Stock paid 1833-57.	13	15'120	50'120
1857	Cost of 'Mutiny'.	17		40'000
1874	Interest on Company's Capital Stock paid 1857-74.	13	10'080	
	Redemption of the Capital Stock of East India Company.	13	12'000	22'080
1857—1900	External Wars.	21	37'500	
1914—1920	European War-Gift	30	189'000	
	Cost	33	170'700	397'200
1857—1931	*Miscellaneous Charges in respect of Burmah.	36/42	20'000	
		42	82'000	102'000
1916—1921	Reverse Councils Losses.	46		35'000
	Premium paid to Railway Companies on acquisition by the State.	57		50'000
	Cost of Strategic Railway.	57		33'000
Total Claim			(Crores)	Rs.729'400

Where the amounts available to us were expressed in terms of Pounds Sterling, they have all been converted at *Sh.*2 except in the case of the War "Gift" and the Premium to Railway Companies which have been converted at *Sh.* 1/4*d.* No interest has been included here on the above amounts. (See Note 2 on "*Interest Payments on Claims*").

52. *Recommendations.*—The History of British occupation of India, since the East India Company acquired political power, is a history of ever growing material gain in wealth and prestige to Great Britain. On the other hand, the result to India has been that the Indian industries were destroyed or suppressed and India has become a market for the manufac-

* This is an estimate subject to accurate computation,

tures and other products of Great Britain. Without the growth of that market and the use of India's wealth in her efforts to develop her industries, Britain's present position would never have been anything like what it has grown to. India has also provided a vast field for the employment of Britishers in all grades of civil and military service and even if the Salaries and Pensions paid were totalled up, the figure would be colossal. In addition to her actual material gain, her growth as a great world power was due mainly to her possession of India. These facts by themselves should be sufficient reasons for transference of all existing liabilities by way of public debts from the shoulders of India to that of Great Britain from every moral and equitable point of view.

In this connection, it would be pertinent to examine the dealings between Great Britain and the Irish Free State. Ireland formed part of the United Kingdom up to the date of the constitution of the Irish Free State, and was naturally liable for the British National Debts along with England, Scotland and Wales. On the creation of the Irish Free State the question naturally arose as to the apportionment of her liabilities for the national debts, which at the time stood at £7,721 millions. By clause 5 of the Ireland (Confirmation of Agreement) Act it is provided as follows:—

“The Irish Free State should assume liability to the service of the public debt of the United Kingdom as existing at the date hereof and towards the payment of war Pensions as existing at that date in such a proportion as may be fair and equitable having regard to the fair and just claim on the part of Ireland by way of set-off or counter-claim, the amount of such sums being determined in default of agreement by the arbitration of one or more independent persons being citizens of the British Empire.”

Under the terms of the said clause, Ireland must have claimed compensation for its exploitation and spoliation during the course of the long drawn out struggle. Then followed the Ireland (Confirmation of Agreement) Act of 1925, which provides as follows:—

“The Irish Free State is hereby released from the obligations under article 5 of the said article of agreement to assume liabilities therein mentioned.”

As a result of the above enactment, in so far as Ireland was concerned, not only England bore all the costs of the great struggle between Ireland and England, but also took over the liabilities for Ireland's proportion of the national debt. India claims to be dealt with by England on the same footing.

It is to be further observed that the struggle between Ireland and England was long drawn out and involved immense costs, charges and expenses, partly provided out of the annual revenues and which must have partly added to the national debt. The moral to be drawn is obvious. Every principle of fair play now requires that if India is to start on a new era of National Self-Government, it should start freely and without any burden, if any progress is to be achieved at all. India cannot afford to bear any additional taxation. The only possibilities of progress for India therefore are : the application of the national revenues to national purposes, and it is only by reducing the national expenditure on the civil and military administration of the country to suit its own requirements and freeing India from the liabilities for the public debts not incurred in her interests, that saving can be effected which would be applicable to the advancement of India in the matter of education and sanitation and other national means of regeneration. It is a notorious fact that a very considerable proportion of the Indian revenues were spent on military expenditure, and in the ratio of such expenditure to total expenditure, India stands perhaps the highest in the world. The incalculable damage was done to the country as a result of excessive military expenditure in imperial interests by starving the nation building branches of the Government. The army maintained in India cannot be said to have been maintained merely for her protection. It has largely been an army of occupation, and to use the language of Lord Salisbury, it has also been used as a barrack for providing troops for external British Imperial purposes. We should not be erring on the wrong side if we suggest that a part of what has been treated as the ordinary military expenditure of India should certainly be borne by Great Britain and should be considered as a reasonable item in arriving at an adjustment of India's burden during the course of the present negotiations.

(See Note 1 on Annual Military Expenditures)

53. Before we close, we would like to express our grateful acknowledgments to Mr. G. N. Joshi for the valuable help he has rendered to us during all our deliberations. Our thanks are also due to the various individuals and public bodies from whom statements of their opinion on the subject have been received.

D. N. BAHADURJI.

I agree with my colleagues
in the report, but I desire
to present my elaboration
annexed hereto.

KHUSHAL T. SHAH.

BHULABHAI J. DESAI.

J. C. KUMARAPPA, (*See Notes 1 & 2.*)
Convener.

NOTE 1

In addition to the claims made in our unanimous Report, I wish to put before the Working Committee the following note on Annual Military Expenditures for their consideration. This claim has been suggested in the last sentence of the 52nd paragraph of the Report.

Annual Military Expenditure.—It is a notorious fact that the bulk of our revenues have been spent on the primary functions of government. In a list of military expenditure of 41 nations prepared in 1929 by Mr. A. J. Toynbee "Survey of International Affairs", India stands first with 45·29 per cent of her expenditures being Military expenditures. The rank according to the ratio of Military expenditures to total expenditures and that ratio are also given below in respect of the principal militaristic countries of the world.

			<i>Percentage of Expenditures.</i>
1st India	....	....	45·29
5th Japan	....	....	26·57
9th Italy	....	....	23·46
14th France	....	....	19·75
25th U. S. A.	....	....	16·09
30th Great Britain	....	....	14·75
37th Germany	....	....	7·16

It will be noticed India's proportion is more than three times that of Great Britain. This is not the place to go into the damage caused to the country by starving nation-building expenditures to find the wherewithal for the military expenditures. But it must be observed that the army in India since 1857, has been in the nature of an army of occupation. The proportion of European to Indian troops has been increased since that date from 1 to 5 to the present ratio of 1 to 2 to assure the safety of British occupation. That the strength of the Indian army has been maintained at a high level for Imperial purposes is obvious from the fact that whenever Indian troops were required for Imperial Wars outside India, they were taken away for varying periods without any hesitation and without any attempt to replace them during their absence from India. India has thus been used "as a barrack

in the Eastern Seas" for providing troops for British Imperial purposes. As the cost of each European soldier is estimated to be about 3 to 4 times the cost of an Indian sepoy, the military expenditure of the Government of India has been considerably in excess of what it need have been, if the army was maintained merely for defence and internal order and consisted purely of sepoys. Such being the case, that amount of the expenditure representing the excess over the needs of India, should be legitimately borne by Great Britain.

Apart from this, Imperial considerations have led to the keeping up of a much higher standard of equipment etc., than would have been required by purely local needs. Mr. Buchanan, a member of the Welby Commission, says in his reservation No. 4 to the Report of the Commission:—

"It has already been pointed out that, in so far as the military defence of India is concerned, India pays everything, and the United Kingdom nothing. And yet the maintenance of the military defence of India is one of the greatest of Imperial questions.

"The military strength of India is the main factor in the strength of our Empire in the East. In virtue of that strength Great Britain is a great Asiatic power. We have had overwhelming practical evidence of the value to the Empire of the military forces of India in the aid, both direct and indirect, which she is rendering to us in the South African War. Nearly 6,000 British troops on complete war footing were rapidly despatched at a critical moment from India to Natal, others have followed, and Indian Native regiments now garrison Mauritius, Ceylon, Singapore, and other places from which British troops have been withdrawn for the purposes of the war.

"Surely, therefore, both on general grounds and from our recent experience of the efficient help that India's military strength can give to the Empire, it is established beyond question that India's strength is the Empire's strength, and that in discharging these Imperial duties India has a fair claim that part of the burden should be borne by the Imperial Exchequer. There may be difficulties as to the method of making the charge and the amount, as to the equity of the claim on the part of India there can be no doubt."

(*Indian Expenditure Commission*, 1895, Vol. IV, p. 149)

In the financial statement of 1885-6, para 136, the then Finance Minister, Sir Auckland Colvin, estimated the net cost of the army (exclusive of cost of wars) at about £ 15 million or without exchange at fifteen crores of rupees every year. "This amount" he said, "may be considered to be about the normal military expenditure in India and England."

This gives an Indian Government Standard for Military Expenditures which has to be adjusted for variation in price levels. Until 1900, the variation in the Price Index was very little taking the year 1873 as base year. The figure for 1910 was 122, and for 1915 it was 152, and at present it is about 200. Allowing for these variations, the following standards may be used for the period indicated:—

1859/60 - 1900	a standard of	15 crores a year.
1900 - 1915	with increase of 33 $\frac{1}{3}$ per cent.	20 crores a year.
1915 - 1931	with increase of 100 „	30 „ „

This method of arriving at a standard, however unsatisfactory, does not deviate far from facts as shown by its approximating to actual expenditures. In 1875, the expenditure was 14·66 crores, while the standard is fifteen crores. Similarly in 1915, the actual expenditure was 30·80 crores, while the standard is thirty crores. Although it may be held that even these standards are far too high, yet accepting them, for argument's sake, the standard expenditure for the whole period will be—

Standard Military Expenditure.

		Crores	Crores
1859/60—1899/1900 @ 15 crores	40 × 15	600	
1900/01—1914/15 „ 20 „	15 × 20	300	
1915/16—1930/31 „ 30 „	16 × 30	480	1380
Actual expenditure for the whole period 1859—1930 as per list appended ...			2128·33
Less Standard as above ...			1380·00
	Balance		748·33
Less items, subject to separate claim in respect of Wars, 1860—1900, say ...	37·5 crores (Para 16)		
„ European War ...	170·7 „		208·20
Excessive military expenditure caused by main- taining the Indian army for Imperial purposes which ought to have been borne by Great Britain ...	... ..		(Crores) Rs. 540·13

J. C. KUMARAPPA

ANNUAL NET MILITARY EXPENDITURES.

Detailed List referred to in Note 1.

The figures for the years 1859/60—1920/21 are taken from K. T. Shah's "*Sixty Years of Indian Finance*" which were themselves obtained from Government statements. The figures for 1921/22 to 1928/29 are taken from the statistical abstracts and the last two years from the *Gazette of India*, 11th April 1931. The amounts are in crores.

Year.	19'38	19'38	Year.		
1659-60					
1860-1	16'47		1895-96	25'39	
1861-2	13'25		1896-97	24'56	
1862-3	12'52		1897-98	27'03	
1863-4	12'21		1898-99	24'31	
1864-5	12'71		1899-1900	23'07	124'36
1865-6	13'53				
1866-7	12'08		1900-1	23'21	
1867-8	12'33		1901-2	24'24	
1868-9	15'58		1902-3	26'45	
1869-70	16'20		1903-4	27'21	
		136'88	1904-5	31'04	
			1905-6	29'51	
1870-1	15'54		1906-7	30'25	
1871-2	15'11		1907-8	28'87	
1872-3	14'64		1908-9	29'40	
1873-4	14'45		1909-10	28'66	278'84
1874-5	13'69				
1875-6	14'66		1910-1	31'89	
1876-7	15'32		1911-2	29'33	
1877-8	17'72		1912-3	29'34	
1878-9	18'32		1913-4	29'84	
1879-80	22'29	161.74	1914-5	30'80	
			1915-6	33'39	
1880-1	27'59		1916-7	37'48	
1881-2	16'96		1917-8	43'56	
1882-3	18'08		1918-9	66'72	
1883-4	17'99		1919-20	86'97	419'32
1884-5	17'36				
1885-6	20'09		1920-1	87'38	
1886-7	20'21		1921-2	69'81	
1887-8	21'12		1922-3	65'26	
1888-9	21'12		1923-4	56'22	
1889-90	21'56	202'08	1924-5	55'63	
			1925-6	55'99	
1890-91	21'61		1926-7	55'97	
1891-92	24'54		1927-8	54'79	
1892-93	23'98		1928-9	55'10	
1893-94	24'32		1929-30	55'10	611'25
1894-95	25'73	120'18			
			1930-31 R.E.		54'30

NOTE 2

In addition to the claims made in our unanimous Report, I wish to put before the Working Committee the following note on Interest Payments on Claims for their consideration.

Interest payments on Claims.—As regards the items of non-productive expenditure objected to in the Report which were represented by interest bearing debts, all principles of business practice demand that where an item has been wrongly debited and interest payments have been made on account of these debts, such interest amounts should be made good. If the original debit to India is proved to be wrong, then it is but right to demand restitution of all payments made in respect of such a debit.

It should be borne in mind that in claiming these Interest payments, a claim is made not for a consequential loss but for an actual loss. In such a case the Interest payments themselves are Principals which have been erroneously paid and hence the claim in respect thereof.

These Interest payments would have fallen on the British Exchequer had the original debit been placed on the right shoulders. British Exchequer has been relieved to that extent and hence this claim only amounts to asking the party, who should have originally paid it, to pay it now. Strict commercial practice will allow of not merely the simple interest paid but also interest on such payments, that is in effect compound interest. But the claim now made is only for a refund of what has actually been taken out of the Indian Exchequer.

The Interest Payments have been annual payments, and hence a claim extending over seventy years would more than turn over the original debit three times. But this cannot be helped as the annual charges have been persistently made in the face of many challenges of the original charge by Britishers themselves. When a similar cumulative claim was made by Mr. Gokhale before the Welby Commission, and when that was objected to, Mr. Gokhale replied :

“It is the natural way of looking at the thing for those who think a charge is unjust.”

The rate of interest on Government Loans has varied from time to time from $3\frac{1}{2}$ per cent to 7 per cent. and it is difficult to determine the rate that should be claimed. The average rate on all Government loans works out at 4 per cent and it is submitted that a charge to Great Britain at 4 per cent simple interest on those items cannot be considered unreasonable. Interest is so calculated on the following items from the dates when the obligations were imposed except as to item No. 4; Interest on item No. 4 is calculated from 1880 as bulk of the obligations which aggregate to 37·5 crores were created between 1878 and 1886.

				<i>Interest.</i>
1.	E. I. Company's wars	... 35 Crores	1857-1931	103'60
2.	Cost of "Mutiny"	... .. 40 ,,	1860-1931	113'60
3.	E. I. Company's Capital and Interest	... .. 37 ,,	1874-1931	84'36
4.	External Wars since 1857	... 37'5 ,,	1880-1931	76'50
5.	European War : Cost	... 17'9 ,,	1920-1931	157'96
	Gift	... 18'9 ,,		
Total (Crores)				Rs. 536'02

Though it is not possible at the present time to trace into the schedule of Public Debts the debts of which refund is claimed, one is able, by collating the Amount of Claims, the Public Debt and the Interest paid thereon at particular period, to show that the amount of Interest paid is practically on the Principal amounts for which a refund is claimed. This fact is brought out in the following table, which also shows that the rate claimed, 4 per cent., is reasonable. The amounts are given in crores of rupees :—

<i>Year.</i>	<i>Amount of our claim.</i>	<i>Public Debt.</i>	<i>Interest paid during the year.</i>	
1860	{	93'0	4'2	
1874		117'0	5'3	
1880		157'3	6'9	
1890		207'1	9'3	
1900		307'6	11'1	
1910		405'6	14'25	
1920		544'1	31'9	
1931		508'5	Over 1100'0	50'14 R. E.

The total interest paid works out as follows :—

1860-1874	81'0
1875-1900	226'5
1901-1920	326'8
1921-1931	415'4
	<hr/>
Total paid Crores Rs.	1049'7
	<hr/>

So that our claim amounts, in effect, to asking for a refund of interest amounting to Rs. 536 crores out of a payment of Rs. 1050 crores unjustly paid out of the revenues of India in relief of the British Exchequer.

J. C. KUMARAPPA

APPENDIX

SCHEDULE—A.

TABLE 1.

A list of a few of the Payments made by the East India Company which should have fallen on the British Exchequer and which are referred to in Paragraph 10, Page 10.

Balance due on former account for Ceylon and the Eastern Islands, 1st March 1808	...	...	...	£	1,020,184
Eastern Islands	...	For the expenses on account of these Islands in consequence of their capture in 1795-96 from 1806-07 to 1819-20	...		219,004
Ceylon	...	For supplies from India to that settlement and Expenses in England for tonnage &c. after deducting the value of the Cinnamon received 1807-08 to 1819-20	...		485,181
Cape of Good Hope	...	For supplies &c. 1806 to 1808 and 1819-20	...		91,043
Stores to His Majesty's Ships in India.	...	For Supplies from 1806-07 to 1818-19	...		199,967
Expedition to the French Islands.	...	For supplies expenses bills drawn 1809-10 to 1819-20	...		3,432,826
Expedition to Java	...	For do. 1810-11 to 1817-18	...		4,061,663
Expedition to the Moluccas.	...	For do. after giving credit for spices received from 1813 to 1821	...		91,921
Diplomatic Expense incurred in Persia.	...	From 1811 to 1817	...		172,975
Advances for the Service of Government of India.	...	Advances from 1811-12 to 1816-17	...		183,945
Extra Expenses at St. Helena.	...	From October 1815 to 30th April 1821	...		950,927
Expense of Building Ships of War in India for the Public.	...	From 1806-7 to 1818	...		220,671
Miscellaneous disbursements on sundry accounts.	...	...	...		148,521
Total				...	£11,278,828

This is by no means an exhaustive list of the expenses incurred by the Government in India on account and at the behest of the British Government in England which the Directors claimed should be refunded to India. The dispute about the items in the above list was settled by arbitration of Messrs. Lowther and Lushington acting on behalf of the British Treasury. (See appendix 7 of *Commons Committee Report, 1831.*)

SCHEDULE--B.

*Return of the Rupee Debt of the Government of India
for 31st January 1931.*

(Government of India Gazette, 11th April 1931)

TABLE 2.

Floating and Unfunded Debt bearing Interest.

Particulars.	Amount outstanding (In thousands)
	Rs.
Treasury Bills	60,61,75
Ways and means Advances	1,00,00
Post Office Cash Certificates	37,59,53
Post Office Savings Bank Deposits	35,69,62
Provident Funds and other unfunded debt	67,45,96
Total ...	2,02,36,86

TABLE 3.—*Terminable Loans.*

Particulars.	Date of Issue.	Conditions of Repayment.	Amount in Thousands
6% Ten year Bonds, 1931	15- 9-21	On the 15th September 1931	Rs. 7,36,12
" " " 1932	1-10-22	" " 1st October 1932	14,63,40
5% " " 1933	1- 9-23	" " 1st September 1933	21,45,58
4½% Bonds 1934	15- 9-28	" " 15th September 1934	25,98,05
5% Ten Year Bonds 1935	15- 9-25	" " 15th September 1935	12,83,15
6% Bonds, 1933-36	15- 8-30	On or before 15th August 1936 but not preceding 15-8-33, with three months' previous notice.	29,70,81
4% Conversion Loan of 1916-17.	1-10-16	On or before 1-10-36 but not preceding 1-10-31, with three months' previous notice.	9,90,01
4% 1934-37	1- 8-27	On or before 1-8-1937 but not preceding 1st August 1934 with three months' previous notice.	19,53,79
5% Loan, 1939-44	15- 7-29	On or before 1-8-1944 but not preceding 15-7-1939 with three months' previous notice.	28,68,77
5% War Loan, 1929-47	15- 8-17	On or before 15-8-1947 but not preceding 15-8-1929 with three months' previous notice.	21,51,41
5% Income Tax Free Loan 1945-55.	15-10-19	On or before 15-10-1955 but not preceding 15-10-1945 with three months' previous notice.	58,90,79
4½% Loan 1955-60	15- 9-28	On or before 15th September 1960, but not preceding 15th September 1955 with three months' previous notice.	9,05,70
4% Loan 1960-70	15- 9-26	On or before 15th September 1970 but not preceding 15th September 1960 with three months' previous notice.	29,49,71
		Total	2,89,07,29

TABLE 4.—*Non-Terminable Loans.*

Particulars.	Date of Issue.	Conditions of Repayment.	Amount in Thousands
3½% 1842-43	1-2-1843	At the option of the Government of India: after three Months' notice.	Rs. 22,67,14
" 1854-55	30-6-1854	Do.	23,32,42
" Coupon (a)	30-5-1864	Do.	25,05
" 1865...	1-5-1865	Do.	36,46,32
" Reduced 1879	16-1-1879	Do.	2,88,16
" 1900-01	30-6-1900	Do.	34,46,13
			<hr/> 1,20,05,22
3% 1896-97	22-7-1896	Do.	5,46,47
			<hr/> 1,25,51,69

(a) Issued in London in conversion of the 4½ % Loan.

TABLE 5—*Railway Loans.*

Particulars.	Date of Issue.	Conditions of Repayment.	Amount in Thousands
Maharaja Holkar 4½ %	1870-77	After 101 years ...	1,00,00
„ Scindia 4%	...	At the option of the Government of India ...	1,50,00
Nawab of Rampur	1892-93	After one year's notice ...	47,00
			2,97,00

Against the total Rupee Debt of Rs. 4,17,55,98,000, as given in Tables 3, 4 and 5, the amount held in London is Rs. 8,38,53,000.

During the month, securities of the 5 % Loan, 1929-47, of the nominal value of Rs. 16,46,800 were purchased at a cost of Rs. 15,58,513 on account of the Depreciation Fund.

TABLE 6.—*Public Debt not bearing Interest.*

Particulars.	Date of Discharge.	Amount in thousands.
		Rs.
5½% War Bonds 1920 ...	15-8-1920	3,85
5½% „ „ 1921 ...	15-5-1921	3,75
5½% „ „ 1922 ...	15-8-1922	4,31
5½% „ „ 1923 ...	15-9-1923	93
4¼% Terminable Loan of 1915-16...	30-11-1923	37
5½% War Bonds 1925 ...	15-9-1925	52
6% Bonds 1926 ...	15-9-1926	1,69
6% „ 1927 ...	1-10-1927	2,97
5½% War Bonds 1928...	15-9-1928	6,62
6% Bonds 1930 ...	15-8-1930	43,80
	Total ...	68,81

SCHEDULE—C.
Return of Sterling Loans.

TABLE 7.

Return of all Loans raised in England under the Provisions of any Acts of Parliament chargeable on the Revenues of India, outstanding at the Commencement of the Half Year on the 31st March 1931 (as supplied to Parliament).

Description of Loan.	Rate of Interest.	Total of Interest payable during Half-year ended 31-3-31.	Date of Termination of Loan.	Debt Outstanding on 30th September 1930.	Debt Incurred during Half-year ended 31-3-31.	During the half-year ended 31-3-31.		
						Moneys raised.	Debt paid off.	Debt outstanding.
India 5½% Stock 1932.	P. C. 5½	554,110	Will be repaid at par on 15-1-1932.	£ 20,149,464	£ ...	£ 98,260 *	£ 15,011,550	£
4½% Stock ...	4½	896,679	If not previously redeemed will be repaid at par on 15-5-1955 S.I.C.'s right to redeem on or after 15-5-1950 or on 3 months' notice.		...	39,654 †		
4½% Stock ...	4½	393,750	At par on 1-6-1968 or on or after 1-6-1958 3 months' notice.	39,852,418	...	5,000,000 ††		39,852,418
3½% Stock ...	3½	1,551,688	Not till 5-1-1931 but after one year's notice.	17,500,000	...	...		17,500,000
				88,667,884	...	...		88,667,884

[contd. on next page.]

SCHEDULE—D.

Details of Acquisition of Railway by the State.

TABLE 8.

Name of Company	Length of Line in Miles.	Date of Purchase	Capital Subscribed by the Company.		Rate per cent. on Share Capital	Total Price	Discharged.
			Share	Debenture.			
East India Rly ...	1504	31-12-1879	£. 26,200,000	£. 4,450,000	125	32,750,000	By India Stock £7,282,366, By Annuity £25,467,634.
Eastern Bengal ...	160	1-7-1884	2,255,480	1,024,658	150'383	3,391,917	By India Stock £542,070, By Annuity £2,849,847.
S. P. & D. Rly. ...	737	1-1-1886	11,075,320	...	126'49	14,009,124	India Stock £4,911,216, Annuity £9,097,908.
Dudh & Rohilkand	548	1-1-1889	4,000,000	5,300,000	125'9012	5,046,049	By 3% India Stock.
South India ...	655	1-1-1891	3,208,280	1,495,000	131'0116	4,197,557	India Stock £3,197,557, Capital Deposited £1,000,000.
S. I. P. Ry. ...	1288	1-7-1900	10,000,000	5,922,350	174'296	34,859,218	Annuity £33,109,218, New Company Stock £1,750,000.
S. B. & C. I. Ry....	461	31-12-1905	8,745,056	2,391,300	133'625	11,685,581	India Stock £9,685,582, New Company Stock £2,000,000.
Madras ...	905	1-1-1908	10,257,630	2,146,600	124	12,819,558	Annuity £11,319,558, New Stock £1,500,000.

INDEX

	PAGE.			PAGE.
Abyssinian War :			East India Company :	
Sir Charles Trevelyan on	22		As a screen to use the	
Mr. Laign S. on	22		Revenues of India	3
Lord Northbrooke on	23		Confusion in accounts of	8
Lord Salisbury on	22		Court of Directors resolution	
Secretary of State on	22		on Afghan War	12
Aden :	36		Debt in 1857	6
Maj. Gen. Collen on	37		External War costs	10
Mr. S. Jacob on	38		History of	6
Welby Commission on	37		Purchase price paid to	13
Afghan Wars :			Redemption of Capital,	
1st War Cost	10, 17		Stock etc.	12
Court of Directors on	11, 12		Ecclesiastical charges	42
Sir George Wingate on	11		Egyptian Operations :	
John Bright on	12		Lord Northbrooke on	25
2nd War Cost	23		Exchange :	
Mr. Fawcett on	24		Loss on	44
Gladstone on	24		On Railway contracts	54
Gokhale on	25		External Wars :	
Lord Lytton on	24		Of the East India Company	10
Boer War :			Under the Crown	21
Contrasted with the Mutiny	16		Famine charges	43
Bright (John) :			Fawcett (Mr.) :	
On the cost of the Afghan War	12		On the 2nd Afghan War cost	24
On the cost of the Mutiny	15		Finances—	
Budget Deficits	35		not under popular control	2
Burmah :			Responsibility of Parliament	4
Bhulabhai J. Desai on claims			Gladstone (W. E.):	
in respect of	43		On 2nd Afghan War cost	24
Cost of 1st & 2nd War.	11, 17		Gokhale (G. K.) :	
Cost of 3rd War	25		On 2nd Afghan War	25
Gokhale on	26		On 3rd Burmese War	26
D. E. Wacha on	26		Government of India :	
Cable companies :			A Department of British	
Loss in respect of	41, 42		Government	3
Charter Act (1813)	5		Protest against Soukim	
Charter Act (1833) :			Expedition	26
Important Sections	5, 6		Hardinge, Lord :	
China :			On India's ability to share	
Consular Establishments	40		War burdens	28
Collen (Maj. Gen. E. H. H.) :			India Office cost	35
On Aden	37		Interest :	
On Egyptian Operations	25		Claims in respect of items	
Commander-in-Chief			challenged	68
On India's contribution			Payments to the E. I. Co.	6, 13
to the Great War	32		Irish Free State :	
Day of Reckoning :	4		Release from share of obli-	
Desai, Bhulabhai J.			gations for the national	
re : Burmah claims	43		debt of the United Kingdom	61
Dominions :			Irrigation	57
Contributions to War				
compared with that of India	34			

	PAGE.		PAGE.
Jacob (Mr. Stephen, I. C. S.) :		Public debt :	
On Aden	38	Amount to-day	17
On Loss on Cable Companies	41	Amount challenged	60
Kumarappa (J. C.)		Amount of Interest claimed on	68
Claims in respect of Interests	68	Classification	18
" " Military		Not "National Debt"	3
" " Expenditure.	64	Productive and Unproductive	19
		Responsibility on Parliament	4
Laign (Mr. S.)		Railways :	47
On Abyssinian war cost	22	Acquisition by the State	54
Lytton, Lord :		Costliness of Construction	52
On 2nd Afghan War Cost	24	Guaranteed	49
		Strategic	56
Military Expenditure :		Ratification	3
Claim in respect of	64	Reckoning, Day of.	4
Excessive	62	Reference-Terms of,	1
Percentage on total expendi-		Threefold enquiry suggested by	2
tures compared with other		Repudiation	
nations	64	Not a repudiation	3
Miscellaneous Charges	36	And Parliament	4
Mutiny :		Reverse Council bills	45
Compared to the Boer War	16	Salisbury, Lord :	
Cost of	14, 40	on the Abyssinian War	22
Sir George Wingate on	14	Sanctity of Contracts	4
John Bright on	15	Secretary of State for India :	
Secretary of State on	16	on the Abyssinian War	22
Niger Company, Royal :		on the Cost of mutiny	16
Comparison with the East		on the practice on Charging	
India Company	14	cost of troops	29
Northbrooke (Earl) :		Trevelyan (Sir Charles) :	
On the Abyssinian War	23	on Abyssinian War Cost	22
On Egyptian operations	25	Wachha (Sir Dinsha) :	
On Perak Expedition	23	on 3rd Burmese War Cost	26
North-West Frontier :		War Contributions	32
Minor Expedition Cost	25	War Cost	32
Policy of	24	War Gift	29
Parliament :		Illegal	30
Charging to Indian Revenue		Welby Commission	
Cost of Military operations		on Aden, India Office etc.	37
abroad.	28	Wingate (Sir George),	
Responsible for Indian Debt	4	on the cost of mutiny	14
Pennington's Report	9	on the external wars of the	
Perak Expedition :		company	11
Lord Northbrooke on	23	Parliament responsible for	
Persia :		Indian Debt	4
Cost of mission	38		
Expeditions to	11		

