

*Monday,
11th January, 1886*

ABSTRACT OF THE PROCEEDINGS

OF THE

Council of the Governor General of India,

LAWS AND REGULATIONS

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ABSTRACT OF THE PROCEEDINGS
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Abstract of the Proceedings of the Council of the Governor General of India, assembled for the purpose of making Laws and Regulations under the provisions of the Act of Parliament 24 & 25 Vic., cap. 67.

The Council met at Government House on Monday, the 11th January, 1886.

PRESENT:

His Excellency the Viceroy and Governor General of India, K.P., G.C.B., G.C.M.G., G.M.S.I., G.M.I.E., P.C., *presiding.*

His Honour the Lieutenant-Governor of Bengal, K.C.S.I., C.I.E.

The Hon'ble C. P. Ilbert, C.S.I., C.I.E.

The Hon'ble Sir S. O. Bayley, K.C.S.I., C.I.E.

The Hon'ble T. C. Hope, C.S.I., C.I.E.

The Hon'ble Sir A. Colvin, K.C.M.G., C.I.E.

The Hon'ble H. J. Reynolds, C.S.I.

The Hon'ble Rao Saheb Vishvanath Narayan Mandlik, C.S.I.

The Hon'ble Peári Mohan Mukerji.

The Hon'ble H. St.A. Goodrich.

The Hon'ble G. H. P. Evans.

The Hon'ble J. W. Quinton.

The Hon'ble R. Steel.

The Hon'ble W. W. Hunter, C.S.I., C.I.E., LL.D.

LICENSE TAX AMENDMENT BILL, 1886.

The Hon'ble SIR A. COLVIN moved that the Bill for imposing a tax on income derived from sources other than agriculture be referred to a Select Committee consisting of the Hon'ble Messrs. Ilbert, Hope, Quinton, Hunter and Steel, the Hon'ble Rao Saheb Vishvanath Narayan Mandlik, the Hon'ble Peári Mohan Mukerji and the Mover, with instructions to submit their Report on the 22nd instant.

The Hon'ble MR. HUNTER said:—"My Lord, as I shall have an opportunity of expressing my views on the individual provisions of this Bill in the Select Committee, I shall not at its present stage detain the Council at any length. But on the introduction of the measure, your Excellency referred in weighty and eloquent words to two subjects which have always seemed to me of the highest importance, and in regard to which I entertain firm convictions. The first of these subjects is the attitude of Native public opinion to the policy

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of the Government. The military precautions taken by your Lordship's Government in the early part of the year evoked an outburst of loyal support which created a deep impression in Europe, and helped to still more closely knit together British and Feudatory India. The military measures, deemed equally imperative by your Lordship's Government towards the close of the year, have been criticised by a section of the Native Press in a different spirit. The truth is that, in the former case, the Native Press was cognisant of the facts of the situation; in the latter case it was not. Every Native journalist knows that the epoch-making invasions of India in the past have come from the north; and every great Native family and Feudatory Chief realises that any such invasion in the present would mean the ruin of his house. With regard to the operations in Burma, on the other hand, the facts were obscure and the causes were practically unknown. The constitution and circumstances of the Government of India almost preclude it from those prompt disclosures of its grounds of action, which tend to keep public opinion in harmony with public policy in other dependencies of the British Crown. The Native Press has here to grope its way amid false rumours and ambiguous voices, stumbling over errors before it reaches the truth. Your Lordship's declaration of policy last Monday will, therefore, profoundly influence public opinion throughout India. For that declaration made it known that, quite apart from Palace massacres or Court crimes, or internal misrule in Upper Burma, and only when the future of a British province was seriously compromised, and after honest and sincere endeavours at an amicable settlement had been frustrated by the folly of the King, did your Lordship's Government resort, as the last alternative, to war.

“ By the attitude of the Native community in this juncture it will hereafter be judged. A policy of wise preparation against external dangers has been laid before it. The crisis of April placed the necessity of that policy beyond doubt. Of the moderation and financial prudence with which the policy is being conducted your Lordship's speech contains convincing proofs. The circumstance that, in the anxious moments of last summer, while every preparation was successfully made, yet not a regiment was mobilised nor a penny spent except on precautionary measures, is a fact more significant to the taxpayer than any pledges or promises. Nor less significant is the fact that the Government has had the courage to curtail the increase to the military forces recommended by so sober-minded an adviser as the late Commander-in-Chief. In so doing the Government spared the taxpayer by taking a very heavy responsibility on itself.

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“ During seven centuries India tried the opposite policy of non-preparation, with appalling results. Again and again its peaceful populations were submerged beneath waves of foreign invasion. Those invasions came not only from Central Asia into the Punjab, but from Burma into the Provinces of Assam and Lower Bengal. It should never be forgotten that on the map of Bengal in the last century, vast districts, within 36 hours' sail of Calcutta, and now peopled by millions of prosperous cultivators, appear bare of villages, with the terrible words written across them 'Depopulated by the Maghs' or Burmese. In Northern India, during a short period of twenty-three years in the middle of the last century, six exterminating hosts from Persia and Afghanistan swept across the country, leaving a broad tract of desolation to mark their route. For the chronic state of unpreparedness which had cost India so appalling a sum of human misery, the British Government substituted a policy of preparation which from time to time imposes certain burdens. In the first quarter of this century, that policy imposed a heavy burden to meet the menaces of the greatest military Power then in Europe. In the fourth quarter of the century, it is imposing a lighter burden to protect India against possible danger from another great military European Power. And as the measures of Lord Wellesley postponed the danger from France, till it passed altogether away in the last generation, so may we, with a good confidence, look forward to similar results from your Lordship's precautions against Russia in our own day. I believe that the true issues have only to be understood by the people of India in order that they shall gratefully accept the policy of the Government, and bear, without a murmur, the burdens which it may impose. Most of us have watched with interest the efforts lately made by Natives of India to win their way into Parliament, and I for one sincerely regret the unfructuous result of their endeavours. But those results show that, in order to obtain the suffrages of Englishmen, you must possess not only their sympathy and goodwill, but also their more slowly granted confidence. The Natives of India have now the opportunity of giving a conspicuous proof that they cordially identify themselves with measures demanded for the safety and integrity of the Empire, and that they cheerfully accept their share of the burden which those measures involve.

“ The other matter on which I should like to say a few words has reference to the form in which the burden is to be imposed. Without raising questions as to the abstract merits of direct or indirect taxation, I desire to express my conviction that an income-tax is at present, and has for some time been, the only equitable form of new taxation in India. I agree with those Native

writers who have been urging, both in the journals and in independent treatises, that an undue proportion of the revenue has, of late years, been raised from imports falling heavily on the lower classes. The Finance Minister has explained how the fiscal reforms of 1882, by drying up the chief source of increased indirect taxation, brought the country face to face with direct taxation. The most prominent of those reforms, namely, the abolition of the import-duties, has also had the effect of disturbing the adjustment of taxation between the rich and the poor. For since the Indian cotton-mills began to produce the coarser qualities of cloth on a great scale, and the duty was consequently restricted to the higher qualities, the import-tariff acted to a large extent, although not entirely, as a tax on the well-to-do classes. The peasant, who requires a stout, coarse garment which he can wash out every day when he bathes in the village-tank, profited little by the abolition of the import-duty on the finer sorts of piece-goods. I believe that an income-tax, moderate in amount, and levied by an efficient permanent staff, is not merely the financial corollary of the abolition of the import-duties, but that it will tend to a more equitable distribution of the public burdens between the rich and poor.

“I am aware how heavily the least additional pressure must at present fall on our own countrymen in India, struggling to maintain their position here, and to educate children at home, with a depreciated rupee. The sincere and eloquent words of sympathy in your Lordship's speech last Monday have gone to many an Englishman's heart. One sometimes hears it urged that the duty on liquors is in itself a sufficient contribution from the European community. But it should be remembered that the duty on liquors, paid chiefly by Europeans, yields but a small total sum as compared with the internal excise, paid almost entirely by the Native population, and to a large extent by Natives of the poorest class. If the import-duty on liquors amounted to £422,138 in 1883-84, the internal excise yielded £3,836,961.

“The only practicable alternative to an income-tax is an increase of the salt-tax. Sir Auckland Colvin has shown that such an increase would fall most heavily on the classes least able to bear it, and he has brought forward other unanswerable arguments on the same side. From my point of view there are two considerations which have a special cogency at present. Under the new system of a moderate uniform rate of salt-duty, a gradually increasing quantity of salt is being consumed. If that increased consumption is allowed to reach its natural expansion undisturbed, a very small increase to the rate of duty will, before many years elapse, yield a very large addition to the revenue.

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Moreover, the extension of railways will, before long, materially lighten the actual burden of the salt-tax on the people in the interior of India. The cost of the carriage of a ton of salt by railway is less by two annas a mile than the cost of its carriage by cart. If the salt travels 450 miles, or less than the distance from Calcutta to Benares, and much less than the distance from Bombay to Nágpur, the effect of this difference is to reduce the cost to the consumer by more than the whole duty levied by Government. I may mention that, incidentally following the reform of the salt duty in 1882, has been a freer development of an important food-producing industry. More than one hundred fish-curing yards under Government inspection have been established on the Madras coast. Last year they produced 20,000 tons, and this year their outturn is estimated at 30,000 tons of wholesome food. I am aware that the system of supplying cheap salt for fish-curing might still be followed. But any change in a reformed system so recently established, and only gradually developing its results, is to be deprecated. Apart from the undue pressure of an increase in the salt-duty on the poor, there are important considerations against any such increase at present.

“While, however, I believe that an income-tax is equitable in its character, I acknowledge that it may prove most oppressive in its incidence. The odium which has attached to the successive Indian income-taxes is chiefly due to the successive inquisitorial scrutinies required for their assessment. The tax has been laid on with a pledge that it will be taken off in a year, or two, or within a limited period, and an army of poorly paid officials has been let loose upon the country, resolved to make the most for themselves out of the temporary job. With continuity of assessment, and with moderation in assessment by means of a permanent staff, much of this oppression has ceased. It is possible to name districts in which the system of record is now so perfect as to have almost put an end to oppression altogether. I observed, therefore, with satisfaction that the present Bill was introduced without any pledge as to its temporary duration. The Bill is so drawn that it will not become inoperative by mere efflux of time. If the income-tax is to be hereafter abolished, it must therefore be abolished by a deliberate Act of the legislature, and after a public discussion of the whole facts. I sincerely hope that another period of general remission of taxation, such as that of 1882, may again come to India. But until that time arrives, I regard the continuous levy of a moderate income-tax as one of the most equitable sources of Indian revenue.

“I say this without pledging myself to all the details of the present Bill. Those details will be dealt with in the Select Committee, I must, however, at

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once express my regret that no deduction is allowed from the assessable income for payments for life-insurance or deferred annuities. The English income-tax law has long recognised the expediency of encouraging thrift by making such deductions. The present extension of the license-tax to the professional and official classes, whose brains are their sole stock-in-trade, and who have no goodwill of a business to leave behind them, seems to render such a deduction particularly necessary in India. The gradual disintegration of the joint Hindu family, which acted as a minute mutual assurance company or Friendly Society, points to the same conclusion. The exemption of payments for life-insurance should not, in my opinion, be left to executive rules, but should form a part of the Act. Again, it is not clear to me at present why a clerk in a Government office drawing Rs. 99 per mensem should be exempted from income-tax on his salary, while a clerk drawing the same amount in a bank or merchant's office should have to pay. The responsibilities of employers for collecting the income-tax from their servants; and especially the responsibilities imposed by the Bill on shipping agents and companies, also seem in some respects to require elucidation or modification.

“ In conclusion, I desire to express my sense of the simplification which this Bill effects in the Indian law, and of its perspicacious brevity as compared with the English Income-tax Acts. I have been lately trying to understand the legal enactments under which the income-tax is levied in England. In Mr. Dowell's work on the subject published in 1874, the Income-tax Acts number fifty, and their text fills 326 pages. To these are appended extracts from eighteen other Statutes occupying another 120 pages, and requisite for a complete comprehension of the law. Instead of this voluminous compilation, and in place of the six enactments which have hitherto regulated the license-tax in India, the whole subject-matter is here embodied in one compact Bill. ”

The Hon'ble MR. STEEL said :—“ The country will sympathize with your Lordship's Government in the mortifying necessity that, while you have so favourable an account to give of the revenue, you should be compelled to resort to fresh taxation. And, if such taxation is required for the well-being of the State, you may rely that a loyal and reasonable community will respond cheerfully to the sacrifice demanded from it. I trust it is not necessary for me to disclaim on behalf of Anglo-Indians the application to them of my hon'ble friend's sarcastic reference to ' those who are willing to transfer to others their share of misfortune.' Such will not be our attitude. We are suffering exceptionally, in a period of general prosperity,—some of us from deteriorated investments, others from depreciated exchange, and many of us from the excessive

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competition which renders the struggle for existence keener and keener as years go by,—but we are all ready to bear our fair share of the burdens of the State. With regard to the necessity for great additional expenditure, I have little to say. Your Lordship's speech set forth, in stirring and weighty terms, the paramount duty which devolved upon you of strengthening and consolidating our military resources. The country distinctly recognises the need of placing India in a position where her safety is assured, not by treaties or arrangements with others, but by her own commanding strength. 'When the strong man armed keepeth his palace, his goods are in peace.' This attitude must be ours. You have described to us the means you have adopted with this end in view, and we approve of your fortresses, your frontier railways, and your additions to the army. We believe the expenditure is indispensable and are ready to pay the bill. We note with satisfaction the promise of a Commission to insure due economy of our resources, and take leave to remind you of an important economy, combined with increased efficiency, which may be attained by following the advice of the Army Commission, from whose report so much was expected.

“Having thus admitted the necessity of expenditure, I agree heartily with the hon'ble member in repudiating the cowardly suggestion that in a period of general prosperity we should provide for our present requirements by borrowing. Nothing but overwhelming necessity can justify such an improvident expedient. I use the same terms with regard to our reserve for famine. The policy of which that reserve was the outcome was the subject of careful and anxious thought and deliberate determination. We must pursue the path until we have attained the goal in view. When introducing this Bill the hon'ble member devoted the earlier part of his speech to a comparison of the budget-estimates of the last three years with the income actually obtained from existing sources of revenue. He demonstrated to the satisfaction of the country the elastic and expansive character of its resources, and silenced those dismal forebodings of financial ruin periodically launched from the platform and the Press. He produced evidence of the advancing prosperity of India under British rule, and satisfied the world that our consistent efforts to improve the condition of the people are achieving the results to be anticipated from them. The hon'ble member estimates that existing sources of revenue will defray the expenditure of the country with the exception of a sum of £700,000, most of which he now proposes to raise by this Bill. I will here express the opinion that his estimate of revenue is by no means too sanguine. On the contrary, I confidently expect that at the conclusion of the financial year we shall have to congratulate him on a surplus as great as the average of the past three years. This happy result I look for partly from the bounteous harvest of which we

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have every prospect, and partly because I cannot agree with the gloomy view taken by my hon'ble friend and shared by your Lordship of the effect on our revenue to be anticipated from the depreciated exchange which he assumes as the basis of his calculations. Although I feel some reluctance to enter upon this intricate and difficult subject, its importance is so great that I must support my views by argument. A change in the relative value of the precious metals, which is the cause of our fluctuating exchange, neither increases nor diminishes the material wealth of the world. The change merely involves a transfer from one hand to another. Some must gain by every fluctuation; and what some gain others must lose. If the value of silver declines, the losers are the owners and producers of the metal, and those to whom obligations are due in silver currency. The gainers are the consumers and debtors. India must belong to one of these two classes, and no argument is necessary to prove that she does belong to the latter. But, while I cannot expect that the hon'ble member will contest this general proposition, I am prepared to hear him argue that the gain to the national resources may be concurrent with the loss to the Exchequer which he foreshadows in his speech. This view will be supported by the following argument. The fall of exchange causes a direct loss on the payment of home charges in gold. At the same time, if we do not increase our land-revenue with each depreciation of our currency the advantage all goes to the landholders, and if we do not increase our salt-tax the gain goes to the consumer and not to the Government. All this is true, but I reply that other important elements of the question are left out of consideration. When the purchasing power of silver declines, we obtain a higher price for Bengal opium. I confidently assert that from this source alone we recoup ourselves for one-half of our loss on home charges. There is another important item of gain. A fall in exchange, when accompanied by no corresponding advance in rents or in cost of transport, is an immense stimulus to exports, and increases the income of Government railways. Here, my Lord, we find an explanation of our surpluses. Our budgets have brought into account all the losses which arise from falling exchange, but have failed to take credit for the compensating gains which must accompany them. Holding these views, I expect in the coming financial year a large surplus over the estimate of revenue which has been put before us. I state this, however, rather as a cause of satisfaction than complaint. I look upon it as the duty of Government to provide in prosperous times a very safe margin of income over expenditure.

"I now come to the main topic of debate. Does this Bill provide the best means of raising the additional revenue we require? The hon'ble member

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has told us that he expects to have to defend his Bill against champions armed with the rusty and obsolete weapons of antiquity. If there be any such, I have not enlisted in their ranks. I have not been compelled, like my hon'ble friend, by either duty or inclination to ransack the records of past years. I can urge upon the Council nothing more venerable than contemporary public opinion, and I am happy to say that the views I will express are sanctioned by the approval of the leading representatives of commerce in this city.

"The first principle of a proper system of taxation is that it should be fair in its incidence, and the second that no unnecessary wastage should be involved in collection. Besides these it is obvious that the form of taxation should cause no unnecessary oppression or irritation, and should be framed in accordance with the wishes and even the prejudices of the people. Judged by this standard, direct taxation is less suited to this country than indirect taxation, if only we could insure that the latter could be made to fall equally upon the various sections of the community. But as it appears that no indirect form of taxation can be devised which will obtain from a certain class their proper contribution, I must express my approval of a system of mixed direct and indirect taxation. As the choice lies, therefore, between the license-tax and an income-tax, I unhesitatingly prefer the latter. The license-tax was grossly unfair in its incidence. The big fish broke through, while the small were caught in the net. This Income-tax Bill is at least intended to be fair. I believe some of its details are quite unworkable, but these may be amended in Committee; and if the Committee can secure that the means and instruments provided for carrying the Bill into effect are calculated to cause neither oppression nor needless irritation, I will be content with it. My hon'ble friend will look upon me as another Balaam if I agree with him any further; and I must now attack him on his vulnerable side.

"I must protest in the strongest terms against any budget which does not redress the crying evil of our financial system. The hon'ble member will anticipate me. I refer to the export-duty on rice. To my mind it seems inconceivable that such an objectionable impost should be preserved in any civilized country. An export-duty on raw produce, and that produce the food of the people! With all our study of economics, can we do no better than this? It is as hurtful in practice as vicious in principle. Who would dream of an export-duty on wheat? In principle there is no difference. Let us consider its effect. An export-duty of 10 shillings per ton is equal to a percentage ranging from 5 to 10 upon its value. It absolutely shuts out the grain from important consumption for distilling and

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sizing purposes. It reduces the foreign consumption of rice for food when it comes into competition with other articles of food. It thus limits the production of the principal agricultural product of Bengal and Burma at the cost of the agricultural and labouring classes. By checking the production of rice it diminishes the reserves to which we must look in case of scarcity and famine. I look upon this rice-tax as the very worst possible source of revenue which could be devised, and cannot approve any budget which does not get rid of it, even at the cost of fresh taxation. I have been informed that of the abundant harvest of 1882 much rice was actually allowed to rot upon the ground because not worth the cost of saving, which but for this duty might have been profitably saved and shipped. But it is not sufficient to prove that a tax is objectionable unless I can provide a less objectionable substitute; and this condition I will endeavour to fulfil. I propose that the £800,000 required for the remission of the rice-duty be provided from other indirect taxation. As the import-duty on textile fabrics has been mentioned in this debate, I may as well say at once that, while this source of revenue should never have been abandoned while another more objectionable remained, still what has been done cannot be recalled. We must then look to the salt-tax, and I propose by raising this four annas per maund to obtain the sum which we should remit on rice. Now, I am well aware that to touch the salt-duty may be condemned in certain quarters, and I must therefore support my position by an examination of the incidence of the salt-tax. It has been abused by some, because it affects the working classes. Unless it affects them unfairly I look upon this as a merit. I need not protest in this assembly against the socialistic notion that the working classes should contribute nothing to the State. I propose to show that it falls so lightly upon the people as to be practically unfelt. When Major Baring reduced the tax to Rs. 2 per maund he specially reserved the probability that the tax must be raised if exchange declined. Exchange has since declined 10 per cent. The cost of salt to the consumer is about Rs. 5 per maund, and the increase I suggest is 5 per cent. on this price, leaving the consumer 5 per cent. better off than he was before. But it is necessary for the purpose of refuting objections to show how the tax really falls upon the people. The labouring classes supply themselves with salt by purchasing bi-weekly from the village-shops. Their requirements for a year are then divided over 104 portions. The incidence of the duty is four annas per head, say 4½ pence sterling, per annum. The quantity purchased on each occasion is so small that it is not even weighed, but is given to the purchaser in a rough pinch or handful. Its value is so small that it is not possible to represent it by the smallest coin of the realm, but is paid for in cowries. To speak of such

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a tax as oppressive is a misuse of terms. It has never been complained of by any one except exotic philanthropists, and in raising it a half-penny per head per annum I think we should harm no one. It is my honest conviction that the peasant has never yet discovered that the tax has been reduced, and that he will neither know nor feel this small advance. The hon'ble member believes that the increased consumption of salt has been caused by the reduction of duty. I believe he is mistaken. I believe the increase is due to the increment of population, the great extension and cheapening of the means of transport, and above all to the abolition of the customs-line. I beg to assure the Council that I do not propound these views as my own. They have been pressed upon me by the Committee of the Chamber of Commerce and others of our most influential fellow-citizens. I hold in my hand a statement of the imports of Liverpool salt into Calcutta during the last ten years. The figures concerning all India are not in my possession, but this statement shows some curious facts regarding the salt consumption of Bengal. The largest increase of the decade was in 1876. There was no reduction of duty that year, but the consumption rose 13 per cent. After the reduction of 1882, the consumption rose $7\frac{1}{2}$ per cent. in 1883, and of this increase $1\frac{1}{2}$ per cent. was lost in the following year. My conclusion from all this is that we should do a service to the country in general, and the poor in particular, by taking the duty off rice and adding four annas per maund to the salt-duty. I would recommend this, my Lord, from a consideration which, I hope, may influence you as a statesman and man of the world. If the salt-duty is ever to be raised, the objections to it will gain force unless it is done on an occasion like the present, when you are imposing direct taxation.

“ Before concluding, my Lord, I must address myself to another subject which appears to me to demand a change of system in our finance which would result in an important economy of the resources of the nation. The recent Government loans for public works have been raised in England, which is the cheapest market; and although this course has been made the subject of needless apology we may hope that the wasteful and extravagant system of borrowing in India will not be resumed. But unfortunately Government has expressed its intention to require that all loans for local and municipal purposes, such as the docks of Calcutta and Bombay, must be raised in India. I must protest against a system so generally condemned being applied even in this partial manner. We can borrow money in England 1 per cent. cheaper than in India, involving a saving of $\frac{1}{3}$ ths of the entire charge of interest. The only possible justification for accepting such a loss

must be the reasonable fear of a further extraordinary decline in silver. The fall represented by this difference is from 1s. 6d. to 1s. 2d. the rupee. Now, although no one can tell what may be the course of the silver market, and although a further fall seems probable at present, we can pretty safely assume a limit to the possible continuous rate of decline. An adequate and detailed demonstration would fill a volume, but I think I can prove enough for my purpose in a few words. The amount of silver bullion and coin in the world is about 700 millions. The annual production is 23 millions, of which 8 millions are absorbed by arts and manufactures and the wear of coin. There remains annually 15 millions available for coinage. Assuming an extreme pessimist view, the decline in the value of the coin cannot exceed the proportion of its increase in quantity. The 715 millions of one year must be worth at least as much as the 700 millions of the year before. On this basis the continuous average decline cannot be more than 1d. per ounce or $\frac{2}{3}$ d. per rupee. But while the fall cannot be more than this, there are many reasons why it cannot be so much. The specie requirements of India and China must increase; and a great fall in value must produce an effect on production. If exchange falls steadily $\frac{2}{3}$ d. every year for ten years, it will come down from $\frac{1}{4}$ to $\frac{1}{8}$, but in the meantime we should benefit for ten years by borrowing in England to the extent of $\frac{3}{4}$ ths of our interest charges. I do not pretend that this is a scientific treatment of a complex problem, as the fluctuation in value of the precious metals is affected by appreciation of gold as well as by depreciation of silver. Having regard, however, to conditions of time and place, I put forward these observations as sufficient proof of the correctness of the general view that every loan effected in India involves an extravagant waste of our resources."

The Hon'ble MR. QUINTON said:—"I do not propose to follow my hon'ble friend who has just spoken in his criticism of the budget, in the objections he has urged to the export-duties on rice, and in his proposal to substitute for them an increased rate of duty on salt. It appears to me that the functions of this Council when discussing a Tax Bill on an occasion like the present are similar to those of the House of Lords at home when debating a Money Bill sent up by the House of Commons. We must either accept or reject it as a whole. The members of this Council, excluding the members of the Executive Government, have neither the knowledge nor the information which would warrant them in forcing on schemes of their own in preference to those laid before them on the responsibility of the Government of India. One remark of the hon'ble member I cannot however pass unnoticed. He observed that an increase to the rate of duty on salt would affect the consumer inappreciably:

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The controversy is not a new one, but I am old enough to remember an enquiry made on this point in Oudh some 20 years ago, the result of which was, to the best of my recollection, that an increase to the rate then existing would unduly straiten the means of the people to supply themselves with a sufficiency of an article essential to their health and, what to an agricultural community is almost equally necessary, to the health of their cattle.

“ I now pass on to the subject immediately before us. The speeches of your Lordship and Sir Auckland Colvin at the last meeting of this Council must satisfy us that, owing to causes over which the Government of India have had but slight control, the current financial resources of the State have become inadequate to the demands made upon them in order to secure the welfare and safety of British India. The continued fall in the price of silver, coupled with the increased military charges, has proved to be too great a strain on the ordinary revenue.

“ We must also accept—and I for one most thoroughly acquiesce in them—the reasons which prevented the Government of India from retracing its steps and reimposing the customs-duties abolished in 1882, from increasing the rate of the salt-tax, or from borrowing to satisfy our present wants. Your Excellency has assured us that measures of economy have not been lost sight of, but that, before they can be fully considered and carried into effect, the finances must be otherwise recruited. It would be impossible without deranging the whole administration throughout the Empire to use the shears to such an extent as to fill up immediately the deficit now before us.

“ These things being so, but little choice was left to the Government as to the means they should adopt to put the finances on a sound footing, and the proposals now made seem to me cautious, adequate and founded on unassailable principles. As stated by my hon'ble friend, the Finance Member, it has been clear for some time back to careful observers of the management of the finances that an income-tax in some shape or other was steadily approaching, and we have not been startled by any sudden apparition, nor have we, as on a former occasion, had a mine sprung upon us in the shape of a demand for a doubled income-tax in the middle of the year. The Bill on the table regulates, equalises and extends an existing tax, and will take effect from the date when such measures usually come into force.

“ Your Excellency and my hon'ble friend have also left nothing to be said on the fairness and decency of requiring those classes who benefit most by our rule in India to contribute to its support. The opponents of direct taxation

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are eloquent on the abuses which are, they say, inseparable from such a system of taxation in India, and are eager in their desire to prove the facility with which additional taxation can be imposed on the land. Like the lawyers of Jerusalem, they would load others with burdens grievous to be borne, and they themselves touch not the burdens with one of their fingers.

“Happily the arguments from abuses, such as they were, against the former income-tax lose much of their force when directed against the Bill. The license-tax is a much narrower measure, and does not touch the agricultural and labouring classes, who already pay a fair share towards the expenses of this Government; it has been in operation for several years; the administration of it has year by year become more careful and complete; the machinery for carrying it out has been rendered more effective; the supervising agencies more skilful in detecting oppression and abuses, and the persons affected by it better acquainted with the means of securing a remedy against unfair assessments.

“Speaking for the Provinces of which I have most experience, I feel justified in saying that the tax is assessed and collected with as little pressure and abuse as it is possible to expect in levying any such impost.

“The license-tax in its present form, however, yields a sum insufficient for our needs, and is open to one great objection of principle already alluded to by my hon'ble friend who preceded me, namely, that beyond a certain point the richer a man is the smaller is the proportion of his income that it takes from him. He whose profits are counted by lakhs pays exactly the same as he whose annual income is Rs. 25,000. This anomaly the Bill will remove by regulating more fairly the contributions of the wealthy towards the support of the Government to which they owe their prosperity.

“On the other hand, by maintaining a rough classification of small incomes for the purposes of assessing the tax, the Bill removes the necessity for inquisitorial proceedings in such cases, and lessens the opportunities for extortion and oppression by subordinate officials. The wealthy are able to take care of themselves, where humbler men would submit to unjust and vexatious exactions.

“But, my Lord, while approving altogether of the principle of the Bill, and prepared to support the Motion that it should be referred to the Select Committee, I must express my regret that it is considered necessary, on what are no doubt strong grounds, to limit the number of classes exempted from its operation,

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and thereby to curtail still further the incomes of Anglo-Indians of small or moderate means who are suffering so severely from the state of the exchange with Europe. The Native of India may, as is stated by many and by the high authority of my hon'ble friend on my right (Mr. Steel), be a gainer by the fall in the value of silver, and share in the increased prosperity of the country which it is alleged has been thereby brought about; but for the Anglo-Indian on a small income there is no such compensation. He must, if married as most are, remit to England for the members of his family whom sickness sends home from this country, or for the education of his children, a considerable proportion of his income. On that sum, be it great or small, the present depreciated value of silver involves a tax of over 30 per cent., and his income is diminished accordingly. The residue can ill bear a further deduction such as is imposed by the present Bill. Owing to the deductions from his income made by the fall of exchange on the one hand and the Bill on the other, his position will be one of unmerited hardship. He will be ground down between the upper and the nether millstone; and I hope that your Lordship in Council, though you have been unable to except the class to which I am referring from their liability to a general tax on incomes, may see fit to devise some means of mitigating the hardship they must otherwise undergo."

The Hon'ble MR. EVANS said:—"I have nothing to add to what has been said by my hon'ble friend Mr. Steel as to the attitude of Englishmen in India as regards this taxation. We have not flinched, and shall never flinch, from any burden which we see to be necessary for the maintenance of the Indian Empire. I am satisfied that the £660,000 must be raised, and that there is no other feasible means of raising it except the one proposed by the Government, and I therefore do not object to the tax nor do I deny that it is just and equitable in principle.

"But I wish to point out to the Council that an income-tax in India is not the powerful instrument which an income-tax in England is, nor an instrument suited to the country or easily to be worked, and that we cannot trust it to meet the deficits which threaten constantly to recur from the fall of silver.

"It is almost impossible to get the traders of an Eastern country like India to make anything like a correct return of the fluctuating yearly profits of their trade. This arises from no viciousness of their nature, for they are just and honest in their dealings with each other, but from the old fixed idea, generated by centuries of oppression, that self-preservation requires that they should conceal their profits from Government and all outsiders. As it is useless to call for returns from them or to assess on the basis of such returns if sent in, the Collector

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must assess at his discretion. To obtain the necessary information the Collector must employ agency untrustworthy and corrupt. This will result in much bribery and much extortion and oppression. There will be a vast difference between the amount of money which leaves the pockets of the people and the amount which finds its way into the Treasury. That the comparatively small sum of money now required can be raised by this means I do not doubt; but unless extreme discretion and tact be exercised in the working of this tax, it will create a maximum of irritation with a minimum of results. The great difficulty of introducing and working such a tax as this in an Eastern country, the great danger of oppression by agents open to bribes, is so evidently present to the minds of the Finance Minister and your Excellency, that I need not enlarge upon them. I will only say that this tax is a reed which it will be dangerous and unsafe to lean too heavily on.

“I am not unmindful that the license-tax has been in existence for some time, but I doubt if its working can be called satisfactory in Bengal; but the existence of the license-tax does no doubt render easier the introduction of this more extended system; and it may be that if this tax is worked in the direction of leniency and without too many changes of assessment,—for change and unrest is of all things most abhorrent to the Eastern mind,—the people will settle down under it. But to attempt to make it yield its fullest results will be disastrous, and this tax will, I fear, never occupy the same place in our system as its namesake does in England.

“Possibly something may be done in future to make the death or succession duties more profitable by depriving those who do not take out letters of administration to the whole estate of the benefits of the legal machinery of our Courts. But this subject is beset with difficulties, and offers no escape from our immediate difficulties.

“I do not share my hon'ble friend Mr. Steel's view that the depreciation of silver is a benefit, but I see that it threatens us with a yearly widening chasm of deficit, and I think we can feel no security as to our finances in face of the insuperable difficulties in the way of fresh taxation until we hear that the English Government has abandoned its policy of doing nothing, and is taking active steps to meet the danger by international agreement.

“I agree with my hon'ble friend Mr. Steel that the export-duty on rice is indefensible and wrong, and ought to be got rid of. So bad a tax is it, that probably the raising of the salt-tax is not too great a price to pay for its abolition, though on principle that tax ought only to be raised to meet emergencies.”

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The Hon'ble MR. GOODRICH said :—“ The hon'ble member who spoke first expressed his sense of the desirability of exempting amounts paid on policies of insurance or deferred annuities from the amount of assessable incomes. That induces me to say that insurance companies and friendly societies are not sufficiently under control in this country to enable the Government to make such an exemption general, and the proposal of my hon'ble friend presents some difficulties in that way. Therefore, if any such exemption is made, I think that such exemptions should only be made in connexion with well established societies or Government savings banks, or some arrangements under the Post Office. I have nothing to say on the general principle of the Bill, but I assent to the Motion now before the Council.”

The Hon'ble PEÁRI MOHAN MUKERJI said :—“ It is now three years, if not more, since the wholesome practice of submitting the annual Financial Statement to this Hon'ble Council was discontinued in favour of the publication in the official Gazette of statements showing the actual receipts and disbursements of the year, and estimates for the coming year, in the shape of a Government Resolution. Although this altered procedure has its advantages, and is likely to be adhered to in the present year and in future, I think it is very desirable, for many reasons, that there should be harmony between the rulers and the ruled in the determination of important questions relating to finance and taxation ; and I think that the Government cannot but strengthen their hands by taking the public into confidence in such matters. I feel therefore deeply grateful to your Excellency and the Hon'ble the Financial Member for having, in introducing the present Bill, taken the opportunity to explain not only the present financial situation of the Government but also those political considerations which led your Excellency's Government to engage in a war with the late King of Upper Burma at a cost of £270,000, and to embark in expensive military works and preparations for the defence of our north-western frontier. The cost of these military preparations is estimated at no less than two millions, and there is a further charge of nearly a million which has to be met next year owing to the apprehended fall of a penny in the value of silver. While, however, the Hon'ble the Financial Member expects to meet the increased charge on account of exchange from the additional revenues from the export-trade, railway-receipts, opium and customs, and to provide £1,300,000 for military preparations from the existing resources of the Empire, there remains a deficit of £700,000 which your Excellency's Government have to confront. Considering that no large measures of economy in the administration of a vast empire can be matured and carried with a view to immediate effect, and that,

by reason of the currency of Provincial contracts, only a narrow margin for retrenchment of expenditure is left to the Government of India, it would be idle to suggest that this deficit in the estimates for the coming year should be met by a reduction of expenditure. Nor do I think that Government should have recourse to a revision of either the salt-duty or the import-duties in this emergency. I am free to confess that the Hon'ble the Finance Member has failed to satisfy me that the high duty levied on salt before 1882 placed an insufficient supply of the article within the means of the people. I venture to think that the reduction in the rate of duty has made no appreciable difference in the measure of consumption of the article by individuals, and that we must look to improved means of communication and to an ever-increasing population of the country for an explanation of the large increase in the aggregate consumption of salt. But it appears to me, in spite of what the Hon'ble Mr. Steel has said, that no addition, however small, should be made by indirect taxation to the cost of living of a poor man who earns barely enough to make the two ends meet, while his rich neighbours bear much less than their fair share of the burden of taxation. In making therefore the observation that 'it is obvious that any honourable man who had to choose between taxing the most indigent classes, who already contribute a considerable share of the public burdens, and taxing those classes who, though in easier circumstances, scarcely contribute anything, it is to the latter alternative that he would resort,' your Excellency enunciated one of the soundest doctrines not only of fiscal administration but of morality and justice. I feel therefore no hesitation in saying that the principle of the present Bill is just and sound, and I trust that those who will be disposed to view it by the light of adverse criticism will bear in mind that it involves a measure of taxation which the Government feel the greatest reluctance to impose; that it is the outcome not of financial mismanagement but of a policy forced upon the Government by certain external events over which they had no control; and that it is a measure which is intended 'to maintain unendangered,' to borrow your Lordship's expressive language, 'the honour of the Queen-Empress and the safety and security of the Indian Empire and of the millions of hearths and homes it contains.' But while declaring with no uncertain voice that the present measure is necessary to meet the exigencies of the Empire, and that it is just and equitable in principle, I feel bound to entreat this Hon'ble Council not to look upon it as a perfect measure. The distinction it makes between public servants and servants of private firms and individuals, the liability it attaches to joint Hindu families, the provision it makes for the assessment of occupying owners of lands and houses which already bear a heavy burden of municipal tax or public cesses, and

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the opening it leaves for inquisitorial proceedings, are defects in it which I hope the Select Committee will be empowered to remove.

“A far graver question connected with the measure is the question of its duration. The Hon’ble the Financial Member has told us that there is but one year to be tided over; and we know that, excepting in cases of extraordinary demands for increased expenditure, our revenues are enough to maintain at least an equipoise between income and expenditure. The Hon’ble the Financial Member has expressed an apprehension that we know nothing of what increased expenditure may be in store for us, in respect, for example, of Burma. I find, however, from the Administration Report, that British Burma, after defraying her own expenses, has paid to the Indian Exchequer an aggregate surplus of £8,414,102 in the last eight years, or a sum of more than one million a year. But, even supposing that the cost of administration of Upper Burma will introduce a complete change in the financial position of that country, that the men we call dakaits are really men fighting for their country, and that there is prospect of an infinity of troubles in the Chinese frontier, we rely on your Excellency’s wisdom to consider whether in the true interests of the Indian taxpayer that remote country should not be separated from your Excellency’s Government and made into a Crown colony. At any rate, I venture to express a hope that, as the increased expenditure which has made the present measure of taxation necessary is of a temporary character, as the Provincial arrangements now in force will expire at the end of the ensuing year, as matters in Burma are still unsettled, and as your Excellency contemplates appointing a Financial Commission to make a careful revision of our Imperial and Provincial expenditure, your Excellency will be pleased to put off the enactment of any permanent financial measure till the next year. With all its merits, the present measure will leave the incidence of direct taxation in a state of great inequality. The poorest cultivator of the soil will pay a cess of more than 3 per cent. on his profits, while a certain class of persons in the enjoyment of an income of more than Rs. 1,000 a year will pay no direct tax whatever to the Imperial Exchequer. It is, besides, a question worthy of further consideration whether one of the permanent sources of our revenue should be an income-tax, which such a high authority as Sir Charles Trevelyan described as ‘a potent but imperfect fiscal machine’ that ‘should be regarded as the great financial reserve of the country,’ and which, Mr. Massey said, should never be resorted to except under emergent circumstances.

“The consideration of the Famine Insurance scheme was appropriately introduced by your Lordship and the Hon’ble the Financial Member in

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connection with the present measure; but even at the risk of being reckoned one of 'the herd of such who think too little and who talk too much,' I must say that those who contend for the existence of a separate Famine Insurance Fund are far from being guilty of a 'wilful error.' Sir John Strachey expressly assured the public in 1877 that the proceeds of the new taxes then imposed 'will be expended for the purpose of providing what I have called an insurance against famine, and for no other purpose whatever.' Lord Lytton accentuated that assurance by saying 'we have pledged ourselves not to spend one rupee of the special resources thus created upon works of a different character'; and Her Majesty's Secretary of State for India, in laying the last Indian Budget before Parliament, is reported to have said: 'This year Sir A. Colvin proposed in his Budget to allot for the purposes of the Famine Insurance Relief Fund £33,000 under the head of direct famine relief; He proposed to take £287,000 from the Famine Insurance Fund for protective irrigation-works'; and, after some further remarks, his Lordship concluded by observing that 'it is perhaps more honest and straightforward to say that to all intents and purposes the famine insurance has been swallowed up by the peculiar demands of the year.' But, after what the Hon'ble the Financial Member has said, the contention about this matter has reduced itself to a contention about words. We have been told that since 1st April, 1878, a sum much larger than £1,500,000 per annum, the amount originally contemplated, has been spent for the purposes for which the fund was designed, an authoritative statement which should silence all complaint on this head, and convince the public that no pledge has been broken, and no trust betrayed, in connection with the Famine Insurance scheme."

The Hon'ble RAO SAHEB VISHVANATH NARAYAN MANDLIK said:—

"MY LORD,—Having listened to what has been said before, I must confess that my work has become somewhat complicated, but what I propose to do is to vote for the Motion to send the Bill to the Select Committee, and to submit a few observations to the Council on some of the points touched on in the observations which your Lordship addressed to the Council last Monday, as well as what fell from the Hon'ble the Financial Member. But before I do so I must say I agree with what fell from the Hon'ble Mr. Quinton in reference to our position as regards this Bill. We have no Financial Statement technically before us, but the present Bill gives us the same opportunity for discussion as we should have had if both the Bill and the Statement had come together. I see the Hon'ble Mr. Steel has introduced the question of export-duties; I must ask the hon'ble members to remember that that matter is not by any means so simple. I think that the subject of imports and the subject of exports

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are to a considerable extent relative questions. Sir Charles Trevelyan, in an address on Indian finance, delivered in 1870 in London before the East India Association, said as follows:—

‘Although Her Majesty’s Government objected in 1865 to an export-duty of 3 per cent. being levied on Indian coffee for the benefit of the Indian exchequer, a duty of 45 per cent. is levied on this same coffee in England for the benefit of the English exchequer. This is neither just nor generous. The duty should at least be halved between the two exchequers, and the more so because great part of the coffee exported from India is sent direct to France and other foreign countries, and the Indian Treasury therefore misses any benefit from it. The same considerations apply to the tea exported from Northern India.’

“Sir Charles had recently consulted the great economist Mr. McCulloch on this question, and his letter in support of the above views was read to the meeting.

“I proceed now with the subject in hand. Having listened to the clear exposition of Sir A. Colvin, I take the immediate question before us to be—How are Rs. 70,00,000 (or £700,000 approximately speaking) to be raised? He proposes to do this by means of an Act which is a combination of a license-tax (on incomes up to Rs. 2,000) and an income-tax on those exceeding Rs. 2,000, the incomes in both cases being non-agricultural. I compliment the Financial Member on the distinct advance that has been made on this occasion by the entire exclusion of landed incomes. I will not follow him to those classic regions of financial perils to which he has felicitously alluded, and from which he has happily emerged. But there is, I see, an idea abroad, almost haunting a portion of the public, that the landed classes in India, who now contribute more than £21,876,047 to the Imperial revenues, are still proper subjects of further taxation. To these persons I may, (somewhat in the words of Mr. Chapman,) address the following observations made in this Hall in 1871. In the Presidency of Bombay ‘a succession of new taxes had been imposed during the past ten or twelve years. In addition to the income-tax, we had had a cess of six and a quarter per cent. on all revenue; a quit-rent of considerable amount on lands previously held rent-free; tolls and municipal taxes had been freely resorted to; salt-excise had been greatly increased; and last, but not least, in many parts, the thirty years’ settlements were falling in, and revised rates, involving an increase of some sixty per cent. on the land-revenue, were being imposed. The Local Fund receipts during the year 1869-70 amounted to £618,000; while the municipal taxes realised £530,000. Allowing for a portion of the Local Funds being derived from jail-manufactures,

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harbour-fees, Native States, charitable endowments, and other sources that did not press directly on the country, he believed it would be found that the Presidency [of Bombay] contributed not far short of a million sterling over and above the Imperial revenue.' I have not been able during the short time at my disposal to make out the figures for the last year; but the amount cannot be less. For all local improvement hitherto has meant increased taxation; and some improvements have been of a very doubtful kind. All these considerations lead me to the conclusion that the present step of the exclusion of incomes derived from sources other than agriculture is a decided advance in the right direction. There is yet one more consideration which also tends in the same direction, and that is, the non-resort to increased salt-tax. Hon'ble members who speak in favour of this tax ought to remember what was said in 1870 in this Council about this tax. Besides in Western India—I speak of the Bombay Presidency—there was at one time (*i.e.*, prior to 1837,) no salt-excise at all. Afterwards eight annas a maund were imposed; then one rupee; one rupee thirteen annas three pies; two rupees; and three rupees. In 1882, it was reduced to two. It would be tedious to go through first principles on this occasion, except as a matter of sheer necessity; but I take leave to say that salt like grain ought to be practically free; or if that cannot be, that it ought at least to be taxed as lightly as possible. I cannot understand how any body at Madras can have gone up to Government with a proposal to raise the salt-tax, which presses so hard on the masses that the poor have in very many cases been found living by scraping saltish earth, and in some cases have been actually prosecuted for so doing. I refer to the debates of 1865 and other publications in support of my arguments; and on their evidence and on my own experience of over 30 years, I hold that the present resolve of Government not to raise the salt-tax is a correct and wise step in Indian finance.

"I have now, my Lord, to turn to import-duties—a third item of taxation not in the budget, but which, in my humble opinion, should have been there. In so saying, I do not propose to raise any question on this occasion in reference to the Bill now before us. But the subject is very important, and as such, it is one deserving of the earnest consideration of the Government of India. Sir A. Colvin says that 'the exemption from duty, in March 1878, by the Government of Lord Lytton, of certain descriptions of grey cotton goods made the abolition of the import-duties on all cotton goods a question only of time.'

"It is not my object to unearth on this occasion the voluminous literature on this subject; but there is the evidence of a few facts and figures which it

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would be to the benefit of British India always to remember. In 1875, when the Indian Tariff Bill was being discussed in this Council, the Hon'ble Mr. Hope, after discussing the whole question, shewed that 'the case for total abolition on the grounds on which it was claimed must inevitably fall to the ground.' He also said that Mr. Massey had remarked with truth that the Indian import-duties were the lightest in the world. Not only was this statement then made, but Mr. Hope spoke of an excise-duty which might thereafter be resorted to, and he warned the 'investors in Indian mills that they should bear this hint in mind; and thus forewarned, be precluded from charging the Government with breach of faith to them in the event of the imposition of an excise-duty at any future date.' His Excellency Lord Northbrook, in summing up on that occasion, explained that the Indian customs-duties had never been regarded as protective; and after naming all the Finance Members from 1860 and downwards, said that 'in all financial questions the true interest of the people of India is the only consideration which the Government of India has to regard.' Such was the state of matters in 1875. What happened in 1878 is a matter of history, which will be found in a Parliamentary Return of 14th August, 1879. I do not propose to enter into the Budget of 1882, which is the next point of departure from the Indian Tariff Act of 1875.

"I know the Resolutions of the House of Commons quoted in 1878 and afterwards; but the House of Commons, like the Government of India, will only ultimately decide the financial policy for India by all the considerations which are *just* alike to all interests; and now that the duties have been abolished the question to consider is—Have they had the tendency which has been attributed to them? In addition to the remarks of the Tariff Committee, I beg to refer this Council to an excellent letter addressed to Lord Lytton in 1877 by Mr. Sorabjee Shapurji Bengali, then a Member of the Legislative Council of His Excellency the Governor of Bombay, and one of our most experienced and enlightened merchants on the other side of India. He is a thorough free-trader, and the facts which he advances are therefore all the more valuable. This is what he says about our cotton-mill industry, as viewed in relation to the Indian tariff:—

'I am strongly of opinion that the best interests of the country require that this new industry or any other industry should thrive or fall on its own merits. I believe that it would be disadvantageous for India if the policy of its Government were directed to support industrial and commercial enterprises and encourage the employment of capital in them by means

of protective tariffs, a policy which increases the cost of the articles thus protected to the general consumer and therefore taxes the resources of the country for the benefit of the capitalist during the time the protection is permitted to last, and which results in the loss of capital and the creation of distress when the protection is removed. If it can be proved to be a fact that all or even a moderately large proportion of the thousand and one varieties of articles at present imported into India, and included in the comprehensive name—"Cotton-goods," can also be produced in India for commercial purposes, that is to say, as cheaply as if manufactured in Lancashire, by means of European machinery, then the interests of this country require the immediate abolition of our import-duties on cotton goods; for, otherwise, the Indian mill-owner could add to his legitimate profit nearly the full amount of the import-duty and still under-sell his English rival, so that the native buyer of cotton goods would pay the native manufacturer nearly 5 per cent. on the price of his bargain for nothing. Such, however, is not the fact. The cotton-goods which India imports (with the exception of an insignificant fraction) are not of the same kind which her cotton-mills can produce. Nor, years ago, even when there were no cotton-mills established in this country, did India obtain her supply of coarse cotton manufactures, such as these mills produce, to a larger extent than 10 per cent. of the total imports of cotton-goods from foreign countries. Her industry in the finer varieties of cotton-goods has given way to cheaper importations from outside; but in the preparation of coarse goods for the great mass of her people, India possesses natural advantages in the home-produced, home-spun cotton, which enable her to defy the world. The introduction of cotton spinning and weaving into the country by means of machinery is really then for the most part nothing more than the introduction of competition between machinery and the indigenous hand-spindle or the hand-loom, and also of competition between India on the one hand and Europe and America on the other in the supply of cheap coarse cotton-goods to several Asiatic countries and parts of Africa. The cry, therefore, that since the establishment of factories in India for cotton-manufactures, the retention of the customs import-duties acts as a protective impost, rests on no better foundation, so far at least as nine-tenths of these duties are concerned, than a desire to obtain the admission of cotton-goods of every variety into this country free of duty whether protective or non-protective.'

"The same is the conclusion to which the Tariff Committee of the Government of India had come. As to the actual use of these articles by the different classes of the people, Mr. Sorabjee says as follows:—

"Moreover, foreign cotton-goods imported into India partake of the additional recommendation of having in them something of the nature of articles of luxury. We import annually, in round figures, about 19 crores (say, nineteen millions sterling) worth of foreign cotton-goods. The uninformed may be under the impression that by far the largest portion of this amount represents goods required by the mass of the Indian people for their every-day use. But this is not the case. Of these 19 crores worth of imports of cotton-manufactures of all kinds, 3 crores consist of bleached goods, 3 crores of colored, dyed and printed goods, 2½ crores of yarns of all varieties, technically known as No. 40s., and

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upwards, suited for native looms in the preparation of fine cloths, 3 crores of superior descriptions of grey piece-goods, and 7½ crores of other grey cloths. The first four out of these five items give a sum total of 11½ crores of rupees, and any one acquainted with the trade and with the habits of the people will be able to inform your Lordship that the goods represented by this sum, with the addition of about one-half the quantity included in the last and remaining item, after undergoing the process of dyeing or printing in the country, are consumed by the higher and the middle classes of people for their daily requirements, and by the poorer classes as articles of occasional use not subject to every-day wear and tear. For their every-day use the mass of the people use very little of foreign manufactured goods. The product of native hand-loom from the cotton of the country has hitherto supplied the wants of the bulk of the population as regards cheap clothing. The competition of the cotton-mills of India is more with the indigenous hand-loom than with Manchester, which, owing to want of cheapness, has always been unable, beyond an insignificant portion of its exports, to make a way for its coarse cloths into India.'

“Thus it is quite clear that the imports affect only the well-to-do classes, nearly all the cloth imported being used by them and not by the very poor. As regards the protective character of the duties, the question is further cleared by looking at our imports.

“What do we now find to be the actual evidence of exports and imports of these cotton-goods? The table below will show this :—

Imports and Exports Value of Merchandise and of English Piece-goods from 1866-67 to 1885-86.

YEARS.	VALUE OF IMPORTS (EXCLUSIVE OF GOVERNMENT STORES AND OF TREASURY).		YEARS.	VALUE OF EXPORTS (EXCLUSIVE OF TREASURY AND GOVERNMENT STORES).	
	Total value of imports.	English Piece-goods imported (cotton).		Total exports (Indian produce).	Piece-goods, Indian (cotton).
	R	R		R	R
1866-67 (11 months)	29,01,47,413	12,52,41,060	1866-67 (11 months)	40,77,89,592	59,51,069
1867-68	35,60,43,206	14,90,99,174	1867-68	49,59,06,646	67,20,168
1868-69	35,98,13,740	16,07,25,506	1868-69	51,67,62,321	57,25,792
1869-70	32,87,06,432	13,55,58,462	1869-70	50,67,95,443	23,85,260
1870-71	33,34,82,462	15,64,48,675	1870-71	53,55,16,612	25,42,309
1871-72	30,81,07,756	15,00,99,805	1871-72	61,69,72,262	27,21,590
1872-73	30,47,30,694	14,54,57,722	1872-73	59,44,91,833	30,50,033
1873-74	31,62,84,972	15,10,48,968	1873-74	53,11,44,275	33,49,371
1874-75	34,64,52,622	16,21,77,602	1874-75	54,60,10,909	35,38,217
1875-76	37,11,26,672	16,25,94,615	1875-76	56,21,22,438	39,19,680
1876-77	35,36,71,766	15,82,94,045	1876-77	58,93,00,693	41,37,477
1877-78	39,32,60,030	17,10,27,751	1877-78	63,14,35,332	44,22,857
1878-79	36,56,61,947	13,93,75,110	1878-79	58,70,79,285	47,03,369
1879-80	39,74,21,662	16,72,33,532	1879-80	64,95,08,321	43,68,994
1880-81	50,30,88,343	22,53,86,416	1880-81	71,97,40,678	53,50,443
1881-82	46,99,30,643	20,57,07,239	1881-82	79,25,52,431	59,98,000
1882-83	50,00,30,403	21,18,17,652	1882-83	80,59,81,554	72,03,808
1883-84	52,70,58,912	21,39,69,074	1883-84	85,08,57,205	80,50,000
1884-85	53,14,93,110	20,90,80,516	1884-85	80,31,32,079	86,92,894
1885-86 (eight months)	33,24,01,787	13,11,73,364	1885-86 (eight months)	48,66,22,450	57,21,188

LICENSE-TAX AMENDMENT.

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"Further, I beg to append a statement* in regard to piece-goods alone and yarn for 1880 to 1884, made out for me last week by a leading merchant in

*Statement of Imports of Piece-goods (grey, bleached, colored and printed) and of yarns (grey and dyed) into Bombay, Calcutta and Madras from the year 1880 to 1884, both inclusive.

PIECE-GOODS.		1880.	1881.	1882.	1883.	1884.
<i>Calcutta.</i>						
Grey	705,200,000	701,200,000	658,000,000	615,800,000	667,000,000	
Bleached	150,000,000	155,100,000	117,000,000	161,400,000	129,000,000	
Colored	80,400,000	62,800,000	78,000,000	61,800,000	70,500,000	
Printed	75,200,000	38,800,000	35,500,000	41,800,000	31,800,000	
TOTAL	1,010,800,000	957,400,000	883,500,000	880,800,000	898,300,000	
<i>Bombay.</i>						
Grey	323,000,000	330,700,000	300,000,000	290,000,000	307,500,000	
Bleached	99,500,000	120,200,000	88,200,000	138,500,000	108,600,000	
Colored	49,000,000	41,800,000	47,200,000	52,600,000	67,500,000	
Printed	61,500,000	52,800,000	70,100,000	90,200,000	90,000,000	
TOTAL	533,000,000	545,100,000	500,500,000	571,300,000	568,600,000	
<i>Madras.</i>						
Grey	40,000,000	47,400,000	53,400,000	58,700,000	67,400,000	
Bleached	8,100,000	18,300,000	15,500,000	23,700,000	16,200,000	
Colored	9,600,000	10,800,000	11,800,000	11,800,000	20,900,000	
Printed	11,200,000	11,400,000	20,800,000	14,000,000	16,400,000	
TOTAL	68,900,000	82,800,000	106,800,000	107,700,000	120,900,000	
GRAND TOTAL	1,612,700,000	1,584,800,000	1,480,800,000	1,559,800,000	1,587,800,000	
YARNS.						
<i>Calcutta.</i>						
Grey	8,800,000	8,047,000	9,450,000	8,310,000	8,570,000	
Dyed	8,000,000	5,553,000	5,330,000	5,450,000	6,740,000	
TOTAL	16,800,000	13,600,000	14,780,000	13,760,000	15,310,000	
<i>Bombay.</i>						
Grey	7,700,000	8,500,000	7,743,000	10,000,000	8,000,000	
Dyed	5,350,000	3,822,000	4,275,000	6,100,000	6,800,000	
TOTAL	13,050,000	12,322,000	12,018,000	16,100,000	14,800,000	
<i>Madras.</i>						
Grey	8,000,000	8,300,000	10,600,000	7,200,000	9,700,000	
Dyed	4,100,000	2,800,000	2,374,000	3,800,000	3,300,000	
TOTAL	12,100,000	11,100,000	12,974,000	11,000,000	13,000,000	
GRAND TOTAL	41,750,000	37,022,000	39,772,000	40,860,000	42,610,000	

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Bombay, from which it appears that the annual rate of increase in the import trade of piece-goods and yarns into Bombay, Calcutta and Madras continued uninterruptedly until the year 1880. For in the year 1873, the entire import for the three Presidencies was 1,071,685,753 yards of goods and 28,778,179 lbs. of yarn, while in the year 1880 it was 1,612,700,000 yards of goods and 41,750,000 lbs. of yarn, thus shewing that from 1849 to 1880, there has been a continued increase in the imports. It was from March, 1882, that the import-duties upon goods and yarns was altogether removed, and instead of the imports increasing, as we may naturally expect if the protection theory were correct, they have remained stationary except in the case of Madras, where a slight increase is perceptible; but taking the total of all the three Presidencies for each year the imports fall short of what they were in 1880; and that, too, in spite of the enormous increase in railway-communication throughout India and the large increase in its population. Besides, it will be observed that the rates ruling for piece-goods and yarns in 1880 were higher than they were in 1884, shewing thereby that the consumption of foreign goods in India did not increase by removal of the duty. It ought, at the same time, to be noticed that the consumption of local spinnings and manufactures did not also increase during the same period, and were it not for the unexpected and large offtake of the local mills' yarn for China, the serious losses suffered by the local mills, with rare exceptions, during the last five years, would have made the position of mill-industry very unsound. It thus follows that the removal of duty has only deprived India of a legitimate source of revenue, while it has not secured the objects for which the sacrifice was apparently made.

“The true end of all taxation, whether direct or indirect, is, I take it, purely fiscal, and duty should be imposed for revenue-purposes only. Articles of luxury are taxed in all civilized countries for revenue-purposes, while all other articles save raw materials are lightly taxed. The import-duty on piece-goods, if levied to meet the present wants, would not amount to even half an anna a head. Thus the average annual imports of merchandise into India for the last three years ending March, 1885, average about 53 crores rupees, and if a duty of $1\frac{1}{4}$ per cent. only was levied on this import, it would yield 66 lakhs of rupees to Government, which would be at a rate under half an anna per head on the present population of 25 crores, if it fell on the masses; but I submit this does not; it is chiefly paid, as Mr. Sorabjee Bengali has shown, by the higher classes. Besides, this is a tax which will reach the population of Native States, who receive the benefits of the British rule as we do without contributing anything towards its expenses. This item of indirect

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taxation is a better way of raising revenue for Imperial purposes than direct taxation like the income-tax, which, in India particularly, is obnoxious to the people. A protective duty is indeed injurious to free trade, but from the statements of imports it will be apparent that the import-duty in India was not protective before, and cannot even now subserve such a purpose for many obvious reasons. It was levied to enable the Government to carry on the machinery of the administration. It was paid without demur and at the least possible expense in collection as compared with any other mode of taxation. If England, which lays down broad principles of free trade and insists upon their being observed by India, imposes exorbitant duties on foreign goods for revenue-purposes whenever necessary, why should not India, under similar circumstances, be permitted to do the same, and particularly when the tax is merely a nominal one, and yet affords a good help to the revenue; and when, as Mr. Sorabjee Bengali has distinctly proved, it does not touch the poor, and chiefly falls on the well-to-do classes?

“In the face of these facts I am sorry this tax was not availed of as recommended by the Madras Chamber of Commerce; and I cannot understand the recommendation to extend the operation of the license-tax in the form of an income-tax. If it were a mere license-tax it would be open to the same objections as the existing tax; but this is something more. It is an income-tax in the case of all whose incomes are above Rs. 2,000. The history of this tax has been so often repeated in this Council that I will not now enter into it. All I have to say is that it is still open to the remarks which have been submitted in this Council by Messrs. Inglis, Robinson, Cockerell and others on the evidence before them; and I can only hope that such a tax will only be resorted to on occasions of the greatest urgency and necessity. The difficulties of working such a tax (as I might safely say also from my own little experience in working it) are very great; and I shall only add my humble voice to those that have gone before me in imploring the Government not to insert it hereafter in their Budget as an ordinary source of revenue. It presses hard on the honest, and its effects are demoralizing.

“There is one more subject on which I have to say a few words before I conclude.

“Your Lordship made an appeal to the individual members of this Council, which (speaking for myself) was hardly necessary under the circumstances in which it was made. When the subject of a pure license-tax was discussed in 1878 in Bombay, I voted against it on the ground of its one-sidedness.

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That feature is absent on this occasion; but the symmetry of the Act is marred by the higher classes being put under an income-tax instead of a license-tax.

“I think, however, we shall all rejoice at the removal of all grounds for imposing such a tax, which I expect from the searching inquiry into expenditure which your Lordship's Government have now resolved upon. I have not been able, within the short time at my disposal, to lay my hands upon all the details which would be necessary to speak authoritatively on this question in detail; but there are several departments in which very large saving has long been overdue. In my own Presidency, the Revenue Survey Department had or ought to have finished its work long ago, and yet from the returns it appears that that department is still of the same strength financially as it was ten years ago. When I remember what Mountstuart Elphinstone said of this department in 1820, I am grieved to see the unnecessary extension of its life and action in those districts where its work has been once completed. The new Forest Department is a young department in its origin; but it has now been working almost like the old Inám Commission. I see a Commission appointed to inquire into it in Bombay; but looking to the evidence that is being taken, it has scarcely touched the surface. Whether it will go beneath, and help to secure an efficient administration without any unnecessary annoyance to the people, remains to be seen. Again, on the basis, or rather the remains, of our Survey Department threatens to come in the Agricultural Department, the total expenditure of which has risen from Rs. 2,45,480 in 1870-71 to Rs. 8,05,718 in 1884-85; and when I closely look into the items constituting this expenditure, and as a landholder and a practical agriculturist, cast my eyes at our agriculture, I must confess that I view upon the outlay on this department as utterly disproportionate to the results expected to be achieved. For better or worse, India is not a country for large farms and the employment of expensive machinery. As a cultivator of land, I always seek and utilize such information as I can get; but I cannot view with favour such expenditure as is now increasing day by day in this department. Other small but proportionately costly departments will also be required to be pruned down. Above all, there is one great department about which successive Finance Ministers (including the present) have complained year after year, and without a better regulation of which all other reforms, as it seems to me, will be comparatively valueless, and upon which the Government must begin to work; and that is the Military Department and its expenditure, without affecting the efficiency of our military forces. The question of the Staff

Corps organized in 1861, and the lakhs of rupees it annually adds to our liabilities, was first publicly mooted, if I remember rightly, by Sir Charles Trevelyan in 1870 in London. Sir Charles said that promotion was given to officers in the Staff Corps according to mere length of service without reference to any fixed establishment. What was the result? Here are his words:—

‘The consequence of this is that the qualification for the highest rank and the highest rate of pension is simply absolute length of service, without regard either to the public wants or to the relative claims of other officers; and everybody is certain to arrive at the highest rank, and to be entitled to the highest rate of pension, if he holds on during the prescribed term of years. The tune is, “we are all growing old together.” There will soon be an army of field officers with very few subalterns, and such a retiring list, all at the highest rate of pension, as the world has never seen.

‘This, of course, is no mere opinion of mine. In the discussion on the income-tax in the Council of the Governor General in April last, Sir William Mansfield, the Commander-in-Chief, said, “There is one more point to which I would invite the attention of the Council, that being the growth of non-effective establishments. I need not advert to the statement of General Hannington and Colonel Broome beyond uttering the remark that, while those distinguished authorities differ in detail, they are agreed in presenting a picture of future liability which is positively alarming. In short, we are threatened with the serious danger of all our economies in India in the combative force being eventually *more than swallowed up* in the growth of the non-effective expenditure. Under such circumstances a further greater danger might be forced on by public outcry, involving perilous reductions, to meet non-effective charges.” These statements will be found in the Parliamentary paper “East India Staff Corps, No. 140, of 1869.”

‘The Controller-General of Military Expenditure sums up as follows:—“Military history presents no instance of an army so constituted, or of one so costly. But unsatisfactory as is the present financial condition of the Indian army, the future prospect is far worse.”

“This was said before 1871, only ten years after the formation of the Indian Staff Corps. In 1878-79, it appears there were 1,961 officers in the three Staff Corps, while there were only 245 army appointments which could be held by officers below the rank of Colonel.

“Sir A. Colvin himself has complained of certain army expenditure; and we do not yet know what practical benefits we may expect from the Commission which sat at Simla in 1879. Successive Finance Ministers have dwelt upon the heavy expenses in connection with the British army in India. Now that we have got railways all over the country, and the whole Continent is enjoying profound peace, Her Majesty’s Government ought to help the Government of

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India in a material way in reducing this expenditure, and if that is done, with the natural increase of our revenues, the Government of India will be able not only to pay its way, but will have no occasion to resort to such unusual taxation.

“As regards the Bill itself, there are a few questions which will require serious consideration.

“First in regard to taxing house-property. In cities such as Bombay, Calcutta, and the like, and in large municipal towns where houses are valued for municipal purposes, I see no difficulty; but to introduce taxation of house-property into the Mufassal generally, into villages whether large or small, is a step full of peril and difficulty. There are no standards for valuation there. In thousands of places, there is hardly any letting value; and in such cases I see all the dangers of inquisitorial proceedings and arbitrary assessments, and consequent annoyance, which has been so correctly and graphically described in this Council more than once, and to which I fully subscribe. I hope and trust therefore that such assessments may be limited to towns and cities as I have suggested.

“Another question is the taxation of the Government securities. I beg that the propriety of this may be reconsidered, as it is a matter which affects public credit.

“Yet another question remains; and it is the question of secrecy in regard to income-tax assessments. This is not provided for in this Bill, although it used to be so in the former Acts. All officers, so far as I know, were sworn to secrecy under the law; and so I think they should be. This is a matter on which the Native mercantile community has always laid great stress. The feeling on the subject is very strong, as it is one which touches their mercantile credit and honour, and I hope the question will be attended to when the Bill goes to the Select Committee.”

His Honour THE LIEUTENANT-GOVERNOR said:—“I think I may congratulate the Hon'ble the Financial Member on the fact of the general unanimity with which the necessity for the proposed impost has been acknowledged, and that the anticipations which he had formed of hostility to his proposals, by the revival of that kind of argument which had already been frequently exploded have not been fulfilled. No one, I take it, is glad of being subjected to increased taxation; but the speeches of those who have preceded me indicate that whether the opinions came from officials or non-officials, Europeans or Natives,

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the measure which the hon'ble member has put before us is accepted as a necessity. I also feel some satisfaction that there has been an expression of sympathy towards those of my own service, who are specially affected by this new charge on their incomes. Though there is a fashion now-a-days of urging that the members of the Civil Service in India are too highly paid, I venture to assert that, with very rare exceptions, there is no member of the service throughout India who does not deserve every rupee of the salary he receives; and I may safely say this not only of the European members of the service, but of those in the subordinate executive and in the subordinate judicial services. The entire service is a loyal one, and I am sure it will accept, in the presence of the gravity of the situation, which has been explained by your Excellency on the opening of this discussion, the necessity of the taxation to which the Government has to resort. The only regret to my mind—and I cannot hesitate to give expression to it—is the fact that the work of defence, which five years ago might have been carried out with comparative ease and leisure and economy, has to be undertaken now under some feeling of pressure, in the presence of a possible aggression and at a considerably enhanced cost. The first duty which the Government of India as the ruling Power owes to the people of this country is to protect its frontier against foreign attack; and whatever the personal consequences may be to each and all of us, I am sure every loyal subject will be ready to support proposals which in a grave emergency the Government of India considers necessary for the defence of the Empire.

“ I must add in connection with the measure which is immediately before us that the remarks which have fallen from my hon'ble friend Mr. Evans as to the difficulty of working any form of direct taxation deserve consideration. We have experienced that difficulty in every previous application of this tax, whether in the shape of an income-tax, a license-tax, a certificate-tax or any modification of them. But the difficulty as regards the assessment and realization of the tax has hitherto been greatly enhanced by the consideration that they were regarded as temporary measures. If, however, direct taxation is to form a permanent part of the fiscal system of India, then, no doubt, although the same trouble may again arise on its first introduction, the difficulties will gradually diminish and eventually disappear.

“ An hon'ble member has referred to the repugnance which is felt to this tax on the ground that it is not suitable to ordinary times, and should be reserved for exceptional occasions. But the eminent authorities whom he quotes as having acted on that view, such as Mr. Massey, Mr. Inglis and others, spoke at

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a time when indirect taxation prevailed throughout the country. Indirect taxation has, however, now almost entirely disappeared, and with its disappearance some form of direct taxation is regarded as necessary to bring under its incidence those who have heretofore escaped all taxation. It is not, however, on the particular Bill before the Council that I would wish to express any detailed remarks, but rather upon the remarks which fell from both your Excellency and the Hon'ble the Financial Member on the revision during this year of the Provincial contracts. The powers and responsibilities of the Local Governments in financial matters were first determined in 1871-72. That was done under the administration of Lord Mayo, aided by Sir John Strachey. Perhaps there was no measure which added so much to the fame of Lord Mayo's administration, and which was so favourably received by both Europeans and Natives, as this matter of financial decentralization; and certainly no measure has conferred greater benefits on India. Under the system which prevailed before its introduction certain allotments were annually made to each Local Government to cover the expenses which it had to incur in its administration. Any new charge, whether for a school, a dispensary, a road or any other object, could not be undertaken except with special sanction obtained after a reference to the Government of India. The result was that every Local Government scrambled to get as much as it could out of the resources which were available; and it generally happened not only that those who clamoured loudest and whose province contributed the least to the Imperial revenues got the most, but that those who, for instance, like Bengal and Burma, contributed most to the resources of the Government of India got the least. It was therefore a very beneficial reform which introduced the system of financial decentralization, and no province has benefited more by it than Bengal. The services which were made over to Local Governments in 1870-71 were not of a paying nature. It was thought possibly at the introduction of the scheme that it should in the first instance be of a tentative character, and therefore the departments which were surrendered were those of Education, Jails, and other similar departments, from which no ingenuity or ability in administration could possibly expect to secure any return. An advance, however, was made under a more extended system in the time of Lord Lytton's Government, again with the assistance of Sir John Strachey; and Sir Ashley Eden commenced his administration in 1878 with a much wider decentralization, which included such improvable departments as Excise and Stamps, the development of whose growth he was allowed to enjoy. We may be sure that he made the most of his opportunities. The financial condition of the province began at once to improve, as may be judged from a paragraph of the Resolution which recorded the results of the working of the system about the

time of his laying down his authority as Lieutenant-Governor of Bengal. He then said—

'That the system of decentralization has been thoroughly successful in Bengal is sufficiently clear from the foregoing sketch. The revenues have rapidly increased, independently of new taxation; useless expenditure has been curtailed; and funds have been made available for improvement under all branches of the administration. All grades of the service have shown the deepest interest in increasing the resources of Government, under the belief that the surplus revenue would be available for the good of the province. The three heads of improvable revenue made over to the management of the Provincial Government, with an income of 165½ lakhs, in 1876-77, will stand with an income of not less than 217½ lakhs in 1881-82.'

"That was an eminently satisfactory result. I believe, when the revision of the contract took place at the close of Sir Ashley Eden's administration, there was a good deal of correspondence on financial matters between the Government of India and the Local Government. I think it is a misfortune that the revision of the contract always takes place in the expiring year of a Lieutenant-Governor's rule. Though I have no doubt Sir Ashley Eden pressed the matter with considerable force in 1882, we must also remember that he was just then about to retire; and it might be expected that with this prospect he would be less forward in the defence of the position than he would have been if his tenure of office had continued. When the revision took place in 1882, the Government of India claimed a large share of the increments which had accrued under Sir Ashley Eden's administration. Without going into details I think I am correct in saying that they claimed the appropriation of some 28 lakhs of rupees, and thus a new start was made with that advantage on the side of the Government of India. It was thought at the time that those were rather hard terms, and it was pressed upon the attention of the Government of India that, in the matter of the excise-revenue under the out-still system, a re-action would certainly occur, and that both on moral grounds, having regard to the increased facilities for drinking, and on financial grounds, measures would have to be taken which would result in restricting the rapid growth of the revenue. And that has taken place in the course of the four years during which I have been at the head of the Bengal administration. The details of the new contract in every branch will have to be discussed in the course of the current year. This is not the time nor the place for the consideration of details, but I wish to enforce the point that the relentless and ruthless attenuation of the provincial revenues is certainly the worst policy which the Government of India can adopt. Whatever

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advance or increase has taken place (about 12 to 14 lakhs) under the present contract, owing, I may venture to hope, partly to efficient administration, and partly to the elasticity in the sources of revenue, it should be remembered that the demands which have to be met by the Government of Bengal are extremely heavy, not only in the present but prospectively, and further that many of these charges which have fallen on Bengal during the last four or five years are charges which have not been voluntarily undertaken by the Government of Bengal, but have been imposed upon it by the Government of India. For instance, the question of police-charges, not being properly bearable by municipalities, is one which in principle I most thoroughly accept. Those who pay should be those who control. Before the municipalities paid the police, but the Government controlled it; and therefore the point was very rightly pressed that throughout all Mufassal districts we should take the earliest opportunity of relieving municipalities of that liability. Primary education, again, has involved increased expenditure. The Government of India lately issued a Commission under the direction of the Hon'ble Mr. Hunter, and that Commission justified its appointment and also did a great deal of good in calling attention to the necessity of large increases of expenditure upon education. A great portion of this devolves upon Bengal. I cannot but look at their recommendations as a distant ideal to be some day attained, but as at present altogether beyond the power of Government. The Government of Bengal has had within the last few years to accept the charge of Rs. 5,11,000 a year for the relief of municipalities in the interior; of Rs. 1,50,000 for extension of primary instruction; of Rs. 1,35,000 for the Additional Judges to the High Court of Calcutta. So far as regards the past. The prospective additional charges are also most serious. The question, for instance, of the payment of the police in the Calcutta Municipality as well as in the Suburbs and in Howrah is urgently pressed upon my consideration, and is only stayed by the want of means. Thus the old principle still remains in full force in Calcutta. The Municipality of Calcutta has been called upon to make extensive sanitary improvements which all recognise to be extremely desirable; but the answer to all pressure of the kind is—'We have not sufficient funds'. For my own part I should be glad to be able to place at their credit the sum they now have to pay towards the maintenance of police, which amounts to no less a sum than Rs. 2,80,000 a year. But it is totally out of the question that the Government of Bengal in its present financial condition should be able to give up not less than Rs. 2,80,000 for relieving the municipality of this burden; and I would suggest to the Hon'ble the Finance Member that as Calcutta is the capital of the Empire, and the residence of the Governor General

for some months in the year, and as the Government of India strongly insist on the prosecution of sanitary improvements in Calcutta, they should bear in mind the necessity of specially assisting the Local Government in giving effect to this urgent reform and thus help the suppression of preventible disease. I would also refer to the fact that in the administration of railways in this province the independence of the Local Government is very small. We are answerable for a great deal, but have little independent authority to deal with the position. We have now to pay something like 6 lakhs interest a year on the capital advanced by the Government of India for construction. The procedure is that when a Local Government recommends a line of railway, and has submitted reports and statistics in furtherance of the project, the Government of India on approving the scheme advances the capital for its construction, on the condition that the Local Government will pay 4 per cent. interest upon the capital from the date of the advance. The understanding also is that when the line is completed the Local Government shall benefit by whatever returns the successful administration of the railway may bring in. It is of pressing importance therefore to the Local Government that the line should be completed as soon as possible. The position, however, is that the advances are now given in such small amounts that the completion of the railway is indefinitely postponed. If, for instance, a railway is to cost 50 lakhs, the Government advances 10 lakhs to begin with, next year it advances three lakhs and the third year one lakh, with an intimation that no more money will be forthcoming for some time. We have to pay interest on these advances from the dates they are made, but without any possibility of return while the line is unfinished, and all the time have to maintain a costly establishment. Such a system is on the face of it indefensible, and imposes a heavy burden upon the Provincial revenues.

“In the direct administration of the country I can appeal to the Hon’ble Bábú Peári Mohan Mukerjí, who is one amongst many others who are always pressing for larger expenditure on roads and communications. Every railway which is completed requires the making of roads and communications as feeders to it. When the road-cess was introduced in Sir William Grey’s time no one opposed it more strongly than the zamíndárs of Bengal; they said it would ruin them to have to pay the cess. I remember that the argument was used at the time that no class would benefit more by the proposal than the zamíndárs; and the result has proved that with the funds thus raised the local committees have been able to construct a large length of roads and communications in every district, which are of immense advantage

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to landed proprietors. But the position now is that whereas at the outset the proceeds of the cess were available for construction of roads and bridges, the same proceeds are only now sufficient for maintaining and keeping in repair the finished lines; and if additional new works are required (as they indubitably are), petitions pour in upon Government to supply the means for their construction. That, however, is out of the question in present circumstances, and I must point out to those who clamour for such aid that the only resource which is possible is to raise the rate of the cess. In the discussion which took place on the re-distribution of allotments in 1882, I think my hon'ble friend Mr. Hope suggested that, if the resources which were then made available to Bengal were insufficient, there was always the alternative open to them of local taxation. I believe I am right in saying that my predecessor, Sir Ashley Eden, repudiated that idea altogether. He said, as I think rightly, that, if there was no general taxation undertaken for the whole of India, he should be very loth to apply any form of special taxation to the territories under his control. He did not wish to incur the odium of introducing any such taxation, and besides no scheme for its imposition could ever be adopted without the sanction of the Government of India. But there are also other reasons against such a policy commending itself to a Local Government. The Hon'ble Mr. Steel in his speech quoted in another connection the saying that 'a strong man armed keepeth his palace.' However strongly a Local Governor may keep his possessions, there would always be the fear that a stronger than he might come and despoil him of the fruit of his labours. We have always to bear in mind that however successful administration may be, and just in proportion to its success, there is always a stronger power behind which claims a share of our accumulations and increments. I don't speak now on the subject of economy, though I shall be ready to assist any Commission which your Excellency may appoint for that purpose, because I despair of any possible retrenchments in Bengal. At a small station which I was visiting the other day, where formerly one officer sufficed for the disposal of the civil judicial work, I found there were now four officers: these four Native officers were housed in an office which was originally intended for a single Munsif. That is only one illustration of what is going on all over Bengal, and in presence of this difficulty the High Court very naturally demand a much larger expenditure upon public buildings. During the last year the High Court deputed one of the Judges to inspect the working of the Courts subordinate to it throughout the province, and as the result of these enquiries they press upon me with all the authority of the High Court that a very large addition of establishment is necessary if the Judges are to be placed in a position of equality with the position occupied by the executive officers of the province.

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“I have made these remarks on this occasion with the hope that when the consideration of the local contract comes in the course of this year under the revision of my hon’ble friend Sir Auckland Colvin—and I am afraid from his looks that I have failed to excite his commiseration—my hon’ble friend and the Government of India will bear in mind how very essential it is to maintain and extend that policy which Sir John Strachey under Lord Mayo’s Government first introduced and afterwards enlarged. A policy of expansion, and not of restriction, has followed each revision of the quinquennial contract : and to quote the words which he has recorded on this subject—

‘It is hardly necessary to point out how little such a restrictive policy finds any justification either in the present state of the finances, or in the actual results of the different course that was till lately followed in this matter ; how manifestly it stands in the way of the reasonable development of Provincial administration and financial responsibility, on which the future progress of India essentially depends.’

“I commend these remarks to the favourable consideration of my hon’ble friend. I hope that, when he comes to review our position during the currency of the present year, he will remember that we have great demands upon us, and that our present resources are inadequate to meet those demands. I should add also that I have no personal interest in this matter, and that before any new contract can come into operation I shall have resigned the office of Lieutenant-Governor of Bengal. What I have urged therefore is in the interests of my successor and of the circumstances and condition of this great province.”

The Hon’ble SIR A. COLVIN said :—“I have heard with the greatest satisfaction the assurances of support which have been given to us both on his own behalf, and on behalf of that body which he so ably represents, by the Hon’ble Mr. Steel. I need not say that it very materially strengthens our hands to know that the measures which we have been called on to undertake commend themselves to the judgment of that great and important section of our community to which my hon’ble friend belongs. For my own part I have never had the slightest doubt that any measure which it was my duty to bring before them, and which was based upon equity, sound finance and reasonableness, was sure to obtain from the mercantile community of Calcutta, however disagreeable the consequences it might entail, a ready and respectful hearing, and for myself their ungrudging support. When I spoke of the shrinking from burdens to which my hon’ble friend has alluded, it was of the former debates on the subject of the income-tax of which I was thinking, and of occasional expressions of opinion which I have recently come across in the Press. To my hon’ble friend, as to those on whose behalf he speaks, I have only to express my

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unmixed gratification at finding that our judgment is confirmed by theirs, and that the whole of our community is ranged under the same banner, with the same undivided end and for the common good of the country.

“My hon’ble friend, I observe, is an optimist. He sees great benefit to this country from a depreciated standard. He thinks that, though persons with fixed salaries may suffer, the country as a whole is benefited, and that even the Government may be reassured. He points to the increased exports as the main proof of his thesis, to the greater facilities for placing Indian produce on the market which are afforded by the present state of our currency, and to the increase in the revenues which may be expected to arise from the greater general prosperity. Now, this is a very large and an extremely difficult subject, which I cannot at present hope adequately to discuss; but I may point out two considerations which I think are difficult to reconcile with the optimist views entertained by my hon’ble colleague. I should like very much to think that with so much happiness going some of it may come my way; but it seems to me a very questionable position to assume that the great increase to our exports is mainly due to the low rate of exchange. I believe that it is more owing to the extension of our railways, to the lowering of freight, to the reduction of railway-charges, and to the growing facilities given by the Suez Canal, than to the depreciation of our currency; and I cannot, therefore, think that the expansion of our prosperity will be proportionate to the depreciation of our standard. If silver has fallen 8 per cent. since 1880, freights have fallen far more. Railways have extended; railway-charges have been lessened. On 7th December, 1880, canal-freights in Calcutta were from £2-16-3 to £2-18-9 per ton; on 14th December, 1885, they were from £1-7-8 to £1-10 per ton—a fall of 50 per cent. There were on 31st December, 1876, 6,833 miles of railway open in India; on 31st December, 1880, there were 9,310 miles; on 31st December, 1885, there were 12,285 miles. I cannot, therefore, bring myself to believe that exchange is the sole, or the most important, factor in the extension of our export-trade which has of late years attracted so much attention. In the second place I would ask my hon’ble friend to remember that if our export and import trade has shown great vitality since the fall in our currency, we have, on the other hand, to maintain somewhat about five crores of rupees annually on our revenue estimates, which, since the relative value of silver and gold began to change, have to be locked up and kept from circulation, in order to enable us to meet the extra burden imposed on us in connection with our home charges. My hon’ble friend, I regret to see, is among the prophets. I regret it because I think

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that prophecy is a risky and speculative line of business, unsuited to commercial aptitudes. He has told us that it will take the rupee ten years to fall to 1s. 2d. I cannot meet him on this ground: I know nothing certain of the future: I think I can see a serious omission in his calculation when he bases the silver production of the next ten years on the limits of the silver production of to-day; and I cannot shut my eyes to the fact that in the last year alone silver has fallen to the extent of what he looks upon as its future normal fall in three years. But even at the present rate of 1s. 6d. we shall have withdrawn at the end of those 10 years, on the figures I have above given, 50 crores of rupees from the pockets of the people; and I do not see where any adequate compensating advantage is to come to them. I cannot dwell further on these intricate points at present; but when I am told that a currency the value of which relatively to gold is what ours has now become will be the source, alike to Government and to the people, of unmixed prosperity, I cannot but hesitate to accept these glad tidings of great joy, and to enquire whether other causes have not been at work to which in great part the improvement of our revenues may be assigned. I am aware that I have no right, and I certainly have no desire, to speak authoritatively or with exceptional experience on one of the most difficult questions to handle which has ever occupied the attention of Governments and economists; I have no wish to say 'I am Sir Oracle—let no dog bark;' but I would venture, if I may, to deprecate the adding another optimistic view to a question on which, if not in India, at least in England, there are too many optimistic views already. As the question is not one which enters into the practical scope of our discussion to-day, with the assurance that it is at the present moment engaging the most anxious, the most earnest and the most unremitting attention of the Government, I may turn to the next point in my hon'ble friend's remarks which calls for notice from me. He has expressed a wish to see the export-duties on rice abolished. That wish, I may freely admit, I share; I admit also the cogency of much of my hon'ble friend's reasoning; but I take two objections, which must practically be allowed to carry great weight, however much we may desire the removal of these duties. In the first place, as I do not share his hopeful views of that surplus which he dangles before my troubled eyes, I cannot bring myself to recommend, in our present circumstances, the striking off the potential estimates or the absorption as a source of revenue of the round sum of £700,000. In the next, I cannot but think that so long as our duty does not unfairly weight our rice in its competition with the rice of other countries (and I do not understand that this is urged upon me), the argument against it is incomplete. I do not deny, in other words, the force of the arguments in favour of abolishing the duty, but I think that the duty

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is not of a nature so objectionable and so opposed to good economical doctrine as to justify our abolishing it at a time when our revenues are in my judgment, and with due deference to my hon'ble friend, in a very critical state.

“In respect of borrowing in England, it will not have escaped my hon'ble friend's attention that we are in point of fact at the present time so doing; and if for local bodies we propose to borrow in the local market, it must be borne in mind that the extraordinary state of the silver market, the reports which reach us of the silver yield in Australian mines, the unsettled policy of the American Government, and the utter uncertainty which hangs round the future of silver, may well cause doubt as to whether, in spite of the comforting assurances of my hon'ble friend, we are so safe on the sunny side of *1s. 2d.* as he himself would have us believe.

“It has been a pleasant surprise to me to find that the proposed tax has met with so little opposition on the part of this Council, and especially that my friends Mr. Peári Mohan and Mr. Mandlik, find themselves in a position to support us. We have, indeed, been told, as I anticipated, that an income-tax is objectionable because it is inquisitorial and because it is unsuited to the genius of the Indian people; but the case against the tax has been put very moderately. Now, with regard to this matter of the inquisitorial nature of direct taxation in India of which we are constantly reminded. It is not in regard to India only, I may remind this Council, that objections have been urged in respect of inquisition. Students of text-books on this subject are familiar with the fact that for many years after the introduction of an income-tax into England this particular objection was to them of constant recurrence. But time has there worn down, if it has not entirely effaced, the edge of this class of objection. And what time has done elsewhere time may be trusted to do here. In point of fact, as your Lordship said last Monday, the operation of the license-tax during the last eight years has been of no small assistance in the matter. We are far removed from the day, which I myself can well remember, when the first introduction of direct taxation sent a tremor throughout the Peninsula. All have learnt and all have profited by the experience of a quarter of a century. We, on the one hand, have found that we must avoid as much as may be the multiplication of returns, and a variety of other points, which were in their nature vexatious, and which were not essential to the operation of the tax; the classes liable to assessment, on the other hand, have learned and are still learning that with a little honesty, a little punctuality and a free recourse to the regular remedies open to them, they can escape the ills which they thought more dreaded, because they were ills they wotted not of. My hon'ble friends

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Mr. Evans and Mr. Peári Mohan have warned us that the tax is one which in its working will cause much difficulty, and that it will give rise to considerable practical injustice. We have been told that every effort will be made to evade its just incidence. There is a well-known legal maxim with which my hon'ble friend Mr. Evans is no doubt familiar, to the effect that a man cannot profit by his own fraud; and if I am told that an important section of the community must be exempted from direct taxation because it is constitutionally fraudulent, I must fall back upon that legal maxim. If I am to be assured that the trading and commercial class in India should not be assessed to direct taxation because they cannot deal honestly with the Government, I must reply that that is a plea which to my mind is wholly inadmissible. But I do not resort to such a reply, because I am convinced that the imputation is unwarranted. I do not believe that the great section of the community concerned, whose reliability and honourable discharge of their business obligations is of world-wide notoriety, is open to that indictment, or that they differ in any material respect from the great body of the Indian people of which they form so important a part, and whose character certainly is not open to the reproach which would seem to be levelled against a section of them by those who take this objection.

“My hon'ble friend Mr. Peári Mohan has asked me for a pledge as to the duration of the tax. No Financial Member who has any pretension to wisdom will ever give such a pledge. Prudence is to a Financial Member what modesty is to a woman; and if he once throws it aside he must expect to descend to that fallen class from whom nothing more may be hoped for. Nor in asking for such a pledge is my hon'ble friend consistent with the assurance he has given us that he accepts the principle of this Bill. If the principle is sound, it is unreasonable and inconsistent to promise that its application shall be of limited duration. If it is good for to-day, it is good for to-morrow and thereafter. So that I must decline to give any such pledge as I am asked for; nor would it be of any value if I gave it. No pledge could bind my successor, who must be guided by the exigencies of the day in which he is called upon to administer our finances.

“My hon'ble friend Mr. Peári Mohan, I see, is not yet quite happy about the Famine Insurance Grant. He has re-quoted a few words of Sir John Strachey's which I quoted the other day, and he has cited a passage from a speech of Lord Lytton's. I need not say anything more about the former extract. It must be read with the context which I quoted last Monday to the Council, and its meaning is perfectly obvious. But, in regard to what fell from Lord Lytton, I may remind my hon'ble friend that the authors of the being of the Famine

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Insurance Grant were Lord Northbrook and Sir John Strachey, and that if one wishes to learn the characteristics of a child one must address oneself to its parents. Lord Lytton was merely its sponsor; and if Lord Lytton promised and vowed more things in its name than it was ever likely to accomplish, he did no more than sponsors daily do, and must be held in no greater degree responsible.

“Next, in regard to the import-duties. Mr. Mandlik has urged and has quoted authorities to prove that their re-imposition would not be felt. That I should wish to take leave to say seems to me beside the question. What we are concerned to see is that taxation should be imposed proportionately to the means of the person taxed. If the import-duties were little felt by the poor man, they would *à fortiori* be far less felt by the rich man. What we have to look to is that each man should pay in proportion to his means, and not merely that the poorest should pay a tax which is not absolutely unbearable.

“I should wish, however, to say a few more words on the subject of the import-duties, because I am compelled to disagree with a great deal of what I daily hear about it. I am well aware that the view I take is not the popular view; but a man must have the courage of his opinions. We have been told that the import-duties should have been retained; and, in public discussion on the subject, we are constantly assured that the import-duties were abolished solely in the interest of Manchester. I may be very obtuse; but I wholly fail to see how, in a matter of this kind, we can separate the interests of Manchester from those of India, or the interest of the manufacturer from that of the consumer. If the one, above all things, desires a free market for his goods, the other, above all things, requires the removal of all restrictions the effect of which is to raise upon him the price of the goods. The profits of Manchester are the economies of India. I think we may find a parallel which is not unsuitable in the case of the Isthmus of Suez. It was Europe, not Asia, which pressed for the piercing of that isthmus; but would any one seriously maintain that the Suez Canal was made in the exclusive interests of Europe, and that Europe alone has benefited by it. The exchange of commodities, the commerce and the wealth of the world, the producer, the manufacturer, the carrier and the consumer, have alike benefited by it, as they must benefit by the removal of all restrictions and obstructions, whether they present themselves in the form of an isthmus or in the form of an import-duty. The only Indian interests which seem to me to have been sacrificed are those of the persons who hitherto had enjoyed the

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monopoly of exemption from taxation; and if those interests are to be sacrificed by the abolition of the import-duties, I must say that I should regret it no more than the sweeping away by the waters of the Canal of the privileges of the Bedouins whose inheritance the desert had hitherto exclusively been. If a narrow neck of land or a narrow section of society stands in the way of benefit to the general community, then I say that it is the narrow neck or the narrow section which must be made to give way, and not the community at large. So that I cannot for a moment concur with those who would re-impose an import-duty or block up a canal, who would replace free circulation by obstruction, and who would raise the prices of Manchester goods against us, because, among other reasons, the benefits which the English manufacturing class have derived are more obvious to their eyes than are the benefits accruing to the Indian consumer.

“But it will be and has been said, that while this is all very well, it does not alter the fact that £1,200,000 were struck off the revenue, and that the country could not afford it. Putting Manchester, in other words, out of the question, I am assured that the import-duties should have been retained because we could not afford to part with them. Well, let us look at a few figures. We have seen that the average surplus of the past three years has been £700,000; we know that the Famine Insurance Grant is provided from annual surplus funds of £1,500,000; so that we have had an annual surplus of £2,200,000; and it is now argued that this was not sufficient, and that we should have added to this £1,200,000 more; or in other words that the import-duties should not have been reduced, because we ought to have maintained a surplus during the last three years of nearly three and a half million. Who, in the name of reason, could have hoped to maintain such a surplus? Would the Council like to know what would have happened if we had attempted to maintain it? I am no thought-reader, but a plain simple Member of the Governor General’s Council; but I think I could say what would have happened. We of the Finance Department should have been bombarded for fresh funds by the Military Department; we should have been seized by the throat by the Department of Public Works; the Home Department would have seized us by the coat tails; the Revenue and Commerce would have lifted its still small voice; the persuasive tones of the Legal Member would have demonstrated the necessity of increased supplies; His Honour the Lieutenant-Governor of Bengal, in common with the other Local Governors, would have expected his quota of this unhappy surplus; I doubt whether even the highest authority in the land himself would have had the courage to restrain his august hand from

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demanding a share in the general plunder. Expenditure, much of it unnecessary, would have increased, and would have established itself; extravagance would have been the order of the day; and when the day of retrenchments and reduction came—as come it assuredly would—the whole administration must have been thrown out of gear. If, on the other hand, so very considerable a sum as £1,200,000 had been maintained for the extinction of debt or for the construction of railways, how long would the tax-payer have put up with it? Would he not have said he was doing too much for posterity, and bearing too large a share of a burden towards the removal of which he already annually contributed a surplus of over two millions? We should have been abstracting annually £1,200,000 from the resources of the country, and employing it in redeeming a public debt bearing 4 per cent. interest by moneys which, in private hands, would be invested at 7 or 8 per cent., and be utilised in the production and the renewal of wealth. To make railways from surplus revenues which one may happen to possess is one thing; to maintain, at the expense of the tax-payer, a large surplus for the sole purpose of making railways seems to me to be quite another matter.

“My hon’ble friend Mr. Mandlik has argued that the abolition of the import-duties stands condemned, because it has not sufficiently resulted in increased imports of manufactured goods. I cannot follow his calculation. The value of imports of manufactured goods, treasure and Government imports apart, which in the 10 years before 1878-79 averaged 35 crores, was, in 1884-85, 53 crores; the average of the four years from 1878-79, when the first duties were remitted, to 1881-82, the year before the final abolition, was 47 crores; the average of the three years from 1882-83 to 1884-85 has been 51 crores. The percentage of increase from 1878-79 to 1881-82 has been 28; from 1878-79 to 1884-85 it has been 45. If we remember that during this period prices have been steadily falling, and that these figures represent values, not quantities, the real increase will be much greater. My hon’ble friend Mr. Mandlik has overlooked this important point, and the oversight vitiates all his conclusions. I am not so foolish as to suppose that the great growth of our imports since 1878-79 is due solely or mainly to the abolition of the import-duties. It is due to a variety of causes. It is partly due to the increase in our exports; it is partly due to the cause to which so much of the increase of our exports is due, namely, to the extension of our railways and to the consequent improvement in the distribution and cheapening of commodities; it is due to the forcing of accumulated stocks, owing to the fall of prices in England, upon the Indian market; it is very largely due to the fall of prices in England; but unquestionably it is also partly due to the abolition of import-

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duties. If the state of our exchange has, on the one hand, enabled us to place large stocks of grain and of seeds on the European market, and has prevented us from feeling in that direction the full effect of depression of prices which weighs so heavily at home (and to which, so far as the commodities are concerned which form the chief staples of our exports, we have not a little contributed), it has, on the other, handicapped us in our power of purchasing piece-goods, and has supplied an additional argument to what seem to me the unassailable economical grounds on which those duties were abolished.

“My hon'ble friend Mr. Mandlik has criticised at some length the expenditure in various branches of the administration with which personally I am not very intimately acquainted. I will not therefore follow him further on this ground than to say that to his desire to introduce economy into the administration, and to extend the employment of Native agency, I personally and entirely subscribe. Whether from the more narrow ground of my own special province of finance, or from larger political considerations, any practical efforts suggested in this direction will have my constant and strenuous support. I believe that in the dual agency by which executive administration is and must be carried on in this country we should endeavour and make it our great aim to march not on parallel, but on converging, lines. His Honour the Lieutenant-Governor has dwelt at length on the question of the Provincial revenues. He sees, or thinks he sees, that, like Cassius, I have a lean and hungry look, and that I am animated by evil intentions. He fears that in the revision of the contracts I shall, as the French say, draw the counterpane too much my way, and that he will be left in the cold. There is a Persian proverb which says ‘Awal Khwesh, bad'hu darwesh,’ which, very liberally translated, means ‘Devil take the hindmost.’ But let me reassure him. In this matter there will be no foremost and no hindmost; we shall approach the matter in that spirit of justice, of moderation and of reasonableness in which only it can be effectually handled. We shall be most ready to listen and to examine all that the Provincial authorities have to urge, but we shall at the same time be compelled to insist, as I said last Monday, on an equitable re-distribution of the new burdens which have been imposed upon the general revenues. To that I am sure His Honour will take no exception, and we must leave the working out of the details to those who will be charged with the task.

“And now, my Lord, I think that I may bring this, my second *apologia*, to a close. I am conscious that I have but glanced at the surface of much that has been said; something of what has been said I have not so much as attempted to glance at; but this, not because I am gravelled for lack of matter, but because, had I travelled over the whole ground taken up during this discussion,

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I should have wandered far from the issues actually before us. I have stated why I cannot share my hon'ble friend Mr. Steel's hopeful view of our prospects, and why I am unable to hold out at present any hope of the remission of the export-duties on rice. I have glanced at the argument against the income-tax based on its inquisitorial nature, and have given my grounds for doubting whether these arguments from lapse of time have not lost much of their force. I have pointed out that the question before us is one of the equitable distribution of taxation, and why the import-duties alone, without direct taxation, are not consistent with such a distribution; I have contested the view that the import-duties should be re-imposed; I have, I hope, re-assured His Honour the Lieutenant-Governor in regard to my designs on the Provincial contracts; and I leave the matter now, so far as I am concerned, to the decision of the Council, in the confidence that we shall be accorded its support.

The Hon'ble MR. HOPE said:—

“Our hon'ble colleague Sir Auckland Colvin warned us, on the last occasion when we met to consider this Bill, that we should probably find to-day various ancient weapons furbished up for use in an attack upon it, but I confess I hardly expected to hear it seriously contended that direct taxation was unsuited to India and obnoxious to its people.

“Direct taxation, I venture to maintain, is not a novelty in India, as too commonly supposed, but a most ancient and well-known institution. Native Governments have from time immemorial made the non-agricultural classes contribute their share of the expenses of the State. To the Native mind in general, this appeared only just, fitting, and to be contentedly borne. Between cultivators and traders, poor and rich, no sense of unequal treatment could subsist under the system which our predecessors in the Empire for centuries pursued. But when we superseded them we gradually abolished the structure of direct taxation which they had laboriously raised. In the elder Provinces, this change was consummated by about the year 1844, in the newer ones it took place later, but the only survivals of the Native system now are the capitation-tax in Burma and the pándhari-tax in the Central Provinces, which are specially dealt with in the Bill now before us. On the other hand, all Native States now remaining have, speaking broadly, retained their old method of direct taxation to this day.

“What is the result? When we collect a paltry half million or so, British India rings with discussions and objections, while to our Native feudatories direct taxes, under innumerable forms and names, and to a proportionately

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larger amount from a far smaller population, flow in without a murmur. This fact is so remarkable, that it appears well worth our while to endeavour to examine into and ascertain its causes.

“Having served for considerable periods in Native States, and been directly and indirectly concerned, as a Political Officer, with their administration, I have had some opportunities of observing their system in this respect, and have myself been connected with the collection of direct taxation far heavier than any which has ever been contemplated in British India. The characteristics of their system may be concisely described as traditional acquaintance with individuals and their circumstances, rudely equitable apportionment between man and man, permanency or dislike of change, and employment of the regular localised revenue agency. In 1880 a middle-aged Native Chief, who is his own Prime Minister, and a most intelligent personal ruler, described to me his own practice in a few words. ‘In my State’ (he said) ‘the name of every householder, not an agriculturist, is shown in the books of the village to which he belongs, with the sum he and his ancestors have been paying. This is levied from year to year. Only on extraordinary occasions is any alteration made. If the family became “divided” the sum might be made into shares at their request. If it notoriously fell into great poverty, some permanent reduction might be conceded; or if the business were quite changed and improved, I might increase the annual sum. But to get a small sum I should never cause an outcry. Everything would be inquired into and decided, in the presence of the parties, on the evidence of the village headmen and neighbours.’ I am aware that this description might not apply precisely to all parts of India, as also that Native States are subject to paroxysms of tyranny, and that even in those well administered acts of injustice may occur. But it is sufficiently typical, and accounts for the fact of the noiseless levy in these States of direct taxation.

“Turning now to British India—in 1860 we were obliged by financial necessities to revert to direct taxation, which we had gradually abandoned, but instead of a Native model, softened and adapted to our circumstances, we unfortunately set up that of the income-tax, as in force in England. To get direct taxation into good working order, even after a suitable model, would have been a work of time and care, in the absence of the long-standing record of the names and resources of house-holders which we had in earlier years done away with. But what, except failure, could attend a sudden call on relatively ignorant and unlettered millions, at short notice, to assess themselves, or prove right of exemption, to send in elaborate returns and

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calculations, and to understand and watch their own interests under the system of notices, surcharges, claims, abatements, instalments, penalties and what not, consequent thereon. Necessarily there followed a long train of evils. An army of tax assessors and collectors temporarily engaged could not be pure. They were aided by an army of informers, actuated by direct gain or private animosity. Frauds in assessment and collection went hand in hand with extortion in return for real or supposed exemption. Inquisition into private affairs, fabrication of false accounts where true ones did not exist or were inconvenient, acceptance of false returns, rejection of honest ones, unequal treatment of the similarly circumstanced—all these more or less prevailed. The tax reached numbers not really liable, for zamíndárs illegally recovered it from tenants, and masters from servants, while underlings enriched themselves by the threat of a summons. Acts XXI of 1861 and XVI of 1862, while affording relief in some respects, practically stereotyped many inequalities and heart-burnings. In later years, the system of assessment by broad classes was an improvement on the earlier complications, but the advance of local officers towards equitable assessment was perpetually being cancelled by the alterations in rate and liability which I shall presently notice.

“Renewed direct taxation in British India thus made a false start, from which it has never recovered. Possibly, with time and care, a great improvement might have been effected, if the law had remained unaltered. But, unluckily, with its too English form, came the idea that the tax was to be, as in England, a convenient means of rectifying Budget inequalities, and a great reserve in every financial or national emergency. In consequence of this idea, incomes between Rs. 200 and Rs. 500, which had been taxed at 2 per cent. in 1860, were exempted in 1862, the 4 per cent. rate was reduced to 3 per cent. in 1863, and the whole tax was dropped in 1865. In 1867 it re-appeared in the modified form of a license-tax, at the rate of only 2 per cent. at most, but reaching down again to incomes of Rs. 200. In 1868 it became a certificate-tax, at rates a fifth lower, and again commencing with a Rs. 500 limit. In 1869 it became once more a full-blown income-tax at 1 per cent. on all incomes and profits of Rs. 500 and upwards. In the middle of the same year it was suddenly nearly doubled. In 1870 a further rise to fully $3\frac{1}{2}$ per cent. occurred: but with better times, the rate fell in 1871 to $1\frac{1}{4}$ per cent., with a limit of Rs. 750, and in 1872 the limit was further relaxed to Rs. 1,000 and upwards. In 1873 came a second period of total abolition, to be succeeded from 1877-78 by the new series of Acts with which we are all familiar. Along with the changes in rate and incidence just described, came changes in name,

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form, classification, and procedure. With one object or another, twenty-three Acts on the subject have been passed since 1860.

“This long recital of what is well known to my hearers will have been tedious, I fear; but it seemed necessary to enforce my point, which is, that we have hitherto attempted direct taxation in British India under conditions which rendered success impossible. Owing to the perpetual changes, the people, never certain who was liable or what was the sum due, were an easy prey for fraud and extortion, while the superior officials time after time found their labours thrown away, and a fresh battle with guess-work and deception to be begun. That both officials and people should in 1872 have united to condemn an impost hitherto associated only with such evils, is not to be wondered at. Our abandonment of the machinery of direct taxation inherited from our predecessors was one of the things in us which the mass of the people disliked without being able to understand. Our new-fangled and European attempts to retrace this policy seemed to them tyrannical, compared with the rude expedients familiar to their fathers. All things considered, the abolition of the income-tax in 1873 was probably the best thing that could then be done.

“But direct taxation could not long be dispensed with. A new start was made in 1877. This start was, I think decidedly well intentioned, made in considerable appreciation of past defects and desire to avoid them. It was wise to begin with trades and classification, but it seems to me that too much was made of supposed local differences, and too much importance attached to local action. Bengal, Madras and Bombay passed Acts of their own; Northern India was dealt with by the Imperial legislature. As a necessary consequence, further legislation was soon needed to remedy inequalities. Some good was thereby effected; more would have resulted, but for the, as I think, unfortunate abandonment of the Bill introduced in November, 1879.

“Act VI of 1880, with the local Acts it amended, is still in force. Their continuance for five years unaltered has done a great deal to remove such evils as arose from frequent changes. But still we find an unjust system of maximum everywhere, while the amount of maximum varies, and the classification essentially differs, in different parts of India. In short, the incidence differs with every class, the poor pay more in proportion than the rich, and the richer a man is, above a certain point, the less he has to pay. The measure is open to grave objections of principle and detail; it represents no school of economic thought, no section of public opinion; it satisfies no one, and must obviously be ephemeral.

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“ In this state of affairs, we have presented to us the dilemma of abolition or reform. I need not follow Sir Auckland Colvin in his review of other alternatives to direct taxation which have been suggested, because, though agreeing with his elimination of them, I hold the issue to be different. I take my stand on the principle so eloquently enunciated by His Excellency the Viceroy when the motion for leave to introduce the Bill was before us—that of abstract justice. How much longer, I would ask, are we to tolerate the fact that non-agricultural wealth, though considerable and daily increasing, pays very little, in proportion to its means, for the protection and great advantages it enjoys under British rule—to which the very existence of the bulk of it is attributable ?

“ I therefore elect unhesitatingly for reform, for such reform as, I personally hope and believe, will ensure the incorporation of direct taxation as a permanent part of our fiscal system. Whatever may hereafter, at least in the near future, be the improvement in the general revenues, whatever surplus may in such future be deemed available, after duly providing for the development of the resources of the country and the reduction of debt, ought in my opinion to be applied to relief in other directions, such for instance, as that of the rice-duty indicated by my hon'ble colleague Mr. Steel, but no reduction in direct taxation should be conceded. Such a reduction would be unjust, as impairing even such advance towards a fair balance of taxation between agriculturists and non-agriculturists as will be attained by the present measure. But it would also be undesirable, since avoidance of change is essential in order to prevent fraud and oppression in the levy of the impost. Differing from my hon'ble colleague Mr. Peári Mohan Mukerjí and from Sir Charles Trevelyan and Mr. Massey whom he quotes, I hold that in India an income-tax is utterly unsuited to form a financial reserve. In England the mass of the people are accustomed to watch the commercial and agricultural prosperity of the country, competent to understand changes and causes, and able to accept, with intollient equanimity, an extra penny of income-tax, or an increase of duty on some article of consumption. But in India the position is just the reverse, and such a condition is absolutely unknown. Certain sections of the community, indeed, are able to understand and criticise the financial position as well as people in England can, if not better. As a rule, the people are in a totally different intellectual and moral condition. Every change which takes place is a source of anxiety, of disquietude, of speculation, and of rumours which are often unreasonable or even absurd. I can imagine few conditions more economically and commercially prejudicial, if not more politically dangerous,

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than that all India should come to be thrown annually, from December to March, into a state of doubt and speculation as to what their fiscal burdens for the coming year would be. On this subject I venture to draw attention to the weighty remarks made by Mr. Gladstone in a debate in the House of Commons on April 18th, 1858:—

‘ * * This country cannot bear a revolution once a year. I venture to say in like manner that it cannot bear once a year a reconstruction of the income-tax. Whatever you do in regard to the income-tax, you must be bold, you must be intelligible, you must be decisive, you must not palter with it.’

Mr. Gladstone was speaking of the income-tax in England. His remarks, however, apply to any system of direct taxation whatsoever, and I venture to think that they are even more applicable to India than to England.

“ Holding these views, as I do, I readily support the Bill now presented. My approval of such a measure is due to no new-born zeal, to no tardy conversion. My opinion has long been matured. I may mention that a re-adjustment of the public burdens, comprising increased direct taxation, was for a time, under my strong advocacy, a part of the financial programme of 1882-83, and I much regretted its abandonment in favour of a policy more attractive but less sound. The present Bill, though in one or two respects scarcely such as I should desire, is the same in principle and in leading details as what I then proposed. Its success depends, I consider, upon its recognition as essentially a new departure, on lines different from those which experience has taught us to avoid, and upon its future life and administrative working being regulated accordingly. Two points relating to its working seem to me of sufficient importance to warrant special notice to-day.

“ First of all, it is essential that the machinery be of good quality throughout. The evils which are likely to arise when temporary, unsuitable, or ill-paid agency is employed in the assessment and collection of a direct tax were amply illustrated in a very searching enquiry which was made into the whole question of taxation in 1881. I hope that I shall not be thought guilty of undue partiality for my own presidency, if I commend to notice the principle adopted in Bombay in this respect. It has always been the rule there to place officers of superior rank, usually the *mámlatdárs* (i.e., *tahsildárs*) of the sub-divisions, on special duty for two or three months to do the assessments personally, with the clerical aid of one or, at most, two of the regular sub-divisional establishment. Officiating promotion being given to fill their places in the regular staff, new men, if required at all, came in low down and had nothing to do with the

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tax. The mámlatdárs acted under the direct check of the Assistant or Deputy Collector in charge of their division of the district. The latter officer, being on tour throughout the fair season and in constant intercourse with the people, took considerable personal tests, heard appeals on the spot, and was a constant check upon abuses. I venture to hope that the analogy of this system might be followed, *mutatis mutandis*, throughout India, and that efficiency in this, as in many other matters, might be materially promoted, if Assistant and Deputy Collectors were more generally placed, as in Bombay, in charge of the whole administration of divisions (subordinate to the Collector and Magistrate), and required to be on tour for a rather longer period of the year than is in some provinces customary. As a part of this system, would follow ample leisure, including a whole fair season, for deliberate assessment and collection, and the hearing of appeals, freely, with less limit of time, and on occasions convenient to the people.

“The principle which I here advocate, of avoiding temporary agency, should reach down to the villages in all Provinces when the organisation will admit of this, or should approach to it as near as possible. A permanent register of assesses to the tax should be a part of the village-records, kept up by the village-accountant, revised from year to year according to changes of assessment which might occur, though these should be as few as possible, and this register should be regularly inspected and countersigned by superior authority. The amounts should be collected by the same agency as, and usually along with, the revenue-demands, all special tax-collectors, chaprásís, and the like, being eschewed. The same principle, on the other hand, should govern as far as in each case may be the assessment of Mufassal towns and cities, officers and records being permanent, though not necessarily employed on the work of the tax alone. The Presidency-towns would, of course, need special treatment appropriate to each.

“In making these suggestions, I do not overlook the peculiar administrative arrangements of Bengal, arising out of the Permanent Settlement, but I understand that even there a gradual advance to a much more complete fiscal and executive organisation is recognised as desirable and not out of reach, and I would add that I do not advocate more than arrangements on the same principle in cases where similarity in detail is impossible. My recommendation, however, is justified by the fact that although in Bombay the tax was so administered, that it yielded, on an average of years, two-thirds of the amount produced by Bengal and Assam, from a population only one-fourth of theirs, yet the province is admittedly the one where the least discontent and outcry have prevailed, and where an income-tax has long been openly advocated by powerful sections of both European and Native public opinion.

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“No less important than reliable inferior agency is competent supervision of the assessment throughout the province. The inequalities which have arisen through the want of this both between provinces and between districts of the same province, were very forcibly shown by the enquiry already alluded to. The salary of a special officer in each province for a few months, or even for the first two or three years of the new income-license-tax, would be paid over and over again, not merely in money, but in the additional equality and justice which would be insured. I think I may venture to say, though I speak without book, that my hon'ble colleague the Financial Member will not grudge whatever reasonable expenditure may be deemed necessary to provide effective and reliable agency for the recovery of the tax.

“The other point, not less important than good agency, is the use of the powers of assessment and revision from year to year with care, tact, and moderation. All feverish anxiety to screw up particular classes or localities, or to adapt assessments to the varying circumstances of the year, should be avoided; petty increases and changes should be foregone. What is needed is a patient and continuous endeavour to learn and record the real means of parties, to prevent the unfair escape of individuals, and to build up a framework of taxation such as is found in Native States and normally worked upon.

“Did I not believe that it is the sincere desire of the Government of India that the new tax should be thus looked upon, and so administered in these two respects, and that it is to be in all ways a new departure on lines essentially different from what is gone before, the measure would meet with my opposition instead of my cordial support. I do not expect that direct taxation can ever be perfect,—it is open to abuse even in England,—but I see no reason why it should not be gradually made in India as good as its nature will allow.

“I have already said that I should not follow Sir Auckland Colvin in his review of alternatives, and I shall not follow other hon'ble members in their suggestions of such, but I am obliged very briefly to touch on the question of the import-duties, because my hon'ble friend Mr. Mandlik has alluded to me personally and to the opinions I expressed in this Council in 1875. He has quite correctly represented the views I then held, and I now see no reason to question their soundness. If the adoption then accorded to them had continued longer, and if an excise upon Indian mills had in due time been imposed, when found necessary, it is possible that we might have retained the duties to this day. But in 1878 measures were taken which, in the balance of difficulties then presented, it would be rash in me to condemn. They introduced disruptive principles into the tariff, and inevitably shattered and brought

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down the entire structure. Supposing, however, that the event had been otherwise, that no action had been taken in 1878, and that the import-duties were existing at this day, will the hon'ble member seriously contend that, although they would be a convenient source of revenue, they would reach the rich non-agriculturist in any degree at all approaching that in which justice to all other tax-payers demands that he should be reached?

“In conclusion, I feel it incumbent upon me to trouble the Council with a few remarks regarding the question of silver and exchange. By way of introduction I would ask leave to read an extract from our Proceedings of 21st March, 1877, in which I am reported to have spoken to the following effect:—

‘Although there were occasions when the strength of a Government might be to sit still, he (Mr. Hope) did not think that this was one of them. The British Empire was interested in the silver question as much as any nation in the world—in fact, more so in consideration of the special double life which it possessed, a life both European and Indian. The English nation had in England an enormous debt, contracted and payable in gold. It had likewise there a vast manufacturing industry for export, which depended in a great measure on the ability of the silver-using nations with which it dealt to pay for its products. Here in India, on the other hand, it had a heavy debt to defray in gold, while all its assets were raised in silver. Thus if there were any serious rise in the value of gold, such as he for one believed had taken place, rather than a fall in the value of silver, England must suffer both at home in her debt-obligations and her current commerce, and in India by the depreciation of the national—meant in the sense of the Indian national—capital, which was almost entirely in silver, by the increased weight of the obligations which she had to meet in gold, and by the decrease in the value of her means of meeting them. He believed it therefore to be entirely the interest of England, whether in England or in India, to have as large a circulating medium as possible, and one which should embrace both gold and silver as a full legal tender. It would be gathered from what he had said that he was one of that minority—and he must admit with regret that they were at present a rather small minority—who were in favour of bimetallism. So long ago as August last (1876) after studying everything on the subject which was within his reach, he had written privately to his friend Mr. Chapman, the Financial Secretary, that he could come to no other conclusion than that that system was the right one. He believed it was quite possible for Government to fix a ratio between gold and silver after due enquiry, and that it was just as much the duty of Government to do so as to take any other measures for the protection of the community. No doubt such a step could not be taken without an understanding with other nations. But if they were to wait till all nations agreed on the subject, or till they could get together a sort of universal conference, they might have to wait for ever.’

“How far these views have been confirmed by experience, I leave my hearers to judge. For myself I can only say that from that day to this, I have watched most carefully all the phases of the question, I have studied all

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notable utterances upon it, I have neglected no opportunity which lay within my reach of pressing for practical action, such action as I deem indispensable in order to place our finances in a safe position for the future, and to recover, as far as may be, the position we have lost in the past. I entirely agree with my hon'ble colleague Sir A. Colvin in holding, though I might justify my faith by somewhat different arguments, that a low exchange is not that benefit to India which it is in some quarters supposed to be. I am convinced that unless a remedy be applied soon, before prices of Indian produce are seriously affected, the result will be a practical confiscation of a proportion, corresponding to the depreciation, of such part of the circulating capital of the country as consists of silver money. None the less does it seem clear to me that the present relative values of gold and silver have a disastrous effect upon trade in general, and upon large classes of the population of England. We may extend direct taxation so as to redistribute the public burdens more equitably between the agricultural and non-agricultural classes; we may effect reductions of expenditure without checking the natural growth of the country (as I trust we may do); we might even go further, in our zeal to make two ends meet, on the short-sighted and usually short-lived course of blind reduction without regard to circumstances, but, as long as the currency difficulty remains unmet, and the chasm of depreciation yawns before us, all such attempts to rectify the finances must be futile, and like tinkering the sides of a kettle when the bottom is out. This is obviously not the occasion for me to pursue this matter further or in detail. I will only say, and here, as in the foregoing remarks on the subject, I offer my personal opinion only, that I deem the only effective remedy to be the adhesion of India, at least, upon terms which it would not be difficult to adjust, to a Bimetallic Union comprising most, if not quite all, of the nations which were represented at the Paris Conference of 1881. By such means alone can we hope to afford to the unfortunate receivers of fixed incomes, to whatever class they belong, the relief which is their due, or to establish our finances on a sound basis."

The Hon'ble PEÁRI MOHAN MUKERJI said:—"With Your Excellency's permission I wish to point out, with reference to what has fallen from the Hon'ble the Financial Member, that I did not say that the imposition of the tax should be postponed to next year, but that the consideration of the question whether that imposition should be made permanent should be put off till next year. I am not sorry that my Bábú English has caused this mistake, for it has given the Financial Member an opportunity to treat the Council to a well-turned repartee."

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His Excellency THE PRESIDENT said :—“ Before putting the question I may be permitted to express the very great satisfaction I have derived from the generous unanimity with which the various members of this Council have expressed their approval of the measure placed before them. Quite independent of those who are connected with the Government, we have amongst us representatives of the three most important interests in India affected by the present Bill. We have a most distinguished representative of the mercantile interests, to whose incisive and weighty speech we have all listened with the greatest pleasure and profit. We have an equally distinguished representative of the interests of the learned professions, and we have also amongst us two gentlemen who are exceptionally authorised to speak on behalf of the Native community. When, therefore, we find that the representatives of these three interests have been good enough to acquiesce in a measure which the Government have introduced with a considerable amount of anxiety and reluctance, we may well congratulate ourselves upon the result. But there is another view in which I personally may be permitted to regard this question, and which gives me even greater satisfaction than that which I have derived from the consciousness that a measure of the Government has been unanimously approved by this Council. As the representative of the Queen-Empress, and as in some respects the spokesman of the British people, I cannot but consider that the unity of the effort, which we have agreed to make in common for the protection and the defence of the Indian Empire, is a better proof and test than any that could be produced of the solidarity of the interests which unite Her Majesty's Native and British subjects in one common feeling of loyalty towards Her Majesty's person and Her Empire. And let me assure those gentlemen who represent so ably Native interests in this country that the manner in which the Native community has stepped forth so loyally and patriotically to the support of the policy of the Government on this occasion, will not fail to be appreciated at its true value by their fellow subjects at home.”

The Motion was put and agreed to.

The Council adjourned to Friday, the 22nd January, 1886.

FORT WILLIAM;
The 15th January, 1886. }

S. HARVEY JAMES,
Officiating Secy. to the Govt. of India,
Legislative Department.