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* Were transmitted to the Economic Enquiry Committee.

PREFATORY NOTE TO THE QUESTIONNAIRE.

It is not expected that every witness will necessarily reply to all, or even to a majority of, the questions set down below. The examination of the taxation of a country as a whole involves the consideration of numerous questions which appeal to a great variety of interests and the Committee, while seeking the best possible advice on each head, fully recognize that the great majority of witnesses will only desire to deal with one or two.

They recognize at the same time that, where such special interests are concerned, the questionnaire, lengthy as it unavoidably is, may still leave certain aspects of them untouched. They have endeavoured to set down questions which will provoke discussion on matters in respect of which they find themselves, as a result of what has been of necessity a very rapid preliminary survey of the field, in need of further enlightenment.

They would express a hope that no special significance be attached to the form of the questions or to the quotations embodied therein. In dealing with a very intricate and technical subject, it has seemed to them desirable, when referring to a proposition or a proposal, to state it as far as possible in the words of some one who has made himself responsible for it, and the question, in whatever form it is couched, is intended to do no more than elicit the opinion of witnesses on the proposition or proposal set down.

Witnesses are requested to be good enough to send their replies as early as convenient to the Secretary, Indian Taxation Enquiry Committee, New Imperial Secretariat Buildings, Raisina, Delhi.

INCIDENCE OF TAXATION.

*QUESTIONS 1 TO 8.

*[Note.—These questions were transmitted to the Economic Enquiry Committee.]

Question 1.

1. Annexure A * gives an account of the statistics at present available for the purpose of an estimation of the wealth of the country. How far do you consider them (*a*) adequate and (*b*) reliable?

Section I. Agricultural Statistics—

Sub-section.—(*a*) General.
,, (*b*) Special crops.
,, (*c*) Live-stock.
,, (*d*) Forests.
,, (*e*) Fisheries.

Section II. Industrial Statistics—

Sub-section.—(*a*) 1. Minerals.
,, 2. Cotton Mills.
,, 3. Jute Mills.
,, 4. Breweries and Distilleries.
,, 5. Salt.
,, (*b*) Statistics of minor industries.
,, (*c*) Returns of companies floated.
,, (*d*) Statistics of Trade.

Section III. Statistics of Prices

Section IV. Statistics of Income

Sub-section.—(*a*) Income-tax statistics.
,, (*b*) Statistics of wage-earners.

Section V. Vital Statistics.

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* ANNEXURE A. (Question 1.)

I.—Agricultural Statistics.

(a) General.

Statistics of area and yield of the principal crops for every year are published by the Commercial Intelligence Department in the 'Estimates of Area and Yield of Principal Crops of India,' Tables 4 to 17. Figures of area under cultivation for both these and the remaining crops are published annually under the title of 'Agricultural Statistics of India'.

2. Three factors go to make up the estimates—

(*i*) the estimate of areas sown,
(*ii*) the estimate of normal crop, and
(*iii*) the estimate of the crop for the year in terms of the normal crop.

3. The estimate of areas sown is based in the greater part of Madras, Bombay and Sind, the United Provinces, the Punjab, the Central Provinces and Berar, the North-West Frontier Province, Burma and Assam on cadastral survey maps and the reports of village officials as to the areas sown with the principal crops These reports are in the majority of cases subjected to a certain amount of check by superior officers. In the Punjab and Burma the areas are based on the survey figures only in the districts in which the main crops are largely grown; for the other districts the figures are based on rough estimates prepared by the Directors of Agriculture.

4. In Bengal, Bihar and Orissa, about one-third of Madras, the hill tracts of the United Provinces and Assam there is no accurate survey or reliable village staff. In the first two areas the figures are supplied by the village policemen to the police stations; in the others the estimate is based on the previous years' figures, the state of the seasons and the figures for neighbouring areas.

5. As regards the estimate of normal outturn, there is no universal meaning attached to this term, which is variously interpreted as the most general recurring crop, the typical crop of the area, the just return to the cultivator, the return under normal rainfall or the average over a series of years. The standard is fixed in Madras, the United Provinces, Bengal, the Central Provinces, Burma, Assam, and the North-West Frontier Province on crop-cutting experiments, which are made from year to year and reviewed every five years. The last quinquennial report, published in 1924, shows that the results of the experiments from 1916-17 to 1921-22 were far from reliable. In Bombay the standard is based on local estimates of average yield and in Bihar on local information.

6. The estimate of outturn is made by the village officers, who report the crop of the year as representing so many annas more or less than the standard. These estimates are the purest guess-work, and experience shows that the most expert officers are liable to be greatly mistaken in making estimates of the kind. These estimates have again to be corrected owing to the fact that the number of annas taken as the normal crop is not the same in all areas. To correct this error the normal is taken as a hundred and the estimate is converted into a percentage of this figure. This percentage, multiplied by the area, multiplied by the normal outturn, gives the estimate of the yield. The inaccuracy of the method pursued may be illustrated by the fact that in the province of Bihar and Orissa it was found that the yield was higher than in the adjoining provinces. When, however, the Bihar Government examined its method of compilation, it was found that the yield was really 30 per cent less than what had been reported. The mercantile community places little confidence in these statistics. In one province they are reported to add 25 per cent before utilising them.

7. The following are two authoritative criticisms of these figures. A Resolution of the Government of India in the Finance Department of the 24th October 1914 says:—

"For the immense areas of Bengal, Bihar and Orissa, for about one-third of the Madras Presidency, for the hill tracts in the United Provinces and in Assam—and, it may be added, for the Native States, which, though excluded by Mr. Datta, cannot legitimately be ruled out of account—neither the area under cultivation nor the area under foodgrains is known with any accuracy; and for such areas Mr. Datta had no alternative but to base his statistics of cultivation on more or less arbitrary assumptions. Further, attempts to estimate the total outturn of agricultural produce, even when the area is definitely ascertainable, are beset with insuperable difficulties. The normal yields per acre, the foundation of all such estimates, are notoriously untrustworthy. These yields have been revised from time to time There has been some revision even since Mr. Datta's report was written, but the figures are still far from satisfactory. The remaining factor in the calculation, the percentage of the yearly outturn to the normal, is a still more uncertain quantity, resting as it does on district returns, which are little more than loose conjectures, vitiated in particular by a distinct bias in the direction of under-estimation. Finally, the whole mass of material, comprising elements of every degree of validity, has to be reduced by a complicated process of averaging and weighting, and it is evident from a study of the detailed results that, here too, considerable further difficulty has been experienced and divergent methods employed."

The Sugar Committee, which reported in 1920, made the following comments on the compilation of statistics of area and yield of sugarcane:—

"As regards the area under cultivation, the Committee accept the view that figures of the area under cane are on the whole fairly accurate, except in the tracts which have a permanent settlement. The area under cane in Bihar and Orissa and Bengal, which stand third and fourth respectively amongst the cane-growing provinces of India, is sufficiently large to make this a matter of some importance. The Committee draw attention to the not infrequent discrepancies between the area under cane in each province as given in the 'Agricultural Statistics' volume and the same area as given in the 'Area and Yield' volume.

* For answers to Question 1, see pages 14-25 *infra*.

For answers to Question 1, see pages 14-25 *infra*.

"As regards the standard normal outturn, the figures given are very unsatisfactory and little reliance can be placed on them. The evidence which the Committee received was by no means such as to justify the figures of yields given for certain tracts.

"As regards the 'anna estimate', it is in the first instance framed in most cases by the "patwari", or village accountant, or an official of similar standing. Opinion is unanimous in regard to the reliability of the estimates so framed and there is little doubt that the outturn of all crops in India is persistently under-estimated. It has frequently been pointed out that the main reason for this is the ingrained pessimism of the Indian cultivator and village official, as a result of which it is very rarely that a normal crop is reported.

"It is doubtful whether non-official agencies are in a position to render as great a measure of assistance in the compilation of the cane forecast as in that of other commercial crops; but effort should be made to enlist the assistance of factories and large and small landholders in the work of crop reporting."

For answers to Question 1, see pages 14–25 *infra*.

(*b*) *Special Crops.*

Tea.—The figures of production are based in the main on reports received from the gardens. Where no reports are made, estimates are sent by the local officers. The prices given are those realized at the annual auction sales at Calcutta and the values declared at time of export.

The Report on the Production of Tea in India (Commercial Intelligence Department) gives the following details:—

(1) Area under cultivation..	Table 1
(2) Production of tea in India	" 2
(3) Number of persons employed on tea plantations	" 3
(4) Quantity of tea exported	" 4
(5) Average value of Indian tea sold at auction sales in Calcutta and average declared values at time of export..	" 13

Cotton.—The 'Estimates of Area and Yield' published annually (Commercial Intelligence Department) contain an estimate of the cotton crop for each year. This can be checked roughly by adding the amount of exports to that of the home consumption and deducting the imports. An account of the quantity consumed by the mills is published every year in the Report of the Bombay Millowners' Association and an estimate of the consumption outside the mills is made annually by the Bombay Cotton Trade Association. The annual "Review of the Trade of India" contains the statistics of imports and exports.

Rubber.—A special supplement is published in 'The Indian Trade Journal' under the title of 'Rubber in India', and contains statistics based on data furnished by rubber planters.

Table No. 1 gives figures of area under rubber.

Table No. 2 gives statistics of the production (in lb.) of dry rubber.

Table No. 3 is a detailed statement of area and production.

Table No. 5 gives statistics of raw rubber exported from British India.

Jute.—Estimates of the crop are published annually in the 'Area and Yield of Principal Crops.'

Statistics of the consumption of jute in the mills are given on page 625 of the 'Statistical Abstract of British India, 1923.'

The quantity of raw jute exported is published in the 'Review of the Trade of India.'

The Indian Jute Mills Association publish an annual report The report for the year 1922 gives the following statistical statements about jute:—

Statement I gives figures of local consumption of raw jute.

Statement VII gives a comparative statement of the forecast of the jute crop and the actual consumption for the years 1892–93 to 1921–22.

Statement XIV gives figures of cultivation and production of jute (in bales 400 lbs.) for 27 years from 1896–1922.

Coffee.—Data of the area under coffee and the production of the same are given in the 'Agricultural Statistics' and in Tables 1—3 in the supplement on coffee to the 'Indian Trade Journal.' This supplement also gives the figures for imports and exports. The data of area and production in the supplement are compiled from the returns received from plantations in excess of 10 acres in extent.

For answers to Question 1, see pages 14–25 *infra*.

(c) *Live-stock.*

The first general quinquennial census of cattle was taken in 1919-20, and it has been continued since then annually in some provinces and quinquennially in the rest. The results, though better than those obtained in the earlier years, are not satisfactory, as the village authorities cannot be relied upon for any thing but very rough figures. Moreover, the methods of collecting the figures, which do not necessarily ensure simultaneous computations in the various districts or include the animals in towns and cantonments in all cases, can lead only to approximate results.

The Agricultural Statistics of British India, Volume I, 1921-22, contain tables giving the following information :—

(1) Number of cattle—(*a*) per 100 acres of area sown, (*b*) per 100 of population, province by province.
(2) Number of animals of various kinds in each province for a number of years.

(*d*) *Forests.*

Statistics regarding quantity and value of forest produce are based on the Forest Administration Reports published separately by each province.

Imperial Forms 19 and 20 of the Reports in the following provinces contain statistics of the total quantity and value of major produce like timber and fuel and minor produce like bamboos, grass, etc., extracted from the forests :—

(1) Bengal.
(2) North-West Frontier.
(3) Baluchistan.
(4) Ajmere-Merwara.

The reports for the following provinces contain statistics of quantity only in case of timber and fuel, and of both quantity and value in case of minor produce as bamboos, grass, etc. :—

(1) Burma—Imperial Forms 19 and 20.
(2) United Provinces—Imperial Forms 19 and 20.
(3) Punjab—Imperial Forms 19 and 20.
(4) Bombay—Forms 63 and 64.
(5) Madras—Forms 76 and 77.
(6) Bihar and Orissa—Imperial Forms 19 and 20.
(7) Assam—Imperial Forms 19 and 20.
(8) Central Provinces—Imperial Forms 19 and 20.

The above statistics refer to the forests under the Forest Authorities. No statistics are available regarding the forests administered otherwise or private forests.

(*e*) *Fisheries.*

The reports of Government departments give only figures of the results of isolated experiments or of the sums realized by sale of fishery rights. The only general source of information is the census report which, however, gives only the number of people earning their living wholly by fishing in 1921 (table 19, Statistical Abstract).

For answers to Question 1, see pages 14-25 *infra*.

II.—Industrial Statistics.

(*a*) 1. ***Minerals.***—The Statistical Abstract of British India (pages 658-677) contains statistics of production and value of the following minerals and of the consumption of kerosene in India (excluding Burma) :—

Salt, Coal, Gold, Petroleum, Chromite, Copper ore, Diamonds, Graphite, Iron ore, Jadestone, Lead, Magnesite, Manganese ore, Mica, Monazite, Platinum, Rubies, Sapphires, Spinels, Saltpetre, Silver, Tin ore, Wolfram, Zinc ore.

Other figures are available in the "Commercial Statistics of British India", but they are not so accurate as those in the "Statistical Abstract".

The "Records of the Geological Survey of India", Volume LIV, paragraph 2, 1922, contain the latest and more accurate statistics of the production and value of the various minerals for the years 1920 and 1921.

Coal.—Returns of production are sent by the Managing Agents of the mines, under the Indian Mines Act, VIII of 1901, to the Chief Inspector of Mines, who forwards them to the Commercial Intelligence Department. The "Report of the Chief Inspector of Mines", 1923 (Appendix I, Table I), contains detailed statistics about these mines. The figures are supplemented by the Director, Geological Survey of India, who receives returns from the local authorities and from the Political Agents regarding the non-Act mines and those in the Indian States. For complete figures of production reference may be made to "Mineral Production of India", published in the Records of the Geological Survey and to the "Quinquennial Review of the Mineral Production of India", published every five years by the same department, and to the Statistical Abstract of British India, page 658.

Information regarding consumption of coal is obtained from the Railway Board, the Coal Transportation Officer, the Steamer Companies, the Port Trusts, the Mill-owners, factory-owners and others. According to the "Commercial Statistics" the figures can be regarded only as very rough estimates (page xviii). The same opinion is expressed in the "Report on the Production and Consumption of Coal in India", 1923 (supplement to the "Indian Trade Journal").

"The Seaborne and Railborne Trade Accounts" (published by the Commercial Intelligence Department) contain figures of the import and export of coal.

The value of the coal produced is reported annually by the coal-mine owners, being the value at the mouth of the pit.

The figures of capital invested in the coal industry can be found in the Report of the Registrar of Joint Stock Companies.

The "Commercial Statistics of British India" contain, among other things, the following information about the coal industry :—

(1) The average value per ton of coal extracted from the mines in India	Table 32
(2) The average price per ton of Indian and Welsh coal at the ports of Calcutta, Bombay and Karachi.	Table 33
(3) The average number of persons employed daily in the coal mining industry in India	Table 34
(4) The quantity and value of the imports of foreign coal	Table 35
(5) Quantity of Indian coal exported	Table 36
(6) The consumption of coal in India	Table 42

For answers to Question 1, see pages 14-25 *infra*.

Question 1: Annexure A.

Section II—Industrial Statistics.
Sub-section (a)—2. Cotton Mills.
" 3. Jute Mills

2. *Cotton Mills.*—The Bombay Millowners' Association Report, 1922, contains statistics regarding the following features of the cotton industry :—

(1) Production and export of yarn .. .. Page 3
(2) Consumption of cotton in the mills .. .. Page 5
(3) Quantity and counts of yarn spun .. .. Pages 433—440
(4) Quantity and description of woven goods .. Pages 441—449

The "Commercial Statistics of British India" contain statistics regarding the following features of the industry :—

Table 12.

(*a*) Number of mills in existence.
(*b*) Authorized capital.
(*c*) Persons employed.
(*d*) Looms and spindles.

Table 19.

Statistics of excise duty realized from goods woven in the cotton mills under the Cotton Duties Act, II of 1896. These are compiled from special official returns, which, as regards the production of yarn and woven goods are based on returns made by the millowners under the above Act.

The amount of capital invested in the Cotton Mills is available in the "Report of the Registrar of Joint Stock Companies," 1921–22. (Table 4.)

3. *Jute Mills.*—The "Commercial Statistics of British India" contain statistics regarding the following features of the jute industry which are compiled from special returns received from local authorities and also from returns received direct from the managing agents of the mills.

Table 20.

(*a*) Number of mills.
(*b*) Authorized capital.
(*c*) Paid-up capital.
(*d*) Persons employed.
(*e*) Looms and spindles.

The figures of consumption of jute in mills are published in the "Statistical Abstract of India"—page 625.

The Indian Jute Mills Association's report contains the following tables:—

Statement XII gives movement of jute manufactures.

Statement XIII gives jute mills in India.

Statement XVIII gives the actual clearances of gunny cloth from Calcutta.

Statement XIX gives the actual clearances of jute fabrics from Calcutta.

For answers to Question 1, see pages 14-25 *infra*

Question 1: Annexure A.

Section II—Industrial Statistics.
Sub-section (a)—4. Breweries and Distilleries.
" 5. Salt.

4. ***Breweries and Distilleries*—**

Distilleries.

***Number of private distilleries.*—This is given in Imperial Return No. III in the Reports on the Excise Administration of the various provinces and also on page 631 of the Statistical Abstract for British India (Table 310).**

***The total issues from distilleries.*—The number of proof gallons issued from the distilleries is given in Imperial Return No. IV in the Reports on the Excise Administration of the various provinces.**

Breweries.

***Number of Breweries.*—This is given in Imperial Return No. III in the Reports on the Excise Administration of the various provinces and also on page 631 of the Statistical Abstract for British India (Table 310).**

***Production in gallons.*—This is given in Table 309 on page 627 of the Statistical Abstract for British India.**

5. *Salt.*—Besides the Administration Reports of the Provincial Salt Departments, there is also a consolidated report for the provinces in Northern India issued by the Northern India Salt Revenue Department.

Statistical data concerning salt are also given in the Statistical Abstract for British India and in the 'Salt' supplements issued with the Indian Trade Journal.

The quantity and value of salt produced in India is given in Table No. 72 on page 144 of the Statistical Abstract for British India.

***Table No. 73* (pages 147–151) in the Statistical Abstract gives the amount of Salt revenue and charges for the various provinces for the years 1910–11 to 1920–21. The salt available for consumption in the various provinces is given in Table No. 74 (on pages 150–151) of the Statistical Abstract for 1911—1921. The quantity of salt sold in each province is given in Table No. 75 (on pages 152–153) of the Statistical Abstract for the years 1911—1921.**

Rate (per maund) of duty and selling price of salt—

This is given in Table No. 76 (on pages 154–155) of the Statistical Abstract.

'Salt Statistics' supplement to the Indian Trade Journal, 1st February 1923—

In this supplement the issues, imports, exports and movements of salt in India are given for all the provinces in India for the years 1911—1922.

For answers to Question 1, see pages 14-25 *infra*.

(b) Statistics of minor industries.

An estimate of the production of cotton cloth by handloom weavers.—An estimate of the production of cotton cloth by handloom weavers is made in paragraphs 8 to 13 (pages 94–95) and is illustrated in 6 statements (pages 95–101) in Appendix I in the Appendices volume to the Report of the Indian Industrial Commission.

The method adopted may be expressed in the following terms :—

Yarn imported *plus* yarn produced in Indian mills *minus* yarn exported *plus* yarn consumed by Indian mills *is equal to* yarn available for handloom weavers.

(c) Returns of Companies floated.

Joint stock companies.—Statistics are compiled from the reports and returns prepared by the Registrars of Joint Stock Companies under the Indian Companies Act, the Indian Life Assurance Companies Act and the Provincial Insurance Societies Act, and in some Indian States, under their respective Acts.

The annual "Report on Joint Stock Companies" 1921–22 (Commercial Intelligence Department) contains the following statistics :—

Table 1.

Number of companies working in India and their authorized and paid-up capital.

Tables 4 and 4-A.

Number and paid-up capital of companies of each class at work in India from 1897 to 1922.

Table 5.

Number, description and capital of new companies registered.

Table 7.

Number, description and capital of companies incorporated elsewhere than in India, but working in India.

(d) Statistics of Trade.

Imports.—The value of imports of private merchandise into British India by sea is given in Table 215 of the Statistical Abstract for British India.

Table 218 of the Statistical Abstract gives information about the quantity of imports of principal articles.

Table 4 (page 4) of the Review of Trade gives the value of imports.

Exports.—The quantity of exports of principal articles of Indian produce and manufactures is given in Table 222 of the Statistical Abstract, the value of exports is given in Table 221.

The quantity and value of principal articles of exports arranged in the order of their importance is given in Table 7 on page 45—Review of Trade of British India.

Railways.—The Statistical Abstract of British India Table 202 gives numbers of passengers conveyed on the several railway systems in India.

Particulars about quantity of goods and minerals conveyed by the several railways is given in Table 203, details of gross earnings are shown in Table 204 and Table 205 contains details of working expenses. The net earnings of the several railways are given in Table 206.

The return of Inland Trade has been discontinued since 1921–22.

For answers to Question 1, see pages 14–25 *infra*.

III.—Statistics of Prices.

The following are the principal statistics published :—

I. Fortnightly return of wholesale prices of 30 articles at 65 principal markets published in the "Gazette of India."

II. Fortnightly return of retail prices of food grains and salt at district headquarters published in Provincial Gazettes.

III. Return of average annual wholesale prices of 25 articles in 92 principal markets published in "Prices and Wages of India."

IV. Return of prices of staple articles of import at Calcutta and Bombay and of staple articles of export at the five main ports published in the "Prices and Wages of India".

V. Return of average annual retail prices of food grains and salt at 23 selected markets published in the "Prices and Wages of India."

The figures are collected in Madras and Bombay by clerks in the offices of the officers in charge of Tahsils, in the Central Provinces by the Kanungo, an intermediary between the Tahsil and the village officer, in the United Provinces, Punjab and Burma by Bazaar Chaudhris and in Bengal and Bihar, where there are no Tahsil officers, by petty subordinates.

There are many difficulties attending the collection. It is impossible to secure anything like uniformity in reporting on such an article as 'best rice' or 'second quality rice' at a great variety of different times and places; the measures in use vary from place to place, and errors are frequently made in converting them to standard; there are sometimes reasons personal to the reporting officer which affect the report, as when the return regulates the price to be paid for carts or to be received in the shape of compensation for dearness of grain and there is sometimes a reluctance to make a change as when a Tahsildar explained a totally incorrect entry by saying that the figure had remained unchanged for eight years and that he did not feel justified in altering it.

It is not surprising in these circumstances that the figures will not bear the test of comparison with those for neighbouring districts or of the returns of wholesale with those for retail price.

From a statement furnished by the Director-General of Commercial Intelligence it was calculated that between 1897 and 1910 the retail prices of rice given in the 'Prices and Wages of India' were actually lower than the wholesale prices for the same place on 90 occasions, that is to say, 18 per cent of the total quotations; for wheat on 105 occasions, *i.e.*, 22 per cent, for barley on 88 occasions, *i.e.*, 33 per cent, for jawar on 180 occasions, *i.e.*, 38 per cent, for bajra on 111 occasions, or 30 per cent, for ragi on 39 occasions, *i.e.*, 31 per cent, for maize in 105 cases, *i.e.*, 38 per cent, for gram in 106 cases, *i.e.*, 26 per cent, for arhar dal in 83 cases, *i.e.*, 20 per cent.

The Indian Sugar Committee commented on these returns in the following terms :—

"As regards the statistics of prices, the Committee hold that they were completely unreliable. The unreliability of prices returned may be gauged from the fact that at Meerut the prices of sugar show an increase of 200 per cent in 1908 over 1907. The difference between wholesale prices of imported sugar in the same two years as recorded in the much more reliable Table 5 is less than 10 per cent at Calcutta and 8 per cent at Bombay. Either the official figures are, therefore, wrong, or they refer to quite different things. The two main defects of price statistics are :—

(i) Sufficient care is not taken to see that the figures returned accord with even approximate accuracy to the facts.

(ii) No care is taken to ascertain the exact nature and quality of the products to which the reported facts relate. The result consequently is confusion and inaccuracy.

For answers to Question 1, see pages 14–25 *infra*.

IV.—Statistics of Income.

(a) *Income-tax Statistics.*

Amount of Taxes on Income and charges.—This is given in Table 87 (pages 178–79) for the various provinces for the years 1911—21 in the Statistical Abstract for British India.

Details of Taxes on Income.—This is given in Table 88 (on page 180) for the period 1911-21 in the Statistical Abstract.

Classification of the grades of Income-tax collected in the various provinces and the number of assessees in each grade.—This is given in Return No. IV of the Report on the Income-Tax Administration of the various provinces. Return No. V in those reports gives the same particulars for Super-Tax.

Up till the year 1916-17 these returns showed also the trades and professions of the assessees in each grade. Since 1917-18 these particulars have been discontinued.

(b) *Statistics of Wage Earners.*

The statistical data about wages given in Tables 19—22 of the 'Prices and Wages' in India were up to 1921-22 compiled from half-yearly returns received from certain Indian States and Baluchistan, from annual returns received from the Central Provinces, the Post Office, the State Railways, and certain workshops, business establishments, collieries and mills, and from the reports of the Quinquennial Wage Censuses held in the other Provinces.

Table 19 gives the range of the monthly wages of able-bodied agricultural labourers, syces and village artisans in Baluchistan and certain Indian States.

Table 20 gives the range of the wages for skilled and unskilled labourers in urban and rural areas of the Central Provinces.

Table 21 gives the range of wages of skilled and unskilled labourers in the urban and rural areas of the other provinces as reported in the Provincial Wage Censuses of 1911 and 1916.

Table 22 gives the range of wages for the following :—Postmen and postal runners, the employees in some railways, the skilled and unskilled labourers engaged on the Orissa Canals, the skilled and unskilled labourers in a paper mill in Bengal, at the Murree Brewery, the employees of B. I. S N. Company at Calcutta and Bombay, at the collieries in Bengal, at an Engineering workshop in Meerut, at the Army Boot Factory, Cawnpore, in the Petit Cotton Mills, Bombay, in the cotton mills managed by Messrs. Binny & Co., Madras, at the Salonah Tea Plantation, Assam, in some other tea gardens of Assam, in a jute mill in Bengal and in a rice mill at Rangoon

The statistics given in some of these tables were found to be so unreliable that the compilation was abandoned after 1921-22. A proposal was then made to conduct a wages census either upon the basis of mass production or on that of family budgets. After considerable discussion, however, this proposal was also abandoned as impracticable without expenditure that was at the time out of the question, and the actual outcome has been a few isolated compilations of family budgets. It was also held that it was impossible to secure these figures without legislation, and a Bill on the subject is now before the Bombay Legislative Council.

For answers to Question 1, see pages 14–25 *infra*.

V.—Vital Statistics.

Tables 182 to 198, pages 372 to 420, Statistical Abstract for British India from 1911-12 to 1920-21, show the births and deaths in the various provinces according to sex, town and country and community and cause of deaths, the number of deaths from plague, the number of hospitals and dispensaries and the number of lunatics.

The following observations are made in paragraph 12 on page 14 of the Census of India (Volume I, Part I) about the Vital Statistics collected in India :—

"The cumulative effect of the various health factors on the vitality of the population is shown in the variations of the birth and death rates, but before making a use of the recorded vital statistics it will be well to form some estimate of the accuracy and value of the records. The registration of vital statistics is established throughout British India except in the more remote and backward tracts. The system of collection differs in detail in different provinces. It is usually based on information of births and deaths recorded in the village (often by the headman of the village) and passed on periodically to some local authority, usually the police, by whom registers are maintained. Extracts from these registers are sent to the local officer who is responsible for the records of public health, and by whom they are compiled for the district and so eventually for the province. The information includes particulars of the births, including still-births, and death by sex and religion and the classification of the deaths under certain categories of age and of disease. The records both in the villages and in the local offices are periodically checked by touring officers of various departments. In municipal towns the registration of vital occurrences by the house-holder is usually compulsory by law, and the registers are maintained by the municipal authority. Owing chiefly to carelessness in administration, the standard of accuracy is probably not as high in the towns as in the rural areas.

"As a result of the various tests which have been made and of the general experience of those who are in the best position to estimate the value of these records, the following propositions may perhaps be accepted :—

(1) In rural areas the omissions in the record of numbers vary up to about 20 per cent.

(2) The record of births is normally less accurate than that of deaths.

(3) In urban areas the standard of accuracy varies greatly according to the attention given by the local authorities. It is usually lower than in rural areas, but it has been considerably improved of recent years, e.g., in Poona and Ahmednagar.

(4) The records of the causes of mortality are defective. Plague, cholera and smallpox are now often fairly correctly recorded when the epidemic is established. Other distinctions (e.g., deaths from respiratory diseases) are sometimes roughly made, but the bulk of deaths, the specific cause of which is not recognized locally, are ascribed to 'fever'. Age categories are, outside a certain limit, a matter of guess work, but the errors are probably of the same kind as those in the census tables.

(5) Except for progressive improvement in urban areas and occasional breakdowns during epidemics, the errors are more or less constant from year to year."

For answers to Question 1, see pages 14–25 *infra*.

Answers to Question 1.

Annexure A—Section I.—Agricultural Statistics.

SUB-SECTION (*a*)—GENERAL—AREA.

Director of Agriculture.

Section I—Agricultural Statistics—Sub-section (a)—General—Area.—Figures of final areas under crops are generally correct. There are two exceptions—(1) Crop areas are not recorded in much detail in permanently-settled tracts, (2) Dry crops are often sown mixed in the same field especially in the Deccan and the area under each crop therefore cannot be easily ascertained. Methods of improvement are suggested in paragraphs 3 and 4 of Mr. Stuart's note printed at page 93 of the proceedings of the Board of Agriculture in India held in 1919. [Appendix 1.]

Estimate of normal yield per acre.—The normal yields per acre in Madras have been based not only on the results of crop-cutting experiments but on other considerations also. The *normal* yield per acre is assumed to be identical with the *average* yield over a large number of years, the average yield in any year being equal to $\frac{\text{total yield}}{\text{total area}}$. In fixing normal yields, all available sources of information as to crop yields have been made use of, viz., (1) crop-cutting experiments, (2) the yields on Government farms, and (3) the local knowledge of the Director and his staff in regard to comparative yields of the same crop in adjoining districts. The correctness of the normal yields per acre so fixed has been further tested in the case of cotton by a comparison of the estimated total yield with the actual trade figures and the estimates of consumption. The normal yields per acre fixed for paddy and the important dry grains have also been tested roughly by similar data. A more thorough comparison over a number of years was in contemplation, but it was abruptly put an end to by the abolition of the rail-borne trade returns which furnished the only information available on the inland movements of crops. If the compilation of this statistics were revived and if they were published in the improved form recommended by the Rail-borne Statistics Committee in Madras, they would be of immense use to the Government, the commercial community and students of economics.

Estimate of outturn—Seasonal factor or condition figure.—The anna estimates of the village accountants are not entirely 'guess work.' The karnam is required to make his estimate field by field and he actually does it in considerable detail. Though he occasionally enters his estimates without actual inspection of the crop, he has a shrewd idea of how the crops have fared generally in the village. He has fairly clear relative ideas of what he means by a four-anna crop, eight-anna crop, etc. He is not swayed by official bias in his estimates except probably where the anna figure is so low as to entitle a ryot to the remission of assessment (even then rarely). The outturn standards remain fairly constant in his mind from year to year. The chief trouble with the karnam is that he is a confirmed pessimist like all agriculturists. The information provided by his classification is thus of real value, provided his pessimism is always kept in view and allowed for. Crop yields for the district which are based on a large number of detailed estimates by karnams should have considerable validity if this allowance is made before they are published. This is done in Madras by applying correcting factors, based on the measure of the known pessimism of karnams in previous years. The system is explained in the article of Mr. Stuart at pages 275 to 280 of the April (1919) number of the 'Agricultural Journal of India' (Appendix 2). The crop yields published in the Season and Crop Reports of Madras are yields calculated on the above system. That the application of correcting factors is essentially sound in principle is shown by the fact that since the adoption of this method the Director of Agriculture's estimate has approached fairly close to the actual, whereas before it was usually 15–20 per cent out.

The mercantile community in Madras do place confidence in the figures of yield published in the Season and Crop Report.

[APPENDIX 1.]

Paragraphs 3 and 4 of Mr. Stuart's note printed at page 93 of the Proceedings of the Board of Agriculture in India held in 1919.

3. (*a*) *Area.*—These figures are extraordinarily correct over the greater part of British India. They are very much better than the corresponding American figures, because in America a detailed 'census' of areas of crops grown is taken only once every ten years. In the intervening years the area is guessed, with due regard to the last census and the reports of local crop reporters. Over the greater part of British India a detailed census of crops is taken every year and the results accurately tabulated. It is only in the permanently-settled tracts that the absence either of a detailed survey or of a sufficient land records staff, makes it impossible to record the areas under crops in such detail.

It is obvious that any improvement of our figures of areas must take the form of improving the detailed maintenance of land records in the permanently-settled tracts. This implies a sufficient staff responsible to Government and not to the landholder.

4. *Mixed crops.*—There is, however, one important source of error in recording areas, and that is the existence of mixed crops. Various methods of obviating this difficulty have been suggested, but the only method which appears to me to be of any value is that which has been adopted in the Central Provinces, where the area under each important mixture—such as cotton and *arhar*—is entered separately in the Season and Crop Report. There will thus be one column for pure cotton, a second column for pure *arhar*, and a third column for the usual cotton and *arhar* mixture.

Once the area under the mixture is correctly tabulated then it is a simple matter to estimate the yield of each constituent by applying suitable figures for average yield per acre and seasonal factor. These would, of course, differ from the corresponding figures for crops. When the most common standard mixtures had been tabulated separately, there would still remain over some area under miscellaneous mixtures. If this area was of sufficient importance to warrant the adoption of any special method for taking it into account, I would do it as follows:—

Once in ten years make a very detailed census of actual crops by means of a special checking staff specifying all mixtures in detail. Compare the figures so obtained with those reported by *patwaris* in the normal course. On the basis of this comparison, the usual proportion of mixtures could be estimated and the reported figures of each year adjusted accordingly.

[APPENDIX 2.]

THE SEASONAL FACTOR IN CROP STATISTICS.

A method of correcting for the inherent pessimism of the farmer by G. A. D. Stuart, B.A., I.C.S., Director of Agriculture, Madras.

[Pages 275 to 280 of the April 1919 number of the 'Agricultural Journal of India'.]

Statistics of all sorts are usually held to be a very dry subject, yet properly considered they may be full of human interest—especially to the compiler—from the side-lights they throw on the psychology of those who supply the detailed information on which the statistics are built up. The war has shown us how valuable would be really accurate statistics of the production of the several main crops in India. These figures depend on three factors—area, normal outturn per acre, and the seasonal factor—which, when multiplied together, should give the gross outturn.

So far as the Madras Presidency is concerned, the figures of area available in arrears at the end of a revenue year are extremely reliable. The same cannot be said for the figures supplied in advance to the Director of Agriculture for purposes of crop forecasts, but the modification of these so as to approximate more closely to the eventual final figures affords that harassed officer an opportunity for the exercise of ingenuity in which a knowledge of the state of the season is not so important as an appreciation of the psychology of the village accountant and the taluk clerk, and an estimate of the state of departmental discipline of particular districts. A taluk was found recently where no village accountant kept any accounts and where all figures were invented at the close of the year, or so it seemed—but that is another story, and for the credit of Madras an exception.

The figures of normal yield per acre are, in Madras, based on a large number of crop cuttings, mostly carried out by settlement officers; but it must be admitted that the figures in most cases are only a rough approximation to the truth. The writer believes that the only way to improve them is to abandon the method of averaging a limited number of crop-cuttings—which amounts to working from the particular to the general—and to reverse the process and work from the general to the particular. If the total yield of a particular tract can be ascertained, then this total divided by the area under the crop gives the average crop per acre for that year. Do this for a series of years, and we obtain a most accurate figure of average yield per acre. The only crop for which this method has been tried in Madras is cotton. Fairly complete figures of the cotton crops are being obtained from presses and mills so that the average crop per acre for each important tract is now known accurately for two years at least. Cotton is the easiest crop to which to apply this method, because the local consumption for hand-spinning is so small as to be negligible. In the case of food-grains, on the other hand, the local consumption is the important factor in estimating the total yield, but the writer believes that it would not be impossible to form a fairly accurate estimate of the total yield of a staple food-grain in a particular tract by a consideration of the average annual consumption per head of population together with the statistics of export and import by rail and sea.

Thirdly, there is the seasonal factor. Any estimate of the total crop based on statistics of exports and mill and factory consumption, must of necessity be made in arrears, after the crop has been sold and moved. Such statistics can be used to tell us what the average crop per acre of the previous year *has been*, as explained above, but they cannot of themselves tell us what the current crop *is going* to yield per acre, and it is this information which is required of us by merchants, railway companies, and the public generally. To obtain this we must form an estimate of how the current crop differs from our normal average standard. In Madras such an estimate is framed by each village accountant. The area under each of the crops in his village is classified by him under one of five heads, i.e., 16 to 13 annas, 12 annas, 11 to 8 annas, 7 to 4 annas, 3 annas to 0 anna. The area under each of these heads is totalled for the taluk and the district and a weighted average struck, and this is then reduced to a percentage, taking 12 annas, as equal to 100 per cent. Until last year the figures thus obtained were published by the Board of Revenue in the annual Season and Crop Report, as the percentage of a normal crop obtained in each district. Now, the village accountant, like most farmers, is a pessimist and thinks poorly of most crops. He is told that 12 annas represents a normal crop, but to him a normal crop is the crop he would like to see, but rarely does see. Consequently the final integration of the estimates of the large number of village accountants always works out at very much below 100 per cent—it is usually nearer 75 per cent. This is only what is to be expected. A normal average crop is not easy to envisage. It is difficult to bear in mind that the average crop over a large tract would have its fair share of crop troubles of all kinds. If shown a really average crop, most of us would see sufficient faults in it to put it down as much below 100 per cent. The same thing will be noticed in the American cotton forecasts where the 'condition figure' of the crop is always below 100 per cent. This fact is frankly recognized by the American Department of Agriculture and explained by stating that the normal crop which corresponds to their 100 per cent is admittedly a crop without any serious defects and therefore considerably above an average crop.

As stated at the beginning of this paper, the total yield of a crop is estimated by the following formula :—

$$\text{Total yield} = \text{Area} \times \text{average yield per acre} \times \text{seasonal factor}$$

Now to obtain an accurate result, the second and third factors must refer to the same standard. If the second factor referred to a normal crop which was considerably above the average, then it would be right to take the yield of this 'normal' crop as the 100 per cent standard for the seasonal factor, and not the yield of an average crop. But even the method of averaging crop-cuttings made on good, bad and indifferent crops gives something much nearer the *average* crop than a fictitious 'normal' crop, while the method of calculating this second factor by dividing the average total yield by the average area, as recommended above, gives us emphatically a real *average* crop and not any imaginary 'normal.'.

It therefore follows that our third factor should refer to a really average crop and not to the good crop without defects to which the village accountant now instinctively refers it. A method of effecting this has been suggested by the writer and has been adopted in Madras since last year. The question is, 'What is an average crop'. The answer, which seems obvious when stated, but which does not appear to have been so stated before, is 'the crop which the village accountant reports over a series of years'. Take, for instance, a district where the integration of the estimates of all the village accountants has yielded the following percentage of a normal crop of, say, rice :—

—	Years.										Average for ten years.
	1906	1907	1908	1909	1910	1911	1912	1913	1914	1915	
Percentage of 'normal' crop	68	79	72	85	81	74	72	83	67	75	75·6

Now, assuming that 10 years is a long enough period to take to eliminate seasonal fluctuations, it is perfectly obvious that an average crop in this case is the crop which the village accountant marks as 75·6 per cent on his scale. (We may also deduce that the accountant's mental standard of a 'normal' crop is one which is $\frac{24\cdot4}{75\cdot6} \times 100 = 32\cdot3$ per cent *above* the average.) Now suppose that the seasonal factor for the year 1916 works out on the same basis, as 83 per cent. We then know that this season's crop, so far as we may judge from the village accountant's estimates, is *better* than the average, and can be represented by $\frac{83 \times 100}{75\cdot6} = 110$ per cent, if the average crop is represented by 100 per cent.

The process described above consists essentially in adjusting the middle point of the village accountant's scale of estimating so as to make it coincide with 100 per cent. Anything above 100 per cent then represents a crop above the average of the past 10 years, and *vice versa*. Considering that the figures with which we are dealing represent the sum of a very large number of small observations, we can place considerable reliance on them as being correlated with real differences in the crops of the different seasons. The first thing necessary to enable us to make good use of these figures is to reduce them to a fixed standard scale, and it is claimed that this has been done by the method explained above. It is probably enough to take the average of 10 years as our standard, but if not, it is just as easy to take 20 years or even longer.*

It is also probable that the scale could, with advantage, be broadened out, either symmetrically or asymmetrically. It is assumed at present that a 16 annas crop is double, and a 4 annas crop is half, of an 8 annas crop, whereas the real ratio may be different. But to evolve a formula for this correction would imply a detailed study of the variation in yield of crops with season and the correlation of this variation with the village accountant's estimates, a piece of research which has not been taken up.

It may be mentioned that the correcting factor, i.e., 100/75·6 in the case taken above, should be worked out separately for each crop, and for each district. A detailed study of the figures shows that great variations exist between different crops and districts in Madras. For instance, sugarcane is always estimated somewhere near 100 per cent presumably because it does in fact vary very little in yield under the conditions of high cultivation and continuous irrigation. And it is evident that the mental image of a normal crop formed by the village accountant is influenced by the gross yield of his village as compared with that of adjoining tracts. For instance, the rice lands of the Coimbatore district are mainly concentrated in very fertile strips along the banks of the Cauvery and its tributaries while the few remaining rice lands in the district are irrigated from rain-fed tanks and are comparatively inferior. Consequently the average estimate (uncorrected) for rice in Coimbatore usually comes out at nearly 100 per cent, the good estimates made for the fertile strips outweighing the low estimates made for the small area of poorer lands with which they are mentally compared.

This method of correcting for the natural pessimism of the crop estimator can of course be applied to the estimates made by any agency, even to cases where the seasonal factor is estimated for whole districts by one officer. But when the number of estimates with which we are dealing becomes few the effects of changes in the estimating staff, or even in the point of view of the individual officer, become more marked, until a point is reached at which it is not safe to take the average of past years' estimates as a standard. We lose, in fact, the smoothing-out effect of large numbers, which, in the case of the estimates framed by village accountants, gives us a firm basis on which to work.

* It has now been decided to take all years for which figures are available.

SECTION I.—AGRICULTURAL STATISTICS—SUB-SECTION (*b*)—SPECIAL CROPS.

Director of Agriculture.

Cotton.—The trade figures of the crop of each year are published in the Bombay Cotton Annual—*vide* page 14 of the Annual for 1922–23 and page 34 of the Annual for 1923–24. The trade figures represent the resultant of the following items:—

(1) Pressed at presses *plus* loose cotton received at mills in the year.

(2) *Minus* balance of old crop pressed in the year.

(3) *Plus* balance of crop not brought to market in the year.

(4) *Minus* arrivals of *kapas* and loose cotton from other tracts in the year.

(5) *Plus* despatches of *kapas* and loose cotton to other tracts in the year.

(6) *Plus* estimate of extra factory consumption in the year.

The figures for item (1) are taken from the weekly returns furnished by mills and presses. The figures for items (2) to (5) are worked out in consultation with export firms dealing in cotton. Item (6) is an estimate, not based on definite data.

2. *Coffee, tea and rubber.*—Areas are given in the Agricultural Statistics of India for coffee and tea and in the season and crop report of the Madras Presidency for rubber. These figures are based on the statistics collected by karnams. They are probably not very accurate for the following reasons:—

(1) A large portion of the crops is grown on the hills where there is no detailed field to field survey and the areas reported from the hills are often more or less formal figures.

(2) An appreciable portion of the crops is grown in Indian States and the degree of the accuracy of these figures is not known.

(3) Areas under buildings and blocks not yet planted up, or recently abandoned, etc., are wrongly included in some of the returns.

On the other hand, the figures reported by planters and published in the Report of the Production of Tea in India and in the Indian Trade Journal may be less than the actual areas as a certain number of planters do not furnish figures.

In the case of coffee, small plantations of less than 10 acres are not taken into account.

Director of Industries.

Section I (b)—Coffee, tea and rubber.—The only statistics covered by Annexure A (1) which are compiled in the Department of Industries relate to planting products. Statistics are prepared in regard to the acreage under cultivation and yield of tea, rubber and coffee. The statistics are based on data furnished by planters, which are received in my department through Collectors of districts and the Agent to the Governor-General, Madras States. The district statistics are examined in my office and forwarded in the form of a consolidated statement to the Director-General of Commercial Intelligence for inclusion in the All-India Statistics. The accuracy of the statistics in respect of the acreage under tea and rubber cultivation now leaves little to be desired as there is very little difference indeed between the figures compiled by my department and those published by the United Planters' Association of Southern India. The position in regard to coffee, however, is not so satisfactory as there is a considerable difference between the figures compiled by my department in regard to the acreage under coffee and those published by the United Planters' Association of Southern India. The difference in the figures is probably attributable to the fact that there are a considerable number of small estates, owned chiefly by Indian Proprietors, who are not members of the United Planters' Association of Southern India and do not submit returns to it. The coffee statistics are incomplete in so far as they do not include figures in respect of estates or plantations of an area smaller than 10 acres; and there is reason to believe that the acreage of the smaller estates which are excluded from the returns is by no means inconsiderable.

SECTION I.—AGRICULTURAL STATISTICS—SUB-SECTION (*c*)—LIVE-STOCK.

Director of Agriculture.

Section I (c)—Live-stock.—The figures of 1919 census showed that statistics of bulls and bullocks got mixed up owing to the fact that village officers entered bulls not kept for breeding, but used entirely for work, sometimes under bulls and sometimes under bullocks. With a view to ensure proper classification, a separate column to show such bulls has been included in the census forms given out in the 1924 census and consequently the figures of bulls and bullocks appear to be more reliable than in the previous census.

SECTION I.—AGRICULTURAL STATISTICS—SUB-SECTION (*d*)—FORESTS.

Chief Conservator of Forests.

Section I (d)—Forests.—(1) In regard to timber, fuel, and minor produce extracted from the forests by departmental agency, the statistics are fairly reliable. In regard to the quantity of produce extracted by purchasers this is not the case, as there is no means of checking their statements, and they probably underestimate the quantities which they remove. In respect of the value of the produce removed, the statistics are fairly reliable.

(2) The statistics are possibly adequate in regard to such produce as fuel and grass, but they are not adequate in respect to timber, as in most cases the quantity of timber removed is far less than that which the forests are capable of yielding without depreciating in value. To a smaller extent this is true in the case of bamboos. In the case of sandalwood—a produce of considerable value—it cannot be said definitely whether the quantity annually removed is the normal yield or not. Much investigation is necessary to determine this point.

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(6) *Plus* estimate of extra factory consumption in the year.

The figures for item (1) are taken from the weekly returns furnished by mills and presses. The figures for items (2) to (5) are worked out in consultation with export firms dealing in cotton. Item (6) is an estimate, not based on definite data.

2. *Coffee, tea and rubber.*—Areas are given in the Agricultural Statistics of India for coffee and tea and in the season and crop report of the Madras Presidency for rubber. These figures are based on the statistics collected by karnams. They are probably not very accurate for the following reasons:—

(1) A large portion of the crops is grown on the hills where there is no detailed field to field survey and the areas reported from the hills are often more or less formal figures.

(2) An appreciable portion of the crops is grown in Indian States and the degree of the accuracy of these figures is not known.

(3) Areas under buildings and blocks not yet planted up, or recently abandoned, etc., are wrongly included in some of the returns.

On the other hand, the figures reported by planters and published in the Report of the Production of Tea in India and in the Indian Trade Journal may be less than the actual areas as a certain number of planters do not furnish figures.

In the case of coffee, small plantations of less than 10 acres are not taken into account.

Director of Industries.

Section I (b)—Coffee, tea and rubber.—The only statistics covered by Annexure A (1) which are compiled in the Department of Industries relate to planting products. Statistics are prepared in regard to the acreage under cultivation and yield of tea, rubber and coffee. The statistics are based on data furnished by planters, which are received in my department through Collectors of districts and the Agent to the Governor-General, Madras States. The district statistics are examined in my office and forwarded in the form of a consolidated statement to the Director-General of Commercial Intelligence for inclusion in the All-India Statistics. The accuracy of the statistics in respect of the acreage under tea and rubber cultivation now leaves little to be desired as there is very little difference indeed between the figures compiled by my department and those published by the United Planters' Association of Southern India. The position in regard to coffee, however, is not so satisfactory as there is a considerable difference between the figures compiled by my department in regard to the acreage under coffee and those published by the United Planters' Association of Southern India. The difference in the figures is probably attributable to the fact that there are a considerable number of small estates, owned chiefly by Indian Proprietors, who are not members of the United Planters' Association of Southern India and do not submit returns to it. The coffee statistics are incomplete in so far as they do not include figures in respect of estates or plantations of an area smaller than 10 acres; and there is reason to believe that the acreage of the smaller estates which are excluded from the returns is by no means inconsiderable.

SECTION I.—AGRICULTURAL STATISTICS—SUB-SECTION (*c*)—LIVE-STOCK.

Director of Agriculture.

Section I (c)—Live-stock.—The figures of 1919 census showed that statistics of bulls and bullocks got mixed up owing to the fact that village officers entered bulls not kept for breeding, but used entirely for work, sometimes under bulls and sometimes under bullocks. With a view to ensure proper classification, a separate column to show such bulls has been included in the census forms given out in the 1924 census and consequently the figures of bulls and bullocks appear to be more reliable than in the previous census.

SECTION I.—AGRICULTURAL STATISTICS—SUB-SECTION (*d*)—FORESTS.

Chief Conservator of Forests.

Section I (d)—Forests.—(1) In regard to timber, fuel, and minor produce extracted from the forests by departmental agency, the statistics are fairly reliable. In regard to the quantity of produce extracted by purchasers this is not the case, as there is no means of checking their statements, and they probably underestimate the quantities which they remove. In respect of the value of the produce removed, the statistics are fairly reliable.

(2) The statistics are possibly adequate in regard to such produce as fuel and grass, but they are not adequate in respect to timber, as in most cases the quantity of timber removed is far less than that which the forests are capable of yielding without depreciating in value. To a smaller extent this is true in the case of bamboos. In the case of sandalwood—a produce of considerable value—it cannot be said definitely whether the quantity annually removed is the normal yield or not. Much investigation is necessary to determine this point.

SECTION I.--AGRICULTURAL STATISTICS--SUB-SECTION (e)—FISHERIES.

Director of Fisheries

Section I (e)—Fisheries.—The Fisheries statistics at present available comprise figures of isolated experiments, fish rents and the number of people earning their livelihood by fishing. No direct figures of the catches of fish and other marine or fresh-water products are available which will in any way indicate the resources of the country. Such figures, if available, will give only the present extent of the trade in fish and marine or fresh-water products, but will not indicate the actual value of the fishery resources of the country. The methods of fishing craft and tackle, it is needless to say, are primitive and no more than the shallow inshore margin of the sea is fished by the fishermen in India.

2. The statistics available are themselves inadequate and unreliable. The figures relating to isolated experiments are *prima facie* unsuitable for purposes of estimation. Fish rents relate to fresh-water and estuarine fisheries. After the assignment of these rents to local bodies some 40 years ago, no consistent policy appears to have been pursued. As regards tank fisheries, the sales of fishing rights have wholly lapsed in some districts, for instance, Kistna, Godavari and Vizagapatam, while even petty tanks are sold annually in others, for instance, Nellore, Chingleput, Tanjore and other southern districts. An acreage rent for fisheries is in vogue in the Madura district. The river fisheries of only a few districts, viz., South Arcot, Trichinopoly, Coimbatore, Salem, Tanjore and Ganjam, are annually rented, the old system of taxing and licensing of boats and nets (muturpha tax) in the Godavari and Kistna, the two most important rivers of this Presidency, having long since ceased. It will therefore be seen that the exercise and control of the fishing rights are in an anomalous condition and the rental figures available do not represent the sale price of the inland fisheries of the Presidency as a whole. Also the fish rents available for such of the tanks and rivers that are sold do not represent the actual value of the fisheries. During auction sales, rings are invariably formed to keep down the rents at a nominal figure. Only in rare cases where factions exist, competitive bidding leads to high offers at times wholly out of proportion to the actual value of the fisheries concerned A Provincial Department of Fisheries was inaugurated about 1907, since which date the Government have launched on a policy of gradually resuming control of all the major fisheries with a view to conserving and developing the fish food supply of the people. The cultural operations are yet in an initial stage. The control of only 186 tanks and the fisheries of the Cauvery and its connected channels have so far been provincialized. Given time and proper organization, it is hoped that the department will evolve a uniform and consistent policy of control and development of the inland fisheries of this province. Even inadequate statistics are wanting in the case of the marine fisheries. So far, sea-going fishing boats, canoes and catamarans have not been registered; their number and tonnage therefore are unknown. No figures of catches of fish on the coast are available, nor do the census figures of 1921 of persons engaged in the fishing industry help us. Labour in India is still communal and members of the fishermen community though doing no actual fishing are often enumerated as fishermen, while middlemen dealing with fishery by-products are apt to be included.

Annexure A—Section II.—Industrial Statistics.

SUB-SECTION (a)—1—MINERALS.

Board of Revenue (Land Revenue and Settlement).

Section II (a)—1—Minerals.—So far as this Presidency is concerned, the Board considers that the statistics contained in *The Statistical Abstract of British India*, which gives the quantity and value of the minerals produced are adequate. The figures in the above publication are found repeated in *The Commercial Statistics of British India. The Records of the Geological Survey of India*, Volume LIV, contain statistics of production and value of minerals for 1920 and 1921. The returns containing these statistics are not submitted to the Board and it has no means of checking their accuracy.

Director of Industries.

Section II (a)-1—Minerals.—So far as the Madras Presidency is concerned, it may be taken that the existing statistics of production and value of minerals are adequate and reliable. The returns are received with a reasonable degree of promptitude from the individual mine owners and managers through Collectors of mining districts and it is seldom that the detailed scrutiny in my office reveals any fundamental error in the original returns.

SECTION II.—INDUSTRIAL STATISTICS—SUB-SECTION (*b*)—STATISTICS OF MINOR INDUSTRIES.

Director of Industries.

Section II (b)—Statistics of minor industries.—For all practical purposes, the method adopted by the Indian Industrial Commission in estimating the average amount of cotton yarn consumed by handloom weavers annually is sufficiently accurate although it does not take into account the considerable amount of imported yarn and the smaller quantity of Indian mill-manufactured yarn consumed by the hosiery factories. Again a certain proportion of Indian mill-made yarn is utilized in the manufacture of ropes, cords, banding, wicks, etc., and a considerable quantity of waste is also made. The amount of yarn actually consumed by handloom weavers would therefore be somewhat less than the figure derived from the formulæ.

As regards the question of reliability, the statistics indicate only the weight in lb. of yarn consumed. Figures of production in terms of weight alone are somewhat misleading as they do not convey any idea of the length of the yarn which makes up the given weight. In order to be of any real value for the purpose of an economic inquiry, statistics of handloom weaving should be based on counts of yarn so that the approximate yardage of cloth woven by handloom weavers in India may readily be seen or determined.

SECTION II—INDUSTRIAL STATISTICS—SUB-SECTION (*d*)—STATISTICS OF TRADE.

Director of Industries

Section II (d)—Statistics of trade.—No statistics of imports and exports are compiled by the Department of Industries. Formerly, statistics of inland trade—rail and river borne—were compiled, but these were discontinued in 1922. Before arriving at this decision, the question of the desirability of continuing the registration of inland trade statistics and the possibility of improving and simplifying the returns was carefully considered by Government in consultation with the commercial community. The conclusion was that the statistics of inland trade in the form then in force did not serve any useful purpose and were not worth the cost involved in compiling them, and that even if their form were revised they would be of little practical use to Government officers or to the commercial community. The question formed the subject of a discussion at the meeting of the Board of Agriculture in 1924. The Board were in favour of revising the compilation of the inland trade statistics with a view primarily to ascertain the movement of raw cotton. After consulting the Director of Agriculture and the Director of Industries, however, Government decided not to re-open the question of registration and compilation of the rail-borne statistics of the Presidency which were discontinued in 1922.

Annexure A—Section III—Statistics of Prices.

Director of Agriculture.

Section III—Statistics of prices.—The statistics referred to are those published by the Department of Statistics, India. In Madras, statistics of retail prices are compiled in the office of the Director of Agriculture and statistics of wholesale prices in the office of the Director of Industries. As regards retail prices, the following returns are published :—

(1) Weekly return of prices of food-grains in each district published in the gazette along with the weekly season report.

(2) Fortnightly returns of prices of food-grains and salt on the last day of the fortnight at the headquarters of districts.

(3) Monthly returns of average prices of food-grains and salt in each district published in the gazette along with the monthly cultivation statement.

(4) Annual returns of average prices of food-grains and salt at each price-reporting station. There are 310 stations in the Presidency.

(5) Harvest prices of food-grains, based on the average of the prices in the principal markets in each district during the ryots' selling months and published in the season and crop report.

(6) Average annual price of salt at district headquarters, prepared from item (2).

Price figures may generally be assumed to accord with the facts, but they are not easily comparable *inter se* as the variation in the nature and quality of the food-grains is very great. Thus the returns provide only for paddy first sort and paddy second sort, whereas there are at least four or five qualities on the market, e.g., Samba, Sornavari, Kar, Pishanam and Rangoon rice. There is also the distinction between raw rice and boiled rice. In the harvest months, there is the further confusion due to old rice being dearer than new rice. Again, what is first sort paddy in one month may not be available in the next or a superior and costlier variety may have come on the market. Thus, Kar is available in the Trichinopoly markets from October to December and Samba from February to May. The following instructions in paragraph 9 of the Manual of Taluk Accounts militate against fixing standard qualities of grain the prices of which only should be reported at certain places :—

"(1) Average prices should be taken when the prices of two varieties have to be recorded, and

(2) The price of the quality of grain *ordinarily consumed* by the bulk of the population should be reported whether it is new or *old grain.*"

At present there is no guarantee that the prices reported refer to—

(1) the same quality at the same place over a continuous period of time (e.g., second sort rice at Trichinopoly district may be inferior Samba in May, inferior Kar in December, and even Rangoon rice when neither is available) or

(2) the same quality at the same time over a particular area. (The prices of the Kar crop harvested in September-October will be reported in November and December under the Cauvery channels in Trichinopoly, when the upland taluks of the district report prices of imported paddy.)

There is also no definite record of the particular variety and quality, the price of which is reported in a station at any time. Unless these are attempted, there is no chance of these price statistics being much more useful than they are at present.

Director of Industries.

Section III—Statistics of prices.—The Department of Industries compiles and issues a fortnightly return of wholesale prices of certain basic commodities at selected marts in the several districts of the Madras Presidency. The importance of carefully recording the prices of articles is being constantly pointed out to the recording officers, but although the accuracy of the statistics has, as a result, been improved to some extent, they still leave something to be desired in this respect. The returns received in my office from the price recording officers are often not prepared in accordance with the prescribed instructions and moreover are frequently incorrect. If any improvement is to be made in the accuracy of these statistics it will be necessary to provide for the periodic inspection by a member of my staff of the registers maintained by the primary reporting agencies, i.e., the Taluk and Deputy Tahsildar's offices. This would enable the necessary instruction in the preparation of the returns to be given to the price recording officers. I could not, however, arrange for this to be done unless the staff of my office was strengthened.

Question 2.

2. In Annexure B is a list of estimates which have been made of the wealth of the country or the average income of the inhabitants, in many cases with reference to these statistics. Have you any additions to make to this list or any criticisms to suggest on the several estimates ?

ANNEXURE B. (Question 2.)

List of estimates of wealth and income of India.

Name of publication.	Area dealt with.	The year for which the estimate was made.	Total income in crores of rupees.	Income per *capita* in rupees.
1. Poverty and Un-British Rule in India by Dadabhai Naoroji (1871).	British India ..	1867—1868	340	20
2. Financial Statement for 1882.	Ditto ..	1881	525	27
3. 'Prosperous' British India by William Digby, 1901.	Ditto ..	1898	429	17·5
4. Financial Statement for 1901-02 (His Excellency Lord Curzon's speech on the Budget).	Ditto ..	1901	675	30
5. 'Industrial Decline of India' by Dr. Balkrishna (1917).	Whole of India.	1911—1912	(*a*) 1,078 (*b*) 539 (*c*) 431·2	 21 16·5
6. 'The Wealth of India' by Professors P. A. Wadia and G. N. Joshi (1924).	British India ..	1913—1914	1,210	44
7. 'Happy India' by Arnold Lupton (1922).	Ditto ..	1919—1920	2,854·5	114
8. 'Wealth and Taxable Capacity of India' by Professor K. T. Shah and Mr. K. J. Khambata (1924).	Whole of India.	* 1900—1914 1914—1922 1900—1922 1921—1922	1,106 1,862 1,880 2,364	36 58·5 44·5 74
9. 'The Science of Public Finance' by Findlay Shirras (1924).	British India ..	1921 1922	2,598 2,866	107 116
10. Dr. Slater's Estimate, 1921.†	Madras Presidency.	1919—1920	(*d*) 434 (*e*) 475	102 112

* Annual averages.

† Issued as a pamphlet of the Publicity Office, Madras, and later published in the Madras Year Book, 1923, pages 788 to 793.

(*a*) Gross value of agricultural produce.

(*b*) Net value allowing 50 per cent of gross value for cost of production.

(*c*) ,, 60 ,, ,, ,,

(*d*) The non-agricultural income being taken at 40 per cent of that from agriculture on the authority of 1911 census, which gives the number engaged in non-agricultural occupations a 4·0 per cent of those engaged in agriculture.

(*e*) The non-agricultural income being calculated at 50 per cent of that from agriculture for purposes of comparison with former enquiries which have calculated it at that rate.

Answers to Question 2.

Director of Industries.

I have no comments to offer on this question.

Director of Agriculture.

A note by Mr. V. N. Viswanatha Rao, Statistical Assistant to the Director of Agriculture, is given as an *appendix*.

APPENDIX. [Note by Mr. V. N. Viswanatha Rao.]

The estimates of income *per capita* made in the financial statements for 1882 and 1901-02 were under-estimates as shown below. This fact was admitted by the Government of India to some extent in their Circular No. 1175, dated 5th November 1918 (Department of Revenue and Agriculture). They observed that there was some reason to believe that the previous estimates of the value of agricultural produce were too low.

2. ***Financial statement for*** **1882.—The Famine Commission of 1878 based their figures of income *per capita* on an estimate of Rs. 50 per ton for food-grains and Rs. 30 per acre for non-food crops. The figure for food-grains represented the average monthly retail prices of certain food crops at ten markets in the North-Western Provinces and Oudh during the ten years 1869 to 1878. In the Madras Presidency, the average *wholesale* price of the principal food-grains during these ten years works out at Rs. 52 per ton and retail prices will be higher than wholesale prices. The average money value of non-food crops was fixed at Rs. 30 per acre rather arbitrarily but it can be proved that this estimate was fairly correct. But the yield of food crops per acre assumed by the Famine Commission of 1878 for Madras was much too low, i.e., 759 lb.**

The average yield per acre works out now to 1,045 lb. and there is no reason to assume that it was very much less at that time. For,

$$\frac{8{,}897{,}000 \text{ tons.}}{26{,}244{,}000 \text{ acres.}}$$

though more attention is probably paid at present to proper cultivation and manuring and though there is an increase in the number of wells and the area for which irrigation facilities are provided, other factors have tended to reduce the average yield per acre in recent years, such as, extension of cultivation to poorer soils and the reduction of the fertility of land by continuous cropping without adequate manuring. The yield per acre of food-crops in 1878 may safely be estimated at not less than 1,000 lb. On this basis and assuming Rs. 52 per ton for food-grains and Rs. 30 per acre for non-food crops, the value of the agricultural produce per head of total population works out to Rs. 24 as against Rs. 18·7. The income *per capita* works out at Rs. 36 against Rs. 28 estimated by the Famine Commission, the income of non-agricultural classes being calculated at 50 per cent of that from agriculture. Even, this figure is an under-estimate as the products of live-stock have not been taken into account but only the value of horsegram and fodder crops fed to live-stock. The value of these latter will of course be much less than the value of the products of live-stock.

3. ***Financial statement for*** **1901-02.—*His Excellency Lord Curzon's speech on the budget.*—The estimates made in 1878 were revised by the Second Famine Commission of 1898. The figures of production and population were brought up to date, but not the valuation of produce. It was on the basis of these revised estimates that His Excellency Lord Curzon stated in March 1901 that the income *per capita* for India would be Rs. 30 per annum. According to these estimates, the income *per capita* for Madras would be Rs. 29·4 per annum. But the materials for the estimate of 1898 were acknowledged to be defective in many respects and Local Governments were asked to revise them. On the basis of the revised figures, the income *per capita* for India and Madras worked out at Rs. 32·4 and Rs. 28·5, respectively. Board's Proceedings No. 92, dated 14th March 1904, which contains the revised figures, shows that the period taken was the four years 1897-98, 1898-99, 1900-01 and 1901-02. The figures of area cropped were fairly correct. The same cannot however be said of the figures of yields and prices assumed at this revision. The yield per acre of food crops works out only at 710 lb. against 1,045 lb at present. As already stated, it would be safe to raise this estimate to 1,000 lb. as the season was not unfavourable and the crops were satisfactory. As regards prices also, the figures assumed, viz., Rs. 55 per ton for food crops and Rs. 30 per acre for non-food crops as against the former Rs. 50 and 30 respectively were again under-estimates. The average wholesale price of the principal food-grains in 1901 works out at Rs. 66 per ton for India and Rs. 69 per ton for Madras. It is stated that the rate of Rs. 55 was taken as a fair average price for the decade 1891-1900 'after allowing for wholesale transactions and famine years in the decade.' The allowance appears too large and no such allowance seems to have been made at the earlier calculations. The estimate of Rs. 69 represents an increase of 33 per cent over the figure of Rs. 52 in the period 1869 to 1878. This may be assumed to be fairly correct as the same proportionate increase is shown by the export prices of rice, as calculated from the sea-borne trade return. The price of Rs. 30 per acre fixed for non-food crops was also an under-estimate. Prices were by no means stationary during the two decades. The estimates of the value per acre on which this price was based were unduly low in the case of some of the crops and, when allowance is made for these, the value works out at Rs. 39 per acre. This represents an increase of 30 per cent over the estimate of Rs. 30 for the period 1869 to 1878. This percentage of increase is slightly less than the corresponding figure for food crops and this is what should be expected as a similar correlation seems to hold good generally as shown below:—**

Particulars.	Index No. of: 1890-94 compared with 1890.	1920 compared with 1890.	1919-20 compared with 1900-01.
(1)	(2)	(3)	(4)
Food crops	116	309	241
Non-food crops	108	282	226

On the basis of an acre yield of 1,000 lb. for food crops and at the rate of Rs. 69 per ton for food crops and Rs. 39 per acre for non-food crops, the value of the agricultural produce works out at Rs. 29·2 per head of total population. The income *per capita* works out at Rs. 44 against the estimates of Rs. 29·4 and 28·5 of the Government of India. The products of live-stock have not been taken into account in these estimates. The Board estimated the value of those products at Rs. 10 crores. This does not take into account the value of cattle-dung used

as fuel and the earning of cart bullocks employed on non-agricultural work. On the whole, the estimate for live-stock is too low by about Rs. 2 crores. But even assuming an estimate of Rs. 10 crores only, the income *per capita* will be raised to Rs. 48.

4. *Dr. Slater's estimate.*—This estimate relates to 1919–20 and is based on figures supplied by the Agricultural Department. This estimate, unlike the previous ones, was based on *detailed* calculations of production and value of *individual* crops and the products of live-stock were also taken into account. In the figures supplied to Dr. Slater, the yield of one crop (chillies) was over-estimated and this was afterwards reduced. The value of the agricultural produce as revised was Rs. 2,97,34,57,000. Allowing 40 per cent for non-agricultural income on the basis of population, the income *per capita* works out at Rs. 98 against Rs. 102 of Dr. Slater.

The value of the agricultural produce according to this estimate (omitting products of live-stock to enable comparison) works out at Rs. 66·6 per head of population against Rs. 29·2 in 1900–01. The index number of the value in 1919–20, taking the value in 1900–01 as 100, works out to 228. That this is a plausible result is shown by the fact that similar index numbers of prices and wages are not very different. Thus, the index number of prices of 83 articles of consumption in 1919–20 as compared with those in 1900–01 is 227; the index number of wages paid in 1920 by Messrs. Binny & Co. for 36 kinds of labourers compared with those paid in 1901 was 215, the same as the index number of the price of paddy.

It may be and is often argued that the estimates of yields of crops in the season and crop reports published by Government are pitched too high and are therefore unreliable as data for calculations of the kind dealt with above. An attempt is made below to show that such is not the case. Almost the only satisfactory test of such data is to take a series of years for which calculated figures of yield and trade returns are available and to compare the production of the period with the consumption and net export or import. The longer the period taken, the more satisfactory is the test, for the element of carry over of the crop from one year to another is less important as the surplus of good years is set off against the deficit of lean ones. Such a comparison has been made for cereals and pulses.

5. *Cereals and pulses*—1916–17 *to* 1919–20—*quantity available for consumption.*—The estimated production in cleaned grain was 35,856,000 tons during the years 1916–17 to 1919–20. Horsegram is omitted from this calculation as it is mostly fed to cattle. The net imports by rail and sea during this period amounted to 1,090,000 tons. There are no figures to show the trade by road but such traffic is usually small and the exports and imports usually balance each other. The estimated *gross* supply comes therefore to 36,946,000 tons. But the whole of this was not actually consumed. Allowance will have to be made for driage and for wastage of all kinds, including the losses due to insects, weevils, rats, and other pests of stored grains. The damage by loss due to rats alone is estimated at $1\frac{1}{2}$ per cent of the production while the damage due to the rice weevil on all stored grains which are kept for more than a couple of months after harvest is estimated at least 5 per cent. On the whole, it is safe to make an allowance of 8 per cent for driage and wastage. On this basis, the net supply or the quantity available for consumption during this period may be taken at 33,990,000 tons.

6. *Quantity required for consumption.*—The question of the average consumption of food-grains (cleaned) and pulses per head of population is discussed briefly in *Enclosure I* and the figure is estimated at 3·85 cwt. per annum. Estimates of the population of the Presidency during each of the four years in question are given in *Enclosure II* and the estimated consumption of food-grains and pulses by this population is shown there to amount to 32,539,000 tons. The quantity required as seed for the next crop during this period is estimated at 1,140,000 tons. Other items of consumption such as food-grains used as cattle food and for distillation of liquor are negligible in this Presidency, while grain crops grown for fodder are shown generally under fodder crops and not under cereals and pulses. The quantity of food-grains and pulses required for consumption during this period may therefore be estimated at 33,679,000 tons against an estimated supply of 33,900,000 tons. Details are given in the table below :—

(Figures in thousands of tons of cleaned grain, i e., 000 being omitted.)

Year.	Estimated yield.	Net imports by rail and sea.	Estimated gross supply.	Estimated wastage.	Estimated net supply.	Estimated human consumption.	Estimated quantity reserved as seed for next supply.	Estimated requirements.	Estimated surplus (+) or deficit (—).
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	TONS.	TONS.	TONS.	TONS.	TONS.	TONS.	TONS.	TONS.	TONS.
1916–17 ..	9,563	181	9,744	780	8,964	8,154	293	8,447	+ 517
1917–18 ..	9,491	76	9,567	765	8,802	8,184	267	8,451	+ 351
1918–19 ..	7,518	235	7,753	620	7,133	8,085	298	8,383	— 1,250
1919–20 ..	9,284	598	9,882	791	9,091	8,116	282	8,398	+ 693
Total ..	35,856	1,090	36,946	2,956	33,990	32,539	1,140	33,679	+ 311

The surplus during this period of four years comes only to 3,11,000 tons. This is what one should expect (1) as a small quantity is stored each year, especially in the non-deltaic districts in the north where the apprehensions of famine are greater than in the south and (2) as the middle classes generally use grain after being stored for a year. That the surplus was not greater is due to the fact that there was a deficit of 1,250,000 tons in the bad year 1918–19 but the other three years were fairly good. The small surplus shown by the figures is not inconsistent with the fact that a small percentage of the population live in a state of want as this surplus may not come into the market when required owing to various causes. It is interesting to note that there should have been a deficit of 7,79,000 tons but for the net imports by rail and sea.

Thus it is clear that the figures of yield on which Dr. Slater's estimate is based represent the facts pretty closely.

The correctness of Dr. Slater's estimate as revised may also be tested in another way. According to the 1921 census, the male workers formed 30·2 *per cent* of the population, the female workers 17·7 *per cent* and the dependents 52·1 *per cent.* The wages of a casual agricultural labourer are given as 5 to 8 annas for males and 3 to 4 annas for females in the census report. If the workers were all casual labourers, if the wages be $6\frac{1}{2}$ annas a day for males and $3\frac{1}{2}$ annas for females and if they work only for eight months in a year, the dependents earning nothing whatever, the earnings in a year of a group of 100 people distributed as above would come to $(30{\cdot}2 \times 6{\cdot}5,\ 17{\cdot}7 \times 3{\cdot}5,\ 52{\cdot}1 \times 0) \times 365 \times \frac{8}{12} \times \frac{1}{16}$ is Rs. 3,927·55 and their average annual income per head would be Rs. 39. The average income for the Presidency would thus be $2\frac{1}{2}$ times that of the lowest strata of society. In fact, it will be nearer twice as about one-half of the dependents, i.e., all those above the age of ten do earn something. Stated thus, Dr. Slater's estimate of income *per capita* as revised certainly does not look exaggerated; it seems eminently reasonable.

ENCLOSURE I (*vide* paragraph 6 on page 28 *ante*).

Average consumption of food-grains and pulses per head of population in the Madras Presidency.

A reliable estimate of the average consumption of food-grains and pulses per head of population will have to take into account the variations in the diet of different classes and castes and in the quantities of food consumed at different ages, etc. The collection of complete data for such an estimate is a stupendous task. It is, however, possible to frame an approximate estimate of the average consumption on the basis of figures relating to people of different classes who are intelligent enough to keep some kind of record of requirements and expenses and are willing to communicate private details. A fairly reliable estimate may be obtained from a few samples provided—

(1) there is no bias in the selection of samples;

(2) every member of the group considered has nearly the same chance of being included in the samples; and

(3) the results obtained are closely scrutinized and compared with similar results arrived at by different methods by others.

This note is an imperfect attempt to solve the problem on these lines.

2. The population of the Madras Presidency may be divided into two classes—

Class I comprising the educated middle class and others who adopt their style of living. People of this class take coffee, tea, fruits, biscuits, etc., in addition to food-grains and pulses which they take only twice a day.

Class II—Others. People of this class take only food-grains and pulses twice or thrice a day according to their economic condition. They do not ordinarily take coffee, tea, etc. Vegetables figure more largely in the diet of class I than in that of class II.

A careful study of the census figures and the statistics of production and consumption of coffee and tea shows that class I forms only about 7 *per cent* of the population. People of class I consume naturally much less food-grains and pulses than people of the class II owing to the difference in habits, nature of work, conditions of life, etc.

3. An examination of a number of family budgets selected at random and relating to families of all castes both in urban and rural areas in the various walks of life and containing both healthy people and invalids and males and females shows that the average daily consumption of food-grains per *adult* works out to $14\frac{1}{2}$ oz. or 2·18 ollocks for class I and $23\frac{3}{4}$ oz. or 3·55 ollocks for class II.

4. The estimate of about $2\frac{1}{5}$th ollocks of food-grains per day for two meals for an adult of class I depends on information supplied by literate and intelligent persons and may be assumed to be fairly reliable. The estimate for class II also will be seen to be not unreliable by an examination of the diet scales allowed by Government in the Jail Code, Famine Code, etc.

Answers to Question 2.

5. A certain proportion of pulses enters into the diet, but this generally varies for different classes, gradually decreasing in the case of the poorer classes. Family budgets show that the average proportion of pulses to food-grains in the diet of class I is about $\frac{1}{9}$ and of class II about $\frac{1}{25}$. The average comes to $4\frac{1}{2}$ *per cent* for both the classes $\frac{(11\frac{1}{9} \times 7 + 4 \times 93)}{100}$. This is what one should expect from the figures of *supply* of pulses and food-grains in the Madras Presidency during the years 1916–17 to 1919–20 $\left(\frac{1{,}585{,}400 \text{ tons pulses}}{35{,}360{,}200 \text{ tons food-grains}}\right)$.

6. On the basis of the figures in paragraphs 3 and 5, the daily consumption of food-grains and pulses comes to 24·61 oz. per adult in class II ($23\frac{2}{3}$ oz. for food-grains *plus* 4 *per cent* of $23\frac{2}{3}$ oz. for pulses). This estimate is compared with other estimates in the following table :—

Daily consumption of food-grains and pulses for an adult.

Particulars. (1)	Old jail diet. (2)	Present jail diet. (3)	Famine diet. (*a*) (4)	Paka Shastra diet. (*b*) (5)	Average of columns (2) to (5). (6)	Standard adopted in this note. (7)
	oz.	oz	oz.	oz.	oz.	oz.
Male	26	25	26·9	27	26·2	..
Female	22	22	21·7	27	23·2	..
Weighted average per head of total population. (*c*)	23·95	23·46	24·24	27	24·66	24·61

NOTE.—(*a*) The rations are for a male employed on digging and for a female employed on carrying. These rations are not intended to maintain the people affected "at their normal level of comfort or to insure them against all suffering" but only to "protect them from starvation."

(*b*) In use in the middle class Hindu families in villages who have not taken to coffee, tea, etc. The allowance of 27 oz. is the same as the military allowance for sepoys.

(*c*) Based on the fact that, of every 1,000 people in the Madras Presidency, 488 are males and 512 females.

7. On the basis of the estimates for classes I and II, the average daily consumption of food-grains per *adult* for the whole population comes to 23 oz. $\left(\frac{7 \times 14\frac{1}{3} + 93 \times 23\frac{2}{3}}{100}\right)$.

8. The next step is to estimate the quantity of food-grains required by children and old men past the prime of life. The Famine Code allows 0·86 oz. per day for children in arms obviously on account of the poor health of the mothers. But in practice no rice-food is given to children below one year while children between one year and two years are given half an ollock of rice ($3\frac{1}{3}$ oz.) to supplement the mother's milk. Children between two and five years require 1 ollock per day ($6\frac{2}{3}$ oz.) and this is the same as the allowance in the Famine Code ($16\frac{1}{4}$ tolas or $6\frac{2}{3}$ oz.). On the basis of these estimates and the population figures, the average requirement per day for the 0–5 age group comes to $\frac{0 \times 2{\cdot}6 \text{ plus } 3\frac{1}{3} \times 1{\cdot}6 \text{ plus } 6\frac{2}{3} \times 8{\cdot}2}{2{\cdot}6 \text{ plus } 1{\cdot}6 \text{ plus } 8{\cdot}2}$ or 4·84 oz. This is nearly the same as Diwan Bahadur Venkataswami Rao's estimate of 5 oz. for the 0–6 group in the Tanjore District Manual (1883 edition). Coming to the higher groups, the Medical Code allows half the diet of adults for the 5–8 group and $\frac{2}{3}$ for the 8–14 group. Based on this and on experience, the proportion may be estimated at half for the 5–10 group and $\frac{4}{5}$ for the 10–15 group which is the growing period. People above 50 are past the prime of life and their requirements will be the same as those of the 10–15 group.

9. On the basis of the estimates made in the previous two paragraphs and the figures of population at different age groups, the weighted average daily consumption of food-grains per head of the whole population works out to 18·079 oz. as shown below :—

Age period. (1)	Number of people in each age period per 100 of population (1921 census). (2)	Daily consumption of food-grains. Oz. (3)	Daily consumption of food-grains. Equivalent in ollocks. (4)
0—1	2·6	Nil.	Nil.
1—2	1·5	$3\frac{1}{3}$	$\frac{1}{2}$
2—5	8·2	$6\frac{2}{3}$	1
5—10	13·5	$11\frac{1}{2}$	$1\frac{7}{10}$
10—15	11·9	$18\frac{2}{5}$	$2\frac{4}{5}$
15—50	49·5	23	$3\frac{1}{2}$
50—100	12·8	$18\frac{2}{5}$	$2\frac{4}{5}$
Weighted average ..	..	18·079	$2\frac{7}{10}$ roughly.

Adding $4\frac{1}{2}$ *per cent* for pulses, the consumption of food-grains (cleaned) and pulses per head per annum works out to 431 lb. or 3·85 cwt.

10. The above estimate may now be compared with earlier estimates of consumption on record. The Board held in 1904 in connexion with estimates made by Collectors that 'the rates above 5 cwt. are too high and those less than $3\frac{1}{2}$ cwt. are too low'. In more recent times, Mr. Wood, when he was Director of Civil Supplies, considered that an allowance of

4 cwt. per annum should be ample. The late Mr. Stuart (Director of Agriculture) remarked as follows on the same point :—

"An annual consumption of 4 cwt. per head, i.e., about $1\frac{1}{4}$ lb. per head per day, is however generally accepted as being somewhat near the mark. It is necessary, however, to sound a note of warning lest too much reliance be placed on this theoretical piece of investigation as a proof of the accuracy of statistics of production. A variation of 0·01 cwt. in the consumption per head per annum means a variation of about 423,000 cwt. of food-grains and pulses and the probable error in an estimate of average consumption of grain per individual is probably of the same order of magnitude as the probable error of agricultural statistics of production."

ENCLOSURE II (*vide* paragraph 6 on page 30 *ante*).

Estimated consumption of food-grains and pulses in the Madras Presidency during the years 1916–17 to 1918–20.

The population of the Madras Presidency during the years in question has first to be estimated or interpolated by means of the formula $P_1 = P(1+r)^{10}$ where 'r' represents the annual rate of increase of population per unit, P_1 the population in 1921 and P the population in 1911. The following data are available for working the formula :—

(1) The population in 1911 was 41,405,404.

(2) The population in 1921 was 42,318,985.

But this should have been some 43 millions but for the epidemic of influenza which carried off about 6,75,000 people.

(3) The normal annual rate of increase should be calculated only on the basis of 43 millions in 1921.

'r' accordingly works out at 0·00379 per annum. On this basis the rate of increase since 1911 works out at 0·02295 in 1916–17. This means a population of 42,356,000. The figure for the next year comes to 42,516,000. The population in 1918–19 should be less than in this year by 584,685 people according to vital statistics and may therefore be estimated at 42,000,000. The population for the next year comes to 42,160,000. The consumption of food-grains for this population during the four years works out at 32,539,000 tons at the rate of 3·85 cwt. per head per annum.

Question 3.

3. The estimates of national income for other countries are largely dependent on statistics of income-tax (which cover incomes from all sources) and death duties. Do you agree that there are no corresponding figures in India on which it is possible to base any estimate?

Answer to Question 3.

Nil.

Question 4.

4. Have you any suggestions to make for the improvement of the present methods of recording and compiling the available statistics which would not involve legislation or large expense?

Answers to Question 4.

Director of Agriculture.

The present methods of recording and compiling the available statistics can be improved by the adoption of the following proposals :—

(1) The returns of rail-borne trade should be revived in an improved form—additional cost about Rs. 12,000.

(2) A Statistical Department should be attached to each Provincial Government similar to the Department of Statistics, India at Calcutta. The latter department mainly compiles returns sent from provinces and has not the means of judging the degree of accuracy, or the possibility of improving the accuracy of the statistics furnished from each province. A Provincial Department will have a wide field of usefulness in this regard and can address itself to working out in detail and giving effect to the lines of improvement in statistics, suggested by such committees, as the Prices Enquiry Committee, the Weights and Measures Committee, the Indian Cotton Committee, the Sugar Committee, and the Industrial Commission. Recommendations made by such committees have at present a tendency to remain pious hopes repeated by successive investigators in the field and any attempt to realize such hopes is met by pleas of want of funds and want of trained staff. At the back of this is a fairly general feeling that more correct statistics are a luxury and not a necessity and that public money need not be spent for gaining information for which there is no *immediate* practical utility.

(3) In Madras, the Director of Agriculture has a Statistical Assistant with a staff of four clerks under him for dealing with agricultural and retail prices statistics. Much has been done to improve the quality and accuracy of these statistics and more can be attempted if adequate staff is provided. The clerical staff requires to be strengthened and a staff of itinerating officers has to be provided to look into the actual registry of statistics in taluk offices and advise on the ways of improving them. Proposals were made to the local Government on these lines but the necessity for retrenchment has so far been against them. It may be noted however that the amount spent on obtaining statistical information in Madras is very small as compared with other countries, like the United States of America.

Director of Industries.

There is often considerable delay in the receipt from Collectors of the district—returns of planting products, while incomplete statistics are often received rendering necessary in many cases, the preparation of supplementary returns. It is probable that the consolidated return could be compiled with greater expedition if the work of consolidating the figures of the individual estates, which is now carried out in the Collectors' offices, were transferred to my office, particularly as now that the office of the United Planters' Association of Southern India has been transferred to Madras the necessary collaboration between my office and the Planters' Association has been rendered much easier. I have discussed in my answer to question 1, Annexure A, Section III, the possibility of improving the accuracy of the statistics of wholesale prices.

Question 5.

5. The English census of production, which was provided for by the Census of Production Act, 1907, took several years to complete and cost a large sum of money. Would you advocate the taking of a similar census of production in this country?

Answers to Question 5.

Director of Agriculture.

I would rather spend the money in an endeavour to increase production.

Director of Industries.

I am very doubtful whether a census of production covering the industries, of which statistics of production are not at present available would, if undertaken, produce any really useful results. It would presumably be necessary to introduce legislation in order to enforce the supply of information while, as Government is not equipped with machinery to obtain and compile statistics of production, it would be necessary to entertain and train the requisite staff. Statistics in respect of the more important industries, e.g., cotton, jute, paper and woollen mills are prepared annually, and while statistics in respect of minor and cottage industries would be very difficult to collect they would probably be of doubtful value. I do not consider that the results of a census of production would be commensurate with the expenditure which it would entail.

Question 6.

6. A Bill was recently introduced in the Bombay Legislative Council which provided, among other things, for the collection of information on the following basis:—

(1) from substantial employers of manual and clerical labour for industrial and commercial purposes—statistics and facts regarding wages and conditions of labour;

(2) from trading proprietors—statistics of prices; and

(3) from landlords—statistics of rentals of house property.

Would you advocate the undertaking of all-India legislation on the same or similar lines?

Answers to Question 6.

Director of Industries.

In the absence of fuller information as to the details of the Bill, I am unable to answer the question as to whether the undertaking of all-India legislation on similar lines is desirable. I believe that employees and landlords would resent being compelled to supply such information and statistics and whether they are necessary and would justify the expenditure involved by their compilation and publication seems to me very problematical.

Director of Public Health.

Wages and conditions of labour have a vital influence on public health, and statistics and facts in connexion therewith will be of immense use. An all-India legislation may therefore be recommended.

Question 7.

7. Estimates of the kind above referred to are useful for comparison with past estimates for the same country or contemporary estimates for other countries. Have they any value beyond this in relation to an enquiry into the incidence of taxation ?

Answer to Question 7.

Director of Industries.

Estimates of the kind referred to are doubtless useful from the standpoint of a student of economics but it is doubtful whether they have any real value in relation to an enquiry into the incidence of taxation.

Question 8.

8. Annexure C gives details of the more intensive enquiries into the conditions of different sections of the people of which the Committee have been able to trace records. Can you refer them to any others ? Are these sufficiently numerous and reliable to form the basis of an estimate of the incidence of taxation on different classes ? If not, what process would you suggest for ascertaining such incidence ?

ANNEXURE C. (Question 8.)

LIST OF INTENSIVE ENQUIRIES INTO INCOMES OF PARTICULAR CLASSES.

I.—Workers generally—

MADRAS.—Mr. Gray's report on statistics of wages.

BOMBAY.—Mr. Shirras's report on working class budgets.

Appendix W to the Bombay Census Report, 1921, containing 6,000 family budgets.

BURMA.—Mr. Grahame's note on the occupations in the Mandalay district in the 1921 Census Report.

BIHAR.—Family budgets collected by members of the Patna College Chanakya Society, 1910—18.

ASSAM.—Family budgets of different classes collected at the Census (1921).

BALUCHISTAN.—Family budgets collected at the Census (1921).

II.—Agriculturist —

MADRAS.— Settlement reports of Bellary and Tanjore.
'Rural Economics '—Sir A. P. Patro.
'Some South Indian Villages '—Slater.
'Economics of a Coimbatore Village '—Article in Madras Agricultural Students' Journal.

BOMBAY.—Settlement reports.

Decennial reports on economic progress in rural areas.
"Agricultural Progress in Western India "—Keatinge.
"Rural Economy in the Bombay Deccan "—Keatinge.
"Social and Economic-Survey of a Konkan Village "—Ranade.
"Land and Labour in a Deccan Village "—Mann.

Report on the economic condition of certain villages in Sholapur and East Khandesh by the Mamlatdar of Co-operative Societies.
Report of the Konkan Co-operative Enquiry Committee.
Enquiry into agricultural wages—Shirras.
Report of the Pardi Economic Enquiry Committee.

BENGAL.—Settlement Reports of Faridpur, Mymensingh, Midnapur, Dacca, Backerganj and Rajshahi.
'Economic Life of a Bengal District '—Jack.

Enquiry into the family budgets of agriculturists, now being conducted by the Co-operative Department.

THE UNITED PROVINCES.—Settlement reports of Musaffarnagar, Bulandshahr, Saharanpur, Etawah, Fatehpur, Allahabad, Basti and Gorakhpur.
Article in the Indian Economic Journal by Mr. Dubey on the Food Problem (Vol. III, Part I).

PUNJAB.—Settlement reports.

Report on the Economic Survey of Bairampur—Hoshiarpur district.
'The Land of the Five Rivers.'
'Wealth and Welfare of the Punjab '—Calvert.

Articles in the Indian Economic Journal by Mr. Darling on the Rise in the rural standard of living in the Punjab. (Vol. V, Part I, pages 1—10.)

Also on Prosperity and Debt in the Punjab. (Vol. III, Part 2.)
'Economic Life of a Punjab Village.'—Dr. Lucas.
'Enquiry into Agricultural Mortgages'—Calvert.
Reports of the Punjab Economic Enquiry Board.
'Punjab Food Prices'—Prof. Myles.

BURMA.—Settlement reports.

Memorandum on the material condition of the People of Burma from 1912 to 1922.
Report on Indebtedness in the Irrawaddy Division by Mr. Clayton.
Report of an Inquiry into the condition of agricultural tenants and labourers by Mr. Couper.

BIHAR.—Settlement reports.

CENTRAL PROVINCES.—Settlement reports.

Enquiries into Agricultural Incomes by Deputy Directors of Agriculture.

ASSAM.—Settlement reports

Report of Special Enquiry into the Hailakandi Flood Area

III.—Industrial Labour—

INDIA—GENERAL.—'Indian Labour'—Dr. Broughton Labour in India—Miss Kellman.

Factory Labour in India.—Dr. Rajanikanta Das.

MADRAS.—Annual reports of the Commissioner of Labour.

Wages Census by the Commissioner of Labour.

BOMBAY.—Enquiry into the wages of Cotton Mill workers—Shirras

BURMA.—Note on the Rice Mill industry.

IV.— Middle Classes—

MADRAS.—Report of Salaries Committee.

BENGAL.—Report of Bengal Unemployment Committee.

PUNJAB.—Family budgets of clerks—Mrs. Caleb.

BURMA.—Mr. McCallum's Report on Local Allowances.

V.—Tea Garden Labourers—

ASSAM.—Report of the Assam Labour Enquiry Committee.

Answers to Question 8.

Director of Agriculture.

To the list in Annexure C, I would add the monograph on *the minimum starting pay of a non-gazetted Government Officer* issued by the Executive Committee of the non-gazetted Government Officers' Association, Madras. This relates to the condition of the non-gazetted Officers of Government. It is carefully prepared and is based on a large number of family budgets of Government Officers of all classes throughout the Presidency.

Director of Industries.

I cannot think of any other inquiries into the conditions of different sections of the people which would be of use to the Committee. I am of opinion, however, that the information contained in the records enumerated in Annexure C is far too meagre to warrant the deduction of any definite conclusions as to the incidence of taxation on different classes. I am unable to suggest any process for the ascertainment of such incidence.

INCIDENCE OF TAXATION.

QUESTION 9.

NOTE.—See the President's Demi-official dated 15th May 1925 regarding incidence of Provincial revenue per head of population, printed after Question 9.

Question 9.

9. How would you divide the population into classes with reference to the taxes that affect them? Can you offer any suggestions which would assist the Committee in determining the question of the real incidence of taxation as distinguished from its primary or apparent incidence?

Further Notes on Question 9.

Extract from a demi-official, dated 31st March 1925, from the President, Indian Taxation Enquiry Committee.

On question 9, it would be great help to us if we could get a definite estimate of the percentage of income spent in taxation by any definite class. Would it be possible, for instance, for Paddison or any of his men, or Gray, to give us an estimate of the income of a labouring man and his family and of the amount spent by them in the shape of taxes on cotton goods, petroleum and salt? Or could you get anything similar for the clerkly class out of the family budgets collected by the Salaries Committee?

Demi-official from J. GRAY, Esq., I.C.S., O.B.E., Registrar of Co-operative Societies, 15th April 1925

I regret I have absolutely no information on which to base an estimate of the percentage of income spent in taxation by any definite class.

Note from R. H. ELLIS, Esq., I.C.S., Commissioner of Labour.

No information on the point is available in my office. I could not make any proper enquiry in the time now available and wrong statistics are worse, I think, than none at all.

Demi-official from the Financial Secretary, to the Secretary, Indian Taxation Enquiry Committee, No. 15838 Accts. 1, dated 27th April 1925.

Estimate of the percentage of income spent in taxation by any definite class of people —Reference Demi-official from the President, Indian Taxation Enquiry Committee, dated 31st March 1925.—I am to inform you that Mr. Gray, the Registrar of Co-operative Societies, and Mr. Ellis, the Commissioner of Labour, who were consulted, have stated that no information on the above subject is available with them.

Hon'ble the Finance Member's note.

Has any examination been made of the family budgets which were drawn up by the Salaries Committee?

T. E. M[OIR]—19-5-25.

Note by the Finance Department.

With reference to the family budget referred to in paragraph 7 of the Salaries Committee's report, the Hon'ble the Finance Member enquired if any examination had been made of the figures referred to therein.

2. Attention is solicited to—

(i) the remarks of Sir Arthur Knapp on pages 1–4 of the notes on revision of salaries;

(ii) paragraph 6 of the report of the Committee of the Legislative Council on page 12 of G.O. No. 215, Finance, dated 4th March 1921, and Mr. S. Srinivasa Ayyangar's note on page 18 of *ibid.*

3. A family budget for police men was also prepared in 1922 and the budget and the notes of Finance Department will be found on pages 9–13 of notes to G.O. No. 336, Judicial, dated 11th March 1922.

V.V.—22-5-25.

A | My recollection is that the Taxation Enquiry Committee asked for my information as to scales or budgets. Please see if one can put up anything in a tangible form.

2. Even assuming the data of 1921 or 1922, current prices have altered and the money rates of the different articles mentioned in a budget would have to be recalculated.

T. E. M[OIR]—22-5-25.

With reference to paragraph 1 of Hon'ble Member's note, it is submitted that the President of the Taxation Enquiry Committee merely asked for an estimate of the percentage of income *spent in taxation*, by any definite class. After consulting the Registrar of Co-operative Societies and the Commissioner of Labour, the Committee was informed that no information on the subject was available. No information regarding scales of family budgets was asked for by the Committee.

2. In the circumstances, it is for orders whether any further action should now be taken. It may be mentioned that the Labour Gazette published monthly at Bombay gives a working class cost of living index. The index for March 1925 stands at 159 as against 100 in July 1914, and the prices have fallen after reaching a maximum of 193 in October 1920.

V.V.—29-5-25. J. B. BROWN—29-5-25.

No further action required.

T. E. M[OIR]—1-6-25.

Hon'ble the Finance Member's note.

As regards salt, I think we know approximately the incidence of taxation per head in the Madras Presidency under this item or, at any rate, we know approximately the consumption per head and the average retail price.

T. E. M[OIR]—19-5-25.

Note by the Finance Department.

Salt.—The incidence of salt tax in this Presidency with the salt tax at Rs. 1-4-0 a maund is estimated at 4 annas 4·8 pies per head.

V.V.—19-5-25. T. E. M[OIR]—23-5-25.

INCIDENCE OF PROVINCIAL REVENUE PER HEAD OF POPULATION IN THE VARIOUS PROVINCES.

Demi-official from Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President, Indian Taxation Enquiry Committee, to the Hon'ble Mr. T. E. MOIR, C.S.I., C.I.E., I.C.S., Member of Council, dated Bangalore, the 15th May 1925.

* * * * * *

. . . I think you may be interested in the enclosed note on the incidence of the Provincial revenue per head. I must say that it astonished me to find that Bombay and Burma are paying so much.

It might interest you and it would certainly be a satisfaction to me to have a check made of the figures by somebody in the Madras Finance Office.

ENCLOSURE

The receipts of the Provincial Governments may be broadly classified into three groups: tax-revenue, non-tax revenue and mere book transactions. The first two classes need no explanation; the third arises because of the account rules imposed on the Governments. These rules prescribe that all receipts, whether they are net receipts or whether they are items which appear on both sides of the accounts, must be included on the credit side. This gives an inflated appearance to the Provincial budgets which is only illusory.

2. The tax-revenue of the Provincial Governments comes from the following sources: Taxes on Income, Land Revenue, Excise, Stamps and Registration. As regards the Taxes on Income, the amount is very small and only a few provinces realize anything from this; the amount is received under the Devolution Rules. Land Revenue, the most important Provincial head, gives the greatest trouble in analysis. The first difficulty is that a portion of land revenue is due to irrigation and is not truly land revenue at all. Some Provincial budgets separate this amount, while others don't. In the table attached herewith, I have separated land revenue due to irrigation. The Finance and Revenue Account of the Government of India gives these figures for the various provinces. I have deducted this figure from the gross Land Revenue and considered it as irrigation receipt. I shall discuss this when I come to Irrigation. The second refinement I have introduced into the Land Revenue figures is to deduct from it book transactions which are called "Assignments and Compensations" and assessment of alienated lands in the case of grantees who render no service for it in return. This item is important only in the case of the Government of Bombay who collect for inamdars and devasthans alone nearly sixty lakhs of rupees. Thirdly I have deducted the receipts from sale of Government estates and of waste lands. The fourth deduction is the recovery of survey and settlement charges. This exists only in the permanently settled areas. After making all these deductions, the true Land Revenue figure is arrived at.

3. The next important item of Provincial taxation is Excise. This does not give much trouble. I have taken the whole revenue as taxation for the only item which is not taxation is "Fines and Miscellaneous"; but this is such a small item that I did not think it worth while to deduct it.

4. The third important item of Provincial taxation is Stamps. This again gives little trouble. Except "Fines" all the other receipts are taxation, and fines amount to less than half a lakh in almost all the provinces.

5. The fourth item of taxation is registration. It is debatable whether this should be considered as taxation or as fees for services rendered. Here however I have deducted from the total receipts the cost of running the Registration department and considered the surplus as taxation.

6. This finishes the Provincial heads of taxation. In Bombay and Bengal there is another source of taxation which has not been enumerated above. That is the "Schedule Taxes". These are the Amusement Tax in Bengal and Entertainments Tax in Bombay. In this year's budget, Bombay has introduced a tax on the Turf Club receipts. All these items are clearly taxation and have been included in the table prepared.

7. The main heads of non-tax revenue are Forest, Irrigation, Civil Administration, Civil Works and Miscellaneous. As regards Forests, the method I have followed in working out the net revenue is the same as in the case of Registration. I have deducted from the gross receipts the cost of working the Forest department. The surplus, if any, has been considered as net revenue. I have not classed this as net taxation because in the first place I consider Forest as a State domain or property and if this property was in private hands as it is in certain tracts, the private person can claim a price for the property, which would be the capitalized value of the net receipts he would expect from such a property. Forests are of the same nature as nationalized land or mines. The object of the State is to get a commercial return and not merely the working expenses. On these grounds, I think the net receipts from Forest should be treated as revenue merely and not taxation as some writers have done.

8. The next important item of non-tax revenue is Irrigation. As I said above, in discussing Land Revenue, the portion of it due to irrigation must be transferred to this head. The failure to do so as in the case of Madras leads to losses being shown on irrigation when really they are profits. The Finance and Revenue Accounts of the Government of India give detailed commercial accounts for irrigation projects in all the provinces. The accounts are clear and show at a glance the state of the Irrigation finance. In the first column is shown the total capital outlay on the scheme. Then the receipts are given; these comprise of direct receipts, irrigation, land revenue, minus the collection charges in the Civil department for the latter. The total thus arrived at is considered as receipts. On the expenditure side are shown the working expenses of the canal system for the year and the interest charges for the year on the total capital outlay. The total expenditure is deducted from total receipts and the surplus or deficit on the whole canal system is shown. This is done for the whole of the province. Thus it is easy to see whether there is any net return from Irrigation in the province. I have given this net return as revenue from Irrigation in the table attached. I don't think that this revenue contains any element of taxation; for the return per cent after the expenses including interest are paid, is very moderate in most provinces. And this means that only commercial profits are made and not monopoly profits and therefore no taxation is involved. Further even if there was any monopoly profit, it would be difficult to separate it from commercial profits. On the whole, it seems better to consider this whole net receipt as revenue from irrigation.

9. The third head of non-tax revenue is Civil Administration. These are miscellaneous receipts from a dozen or so of the Civil departments and they can be broadly classified as receipts from State prerogative like fines, sale of escheated property; secondly as receipts from commercial undertakings on a small scale like agricultural farms and small industrial establishments; thirdly as receipts in the shape of fees for services rendered as in the case of educational fees and hospital fees. In the table at the end, I have grouped all these together as revenue from Civil department. The items are so numerous and so small that it is little use treating each separately.

10. Receipts from Civil Works the fourth item of non-tax revenue comprise of rents received from Government buildings and minor receipts of similar nature.

11. The last item is miscellaneous and the name explains the nature of these receipts. Here are included receipts in aid of superannuation, stationery and printing receipts and a number of very small minor items.

12. The total of tax and non-tax revenue has been given in the table attached and the incidence per head of population of each given in thick type. The book transactions and non-revenue receipts are included in the third class and the total of all these classes gives the provincial total receipts as given in the budgets. The figures are for 1922-23 account year.

J. V. JOSHI—28-4-25.

SUB-ENCLOSURE.

Taxation in Rs. (Lakhs).

—	Madras.	Bombay.	Bengal.	United Provinces.	Punjab.	Burma.	Bihar and Orissa.	Central Provinces.	Assam.
Land Revenue	608 **1·44**	486 **2·52**	294 **·67**	676 **1·50**	297 **1·56**	496 **3·76**	158 **·48**	255 **1·88**	92 **1·21**
Excise	490 **1·16**	428 **2·19**	201 **·48**	141 **·31**	103 **·50**	112 **·85**	154 **·45**	126 **·91**	54 **·71**
Stamps	220 **·52**	177 **·92**	302 **·65**	161 **·35**	89 **·43**	51 **·39**	95 **·28**	58 **·42**	18 **·24**
Registration	14	6	7	8	6	4	7	4	..
Scheduled Taxes	..	3	25	..	..	..	..	..	..
Taxes on Income	..	3	..	..	6	..	3	1	1
Total, Taxation ..	1,333 **3·15**	1,098 **5·69**	829 **1·78**	986 **2·17**	501 **2·42**	663 **5·02**	417 **1·28**	444 **3·19**	165 **2·17**

Figures in lakhs of rupees.

Heads of Revenue.	Government of Madras.	Government of Bombay.	Government of Bengal.	Government of the United Provinces.	Government of Punjab.	Government of Burma.	Government of Bihar and Orissa.	Government of Central Provinces.	Government of Assam.
Taxes on Income	..	3	..	..	6	..	3	1	1
Land Revenue	603	486	294	678	297	496	158	255	92
Excise	490	428	201	141	103	112	154	128	54
Stamps	220	177	302	161	89	51	95	58	18
Forest	4	30	10	21	-- 15	86	1	16	6
Registration	14	6	7	8	6	4	7	4	..
Scheduled Taxes	..	3	25	..	..	..	..	..	..
Irrigation	56	11	— 15	37	286	30	— 4	— 16	..
Civil Administration	71	63	58	36	37	26	20	18	9
Civil Works	8	16	8	5	4	8	6	4	5
Miscellaneous	19	25	47	20	56	17	15	11	1
Total, Provincial Revenue ..	1,485	1,233	937	1,105	869	830	455	477	186
Population of the Province (in lakhs).	423	193	467	454	207	132	340	139	76
Provincial Revenue per head of population.	**3·51**	**6·39**	**2·01**	**2·43**	**4·20**	**6·29**	**1·34**	**3·48**	**2·45**
Provincial Taxation per head of population.	**3·15**	**5·69**	**1·78**	**2·17**	**2·42**	**5·02**	**1·28**	**3·19**	**2·17**
Provincial non-tax Revenue per head of population.	**·36**	**·70**	**·23**	**·26**	**1·78**	**1·27**	**·11**	**·24**	**·28**

Note by the Finance Department.

The figures in the two tables above are being checked.

2. In this connexion, it is submitted that there seems to be a fallacy in calculating the incidence of the provincial revenue *per head of population.* In the memorandum prepared for the Meston Committee, the incidence per head of population was not adopted as the basis. For land revenue, the rates of taxation per cultivated acre of land were adopted as the basis, while for Excise the average taxation of a proof gallon of country spirits was taken. These figures were quoted by Mr. Venkatapathi Raju in his speech in the Legislative Assembly on 30th September 1921. The Hon'ble Sir Malcolm Hailey in his reply, remarked:

"He (Mr. Raju) is advancing the claims of Madras; I am not going to contest them. But when he said that I did not give the various figures of Bengal, taxation man for man or acre for acre, because I was afraid to do so, since I knew that they would tell against Bengal, he was not correct. The reason I gave was that it would lead to interminable discussions of an abstract and contentious nature; how interminable that discussion would be the House can easily judge when I tell them that if instead of quoting the figures for Madras as he quoted them, that is to say, revenue by acre and excise by gallons, he had quoted them per head of population, his results would be reversed. I hope that Mr. Raju will not question what I am saying, since I have here the printed statement from which he drew his inspiration and I can have no better ground than that. It was because I feared interminable discussion of that kind, abstract calculations of what the taxable capacity of each province should be, abstract considerations of what should be the proper basis of allocating central and provincial finance, it was purely on those grounds that I avoided the questions to which I have referred. Nor, Sir, can I suggest any answer as to why it is that Madras collects more fines or penalties than other provinces; I will not even suggest the implication that arises from that curious fact. But, if the House desires an interesting figure—I am here no partisan again—I will give it; that is, that for practically every crore of rupees of contribution that we remit, Madras will get approximately 50 lakhs. . . . ."

3. Attention is also solicited to Annexure A to the note regarding "Taxes on agricultural income" in the notes on subjects for Delhi Conference of 15th November 1923. This annexure contains a statement comparing the incidence of land revenue assessment *per acre and per head of population* in the various provinces. The point that the incidence of total land revenue per head of population was higher in Bombay than in Madras was noticed, and the Secretary (Mr. G. T. Boag) remarked—

"It will be obvious on a little consideration that any attempt to base arguments upon land tax per head of population must be fallacious since it leaves density of population out of consideration. To reduce this to its simplest factor, let it be supposed that there are two farmers farming farms equal in area, quality of soil, income and taxation and that one farmer is alone and the other has a family of six. It would be absurd to say that the incidence of land tax was six times as much in the one case as that in the other. Similarly owing to the difference in practice in assessing or leaving unassessed unoccupied land, land tax per acre of assessed land is no basis for argument. The only figure in this table that is really of any value is land tax per acre of assessed and cultivated land. Even this assumes an equality in the productiveness of the soil. A further test would be the percentage borne by the land tax to the income of the cultivator. That again would vary with his skill, industry and capital."

V. Gopalakrishna Ayyar—21-5-25.

Keep here in case it is required.

J. B. Brown—22-5-25.

The figures in the two tables attached to the President's demi-official, dated 15th May 1925, have been checked with those in the Finance and Revenue Accounts of the Government of India and with the Civil Budget Estimates of the various provinces. The figures require slight alterations as indicated below:—

	Total figure as in the Finance and Revenue accounts.
	RS.
(*a*) Total land revenue—Madras (excluding portion due to Irrigation).	609·21
Deduct—Sale-proceeds of Government estates and waste lands ...	6·60
Assignments and compensations	5·52
	12·12
Land revenue—Taxation	597·09 *
(*b*) Total land revenue—Bombay (excluding portion due to Irrigation).	558·69
Deduct—Assessment of alienated lands less quit-rent—Non-service lands.	— 80·69
(This is the figure appearing in the column "Accounts 1922–23" on page 23 of the Bombay Civil Budget Estimate for 1924–25. It is not clear why the Taxation Committee office has adopted the figure of 60 lakhs.	...
Assignments and compensations	— 14·31
	463·59 †

(*c*) Bombay—

Registration.—The figure 6 may be altered to 5.
Irrigation.—The figure 11 may be altered to 10.
Miscellaneous.—The figure 25 may be altered to 24.

2. The figures relating to incidence per head of population are not materially affected by the foregoing corrections.

* The figure entered in the table is 603. † The figure entered in the table is 486.

3. The tables annexed to the President's demi-official, dated 15th May 1925, give (1) the total revenue raised in the several provinces from provincial taxes, and (2) the incidence per head of population. The latter is arrived at by dividing the former by the total population in each province.

4. Paragraph 1 of this Government's Memorandum enumerates the general principles relating to the incidence of taxation. General principle No. 7 runs—

"the only incidence worth considering is the incidence per tax-payer of each class."

In his note, dated 6th November 1923, Sir Charles Todhunter has discussed this general principle and noted as follows :—

"(1) It is perhaps easiest to show the absurdity of calculating the incidence of the land tax per head of population, as Sir Malcolm Hailey did [Sir Malcolm Hailey's concluding speech on 30th September 1921 on the Resolution regarding remission of Bengal contribution—page 36 of Madras Government's pamphlet] by a simple instance. Suppose there are two farms equal in area, quality of soil, taxation paid and income earned, and that one farmer has a family of one while the other has a family of six. On the principle adopted by Sir Malcolm Hailey the incidence of land tax in one case is one-sixth the incidence in the other.

"(2) The salt tax appears to be an exception to this rule, but is not because the whole population are consumers of salt.

"(3) In the case of taxes on income on property, where these are graduated, what is needed is a limitation of the distribution of the incidence not only to the tax-payers but to the tax-payers of each grade. It is true that Sir Josiah Stamp reckons the incidence of the total of these taxes on the total income of the country. This may be a rough and ready guide for seeing whether there is room for a general enhancement, but is no guide to the question whether each class is bearing its own fair share, which is the matter now in issue.

"(4) It is obvious moreover that incidence in this case has nothing to do with locality. A group of rich men may earn their living from factories surrounded by poverty-stricken dwellings, but may have their residences in a health resort at a distance. It would be absurd to draw any conclusion from the fact that the incidence of the health resort was higher than that of the industrial town.

"(5) Lastly, regarding the incidence of optional taxes. This has no bearing on the present enquiry at all. If it is optional for a man to consume a luxury or not as he pleases, it is absurd to consider whether he does so or not in considering the re-adjustment of the burden of taxation to the people who pay taxes which they cannot escape."

5. Please see question 104 of the Indian Taxation Enquiry Committee Questionnaire which relates to the methods to be adopted for arriving at the comparative incidence of the land revenue in different provinces. In the case of land revenue and excise, it does not seem correct to calculate the incidence of these taxes per head of population. In the case of land revenue, the assessment per acre of cultivated land has to be taken, while under excise, the rate of duty per gallon has to be adopted. In the case of stamps, the rates are more or less uniform for all provinces. These three items, viz., Land Revenue, Excise and Stamps form the bulk of provincial taxes ; and no useful conclusion can be drawn by calculating the incidence of these three taxes per head of population in the various provinces and by instituting a comparison on these figures between one province and another.

6. The contention of the Madras Government has all along been—

(a) Imperial taxes are levied at uniform rates throughout India and the incidence thereof is, therefore, the same in all provinces.

(b) In the case of provincial taxes which are levied by provinces at rates fixed by provincial governments for provincial purposes, Madras has imposed higher rates than other provinces.

For example, the consumption of country spirits in Bombay is 7·8 drams of London proof per head of population as against 2 drams in Madras. The duty per proof gallon averages Rs. 7-1-0 in Bombay as against Rs. 3-5-0 in Madras. The rate of land tax (per cultivated acre) is higher in Madras than in Bombay.

V. Gopalakrishna Ayyar—22-5-25.

J. B. Brown—23-5-25.

Further Note by the Finance Department.

In the tables attached to the President's demi-official, dated 15th May 1925, the figures of incidence of the provincial revenue per head have been worked out and it appears therefrom that Bombay and Burma are more heavily taxed than Madras. On the other hand, in preparing the memorandum of this Government on the financial relations with the Government of India, it was pointed out that Madras was more heavily taxed in respect of certain items than other provinces.

2. The discrepancy between the two views mentioned above is due to the fact that in the figures now given the figures of revenue under Land Revenue, Excise, Stamps, Registration, scheduled taxes and taxes on income have been divided in each province by the total population in that province, but in our memorandum to the Meston Committee, we stated that the incidence of taxation in Madras was high, based on incidence of land revenue per cultivated acre in ryotwari areas and on the average taxation on a proof gallon of country spirit.

3. It will be observed from the present statement that the taxation per head compares as follows with the total population in the various provinces :—

Provinces.	Total population in millions.	Provincial taxation per head of population.
		RS.
Madras	42	3·15
Bombay	19	5·69
United Provinces	45	2·17
Bengal	47	1·78
Punjab	21	2·42
Burma	13	5·02
Bihar and Orissa	34	1·23
Central Provinces and Berar	14	3·19
Assam	8	2·17

It will be observed that in provinces with a large population the incidence of taxation is lower but in provinces with a smaller population the incidence of taxation is higher irrespective of the rates of taxation levied. *Prima facie* any inference drawn merely on the basis of population must be fallacious.

Take, for example, the following case :—Suppose in a certain area, there are 100 ryots living on 20 acres of land paying assessment at Rs 10 per acre. The average incidence per head comes to Rs. 200 per annum. Suppose, on the other hand, that 1,000 persons are living on the same land and paying the same assessment, the average assessment comes to Rs. 20 per head. Thus while the taxation per acre remains the same, the incidence appears less merely because of the numerical strength of the population. On the other hand, 100 persons living on 20 acres of land are likely to be financially in a better * position than 1,000 persons living on the same number of acres and thus taxation is likely to press more heavily on the 1,000 persons than on the 100 persons, though the incidence appears less.

* As a portion of the income alone is taken away by the State.

It is submitted therefore that mere argument based on population does not seem to be conclusive, as regards the incidence of taxation in each province.

4. As regards the details given in the present statement, the following remarks seem called for:—

(1) The figures in the statement do not compare like with the like. Thus in the case of registration, only the net receipts (viz., total revenues minus charges on account of collection) have been taken into account, but in the case of other receipts, gross receipts have been taken into account, subject to certain adjustments in the case of Land revenue.

V. Land Revenue.*		Madras.	Bombay.
Accounts,	1921-22 ...	607	547
,,	1922-23 ...	609	559
,,	1923-24 ...	587	509
Revised estimate, 1924-25.		609	524
Budget estimate, 1925-26.		620	560

* Excluding part due to irrigation.

(2) *Land Revenue.*—(*a*) As the systems of land revenue vary in the various provinces, it does not seem correct to compare the revenues of provinces without taking into account the charges on collection. While this may not make much difference so far as comparison between Madras and Bombay is concerned, it will make a difference in comparing with provinces like Bengal.

(*b*) The figures in the statement relate only to 1922-23, but resettlement rates have been recently introduced in this province in Tanjore, Trichinopoly, Bellary and Anantapur districts and the taxation per head in the current year is therefore likely to be greater.

But other ryotwari provinces have probably resettlement operations going on.

T.E.M.—17-7-25.

VI. Excise.		Madras.	Bombay.
Accounts,	1920-21 ...	...	455
,,	1921-22 ...	488	343
,,	1922-23 ...	490	423
,,	1923-24 ...	519	435
Revised estimate, 1924-25.		498	436
Budget estimate, 1925-26.		499	450

(3) *Excise.*—In the case of excise also, the rates of excise duty have been undergoing frequent alteration from time to time, with reference to our policy of minimum consumption and maximum revenue. No statistics are available showing the latest position in the various provinces.

VII. Stamps.		Madras.	Bombay.
Accounts,	1921-22 ...	190	164
,,	1922-23 ...	220	177
,,	1923-24 ...	234	180
Revised estimate, 1924-25.		238	172
Budget estimate, 1925-26.		238	177

(4) *Stamps.*—It will be seen that while in a poor province like Madras the stamp revenue amounts to as much as 220 lakhs, in Bombay, which is richer in resources and industrial enterprises, the revenue amounts only to 177 lakhs.

IX. Registration.		Madras.	Bombay.
Accounts,	1921-22 ...	33	13
,,	1922-23 ...	36	13
,,	1923-24 ...	37	13
Revised estimate, 1924-25.		38	14
Budget estimate, 1925-26.		39	14

(5) *Registration.*—This is not, strictly speaking, a tax and should be omitted in considering taxation in the various provinces.

(6) *Taxes on income.*—The receipts under this head have been varying and no useful inference can be drawn from the figures in calculating the receipts of Provincial Governments—*vide* appendix infra. They should also be left out of account.

V.V.—20-5-25.

In the margin, I have given the actual revenue figures under the four heads for Madras and Bombay. The increase in the Madras Presidency under Stamps is marked.

J. B. Brown—20-5-25.

These notes may be added to a complete file of our material for use in connexion with the Indian Taxation Enquiry Committee.

T. E. M[oir]—17-7-25.

APPENDIX.

Statement of amounts paid to Provincial Governments on account of their share of the revenues from taxes on income.

—	In thousands of rupees.				
	1921-22.	1922-23.	1923-24.	Revised, 1924-25.	Budget, 1925-26.
Madras	4,08	..	10,82	2,00	2,00
Bombay	14,72	* 3,00	..	..	..
Bengal	95	..	..	..	..
United Provinces	3,20	33	..	..	..
Punjab	30	5,69	4,24	4,51	4,94
Burma	3,85	..	38	4,29	8,28
Bihar and Orissa	58	2,87	2,55	4,35	4,88
Central Provinces	90	1,49	3,42	82	..
Assam	2	1,15	4,16	5,29	5,40
Total	28,60	14,53	25,57	21,26	25,50

* 13,50 to be adjusted.

NON-TAX REVENUES.

QUESTIONS 10 TO 17.

Question 10.

10. To what extent does the land revenue of your province include revenue from sales of waste lands, or trees, revenue from penalties, or other items that clearly do not fall within the definition of a tax?

Answer to Question 10.

Board of Revenue (Land Revenue and Settlement).

The land revenue of the Presidency is derived from the undermentioned sources:—

(i) Peshkash in permanently-settled estates.
(ii) Shrotriyam jodi.
(iii) Proprietary estates village service.
(iv) Ryotwari demand including water-rate.
(v) Miscellaneous revenue.

Though local fund cesses are collected along with land revenue they must be deducted for the purpose of answering the present question. The total land revenue demand for fasli 1333 (1923–24) excluding cesses (Rs. 91,86,961) and deducting remissions (Rs. 36,91,518) was Rs. 7,19,00,067 as shown in the *statement annexed*. Details are given in it for important items under V—Miscellaneous revenue.

In order to decide what items are included which do not fall within the definition of a *tax*, it is necessary to define *tax*. For the sake of simplicity the Board will adopt Chapman's definition as "a compulsory contribution made to Government under stated conditions when the contribution is not a *quid pro quo* for a specific service rendered". It is obvious that items I, II and IV are tax revenues and do not call for any remarks. In the case of "Proprietary estates village service cess"—item III—however, the idea of equivalent benefit is very prominent. The cess is levied in order to allow of payment to village officers by Government instead of by proprietors and it would appear that it is not a tax but the point is by no means free from doubt. Turning to item V—Miscellaneous revenue—the following items are apparently not of the nature of a tax:—

4. Enhanced water-rate for irregular irrigation (Rs. 5,72,498)—This is a penalty.
5. (*b*) Enhanced charge for irregular occupation of land (Rs. 22,188)—This is a penalty.
6. (*b*) Enhanced charge on porambokes (Rs. 3,51,160)—This is a penalty.
8. Commission on estates under the Court of Wards (Rs. 85,121).
9. Revenue from process-service fees (Rs. 17,688).
10. Sale-proceeds of lands sold (Rs. 6,48,161)—Sale revenue.
13. Sale-proceeds of coir (Rs. 1,10,247)—Sale revenue.
15. Janmabhogam (Rs. 29,776).
19. Costs awarded in suits (Rs. 13,883).
21. Sale of fisheries (Rs. 10,824)—Sale revenue.
22. Cost of demarcation stones (Rs. 15,282).
23. Demarcation fees (Rs. 8,686).
26. Sale of trees (Rs. 9,534)—Sale revenue.

Item 15.—'Janmabhogam' has been included as it represents the share due to Government as landlord and not as State, but for the purpose of the present enquiry it should probably be regarded as equivalent to land revenue.

Statement.

	Items.	Amount.
		RS.
I.	Peshkash on permanently-settled estates	50,12,575
II.	Shrotriyam jodi	7,57,078
III.*	Proprietary estates village service *	6,29,619
IV.	Ryotwari demand including water-rate, second crop charge and deducting miscellaneous revenue and remissions.	5,49,32,062
V.	Miscellaneous revenue (details given below for important items).	1,05,68,733
	Total	7,19,00,067

* The proprietary estates village service cess was abolished with effect from the 1st April 1912.

Important details under item V.

		RS.
1.	Jodi and quit-rent on minor inams	23,10,166
2.	Water-rate on minor inams in ryotwari villages	14,92,494
3.	Charge for water in zamindari and inam villages including tirvajasti and fasljasti	22,72,950
4.	Enhanced water-rate on lands irregularly irrigated	5,72,498
5.	Charges levied for occupation (with or without application) of assessed and unassessed lands for which no pattas have been granted:—	
	(*a*) Ordinary charge	5,12,456
	(*b*) Enhanced charge	22,188
6.	Charges levied for occupation of poramboke land or land reserved for State or communal purposes:—	
	(*a*) Ordinary charge	2,63,193
	(*b*) Enhanced charge	3,51,160
7.	Revenue derived from tree pattas	4,95,072
8.	Commission on estates under the Court of Wards' management	85,121
9.	Revenue from process service and fees	17,688
10.	Sale-proceeds of lands sold	6,48,161
11.	Rent of lankas	6,45,206
12.	Quit-rent and ground-rent	2,16,945
13.	Sale-proceeds of Amindivi and Malabar Coir	1,10,247
14.	Shell-pit rent	43,565
15.	Janmabhogam	29,776
16.	Mica revenue	24,361
17.	Back assessment	19,284
18.	Assessment on resumed inams	18,350
19.	Cost awarded in suits	13,883
20.	Island collections (Malabar)	13,511
21.	Sale of fisheries	10,824
22.	Cost of demarcation stones	15,282
23.	Demarcation fees	8,686
24.	Fees for prospecting minerals and quarrying fees	6,902
25.	Lease of Government land and land acquired for railways	9,802
26.	Sale of trees	9,534
27.	Assessment on backyards	7,176

Note by the Finance Department.

The answer to this question has been exhaustively dealt with by the Board of Revenue. The major portion of the receipts under this head comes under the category of a tax. But the following items are non-tax revenues, as indicated by the Board:—

A.—Items comprised under miscellaneous revenue.

Is this the total charge or the excess charge alone? T.E.M.	Enhanced water-rate for irregular irrigation (Rs. 5,72,498).—This is a penalty.
Submitted that this represents the excess charge alone. V.V.—16-5-25. Figures represent enhanced charge alone.	Enhanced charge for irregular occupation of land (Rs. 22,188).—This is a penalty. Enhanced charge on porambokes (Rs 3,51,160).—This is a penalty.
A charge for services rendered. T.E.M.	Commission on estates under the Court of Wards (Rs. 85,121). Revenue from process service fees (Rs. 17,688).

Revenue in kind.	T.E.M.	Sale-proceeds of lands sold (Rs. 6,48,161).—Sale revenue. Sale-proceeds of coir (Rupees 1,10,247).—Sale revenue. Janmabhogam (Rs. 29,776). Cost awarded in suits (Rs. 13,883).
An annual revenue or rent—not a sale revenue like sale-proceeds of lands sold.	T.E.M.	Sale of fisheries (Rs. 10,824).—Sale revenue.
A service rendered.	T.E.M.	Cost of demarcation stones (Rs. 15,282).
A service rendered.	T.E.M.	Demarcation fees (Rs. 8,686).
Sale outright or rent? [Submitted that the figures represent sale outright.] V.V.—16-5-25.	T.E.M.	Sale of trees (Rs. 9,534).—Sale revenue.

B.—Land revenue derived from Proprietary Estates village service.—The Board considers that this also should not be considered as a tax, as the idea of equivalent benefit is prominent.

To meet one particular item in the cost of the administration. T.E.M.

C.—In considering *provincial* taxation, the cesses on Land revenue credited to local bodies should be left out of account.

V.V.—9-5-25 T. E. M[OIR]—10-5-25.

Question 11.

11. Are any similar items included under other revenue heads? [*Vide* Question 10.]

Answer to Question 11.

Board of Revenue (Land Revenue and Settlement).

This question refers to the items of non-tax revenues similar to those mentioned in question No. 10 included under revenue heads other than Land Revenue such as 'Forest', 'Excise', 'Registration', 'Agriculture', Fishery. The items shown in the *Annexure* appear to answer the description of the items contemplated in this question. To these may be added the items * mentioned in Board's Standing Order No. 18, paragraphs 4 (2) to (5), as also revenue derived from trees in the beds of tanks and trees in the bunds of irrigation sources except those for which the Public Works Department maintains a staff of watchman. All these items are credited to 'Forests' and the excepted item to Public Works Department.

Annexure

XIX. B. Police—Pound Fund Receipts—

i. Fines on stray cattle,
ii. Fees for feeding impounded cattle,
iii. Sale of forfeited or impounded cattle, and
iv. Sundry receipts such as sale-proceeds of manure, old materials, trees, etc.

**Items mentioned in Board's Standing Order No. 18, paragraph 4*—

Crediting of tree revenue.—The revenue from trees and from minor produce on unoccupied lands other than reserved forests and reserved lands falls generally under the following heads:—

(1) Tax on trees held on patta which stand on unreserved lands and the sale-proceeds of such trees as have withered or have been blown down or cut, in cases where the tree patta conveys only a right to the usufruct.

(2) Revenue from trees on village poramboke (other than those held on patta), including sale-proceeds of withered trees and windfalls.

(3) Sale-proceeds of the usufruct of toddy-yielding and other fruit trees and of the right to gather the minor produce on unreserved lands, such as the *avaram* or *tangedu* bark, grass, etc.

(4) Sale-proceeds of withered trees and windfalls on unreserved land other than those held on patta.

(5) Value of trees standing on lands assigned on darkhast.

Of these, item (1) should, as a general rule, be credited to 'Land Revenue' and the remaining four items to 'Forests'.

Note by the Finance Department.

Under other revenue heads, Excise, and Stamps come under the category of 'tax'. But all other heads of Provincial revenue are mostly in the nature of non-tax revenues.

V.V.—9-5-25. T. E. M[OIR]—10-5-25.

Question 12.

12. Do you consider the whole or any part of the revenue from Forests to fall within the definition of a tax?

Answer to Question 12.

Chief Conservator of Forests.

In theory, doubtless, such part of the revenue from forests as is represented by the profit obtained by the State after paying all expenses of extraction and management is a tax.

Note by the Finance Department.

The Chief Conservator of Forests answers that such part of the revenue from Forests as is represented by the profit obtained by the State after paying all expenses of extraction and management is a tax. It is submitted that the object of the Forest department is not only extraction and exploitation, but also conservation and protection. If indirect charges such as interest on capital expenditure, depreciation of plant and machinery, charges for audit, etc., are taken into account in addition to the regular expenditure of the department, it seems doubtful whether the Forest department as a whole will pay anything over and above the expenditure on account of the department. It is submitted that Forest revenue should be classed as non-tax.

V.V.—9-5-25.

Forest expenditure includes—

(1) services rendered to the State as a whole; conservation of head streams, prevention of erosion, etc., protection of valuable property.

(2) development of valuable property.

(3) services rendered to the individual direct, timber, fuel, grazing.

(3) provides nothing like a commercial return on the expenditure under (1) and (2). Probably non-tax in any construction of the term.

T. E. M[OIR]—10-5-25.

Question 13.

13. In the case of Government commercial or semi-commercial undertaking, should the endeavour be to secure (*a*) a bare return on the capital invested, or (*b*) a commercial return, or (*c*) a monopoly profit? In which cases will the element of tax appear?

Answers to Question 13. *

Chief Engineer for Irrigation.

The reply depends upon the nature of the commercial or semi-commercial undertaking. These may be classed as—

(i) *Public Services*—e.g., Posts and Telegraphs, Irrigation, State-owned Hydro-electric undertakings.

(ii) *State Industrial undertakings*—e.g., Industries run by the Department of Industries.

(iii) *State Commercial undertakings*—e.g., Forest exploitation.

(iv) *Minor undertakings subsidiary to the larger services*—e.g., Government Workshops.

2. Undertakings in class (ii) are run not for public services but for the purpose of encouraging the development of particular industries by private enterprise and as private enterprise is not likely to take up an undertaking which does not offer a commercial return, a commercial return should be the objective.

Class (iii) includes purely commercial undertakings and a commercial return should be the ultimate objective.

Class (iv) includes undertakings run merely for the services of the main services, to which they are subsidiary. They should supply to the main service at cost price (i.e. 'bare return'), should be regarded not as water-tight compartments, but as integral portions of the main service organization, and should be judged by the ordinary criteria of efficiency and economy, having regard to the financial interest of the State in the main undertaking. They should therefore aim at a 'bare return' on the capital invested, taking into account so far as possible savings effected in supply to the main undertaking at less than commercial market price. In this connexion, I regard the objections to such undertakings occasionally put forward on the ground of unfair competition with private enterprise as absolutely unjustified and would meet them on the ground that the State is as fully justified in supplying to public services at cost price in the interests of the tax-payer as, for instance, a large shipping concern is in underwriting its own risks in the interests of the share-holders instead of insuring outside. This has a bearing on the question because such objections are based on the factor of supply at less than market rates.

3. Class (i) includes undertakings which are definitely and solely public services, even though of a semi-commercial nature. It is, I think, an accepted principle that public services should be provided at as nearly as possible cost price. In this class, therefore, the element of taxation appears in any profits made in excess of the 'bare return' on capital invested (including service of loan and working expenses) in so far as these profits are credited to the general revenues. If this view be accepted the issue then is, not whether the objective should be a 'bare return' or a 'commercial return', but whether public services of either class are suitable media of taxation.

4. There is, so far as I know, no accepted principle which is opposed to the taxation of public service of these classes for the purpose of raising revenue. Such taxation is indirect and of the so-called 'voluntary' class. All these services however contribute directly to the commercial and industrial development and prosperity of the country and the economic limit to taxation is the point at which this development would be adversely affected. Subject to these limits the 'tax' or charge in excess of the 'bare return', as in the case of any other form of taxation, should be dictated by the financial requirements of the State.

* See also answers to Question 14.

5. These principles may be held to apply to irrigation and Government power undertakings (Hydro-electric). In both cases, Government develops natural resources to provide public services.

The objective of irrigation is to provide and increase food supplies and industrial crops. The object of a supply of power so far as the State is concerned is mainly industrial development. Both are public services and the prices charged should be based on the 'bare return'. Both are suitable media of taxation subject to the economic limit, but in the cases of new irrigation works and of power supply, the economic limit of taxation is low. As regards irrigation, please see my separate note* on this. As regards power, the first essential for industrial development is cheap power and any considerable taxation would defeat the object in view.

[* Under Question 15.]

Chief Conservator of Forests.

In theory again the endeavour should be to secure a bare return on the capital invested on the ground that the forests are the common property of all the citizens of the State and these have the right to be supplied at cost price. In practice, however, the endeavour should be to secure the largest possible profit for the commonwealth as every citizen does not require the same quantity of produce, and providing it at cost price would unduly favour the individual. The retail price, in any case, is governed by the demand and not by the cost of supply.

Inspector-General of Prisons.

Jails may be classified as a semi-commercial undertaking of Government. In this case a commercial return should not be looked for, the commercial element being existent only to provide labour for prisoners sentenced to imprisonment with labour and thereby also to some extent to diminish the cost of upkeep by obtaining some return. The primary object is to undertake whenever possible work for Government itself. Taking into consideration the cost of upkeep which is an unavoidable expense, a bare return of capital may only be looked for in the few jails in which power plant is installed and outturn on a semi-commercial scale is obtainable.

The element of tax is inadmissible, the department as a whole being a necessity in modern state and liable as a whole to be run at a loss.

Director of Industries.

The undertakings pioneered by the Department of Industries have not been on a large enough scale to justify the drawing of any conclusions on this debatable subject.

Director of Fisheries.

This is a very comprehensive question and I am not sure that I understand what information is actually required by the committee.

In the case of Government commercial undertakings which are meant to pioneer new or develop old, stunted or stationery industries, the endeavour should be to secure a commercial return ultimately. In so far as Government undertake to pioneer industries of which private enterprise fights shy owing to either the risk of loss and failure or the enormous initial expenditure required for experiment, I am of opinion that they are entitled to any commercial return which may accrue when the enterprise is successful. But, perhaps at this stage, the State may have to give up having shown the way to private enterprise and not to enter into competition with the latter. Even apart from the right that the Government may have for appropriating commercial returns on pioneer industries, it is obvious that unless the industries are worked to commercial profit the 'infection' will not catch and the endeavour will fail if it was meant to be a demonstration or an inducement for private venture.

The case is somewhat different when the concern is quasi-commercial in character. I think that in such a case there are other reasons than demonstration of commercial possibilities of an industry merely which necessitate the State to undertake it, such as political considerations or economic supply of articles to State departments, etc. Certain frontier railways and Government and Jail printing presses or workshops are instances. The commercial element enters into such concerns when they can and often do cater to the public. It is quite possible that if only a mere return on capital be expected, such undertakings will compete adversely with private enterprise and it is therefore necessary to see that the ruling market prices for goods and services be maintained so far as the public are concerned.

The case is totally different with regard to enterprises which are the monopoly of Government. Posts and Telegraphs and Salt are instances. Obviously, there is no need in such cases to work to commercial profit as they are not intended to demonstrate commercial possibilities and will not enter into competition or adversely affect private enterprise. Even a bare return on capital invested may have to be discarded by Government according to the political, administrative or social needs of the country. For instance, it is not inconceivable that it may be necessary to reduce postal and telegraph charges to the point of actual loss in working, if it is considered essential for reviving trade thereby. The returns on Government monopolies should therefore be determined by the actual needs of the State.

The element of tax does not seem to enter into any of them. But in such a case as the salt monopoly when Government make it a source of revenue, the profits over manufacturing charges will practically amount to a tax.

Note by the Finance Department.

This question has been answered by some of the Heads of departments, so far as they are concerned :—

Please see the answers of the—

(i) Chief Engineer for Irrigation.
(ii) Chief Conservator of Forests.
(iii) Inspector-General of Prisons.
(iv) Director of Fisheries.
(v) Director of Industries.

2. The conclusions of the Chief Engineer which may be accepted are that in State industrial undertakings such as Industries run by the department of Industries and State commercial undertakings such as Forest exploitation, a commercial return should be the *ultimate objective*. In the case of minor undertakings subsidiary to the large schemes, e.g., Government Workshops, the object is only to supply the main service at cost price and a 'bare return' may alone be expected.

3. There seem to be no items where a monopoly profit is earned, so far as Provincial revenues are concerned.

V.V.—9-5-25.

See my note under Question 14.

T. E. M[OIR]—10-5-25.

Question 14.

14. Is there any, and if so what, element of taxation in the revenue derived in India from—
(a) Railways, (b) tramways, (c) posts and telegraphs, (d) telephones, (e) cinchona, (f) profits on coinage or exchange?

Answer to Question 14.

Note by the Finance Department.

The revenue derived from these items is for services rendered and there is mostly no element of tax in them. In the case of items such as railways in the frontier constructed for strategic purposes, the net expenditure is in the nature of a tax. In the case of the Cinchona department, Government charge in excess of the cost price of quinine, with reference to the price in the market, and the excess over the cost price should apparently be considered as a tax.

V.V.—9-5-25.

Note by the Honourable Member.

As regards questions 13 and 14, if Forests, commercial undertakings or public services, e.g., railways, and posts contribute a sum to *general revenues*, over and above what is required to meet all legitimate capital and revenue charges against them, then it seems to me that that contribution is taxation in another form. In the case of a private company, it would be profit to be distributed in dividends, etc. In the case of the State, it is not so distributed, but relieves the State of the necessity of levying a corresponding amount of taxation for general purposes. Questions of incidence of course arise, the individual user of the service or purchaser of the goods pays the tax element as and to the extent to which he uses or purchases. There is further the concrete difficulty arising out of the fact that in most cases the distinction between capital and revenue charges is introduced at a later stage and past transactions are allocated on some convenient working basis which has sometimes little relation to actual facts. Further such enterprises render—

(1) Indirect general services to the State, e.g., strategic purposes (railways) conservation of irrigation supplies (forests).

(2) Direct services to individuals.

It is very difficult to distribute the actual revenue derived between these heads. Again take question 13. I do not see how to lay down positively that any of the three courses should be adopted as a principle, or in fact to lay down any general principle except that services to individuals should not be subsidized at the cost of the general tax-payer. In some cases, e.g.—Jail Industries, the rate Government can charge for its products is determined by the market price irrespective of whether that gives a bare return on the capital invested or represents a loss, in others, e.g.—posts, telegraphs, railways—the law of diminishing returns comes in. If by increasing charges by 50 *per cent* you reduce the total revenue, it is no use appealing to any principle; in the case of cinchona considerations of public health come in.

As regards irrigation, Government possess monopoly rights in so far as areas commanded by particular irrigation systems are concerned. But here again the charge that can be levied is limited by very definite considerations which have no relation to taxation theories. The placing of the accounts of a Government department or enterprise on a commercial basis is very essential to enable Government to see whether it is subsidizing individual services at the cost of the general tax-payer or not. But indirect considerations almost invariably come in such as do not apply to a commercial man or industrialist. He is concerned solely with the questions of returns direct or indirect. If a branch of his business gives no returns of either

description no altruistic motive will lead him to continue it. He will cut his losses, where Government for other reasons will not, and will continue to work at a loss. This loss is, it seems to me, taxation.

This is a hurried note. If Secretary could find time to look at my note solely with reference to questions 13 and 14 and show it to Mr. Strathie, I should be glad to have their opinions on the general issues, and to know whether they coincide with what I have stated.

T. E. M[OIR]—10-5-25.

I think everything that Honourable Member has said is perfectly sound. I would therefore suggest the following answer:—

13. It appears to be impossible to give any general answer or to lay down any principle which could be applied to all cases. Broadly speaking all commercial or semi-commercial undertakings run by Government could be run better and cheaper by private enterprise. Therefore whichever of the three attitudes mentioned in the question be adopted, there will be some element of taxation, in so far as taxation means a contribution to the general revenues of the State larger than is required to cover the specific services rendered. In general it is desirable to cut down this element of taxation, as services to individuals should not, in the absence of special reasons, be subsidized at the cost of the general tax-payer. Therefore on the whole Government consider that in the case of a Government commercial or semi-commercial undertaking, the endeavour should be to secure only a bare return on the capital invested. But innumerable other factors have to be taken into consideration, military necessities (railways), conservation of irrigation supplies (forests), public health (cinchona), advisability of giving a start to new (industries), etc., so that this question appears to Government to be of little more than academic interest.

14. There is an element of taxation under each of these heads in so far as they yield more than the bare return on the capital invested.

D. N. STRATHIE—12-5-25.

I agree generally with the Hon'ble Member's remarks.

2. It is difficult to suggest an answer to a general question like question 13, because Government undertakings whether of a commercial or semi-commercial nature, can often not be dissociated from considerations of the public weal: in the case of a Government monopoly, only a bare return on the capital invested should, in my opinion, be aimed at. Anything in excess of this bare return would be a tax. It is arguable that even in this bare return the element of taxation appears in so far as a Government enterprise is less economically and less efficiently managed than a private enterprise.

In the case of a Government enterprise that is in competition with private enterprise, a commercial return should, in my opinion, be the aim, and if such a return can be secured, I do not think that any element of tax appears, just as no element of tax appears in the profits of the private competitor.

3. As regards question 14, I should say that there is an element of taxation on the revenue derived from Government monopolies, such as railways, tramways, posts and telegraphs, and telephones, in so far as private enterprise could render the same services at a lower cost to the persons who utilize them. As regards the revenue derived from cinchona, if the drug is supplied at or below the ordinary market rate, I do not think that any element of tax appears. As regards profits on coinage, I can perceive no element of tax in this. So long as a token coinage is honoured to the full extent of its token value, the general public are not prejudiced by the fact that its bullion value is less than its token value.

Exchange fluctuates with trade conditions. In so far as Government make no attempt to regulate exchange, they are simply in the position of a private individual and no element of tax appears in any profit derived from exchange operations. If the Government, to suit their own interests, endeavour to inflate or deflate exchange artificially by using the large resources at their disposal, the element of tax does, in my opinion, occur in the profits derived from such operations as private individuals will be prejudiced by the interference with the natural movement of exchange.

J. B. BROWN—15-5-25.

Question 15.

15. Is the charge for water supplied for irrigation adequate? On what principles is it fixed?

The following plans have been suggested or adopted elsewhere. Which of them do you prefer?

(1) to charge the bare cost of supplying the water, including interest on capital invested,
(2) to charge a fair commercial profit,
(3) to increase the land revenue by taking the same proportion of the combined output of land and water as would otherwise have been taken of the output of the land,
(4) to charge by volume,
(5) to sell the water by auction to the highest bidder.

Answers to Question 15.

Director of Agriculture.

I do not think the charge is adequate.

Of the plans suggested, I should prefer (4) if the rates charged were such as would yield a fair commercial return on the project.

Board of Revenue (Land Revenue and Settlement).

Adequacy of water charge.—In the case of lands classed as wet it is not easy to separate the water charge from the land revenue. This is, however, now done by taking a prescribed percentage of the land revenue assessment as a share due to irrigation. Adding to this the revenue from the water charge on dry lands, the total irrigation revenue amounted to Rs. 272·3 lakhs in fasli 1333. The revenue under works for which capital and revenue accounts are kept was Rs. 191·2 lakhs and the revenue under other works Rs. 81·1 lakhs. The question whether the charge for water is adequate depends entirely on whether all legitimate charges (including depreciation charges) are made against the works by Public Works Department, and the Board cannot definitely say whether the charge for water under these works is adequate. No provision appears to be made for depreciation of works and the debit on account of collection charges is only 5 per cent of the gross collections. It is perhaps pertinent to note that the cost of district administration excluding village establishments in fasli 1333 was 13·16 *per cent* of the total land revenue and cesses collected, and including village establishment 26·46 *per cent*. The establishment charged to land revenue does, however, perform multifarious duties of which the collection of land revenue is only one. Even if the percentage allowed for collection is adequate and the omission to provide for depreciation does not seriously vitiate the figures, it would appear that the charge for water under unproductive works at least is not adequate, even if the charge under productive works is adequate.

As regards works for which capital and revenue accounts are not kept, the *annexed statement* shows the outlay incurred, the gross irrigation revenue and the share collected with land revenue during the last ten years. The major portion of the outlay is, strictly speaking, maintenance or repair charges and, only a small portion represents capital outlay. It is now quite impossible to say what the capital outlay on these works was. In the absence of regular accounts maintained on correct principles by which interest on capital, depreciation on works and plant, maintenance, and cost of Public Works Department and Revenue establishments

engaged in maintenance and supervision of works and collection of revenue are included in the accounts, it is impossible to say whether the charge for water is adequate. Further, the question is largely an academic one as the major portion of the irrigation revenue derived from these works (77·2 lakhs out of 92·8 lakhs on the average) is consolidated with the wet assessment and is collected with it. As already pointed out above, the wet assessment fixed at settlement has no specific relation to the value of water and at resettlements the chief consideration guiding enhancement of rates is rise in prices and not the question of obtaining a higher return for water supplied to wet lands.

Principle on which water charge is fixed.—If 'principle' is distinguished from 'method' as it should be, then, in the Board's opinion, the only discernible principle adopted is to charge the land irrespective of the crop grown or the quantity of water taken and irrespective of the additional value given to a crop by irrigation. The wet assessment is fixed at settlements and raised at resettlements regardless of the cost incurred by Government in bringing the water on to the land.

Whether to charge bare cost or commercial profit.—As to queries 1 and 2 in the question, the Board submits that the reference is apparently to new works for which capital and revenue accounts will be kept. The Board is not sure that the accounts are kept by the Department of Public Works on recognized commercial lines and it is not certain what items would be included under the term 'bare cost'. The Board cannot therefore hazard any opinion as to which of the two courses would be preferable in the case of these works.

Statement.

Year. (1)	Outlay incurred. (2)	Gross irrigation revenue. (3)	Share collected with land revenue on wet lands. (4)	Percentage of column (2) to column 3. (5)
	RS.	RS.	RS.	
1914–15	28,77,181	91,53,436	71,34,065	31·4
1915–16	25,25,767	98,20,576	75,74,868	25·7
1916–17	24,35,469	91,57,003	76,29,222	26·6
1917–18	28,51,552	95,76,747	76,98,806	29·7
1918–19	29,23,918	76,92,072	73,05,898	38·0
1919–20	28,47,901	99,20,929	80,98,449	28·7
1920–21	29,64,885	95,73,716	79,15,440	30·9
1921–22	32,85,210	98,48,426	81,12,667	33·3
1922–23	28,44,181	99,51,292	80,92,720	28·5
1923–24	32,25,667	81,09,951	76,51,263	39·7
Average	28,78,193	92,80,414	77,21,339	31·0

Chief Engineer for Irrigation.

As regards old works in this Presidency, e.g., the Godavari and Kistna Delta systems, the water-rate proper, or the portion of the assessment representing water-rate, may be taken as based on 'bare return' and therefore correct on the average, but the taxation element is very low in view of existing economic conditions. The charges are still based on the economic conditions of many years ago. The system is a compounded assessment for registered wet lands and a water-rate for casual or unguaranteed irrigation. As regards new works the 'bare return' is approaching the economic limit in this Presidency, see my *separate note on water-rates.*

As regards the systems suggested, I consider the correct system is the 'bare return' (working expenses *plus* interest on capital) as the water-rate, and a taxation charge, recovered as an addition to land revenue. I am strongly in favour of charging by volume. Selling the water by auction would be impossible in this Presidency and I fail to see how it could be done elsewhere as a general practice.

Further Notes on Question 15.

Extract from a demi-official, dated 31st March 1925, from the President, Indian Taxation Enquiry Committee.

On questions 15 and 16 (water-rates) we have so far found no Government with any defined policy at all. You will remember our effort to define one through the Leach Enquiry and our failure to arrive at a clear cut line of action. I am enclosing a note of the principles suggested in the Punjab and the Central Provinces and Bihar and Orissa and a note by the Chief Engineer of the United Provinces and should be much obliged if you could get P. T. Srinivasa Chari, Leach or Hawkins, or whoever the Government are putting up, to go through them and see if they can help us to something more definite.

WATER-RATES.

Demi-official from V. Ramakrishna, Esq., Under Secretary to Government, Revenue Department, to P. Hawkins, Esq., A.C.H., M.I.C.E., Chief Engineer and Joint Secretary to Government, Public Works Department (Irrigation), dated the 8th April 1925, No. 1301-B/25-2.

I am to enclose for your perusal a note on the principles for the levy of water-rates in the provinces of the Punjab, the Central Provinces and Bihar and Orissa received from the President of the Taxation Enquiry Committee and the note by the Chief Engineer of the United Provinces on the irrigation system in force in that province. It is reported that the Committee have not so far found that the Government of any province have a defined policy on the subject. I am to request you to go through the enclosed papers and to see whether you can help the Committee in arriving at a more definite policy on the subject. The Committee will stay in Madras from the 20th to 26th April 1925.

Enclosures

(1)

Note on the principles for the levy of wat-r-rates.

The following principles emerge from the evidence of the witnesses

Punjab.—That the irrigation enterprise should be treated as a whole, the profits on the more favourably-situated schemes going to make good the loss of the others.

2. That the rates should be uniform.

3. That the supply of water should, roughly speaking, be so regulated that each man should get enough for an average rotation of crops and no more.

4. That the charge should vary with the crop in order—

(a) to enable the ryot to pay most when he has most money, and

(b) to take for the Government a share of special profits.

5. That the rates should be varied periodically with reference to prices.

Central Provinces.—The irrigation works are all protective and in good seasons crops can be grown without them. The procedure followed is to secure agreements for a term of years from as many ryots as possible as a measure of insurance both to the Government and the ryots and charge them at a lower rate than the ryots who take water on demand. The supply to the latter is not guaranteed.

Bihar and Orissa.—The general tax-payer should not pay for a benefit to a favoured class until the charge for water to that class has been pushed up to the highest point possible short of causing the service to be refused.

(2)

Note by the Chief Engineer of the United Provinces on the system of irrigation in force in the United Provinces as compared with that in the adjoining provinces.

Punjab.—The vast majority of the area irrigated in the Punjab lies in what is known as the canal colonies. Here the rainfall is only 10 to 12 inches every year and spring level is consequently so low that practically no crop can be raised without the aid of canal water. Before the introduction of the canal the country was barren waste and Government took over the land from the few nomad tribes of graziers who inhabited the area. The land was then divided into

squares, village-sites and roads fixed and canals designed to give irrigation to the whole of the area set aside for cultivation generally 60 to 80 *per cent* of the total area of each village. The land is uniform and it can be assumed that the crops given will be uniform and therefore it is possible to give a certain size of outlet or module per unit of area.

In this area the vast amount of the land is sown with wheat, little sugarcane is grown and rice is not sown at all. The only problem before the irrigation officer is to see that each unit of area gets its fair share of water. To do this modules are used to a great extent which prevent the energetic cultivator from stealing more than his fair share of water by digging a deep channel below the outlet and thereby increasing the head.

On the Western Jumna, Sirhind and older canals of the province, the system of irrigation is somewhat different owing to the fact that rainfall is greater and spring level is high and it would be impossible to give the same intensity of irrigation without waterlogging the country. The system is therefore practically the same as on the canals in the adjoining area in the United Provinces where well-irrigation to a large extent takes the place of canal-irrigation This will be described later.

Bihar and Orissa.—In Bihar and Orissa the system of irrigation is entirely different from that in the Punjab. Here great rivers like the Sone running off the rocky hills of Baghelkand and Chote Nagpur give enormous discharges in the rains, the supply diminishing to a trickle at the end of the cold weather, there being no assured supplies for rabi and ample water during Kharif. Rice is the great crop of the country and little attention is paid to others as far as irrigation is concerned. Thus over 80 *per cent* of the total area irrigated each year is under rice, as against 8 per cent in the United Provinces. The country is divided into blocks for rice cultivation and the canal officers enter into leases to give an assured supply to these blocks for 12, 7 or 5 years as the case may be. Water is also given on application for one year only, but then the rates are considerably higher.

The canal officer's chief duty is to see that water is not taken beyond the limits of each block and if it is so taken higher rates for this outside area are assessed accordingly. For the rest supplies during the rice season are ample and water is given freely. The Sone canal system has 1,602 miles of canal and the head discharge is 6,400 cusecs or 4 cusecs per mile as compared with an average discharge of only 2 cusecs per mile on the canals in the United Provinces.

Central Provinces.—Irrigation in the Central Provinces is in its infancy, the average area irrigated for the past five years has only been 427,000 acres. Over 96 *per cent* of this area is rice irrigation and so there is practically no other crop irrigated.

The canals are nearly all fed from storage reservoirs and the country is somewhat similar to Bundelkhand but there does not appear to be the same difficulty over the soil factor which will be explained later in connexion with storage works in these Provinces.

Irrigation is developing very slowly and Government is doing all in its power to demonstrate the value of canal water. The people are backward, belonging for most part to the aboriginal tribes of Central India. It was found that at ordinary irrigation rates the cultivators put off taking canal water till it was too late to supply all the water required in the time available.

In order to induce people to take water freely the irrigation rate has been reduced considerably for those who will agree to pay rates on the whole rice area which can be irrigated every year. In these agreement areas the main conditions of agreement are—

(a) Villages under agreement pay for irrigation in all years whether water is required or not.

(b) Payment is made by the occupiers of the whole rice area under command in so far as it is cultivated with rice.

(c) In the event of crops of a certain standard not being obtained Government grants remissions of water-rate in the area concerned.

(d) Agreement areas get first claim on the water available and no water is given elsewhere unless this can be done without detriment to the area under agreement.

Agreements are confined almost exclusively to rice, there are only two small areas where they are in force for rabi, rice *chaks* do not vary from year to year and therefore leases and agreements are possible. All other irrigation changes with the rotation of crops: an owner may grow crops which need water one year and not the next and so agreements are out of the question.

People having entered into agreements take water freely and do not wait till the last moment when it is too late to save their crop. Government also gets an assured revenue every year but this revenue is very low since agreement rates are generally about half the normal rates.

United Provinces.—The irrigation problems in the United Provinces are much more varied than in any of the surrounding Provinces. There are three distinct tracts, each differing entirely from others. To the north there is the submontane tract of Rohilkhand where the rainfall varies from 60 inches down to 35 inches a year and spring level is rarely more than 10 feet below the ground. Here the canals are fed by numerous small *tarai* streams and the supplies are very precarious. There are large rice *chaks* as in Bihar interspersed with high lands on which rabi and sugarcane are grown. It is impossible to enter into long leases since supplies are precarious, but rice irrigation is done by *chak* as in Bihar. The people put in applications and if they take water they pay for the whole *chak* since once the canal outlet is opened the water flows from field to field down the whole depression forming the *chak* and it is impossible to say that one field has got canal water and not another. In the rabi season the higher grounds in this area rarely require more than one watering to bring the crops to maturity. For this reason the irrigation rates are very low in Rohilkhand.

Then there is the main tract of irrigation in the Ganges-Jumna Doab, which contains over 80 *per cent* of the irrigation in the provinces. Here the rainfall varies from 25 to 35 inches a year and the demand for water is keen. Every kind of crop is grown, principally wheat, cotton, sugarcane, rice and peas; each requires its own varying amount of water and everywhere irrigation has to be given sparingly because spring level is fairly high and supplies are none too plentiful. Many small doabs which would have been glad of water have had to be omitted, the remainder is only given water for about 35 to 45 *per cent* of the land actually under command, the rest must get irrigation from wells or grow crops such as gram and arhar which often do not need irrigation at all.

Irrigation rates in this main tract are higher than elsewhere. The country is very rich, the demand for water keen and the people can well afford to pay.

The country is not uniform as in the canal colonies of the Punjab and before the size of outlet can be fixed it is necessary to consider the class of crop and the amount of existing well irrigation. It has been the practice in the past to fix a maximum percentage to be irrigated from all sources and deduct from this the percentage of existing well irrigation which is likely to continue to be irrigated from wells, by reason of its distance from the canal or village water course, and canal water is then given for the remainder. The area to be irrigated by each canal outlet is thus settled, but before the size of the outlet can be fixed it is necessary to decide on future running of the channel. It has been found that when supplies are limited—as they almost always are in the *rabi* season—it is not a sound policy to run short supplies in every channel for then there are absorption losses in every mile. Main lines only are run constantly while the distributaries of these are run with full discharge every second week and thus losses are reduced and there is more water for the cultivator. When therefore the area to be irrigated from any oulet has been settled, the size of outlet is fixed according to this area, but in the case of *rabi* irrigation it must also depend on whether the channel will be run with a constant or alternate discharge. On some of the older canals all these factors were not taken into account and some of the more powerful cultivators were able to establish a right to more than their fair share of water. Efforts have been made for some time to rectify this state of affairs, but it is a difficult matter to withdraw canal water from any field once given for a certain number of years, especially if it has been classed as 'wet' at the last settlement and revenue assessed accordingly.

Lastly there is the tract south of the Jumna river in Bundelkhand. Here the rainfall varies from 35 to 45 inches. The country is often steep and there are rocky hills in which the rivers and streams rise and these run enormous floods in the rains, but quickly dwindle to nothing. Storage lakes are necessary everywhere for use when the river supplies give out.

The soil factor comes in here to a very great extent, there is little good *matwar* and consequently there is very little rice sown. On the *Batwa* canal last year only two acres of rice were irrigated against 56,000 acres of wheat generally mixed with grain. In wet years the demand for water is never keen and even in ordinary years large areas of the retentive black cotton soils require no water. In dry years which are very frequent water runs off the steep slopes quickly and it is extremely difficult to meet the demand with the limited amount of water in the reservoirs. The country has been ravaged by famines in the past before canals were introduced and the people are poor and improvident, many of them belonging to the aboriginal tribes of Central India. It is impossible to charge high rates here and Government does not attempt to do so since all irrigation works are looked upon as of a famine protective nature.

One of the greatest difficulties in Bundelkhand is the distribution of water in dry years. There is generally little demand till the rains fail in September and then there is a sudden cry for water to save the *kharif* crop usually from those cultivators who never take canal water in ordinary years. If all these were given water, the reservoirs would often be run dry and there would be none left for the *rabi* customers.

It has been the practice therefore to refuse water except when there is any to spare, trusting that at least a fair share of the *kharif* will give a crop even if reduced, and so the water is stored for the rabi. It used to be the practice till 1920 to utilize, if necessary, the whole of the storage available, to sow as large an area as possible and gamble on the winter rains. If these came the country was saved, otherwise there was disaster where there were light soils, though probably the retentive black soils once given a good soaking yielded a fair crop. This policy leads to many complaints from the cultivators of the light soils who are the regular customers for canal water in normal years. Of late years therefore it has been the practice to hold up at least 40 *per cent* of the water stored and make sure of maturing as much as possible of the crop of these people who support the canals in the years of plenty.

Except on a few of the new year canals irrigation is not so backward as in the Central Provinces and there seems no reason to introduce the agreement system since the people would only come under such a system if the rates were reduced considerably and as in most of the canals the available water stored is utilized during the rabi season, any system which would reduce the rates would not be a paying proposition.

It is very different in the Central Provinces where Government has to do all in their power to induce the cultivators to take water for rice since they do not require it later for rabi. An interesting experiment was tried in one canal division to induce the people to take water for black cotton soil (Mar) during rains; for three years water was given free but the people did not avail themselves of this privilege and the maximum area so irrigated in any one year was only 5,000 acres. This shows how impossible it would be to introduce the agreement system for *kharif* in Bundelkhand. If the people want water they will pay full rates, if they do not want it they will not take it even if given free.

It may be noted here that a contract system for selling water at outlet head, a lump sum being paid according to the size of outlet was tried for ten years from 1862 to 1872 on the Eastern Jumna canal but it failed absolutely because the cultivators were unable to distribute the water fairly nor could they agree among themselves as to the share which each should pay.

The present system in force in the United Provinces is the result of long years of experience. Committees have sat on one subject or another and experiments have been tried but always it has been found best to distribute the water available as fairly as possible when the cultivators require it and only ask them to pay on the area which actually gets water and not even then unless the crop is brought to maturity.

B. Darley,
Chief Engineer, P.W.D., Irrigation Branch, U.P.

11*th March* 1925.

Reply.

NOTE, DATED 18TH APRIL 1925, BY THE CHIEF ENGINEER FOR IRRIGATION, MADRAS.

Water-rates.

See also my replies to the questionnaire.

(*a*) The land revenue and water-rates should be separated.

(*b*) The land revenue only should be considered as representing the State's share of the produce, i.e., as pure taxation; all the factors which vary the productivity or value of the land—apart from the price of water for irrigation—should be assessed in fixing the rates per acre under this head. Such factors would be classification of soil, availability of water-supply and class of source, etc.

(*c*) The land revenue should be assessed under three heads:—(i) The land tax proper—corresponding to the 'dry rate,' (ii) a surcharge assessed on the basis of availability of water and class of source, and (iii) in the case of protective works or lands which take water only in unfavourable seasons, an 'insurance fee'.

Items (ii) and (iii) would include what is now sometimes known as a 'betterment fee' and the 'share of land revenue,' and should be credited to irrigation funds. The whole of the taxation under (*c*) should be recoverable as arrears of land revenue.

(*d*) The 'water-rate' should be a price for the water, fixed by the cost of production. This would be recoverable under agreement. A clause has been included in the Madras Irrigation Bill making such agreements run with the land and binding on heirs and assigns.

2. Under this system, even supposing the ryots declined to take the water when it was available, they would still have to pay a tax for the facility offered, but such a contingency is unknown in this Presidency, in cases where the soil is suitable for wet cultivation.

3. The items under (*c*) in paragraph 1 are legitimate forms of taxation and can consistently be fixed in common with other forms of taxation. Item (*d*) however is the price of a commodity. Ordinarily the position is that the commodity can be produced or made available at a certain cost on which the price is based. The price is, in fact, determined by the cost of production, and if the consumer cannot or will not pay this price the necessary works cannot be constructed and therefore he cannot have the water. It appears illogical and is also inconvenient to treat the price of a commodity, which is already automatically determined by the cost of production, as taxation, and therefore subject to arbitrary modification.

4. To make the water-rates uniform, irrespective of the actual cost of the water, as suggested by the Punjab, would be inconsistent with the above principle, but on a settlement or resettlement of land revenue, the availability of a relatively cheap or expensive supply of water should be taken into account in assessing the surcharge—(c) (ii), paragraph 1. In other words the tax claimed by the State should be proportionately greater where the supply of water is cheap, and less where it is expensive. This is in accordance with the principle that taxation should be proportionate to the net profits or taxable capacity, regarding the land revenue as analogous to income-tax, or supposing the land revenue be regarded as 'rent', it is consistent to vary the 'rent' in accordance with the facilities offered.

5. Punjab proposes that the water-rate should vary (a) with the crop and (b) periodically with reference to prices. In accordance with the principles stated above, the water-rate should be reduced only when the supply of water available is insufficient for the crop, i.e., when the contract is not fulfilled. If the need for remission arises from any other cause the remission should properly be effected under the land revenue head (c) (i), paragraph 1.

Variations of water-rates with reference to prices would be difficult to effect equitably, apart from being contrary to the foregoing principles. Ordinarily when the prices of produce rise the cost of labour also rises. The proposal practically means treating the water-rates on the lines of a tax on profits, or income-tax. If this factor were to be taken into account it should be provided for under the land revenue head (c) (i), paragraph 1, or by introducing a fourth sub-head into the land revenue—paragraph 1 (c)—which would be practically an income-tax sub-head. I think there would be considerable difficulty in carrying out the proposal, though it might be equitable in principle. It is very desirable to avoid unnecessary complications.

6. Punjab suggests that irrigation should be treated as a whole, profits on the more favourably situated schemes going to make good the loss on others, i.e., pooling the proceeds. This would apparently involve the complete separation of irrigation finance, as has been done in the case of railways; I should be fully in favour of this arrangement. This pooling system has very much to recommend it. With self-contained finances apart from general revenues, pooled profits, and a self-contained organization for the major irrigation works, we should be in a position to run the concern on business lines and administer irrigation finance in the way suggested by the Punjab. This would mean that we could devote a portion of our net profits direct to the service of loans for new irrigation works. The fact that we are making say 16 *per cent* on one project is not at present held to justify the construction of another project which will barely cover the service of the loan. In the financial year 1923–24, the net return on 'Productive' works, after deducting maintenance and working expenses including establishment, and interest on loans, was 10·52 *per cent.* The corresponding figure for 'Productive' and 'Non-productive' works together was 5·91 *per cent*, but the profits are credited to the general revenues and every new project has financially to justify itself independently. In this Presidency the cheaper sources of supply have been exhausted and future works of any importance must be storage works, some of them 'Protective' works, and as irrigation receives altogether inadequate credit on account of indirect receipts it will not be easy to justify some of these new works on a financial basis. But under the system proposed by the Punjab, if I have interpreted it correctly, the profits which would be credited to the irrigation 'pool' would have to be deducted from the general revenues, and if general revenues could not afford to finance new works under the present system they could not afford this deduction.

7. The Punjab proposes that the rates should be uniform. This again practically means a pooling of costs, the cheaper works in effect paying part of the cost of the more expensive ones. Assuming that this would apply only to the actual water-rate [see paragraph 1(d)] there would be many advantages but in any case it could not possibly apply to the older works; e.g., treating the major works as a single concern, it would perhaps be fair to increase the water-rates in the Gōdāvari and Kistna deltas and reduce the Rs. 15 rate fixed for the recently sanctioned Cauvery-Metur Project, but the general opposition to such a scheme would I think, be too strong.

8. The Central Provinces deals with Protective works. This class of work will be of great importance in this Presidency in the immediate future, since two out of the five large projects in view are of this type. The system in view in this Presidency, as in the Central Provinces, is that of agreements, but whereas in the Central Provinces the agreements are for a term of years, in this Presidency they will be, under the provisions of the Madras Irrigation Bill (see section 58), in perpetuity.

9. I agree with the Central Provinces principle that ryots who make a contract should pay less than ryots who take water only on demand. I consider however that in the case of all projects all cultivable lands which are commanded and included in the ayacut should pay the full assessed taxes under all three sections of the land revenue head—paragraph 1 (c)—whether they take water or not. The principle of compulsory payment of rates or taxes in return for amenities rendered available to the community by the local authorities or by the State is an established principle of taxation and I fail to see why it should not be applied to irrigation *facilities*. The charge for water—paragraph 1 (d)—should then be recovered from those who use the water, either under agreement or on demand. In cases where 'demand' supply is not guaranteed, the 'insurance rate'—section (iii) of the land revenue head, paragraph 1 (c)—should not be levied but the water-rate should be higher, as in the Central Provinces. The land-owners should also be encouraged to compound part of the water-rate by payment of a lump sum per acre which would be credited to the capital account of the project.

10. The note by the Chief Engineer for Irrigation, Central Provinces, deals with a number of irrigation details. I am not sure to what extent information of this kind is required by the Taxation Enquiry Committee so I am not giving details of this kind. With regard to distribution and methods of charging for water, there is, however, one point which I regard as of great importance—the principle of payment on measurement of water, instead of per acre. This has been considered on one or two occasions in this Presidency—not very seriously perhaps, on account of the difficulties which would have to be surmounted. I am personally convinced that this is the ideal system. I am not pessimistic as to the difficulties in the way—they are mainly factors which at present impose difficulties in connexion with certain other administrative reforms. I do not suggest that the change could be effected at once in existing irrigation systems, though I consider the system could be started under new projects. In any case the acceptance of a principle as an objective is half way to practical accomplishment.

11. In theory, payment for water is even now by quantity. The charge is levied at a fixed sum per acre. The supply is calculated at a certain duty, so on the average the charge is for so much water per acre. The disadvantage of the present system is that there is no inducement to economy in the use of the water, and owing to extravagant use the supply provided is much more than is required. Each user takes as much as he can get; those more favourably situated in the upper reaches of canals and channels take too much and those lower down frequently suffer. The excess water has to be removed by expensive drains. The soil becomes water-logged and the deleterious effect of this on the soil is cumulative.

12. In the conditions obtaining in this Presidency the question of economy of water is of predominating importance. The cheaper sources of supply are practically exhausted. The much larger sources still available involve expensive storage works. The Gōdāvari and Kistna direct flow systems can supply water at Rs. 5 per acre and pay a return of 17 and 16 *per cent.* The Cauvery-Metur Storage Project with a water-rate of Rs. 15 per acre will only just cover the service of the loan. Yet we have large areas available for extensions of irrigation by direct flow at small cost, but cannot extend because existing irrigation is working at duties as low as 20 acres per cusec instead of 70. In the case of existing irrigation it is extremely difficult at present to effect either a compulsory or voluntary reduction of the supply to improve the duties. The only fact which impresses the ryot is that he pays the same and gets less water. Under the new Irrigation Bill it will probably be impossible to improve duties with the present system in operation. This waste of water involves a very serious loss of revenue which escapes notice only because unfortunately it does not appear in the accounts. It also causes a serious reduction in output of crops as compared with the possibilities.

13. The outstanding difficulty in the way of sale of water by measurement is the difficulty in getting the ryots to co-operate and work together, and lack of co-operation is effective because of the subdivision of the land into small holdings, each of which has to be supplied separately. The resulting multiplication of small pipe sluices is an added cause of extravagance and difficulty. An incidental difficulty is the haphazard and irregular arrangement of the holdings as compared, for instance, with the Punjab Canal colonies, where the designers were unfettered by existing conditions.

A second difficulty is inherent in the system of continuous flow. Under this system it is in practice much more difficult to maintain a uniform supply at certain seasons. (This difficulty is less apparent under a storage system.) The system was introduced some years ago in the Gōdāvari and Kistna deltas mainly with a view to render the supplies more automatic and less dependent upon the subordinate staff, but I doubt whether the change has made any marked difference in that respect, and I do not consider it either economical or efficient. In practice it has undoubtedly proved unsatisfactory.

The third difficulty which has been put forward is the cost of suitable modules and the loss of head involved in the use of a module.

14. As a means of ultimately reaching the ideal of payment for water by measurement I would adopt the following scheme as a tentative and intermediate stage :—

(a) Select suitable areas for the experiment.
(b) Group the holdings under a suitable distributary.
(c) Allow through the distributary head sluice a 'normal' discharge at a very high duty.

For this supply a 'normal' water-rate per acre would be charged, this rate being considerably below the average in adjoining areas. Water in addition to the 'normal' supply would be given on application. All excess water so supplied would be charged extra at, say, three times the 'normal' rate per cusec (based on the 'normal' duty). This extra charge would be distributed over the ayacut on an acreage basis. The alternative method, which would possibly appeal more to the ryot, would be to fix the 'normal' duty somewhat low, with a relatively high water-rate, and to allow a rebate on water saved instead of a surcharge on extra water used. The third method which would probably be the best would be a combination of the first two, fixing a suitable duty and allowing a rebate on savings and making a surcharge on excess.

15. This system would require supervision by reliable staff and should be tried in the first instance in suitable areas as an experiment, preferably under a new project, such as the Cauvery-Metur. The staff should assist in the distribution amongst the ryots concerned, aided by the Agricultural department. It would be necessary to explain the system clearly to the ryots, and the publication of successful results would tend to popularize the system. As a result of personal inquiries I believe a system of this kind would be favourably received by the ryots and that it would tend to encourage co-operation. I can find no insuperable difficulty in applying this system and it could be developed gradually into a complete system of payment on measurement.

OOTACAMUND,
18th April 1925.

P. HAWKINS,
Chief Engineer for Irrigation, Madras.

Demi-official from A. G. LEACH, Esq., I.C.S., Collector of North Arcot, to the Under Secretary to Government, Revenue Department, dated Camp Arkonam, the 17th April 1925.

Your D.O. No. 1301 B/25-2, dated 8th April 1925. I have since been informed that I am to give evidence before the Committee, and I send up the beginning of a note on which I was engaged when the information reached me.

There is some sound stuff here.

E. W. LEGH—22-4-25.

I have no objection to the note as being Mr. Leach's views. I presume it is understood that these witnesses are not speaking on behalf of Government? This is important.

N. E. M[ARJORIBANKS]—23-4-25.

We may tell Mr. Rama Rao this.

E.W.L.—23-4-25.

Demi-official from the Second Secretary to Government, to B. RAMA RAO, Esq., I.C.S., Joint Secretary, Indian Taxation Enquiry Committee, dated the 24th April 1925.

[Indian Taxation Enquiry Committee - Evidence given by witnesses.]

The Government presume that it is understood that the witnesses nominated by Government are giving their personal views only and are not speaking on behalf of the Government.

Note on Irrigation Policy by A. G. Leach, Esq., I.C.S.

I have been provided with some brief notes on irrigation in other provinces with the remark that no Provincial Government appears to have a defined policy and I am invited to evolve a definite policy. It seems to me sufficiently clear from the notes that conditions vary so widely from province to province that the formulation of a general policy is practically impossible. In the Central Provinces the supply of water is so abundant that irrigation is often unnecessary. In the Punjab canal colonies without irrigation there is no cultivation. In Madras, some crops can be grown without irrigation, but the best crops cannot In Bihar and Orissa and in the Central Provinces inducements have to be held out to the ryots to utilize irrigation. In the Punjab irrigation is a matter of life or death. In Madras conditions vary, but in general, the ryots are willing to pay the price to get water. I take it that, in all provinces, the water-rates are framed to fit the circumstances with a general regard to the principles laid down by the Irrigation Commission of 1901-3. That Commission wrote: "Apart from the question of famine protection, there is no reason why the State should accept a permanent charge on the revenue for the sake of increasing the productiveness of land belonging to private owners"; (it may be observed in passing that the Bihar and Orissa note accepts this view) "at any rate such charge should be limited to the amount which may be recouped by the share of the increase in produce which will come back to it in an indirect form. The reservation in respect of famine protection is, however, all important. The obligation on the State to incur whatever expenditure may be necessary to save life during famine, involves future liabilities which cannot be evaded and of which full account must be taken. We have therefore to consider what immediate expenditure on unremunerative protective works may be justified by the reduction that it will effect in the amount of these future liabilities; or, in other words, what reduction in the direct cost of famine to the State may result from a given expenditure on such works." They then proceeded to attempt to arrive at a formula, but found that this was a matter of extreme difficulty. They point out "in reply to those who contend that the whole of India can be securely protected against famine by the construction of irrigation works that even when this is physically possible there is a limit to the expenditure which may be incurred and a risk of imposing a burden on the country which may be even greater than that of famine itself."

On these principles, works are classed as 'productive', when sanctioned in the expectation that they will be directly remunerative, or 'protective' when sanctioned on the ground of their value as an insurance against famine.

It ought to be mentioned here that so far as the great bulk of the irrigated area in Madras is concerned, the discussion of principles of taxation is academic. Under the Madras ryotwari system, which has been in force for over a century, the ryot pays a consolidated tax on land and water taken together. This consolidated assessment is payable every year, subject to the concession of remissions in years when water is not available, and is not liable to alteration, except at the end of the period of thirty years for which it is usually declared to be in force. Whatever principle of taxation were to be laid down, it is impossible to interfere with the rates now charged on the greater part of the irrigated area here, and it would be highly impolitic, to say the least, to attempt to dig up the basis of these assessments when their period expires, in order to institute a new system.

There is also a considerable difficulty in altering the rates charged for water supplied to land, which, either because it belongs to a zamindar or because it is not thought proper to give it a definite right to water, is not subject to the consolidated wet assessment, but has for a long term of years been irrigated with water from a Government source without alteration of the charge. The Government is naturally, and increasingly, reluctant to face the clamour which a proposal to enhance the rates or even to vary the mode of levying them instantly arouses.

In Madras, it is only in regard to new projects that Government has a free hand and I understand that this is also true of most of the United Provinces irrigation. In other provinces, e.g., in the Punjab, there seems to be a certain readiness to make experiments in taxation, so their hands are presumably less tied by the restrictions of law and custom.

It seems to me that the policy for new projects should be frankly commercial. The question to be asked of a new project is, will it pay? Some reservations must, perhaps, continue to be made on the question of famine protection. The Irrigation Commission held that whenever the capital cost was not likely to exceed thirty times the net revenue or whenever a net revenue of more than 3 *per cent* on the capital outlay might be anticipated, protective works might be sanctioned without hesitation and for less promising projects a greater degree of caution was necessary. Partly in consequence of this, and partly because the Local Government was given large bonuses to spend at short notice, there have been instances where works have been constructed which afford no protection against famine and on which large sums have been sunk with little prospect of a return. Works designed to protect against famine are of very little use unless an adequate supply of water is assured to them, and the more the country develops the less is the need for spending capital, which cannot bring in a reasonable return, on the attempt to produce foodstuffs in a particular locality. Capital for the prevention of famine is better spent on railways and other communications or on intensifying the outturn on lands more favourably situated, however far away.

It is, indeed, essential, for Madras at any rate, that a commercial system of charging for water should be inaugurated. For the principle on which the settlement of the consolidated wet assessment is made takes no account of the cost of the irrigation work: it looks only to the value of the estimated produce of the field, and even this is subjected to a large number of deductions of various kinds. Nowadays the cost of irrigation works is far greater than in the past, partly because the possibilities of the cheaper kind of works (viz., the diversion of river waters direct into irrigation canals and channels) have been practically exhausted and future works will be storage works, which are necessarily more expensive, and partly because of the universal increase in the cost of all works. It is consequently necessary that irrigation charges should be levied on a system which will yield a definite return on the expenditure. The only way to do this is by charging a fixed rate for the water supplied, in pursuance of the policy that irrigation must pay its own way. The policy is favoured by the circumstance that the profits of cultivation due to irrigation are so great that the ryots can afford to pay a far higher rate than is imposed under the Settlement system; and the policy is also based upon the sound economical maxim—that the consumer must pay—which guides other forms of State service, e.g., the railways and the post-office.

On such a system, the rate of tax would have to be fixed for each project, according to its cost. I notice that the Punjab witness suggests that "the irrigation enterprise should be treated as a whole, the profits on the more favourably situated schemes going to make good the losses on the others". The meaning of the proposition is not very clear. If it means that the ryots holding land under a cheap scheme should pay more than is necessary to give the desired return in order that ryots under an expensive scheme may get the benefit, I do not think the suggestion is sound. There is no particular justification for discounting the favours of Nature in this way, and in practice, I should think that it would be very difficult to work out fairly. The rate under each scheme should, I think, be based on its own cost.

As to what return should be aimed at, I find it difficult to offer a suggestion. In one 'productive' work in Madras, the Bhavani project, rates were imposed with a view to a return of 3 *per cent.* On a 'productive' work, the Toludur project, a return of $5\frac{1}{2}$ *per cent* was aimed at, and special rates were imposed to secure this. Possibly, a fair return would be the prevailing rate of the day that Government has to pay on money which it borrows, in the case of 'productive' works and one *per cent* less than this in the case of 'protective' works; or perhaps, in view of the advantages that accrue to the community by the increase of production and the opening up of fresh areas to development, in each case the rate might be reduced by another one *per cent*: the cost of the work being taken to be the capital cost *plus* the estimated annual cost of maintenance.

As to how the rate should be levied, though I think the only thing to be charged for is the water, I do not suggest that the charge should be made on a quantitative or volumetric basis. Various experiments have been made in the Punjab and elsewhere at different times, but no satisfactory means of basing the charge for water on the quantity supplied has yet, so far as I know, been evolved. The rate should be fixed on the area irrigated, in accordance with the universal Indian custom. This had the approval of the Irrigation Commission of 1901–1903 and is advocated by the Chief Engineer of the Public Works Department in the United Provinces. (See the last sentence of his note.)

I had written this sketchy note when I was informed that I am to be examined as a witness by the Committee. I send it up as it is in case it might serve as a basis for further questions.

A. G. Leach—17-1-25.

Demi-official from Rao Bahadur P. T. Srinivasa Achariyar, Special Officer, Public Works Department (Irrigation), to the Second Secretary to Government, dated 18th April 1925, No. 4-S.O.

Herewith a copy of my memorandum on water-rates for your kind perusal. The memorandum raises some points of a controversial nature. I have therefore taken care to insert a note that the views set out in the memorandum are my personal views.

For perusal.

E. W. Legh—20-4-25.

Seen. Thanks.

T. E. M[oir]—23-4-25.

N. E. M[arjoribanks]—20-4-25.

A very useful note.

C. P. R[amaswami Ayyar]—20-4-25.

Memorandum on water-rates, dated 17th April 1925, by Rao Bahadur P. T. Srinivasa Achariyar.

[Note.—The views set out in the memorandum are my personal views.]

The Taxation Committee, it is understood, have not so far found that the Government of any Province have a defined policy on the subject of water-rates. The committee evidently desire to lay down a definite policy if possible.

The conditions of provinces are so diverse that it would seem to be difficult to arrive at a general policy adaptable to the conditions of each Province regarding the levy of water-rate, e.g., as will be explained later, neither the system of modules in force in the Punjab nor that of leasing obtaining in Bihar and Orissa would be suitable to this Presidency. And again the concessions found necessary in the Central Provinces, which are a backward tract, are hardly needed in Madras, where people except in parts of the Agency are fairly advanced and are sufficiently alive to the benefits of irrigation. In my humble opinion each Province will have to evolve a policy of its own suitable to its peculiar local conditions.

2. In this Province about 70 *per cent* of irrigation revenue is from land which is classed as wet in the revenue accounts and on which the charge for water is consolidated with the land assessment. The consolidated wet assessment is fixed on a consideration of the quality of the soil, the nature of the water-supply, the situation of the field with reference to its source of irrigation and certain other factors but has no specific relation to the value of water. Government lands registered as dry are in certain localities charged water-rate at an amount equal to the difference between the dry assessment on the land and the corresponding wet assessment or a fraction thereof according to the nature of the crop. This method of charging for water is known as the differential water-rate system. Government lands (registered as dry) in tracts other than those where the differential water-rate system is in force and proprietary lands are charged fixed water-rates. There is a general scale of fixed water-rates but special rates have been prescribed for certain special irrigation works. The various scales are given in the answers furnished by this Government to the questionnaire issued by the committee.

At one time it was thought that the fixed rate should take account not only of the supplying capacity of the source but also of the productive value of the soil to which the water was applied. Such a system would savour somewhat of the differential water-rate system. The latest view however is in favour of a simple scale which should eliminate all indefinite factors such as the nature of soils and the effect of water upon them and take account only of the more definite factors, viz., the area irrigated, the quantity of water supplied determined with reference to the nature of the crop—wet or dry—and the period of supply. A proposal to replace the existing differential as well as fixed water-rate systems by a system of the kind referred to above is under the consideration of the Government and awaiting the passing of the Irrigation Bill into law.

3. It seems hardly necessary here to enter into an elaborate discussion of the comparative merits and demerits of the two systems—differential water-rate and fixed water-rate. Each has had among its advocates some of the ablest revenue officers of this Province. The latest view however is that the differential water-rate system is very complex and inelastic and should be replaced by a simple system of fixed water-rate. It is considered complex because of the meticulous and elaborate calculations which have to be made before arriving at the actual charge to be levied on a given piece of land. It is considered inelastic because the charge is limited to a maximum of the difference between the dry rate of assessment and the corresponding wet rate. The rates of land revenue assessment on which the charge is dependent are themselves subject to a number of limitations. In theory Government are entitled to the value of half net produce, but in practice the assessment represents only a fraction of this amount. Further, in connexion with the Land Revenue Settlement Bill Government have made a declaration that where rates of assessment are revised solely with reference to the increase in prices, the existing rates shall not be enhanced by more than $18\frac{3}{4}$ per cent. In these circumstances the differential water-rate system cannot be expected to provide an adequate scale of water-rate. As was rightly pointed out by the Irrigation Commission of 1901-1903 future extensions of irrigation in this Province could be effected only by the construction of expensive storage works. These works cannot be rendered productive unless much higher rates of water-cess than are obtainable under the differential system are imposed, e.g., in the case of the Metur project a uniform rate of Rs. 15 for the first wet crop and Rs. 10 for the second wet crop is required to make the project remunerative. There is absolutely no chance of obtaining such high rates under the differential water-rate system. The system is therefore unsuited to future projects and even as regards existing works it involves an unnecessary sacrifice of

public revenue. The proposal of the Government to replace the differential system by a simple system of fixed rates which admits of the money rates being revised according to exigencies is therefore welcome.

4. The simplified system which the Government have in view is to divide irrigation sources into three groups with reference to the amount of supply which they can ordinarily afford and with reference also to the nature of the drainage facilities and fix money rates under each group for a single wet crop, for a single dry crop and for a dufussal crop. The following is the scale proposed :—

	Group I.			Group II.			Group III.		
	RS.	A.	P.	RS.	A.	P.	RS.	A.	P.
For a single wet crop per acre ..	6	4	0	4	3	0	3	2	0
Do. dry do. ..	3	2	0	2	1	0	1	9	0
Do. dufussal do. ..	9	6	0	6	4	0	4	11	0

Slightly lower rates are proposed for certain special tracts. The above scale is intended to apply to existing works and it is open to Government to fix enhanced money rates in the case of new works, if necessary. The plan proposed by the Government has the merit of simplicity so far as the grouping of sources and the classification of crops are concerned. But the point is whether the money rates are based on any definite principle.

5. The policy that should be followed in the determination of water-rates was discussed at length in the later half of the 19th century and the views then expressed may be summarized as follows :—

(i) Water-rate should be fixed so low as to make it moderate in order that it might not press hard on inferior land.

(ii) The method suggested above would involve a certain amount of sacrifice of revenue and if this is to be avoided it would be necessary to have gradations of water-rate. Such gradations should have reference to the nature of the supply of water and not be proportioned to the outlay on the several works of irrigation which would not be always easy to trace with accuracy.

(iii) The rate of water-cess should be determined by the wants of the State, the maximum being the sum which the ryot is able to pay without discouragement to industry and improvement and the minimum the amount required to reimburse the expenses incurred in furnishing the water and the interest thereon.

(iv) The rate should be fixed with reference to the cost of the supply to the Government and the increased value given to the land by the supply, by its safety from inundation, the freedom of its drainage and the saving in the cost of conveyance by the substitution of water for land transport.

(v) Water-rate should be uniform and not graduated according to the supposed profits of the recipient, as the value of the water to the seller remains the same whatever the purpose for which it is used.

In my humble opinion, water-rates should be fixed on a due consideration of the wants of the State, the increased value given to land by the supply and economic condition of the tract.

The wants of the State should be determined not solely with reference to the cost of the particular irrigation work; regard should be had also to the cost of general administration, including the cost of providing irrigation facilities in tracts less favourably situated. "Each district of the Province is not to be governed for its own sake only or to be assessed according to its own requirements." E.g., the rich deltaic tracts of Godavari, Kistna and Cauvery where the existing rates are very low ought to pay the full fair rates, so that Government may have a sufficient surplus for the improvement of irrigation in districts like Bellary and Anantapur.

The State is also entitled to a share in the additional value given to land by the supply of water to it at the cost of the general tax-payer. No hard and fast rule can be laid down as to how this share should be determined; each case will have to be decided on its own merits. The value of the Government share may be recovered either in a lump sum or by an annual levy merged in the water-rate. The latter course, however, seems preferable for the following reasons :—

The levy of a lump sum virtually amounts to a redumption of a portion of the annual charge for water and to the extent to which the charge is so redeemed, Government will be deprived of the benefit of periodical revision.

During the initial stages of the working of a new irrigation system and until conditions are fairly settled, a readjustment of the ayacut may be found necessary. The levy of a fee may be construed as implying a guarantee to supply water and as precluding Government from excluding from the ayacut any land on which the fee has been recovered.

From the point of view of the ryot, there is the objection that he will have to pay a premium before he has reaped any actual benefit from the irrigation work. The levy of a lump sum is likely to be strongly resented by the ryot, while a small enhancement in water-rate would probably go unnoticed. In this connexion, I would invite attention to the vehement opposition which the proposal to levy a small inclusion fee in the Kistna Eastern and Godavari Western deltas had evoked.

Lastly the ability of the ryot to pay should also be taken into account in fixing the rates. The rates should not be so high as to press hard on the land but should be fixed so as to leave a reasonable margin to the ryot.

6. Judging from the standards mentioned above, the existing scale of fixed rates as well as the scale which the Government intend to introduce are exceedingly low. The existing scale was drawn up more than half a century ago. Since then conditions have considerably changed. The cost of administration has increased; the value of water has gone up in view of the high cost of construction of new works; and the prices of food crops have also risen. The ryot can well afford to pay four or even five times the existing rates. For example, Government charge Rs. 5 per acre for a single wet crop on proprietary lands in the Godavari delta, whereas in some of the neighbouring estates the proprietors charge as much as Rs. 20 for water supplied from a far inferior source. It is reported that under the Atmakur Lift Irrigation Company's Pumping system, a water-rate of Rs. 4 per acre is paid to the Government and Rs. 8-4-0 to the Company in addition to a premium of Rs. 50 per acre charged by the Company. At 25 years' purchase, the premium works out to Rs. 2 per acre. Thus the total amount paid per acre is Rs. 14-4-0. The existing rates may, I submit, be doubled without causing any the least hardship to the ryot and yet there was such a strong opposition in the Legislative Council to the raising of the rate even to Rs. 6-4-0. I am afraid that it would be impossible to secure a fair rate unless the people's representatives in the Legislative Council change their mentality. The members for Godavari and Kistna contended that the delta works in their districts were constructed at a comparatively small cost, that the outlay had been recouped several times over and that there was no justification for any increase in rates. The Tanjore members contended that the original works in the Cauvery delta had been constructed by native kings, that the irrigation revenue derived from the delta was more than sufficient to cover the money spent by the British Government on improvements and any increase in rates would be unjust. The members who objected to any enhancement of the existing scale were the first to urge that the Government should undertake extensive schemes in famine-affected districts. If the Godavari, Kistna and Cauvery deltas are to be let off with a light charge, it is difficult to see how funds can be found for the development of irrigation in tracts less favourably situated.

The Legislative Council insisted that it should have a voice in the determination of water-rates. In deference to their wishes, a provision has been made in the Irrigation Bill that water-rates shall be fixed by means of a Taxation Bill. In view of the responsibility which the members of the Council have assumed, it is hoped that they will give up the short-sighted policy which they have hitherto pursued and view the question in a broader light.

7. In the questionnaire issued by the Committee, mention is made of certain plans which have been suggested or adopted elsewhere. They are—

(i) To charge the bare cost of supplying the water, including interest on capital invested.

(ii) To charge a fair commercial rate.

(iii) To increase the land revenue by taking the same proportion of the combined output of land and water as would otherwise have been taken of the output of the land.

(iv) To charge by volume.

(v) To sell the water by auction to the highest bidder.

To the above may be added the system of leasing which seems to be in vogue in certain provinces. I have dealt with item (i) in connexion with the principles on which water-rates should be fixed. I would, however, repeat my opinion that water-rates should be fixed with reference to the wants of the State, including the cost of supply, the additional value imparted to the land by the supply and the ability of the ryot to pay. An regards item (ii) I venture to submit that it would be objectionable to view the State in its relation to its subjects as a mercantile business concern. While the State is entitled to raise by means of taxation the funds required for purposes for administration it is equally bound to see to the welfare of its subjects and anything which would savour of a commercial business transaction between the State and its ryots should, I submit, be deprecated. The proposal is also likely to dislocate the system of revenue administration in the province. Item (iii) is dealt with later in connection with the subject of consolidated assessment.

The system of charging by volume has been dealt with at length by the Irrigation Commission of 1901–03 and by Mr. Leach in his report disposed of in G.O. No. 1089, Revenue, dated 19th July 1923. I can add nothing useful to the conclusions arrived at by Mr. Leach with whom I entirely agree.

The proposal to sell water by auction to the highest bidder or to lease it for a term of years is also objectionable on the ground that it would render it impossible for Government to deal directly with the individual ryot. Disputes are bound to arise in the matter of distribution of the charge by the auction-purchaser or the lessee among the ryots and their recovery. I am aware of the existence of the system of leasing in some of the other provinces but there the ryots were somewhat lukewarm and special inducements were found necessary to encourage them to use canal water. In this province the ryots do not stand in need of any such inducement. Moreover the Irrigation Acts of those provinces contain a specific provision enabling the middlemen to collect water-rate by summary process (*vide* section 83, Bengal Irrigation Act, and sections 46 and 47, Northern India Canal and Drainage Act); there is no similar provision in our Irrigation Bill. The lessee or the purchaser will therefore have to resort to the ordinary civil court and we know what civil litigation in this province means.

8. In conclusion, I would submit that the land tenures of this province are peculiar. Under the same irrigation work there are ryotwari lands, minor inams, whole-inam lands and permanently-settled estate lands. The crops grown are not uniform. There are vested rights such as mamul wet rights to be respected. The policy has all along been for the Government to deal directly with the individual ryot and there is a lack of co-operative spirit among the ryots generally. In these circumstances, a system of simplified water-rates such as the Government have in view seems to be the one best suited to the conditions of this province. The money rates proposed however are capable of enhancement. I would also suggest that the system of levying consolidated assessment which is a serious impediment to the growth of irrigation revenue be abolished and that all irrigated lands be registered as dry and charged the appropriate water-rate in addition to the dry rate of assessment. The value of consolidation is detracted by the limitations to which the assessment of land revenue is now subject. Consolidation may have been a useful expedient at a time when ryots did not fully appreciate the benefits of irrigation but conditions have changed since and there is no longer any need for it. The only advantage of consolidation is that the registered holder of a wet field is bound to pay the assessment thereon whether he cultivates it or not provided water was available. This advantage can be had even without consolidation by registering the lands as Bapat wet as is done in Godavari and Kistna. Bapat wet lands are dry lands for which the ryot desires a supply for the irrigation of a wet crop not for a single year only but from year to year and his application is sanctioned. Lands so registered are liable to water-rate whether cultivated or not, provided water is available, until the ryot applies for a discontinuance of the supply which seldom happens. I would urge not only that there should be no consolidation in future but also that the registry of all existing wet lands be altered from wet to dry at resettlement. More than 70 *per cent* of the irrigation revenue is from lands registered as wet and unless their registry is altered there will be little or no scope for the expansion of the irrigation revenue derived

from them. I anticipate no legal difficulty in the matter. The right of a ryotwari landholder of land registered as wet is limited to a continuance of such supply as is sufficient for his accustomed requirements and my proposal does not interfere with this right. Under the existing water-rate rules Government may at their pleasure and without rendering themselves liable to any compensation discontinue supply to land registered as dry. This rule will require modification in respect of lands which have undergone a change of registry from wet to dry. There is also a provision in the Irrigation Bill that lands registered as dry which have been irrigated with wet crops continuously for a period of ten years acquire a right to supply. In some quarters it has been suggested that the difficulty created by the system of consolidation in regard to the free development of irrigation revenue may be obviated by the levy of special rates of wet assessment. This remedy, I submit, is objectionable as offending against the principles of settlement.

P. T. SRINIVASA ACHARIYAR—17-4-25.

Question 16.

16. When land newly brought under irrigation or guaranteed a supply of water for the first time increases largely in value, is it right that the State should take a portion of the increase? If so, what proportion would you fix? Would you take it in a lump sum or in the shape of a betterment tax?

Answer to Question 16.

Chief Engineer for Irrigation.

There can be no doubt that the State is entitled to tax the increase in values. This would be a betterment tax but the option might be given of compounding. Such compounding fees should be applied to the reduction of capitalization of the project. The objection to compounding taxation is the same as the objection to permanent settlement. It precludes the State from taking its legitimate share in the increased prosperity of the individual resulting from improved economic conditions.

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Charge for water.—Out of the bewildering mass of policy and compromise, the following propositions seem to emerge:—

(1) There is general agreement that the charge for water is too low and a very general acceptance of the proposition that it is proper for the Government to take a share of the increased value of land resulting from a guarantee of supply of water newly given, preferably in the shape of a terminable annuity.

(2) In the case of protective works, it is generally inevitable that the State should not receive a full return.

(3) But there is no reason why a special class of cultivators should make a profit at the expense of the general tax-payer, and therefore the rate should be kept as high as possible without discouraging the use of water.

(4) In the case of productive works the theoretical minimum charge is the cost of maintenance *plus* interest on capital cost, and the theoretical maximum the whole difference between the profit on an irrigated crop and that on an unirrigated crop.

(5) If the land revenue were really equal to half the net produce, the plan of taking a joint charge for land and water on settlement principles would afford an appropriate middle course.

(6) But the increasing moderation of the land revenue settlement and the proposed limitation on increases makes it impossible to proceed on these lines, since the increased yield would in some cases not even pay the cost of maintenance and interest on capital cost.

An alternative plan is to fix the charge for water for homogeneous areas at a rate determined with reference to the amount which the least favourably situated cultivator is ready and willing to pay.

(7) This would involve separating the charge for water from that for the land and making the former part of the cost of cultivation.

(8) The land revenue would then be a proportion of the yield arrived at on settlement principles after deducting the cost of water in addition to the other costs of cultivation.

(9) The rate so arrived at would vary with the reliability of the source and the nature of the crop grown.

Note by the Hon'ble the Finance Member.

The difficulty in answering this question (*Question* 16) arises from the fact that, in the majority of cases, the increase in value is a gradual process. Take land which is dry land assessed at Rs. 4 an acre and is worth Rs. 200 per acre. Water is supplied at a charge of Rs. 8 an acre and in five years the value of such land may have risen to Rs. 1,500 an acre as a result of the demonstrated response it makes to irrigation. This increase in value depends on two factors—

(1) capital expenditure required to fit the land for wet cultivation;

(2) a sure supply of water wherewith to grow wet crops.

Benefit varies directly with the response. That response may vary as much as 200 or 300 *per cent* with reference to the physical and chemical properties of the soil. The increase in value of which it is suggested that the State should take a share, may therefore vary greatly, be arrived at in a much shorter period in some cases than in others and involve the application of much more capital expenditure in some cases than in others. These factors cannot be determined in advance and a lump sum charge for benefit at the outset has to be fixed with reference to some rough estimates of what the poorest land can bear, thus sacrificing a large amount of revenue apart from the serious objection that the State is anticipating revenues. Further, to subject the poorer ryots or holders of the poorer soils to a lump sum payment in addition to the capital expenditure required to adapt them to wet cultivation may place an intolerable burden on them and seriously retard the development of a project. The amount which the ryot can ultimately pay as assessment or charge for water must depend on the outturn and value of the crop and that cannot be determined in advance. The only feasible method at the outset is to impose a fixed charge for water, such charge being regulated on as accurate an estimate as possible of what the poorer lands, the development of which is essential to the financial success of the project, can afford to pay. Only when the response to irrigation and the ultimate value of land under the project have been more or less accurately ascertained can the method and rates of assessment be re-adjusted. It may be possible in some cases to anticipate to some extent the broad lines on which future re-adjustment will be made, and if so, so much the better as this will minimize future difficulties.

[These papers may be returned * to Revenue until the question comes up again either on the Committee's report or independently in Revenue.]

T. E. M[OIR]—17-7-25.

* Done.

Question 17.

17. What bearing have the tenancy laws in areas with which you are acquainted on such proposals?

Answer to Question 17.

Board of Revenue (Land Revenue and Settlement).

The question apparently has reference to the proposals in question No. 16 immediately preceding for claiming a share in the enhanced capital value of land resulting from the construction of an irrigation work. So far as the landholder and his tenant are concerned, the former can under section 30 (ii) of the Madras Estates Land Act enhance rent for improvements effected by him, and the provision of irrigation facilities is regarded as an improvement. This, however, is hardly in the nature of a betterment tax since the enhancement follows the increase in the productive powers of the land rather than the increase in the value of the land. The Madras Estates Land Act in fact contains no provision by which any charge for betterment can be made.

PAYMENTS FOR SERVICES RENDERED.

QUESTIONS 18 TO 20.

Question 18.

18. Is it correct to assume that the dues levied under the Indian Ports Act are payments for services rendered in respect of the safety of shipping, and dues levied under the Port Trust and similar Acts payments for services rendered in respect of goods and passengers, and that these dues do not fall within the category of taxes imposed on the general taxpayer?

Answers to Question 18.

Presidency Port Officer.

The assumption (in question No. 18) is correct.

Madras Port Trust Board.

The answer to the question (No. 18) is in the affirmative.

Tuticorin Port Trust Board.

It is perfectly correct to assume that the dues levied under the Indian Ports Act and the Port Trust Act are payments for services rendered in respect of the safety of shipping and of goods and passengers. All revenue realized from such dues is utilized for the upkeep and improvement of the port and port facilities, and no profits are made. These dues do not fall within the category of taxes imposed on the general taxpayer any more than do municipal dues, which are collected for a similar purpose and used in the same manner.

Note by the Finance Department.

The Presidency Port Officer, the Madras Port Trust and Tuticorin Port Trust Boards agree that the dues earned under the Indian Ports Act and Port Trust Acts do not fall within the category of taxes imposed on the general taxpayer.

V.V.—9-5-25. T. E. M[OIR]—10-5-25.

Questions 19 and 20.

19. How should taxes imposed solely for expenditure on the needs of particular localities be dealt with in considering the general incidence of taxation?

20. In considering the incidence in the locality, would you distinguish between those which are earmarked for particular services and those which are levied for the general purposes of the local body? If so, which taxes would you put into each class?

Answers to Questions 19 and 20.

Note by the Finance Department.

It is not clear what are the taxes which the Committee have in view. If they are taxes similar to port dues, they will be purely for local purposes and will not affect the general incidence of taxation.

V.V.—9-5-25.

I don't know what they mean in question 20. Tolls levied for and applied to the maintenance of roads are quite as much taxation as a land-cess or property or professional tax applied to general purposes.

T. E. M[OIR]—10-5-25.

Further Notes on Questions 10 to 20.

Extract from a demi-official, dated 31st March 1925, from the President, Indian Taxation Enquiry Committee.

On questions 10 to 20 I hope that the Finance Department will be able to put us up a clear statement, on the lines, for instance, of those prepared for the Meston Committee, showing what is and what is not to be reckoned as taxation for the purpose of incidence and of reckoning the amount within which we have to suggest adjustments. To give an instance of the importance of getting this clear, I may mention that Bengal collects and distributes 57 lakhs for chowkidars which does not appear on either side of the budget.

Note by the Finance Department.

It is submitted that the President is apparently referring to paragraphs * 16 to 19 of the memorandum prepared by this Government for the Meston Committee. The question of incidence of taxation in this Province and other Provinces has also been dealt with in paragraphs † 26 and 27 of the Milch Cow pamphlet. The various points mentioned as affecting the incidence of the taxes under the various heads in the above papers are briefly as shown below :—

* Extract printed as Annexure A.

† Extract printed as Annexure B

(1) *Land Revenue.*—(*a*) The incidence of land revenue per cultivated acre in ryotwari areas is the greatest in the Madras Presidency as compared with the other Provinces ;

(*b*) that no allowance has been made for the theory of diminishing returns which makes it undesirable to depend upon land revenue as a permanent source of revenue ;

Bombay can make the same plea.
T. E. M[OIR]—10-5-25.

(*c*) that the cost of collection of land revenue in a ryotwari province like Madras is greater than in a Province like Bengal with permanent settlement and that in calculating the net income from land revenue only the net receipt should be taken into account so as to compare like with the like.

(2) *Excise.*—The average taxation of a proof gallon of country spirit is greater in this Province than in the other Provinces.

These figures are seven to nine years old I don't know how they stand now.
T. E. M[OIR]—10-5-25.

(3) *Local taxation.*—Similarly here also the incidence of taxation per head of population is greater in Madras than the rest of the Provinces.

(4) The enforcement of Imperial claims of taxation has been more rigid in Madras than in that of the other Provinces. The most noticeable example of this is salt ; similarly under Customs and Income-tax the law has been more rigidly enforced, so as to secure greater revenues to the Central Government.

2. The remarks on individual questions 10 to 20 are noted on under each of them.

3. To sum up, of the various receipts of the Provincial Government, Land Revenue (excluding certain items) Excise and Stamps, and probably a portion of the receipts under 'cinchona' come under the category of 'tax'. Forest, Registration and various items of miscellaneous revenue come mainly within the definition of non-tax revenues. In comparing the incidence of taxation between the various provinces like with the like should be compared, and the taxation in Madras is generally higher than in the other Provinces.

V.V.—9-5-25.

ANNEXURE A.

Extract from the Memorandum by the Madras Government on the financial relations with the Government of India.

* * * * * *

16. The following table compares, on the latest figures available, the rates of taxation per cultivated acre of land and per proof gallon of country spirit in different provinces :—

(A) LAND REVENUE.

Incidence of land revenue per cultivated acre in ryotwari areas.

	RS.	A.	P.	
Madras	2	8	11	Agricultural Statistics of India, 1916–1917.
Bombay	1	5	7	
United Provinces—				
Agra	1	12	8	
Oudh	1	15	3	
Punjab	1	8	6	
Central Provinces	0	10	0	
Bihar and Orissa	1	2	6	

(B) EXCISE.

Average taxation of a proof gallon of country spirit.

	RS.	A.	P.	
Madras	11	2	2	Figures for 1918–1919.
Bombay	10	2	7	
Bengal	9	13	7	
United Provinces	5	15	4	Figure for 1917–1918.
Punjab	11	0	6	Figure for 1915–1916.
Bihar and Orissa	4	4	4	Figures for 1918–1919.
Central Provinces	7	1	11	
Assam	7	3	10	

It may be added that the tree-tax, which various other Provinces have rejected on the ground largely of the harassment which it involves, brings in to Madras a revenue of 105 lakhs a year.

17. In passing, a brief reference may be made to the argument advanced by certain Provinces to the effect that, because they will pay larger sums in income-tax and customs to the Government of India, they should pay less out of the taxes that are levied at the discretion of the Local Governments. A little reflection will show that the conclusion to be drawn from this fact is the exact opposite. The test of fitness of a Province to contribute is its wealth, and two main tests of wealth are income and consumption of luxuries. If therefore it is the fact that the incomes that pay tax in Calcutta and Bombay are earned in Bengal and Bombay and that a large proportion of the goods that pay duty in those Provinces is consumed in them, that fact seems to afford an unanswerable argument for increasing, and not for reducing, their contribution.

18. The following table again compares the incidence of local taxation per head of population (page 200 of Statistics of British India, 1919, Volume IV) :—

	RUPEE.
Madras	·27
Bombay	·18
Bengal	·16
United Provinces	·14
Punjab	·23
Bihar and Orissa	·10
Central Provinces	·08
Assam	·13

It may be mentioned in this connexion that Madras, almost alone of the Provinces, retains the mediæval system of levying tolls and collects through them a sum approximating 25 lakhs a year to assist in the maintenance of main lines of communication which this Province alone has handed over entirely to local bodies.

19. Meanwhile the Madras form of enforcement of imperial schemes of taxation has been more rigid than that of other Provinces. The most noticeable example of this is salt. The licit consumption per head of this necessary of life in Madras is over 20 lb, while in other Provinces it falls as low as 8 lb. This high rate of consumption has been arrived at by the rigid suppression of illicit practices, involving at one time over 13,000 prosecutions a year. In

contradistinction to this are the injunctions on page 69 of the Manual of the Northern India Salt Revenue Department, to the effect that prosecutions are not to be instituted unless there are reasons to suppose that offences have been committed wilfully or with the knowledge of the prohibitions of the law, that women are not to be arrested unless there is clear proof that they and not their male relatives are answerable for their acts, and that collection of salt earth is not to be treated as manufacture of salt. The absence of any law under which the Madras policy of enforcement of the fiscal law could be effected was the main reason why the administration of salt in Orissa on behalf of Bengal had to be given up.

An examination of the details of the customs procedure, for instance, at the outports and land customs stations, would reveal a like result. It is believed that the enforcement of the Stamp law has been more rigid here than elsewhere, and it may perhaps be cited as evidence of this that several of the notifications of exemptions have been passed on the motion of Madras, the only Province which literally enforced the law in respect of certain classes of documents. In the case of income-tax, a recent estimate by the Collector of Ramnad of the proportion borne by the assessment paid by Nattukottai Chettis in Burma to what they would pay if assessed in Madras indicates that they escape two-thirds of the tax, and their strenuous objection to being taxed in the Province to which they belong seems to confirm the correctness of this estimate.

ANNEXURE B.

Extract from the pamphlet on Provincial contribution.

* * * * * *

26. Before examining the figures upon which these statements are based, it is desirable to call attention to certain preliminary considerations. In the first place, it may be pointed out that Madras has been prejudiced throughout by the fact that no allowance has been made for the theory of diminishing returns. The higher the rate of tax is raised, the greater becomes the cost of collecting it and the net return is proportionately less. But in all the calculations relating to increase of spending power, what has been taken into consideration is only the gross revenue, and no attempt has been made to discriminate between expenditure for the collection of taxes and expenditure for the benefit of the people. Again, in the case of land revenue, even this does not represent the whole of the case, because in permanently-settled provinces the land revenue is paid in by the holders of estates and not collected from individual ryots by a village staff, while in some of the ryotwari provinces, though there is a village staff, it receives its remuneration either from land or from the villagers direct, or again by a deduction from the collections before they are credited to Government; in other words, the cost of this staff appears on neither side of the account. In Madras the village staff (other than the village police) amount in number to 76,500 men, and they cost 107 lakhs a year. This figures appears on both sides of the account and exaggerates both the Madras revenue and the expenditure for the benefit of the people

27. If therefore anything like a fair comparison between the provinces is to be arrived at, it should be arrived at by deducting the cost of collection from the revenue and crediting the remainder only to the revenue side of the account. On this basis, if we take for the three presidencies the figures for 1920–21, which year the Financial Relations Committee took as the basis of their calculations, and apply to them the average percentages of increase which the Committee worked out in paragraph 7 of their report, we get the following table of actuals for 1920–21, of the Committee's anticipations for 1921–22 and 1922–23 and of the actuals for the two latter years.

Total net revenue from Provincial heads omitting new taxes, after deducting cost of collection, Provincial contributions, miscellaneous adjustments, and in the case of Bombay, interest on Development Loans.

—	Actuals, 1920-21.	Revised estimate, 1921-22.		Difference column (4)—column (3)	Budget estimate, 1922-23.		Difference column (7)—column (6).
		Anticipated.	Actual figures.		Anticipated.	Actual figures.	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.
Madras	984	1,032	920	— 112	1,080	957	— 123
Bombay	896	958	925	— 33	1,020	993	— 27
Bengal	770	793	738	— 55	816	827	+ 11

OPTIONAL TAXES

QUESTIONS 21 TO 25.

Question 21.

21. Economists and public men are divided (*vide* quotations in Annexure D) as to the extent to which indirect taxation should be regarded as voluntary. Do you consider that any taxes should be regarded as voluntary and as such excluded from consideration in estimating the burden upon the tax-payer?

ANNEXURE D. (Question 21.)

Adam Smith.—"As he (the consumer) is at liberty too, either to buy or not to buy, as he pleases, it must be his own fault if he ever suffers any inconveniency from such taxes."

Decker proposed a scheme for raising all the revenue by a single tax on luxuries, of which he said:—"All persons tax themselves voluntarily, than which nothing can be easier or more equal, and an easy way of raising taxes will always produce the most money and the fewest murmers."

Hume.—"The best taxes are such as are levied upon consumptions, especially those of luxury; because such taxes are least felt by the people. They seem, in some measure, voluntary; since a man may choose how far he will use the commodity which is taxed."

Bentham.—"To an indirect tax each man pays no more than he pleases . . . . To a direct tax each man pays what the imposer of taxes pleases. * * * * Indirect taxation, as far as it will go, is therefore preferable to direct."

Dingley.—"We have refrained from putting a tax in a direction where it would be purely upon consumption, unless the consumption was of an article of voluntary consumption, so that the consumer might regulate his own tax following what is the accepted rule of taxation in all countries."

Harold Cox.—"Indirect taxation is to a large extent voluntary."

Armitage Smith.—"Such taxes become in a sense optional, since any one may refrain from consuming a taxed luxury."

Mill said that Adam Smith's statement was grounded on a fallacy because it involves "a sacrifice of his (the tax-payer's) own indulgences which would equally make up to him for the same amount taken from him by direct taxation."

Boncard and Jèse.—"It would be just as true to say that taxes on land are not compulsory, since it is open to the owner of an estate to cease to be owner."

Bastable.—"A citizen can indeed escape a wine duty by not consuming wine. That course, however, has the double disadvantage of depriving the State of revenue and of diminishing his enjoyments."

Answer to Question 21.

Nil.

Question 22.

22. If so, to what taxes would you extend this classification either wholly or in part? Please give your reasons in detail.

Answer to Question 22.

Nil.

Question 23.

23. In the case of tobacco and intoxicating liquors do you agree with the following statement?

> "Immoderate smokers and drinkers contribute heavily to taxation; the consumption is of luxuries and it is optional. This taxation raises revenue but imposes no economic burden." *

* Armitage Smith: Principles and Methods of Taxation, page 92.

Answer to Question 23.

Commissioner of Excise.

I am only concerned with the question so far as it relates to liquor. I agree generally with the statement; but it must be noted that though liquor may, to a certain extent, be considered as a luxury for the higher classes, it cannot be considered so in the case of the lower classes such as the coolie population. A moderate consumption of liquor is considered by them more as a necessity. The correct principle would be that drink should be so taxed as to minimize consumption and not entirely prevent it as such a step will inevitably lead to a large increase of illicit practices.

Question 24.

24. How would you regard the case of a tax upon entertainments or one on railway tickets?

Answer to Question 24.

Commissioner of Police.

A tax on entertainments would probably be less felt than a tax on railway fares. Travelling by railway is for the most part a necessity and not done for pleasure.

Question 25.

25. Would you in this connexion make any distinction between classes of the population? Would you, for instance, exclude the excise revenue from consideration in estimating the burden of the classes who by religion or custom are prohibited from taking intoxicants?

Answer to Question 25.

Commissioner of Excise.

So far as excise revenue is concerned, it is not possible to differentiate clearly between classes "who by religion or custom are prohibited from taking intoxicants" and others. Religious prohibition does not imply in practice entire abstention.

GENERAL PRINCIPLES

QUESTION 26.

Question 26.

26. The Committee are instructed to report whether the whole scheme of taxation is equitable and in accordance with economic principles. Taking the maxims enunciated by Adam Smith * as a basis, what additions or qualifications, if any, would you make to arrive at the principles now generally accepted? If you can reply by reference to any recent literature on the subject, please do so.

* See question 21.

Answer to Question 26.

Nil.

INCIDENCE ON THE POOREST CLASSES AND POLL-TAX.

QUESTIONS 27 TO 32.

Questions 27-32.

27. Should every member of the community pay a tax of some sort? If not, what should be the test for exemption?

28. Is taxation a proper accompaniment of representation?

29. In either case should the tax imposed be direct or indirect?

30. If a direct tax is recommended, is a poll tax a proper form for it to take? Do you consider the capitation tax as levied in Germany, France or Switzerland, or the United States, for instance, objectionable?

31. Do you consider the following taxes comparable with these? What is your criticism of them?

(1) The Thathameda.
(2) The capitation tax in Burma and certain hill tracts of Assam.
(3) The Chowkidari tax.
(4) The profession tax in the case of the lowest classes on which it is imposed.

32. Do you consider these more or less objectionable than the salt tax, the customs or excise duties on cotton, kerosene oil or matches, and the octroi?

Further Notes on Questions 27-32.

Extract from a demi-official, dated 31st March 1925, from the President, Indian Taxation Enquiry Committee.

On questions 27 to 32 I am developing a theory that most parts of India have something very similar to the *personnel mobilier*. The chowkidari, which was once almost universal and found its counterpart in our Village Service Cesses, was a tax of the kind, though it was directed to a particular purpose, and the Madras tax was levied only from the agriculturist. In addition to this there are house, hearth and hoe taxes in the jungly places, the haisyati in the Punjab, the circumstances and property tax in the United Provinces, the thathameda in Burma and others. The general tendency is to convert them into the local bodies' taxes on the non-agricultural population as a counterpoise to the land cess. This of course is the line already taken in Madras in the profession and companies taxes, which has been extended to district boards. Could you get somebody (probably in Local Self-Government) to develop the questions of (1) the origin and the (unasked for) abolition of the village service cess and (2) the development of the municipal and local boards' profession and companies' taxes, the difficulties experienced (I see the Trichinopoly Taluk Board has abolished them) and the proposed remedies?

Answer to Questions 27-32.

Demi-official from V. Ramakrishna, Esq., I.C.S., Under Secretary to Government, Revenue Department, to Sir Charles Todhunter, K.C.S.I., President, Taxation Enquiry Committee, dated Ootacamund, the 18th April 1925, No. 2213 C/25-2.

Your demi-official to Mr. Moir, dated 31st March. I am to forward a note on the ryotwari and proprietary estates village service cesses as desired. I am to say that it will of course be understood that the Government express no opinion on the theory advanced in your demi-official.

ENCLOSURE

History of the Village Service Cesses.

Ryotwari Village Service Cess.—Prior to 1864 the emoluments of village officers consisted, besides the revenue from inam lands, of fees collected from the ryots by the village officers supplemented by direct money payments from the general revenues. These fees were mostly in grain, were due at various periods of the year and differed in amount and value in every district. They were of the following two kinds:—

(1) The main fees consisting of a deduction from the gross produce before division of the remainder between the Government and ryot. These fees might be regarded as joint contributions of the Government and the ryot.

(2) The minor fees representing payments by the ryots from their share of the crop.

The collection of these fees was a troublesome and difficult matter and the provision of the law in regard to them was most uncertain. The rates and character of these fees had not everywhere been sufficiently ascertained while uncertainty and irregularity prevailed throughout the country in regard to their payment. The more influential ryots withheld them on various pleas; the poorer ryots were liable to exactions; the time of the village officers was diverted from their duties to the collection of their emoluments and the time of the superior officers taken up with the settlement of frequent disputes while they had not the power to enforce payment of the fees. It was besides objectionable in principle that officers having public duties often of an invidious character to perform should be dependent for their remuneration on the very persons against whom they might have to act. In order to remedy these evils the Government decided in 1861 to commute these grain fees and other contributions collected by village officers into a money cess payable to Government and to pay the village officers themselves instead of making them dependent on the ryots for payment. Madras Act IV of 1864 was passed with this end in view. It empowered the Local Government to impose a money cess upon all holders of land in any district to which the Act might be applied at a rate not exceeding one anna in every rupee of assessment and water-tax payable to Government by each landholder. The cess took the place of the customary fees, contribution and allowances demandable from the ryots which accordingly became illegal on the imposition of a cess. The cess was to be realized as arrears of land revenue and the proceeds were to be applied towards the remuneration of the village officers in the village or group of villages or township in which the cess was raised.

2. After the introduction of Madras Act IV of 1864 the Village Service Fund out of which village officers were paid consisted of the quit-rent from village service inams the enfranchisement of which began in 1860, the proceeds of the village service cess and Government contributions. In 1881-1888 an elaborate examination was conducted of the extent to which Government should contribute to the fund. In its proceedings, dated 16th March 1887, the Board of Revenue after summing up the previous correspondence on the subject contended that previous to 1864 the Government paid in one shape or another more than half the cost of the village establishment in the Presidency, that by Act IV of 1864 the ryots' share of the cost was intended to be commuted into a regular and uniform cess, that as a matter of fact the ryots were paying a far larger sum than before, in districts where the cess was being levied, that in the new settlements the Government divided the produce without first deducting the fees formerly paid by the ryots for the village establishment and that consequently the ryots were paying the cess in addition to half their share of the fees and that in these circumstances the Government were bound to increase their share of contribution at least to an equivalent paid by the ryots in the shape of village cess. The Government did not then accept this view but after further correspondence it was eventually decided that the cess imposed should not exceed half the estimated cost of village establishment, the other half being met by Government. A provision to this effect was accordingly inserted in the Madras Village Cess Act, 1893 (section 9) which repealed Act IV of 1864. One other important change was introduced by this Act. Whereas under Act IV of 1864 the proceeds of the cess could be utilized only in the village or group of villages in which the cess was levied the Act of 1893 made it legal to utilize the Village Service Fund for the remuneration of village officers generally in the area to which the Act was applied.

3. In paragraph 46 of the Financial Statement of the Government of India for 1906-07 the Finance Member Sir Edward Baker stated that the policy of the Government of India was that 'no local cesses should be imposed on land supplemental to the land revenue proper, except such as are levied by or on behalf of local authorities for expenditure by them on genuinely local objects; in other words local taxation on land shall as far as possible be limited to what is required for local administration by local bodies and shall not form an asset of Imperial or Provincial Revenue.' In pursuance of this policy the Government of India proposed in that year to devote the funds at their disposal to abolishing the cesses which were levied under various names such as the patwari cess, the village service and the like in Madras and other Provinces. The Government of India further observed—

"The village establishments and land records which these cesses go to maintain are in the present circumstances an important direct Government interest and this has been defrayed from the village service cess, the remainder being borne by Government and not by any local authority and we now propose to abolish them altogether and to arrange that the Provincial Governments shall take over the entire liability for maintaining the establishments receiving compensation from Imperial revenues for the additional charges thus thrown upon them."

Accordingly in their letter dated 23rd March 1906 the Government of India requested this Government to take steps to abolish the levy of the ryotwari village service cess from 1st April 1906. The receipts of the fund during 1906–07 were estimated at 56 lakhs consisting of 28 lakhs from the proceeds of the cess and an equal amount contributed from Government revenues. As three-fourths of the land revenue receipts were Imperial the compensatory assignment from Imperial revenues was fixed at 49 lakhs made up as follows :—

	RS.
Compensation for abolition of the cess	28 lakhs
Three-fourths of Government contribution of 28 lakhs ..	21 lakhs

4. The compensatory assignment ceased with the Reforms. In February 1922 the Government introduced a Bill for the purpose of re-imposing the cess at one anna per rupee as before in order to meet the extra cost due to revision of salaries but the Legislative Council threw out the Bill.

17th April 1925. E. W. LEGH.

*Proprietary Estates Village Service cess**.—Prior to 1894 the remuneration of village officers consisted partly of emoluments from lands and partly of fees or merahs paid by the proprietors and their tenants. In 1892 the Government considered it necessary to substitute a system of payment by fixed salaries already introduced with advantage in ryotwari tracts in order on the one hand to secure to the village officers independence of the proprietor and his tenants and on the other to render control over the village officers by the revenue officers more efficient. With this object they drafted a Bill which after considerable alteration and discussion became the Madras Proprietary Estate Village Service Act, 1894. The Act provided for the levy of a cess at a rate not exceeding 10 pies in the rupee on the annual rent value of all occupied lands comprised within the limits of such estates. The rate was to be uniform for each district and was to be fixed as nearly as possible so as to raise an amount which together with the other assets of the Proprietary Estates Village Service fund such as quit-rent on service inams and contributions from General Revenues would suffice to meet the cost of all village establishments in the district and all other incidental charges.

2. The Government of India did not abolish the Proprietary Estates Village Service cess in 1906 when they abolished the ryotwari cess. In their letter No 3333-A, dated 31st May 1907, however they pointed out that it was inconsistent to maintain the proprietary*cess while the cess had been abolished in ryotwari areas and that the provision of law by which quit-rents were credited to a fund instead of to the land revenue head was incorrect in principle and that it would be preferable that the proceeds of the quit-rent should be credited as divisible land revenue. In a letter, dated 4th October 1907, this Government accepted the proposal to abolish the cess when the Imperial revenues admitted of such a course. The cess was eventually abolished with effect from 1st April 1912 and the payment of village officers met from Provincial revenues from that date under the orders of the Government of India of March 1912. An assignment of Rs 5 lakhs from Imperial revenues was sanctioned to cover the loss to Provincial revenues in 1912–13. The assignment sanctioned for 1920–21 was Rs. 12,55,000. With that year the assignment ceased owing to the revised financial arrangements consequent on the reforms.

3. In February 1922 the Government introduced a Bill for the purpose of reimposing the cess in order to meet the extra cost due to the proposed revision of salaries but the Legislative Council threw out the Bill.

V. PONNAYYA—16–4–25.

E. W. LEGH—17–4–25.

* In G.O. No. 664, Revenue, dated 5th May 1925.

NOTE.—The Proprietary Estates Village Service cess was abolished with effect from 1st April 1912.

INCOME-TAX

QUESTIONS 33 TO 47.

NOTE :—(1) See also ' Division of Proceeds ' under Question 147 *infra*.

(2) See at the end of Question 47 infra, letter from the Secretary, Indian Taxation Enquiry Committee, dated 18th May 1925 and this Government's Demi-official reply, dated 3rd October 1925, *re* Devolution rule 15.

Question 33.

33. A statement is attached (Annexure E) comparing the rates of tax on incomes of different sizes in England and India and some other countries. In the event of a substitute being required for other taxation that is abolished, would you advocate an increase in the rates of income-tax? If so, to which classes of incomes would you apply it?

ANNEXURE E. (Question 33.)

Income-tax and Super-tax.

Income in sterling.	Percentage of income taken in taxation. England. (a)	England. (b)	India.	Austria.	France. (c)
50	..	..	..	1·1	..
100	..	..	..	2·2	·5
135	..	..	2·6	2·2	·9
150	..	1·2	2·6	3·3	1·0
300	..	6·8	2·6	4·4	1·8
500	3·3	12·5	3 12	5·7	4·4
1,000	10·8	18·8	4·7	10·8	7·5
2,000	17	22·7	7 8	18·9	12·5
5,000	28	30·8	11·5	28·4	20·5
10,000	38	39	14·6	37·8	34·0
50,000	50	50	32·9	47·1	47·0
100,000	62	62	39·9	48·2	48·5

(a) Tax for a married man with three children, with income all 'earned'.
(b) Tax for bachelor with income all 'investment'.
(c) Tax for a bachelor, reckoned at current rates of exchange.

Answer to Question 33.

Nil.

Questions 34—37.

34. Do you consider that the present scheme of graduation is satisfactory or would you prefer one based on English or continental practice?

35. Do you advocate any differentiation in favour of earned incomes or of sums shown to have been invested in productive enterprises?

36. Is it practicable without proceedings of an inquisitorial nature to make allowances for the number of persons supported out of particular incomes?

37. The Indian super-tax on companies is analogous to the English Corporation Profits Tax. The former has been justified on the ground that companies enjoy special privileges as compared with persons and firms in the matter of corporate finance and limited liability. The English Corporation Profits Tax was defended on the same ground and also on the ground that the undistributed profits of companies escaped liability to super-tax, whereas liability extended to the whole profits of individuals and partners whether distributed or not: when in 1922 it was enacted that, when a company failed to distribute a reasonable proportion of its profits by way of dividend the whole of the undistributed profit should be liable to super-tax at the maximum rate, the case for the continuance of a Corporation Profits Tax was manifestly weakened and it was felt that the privilege argument was insufficient to justify a continuance of the duty, which was in fact repealed in 1924. Do you favour a continuance of the Indian super-tax on companies in its present form or do you consider that it should be either abolished or imposed in some other form?

Answers to Questions 34—37.

Nil.

Question 38.

38. (*a*) Are you in favour of the removal of the exemption of incomes derived from agriculture which was given under Act II of 1886? (*b*) In dealing with this question would you draw a distinction between the actual earnings of the farmer and the income of the absentee landlord or the money-lender who has become a landowner through the foreclosure of a mortgage? (*c*) If the present limits of exemption were applied, what would be the proportion of persons actually farming their land that would be affected?

Answer to Question 38.

Director of Agriculture.

(*a*) No. I would rather see the land tax raised all round.
(*b*) Yes.
(*c*) I am unable to say.

Note, dated 18th May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Income-tax.—The view has been strongly pressed in certain quarters that there is no reason in theory why income-tax should not be levied on incomes derived from agriculture in addition to land revenue. On the other hand, much evidence has been placed before the Committee to show there are grave practical difficulties in connexion with—

(1) the small yield to be expected,
(2) the difficulty and expense of assessing a large number of small incomes derived from agriculture, and
(3) the fact that the agricultural classes would be unable to recognize the distinction between land revenue paid for their land and income-tax levied on their profits and would regard the levy of the latter as a breach of faith.

The Committee have separately addressed the Government of Madras asking for an estimate of the income which would be derived from an income-tax on agricultural incomes. It is possible that in Madras a considerable amount might be realized from the holders of permanently settled estates. Apart from this possibility, the Committee would be glad to know whether the Government consider that the return from the tax would be likely to compensate for the trouble and unpopularity involved.

Note by the Revenue Department.

The Taxation Committee require an estimate of the income that would be derived from income-tax on agricultural income. For purposes of preparing an estimate as above, figures have to be separately worked out in the case of each of the two main classes of tenures under which lands in this Presidency are held, viz.—

(1) *Ryotwari lands* and
(2) *Permanently settled estates.*

2. Before dealing with the subject, it is presumed that the proposed levy of income-tax on 'agricultural income' or more properly 'income from agricultural land,' will be governed by the same principles and levied at the same rates as other incomes are assessed, viz., that incomes below Rs. 2,000 per annum will be exempt and those above will be assessed according to the scale given in the schedule to the Act as to levy of income-tax and super-tax. The rough estimate which it is proposed to work out will be framed on the above principles.

3. From the data at present available from the revenue statistical returns, a fair estimate of the return in the shape of income-tax from the proprietors of permanently settled estates can be more easily worked out than in the case of ryotwari landholders. It is accordingly proposed to deal with settled estates first.

4. *Permanently settled estates.*—As already stated in reply to paragraphs 2 (*a*), (*b*) and (*c*) of the questions from the Government of India—*vide* Extract I appended to this note—the gross rental of estates can be estimated from the land-cess statements which are being compiled from time to time in Collector's offices. The number of estates in this Presidency classified according to the amount of net income (i.e., gross rental less land-tax per annum) derived from each, is given in table II—*vide* Extract II appended to this note. The following statement shows the amount of tax that can be realized from these estates:—

Net income from land, i.e., gross rental less land-tax (per annum).	Number of zamindars.	Total net income.	Rate per rupee.	Total amount of tax.
		RS.		RS.
Less than Rs. 2,000	729	6,07,729	Exempt	Nil
Between Rs. 2,000 and Rs. 5,000	282	8,75,967	5 pies	22,811
,, Rs. 5,000 and Rs. 10,000..	132	9,44,505	6 ,,	29,516
,, Rs. 10,000 and Rs. 20,000	78	11,72,160	9 ,,	54,945
,, Rs. 20,000 and Rs. 30,000	35	8,56,163	1 anna	53,510
,, Rs. 30,000 and Rs. 40,000	23	7,85,360	1 ,, 3 pies	61,356
,, Rs. 40,000 and Rs. 50,000	10	4,40,258	1 ,, 6 pies	41,274
* More than Rs. 50,000	69	1,48,94,384	Tax and super-tax.	27,95,183†
			Total ..	30,58,695

* Not included in the Government of India's statements.
† Under the rules for the levy of tax under the Act, the estates under last class are liable for income-tax and also for super-tax. Particulars of the income of each of the 69 estates are not available. The estimate for this class has been worked out on the average income of these estates.

5. *Ryotwari tracts.*—The preparation of an estimate in the case of landholders in these tracts is beset with considerable difficulty on account of the lack of information. The only statistical return of use for the present purpose, is contained in statement No. 20 appended to the jamabandi report. This statement is compiled quinquennially and the figures available relate to the fasli year 1920–21 and the next statement of figures will relate to 1925–26. This statement furnishes a classified list of *pattas* according to their assessment but *not* of landholders. An abstract of this statement is given under item 6 (*a*)—*vide* Extract III appended to this note. Reference is solicited to notes (1) and (2) where it is pointed out that these figures do not show the number of landholders paying assessments under the different classes. As the figures in this statement furnish the only reliable data in regard to landholders in ryotwari tracts, these may, it is submitted, be availed of in preparing an estimate of the amount realizable in the shape of income-tax. It will be noticed that out of a total of 4,861,739 pattas with an assessment of Rs. 5,38,44,536, there are between Rs. 500—Rs. 1,000 only 2,881 pattas paying an assessment of Rs. 18,06,151 and *over* Rs. 1,000 only 952 pattas paying an assessment of Rs. 15,47,303. The next point for consideration in connexion with framing an estimate, is what proportion the *gross* and *net* income from land bears to the assessment thereon. In Extract IV appended to this note the ratio which the income from land bears to its assessment has been compiled from the reports of resettlement conducted during the

last ten years. It will be observed that in the majority of cases the assessment is about one-fifth of the gross value. (As regards the difficulty of arriving at the net value, reference is solicited to paragraph 6 (*b*) (2) in Extract IV appended to this note) The results of Mr. Moir's investigations also show that the average rental is about five times the assessment—vide paragraph 5 on page 4 of G.O. No. 1357, Revenue, dated 8th April 1918. Without entering into the question of *net* value, the average income from land may be taken as *five times* the *assessment*. On this basis all pattadars paying an assessment of Rs. 500 and over will be liable to income-tax. The following table shows the amount thus realizable.

	Number.	Assessment.	Rate.	Amount.
		RS.		RS.
Pattas paying Rs. 500—1,000 ..	2,881	18,06,151	at 5 pies	2,35,175 *
Pattas paying over 1,000 ..	9,12	15,47,303	at 6 „	2,41,765
			Total ..	4,76,840

* The assessable income has been taken at 5 times the assessment.

K.K.R.—21-5-25. N.K.—21-5-25.

There are at least three main classes of agricultural incomes depending on the tenure on which the lands are held. They are—

Agricultural income of—

(1) holders of permanently settled estates,
(2) ryotwari land-holders, and
(3) zamindari tenants.

As regards the first class the statement in the foregoing page is fairly complete and the income-tax and super-tax together work out at 30·58 lakhs.

It is not easy to determine the incomes of ryotwari land-holders without a very laborious and costly investigation. The only statistics at our disposal are those contained in the settlement reports and the quinquennial statement of pattas of various values published in the annual jamabandi reports. The latest quinquennial statement available is that for 1920–1921. I give an extract of single and joint pattas paying an assessment of Rs. 250 and above for reference.

Assessment.	Number of single pattas.	Total amount paid.
		RS.
Between Rs. 250 and 500	6,761	21,83,249
„ Rs. 500 and 1,000	2,143	13,74,866
Over Rs. 1,000	782	12,59,372
	Number of Joint pattas.	
		RS.
Between Rs. 250 and 500	2,715	7,93,170
„ Rs. 500 and 1,000	783	4,31,285
Over Rs. 1,000	170	2,87,931

A single patta does not in practice mean that all the lands comprised in it are owned by a single land-holder. Also a land-holder often owns lands in more than one patta We may assume that there are as many land-holders as there are single pattas. We may also assume that the incidence of assessment to the economic rent is about a fourth. Then on the basis of the above assumptions it is possible to calculate the total agricultural income of ryotwari land-holders liable to income-tax. The amount works out as follows :—

	Number.	Assessment.	Rate.	Income-tax leviable.
		RS.		LAKHS.
Pattas paying assessment between Rs. 500 and 1,000	2,143	13,74,866	5 pies	2·74
Pattas paying assessment over Rs. 1,000	782	12,59,372	5 pies	

The total income-tax from ryotwari landholders works out to 2·74 lakhs.

As regards the zamindari tenants we have no statistics. Further the incidence of rent to economic rent varies from estate to estate. It would not be possible to collect these statistics without an undue amount of labour and expense.

There is also a large class of persons whose agricultural incomes may be less than the minimum assessable amount of Rs. 2,000 but when taken with their other incomes, which are taxable under the Indian Income-tax Act, may exceed the taxable limit.

V. RAMAKRISHNA—22-5-25.

Any reply from the Board on this subject will be too late to be of any use. I therefore submit a brief note on the facts as available here.

2. As regards the legality or equity of charging income-tax on agricultural incomes a copy of Board's Proceedings of 1860 in G.O. No. 666, Revenue, dated 27th April 1860, has already been forwarded to the Committee. An extract is annexed to this note.

3. There would be no particular difficulty in assessing incomes of the estate holders since we already have the figures on which the cess are collected. These figures are presumably the figures given in Extract II appended to this note. If these are inaccurate it would not be very difficult to get an accurate return in each case.

4. But as regards the income of ryotwari holders I consider the difficulty to be almost insuperable. The figures given in Extract III appended to this note show that of the total amount paid in land revenue by ryotwari holders, viz., something less than four crores is paid by pattadars' holding paying less than Rs. 100. On whatever basis income-tax is assessed it would not, I think, be open to us to allege that the income from land assessed less than Rs. 100 amounted to a minimum assessable figure which, I believe, is Rs. 2,000. The assumption on which our revenue is based that the ryots' income is half the net, and although we know it to be a great deal more we should have great difficulty in ascertaining it. At least four-fifths of the ryotwari incomes would escape assessment altogether.

5. There is nothing to prevent an undivided Hindu family from indefinitely subdividing its holdings by partition and thus holding greater part of its land free of income-tax, and there is no question that this process would be the natural result of an attempt to assess agricultural incomes.

6. Finally, the most serious objection is that it is quite impossible to find any basis on which agricultural incomes of ryotwari holders could be arrived at. If the accounts produced by shop-keepers are unreliable and difficult to disentangle, far more so would be those of land-holders. The account would be complicated by such items as advances for the purchase of cattle, advances for the purchase of manure, grain payments for service and other items of which it would be quite impossible to check the accuracy. Any attempt to arrive at the income by any rule of thumb such as a multiple of the land revenue would be not only wholly inaccurate but wholly inequitable, for it is quite possible for a man by hard work or by growing a particularly profitable crop such as tobacco or sugarcane to make a large income in one year or to have a very moderate one in another year.

7. Apart therefore altogether from the question of equity I consider that suggestion to tax ryotwari incomes is not within the range of practical politics.

8. The figures given for estates indicate that the total gross income of estates is just over $2\frac{1}{2}$ crores and the net income is about 2 crores. The greater part of this would appear to be assessable, taking Rs. 2,000 as the minimum of assessment and from the fact that $1\frac{1}{2}$ crores of the amount assessed of incomes of more than Rs. 50,000 the tax if levied would make a definite addition to revenue. Whether such revenue can be levied consistently with the commitments of the Government is a matter on which I do not propose to note.

E. W. LEGH—22-5-25.

ANNEXURE

Extracts from the Madras Government's reply to questions contained in the annexure to the Government of India letter No. 1299-F, dated 20th May 1924.

Extract I.

LAND REVENUE.

* * * *

(2) (a) & (b).—In the Madras Presidency the peshkash payable by the zamindars to Government is not based on a percentage of rents received by them from their tenants. The rents received by them from their tenants are not usually fixed by the settlement officer as is believed to be the case in some other provinces. The Madras Estates Land Act I of 1908 provides for the settlement of rents, but these provisions have so far been availed of rarely. The only record of rents available is the land-cess estimate of rental value in Collectors' offices.

(2) (c).—The total gross rental of a permanently-settled estate will be estimated from the land-cess statements which are being compiled. No materials are available for calculating the cost of collection of rent from tenants in permanently-settled estates. The only figures in the possession of Government are those relating to the cost of the village staff in proprietary estates which are shown below:—

	Cost for 1921-22.	Cost for 1922-23.
	RS.	RS.
Village officers excepting karnams and talaiyaris ..	6,44,184	8,56,036
Karnams	5,17,101	6,28,746
Total ..	11,61 285	14,84,782

These figures relate however to the village staff not only in permanently settled estates but also in unsettled palaiyams and jaghirs and inam villages to which the Madras Proprietary Estates Village Services Act, 1894, applies. Even if the proportionate cost of the village staff in permanently-settled estates could be calculated, it would not represent the actual cost of collection of rent for the following reasons:—

(1) The village staff for which figures are furnished above is paid from Provincial funds and not by the proprietors, and they are engaged not merely on the collection of rent for the proprietors but also perform other duties both for the proprietor and the Government.

(2) Zamindars employ other agencies as well for the collection of rent, and the cost of these will be considerable in the case of bigger zamindaris.

(3) There are no village communities in this Presidency such as are intended by the question. The only zamindari which might be described is Bhadrachalam in which the peshkash is liable to revision at intervals. But it is doubtful if this can be described as temporary-settled zamindari in the sense that is described in the question. Separate figures for that are given below:—

	As per settlement of 1890.	As settled in 1922.	Difference.
(1)	(2)	(3)	(4)
	RS.	RS.	RS.
Peshkash	18,546	36,515	17,969

Possibly Nugur, Albaka and Cherala transferred from the Central Provinces may also be included.

(4) It is presumed that what is wanted is an examination of the provisions of the Estates Land Act bearing on the enhancement of rent of *ryots* by *landholders*.

Extract II.

LAND REVENUE.

Replies to the Annexure to the Government of India, Finance Department's letter No. 1299-F., dated 20th May 1924.

Table I, paragraph (2) (*a*).

Percentage of rental which is paid to Government as land tax.	Total number of zamindars paying this percentage.	Total rental received by zamindars.	Total amount of tax paid to Government.
		RS.	RS.
Less than 10 per cent	233	61,68,999	3,01,682
Between 10 and 20 per cent ..	357	66,30,111	9,87,761
„ 20 „ 30 „ ..	327	77,68,589	19,31,875
„ 30 „ 40 „ ..	172	38,73,490	12,61,946
„ 40 „ 50 „ ..	145	7,72,380	3,51,990
„ 50 „ 60 „ ..	93	3,85,634	2,11,870
„ 60 „ 70 „ ..	41	1,17,578	74,692
„ 70 „ 80 „ ..	9	12,601	9,296
„ 80 „ 90 „ ..	2	4,477	3,870
More than 90 per cent	..	..	..

Table II, paragraph (2) (*b*).

Net income from land, i.e., gross rental less land tax (per annum).	Number of zamindars.	Total net income.
		RS.
Less than Rs. 2,000	729	6,07,729
Between Rs. 2,000 and Rs. 5,000	282	8,75,967
„ 5,000 „ 10,000	132	9,44,505
„ 10,000 „ 20,000	78	11,72,150
„ 20,000 „ 30,000	35	8,56,163
„ 30,000 „ 40,000	23	7,85,360
„ 40,000 „ 50,000	10	4,40,258
* More than Rs. 50,000	69	1,18,94,384

* Not included in the Government of India's statement.

Extract III.

* * * * * *

(6) (a).—These statistics also are compiled quinquennially. The figures available for those for the fasli year 1920–21 and the next statement of figures will relate only to 1925–26. Figures for 1921–22, if required, can be furnished only by a fresh compilation from village accounts.

Figures for 1920–21 are, however, given for reference in the following statement :—

Assessment.	Number of landholders who pay this assessment.	Total amount paid.
(1)	(2)	(3)
		RS.
1. Rupees 10 and less	3,491,727	1,15,85,249
2. Between Rs. 10 and Rs. 50	1,177,347	2,17,16,058
3. " 50 " 100	129,658	76,30,722
4. " 100 " 500	59,224	95,59,053
5. " 500 " 1,000	2,881	18,06,151
6. Over Rs. 1,000	952	15,47,303
Total ..	4,861,789	5,38,44,536

Note.—(1) The figures in column (2) do not show the number of landholders but the number of pattas. A patta may include two or more landholders. Many landholders own lands in different villages and different districts and many own land which is registered in the names of former owners. Hence, no inference can be drawn from these figures as to the actual number of landholders or the real amount of assessment paid by them.

(2) *Item* 6, *column* (1).—Separate figures for the number of landholders who pay assessment (1) between Rs. 1,000 and Rs. 2,000, (2) between Rs. 2,000 and Rs. 5,000, and (3) over Rs. 5,000 are not available and can be furnished only by a fresh compilation from village accounts.

Extract IV.

* * * * * *

Tanjore.

(6) (b) (1).—Reference may be made to page 55 of the scheme for the re-settlement of the Tanjore district in G.O. No. 1537, dated 25th August 1922, where the figures for the value of the gross outturn of the various tarams for wet lands are given. The ratio required is those of figures in column 7 and those in column 4. In all cases, the assessment is less than one-fifth of the gross value. It must further be remembered that in all cases the value of the outturn given in the settlement reports is not the value at current market prices but the value at the average of the price of 20 non-famine years prior to the year of re-settlement. The difference between commutation rate finally fixed and the final settlement rate will be found in Appendix XVIII of the scheme report. The figures do not therefore show the actual percentage of the value of assessment to the value of outturn at the time of settlement.

Vizagapatam.

Please see page 70 of G.O. No. 1602, dated 8th July 1919. The settlement reports contain no complete statement but the money value of the gross outturn of the highest assessed lands is Rs. 56–14–0 before allowing 20 per cent for vicissitudes of season or Rs. 45–8–0 after deduction, revenue assessment being Rs. 9-8-0. The assessment is therefore one-sixth or one-fifth of the gross outturn.

South Arcot.

Please see page 37 of the scheme report in G.O. No. 476, dated 4th February 1918, where the rates are calculated in detail. The value of gross outturn for dry crops is Rs. 25 in the highest assessed lands against highest assessment of Rs. 4. The highest 'dry' assessment is 21 per cent of the value of the outturn after deducting for vicissitudes of season. In all other cases it works out to 12 to 20.

Wet lands.—The wet assessment after deducting one-fifth for vicissitudes of season varies between 19 per cent to 22 per cent of the gross outturn.

Madura (*Non-Periyar tract*).

Wet lands.—The ratio between the assessment and the gross value of the outturn reduced by 20 per cent varies between 15 per cent and 21 per cent—page 36 of G.O. No. 53, Revenue, dated 8th January 1916.

Dry lands—Page 42, *paragraph* 69.—Dry assessment of highest taram is less than one-fourth of value of gross outturn while in lowest taram it is less than one-twenty-fourth.

North Arcot.

Please see page 31 of G.O. No. 3165, dated 1st November 1913. For dry lands the gross value of the first four tarams varies from Rs. 13 to Rs. 21 whereas the re-settlement assessment varies from Rs. 1–9–0 to Rs. 3–8–0 (Rs. 3–8–0, Rs. 2–9–0, Rs. 2 and Rs. 1–9–0). The gross value is shown without deducting 20 per cent for vicissitudes of season.

Wet lands.—The value of the gross produce is given at page 31. The rates in column 9 must be increased by 25 per cent. The best lands would be bringing in Rs. 59–4–0 and will be assessed at Rs. 10, Rs. 54–5–0 at Rs. 8–12–0 and Rs. 49–6–0 at Rs. 7–8–0 and so on.

In this connexion kindly also see column 8 of statement at page 240 of Land Revenue Policy of the Government of India from which it will be seen that the ratio varies from 15 per cent to 31 per cent.

6 (b) (2).—It is more difficult to arrive at the ratio of assessment to the net income per acre. The reasons for this will be clear from the perusal of the discussions in the Land Revenue Policy of the Government of India—vide paragraphs 34--49, pages 183--198. The calculation in settlement reports is made by (1) deducting a certain percentage for vicissitudes of season, (2) a further percentage for cartage and merchants' profits and (3) the estimated cultivation expenses. As noted above, the commutation rate is also not the market rate. All the figures are in fact merely estimates and the facts will show that they are estimated largely in favour of the ryot. The only figures that give an actual idea of the net income are the figures for lease values. These figures must be used with some caution for (1) it is only the best lands which are leased and (2) it is not altogether possible to say what arrangements may have been made between the lessor and the lessee for remission in unfavourable years, but (3) the lease values must in most cases represent less than the actual net profits from cultivation inasmuch as the lessee makes his living out of the leased area after paying the lease amount and all expenses of cultivation. The most recent lease figures are those for Trichinopoly—pages 22 and 23 of B.P. No 86, dated 26th November 1923. They show that Trichinopoly lands are leased at ten times the assessment on the average. Leases for dry lands are much more rare. The value of leases depends on improvements made on the lands by digging wells, etc., so that they are unsafe guides for purposes of calculation.

TANJORE.

At page 26 of G.O. No. 1537, Revenue, dated 25th August 1922, the statement of lease values is given. It will be seen therefrom that the ratio of lease values to assessment varies from 4·74 per cent and 6·64 per cent, leaving out the lower tarams for which very few documents have been examined These figures relate to single crop wet lands.

Dry lands.—The ratio varies from 7·22 per cent to 14·92 per cent times the assessment.

VIZAGAPATAM.

G.O No 1602, dated 8th July 1919. The tables from pages 45 to 61 give the figures available which are rather scanty, but the final figures are at page 63 in which the dry and wet lands are grouped together. It will be seen from the statements in Appendices U-1, U-2 and U-3 that the percentage of assessment to rent varies from 20·13, 22·69 and 29·38.

SOUTH ARCOT.

Page 27 of G.O. No. 476, dated 4th February 1918, gives a summary of the examination of the lease deeds and shows that the gross rental for single crop wet lands is 5·3 times the assessment where rentals are in cash and 5 9 times the assessment where rentals are in grain.

Dry lands without wells are leased for nine times the assessment in tracts where good groundnut soil prevails, the multiple rising from 12 to 15 per cent.

MADURA (*Non-Periyar tract*).

Appendix 15 (*b*) at pages 180 to 181 shows the average lease value per acre to assessment per acre of single crop wet lands of the six taluks of the Madura district—G O. No. 53, Revenue, dated 8th January 1916. It is seen that the average lease value per acre is Rs. 40-12-0, while the assessment per acre is Rs. 4-12-0.

Dry lands (*page* 190).—The average net lease value per acre is 17·4 against an average assessment of Rs. 1-14-0, or 9·20 times the assessment.

Please see in this connexion the report of Mr. Moir on the analysis of statistics of rents charged by ryotwari landholders in this Presidency and specially statements at pages 115 to 119 of G.O. No. 1357, Revenue, dated 8th April 1918.

Extract from B.P. No. 1993, *dated* 24*th April* 1860, *in G.O. No.* 666, *Revenue, dated* 27*th April* 1860, *regarding the legality or the equity of charging income-tax on agricultural incomes referred to in paragraph* 2 *of Second Secretary's note, dated* 22*nd May* 1925.

* * * * *

2. The Board would earnestly press on Government the injustice of taxing incomes derived from lands on the *Ryotwari* principle. This system is little understood out of the Madras Presidency, and to this is probably owing the proposition to tax persons holding lands under it. Under the Zamindari system of Bengal and Madras, the zamindar's assessment or peshkash was fixed on the rent of the land then cultivated or occupied, *less* a varying percentage for expenses of collection, profit, etc., and *less* the future rent of all waste land. Under the village system of the North Western Provinces the whole of the waste is thrown in, free of assessment for the period of the settlement, viz., 30 years. Under the Ryotwari system even the 'moderate' assessment now being imposed absorbs two-thirds of the *net* produce, and every acre is taxed from the outset. With the exception of the remissions granted for improving leases and topes, which are comparatively insignificant, the 'Ryot' of this Presidency has not the free use of the waste land, like the Zamindar of Bengal and the village proprietor of the North West. To tax the former, therefore, on the same principle as the latter, without reference to this material difference in their position, is manifestly unjust. Moreover, the tax will virtually be an enhancement of the land tax, while Government have, during the last few years, reduced the assessments because they were too high. That they were too high, and by absorbing too large a share of the ryots' profits repressed cultivation, has been abundantly proved by the beneficial result of the reductions which have led to a very large increase of revenue, and placed the agricultural population in a position of contentment and comparative independence. To re-impose any portion of the land tax is simply to undo to that extent the good already done, and to raise unpleasant doubts in the minds of the Agricultural population of the permanency of the land assessment. It is no answer, the Board submit, to this objection, to say that it is only the more affluent ryots, those paying an assessment of Rs. 400 or £40 per annum, who will now be taxed. The income whether £40 or more is not drawn from a valuable untaxed reserve of waste land as in zamindaris, but from land every foot of which is taxed at two-thirds, at least, of its net produce. Equally futile is it to maintain that the 'Ryots' of Madras are like the Tenant Farmer of England paying only a rent for his land. The Government here strictly occupies the position of Landlord and State, and the ryot pays what can only be called a combination of rent for the land and tax to the State. To impose an income-tax on the profits of land held on this tenure is clearly to tax a second time and in peculiarly vexatious way, land, which experience shows, is in general too highly taxed already. Further, the ryot will indubitably regard the imposition of the income-tax as a breach of faith. They have repeatedly been assured by the Home and Local Governments that they may do what they please with their lands, and enjoy the full benefit of any improvements made by their own means, provided they pay the regulated assessment. On this assurance they have acted, investing capital largely in the improvements of their lands in full confidence that the pledge would be respected. They cannot but regard this fresh tax on their profits from these lands as a breach of the pledge voluntarily given, and their confidence in the faith of Government cannot but be shaken. Unrepresented in the Government and unable to influence the Imperial Legislature, they will also see the frail tenure on which their rights depend; they will apprehend that if necessity—a plea the correctness of which they have no means of testing—can only be urged, the income tax may be indefinitely prolonged; its rates enhanced; its incidence enlarged and that the same plea may lead to other taxation. Future reduction of assessment and other concessions will be regarded as dictated by interested motives and preliminary to future taxation and that confidence in the moderation of Government, which it has taken years to secure, will be seriously shaken. Lastly, the Board would remark that the proceeds of the tax from ryotwari landholders will be very small, and unworthy of consideration even if it could be collected without a breach of faith and violation of the principles of the Settlement. The number of those liable to the tax does not exceed 4,000, and their payments will not amount to Rs. 30,000 adding, for argument sake, as much more for ryots having incomes from other sources the whole proceeds will be under £6,000. In all probability they will be less, for the tendency of the Act will be to induce families to divide their estates and to resort to other expedients in order to escape its operation. The Board trust that these reasons will lead to the entire exemption of incomes derived from ryotwari lands.

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Note by the Hon'ble the Finance Member.

These notes also can be added to our complete file of material for the Indian Taxation Enquiry Committee.

T. E. M[OIR]—17-7-25.

Assessing to income-tax of the incomes of landholders holding under Permanent Settlement.

Extract of a Demi-official from Sir CHARLES TODHUNTER, K.C.S.I., to the Hon'ble Mr. MOIR, C.S.I., C.I.E., dated 31st March 1925.

"It would be very useful if you could also get land revenue to put somebody on to examine whatever corresponds to the preamble to the Bengal Permanent Settlement Regulations and see what exactly are the terms of any commitments that may have been made with special reference to the clain of perpetual exemption from income-tax. What we are told here is that agricultural incomes were originally taxed and that their exemption in 1886 was part of a bargain involving land cess (part of which was taken by Government) or the land and licence fees (the lowest grades of the 1886 income-tax) on the non-agricultural community".

* *Note from the Board of Revenue (Land Revenue and Settlement).*

The President of the Taxation Enquiry Committee wishes to know what are the terms of any commitments that may have been made (with special reference to the claim of perpetual exemption from income-tax) in the Permanent Settlement Regulation of this Presidency, corresponding to the terms contained in the preamble to the Bengal Permanent Settlement Registers.

The Regulation corresponding to the Bengal Regulation is Madras Regulation XXV of 1802. The preamble to this Regulation after describing the uncertainty and inequity of the land assessments of previous rulers declared that the British Government impressed with a deep sense of the injuries arising to the State and its subjects from the operation of such principles, had resolved to remove from its administration so fruitful a source of uncertainty and disquietude, to grant to zamindars and other landholders, their heirs and successors a permanent property in their land in all time to come and fix for ever a moderate assessment of public revenue on such lands, the amount of which shall never be liable to be increased under any circumstances.

The principles of the permanent settlement of this Presidency were clearly on much the same lines as those of the Bengal Settlement subject to modifications necessitated by local conditions; the proprietors with whom the engagements were effected were constituted the owners of the soil they were holding and the public demand fixed as due thereon was fixed in perpetuity and declared unalterable. In fact, the language of the preamble to the Madras Regulation quoted above is even more definite and conclusive than the terms of the Bengal Regulation.

Regarding the Bengal Settlement, eminent persons are said to have given their opinions as to the meaning and effect of the regulation when the question of the imposition of the Road and Public Works cesses in Bengal and Bihar in 1870 was considered. Extracts of these opinions are to be found at pages 116 to 117 of the 26th and 27th Reports of the Bihar Landolders Association. The general trend of their opinions was that the language and acts of Lord Cornwallis and of the members of Government of his day were so distinct, solemn and unambiguous that it would be a direct violation of British faith to impose special taxes in the manner proposed.

The Board does not propose nor is it in a position to discuss the validity of these views. It considers it unnecessary to go beyond the view already taken by the Government of India and expressed by Sir John Strachey on 27th December 1877 when moving for leave to introduce a Bill for the licensing of trades and dealings in the Punjab, the North-Western Provinces and Oudh. He said:—

"Or we might, as I before said, impose an income-tax to which agricultural like all other incomes, would be liable. Anyhow, there can, in my opinion, be no doubt that in some shape or other the land ought to pay a portion of the new burdens. I am quite aware of the objections which have been and will no doubt continue to be urged against the imposition of fresh taxation on the class interested in the land. In respect to the permanently settled districts of Bengal as well as to the temporarily settled districts of Northern India, we have for many years past been familiar with the claims which have been made to the effect that the settlement of the land revenue has debarred the State from imposing any additional burdens on the land. It was on this ground that the zamindars of Bengal objected to the application of the Income-tax Act to their profit: it was on similar grounds that they objected to the local road-cess which was imposed a few years ago and to the new cess which has lately been introduced in furtherance of the policy of localizing the responsibility for meeting the cost of works required for the protection of the country against famine.

* In G.O. No. 972, Revenue, dated 19th June 1925.

"There is certainly no question which has been more completely argued out than this and I am sure that the Council will not wish us to enter again into any long discussion regarding it. These questions have not only been completely and repeatedly settled by the Government of India but they have been finally closed in the distinct and positive decision of Her Majesty's Government. That decision has been declared to the effect that the State has an undoubted right to impose on persons in possession of incomes derived from land, taxation separate and distinct from the ordinary land revenue, in order to meet the natural growth of public requirements, local or otherwise. The levying of such rates, the Secretary of State wrote. 'upon the holders of land, irrespective of the amount of the land assessment, involves no breach of faith upon the part of the Government whether as regards *holders of permanent or temporary tenures*.' I may add that, in the present case, the essential conditions which were laid down by Her Majesty's Government when the Duke of Argyll was Secretary of State, regarding the circumstances in which such rates as these may properly be levied, are completely fulfilled and it would be difficult to suggest any purpose for which they could be more equitably imposed.

"One of the main conditions laid down by Her Majesty's Government was this that when rates of this kind are levied at all they ought, as far as possible, to be levied not only on the agricultural but on other classes also."

The Board is not aware why anyone should seek to go behind this definite pronouncement as to the interpretation of the Permanent Settlement Regulations and their commitments, and has so far been unable to trace any further discussion on the subject.

The exact reason why agricultural incomes were actually exempted from payment of income-tax is not known. The discussions in the Council which took place when the previous Income-tax Act, Act II of 1886 printed at pages 1 to 48 of the old Income-tax Manual, do not show why agricultural incomes were exempted from the liability to the payment of income-tax, though there is a general reference to the point in paragraph 14 of Sir A. Colvin's speech in introducing the Bill. The Act itself was styled an Act for imposing a tax on income derived from sources other than agriculture and section 5 (*a*) of the Act exempted any *rent or revenue derived from land* which is used for agricultural purposes, and is either assessed to land revenue or subject to a local rate assessed or collected by officials of the Government as such. The Board has no information as to what was the state of affairs before 1886 as the necessary records are not available.

W. SCOTT BROWN—18-4-25.

Letter from the Secretary, Indian Taxation Enquiry Committee, to the Secretary to the Government of Madras, Finance Department, dated Camp, Patna, the 14th March 1925, No. 457.

I am directed to request the assistance of the Government of Madras in the matter of—

(1) arriving at an estimate of the comparative incidence of land revenue in different provinces,

(2) framing an estimate of the return likely to result from the imposition of an income on agricultural incomes.

2. The former question is dealt with in question 104 of the questionnaire of the Taxation Enquiry Committee, where five methods of comparison are referred to. It is hardly necessary to examine at any length the first two of these, namely, the ascertainment of the land revenue per head of the population or per acre of land. Obviously such comparisons must be vitiated by the differing proportions of urban and rural population and the different degrees of fertility of the soil, especially when the results of irrigation are considered. The third method, the comparison of assessments on soil units is applicable as between districts in the Central Provinces, but there do not appear to be any materials for its employment elsewhere. The fifth system the comparison of the percentage borne by land revenue to produce, in so far as it relates to gross produce, is one that has been adopted in the reports of the Famine Commissions elsewhere, as for instance in the statement of objects and reasons appended by a private member to the Punjab Moneylenders' Registration Bill. It is of interest in the latter case as showing that the land revenue in the Punjab is, on the member's estimate, one-twentieth of the gross produce, as compared with the one-fifth which Mr. Romesh Chandra Dutt proposed as the limit of taxation. But again it must be clear that variations in systems of land revenue, expenses of cultivation, fertility of the soil and nature of crops must make it a very unreliable basis for comparison between provinces.

3. There remains a comparison of the percentage borne by the land revenue assessment to the rental value, which if it can be ascertained, would appear likely to afford a more accurate basis for ascertaining the incidence of land revenue than any other method. It is necessary, however, before attempting to make an estimate on this basis, to have a clear idea of what is intended by rental value. In areas in which the tenancy laws entitle tenants to hold lands at rents fixed by settlement officers or by customs, it is obvious that the rent paid by such tenants is something very much less than the real rental value, or the economic rent of the land. It seems necessary therefore for the purpose of the comparison in question, to ignore these rents and to confine attention to competitive rents as arrived at where customary rents are not in force. It remains to consider the sources of information available as to such rents. The Committee understand that in some provinces a record is kept of all leases, which will in itself serve as a guide to the figures required. Elesewhere sales and leases are registered in registration offices, from which particulars can be secured. Another source of information would appear to be available in the records of the Courts of Wards, which have actual experience of the securing of economic rents and paying land revenue. Another source of information which has been suggested to the Committee lies in the advertisements, which are of comparatively frequent appearance in some provinces, of lands for sale or for lease. No doubt other sources of information will be available in particular areas. Lastly the reports of settlements contain the result of the exploration of all these sources of information at the time settlements were effected. The Committee believe that through the exploration of these various sources of information, it should be possible to secure a large number of samples of actual competitive rents paid in different districts. It would then be a simple matter in temporary settled districts to work out the percentage borne to these rents by the land revenue of the pieces of land so leased and then to secure, by a process of averaging a general idea of the burden of the land revenue upon the land. In permanently settled districts it will presumably be impossible to isolate the land revenue for pieces of land held at competitive rents, and in that case it will be sufficient to compare the average rate of competitive rent per acre with the average rate of land revenue per acre in the district. The Committee believe that the result of such a general comparison would be welcome both to Local Governments and others in view of the obscurity which at present envelopes the whole question of the real incidence of the land revenue upon the land. And they hope that in these circumstances the Government of Madras will be willing to have an enquiry made even at the cost of appointing a small temporary special staff for the purpose. They would suggest that the enquiry be limited to a period of ten years ending 1st January 1925.

4. The question of making an estimate of the revenue derivable from an income-tax on agricultural incomes is, if anything, more difficult still. In question 39 of the Committee's questionnaire reference is given to an estimate made by Messrs. Shah and Khambatta in the "Wealth and Taxable Capacity of India", which puts the yield at something between 16 and 20 crores of rupees. This is based on the assumption that the agricultural income in temporarily settled areas is five times the land revenue of 30 crores, and that an equal sum is yielded in the areas under permanent settlement. The estimate does not seem to take sufficient account of the size of individual holdings and therefore of individual income. A very rough guess prepared on the latter basis would reduce Messrs. Shah and Khambatta's estimate by more than half. Such a guess, however, is rendered exceedingly unreliable by the absence of information as to the actual rent rolls of the larger proprietors and as to the extent to which, on the one hand, registered holdings are held jointly, and on the other hand single individuals have two or more registered holdings. The extent of the latter tendency is shown by the fact that, while there are 4,861,789 registered holdings in Madras, there are only 715,252 persons recorded in the census as land owners. This difficulty seems to have been to some extent overcome by the Financial Commissioner of the Punjab, who informed the Committee that, out of $3\frac{1}{2}$ million cultivators in the province only about 2,300 paid land revenue amounting to Rs. 500 a piece or over. In Bombay an enquiry into the whole question was instituted under the instructions of the Bombay Government in 1922, and the Committee trust that they may be favoured with the results. Possibly similar enquiries have been made by other Governments. Where they have not been made the figures collected for the purpose of the electoral rolls will very possibly afford the foundations of estimates.

5. The Committee believe that the Government of Madras will agree that the question whether the yield of the tax is likely to be large or small is a question of the first importance in considering it, and I am therefore to express a hope that they will be pleased to assist them in preparing an estimate as soon as possible of the probable yield for the whole of India.

(1)

Letter from the Secretary, Indian Taxation Enquiry Committee, to the Secretary to the Government of Madras, Finance Department, No. 457-A., dated camp Calcutta, the 19th March 1925.

In continuation of paragraph 5 of my letter No. 457, dated the 13th March 1925, regarding the framing of an estimate of the yield of an income-tax on agricultural income, I am directed to say that in order to simplify the calculation as much as possible the Committee would suggest that it be assumed that the income-tax is to be levied in addition to the existing land revenue and with the limit of exemption and rates of income-tax and super-tax which are at present applied to incomes other than those derived from agriculture.

(2)

Letter to the Joint Secretary, Indian Taxation Enquiry Committee, Bangalore, from the Second Secretary to the Government of Madras, No. 1131-B/25-2 (a), dated Fort St. George, the 25th November 1925.

With reference to your request for assistance in arriving at an estimate of the comparative incidence of land revenue in this Presidency, I am directed to enclose a statement (Enclosure A) summarising the results of an enquiry held ten years ago, in order to ascertain the proportion which the assessment on the land bears to its rental value.

2. More recent figures are available for three districts in which resettlement has been made as follows:—

	Multiple of rental to assessment.
Vizagapatam, 1912-1916	4·15 (average ratio).
Tanjore, 1914-1918	Single crop wet 6·00 times. Double crop wet 4·5 times. Dry varies from 7 to 16 times.
Trichinopoly, 1918-1920	Approximately 10 times for single crop wet.

Detailed figures for Trichinopoly as shown in the Trichinopoly Resettlement Scheme Report (G.O. No. 177, dated 29th January 1925) are also enclosed.

(a) in G.O. No. 1891, Revenue, dated 5th December 1925.

3. A comparison of the two sets of figures shows that the ratio of rental to assessment has risen considerably in the last fifteen years.

4. With regard to your second question regarding an estimate of the revenue derivable from an income-tax on agricultural revenue, I am directed to forward for your information copy of a report received from the Board of Revenue.

ENCLOSURES

(A)

Statement of all accepted leases of lands with and without wells of the several districts of the Presidency (1911-1913).

Name of the district. (1)	Number of lease deeds examined. (2)	Extent leased out. Wet. (3)		Dry. (4)		Total. (5)		Assessment on the lands leased. (6)			Rental. (7)			Multiple of rental to assessment. (8)
		ACS.	C.	ACS.	C.	ACS.	C.	RS.	A.	P.	RS.	A.	P.	ACS.
1. Anantapur .	218	65	26	3,823	15	3,888	41	4,308	12	0	22,004	1	1	5.0
2. Bellary ..	562	615	68	6,882	1	7,497	69	14,028	3	0	59,968	1	1	4·3
3. Chingleput .	957	2,110	37	922	31	3,032	68	11,133	3	0	48,616	2	0	4·4
4. Chittoor	267	573	34	347	63	920	97	4,222	0	0	18,450	6	6	4·4
5. Coimbatore I	6,963	5,970	23	54,695	78	60,666	1	1,04,109	4	0	8,37,684	4	0	8·0
Do. II	4,660	2,604	75	36,246	21	38,850	96	65,303	5	0	5,93,885	7	0	9·1
6. Cuddapah ..	319	280	95	2,353	4	2,633	99	5,217	4	0	18,99[illegible]	14	10	3·6
7. Ganjam I	648	3,250	49	942	24	4,192	73	11,336	3	0	66,375	11	3	5·9
Do. II ..	495	2,344	28	464	98	2,809	26	10,252	3	0	49,314	4	6	4·8
8. Godavari ..	7,281	17,873	77	12,191	20	30,064	97	2,04,212	2	0	8,16,742	5	3	4·1
9. Guntur ..	7,888	9,931	21	35,782	29	45,715	50	1,66,970	7	0	8,01,973	12	0	4·8
10. Kistna ..	5,431	15,582	97	12,936	22	28,519	19	1,49,192	12	0	6,10,299	11	0	4·1
11. Kurnool ..	711	289	10	8,673	17	8,962	57	13,204	14	[illegible]	60,676	3	5	4·6
12. Madura (affected by the Periyar).	202	464	70	..		461	70	3,587	11	0	29,802	7	8	8·3
Madura (not affected by the Periyar).	1,311	1,016	76	4,811	33	5,828	9	11,510	15	0	1,07,713	14	3	9·4
13. Nellore ..	1,359	4,936	42	2,979	29	7,915	71	37,320	14	0	1,28,999	2	6	3·5
14. North Arcot.	1,147	1,870	7	2,302	43	4,172	50	15,860	5	0	85,609	1	0	5·4
15. Ramnad ..	797	851	56	2,483	5	3,334	61	8,271	8	0	67,538	3	0	8·1
16. Salem ..	1,049	591	11	4,403	39	4,994	50	9,778	6	0	61,774	13	0	6·3
17. South Arcot.	4,658	5,754	97	7,342	80	13,097	77	48,568	15	0	3,15,146	2	8	6·5
18. Tanjore ..	5,758	35,097	26	6,685	31	41,782	57	2,66,927	13	0	12,14,894	2	7	4·6
19. Tinnevelly ..	847	1,896	78	3,135	53	5,032	31	23,037	3	0	1,32,789	14	3	5·8
20. Trichinopoly.	4,962	10,869	6	8,755	68	19,624	74	1,19,979	6	0	7,78,193	12	5	6·5
21. Vizagapatam.	361	1,054	32	877	10	1,931	42	7,695	1	0	29,533	12	5	3·8
Total ..	58,191	125,895	71	220,036	14	345,931	85	13,16,028	[illegible]	0	69,86,978	0	11	5·3

(B)

Statement showing the net lease value per acre and its ratio to the assessment in nirarambam single crop lands in the six taluks of the Trichinopoly district.

Money rate in rupees per acre.	Period of years.	Trichinopoly. Net lease value in rupees per acre.	Trichinopoly. Ratio of net lease value to assessment.	Kulittalai. Net lease value in rupees per acre.	Kulittalai. Ratio of net lease value to assessment.	Musiri. Net lease value in rupees per acre.	Musiri. Ratio of net lease value to assessment.	Lalgudi. Net lease value in rupees per acre.	Lalgudi. Ratio of net lease value to assessment.	Udayarpalayam. Net lease value in rupees per acre.	Udayarpalayam. Ratio of net lease value to assessment.	Perambalur. Net lease value in rupees per acre.	Perambalur. Ratio of net lease value to assessment.
10	1. 1895-99 ..	51	5	63	6	.	..	..	..	..	..	..	..
	2. 191 -17 ..	75	8	60	6	80	8	..	..	..	..	..	..
	3. 1918-20 ..	116	12	148	15	88	9	..	..	..	..	..	..
9	1. 1895-99 ..	38	4	.	..	40	4	46	5	..	..	..	..
	2. 1912-17 ..	69	8	49	5	92	10	72	8	..	..	..	..
	3. 1918-20 ..	100	11	45	5	69	8	117	13	..	..	..	..
8	1. 1895-99 ..	39	5	32	4	43	5	37	5	..	..	..	..
	2. 1912-17 ..	61	8	49	6	74	9	51	6	..	..	..	..
	3. 1918-20 ..	114	14	79	10	114	14	86	11	..	..	..	..
7	1. 1895-99 ..	..	..	35	5	28	4	35	5	..	..	..	..
	2. 1912-17 ..	..	..	61	9	77	11	46	7	..	..	..	..
	3. 1918-20 ..	..	..	79	11	64	9	65	9	..	.	..	..
6	1. 1895-99 ..	18	3	..	..	..	..	17	3	14	2	..	..
	2. 1912-17 ..	39	7	..	..	32	5	44	7	..	..	..	..
	3. 1918-20 ..	29	5	..	..	74	12	74	12	42	7	..	..
5	1. 1895-99 ..	..	..	..	..	..	..	24	5	..	..	..	..
	2. 1912-17 ..	..	..	33	7	16	3	56	11	20	4	..	..
	3. 1918-20 ..	..	..	93	19	37	7	76	15	15	3	..	..
4-8-0	1. 1895-99 ..	..	..	..	..	..	..	..	..	..	..	..	..
	2. 1912-17 ..	..	..	42	9	..	..	44	10	15	3	..	..
	3. 1918-20 ..	..	..	..	..	..	..	..	..	..	..	..	..
4	1. 1895-99 ..	..	..	..	..	..	..	..	..	..	..	..	..
	2. 1912-17 ..	..	..	37	9	..	..	..	..	..	..	..	..
	3. 1918-20 ..	..	..	59	15	..	..	..	..	..	..	..	..

(C)

Resolution of the Board of Revenue, Land Revenue and Settlement, Mis. No. 1301, dated the 18th June 1925.

The Board submits that it is not possible to give a correct estimate of the amount of income-tax on agricultural incomes in the Presidency, but that on a very rough calculation the income-tax due on agricultural incomes alone in ryotwari and permanently-settled estates would be as follows:—

	RS.
Ryotwari tracts	4,00,000
Permanently-settled estates	32,00,000

2. In the case of ryotwari tracts, in the absence of any definite data, it is impossible to estimate the agricultural income of the ryots, and for the purposes of the present reference an arbitrary method, based on an average of lease-values of lands furnished in settlement scheme reports, has been adopted. On a basis of lease-values it has been assumed that the agricultural income is about five times the assessment on the average, and that the net income liable to income-tax is four times the assessment. This figure is convenient for purposes of calculating, though it is quite arbitrary. Income-tax has been calculated at five pies in the rupee in the case of pattadars paying assessments between Rs. 500 and Rs. 1,000, and at 6 pies in the case of those paying more than Rs. 1,000. The income of tenants in permanently-settled estates has been left out of consideration, as no data for the calculation of tax on their incomes are available.

In the case of proprietors of such estates the tax has been calculated on the incomes reported in statement B submitted to Government with B.P. Mis. No. 5,263, dated 26th November 1924. The calculations, so far as ordinary income-tax is concerned, are reliable, but those relating to super-tax can only be regarded as rough, since the incomes from individual estates are not available.

The estimates of income-tax both in ryotwari tracts and permanently-settled estates must be viewed in the light of the following considerations:—

(1) Agricultural incomes alone have been taken into consideration disregarding all other kinds of income. If other incomes were taken into account more persons would be liable to pay income-tax, and the rate of tax would also be higher in some cases.

(2) The calculation has been made in the case of ryotwari holders on the basis of the village patta and in the case of proprietors on a district basis. Calculations based on the kist included in any one village patta must necessarily be incomplete, as many pattadars have patta lands in more than one village and in more than one district, and there are proprietors who have estates in more than one district. This, if taken into account, would increase the number of persons paying income-tax as also the rate at which it is leviable in some cases.

(3) The calculation as regards ryotwari pattas includes joint pattas as well as single pattas, and it is obvious that some of the former, if the joint pattadars were not all members of one joint family, would not, as separate individual, be assessable on their agricultural income.

(4) The income derived by inamdars holding lands free of assessment or on favourable assessment have not been taken into account in the above amounts.

* * * * * *

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

The question of the division of the income-tax will be dealt with in a later section. But so far as the share of income-tax received by the Government of Madras under Devolution Rule 15 (*b*) is concerned, the Committee would be glad to know whether any difficulty has been experienced in adjusting the claims of Madras with those of other provinces, particularly in the case of Nattukottai Chettis, trading both in Madras and in Burma. The plan followed, viz., of dividing in accordance with the principal place of business, is quite different to that adopted elsewhere, which is to fix arbitrary percentages.

Note by the Finance Department.

Notes relating to income-tax are submitted below.

V.K.C.—21-5-25.

I doubt whether this will be required.

J. B. Brown—22-5-25.

The notes if required can be added to our file of complete material for the Indian Taxation Enquiry Committee.

T. E. M[OIR] 17-7-25.

[Income-tax.]

1. The Taxation Enquiry Committee enquire whether any difficulty has been experienced in adjusting the claims of Madras with those of other provinces, especially in the case of Nattukottai Chettis carrying on business in Madras and Burma.

2. Under section 64 of the Income-tax Act of 1922, the assessment of income-tax has to be determined with reference to the *principal place of business*, when the business is carried on in more places than one. In cases of dispute the question has to be determined by the Commissioners of Income-tax concerned or if they are not in agreement, by the Central Board of Revenue. Under the Act, therefore, the Local Government has no *locus standi* in the matter. The Local Government's claim is limited only to its share of income-tax collected in this Presidency under rule 15 of the Devolution Rules. In G.O. No. 347, Separate Revenue, dated 10th August 1922, the Commissioner of Income-tax, Madras, has been asked to dispose of disputed cases in accordance with the provisions of section 64 of the Income-tax Act and to obtain the previous approval of this Government in all cases of transfers of assessment of businesses from this Province.

So far as we are aware there has been no difficulty. We accept the Commissioner's proposals.

J.B.B.—22-5-25.

3. The Taxation Committee's enquiry has special reference to the Nattukottai Chettis trading in both Burma and Madras. This question engaged the attention of Government since the passing of the Income-tax Act of 1918 whereby an assessee became liable to be assessed on his entire income at the rate applicable to it at his principal place of business instead of at his residence as under the old Act. After framing suitable rules in the matter and obtaining the approval to the same, the Government of Burma were addressed in August 1919 so as to secure the necessary co-operation between the assessing officers in this Presidency and Burma, and a list of Chettis assessed in Burma with particulars as to their names, *vilasams*, place of business and assessed income for 1918–19 was obtained from Burma. A comparison of this with a similar list made in this Presidency showed that in many cases

(*a*) See 'Division of Proceeds' under Question 147 infra.

(*b*) See after Question 47 infra the official letter from the Secretary, Indian Taxation Enquiry Committee, dated 18th May 1925 and Demi-official reply dated 3rd October 1925, regarding Devolution Rule 15.

reconcilement was impossible owing to the several devices adopted by the Chettis to escape proper assessment. It was also found that owing to the then defective system of income-tax administration in Burma, a large amount of income escaped taxation. As complete reconciliation of the lists was impossible without considerable delay and further correspondence, it was agreed between the two Governments to declare, pending further enquiries, Madras as the principal place of business of all the Chettis who appeared on both the Burma and Madras lists, or on the Madras list only, and Burma as the principal place of business of those firms found in the Burma list only. Copies of these lists were furnished to the Special Deputy Collector subsequently lent from here to Burma to make *inter alia* enquiries with a view to correct and complete the lists. Accordingly, classified lists of Nattukottai Chettis carrying on business in Rangoon and in the other districts of the Pegu Division prepared by the Special Deputy Collector were sent to this Government about the end of 1921 and they were asked to state whether they agree to the adoption of the principal place of business as recommended by the Special Deputy Collector. Before a final decision could be reached in this matter, the new Income-tax Act came into force under which the Local Government had nothing to do with the question at issue as stated in paragraph 2 above.

4. With reference to G.O. No. 347, Finance (S.R.), dated 12th August 1922, the Commissioner of Income-tax submitted proposals for the transfer of certain assessees from Madras to Burma and *vice versa*. In approving the said transfer the Government also approved the criterion to be observed and the principles to be adopted in determining the principal place of assessment of these Chettis. These are—

(i) where an assessee has business in both provinces (Burma and Madras), the assessment should normally be made where he resides;

(ii) where an assessee has business or dealings in a place outside British India, the assessment should be made where he resides unless there are reasons to the contrary; and

(iii) where an assessee has only a dwelling house in Chettinad and the whole of his business is conducted in Burma, Burma may be declared as the principal place of business.

5. In 1923 the Burma Government proposed that where Nattukottai Chettis had business both in Burma and elsewhere, the tax on the Burma income should go to Burma and the tax on the income arising in Madras or other places outside Burma, to Madras. This proposal had nothing to do with the place of assessment. This proposal, though equitable, at first sight, would give rise to great administrative difficulties. This Government accordingly did not accept it but informed the Burma Government that the existing arrangement under which the income was divided according to the place of assessment should continue. The tentative list prepared in 1920 is being acted upon. In order to guard against loss to Government by the transfer of assessment, it has been decided that when such transfers take place, necessary adjustments should be made in the assessed income of the provinces for 1920–21, that is, when in any year subsequent to 1920–21, the income derived from any business is for any reason assessed to income-tax in a province other than that in which it was assessed in that year, the assessed income of the year 1920–21 of the first-mentioned province will be increased and that of the other Province decreased by the amount of the incomes of the business brought under assessment in that year on which income was collected (G.O. No. 113, Finance, dated 30th January 1923). A register is also being maintained of all cases of inter-provincial transfers.

6. This system has been in vogue during the last two years and the Madras Government have not experienced any difficulty in the practical working of the scheme.

V.K.C.—21-5-25.

This is a question really for the Commissioner of Income-tax.

J. B. Brown—22-5-25.

Question 39.

39. Do you agree with the following estimate of the amount that could be secured by making agricultural incomes liable to income-tax?

'If the agricultural incomes, which now escape taxation altogether, are taxed in the same manner as the industrial and the commercial incomes, after allowing for the necessary margin of subsistence as being utterly exempt from taxation, the probable gain to the revenue would be from sixteen to twenty crores of rupees.' [*Shah and Khambata*: *Wealth and Taxable Capacity of India, page* 277.]

Answer to Question 39

Director of Agriculture.

No information is available to check the estimate in question.

Questions 40–47.

40. The limits of exemption in European countries generally have reference to the actual cost of subsistence, as will be seen from the table in Annexure F. The Indian limit of Rs. 2,000 is higher than those in these countries. In view of the fact that there is no such exemption in the case of the payer of the land revenue, do you consider it would be fairer to reduce the limit in the case of income-tax to something nearer to the subsistence level?

[*Note.*—The Indian exemption limit was Rs. 500 in the income-taxes of 1862 and 1886 and was raised to Rs. 1,000 in 1903 and to Rs. 2,000 in 1919.]

41. One objection taken to the tax is that, owing to the manner in which accounts are maintained and presented, it is in fact a tax on honesty. How far has this reproach been removed—

(1) by the growth of an accountancy profession since the passing of the Indian Companies Act of 1911,

(2) by the introduction of a centralized and more efficient system of income-tax control?

42. In France trading accounts are required to be maintained in a standard form. In England the introduction of an elaborate return for farmers and the raising of presumptive charges based on rents unless accounts are produced has resulted in a large number of farmers keeping accounts on a more or less uniform plan. A recent writer states: "What is needed is a simplified and standardised form of account to be kept by the tax-payer in his annual dealing with the State so as to enable the latter to ascertain the net annual income of the tax-payer." [*Hobson*: *Taxation in the New State*, *pages* 106-107.] Would you advocate the prescription of a form of account of this sort to be kept by tax-payers generally, or by any class of tax-payers, in India?

43. In Sweden, particulars of incomes taxed are published in the newspapers, while in certain American States the income-tax rolls are public records. In England the employment of non-official Assessors and Commissioners to a certain extent acts as a check on evasion. Do you consider that the adoption of similar methods would tend to reduce frauds upon the income-tax in India? If so, what steps would you take to bring public opinion to bear?

44. Objection has been taken in Europe and America to the issue of income-tax free securities on the ground that the effective rate of interest is higher to the rich holder whose rate of income-tax is high than to the poor man whose rate of income-tax is low. Do you consider that any steps should be taken to discourage the issue of tax free securities?

45. Bearer securities obviously afford facilities for the evasion of income-tax. Can you suggest any means of avoiding such evasion? Would you approve the collection of income-tax by means of a special stamp duty on the coupon?

46. Are you satisfied with the provisions of the existing law in relation to double taxation and the exemption from taxation of incomes derived from outside India?

47. Are you satisfied with the present arrangements in regard to assessment on the previous year's income, or would you prefer assessment as in England on the three years' average?

ANNEXURE F. (Question 40.)

Income-tax exemption limits.

United Kingdom.—The personal allowance is £135 for a single person and £225 for a married couple.

France.—For the schedular taxes the exemption limit varies from 1,500 francs for craftsmen, hawkers and fishermen to 6,000 francs for professional earnings, salaries and wages. It also varies according to the locality, the limit being higher in Paris than in the country.

For the supplementary tax the limit is 6,000 francs.

Belgium.—The limit is 1,400 fr., if the income is earned, but persons below the limit pay a fixed tax of 12 francs a year. For the supplementary tax the limit is 2,100 fr.

Holland.—800 Florins = £66.

Denmark.—1,500 Krone (£64) in Copenhagen, 1,400 in other towns and 1,200 in the country.

Austria.—About £42.

Italy.—1,200 lire (£48 at par of exchange) or £12 at present rates

Answers to Questions 40—47.

Nil.

Demi-official from Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President, Indian Taxation Enquiry Committee, to the Hon'ble Mr. T. E. MOIR, C.S.I., C.I.E., I.C.S., Member of Council, Ootacamund, dated Bangalore, the 15th May 1925.

We are writing to you officially regarding a rather startling injunction recently received from the Government of India instructing us to report on the revision of Devolution Rule 15, by which they appear to mean—to suggest measures for dividing the income tax, since the logical revision would be to cancel the rule on the ground that, the Government of India having appointed their own income-tax staff, it is no longer necessary to bribe provinces to collect.

2. We propose not to rake up that old controversy, but to ask Local Governments to advise on a note by Sir Percy Thompson suggesting what seems to him the best practical way of dividing the income-tax in the event of a new deal after or accompanying the final cancellation of the contributions.

3. I need hardly say that we are not proposing to put forward any figures for the revision of the Meston Settlement. What we are instructed to do is to suggest the balancing factors that are to be taken into account and to leave it to some one who comes after us to do the balancing.

SUBJECT.—INCOME-TAX—ALLOCATION TO THE PROVINCES OF A SHARE—DEVOLUTION RULE 15.

Letter from W. B. BRETT, Esq., I.C.S., Secretary, Indian Taxation Enquiry Committee, to the Secretary to the Government of Madras, Finance Department, dated Ootacamund, the 18th May 1925.

I have the honour to refer you to the addition which was made to the terms of reference to this Committee in letter No. D/1832-F., dated the 22nd April 1925, from the Government of India in the Finance Department, in the following terms:—

"The operation of Devolution rule No. 15 in regard to the allocation of a share of income-tax to Provincial Governments has not been quite fair to all of them and the Committee should advise on this aspect of the case."

2. I am now directed to forward copy of a note on the question of the possible means of division of income-tax between the Imperial and Provincial Governments by Sir Percy Thompson, K.B.E., C.B., and to request that the Committee may be favoured before the close of July with the comments of the Government of Madras on the plan therein proposed.

3. I am to add that the Committee hope that the Government will be prepared to discuss the matter with them in the course of their coming visit to the Province.

ENCLOSURE

Income-tax—Division of proceeds.

Under the Government of India Act and the rules framed thereunder income-tax is a Central subject and the whole proceeds of the tax (subject to the provisions of Devolution rule No. 15) go to the Exchequer of the Government of India. If it is decided that in future Provincial Governments are to have some share in the proceeds of the tax, Devolution rule No. 15 will become obsolete and it is unnecessary in this memorandum to discuss its provisions.

Five methods of effecting the object in view suggest themselves:—

(1) The provinces might be empowered to levy and administer an income-tax separate and distinct from that levied by the Government of India.

(2) The income-tax might continue to be levied by the Government of India which might at the same time levy a *centime additionnel* for the benefit of the provinces.

(3) Side by side with the existing income-tax the Government of India might levy at a definite fraction of the Central rates an income-tax based on the tax-payer's return of total income and credit the proceeds to the various provinces.

(4) The tax of the larger incomes and on interest on Government securities should be credited to the Imperial Government on the ground that they are inter-provincial and that on the smaller ones to the Local Governments on the ground that they are localized.

(5) The income-tax might continue to be levied by the Government of India, but a definite proportion of the yield might be allocated to the various provinces on principles to be determined.

The first method obtains in various federal States, e.g., Australia, Canada, British Columbia and the United States. The existence of two taxing authorities operating within the same sphere has given rise to serious difficulties in all these States and has been the cause of considerable irritation on the part of tax-payers: the necessity of making separate returns to two different authorities and of understanding the provisions of two different taxing schemes combine to render the system intolerable. The question was dealt with at length by the Australian Royal Commission on Taxation appointed in 1920, and while unanimity as to the provision of a remedy was not attained, both the majority and minority reports agreed in condemning the existing system. Certainly no scheme on these lines can be recommended for India.

The second method obtains in France, Belgium and various other European States. There, however, the *centime additionnel* is levied on what is known as the *import cedulaire* which is a tax at a flat-rate on specific sources of income. To endeavour to graft the *centime additionnel* on to the Indian Income-tax system would mean that, as respects some incomes, the proceeds of the tax would go entirely to the province of origin. This takes the allocation to residence for granted. It is a system which can only be employed successfully where the income taxation machinery is directed to taxing either by reference to the source or by reference to the destination of the income and not where a combination of both methods is adopted.

The third method is open to the objection that, apart from the strain on the administrative machine involved in the calculation of two differing demands based on the same return, it will tend to bewilder and embarrass the tax-payer. Moreover, in abandoning the system of taxation at the source, the method lends itself to evasion which that system was designed to prevent; the tax-payer who has at present little motive for failing to include in his return of total income, income derived from taxed sources, would be inclined to adopt a different attitude when the purpose of his return is taxation and not relief. It is also the case, whether or not it be thought to be an objection, that income originating in India but enjoyed abroad would entirely escape the Provincial impost; and as a consequence the total proceeds of the income-tax would necessarily be diminished.

The fourth is a rough and ready method that was considered in Australia and rejected. It might serve as a *pis aller*, but it is easy to imagine cases in which it would work inequitably.

The fifth method appears to provide the most appropriate solution. It gives no additional trouble either to the assessing authority or to the tax-payer, neither of whom are concerned in the matter; it allows free choice in the matter of the weight which is to be attached to origin and domicile, respectively, and it permits of variation in the respective shares of the Central and Provincial Governments without any dislocation of the machinery of assessment and collection. The difficulty is to find a satisfactory basis on which the allocation between the several provinces of the total share allotted to them is to be effected.

This question, it is now proposed to discuss. At first sight it might appear that a suitable basis of division might be arrived at quite simply by proportioning the allocation to each province to the amounts of income-tax collected in each province, subject to the adjustment which is in fact made for the purposes of Devolution rule No. 15 in the case of income which is assessed in one province but earned in or derived from several provinces. This adjustment will of course have to be made in any scheme of division which is in any way based on collection, and while agreement as to the proper adjustment in particular cases may become more difficult as the financial importance of the adjustment increases, the question is rather one of accountancy than of principle and it is not proposed to discuss it at the present stage. It is, however, suggested that the collections even as so adjusted do not provide either a scientific or an acceptable basis for the division *because under such a scheme the provinces in which income originates to a preponderating degree will receive an excessive share.* This aspect of the matter will now be discussed in the light of the actual machinery by which the Indian income-tax is assessed and collected.

The Indian income tax and super-tax (excluding the super-tax on companies) is, like the British income-tax and super-tax charged on a double basis. It is charged on all income accruing to a person resident in India from whatever source it may be derived, and it is charged on all income arising in India, whatever may be its destination.

In India, as in the United Kingdom, a large proportion of the yield of income-tax is realized by the method known as 'collection at the source'. Under this system the income-tax in respect of certain species of profits and interest is collected at the point where such profits or interest emerge. For instance, a limited company is required to pay income-tax at the maximum rate on the whole of the profits it makes without regard to their ultimate destination. Such a company is then entitled

to recoup itself by deducting tax at the same maximum rate from any dividends it may pay to its shareholders. Similarly, the payer of interest on securities is required to deduct and pay over to the Revenue income-tax at the maximum rate on such interest. A similar provision exists in India with regard to salaries, subject to the unimportant difference that the rate at which tax is to be deducted is that appropriate to the estimated total income of the recipient.

Where tax has been deducted at the maximum rate and the total income of the recipient is such as to entitle him to a lower rate, provision is made for a refund based on the difference between the two rates. Accordingly, all profits from trade, etc., are ultimately taxed as part of and at the rate appropriate to the total income of the individual to whom they belong. The sole exception to this rule is in the case of such portion of the profits of a limited company as are not distributed but are placed to reserve. Here there is no single person to whom such profits can be said to belong and they accordingly remain burdened with the tax at the maximum rate charged on the general profits of the company.

It follows from what has been stated above that, in a number of cases, tax will be charged in a province in which a company carries on its business but will actually be borne by a person resident in some other province, and the question then arises in what proportion the income-tax is to be allotted as between the province in which the income arises, and in which the tax is collected in the first instance, and the province in which the recipient of the income who ultimately bears the burden of the tax resides.

The problem is not dissimilar in its main aspects from that involved in devising means for the avoidance of double income-tax as between two sovereign States. Both problems arise from the same cause, viz., the existence of a double basis of liability, residence and origin, and if the relative weight to be attached to these two factors could be agreed upon, a theoretical solution of both problems would be easy.

The problem has attracted considerable attention lately in Europe and in the United States, and in 1921 the Financial Committee of the League of Nations appointed a panel consisting of Professors Bruins, Einaudi, Seligman and Sir Josiah Stamp to consider and report upon the matter.

Their method of attacking the problem was to ascertain, as regards each category of wealth, where the economic allegiance lay in a preponderating degree and they reached the following conclusions:—

Category of wealth.	Preponderant element.	
	Origin.	Domicile.
I. Land	x	..
II-*a*. Mines, oil-wells, etc.	x	..
II-*b*. Commercial establishments	x	..
III-*a*. Agricultural implements, machinery, flocks and herds	x	..
III-*b*. Money, jewellery, furniture, etc.	..	x
IV. Vessels	A x	..
V-*a*. Mortgages	B x (prop'y	C x (income)
V-*b*. Corporate shares	..	x
V-*c*. Corporate bonds	..	x
V-*d*. Public securities	..	x
V-*e*. General credits	..	x
VI. Professional earnings	..	x

They made no attempt to make an exact apportionment of economic allegiance as regards each category of wealth and their views on this point are expressed in the following terms:—

"To allocate the exact proportion of economic allegiance to origin or domicile in each particular category is well-nigh impossible. Such an attempt would savour too much of the arbitrary. But where any two countries desire to make such an allocation, they would do well to be guided, ideally at least by the above analysis."

A. Country in which registered. B. Where the taxation of property is in question. C. When the taxation of income is in question.

In applying the doctrine of economic allegiance to the problem of the division of the income-tax between the various provinces, it has to be remembered that there is a considerable fund represented by the dividends of corporate companies paid to persons resident outside India in regard to which the competing claims of origin and residence do not exist. In this case the income tax is a pure origin tax and province of origin should not be entitled to be credited with any larger share of this tax than in the case of income belonging to a resident in some other province of India, and the balance should inure to the benefit of all the provinces.

Before passing on to a suggestion as to the method of division appropriate to the provinces of India, it is well to mention the plans which have been adopted in two other cases in which a more or less similar problem presents itself:—

(1) Great Britain and Northern Ireland.
(2) Germany.

Under the Government of Ireland Act, 1920, income-tax is a Reserved subject and is administered by a Central Board of Revenue, the proceeds being divided between the two countries entirely by reference to the principle of domicile. Roughly the method employed is to take the amounts actually collected in Great Britain and Northern Ireland and to make adjustments by reference to the estimated amount of the excess of the income enjoyed by residents in Northern Ireland, but taxed by deduction in Great Britain, over the income enjoyed by residents in Great Britain but taxed by deduction in Northern Ireland.

Germany.—Under the Taxation Division Law of 1923, as amended up to January 1925, 90 per cent of the yield of income-tax is divided among the States. Here again the principle of domicile prevails; the tax is divided among the various States according to the domicile of the tax-payer, subject to the exception that the greater proportion of the income-tax on income arising from land follows the situation of the land the separate tax on the profits of companies also follows the principle of origin.

Neither of these methods is applicable to India. The adjustment referred to in the case of Great Britain and Ireland can only be made with the assistance of elaborate Death Duty Statistics, which are entirely lacking in India, while in Germany the system of taxation on the basis of a personal declaration as distinct from taxation at the source enables the destination of each particular kind of income to be traced. The instances have merely been mentioned in order to show the importance attached to domicile in weighing the respective claims of domicile and origin. The principles adopted follow very closely the conclusion arrived at by Professors Bruins, Einaudi, Seligman and Sir Josiah Stamp which runs as follows:—

"On the subject of income taxation in its developed form, the reciprocal exemption of the non-resident is the most desirable practical method of avoiding double taxation and should be adopted wherever countries feel in a position to do so."

It will be observed that this conclusion is not entirely in harmony with their analysis of the economic allegiance of the various categories of wealth, which has been quoted above. It must therefore be assumed to be a concession to the practical difficulties which would inevitably be involved in the carrying out by separate jurisdictions of a system under which the tax is divided between the country of origin and the country of domicile. These difficulties are explained at length on page 47 of the Professors' report.

But in applying the principle of economic allegiance to the problem of division in India, these difficulties largely disappear. In the first place, one jurisdiction only is concerned, and secondly, the settlement can be effected without the intervention of the tax-payer, who is spared all trouble in the matter. It is not suggested that the weight to be attached to origin and domicile, respectively, should vary with different species of income. It is mainly in the case of dividends of corporate companies and interest on Provincial and Municipal loans, that origin and domicile will tend to diverge, and it is proposed to make adjustments in the case of these two sources of income alone, it being assumed that in the case of other forms of income the province in which the tax is collected and the province in which the income is enjoyed will coincide.

It is suggested that the weight to be attached to origin and domicile should be in the ratio of 1 : 2 respectively.

It is now possible to see how the division of proceeds between the provinces would be worked out.

First of all, the collections of each province would be adjusted to meet the case of profits earned in several provinces, but taxed in one only.

Secondly, any tax deducted from the interest of Government of India securities and credited to any particular province must be deducted from the collections of that province.

Let the resulting collections be $x1$, $x2$, $x3$, etc.

Let $y1$, $y2$, $y3$, etc., be the parts of the adjusted collections which represent the tax on the profits of limited companies and the interest of Provincial or Municipal loans.

From $x1$, $x2$, $x3$, etc., deduct $\frac{2}{3}y1$, $\frac{2}{3}y2$, $\frac{2}{3}y3$.

The resulting net collections will now be

$$x1 - \frac{2y1}{3},\quad x2 - \frac{2y2}{3},\quad x3 - \frac{2y3}{3}$$

It is proposed to divide the sum representing the provincial share between the provinces in these proportions.

The following comments on this scheme of division suggest themselves:—

(1) The province of origin receives more than one-third of the provincial share of the tax assessed on profits arising within its borders.

Example: Take two provinces *A* and *B*:

A collects x rupees from general sources—No limited companies.

B collects do. do. and x rupees from limited companies.

A's net collection is x. *B*'s net collection is

$$2x - \frac{2x}{3} = \frac{4x}{3}$$

$$A\text{'s share is } \frac{x}{x + \frac{4x}{3}} \times 3x \qquad B\text{'s share is } \frac{\frac{4x}{3}}{x + \frac{4x}{3}} \times 3x$$

$$= \frac{9x}{7} \qquad B\text{'s share is } \frac{12x}{7}$$

A therefore gets $\frac{3}{7}$ths and *B* gets $\frac{4}{7}$ths of the tax collected from limited companies, etc.

It is suggested that this result is reasonable inasmuch as the shares of limited companies will tend to be held more largely in the province in which the company is located and that province is therefore entitled to a larger share of the part of the tax attributable to residence. The same consideration applies with even greater force to Provincial loans.

(1) It must be borne in mind that the province of residence may have to repay a part of the tax which has been collected and in part credited to the province of origin; the province of origin accordingly receives a larger proportion *pro tanto* of the tax which ultimately reaches the exchequer than at first sight appears.

Finally, no particular sanctity is claimed for the relative weights which have been ascribed to origin and residence. Relevant considerations may have been omitted and the division of weight in the proportion of 1 : 2 has merely been put forward as a basis for discussion.

FINANCE DEPARTMENT.

From the Secretary, Taxation Enquiry Committee, dated 18th May 1925.

[OPERATION OF DEVOLUTION RULE 15.]

The letter and enclosure just received from the Secretary, Indian Taxation Committee, are for perusal.

2. A spare copy of the enclosure is placed below

J. B. BROWN—18-5-25.

Better print for distribution very urgently. I should like to consult Mr. Strathie.

T. E. M[OIR] 19-5-25.

This also should be done before the Taxation Committee's own work.

J.B.B.—18-5-25.

A proof copy of the correspondence is submitted in print.

2. It is for orders whether copies should be supplied to all members of the Cabinet and the Chief Secretary at present. (The Committee ask for a reply only before the close of July.)

3. A draft demi-official to Mr. Strathie with reference to the Honourable Member's note above is submitted for consideration.

V.V.—20-5-25.

Mr. Strathie is due back to-day. If the Honourable Member fixes a date and time, I shall ask Mr. Strathie to come and see the Honourable Member.

J.B.B.—20-5-25.

Demi-official from the Secretary to Government, Finance Department, to the Commissioner of Income-tax, Madras, dated the 12th August 1925. No. S-5.

It is not unlikely that the question of the allocation to the provinces of a share of the income-tax revenue will come before the next Conference of Financial Representatives in November. The Hon'ble the Finance Member has asked me to ascertain from you whether anything material arose out of the discussion of this subject at the recent Conference of Income-tax Officers and if so whether it would be possible for you to let us have a note of your discussions.

Demi-official from the Commissioner of Income-tax, Madras, to the Secretary to Government, Finance Department, dated the 14th August 1925.

Your demi-official No. S-5, dated 12th August 1925. The discussion at the recent conference of Income-tax Commissioners centred round the note of Sir Percy Thompson. The proposals in it were rejected by all Commissioners chiefly because it was held that the initial allocation of tax on companies to the provinces in which it was earned was impracticable as a general measure. The view of the majority of Commissioners was that the best means of effecting the division was to continue the existing arrangement under Devolution Rule 15 with the alteration of the basic year and possibly the grant of a larger share to the provinces. Tottenham did not record a separate note of the proceedings of the Conference but has written an official note from the Board criticising Sir Percy's proposals.

2. We discussed the question further the other day with the Taxation Committee here. Sir Percy Thompson is still pressing his proposal although he has made certain modifications in it. For instance, he has abandoned the theory that investing power can be measured by taxable capacity and now wishes to base the division on the amount of shares held in a province as shown by the returns of the Commissioner of Income-tax. Lloyd has unofficially put forward a proposal that incomes from 'salaries' 'property' and 'profession' should go to the provinces and other sources to the Government of India. Todhunter is supporting that proposal and it is possible that it may also be accepted by Tottenham and by other members of the Taxation Committee.

3. I cannot give you any more definite news at present. I understand the Committee has not yet worked out the general division. The share of income-tax to be allowed to provinces will depend on what other sources are taken over by the Government of India.

Submitted for perusal.

G. T. BOAG—15-8-25.

It seems clear that we need not waste time examining tentative proposals. The impression I gather is that the Government of India are set on finding relief for Bombay and Bengal out of the income-tax. This will be at the expense of our relief from the contribution. So, we had better keep our powder dry.

2. The second sentence in paragraph 3 of Mr. Strathie's demi-official suggests that the Government of India are contemplating a revision of the financial settlement. We must keep a sharp look-out for this.

* * * * * *

3. I am obliged to Mr. Strathie and the Secretary for letting me have this information.

T. E. M[OIR]—17-8-25.

Demi-official from the President, Taxation Enquiry Committee, Bangalore, to T. E. MOIR, ESQ., C.S.I., O.I.E., I.C.S. (Camp) Bangalore, dated 5th September 1925.

* * * * * *

I enclose also a copy of Lloyd's demi-official and Tottenham's note on the income-tax question.

Demi-official from T. E. MOIR, ESQ., C.S.I., C.I.E., I.C.S. (camp) Bangalore, to the Secretary to Government, Finance Department, dated 6th September 1925.

I enclose some papers handed to me by Sir Charles Todhunter . . .

These deal with the vexed question of income-tax. I should be very glad if you would examine and consider whether we can formulate any concrete proposals for a division of the proceeds. This, of course, is entirely without prejudice to our claim that our own provincial revenues should be placed entirely at our disposal, that is, that the contribution from provincial revenues to the Central Government must first go. Assuming that point, the question of the division of the proceeds can be approached from two points of view. One is that certain categories of income-tax are to be treated as provincial; the provinces would have to meet any fluctuations in the amounts collected under those categories, while the Central Government would have to find additional sources of revenue if its share of the income-tax was insufficient to meet its needs. Lloyd's suggestion seems to me from this point of view to be simple and attractive and also to offer a reasonable distinction between categories of income-tax which might fairly be regarded as provincial and those which have a wider basis. The other supposes that the Government of India have a surplus to be distributed among the provinces and that this surplus is to be distributed as a share of income-tax. Even on this supposition Lloyd's scheme possibly affords a reasonable basis of division. For example, if those categories amounted to two crores and the Government of India had one crore available for distribution, and supposing that Madras collections under those categories amounted to 40 lakhs, Madras would get 20 lakhs.

2. As an essential of any scheme of division it seems to me that it must be clear and simple, and a rough equity is preferable to any scheme based on elaborate assumptions or calculations which must inevitably be themselves of an arbitrary nature. As Strathie, I have no doubt, has fuller materials regarding the proceedings

of the Conference and the substance of Tottenham's note, I should be very glad if you would discuss the matter with him, because if we could put forward some practical solution it might secure sufficient support to get it accepted. It is clearly in our interest to get the principle of the full remission of provincial contributions plus such a scheme of distribution accepted rather than to trust to the outcome of a revision of the financial settlement recourse to which their own interests and despair at finding any generally accepted solution might drive the Government of India.

3. As the proceedings of the Taxation Enquiry Committee have arrived at a somewhat advanced stage, if such a proposal is to serve any purpose, we ought, if possible, to have it ready by the end of this month. I should be obliged if you would enter on discussions with Strathie as soon as possible. In any case, we had better get it out of the way before our own budget work deprives us of any leisure for such discussions.

Demi-official from A. H. LLOYD, Esq., I.C.S., to Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President, Indian Taxation Enquiry Committee, Bangalore, C. No. 488-I-T 25, dated 5th August 1925.

I enclose an advance copy of our note on the allocation of the provincial share of income-tax for the Taxation Enquiry Committee, together with letters from the Commissioners of Income-tax, Bombay, Bihar and Orissa, Central Provinces and Assam in original, which may kindly be returned when done with. Printed copies of the Note will follow shortly.

2. Since I wrote on the enclosed note, I have been thinking again about your remarks in your demi-official of 6th July to Tottenham on the method actually adopted by Australia. I agree that the backwardness of India in company formation makes this unsuitable here. But an alternative has just occurred to me. As the percentage to be given up by the Central Government is to be arbitrarily fixed according to that Government's ability to surrender money, it does not matter what particular basis is taken, so long as the basis chosen seems to operate reasonably fairly as between provinces. Would you care to consider the suggestion that the allotment to provinces should be in some fixed proportion to assessments otherwise than (a) indirect and (b) on business and other profits, i.e., give the province a share of the total receipts under (1) Salaries*, (2) Income derived from property, (3) Professional earnings? These totals work out for 1923–24 roughly in the following way:—

	LAKHS.
	RS.
Madras	27
Bombay	77
Bengal	69
United Provinces	22
Punjab	17
Burma	29
Bihar and Orissa	14
Central Provinces	7
Assam	9
Total	271

I suggest that these results are as fair as any others that could be achieved by abstract calculations, and the arrangement would be very simple to work and intelligible to all the Local Governments. It gives most, (as any other system except Devolution Rule 15 would), to the industrial provinces whose needs are greatest.

I have not held the note up to consult Tottenham about this, which is my own idea, for what it is worth (if anything).

* Not excluding those paid by the Central Government.

NOTE (BY Mr. A. TOTTENHAM, I.C.S.), FOR TAXATION ENQUIRY COMMITTEE.

No. 488-I.T./25.

[*Taxes on income—Provincial share—Allocation of—Note by Sir Percy Thompson.*]

As I am in camp and am unable to confer with M-2 I am writing this as my own note. If M-2 will add his comments the result may go to the Committee as the Board's contribution, unless he should differ widely with me, in which case we shall have to see whether our views can be reconciled wholly or partially and a joint note compiled.

I have had the advantage of discussing the subject at our recent Conference of Commissioners of Income-tax. Sir Percy Thompson kindly came all the way from Bangalore to Calcutta to attend the meeting and took immense pains to explain matters to us, and to Mr. Woodhead, Financial Secretary to the Government of Bengal, who was also present. We are much indebted to Sir Percy Thompson.

In the circumstances I do not think that it is necessary to note at great length.

We generally agreed that Method IV in the note according to which a line is drawn in the scale of incomes, and the incomes above that line are assumed to be mainly interprovincial and the tax on them goes to the Central Government, while the incomes below the line are assumed to be mainly local or provincial, and the tax on them goes to the province of origin, will not work.

Sir Charles Todhunter, who is in favour of the method on account of its simplicity, and has presented its merits in an engaging form in his demi-official letter, dated July 6th, evidently would not press for the adoption of this method on a purely arbitrary basis. That is to say, if no such line of demarcation between the inter-provincial and the provincial incomes does as a matter of fact exist, he would not consider the method suitable.

The replies received from Commissioners of Income-tax show clearly that no such line *can* be drawn that would accurately represent the facts for India as a whole. In Assam, strangely enough, the higher incomes (excluding a few tea-companies) are mainly local, and the lower ones inter-provincial. I don't quite understand how this can be, but the Commissioner says it is so, and he seems to have understood the matter fully. In the *Central Provinces* the inter-provincial income form 33·4 per cent of the whole from Rs. 50,000 upwards, but from Rs. 40,000 up to Rs. 49,999 the percentage is only 12·8 per cent, while from Rs. 30,000 to Rs. 39,999 it rises again to 18·9 per cent. It is 16·4 per cent in the 'slice' next below (Rs. 25,000 to Rs. 29,999) and rises again to over 18 per cent in the slab Rs. 20,000 to Rs. 24,999. Unfortunately the Commissioner has only classified business income by 'slices' and not also companies' income as I asked him to do.

Bihar and Orissa—has given a rather complicated reply, but according to him the line of demarcation occurs above Rs. 12,500. Above that he considers that 60 per cent is inter-provincial. In *Bombay* the line of demarcation occurs above 3 lakhs. In the slice 3 to 4 lakhs 51 per cent is inter-provincial and 49 per cent provincial. In the slice 2 to 3 lakhs 44 per cent is inter-provincial, and 56 per cent provincial. There is a fairly steady variation in the percentages from grade to grade. These seem to be all the replies that we have received so far, but they do not afford any great encouragement to adopt the scheme. They should be sent in original to the Taxation Enquiry Committee with this note, with the request that they may be returned.

I am not sure what the precise idea was in regard to the treatment of the income from Local loans under this method. I supposed that it would be treated as provincial. Perhaps I was wrong. Otherwise there would be a remarkable discrepancy between the theoretical classifications underlying Methods IV and V.

Apart from the fact that no line of demarcation between inter-provincial and local incomes, such as is sought actually exists, there are two serious objections, as Sir Percy Thompson pointed out, to the method. One is that if you wish to raise your rates to meet an imperial exigency the whole of the extra yield will not go to Central Revenues which need it, but a good deal will go to Provincial Revenues which may not need it at all, or at any rate not so much as Central Revenues. You could hardly raise your rates by, say, 25 per cent above the line leaving those below unaltered, so that there would be a sudden 'cliff' above the line. On the other hand it seems to me that a super-tax, imposed both above and below the line, but wholly central, is a reasonably simple solution of this difficulty. Another difficulty, which does not seem to be so easily surmountable is that in theory your total yield from taxes on income might double and yet the provinces might get no share of the increase. Apart from direct recruits to the upper division it might happen that in a period of rising prosperity new recruits to the lower division were balanced by promotions from the lower division to the upper division. It *might* of course happen that the revenue of the lower division even fell while that of the upper division increased. Generally speaking however one may suppose that any general increase of prosperity would affect both divisions more or less proportionately.

The net result, so far as Method IV is concerned, seems to be by no means favourable to it.

In regard to Method V, I may say at once that the formula suggested for the division of whatever it is that is to be divided seems to be unobjectionable from our point of view. Turning from the administrative to the theoretical aspect, the precise weights assigned to origin and domicile are of course arbitrary. This appears to be inevitable. But at all events I do not personally think that there is anything patently inequitable about the * formula as it stands. The assumption underlying the division of the 'pool' according to the formula, namely, that investment will usually be proportionate to general taxable capacity (I hope I have grasped this point correctly) is perhaps not vitiated by the exclusion of agricultural incomes from the calculation, owing to the fact that roughly speaking we may assume that the ability to pay represented by surplus agricultural income is reflected in the income-tax figures. A certain amount of this surplus may be invested in agricultural improvements and extensions, but an imposing proportion of it presumably goes into investments liable to income-tax such as money-lending and business, apart from 'investments' in the narrower sense in stocks and shares.

Whether Local Governments will understand the formula seems doubtful.* The poles seem to be represented by Mr. Woodhead who obstinately refused to be comforted, and Mr. Lawrence in Bombay who proceeded with great gusto to scrutinize the formula with the aid of the calculus. The Board would be ill-advised to endanger its reputation for prescience by pronouncing an opinion in regard to facts which will very shortly be ascertained, if they have not been ascertained already. But it will be intensely interested to learn how far Local Governments understood what Sir Percy 'was getting at', and in what varying manners they reacted to the unknown where this factor was present from their point of view. It would not be surprised to learn that some Governments at all events had said that they did not mind what formula was adopted so long as they got more than at present, and had a fair prospect of an expanding revenue from this source (subject of course to the fluctuations due to the state of trade) in the future.

* The 'public' certainly won't.

The real difficulty, from the Board's (i.e., the administrative) point of view is the preliminary adjustment on account of 'competing origin' which is very briefly referred to in Sir Percy's Note. Before the formula is applied adjustments have to be made where income is earned in more provinces than one but is taxed in a single province. But where is income earned? A calculation by way of percentage in 'turnover' on the analogy of rule 33 of the Income-tax rules whereby the Indian income of concerns such as shipping companies is conventionally determined will be of little assistance because it can hardly be contended that where a commodity is produced or manufactured in one province, the business is 'controlled' in another,

* But there are important classes of assessees apart from companies in respect of whom residence and origin do not coincide, e.g., Nattukottai Chettis in Madras and Burma and Marwadis more or less everywhere.

and the products are sold all over India and abroad, no weight is to be assigned to production or manufacture and control. Is the Burmese share of the tax on the profits of the Burma Oil Company to depend for the purpose of this preliminary calculation on the sales on Burma? If not, what weight is to be attached to the seat of production and the seat of control? The answer can hardly be anything but a fresh set of conventional fractions, and if it is such it seems evident that having started off to find a rational basis for our division we are becoming more and more dependent on the Aristotelean faculty of 'felicitous conjecture'. At all events it seems quite clear that this particular point requires to be very fully elaborated. Sir Percy told us that similar problems of much greater complexity are successfully solved in the United Kingdom. If so, no doubt he can tell us how it is done and how we are to do it here. The commissioners in conference assembled seemed unanimous that here was a problem compared with which cross-word puzzles were mere glimpses into the obvious. I myself felt more optimistic at the time, but I must admit that the more I look at it the less I like it.

Finally I cannot help asking (and I have no materials here which would enable me to suggest an answer supported by 'facts and figures') whether it would not be possible to satisfy the appetites of the provinces, without starving the Government of India by simply changing the standard figure, and if necessary raising or lowering the provincial share while otherwise adhering to the present Devolution Rule 15. Personally—if I may venture to obtrude my personality—I have, unlike the average Englishman, an almost Gallic predilection for logical, rational and consistent systems. But such a system seems to me (I may be wrong) to be unattainable in this context, and my prejudice in favour of the scientific system is not satisfied by a process in which if alternate stages are scientific, the intervening steps are more or less arbitrary assumptions. The present system has failed to give satisfaction and to do what was ostensibly expected of it because a boom year was selected as the standard year. It is hardly possible to believe that the inevitable result was not foreseen by its authors. Possibly their policy was deliberate, and it was not intended to do more than make an illusory show of giving the provinces a share of the taxes on income. If so, the first question is whether the Government of India adhere to that policy. If they do, there is an end of the matter. If they don't, I venture to suggest that since after all the problem—as already stated—is simply to satisfy the provinces as far as possible, and to assure them a share in any expansion of the revenue, and since—moreover—the ultimate determining factor is the amount of revenue that the Government of India can afford to distribute (which depends on practical not on scientific considerations) it would not be better and simpler to adopt a new basic figure—which need not be the actuals of any year but a purely conventional 'normal yield' (I have already shown that method V, if I have not misunderstood it, is itself riddled with conventions) on which every province will get something and stand in normal circumstances to get more hereafter, at a rate fixed for a series of years (or possibly fixed annually) so as to give in the aggregate what the Government of India are prepared to part with. I cannot but believe that such a solution would be welcomed by the provinces in the first instance, and whether we adopt this system or more scientific methods of apportionment, the result will be judged by precisely the same standard—namely what each province gets—and not by considerations of logical structure or mathematical propriety.

I doubt this. What about the misconception of future developments exhibited in connexion with Exchange policy?

A. H. Lloyd—4-8-25.

(Camp Calcutta). A. Tottenham—26-7-25.

I agree generally with Mr. Tottenham's criticism of methods IV and V proposed in the Committee's notes. But I should hesitate to accept, without much fuller examination, the solution offered in the last paragraph of his own note.

There have got to be arbitrary figures in any settlement; and the more these arbitrary figures purport to be based on some substantial reality (even a 'normal'

N.B.—If a conventional figure were adopted—or if the average of several years were adopted, there would, of course be a difficulty about adjustments when assessments are transferred from one province to another.

year) the greater the chance—it seems to me—for unexpected results. I do not imagine that the framers of Devolution Rule 15 (a relatively simple scheme) had any idea that in 1923-24 the result would be to give substantial benefits to Madras, the Punjab and Assam and nothing at all to Bombay or Bengal.

To my mind, the time is not ripe for anything more than direct relief, calculated on a frankly arbitrary basis, in the form of remission of Provincial assignments or actual subsidies, within the limits of what the Central Government can afford.

As I had not the advantage of attending the recent Conference at Calcutta, I put forward the above views with due diffidence, and do not think it necessary to refer them back to Mr. Tottenham. The main point is that we agree in objecting to both methods IV and V, although I should be extremely interested to see the views of Local Governments on them.

A. H. Lloyd—4-8-25.

FINANCE DEPARTMENT.

[SUBJECT.—*Allocation to the Provinces of a share of the Income-tax.*]

[DEVOLUTION RULE NO. 15.]

Paragraphs 202 and 203 of the Report.

The authors of the Reforms Report recommended a complete separation between the finances of the Central Government and those of the Provincial Governments, and the allocation of definite sources of revenue to Provincial Governments. They accordingly recommended the abolition of 'divided' heads. Of the several 'divided' heads of revenue, they proposed that income-tax and general stamps should be Central, and that land revenue, irrigation, excise and judicial stamps should be provincial.

Subsequently, Lord Meston's Committee proposed that general stamps should also be made Provincial.

Paragraph 3 of Meston Committee's Report—Pages 2-3 of the Report of the Parliamentary Joint Committee.

2. Ever since the Reform proposals were started, the Government of Bombay were contesting that one-half, if not the whole, of the income-tax should be made Provincial. The Parliamentary Joint Select Committee rejected the proposal of the Bombay Government, and were definitely opposed to provincializing the taxation of income. The Committee, in consultation with the Council of India, proposed:—

(1) that there should be granted to all provinces some share in the growth of revenue from taxation on incomes, so far as that growth is attributable to an increase in the amount of income assessed. (This is embodied as Devolution Rule 15);

(2) that in no case should the initial contribution payable by any province be increased. (This is included in Devolution Rules 17 and 18); and

(3) that the Government of India should take steps to ensure the abolition of the contributions within a reasonably short period.

A few minor alterations were subsequently made in the wording of Devolution Rule 15.

Pages 2120 to 2124 of Legislative Assembly Debates, 7th March 1925

3. At the meeting of the Legislative Assembly held on 7th March 1925, the Bombay members (Mr. K. C. Neogy and Sir Chimanlal Setalvad) pointed out that Devolution Rule 15, which was intended

to give Bombay and Bengal a share in the taxes on income, had failed in its primary object. They quoted the figures from the year 1921-22—vide * Appendix A. According to the budget for 1925-26, Bombay and Bengal would get nothing, while Madras and some other provinces are getting some assignments.

* Vide footnote below.

Page 2161 *ibid.*

Again on 21st March 1925, when the motion for the reduction of provincial contribution by † 363 lakhs was under discussion in the Legislative Assembly, Mr. Marr (Bengal), Mr. Hudson (Bombay) and Sir Chimanlal Setalvad (Bombay) wanted a complete revision of the Meston Award to be undertaken by an independent Committee. Mr. Hudson has also referred to the recommendation of the Reforms Enquiry Committee in paragraph 56 of their report that "the settlement should be revised as soon as a favourable opportunity occurs."

† 250 lakhs recurring;
63 lakhs Bengal contribution; and
50 lakhs non-recurring.

Pages 2741-3 of Legislative Assembly Debates, 21st March 1925.

Pages 2763-6 *ibid.*

Pages 2757-63 *ibid.*

Page 2764 *ibid.*

In his first speech on the motion, Sir Basil Blackett remarked:—

Page 2738 *ibid.*

"Our policy is other things being equal, that provincial contributions take precedence first, second and last."

Later on, Sir Basil Blackett remarked that the difficulty of re-opening the Meston Award was that there was only a certain amount of money to go round and that if it was redistributed they must take the money from somebody and give it to somebody else. Sir Basil Blackett remarked that the Government of India had not yet examined in detail the recommendations of the Reforms Enquiry Committee and that the working of Devolution Rule 15 would come up for discussion before the next meeting of the provincial Finance Members' Conference.

Page 2768 *ibid.*

Page 2769 *ibid.*

Sir Basil Blackett also referred to the Taxation Committee's report which would be ready before the end of the year, although he admitted that the revision of the Meston settlement was not within the province of the Taxation Committee.

Page 2769 of Legislative Assembly Debates, 21st March 1925.

4. *Addition to the terms of reference to the Taxation Committee.*—In April 1925, the Government of India added the following to the terms of reference to the Taxation Committee:—

"The operation of Devolution Rule 15 in regard to the allocation of a share of the income-tax to provincial Governments has not been quite fair to all of them and the Committee should advise on this aspect of the case."

APPENDIX A.

(Page 2161 of the Legislative Assembly debates, 7th March 1925.)

Share of income-tax paid to the Provincial Governments during

	1921-22.	1922-23.	1923-24.	1924-25 (Revised).	1925-26 (Budget).
	(In thousands of rupees.)				
Madras	4,08	..	10,82	2,00	2,00
Bombay	14,72	3,00	..	..	..
Bengal	95	..	..	..	..
United Provinces	3,20	33	..	..	..
Punjab	30	5,69	4,24	4,51	4,94
Burma	3,85	..	38	4,29	8,28
Bihar and Orissa	58	2,87	2,55	4,35	4,88
Central Provinces	90	1,49	3,42	82	..
Assam	2	1,15	4,16	5,29	5,40
Total ..	‡ 28,60	14,53	25,57	21,26	25,50

‡ See footnote on page 6 of the Explanatory Memorandum of the Finance Secretary on the Budget for 1925-26.

5. *Sir Percy Thompson's note regarding Division of Income-tax.*—The Secretary to the Taxation Committee has, with his letter, dated 18th May 1925, forwarded copy of a note by Sir Percy Thompson on the question of the possible means of the division of income-tax between the Central and Provincial Governments.

Sir Percy Thompson has at the outset remarked :—

" If it is decided that in future provincial Governments are to have some share in the income-tax, Devolution Rule 15 will become obsolete and it is unnecessary in this memorandum to discuss its provisions."

Sir Percy Thompson has, in his note, referred to five possible methods. At the same time, he has rejected the first four and has remarked that the fifth method appears to provide the most appropriate solution.

Even this method has been rejected by all the Commissioners of Income-tax chiefly because it was held by them that the initial allocation of tax on companies to the provinces in which it was earned was impracticable as a general measure.

Mr. A. Loftus Tottenham of the Central Board of Revenue has also rejected this method and remarked that " the more I look at it the less I like it."

6. *Mr. Strathie's demi-official, dated 14th August* 1925.—In his demi-official, dated 14th August 1925, Mr. Strathie has said :—

(*a*) The view of the majority of the Commissioners of Income-tax was that the best means of effecting a division was to continue the existing arrangement under Devolution Rule 15 with the alteration of the basic year and possibly the grant of a larger share to the provinces.

(*b*) Mr. Lloyd (of the Central Board of Revenue) has proposed that income from " salaries," " property " and " profession " should go to the provinces, and other sources of income-tax to the Government of India. Sir Charles Todhunter is supporting this proposal and it is possible that it may also be accepted by Mr. Tottenham and by other members of the Taxation Committee.

(*c*) I understand the Taxation Committee have not yet worked out the " general division." The share of the income-tax to be allowed to the provinces will depend on what other sources are taken over by the Government of India.

7. *Concrete proposals for a division of income-tax.* The Hon'ble C-4 has directed that some concrete proposals for a division of the proceeds of income-tax should be formulated without prejudice to our claim that our provincial revenues should be placed entirely at our disposal, that is, that the contribution from provincial revenues to the Central Government must first go.

8. *Mr. Lloyd's proposal.*—The proposal of Mr. Lloyd that a share (or the whole) of the income-tax from 'salaries', 'property' and 'profession' should go to the provinces, is simple and workable and may, it is submitted, be accepted. The total revenue from these three items works out for 1923-24 roughly as below :—

	LAKHS.
Madras	27
Bombay	77
Bengal	69
United Provinces	22
The Punjab	17
Burma	29
Bihar and Orissa	14
Central Provinces	7
Assam	9
Total ..	271

9. The question arises whether the assignment of the revenue from the above three categories of income-tax is to be given to the provinces—

(*a*) subsequent to the remission of the provincial contribution, *or*
(*b*) in advance of the remission of the provincial contribution, *or*
(*c*) side by side with the remission of the provincial contribution.

If the proposal is given effect to, only after the abolition of the provincial contribution, this will not satisfy Bombay and Bengal.

Mr. Neogy has, in his speech on 7th March 1925, remarked :—

" What I would point out is that unlike the Devolution rules dealing with the provincial contributions, rule 15 is meant to be a permanent feature of the present financial arrangement between the provinces and the Central Government. And so long as the revision of the Meston Settlement is not undertaken this Devolution rule will continue to operate to the hardship of the industrial provinces "—Page 2122, Legislative Assembly Debates, dated 7th March 1925.

Again, *Sir Chimanlal Setalvad* in his speech of 7th March 1925, said—

" So far as Bengal and Bombay were concerned, the situation (Devolution rule 15) worked really very hard on them, because the datum line was taken in a very exceptional year 1920-21, when there was an exceptional boom in trade and industry . . . What has been pointed out now is that the Meston Settlement which was made to give some relief to the provinces most affected by it, namely, Bombay and Bengal, has worked in such a freakish manner that no time should be lost in immediately tackling this Devolution rule 15 . . . I do not propose to enter on this occasion into the question of the Meston Settlement . . . I may again tell the House . . . . that Bombay will never rest content till the Meston Settlement is re-opened and some more equitable arrangement is arrived at "—Page 2124, Legislative Assembly Debates, dated 7th March 1925.

Sir Basil Blackett in his reply remarked :—

" I am quite prepared to consider the matter and see whether we can arrive at something that would at any rate give some effect to the purpose that lies behind Devolution rule 15 "—Page 2125, Legislative Assembly Debates, dated 7th March 1925.

10. If the contention that Mr. Lloyd's proposal should be given effect to, quite independent of and in advance of the remission of the provincial contribution, were to prevail, it is respectfully submitted that there is no doubt whatever that any proposals for a further remission and the eventual abolition of the provincial contributions will be shelved indefinitely. In all probability, Bombay will get automatically in a year or two an additional revenue of about 77 lakhs per annum and Bengal 69 lakhs per annum (these are the figures given in Mr. Lloyd's note). After having gained this ground, these two provinces will have ample time at their disposal to agitate for a complete overhaul of the existing financial arrangements (the Meston Award).

11. It is for consideration whether a *via media* may be adopted, that is, that the assignment to the provinces of a share (or the whole) of the three categories of income-tax proposed by Mr. Lloyd should be given effect to *concurrently* with the remission of the provincial contributions—

	LAKHS.
(*a*) The total yield from the three categories of income-tax proposed by Mr. Lloyd is estimated at about	271
(*b*) The balance of provincial contribution yet to be remitted is (983–250) (leaving out of account the Bengal contribution of 63 lakhs and the non-recurring contribution of 50 lakhs given to certain provinces in the current year)	733
Total ..	1,004

The proportion of (*a*) to (*b*) is roughly 1 to 3.

Assuming that in 1926–27, the Government of India have a surplus of 300 lakhs to distribute, a sum of 225 lakhs may be devoted to the reduction of provincial contributions under Devolution Rule 18 and the balance, viz., 75 lakhs, given as a relief to the provinces by assigning a share of the three items of income-tax proposed by Mr. Lloyd.

If in the succeeding year another surplus accrues, it should also be distributed in the same proportion ; and this will go on until the provincial contribution is entirely abolished. At the time of the total extinction of the provincial contribution, the Government of India would have parted with (733 + 271) or 1,004 lakhs, roughly.

12. The above proposal seems to have the following advantages:—

(1) The Government of India are not obliged to have recourse to immediate additional central taxation. They are merely asked to utilise their surplus (if there is a surplus), in a particular manner.

(2) At present, only a few provinces are interested in the remission of provincial contributions. If a further remission by 300 lakhs in the provincial contribution is made by the Government of India, the Government of Bombay will get no relief. According to the proposal made above, all provinces will be interested in accelerating the pace of the gradual remission of provincial contributions to which the Government of India have definitely committed themselves by various pronouncements, though they are slow in translating them into action. In the Legislative Assembly (if the Government of India follow the procedure adopted this year), there would be no interprovincial party feelings when a resolution for the remission of provincial contributions comes up for discussion. There will also be no necessity for the Government of India to have recourse to 'non-recurring' grants, as a solatium or 'bribe' to Bombay and other provinces

(3) Some provinces like Madras, United Provinces, and the Punjab, will be losers in the beginning. They will, however, ultimately get an additional source of income as a permanent measure. (Madras will get 27 lakhs.)

(4) The Government of India may object to parting with 271 lakhs as a permanent measure. As, however, this will happen only some years hence it must be quite possible for the Government of India to meet this from the growth of central revenues. In the alternative, the Government of India may have recourse to a fresh form of taxation, even 'death duties', although this is now in the schedule of provincial taxes.

(5) The above proposal, which will be substituted for Devolution Rule 15, confers a substantial benefit on Bombay and Bengal who are not benefited to any appreciable extent by Devolution Rule 18. The proposal, though it involves a slight alteration in the working of both Devolution Rules 15 and 18, has got the advantage of retaining intact the financial arrangements between the Central and Provincial Governments already laid down in the Devolution Rules.

Taxation Committee's Report.

13. It will be seen from Mr. Strathie's demi-official that the Taxation Committee are pursuing their proposals relating to the division of the various heads of revenue between Central and Provincial, thereby upsetting the existing financial arrangements laid down in the Devolution Rules. When a proposal was made by the Bombay members at the Simla Conference of April 1922 for the allocation to the Bombay Government of a substantial share of the income-tax proceeds, counter-balancing this, if necessary, by half the land revenue, the representatives of all the Provincial Governments, except Bombay and Bengal, while placing the greatest emphasis on the necessity for the speedy reduction and abolition of the contributions, were of opinion that the existing financial settlement as contained in the Devolution Rules should be retained intact. This view was endorsed both by the Government of India and the Secretary of State (Pages 6-8 of letter No. 189-B-II-1, Finance, dated 3rd January 1923).

The point has also been noted on at length by the Honourable C-4 in his notes* dated 6th April 1925 and 14th May 1925. As remarked by the Honourable C-4, a further division of the proceeds can only become a live issue when we are in possession of our provincial heads of revenue in their entirety.

V. GOPALAKRISHNA AYYAR—14-9-25.

Sir Percy Thompson's note mentions five possible methods of allocating to the Provincial Governments some share of the proceeds of the income-tax. Mr. Tottenham at the end of his note mentions a sixth method and Mr. Lloyd in his letter of 5th August suggests a seventh. Sir Percy Thompson himself rejects four of the five methods which he puts forward, and Mr. Tottenham in his note, as it seems to me, gives

* *Vide* Notes to Question 147.

convincing reasons for the rejection of Sir Percy Thompson's fifth method. As between the methods advocated by Mr. Tottenham and Mr. Lloyd, I have no hesitation in preferring Mr. Lloyd's, which is simpler to work out and to understand, and as far as I can see should give equally satisfactory results. A possible objection to it may be that it does not give the provinces a sufficient share of any increase of revenue which may result from an improvement in trade conditions; but, as Mr. Strathie mentioned when discussing the matter with me, "salaries" includes not only salaries paid to officials but also those paid to persons engaged in business, which in times of prosperity are at once increased by larger commissions and bonuses, which in their turn will at once yield an increased revenue. The same is the case with income derived from professional earnings. I have therefore considered how far it may be practicable to formulate concrete proposals for a division of the proceeds of the income-tax in the manner suggested by Mr. Lloyd, without foregoing the Madras claim to the complete remission of the provincial contributions. In the Assistant Secretary's note prepared under my orders, a possible solution is suggested, which if the Honourable Member agrees may be further developed.

2. I submit the papers at once without going into further details as I understand that Mr. Strathie is to be in Ootacamund for a few days from the 16th instant, and the Honourable Member may like to take the opportunity to discuss the subject with him. I may also remark that the Indian Taxation Enquiry Committee have asked for this Government's views on Sir Percy Thompson's note and that I have promised them a reply by the end of this month.

G. T. BOAG—14-9-25.

I was under the impression when I last saw Sir Percy Thompson's note that I understood it. If I did, I no longer do and I am also deprived of the intellectual interest of scrutinising the formula with the aid of the calculus as apparently one critic did. Apparently, we have to start with the gross collections of each province. Adjustments to arrive at the net collection for the purpose of this formula are to be made in respect of profits earned in several provinces but taxed in one only. How this is to be done I do not know or have forgotten. Secondly, income-tax on the interest of Government of India securities is to be deducted. Why I do not know or have forgotten. The net resulting collections in a particular province are to be divided into (X—Y) and Y, Y representing the profits of limited companies and interest on provincial or municipal loans. Only one-third of Y is to be credited to the province as part of its net collections. According to the example given, if one province A collects one crore entirely from general sources while another B collects two crores, one crore being from the tax on profits of limited companies and provincial or municipal loans, the net collection of A is one crore and of B one and a third crore. To arrive at the ultimate proportion in which a sum Z would be distributed between the two provinces the remaining two-thirds Y is so distributed by the formula that A will get nine-sevenths of this sum Z, and B will get twelve-sevenths. These calculations can be extended to any number of provinces, but the practical value of the formula is destroyed by the admission that the ratio of 1 : 2 in respect of origin and domicile is admitted to be purely arbitrary, and we are thrown back once more on the fundamental issue that origin and domicile do not correspond. If we are reduced in any case to arbitrary assumptions, it is much easier to admit that they are arbitrary than to surround them with formulæ which give a spurious appearance of equity. Mr. Lloyd's proposal seems to me very much to be preferred. The real difficulty seems to be that Bombay and Bengal are not likely to accept it because what they are after, is to secure a share in the tax derived from those big concerns which with ramifications all over India pay income-tax at their headquarters in Bombay and Calcutta. We, however, are not concerned with their possible objections. If they are not prepared to accept Mr. Lloyd's proposals as a basis for discussion, it is for them to put forward an alternative and for us, if need be, to raise our objections to that alternative. But if we are to make further progress, it seems clear that Sir Percy Thompson's last scheme must be got rid of. I think we should inform the

There is to be a preliminary adjustment but how conducted I do not know.

T.E.M.

Committee that on general grounds as any scheme apparently involves an arbitrary assumption we prefer an arbitrary assumption which admits of a simple application to facts to one which involves elaborate formulæ which few people will understand, and that on this ground of simplicity alone we prefer Mr. Lloyd's proposal to Sir Percy Thompson's scheme. As I have stated, I may be quite unjust to Sir Percy Thompson's scheme. If so, I should be grateful if Secretary would point out where and to what extent I have erred.

2. As regards the Assistant Secretary's note, I am not prepared at this stage to confuse the question of the final remission of the contribution with the question of the division of any surplus available after a total remission has been achieved. The only conditions, as far as I can see, under which it would be to our advantage to assent to their being linked together would be that the Government of India should give us a guarantee that the balance of our contribution shall be remitted by fixed instalments spread over a period of years. In that case, we could not object to any surplus after the fixed instalment had been remitted being divided among the provinces with reference to income-tax in such proportion as may be fixed with regard to Mr. Lloyd's proposals or any other scheme that may be evolved and accepted.

T. E. M[OIR]—23-9-25.

I can find no injustice to Sir Percy Thompson in Honourable Member's note.

A draft reply is submitted for approval—in demi-official form—as reference is made to Mr. Tottenham's and Mr. Lloyd's notes which reached us demi-officially.

G. T. BOAG—28-9-25.

I have somewhat amended the draft which should be approved by His Excellency before issue.

T. E. M[OIR]—29-9-25

G[OSCHEN]—2-10-25.

Issue.

G.T.B.—3-10-25.

Demi-official from the Secretary to Government, Finance Department, to W. B. BRETT, Esq., Secretary, Indian Taxation Enquiry Committee, Bangalore, No. S. 26, dated the 3rd October 1925.

I am directed to reply to your letter of May 18th, 1925 inviting the comments of this Government on Sir Percy Thompson's note on possible methods of dividing the proceeds of the income-tax between the Imperial and Provincial Governments.

2. The Madras Government agree that none of the first four of the five methods which Sir Percy Thompson suggests can be deemed to offer a practical solution of the problem. Sir Percy Thompson considers that his fifth method, by which he proposes to allocate to the various provinces a definite proportion of the yield on principles to be determined, provides the most appropriate solution. The difficulty which confronts him here is to find a satisfactory basis on which to allocate the share of the tax surrendered by the Imperial Government between the various Provincial Governments. For he considers it inequitable simply to make the amount allocated to each province proportionate to the amount collected in that province, even after making adjustments on account of income assessed in one province but earned in or derived from another province or provinces. Sir Percy Thompson says that this adjustment is in fact made for the purpose of Devolution Rule 15; this, however, does not seem to be the view of the Central Board of Revenue, for Mr. Tottenham finds in this preliminary adjustment the main administrative difficulty of the proposal; further Sir Percy Thompson does not tell us how the adjustment is made, though he considers that the collections even as so adjusted do not provide a scientific or an acceptable basis for the division, because under this scheme the provinces in which income originates will receive too large a share. He therefore proposes to apply to the collections of each province as so adjusted a formula to determine what share

of the proceeds is to be allocated to the province in which the income originates and what share to the province in which the person who pays the tax resides. But before applying the formula, he deducts from the provincial collections income-tax on the interest earned by Government of India Securities. The reason for this deduction is not explained, nor is it apparent. And before applying the formula it is further necessary to decide (1) to what classes of income it is to be applied and (2) what weight is to be attached to origin and domicile. The first question is answered by restricting the adjustment to dividends of corporate companies and interest on provincial and municipal loans, which are the two cases in which origin and domicile tend to diverge. And the second question is answered by a tentative allocation of one-third of the tax yielded by these two classes of income to the province of origin and two-thirds to the province of domicile. The formula is then applied to the collections of two provinces, A and B, where it is assumed that twice as much is collected in B as in A, and that half B's collections come from the tax on limited companies and on the interest of provincial or municipal loans. The result of the application of the formula to these provinces is that B gets five-sevenths and A two-sevenths of the tax on limited companies and on the interest of provincial or municipal loans.

3. The Madras Government have no particular criticism to offer of the formula or of the result of its application. The ratio of 1 : 2 is itself admittedly arbitrary. On general grounds, however, they would demur to the adoption of a method which, while involving the use of a series of purely arbitrary assumptions, conceals its hypothetical quality behind a show of mathematical accuracy. The fact is that origin and domicile in many cases do not correspond; and in any attempt to make allowance for this condition, we must inevitably be reduced to arbitrary assumptions. We should prefer to make a frank admission that the assumptions are arbitrary than to surround them with formulæ which give a spurious appearance of equity.

4. For this reason, we consider that the method of division put forward by Mr. Lloyd is much to be preferred to Sir Percy Thompson's. Mr. Lloyd's method which takes into account only those categories of income-tax which do not involve elaborate adjustments may be arbitrary also; but it admits of a simple application to facts and does not involve the use of elaborate formulæ which few people will understand. The necessity for these arbitrary assumptions destroys any claim to scientific accuracy on behalf of any of the other methods so far proposed, and since scientific accuracy is unattainable, we should, on the ground of simplicity alone, prefer Mr. Lloyd's proposals. This view is tentative and if we have failed to grasp Sir Percy Thompson's scheme, we are quite prepared to consider a further exposition of it or of any new method that can be devised. I may add that our adherence to any method will be solely with reference to the assumption that, other legitimate claims having been satisfied, the Government of India have a surplus for division among the provinces.

TAXES ON CONSUMPTION

QUESTIONS 48 TO 50

Question 48.

48. What comments would you make on the views expressed in the following quotations:—

"The aim of taxation is revenue; by confining indirect taxes to a few articles the cost of collection is diminished; the selected articles should be, however, sufficient in number and of such a kind as to touch all classes, and to reach in a moderate degree those who do not contribute to direct taxation. (*Armitage Smith: Principles and Methods of Taxation, page* 92.)

"Probably in the spending of *every* wage there is some part that is ineffective and some part that is positively detrimental from the efficiency point of view. If we can succeed in pegging a tax at that point, and reduce the quantity of the commodity obtained, we may in the one case leave efficiency unaffected, and in the second positively increase it." (*Stamp: Fundamental Principles of Taxation, page* 74.)

"The rule that necessaries should be free and that indirect taxes should fall only on luxuries is thus a counsel of perfection not always attainable; in a country where three-fourths of the population consume no luxuries, the majority can only be taxed through necessaries, and in these circumstances there is no hardship in such a tax." (*Armitage Smith: Principles and Methods of Taxation, page* 92.)

Answer to Question 48.

Nil.

Question 49.

49. In other countries an excise duty is frequently imposed on various commodities side by side with a customs duty of equal or greater amount. A list of articles which are the subject of such duties is given below. In the event of new taxes being required to replace taxes that may be abolished or reduced, would you recommend an excise on any of the articles in this list which are not at present subject to an excise in India?

Acetic acid.	Oleomargarine.
Aerated waters.	Patent medicines.
Benzine.	Perfumery.
Candles.	Petrol.
Cartridges.	Paraffin oil.
Chewing gum.	Playing cards.
Cigarette papers.	Pleasure vessels.
Chocolates.	Saccharine.
Coal.	Salt.
Coffee.	Soap.
Cotton goods.	Sauce.
Crude oil.	Sugar.
Electric power.	Sweets.
Gas.	Tobacco.
Lighting materials.	Toilet articles.
Matches.	Wax.
Meat.	Yeast.
Motor-cars.	

Answer to Question 49.

Director of Indus ries.

Most of the articles enumerated in this question are either not manufactured in India or are produced only in very limited quantities. If it is desired to encourage the indigenous manufacture of articles mainly imported and now subject only to a customs duty, e.g., matches, the imposition of an excise would defeat this object.

Further Notes on Question 49.

Extract from a demi-official, dated 31st March 1925, from the President, Indian Taxation Enquiry Committee.

On consumption taxes the ideas so far put before us are a tax on ærated waters (levied on the cylinder of carbonic acid gas), matches, patent medicines (a stamp duty as in England), perfumery and toilet articles (particularly those that contain spirit) and tobacco (which I will deal with later).

Note, dated 23rd May 1925, from the Taxation Enquiry Committee, for discussion with the Government of Madras.

Substitutes for taxes which may be abolished or reduced.—Excises have also been suggested on ærated waters, matches and patent medicines. The Committee would be glad to know whether the Local Government consider these suggestions suitable. In the case of matches, a special reason exists in the fact that large firms have started to manufacture matches in India using imported materials under cover of a tariff duty which is not intended to be protective. Thus a most unstable industry is being fostered.

Note by the Finance Department.

As regards the extract in the demi-official, dated 31st March 1925, possibly taxes on ærated waters and on patent medicines, perfumery and toilet articles, have already been examined. I do not understand the reference to matches, as there is already a considerable duty on matches, and if more revenue is desired from that source, the simplest method is to increase the tax. If an excise duty is indicated, we shall simply be told that we are trying to crush indigenous industries. Any papers on the subject that we have may, however, be put up.

2. As regards patent medicines, perfumery and toilet articles, they fall into two classes :—

(1) Those imported.

(2) Those made in the country.

Possibly the Collector of Customs could give us information, if it is not available in the Sea-Borne Trade accounts, as to the value of imports. A very large number of patent medicines are constantly advertised in the newspapers in this country, but I have no idea as to their vogue nor as to the practical difficulties which would arise in attempting to tax them. Perfumery and toilet articles form a very wide head. Perfumery certainly is largely manufactured in this country, rose water, I presume, being the principal article. Where it is made or how I have no idea. Toilet articles would include even soaps, tooth brushes, tooth powder, hair brushes and a thousand-and-one articles which, so far as they are imported, do, I presume, pay customs duty either as luxuries or at one of the lower rates. I should like information on these points.

I cannot understand any one proposing to tax articles of this kind made in the country and thus to put further disabilities on personal cleanliness.

T. E. MOIR—6-4-25.

FINANCE (E.T.) DEPARTMENT.

Extracts of the Secretary's note are apparently sent to this section for furnishing information as to the value of imports and the rates of duty on matches, patent medicines,, perfumery and toilet articles. Information so far as available in the latest Sea-Borne Trade accounts of the Madras Presidency is tabulated in the following statement.

(Customs is no longer under the control of this Government.)

Statement showing the imports of certain articles into the Madras Presidency.

Articles.	In 1921-22.		In 1922-23.		In 1923-24.		Rate of duty.
	Value of imports.	Duty collected.	Value of imports.	Duty collected.	Value of imports.	Duty. collected.	
	RS.	RS.	RS.	RS.	RS.	RS.	
Matches	15,76,043	7,62,881	14,61,262	13,13,052	12,87 970	12,68,966	Annas 12 per gross of boxes from 1st March 1921. Rupees 1-8-0 per gross of boxes from 1st March 1922.
Proprietary and Patent Medicines.	1,90,388	(a)	1,39,140	(a)	1,31,722	(a)	11 per cent from 1st March 1921 and 15 per cent from 1st March 1922.
Perfumery (not being perfumed spirits).	34,012	2,387	48,330	6,082	94,294	13,026	Do. do.
Perfumed spirits ..	59,852	19,989	37,385	18,182	55,175	32,930	Rupees 30 per imperial gallon from 1st March 1921 and Rs. 36 from 1st March 1922 or 15 per cent *ad valorem* whichever is higher.
Toilet requisites (other than soap).	1,19,066	13,307	2,92,100	44,304	3,14,914	45,918	11 per cent from 1st March 1921 and 15 per cent from 1st March 1922.
Soap	6,45,579	74,581	9,52,718	1,44,976	11,35,945	1,70,921	Do. do

(a) Separate figures are not available in the Trade Accounts.

E.V.—15-4-25. V.K.C.—16-4-25.

Locally-manufactured perfumery and toilet requisites that contain spirit pay either customs duty or excise duty on the spirit contained in them. Revenue can supply information regarding excise duty.

2. The import duty on matches is already so high that smuggling across the land frontier is encouraged. Presumably the reference is to locally-made matches. This industry is in its infancy if it can be said to exist at all.

J. B. BROWN—18-4-25.

FINANCE (ACCTS.) DEPARTMENT.

Paragraph 1 *of Secretary's note.*—The various consumption taxes referred to in the demi-official from the President, Taxation Enquiry Committee, are taxes on—

(i) Aerated waters (levied on the cylinder of carbonic acid gas).

(ii) Matches.

(iii) Patent medicines (a stamp duty as in England).

(iv) Perfumery and toilet articles (particularly those that contain spirit).

It is observed from the division of proceeds that they are proposed to be retained as 'central' revenues.

2. *Item* (i) *in paragraph* 1 *above.*—Aerated waters are consumed to a large extent in this Presidency but no information is available as to the amount of revenue which can be expected from this source.

I am not in favour of this. A small tax of 3 pies a bottle on a very harmless occasional luxury of the poor might seriously affect consumption without giving much revenue ; at one time I think we tried to encourage the substitution of tea and other non-alcoholic drinks.

T. E. M[OIR]—15-5-25.

3. *Item (ii) in paragraph* 1 *above—Matches.*—An import duty of Rs. 1-8-0 is now levied per gross of boxes (in boxes containing on the average ***not more than*** 100 matches) and of As. 6 for every 25 matches or fraction thereof in each box per gross of boxes (in boxes containing in the average ***more than*** 100 matches). The Deputy Secretary has noted that the import duty on matches is already so high that smuggling across the land frontiers is encouraged and that presumably the reference in the demi-official from the President, Taxation Enquiry Committee, is to ***locally made*** matches and that the industry is in its infancy if it can be said to exist at all.

I do not know what protection would be necessary to a match industry in India ; the higher the duty goes the nearer you get to losing revenue which is not an object for which the Taxation Enquiry Committee was appointed.

T. E. M[OIR]—15-5-25.

It is submitted that matches are an article of necessity and the import duty is already high and an excise duty on locally-made matches will be vehemently opposed by the public nor will the tax be productive of any large sum. Submitted that the imposition of additional taxes may be opposed.

4. *Item (iii) and (iv) in paragraph* 1 *above and paragraph* 2 *of Secretary's note.*—A statement showing the value of imports and duty collected on these articles has been printed.

Deputy Secretary remarks that locally-manufactured perfumery and toilet requisites that contain spirit pay either customs duty or excise duty on the spirit contained in them.

In the case of patent medicines, perfumery (not being perfumed spirits) toilet requisites and soaps an *ad valorem* duty of 15 *per cent* is now charged. In the case of perfumed spirits, a duty of Rs. 36 per imperial gallon or 15 *per cent ad valorem*, whichever is higher, is charged.

On necessary toilet requisites the tax is quite high enough ; on luxury articles higher taxation will reduce consumption or divert it to the cheaper preparations. In either case the equivalent revenue is not forthcoming.

T. E M[OIR]—15-5-25.

As the taxes proposed will put further disabilities on personal cleanliness, presumably they should be opposed.

V.V.—21-4-25.

Patent medicines are of two kinds : quack and those which doctors recommend. Additional taxation on the first class would be desirable, but I do not know if a schedule could be prepared, or whether the additional trouble in assessment would be justified by the additional revenue.

T. E. M[OIR]—15-5-25.

Question 50.

50. "It is possible to apply to indirect taxation the graduated or progressive principle which is now becoming so popular in the case of direct taxation. Why should not taxation on consumption be so graded as to fall with heavier impact on the consumption of the wealthier classes? Why should not the whisky tax be imposed at a higher rate on the better grades? Why should not the tobacco tax be so arranged as to increase progressively with the price of the cigar? If we apply graduated taxation to incomes, inheritances, and property, why should we not utilise the same principle, as far as practicable, in the case of articles of consumption?" (*Seligman, quoted in Bullock: Selected Readings in Public Finance, page* 698.)

Do you consider such graduation practicable?

Answer to Question 50.

Commissioner of Excise.

To a certain extent such a graduation is possible in the case of imported liquor; the customs import tariff, for instance, classes champagne by itself for purposes of assessing duty. But the graduation can only be a rough one into broad grades of classes, because the 'value' of such articles as choice wines or liquors depends, to a great extent, in countries where the standard of living or of luxury is high enough to give rise to an appreciable demand on such imponderable factors as fashion or taste. In this country I question whether any useful purpose would be served by attempting a more particular graduation; the class which consumes these articles is very limited both in numbers and in wealth. So far as such articles subject to duty of excise are concerned, I do not consider that the conditions in this country are such as to render such a 'graduation' practical. No one, so far, has thought of laying down a cellar of 'choice old arrack,' nor is there such a thing as 'vintage toddy'. The taxation is and can only be based (in the case of liquors other than toddy and beer) on the alcoholic strength.

SALT.

QUESTIONS 51 TO 60.

Note.—After Question 60, see further notes on Questions 51 to 60.

Question 51.

51. Please say whether you accept the following statement of the general policy in respect of the taxation of salt which is extracted from a recent American publication * :—

"From ancient times salt has frequently been selected for special taxation. Almost every country has taxed it at one time or another. An alternative method of exacting revenue from the salt industry has been to make it a fiscal monopoly. Such has been the case in Japan, China, France, Austria and Italy. Elsewhere it is usually the object of a high excise duty. From every point of view salt is admirably adapted to be a tax-bearer. It is universally used, but the amount that is used by any one tax-payer is small. The demand is very inelastic, especially when the tax is confined to salt used for cooking purposes While the yield, unless the rate be very high, is not large, it nevertheless amounts to something, and in the case of a fiscal necessity all sources may need to be drawn upon. The purpose of regulation plays no part in the taxation of salt."
(* *Jensen : Problems of Public Finance, pages* 303-304.)

Answer to Question 51.

Collector of Salt Revenue.

I accept the statement of the general policy to be followed in respect of the taxation of salt.

Taxes are imposed to meet the expenditure incurred by Government for the benefit of all classes of the people under its rule. It is therefore reasonable that every class of the population, however poor, should contribute something however little to the public revenues. Salt is an article of universal consumption. The tax on salt is therefore an admirable method of ensuring that every member of the community pays something towards the public exchequer. On the other hand, no particular member of the community uses a very large quantity of salt nor does any particular class use an undue quantity as compared with other classes, so that the tax does not press too heavily on any particular individual and is not unfairly oppressive on any particular class. Again the salt tax is an indirect tax and as such is a tax which can be collected from the poorest classes, from whom it is almost impossible to collect direct taxes, in a form which is not irritating and causes little protest. Salt is a necessity and consequently the consumption of it cannot be curtailed to any great extent by an increase of the tax. The demand is inelastic and is not affected by the rate of tax This is an advantage from the point of view of the budget maker and is not disadvantageous from the point of view of the tax-payer so long as the article taxed, as is the case with salt, is not used in very large quantities by any individual tax-payer and so long as the tax is limited, as it is in the case of the salt tax, to a figure which is not large enough to affect consumption and cause deprivation. Ideally a tax on luxuries is no doubt to be preferred to a tax on necessaries but in a country like India where a very large proportion of the population do not use luxuries, it becomes necessary to tax necessaries in order that a large proportion of the population may not escape taxation altogether.

The objections usually raised against the salt tax are—(1) That it is oppressive in its action upon the lowest class of the population because it raises the price of salt and consequently deprives the people of the use of an article which is essential to their well-being. There is, however, no proof that the poorest classes are deprived of the full quantity of salt they want owing to the tax and it does not appear that they pay unduly for it. In the Madras Presidency with the salt tax at Rs. 1-4-0 the incidence of taxation per head of population per annum is only 5 annas 1·8 pies and the average retail price of salt throughout the Presidency is

only 1 anna 9 pies per Madras measure of 120 tolas. It cannot, therefore, be said that the tax is oppressive or that the price of salt is excessive. It is significant that there are very few cases of illicit manufacture of salt or of attempted theft of salt from factories before duty has been paid on it, which indicates that the price of duty-paid salt is so low that there is no inducement to break the law in order to get it cheaper. Further it by no means follows that the abolition of the tax would mean a decrease in the retail price. The Government, while imposing the tax, take steps in various ways to see that the retail price is not unduly high. The abolition of the tax and the consequent withdrawal of all Government control would probably mean more profit for the middleman engaged in the salt trade with no benefit to the consumers.

(2) That it is a bar to scientific farming. Although India is an agricultural country, there is little scientific farming on a large scale. The main reason would seem to be, not that the salt tax prevents the extensive use of salt manures (actually in Madras very little salt is used as manure), but that the land is in the hands of millions of small holders. There will perhaps be a case against the salt tax on this score when scientific farming has made some headway, but there are many more formidable obstacles than the salt tax to be got over first and in India it is certainly not true that the salt tax is one of the main obstacles to scientific farming on a large scale.

(3) That it hampers industries. Some industries use salt, such as soap and glass industries, but it is recognized that salt required for legitimate industrial purposes should be issued duty-free. All industries which require salt do get it duty-free and there have been no complaints as to the conditions under which it is issued.

None of the above objections are very cogent. I consider therefore that the salt tax is an admirable form of indirect taxation. It is a tax of general incidence reaching the poorest classes but is not oppressive in its action on even the ver poorest. It yields a considerable revenue and is comparatively easy to collect.

Note by the Finance Department.

The Collector of Salt Revenue accepts the statement of the general policy in respect of the taxation of salt.

E.V.—27-3-25. V.K.C.—28-3-25.

Salt is a necessity of life. Theoretically it is objectionable to tax such articles, except as a last resort. However the system exists in India, has existed for a long time, and is tolerated. The Salt Revenue establishment being in existence, and capital being sunk in the factories, the perpetuation of the salt tax is administratively convenient and at the same time not excessively burdensome to the public.

2. Regulation of methods of manufacture plays no part in the taxation of salt.

J. B. Brown—6-4-25.

I am not quite sure what is meant by 'the purpose of regulation'. I think it means that it is not intended, by taxing salt, to regulate the consumption; and if this is so, the statement is obviously true.

Regulation of the methods of manufacture is an incident of the taxation of salt in India, or at least in Madras, in that Government have conceived themselves to be bound, in taxing a necessary, to see that a fairly pure article is supplied.

I agree that the tax involves no appreciable burden, at any rate at which it has been levied in recent years. It is a tax which must be continued unless it is intended to abandon it for ever since, under Indian conditions, if the machinery were once scrapped, it would be very difficult to reassemble it.

R. A. G[raham]—10-4-25.

Question 52.

52. Assuming that it is proper to impose any taxation at all upon the poorest classes, do you accept the statement that "it would be difficult to devise any other duty of general incidence less oppressive and less open to evasion" than the salt tax? If not, what tax would you substitute? (*Armitage Smith: Principles and Methods of Taxation, page* 146.)

Answer to Question 52.

Collector of Salt Revenue.

I accept the statement. A tax of general incidence must be a tax on an article of food which is consumed by all classes of the community. Even a tax on land is not a tax of general incidence since every one does not own land. Salt is the only article of food used universally by all classes, rich and poor, and the tax is not oppressive because the quantity used by each individual is small.

Other possible alternatives, though neither are so universally used as salt, are betel leaves and tobacco. A tax on either of these would be very difficult to collect. In a large agricultural land like India, it would be a very difficult and expensive task to prevent the illicit cultivation of either betel or tobacco, whereas in the nature of things salt can only be obtained in a small strip of land along the coast which it is comparatively easy to 'protect'.

Note by the Finance Department.

The Collector accepts the statement and says that salt is the only article on which a tax of general incidence could be imposed without difficulty in collection and with the least possibility of evasion.

E.V.—27-3-25. V.K.C. 28-3-25.

It would be difficult to devise any other duty of general incidence that would be less oppressive and less open to evasion. So long as the duty remains at or about Rs. 1-4-0 a maund there is no incentive to resort to illicit manufacture. Assuming an average consumption of about 20 lb. per head per annum, the tax amounts only to about 4 annas a head for each rupee of duty per maund. One point cannot be overlooked, namely, that the collecting and controlling agency is ready to hand.

	Per head. POUNDS.
1923-24	18·11
1922-23	21·19
1921-22	18·88

J. B. BROWN—6-4-25.

R. A. G[RAHAM]- 10-4-25.

Question 53.

53. Having regard to the rates imposed in other countries as shown in Annexure G, do you consider that the rate of tax at present imposed in India is high or low?

ANNEXURE G (Question 53.)

Rates of Salt Taxation abroad.

For the monopoly countries, the rates of taxation are not available. The following figures have been obtained by dividing the net profit of the monopoly by the population—

	RS.	A.	P.	
Italy	1	11	0	a head per annum.
Czecho-Slovakia	1	14	0	" "
Austria	2	12	0	" "
Hungary	1	4	0	" "
Japan	0	4	0	" "

(Figures based on par of exchange.)

France	10 fr. per 100 kilogrammes = Rs. 2-3-3 a maund.
Greece	25 lepta per ocque = Rs. 5 a maund.
Switzerland	Figures not available.
Germany	Figures not available.

Answer to Question 53.

Collector of Salt Revenue.

The incidence of the salt tax in the Madras Presidency may be taken to be, with the salt tax at Rs. 1-4-0, As. 4-4·8 pies. This figure is calculated by dividing the amount of duty collected on salt which leaves the factories by the population. The incidence in 1922-23 shows a higher figure As. 5-1·8 because owing to speculation by the merchants very much more salt left the factories than was consumed during the year. Annas 4-4·8 may be said to be the normal. This cannot be said to be high though in making comparisons with other countries the average income per head of population or in other words the comparative capacity to pay taxes must be taken into consideration. Even however allowing that the average income per head of population in India is comparatively low, the rate of the salt tax in India is not high.

Note by the Finance Department.

The incidence of salt tax in Madras with duty at Rs. 1-4-0 is 4 annas 4·8 pies per annum. The income per head of population in the Madras Presidency ranged from Rs. 102 to Rs. 112 according to an estimate made by Doctor Slater for the year 1919-20. The present rate of salt tax does not seem to be high when compared with the average income.

E.V.—27-3-25. V.K.C.—28-3-25. J.B.B.—6-4-25.

I do not think we can go into average incomes per head. The incidence at present is low rather than high.

R. A. G[RAHAM]—10-4-25.

Question 54.

54. Roughly speaking, half the salt manufactured in India is sold directly by Government at cost price, half by licensees at a competitive price. Would you advocate an extension of either system at the expense of the other?

Answer to Question 54.

Collector of Salt Revenue.

If salt is to be taxed, the primary duty of Government is to collect the tax imposed upon it, whatever form that tax may take. Since however in taxing salt Government are taxing a necessity of life, Government have a secondary duty to perform, which is almost as important as the duty to collect the tax. Government is under an obligation to see that the people get a reasonably pure article and that they do not pay an unduly high price for it. Clearly one method of achieving this double object is to make salt a Government monopoly, in which case Government would be entirely responsible for manufacturing good salt and for selling it to the public at a cheap rate. Any profit which the Government might make on the sales would then be placed on the credit side of the public accounts and would be in lieu of an excise duty.

Apart from the practical difficulty of interfering with many well established private interests at this stage, there appear to me to be some very serious objections to a Government monopoly. The whole object of a monopoly would be to ensure that the retail price was reasonably low. To achieve this, Government would have to make itself responsible not only for the manufacture of salt and its wholesale disposal, but also for retail sales, otherwise there would be no guarantee against profiteering in retail sales and either Government would make no profit or the retail price to the public would not be controlled. A very large Government staff would have to be maintained not only for manufacture but also to control the whole process of distribution from the factory to the consumer. This would be very expensive and it is very doubtful indeed if Government could ensure a low retail price and at the same time get any profit. I consider too that the Government monopoly of a necessity of life is objectionable on political grounds.

If, on the other hand, a wholesale excise system is resorted to and Government make themselves responsible for the collection of the excise duty and nothing else, allowing the licensee to make what salt he likes and to sell it where and at what price he likes, there is a great danger of the consumer being forced to pay a high price for a commodity upon which Government have imposed a high duty and for which consequently Government are morally obliged to see that the price is not unduly high.

It therefore appears that the only practical solution is a *via media*—an excise system under which both the quality of the salt made and the price at which it reaches the consumer is in some way controlled by the authority which imposes the excise duty. This is the system now in force in Madras, under which Government control to some extent the quality of the salt manufactured by excise licensees and by the manufacture and sale of Government salt seek to control the price of excise salt. The question remains as to whether it is desirable to extend this control by increasing Government stocks or whether it is now safe to slacken the control to some extent by curtailing Government manufacture, in which latter case the further question arises as to whether some means, for ensuring a low retail price, other than that of accumulating Government stocks and putting them on the market when necessary, might not be devised or whether the competition of licensees is not itself a sufficient safeguard to ensure that salt reaches the consumer at a low price.

If a monopoly system is to continue side by side with an excise system, any extension of the monopoly system at the expense of the excise is *prima facie* uneconomical, because it is only advisable to put monopoly salt on the market when excise prices show a tendency to rise. If there is no tendency to rise, it is obviously undesirable to hamper free competition, which itself regulates prices, by selling monopoly salt which cannot as a rule be made so cheaply as excise salt and has consequently to be sold at a loss. Thus large stocks of monopoly salt are accumulated which it is not desirable to sell in normal years. Eventually they become unsaleable and have to be destroyed. The whole process is most uneconomical. The only question is as to whether it is worth while to incur this loss in order to gain the advantage of having large Government stocks available on any occasion when they may be wanted. I do not think that it is. In normal years when salt is plentiful, there are now, I think, sufficient factories and sufficient competing licensees to ensure that the price of salt does not rise too high. It is only in bad years either owing to bad seasonal conditions or owing to a national crisis, such as the late war, that the necessity for large monopoly stocks would arise. I consider that with the further extension of salt pans over widely separated parts of the coast the danger of a bad year in all parts has been minimised and that the occurrence of a national catastrophe cannot be legislated for. While not recommending the abolition of monopoly manufacture altogether, I do not consider that there is a case for the extension of the system and I consider that the uneconomical accumulation of large Government stocks is too high a price to pay for a possible safeguard in a crisis, the occurrence of which I believe to be doubtful.

It follows from what has been said above that I would recommend the gradual extension of the excise system at the expense of the monopoly even though the salt sold by Government is already in the Madras Presidency very much less than half of the total amount sold. The figures for 1923-24 are 'salt sold by Government' 2,758,054 maunds, 'Salt sold by excise licensees' 8,563,401 maunds. Generally speaking, I would recommend the abolition of monopoly pans and their conversion into excise wherever there is excise salt in the same locality. This would leave as monopoly the Ennore factories where there is no excise salt to compete with the monopoly salt and such small monopoly factories as Karambalam where the salt is made for a special purpose, in this case for supply to the French Government. I consider it advisable to retain Ennore as monopoly because it is desirable to have one fairly large centre of Government stock for emergencies. The conversion of other existing monopoly pans into excise does not necessarily imply the entire loss of control by Government over prices. One of the great defects of the monopoly system is that Government have to accumulate stocks every year whether they want them or not. In converting existing monopoly blocks into excise I would lease out the right to manufacture under what is known as the modified excise system with a clause whereby Government have a lien on a certain percentage of the salt manufactured which, if it is wanted, the licensees are bound to sell to Government at a fixed price. By this system it is unnecessary to accumulate large Government stocks, whereas, if necessity arises, Government can always have at its command a stock of salt if it becomes necessary in any particular place to lower the price of excise salt, on an occasion for instance, where, owing to the failure of one or two licensees, one particular licensee is left in the position of a monopolist.

The gradual conversion of monopoly into excise on the lines indicated above would not in the Madras Presidency constitute any great revolution. There are now only 6,046 acres of monopoly pans of which 3,523 are at Ennore. Of the balance of 2,523 acres I would retain 485 acres for special supplies which leaves a balance of 2,038 acres. The 90 acres of monopoly pans at Karasa can no longer be worked as the factory has to be closed owing to the harbour works and Government have approved of the conversion of the 162 acres of monopoly pans at Kanuparti into modified excise. There remain 1,786 acres for conversion of which 667 acres are the monopoly pans at Ganjam which have not been worked for the last four years.

While recommending the gradual conversion of monopoly pans into excise, I would not relax the control already exercised by Government over the production of a pure salt both in excise and monopoly factories. Government is responsible for seeing that the public gets a pure article and I consider that this object can be attained by a thorough system of laboratory tests and of brine tests in the factories and the strict refusal to store or let out of the factory any salt which does not pass these tests. I consider that this can be done without undue interference with an excise licensee's method of manufacture and the manufacture of that kind of salt, so long as it is pure, which is best suited to meet the demand of the market which it supplies.

Note by the Finance Department.

So far as the Madras Presidency is concerned the quantity of salt sold during the three years ending 1923-24 is as follows :—

Year.	Government salt.	Excise salt.	Total.
	I. MDS.	I. MDS.	I. MDS.
1921-22	3,393,973	9,008,916	12,402,889
1922-23	3,294,828	9,859,059	13,153,887
1923-24	2,758,054	8,563,401	11,321,455
Total ..	9,446,855	27,431,376	36,878,231

It will be seen from the above statement that the ratio of Government and excise salt sold is roughly 1 : 3.

2. In connexion with the proposals for retrenchment in expenditure the Board of Revenue suggested in paragraph 16 of its proceedings printed on pages 20-22 of G.O. No. 470, Finance (Separate Revenue), dated 6th November 1922, the conversion of most of the monopoly factories into excise or modified excise. This Government did not support the Board's suggestion (*vide* paragraph 13 of letter to India No. 471, dated 6th November 1922). The Government of India have, however, remarked that they are provisionally inclined to the Board's views and stated that the question should be further examined after the reconstitution of the Board of Inland Revenue (now Central Board of Revenue)—*vide* paragraph 3 of India's letter No. 79, Salt, dated 24th April 1923. The Collector of Salt Revenue advocates the abolition of monopoly pans and their conversion into excise wherever there is excise salt in the same locality, Government retaining only a lien on a certain percentage of the salt manufactured which, if it is wanted, the licensees are bound to sell to Government at a fixed price.

E.V.—27-3-25. V.K.C.—28-3-25.

Thus Government avoid loss on wastage as well as unnecessary locking up of capital.

J. B. BROWN—6-4-25.

On principle I am in favour of monopoly and I do not agree with the Collector that this would involve entry into the retail trade.

It is not much use however unless the monopoly is universal and at present apparently three quarters of the salt sold in Madras and a still larger proportion of that sold in Bombay is excise. In the north, outside Bengal, I believe the system is monopoly; and the questionnaire is concerned with India as a whole.

This question is, I think, connected with Sir Charles Todhunter's scheme of large scale manufacture and sale.

R. A. G[RAHAM]—10-4-25

Question 55.

55. If it were shown that a cheaper and purer article could be produced by substituting large scale manufacture for production by a very large number of petty holdings, would you consider this a proper ground for a gradual extension of the Government monopoly ?

Answer to Question 55.

Collector of Salt Revenue.

As already stated I consider that it is one of the primary duties of Government in imposing a duty on salt to see at the same time that the article reaches the consumer at a reasonably low price. I have also stated in answer to question 54 that I believe that the competition to sell their salt between different licensees is one of the most effective means to prevent a high retail price. If then by large scale manufacture is meant the manufacture of salt in a very few selected areas by a very small number of capitalist licensees, small enough in numbers to be able to combine and create a monopoly, then I should certainly consider that this state of affairs would be a proper ground for the extension of the Government monopoly, because the element of competition to regulate prices would be absent and Government would be obliged to step in to break up a private monopoly. The cost of manufacture might be cheaper and the quality of the article made might be better but there would be no guarantee that the combine might not profiteer and instead of reducing retail prices actually raise them.

A less extreme form of large scale manufacture would not however, I consider, be a good ground for extending the Government monopoly. So long as the number of licensees in each factory and the number of factories are sufficient to ensure competition, I see no necessity for the extension of the Government monopoly on account of a substitution of large scale manufacture to this extent for the production by a very large number of petty holdings. Large scale manufacture to this extent would in all probability result in a reduction of the cost of manufacture and so long as the element of competition between the manufacturers is not eliminated by too restricted a number of manufacturers, there is no reason to suppose that the retail price would rise. It should under the ordinary laws of competition fall.

The question is a hypothetical one. I am asked to state whether, supposing a certain state of affairs were to exist, a certain course of action would be desirable. I therefore refrain from comment both on the truth and on the desirability of the hypothetical premise, both whether I consider that large scale manufacture would result in cheaper and purer salt and also whether, supposing that it did, it would for other reasons be a desirable state of affairs.

I have taken the word 'cheaper' in the question to mean 'cheaper to produce,' not 'cheaper for the consumer.' If the latter meaning is given to the word, then I would deny the truth of the hypothesis. It does not necessarily follow that large scale manufacture in its extreme form would mean a cheaper article for the consumer and if in a more limited form, large scale manufacture did result in a cheaper and better article to the consumer, then there would be no ground for Government interference which seems to me to be undesirable for other reasons.

It seems to me to be perfectly reasonable to argue that, even assuming that large scale manufacture would reduce the price of salt, large scale manufacture by Government would not have this result, for the simple reason that Government is not and ought not to be a business concern. The primary object of a business concern is to make a profit. The price at which the consumer gets the commodity with which the business deals is fixed by a nice adjustment of supply and demand regulated by the competition of other suppliers. Neither the welfare of those who help to produce the commodity nor the welfare of the consumer enters into the calculation of the business except in so far as they tend to increase or decrease his profits.

The primary function of Government on the other hand is to study the welfare of the whole population, whether producers or consumers. It is therefore incumbent upon Government to interfere on behalf either of the one or the other if the course of the business tends to press heavily on either. Government cannot, and should not, assume the dual role of a profit maker or of a protector of the interests of the individuals who produce and consume. Either the profits will become negligible or Government will have to abandon the role on which its existence depends.

Thus I would encourage large scale manufacture as tending to reduce the price of salt, so long as the manufacturers are not allowed to become so restricted as to eliminate competition but I would not advocate large scale manufacture by Government because I do not believe that manufacture by Government would tend to a decrease of the price of salt unless Government were content to forego the revenue which they now get from the duty and because I consider a Government monopoly of an article of universal consumption to be objectionable in itself.

Note by the Finance Department.

Attention is invited to—

(1) Paragraph (5) of Deputy Secretary's note on pages 18–19 of G.O. No. 16, Finance (Separate Revenue), dated 16th January 1924, in which the question of closure of small factories and concentration of manufacture in large factories is dealt with, and

(2) Sir Charles Todhunter's note on pages 32–34 of the same Government Order in which he suggested the constitution of a Government agency for the manufacture and sale of salt with a view to secure an increase in revenue or a reduction in price and an improvement in quality.

The Collector of Salt Revenue is however against the extension of the Government monopoly, salt being an article of universal consumption.

E.V.—27-3-25. V.K.C. 28-3-25.

The consumer in this Presidency does not want purity *per se*; he wants something with a bite in it. He has been accustomed to a certain class of salt which of course varies in different localities. He will endeavour to secure what he wants.

2. If it were shown that a cheaper article could be produced by large scale manufacture under Government monopoly, the question of the extension of Government monopoly might be taken up; but I doubt very much whether extension of Government monopoly will mean cheaper prices to the consumer. Government establishments with pensionary or provident fund systems are more expensive than the staff of a private concern: it is more difficult to weed out the inefficient or dishonest in Government service; in a Government monopoly there is no incentive to reduction in manufacturing cost.

The question is a hypothetical one and requires an answer only when the first premise has been shown to be a fact.

J. B. Brown—7-4-25.

This is probably the main question from Sir Charles Todhunter's point of view and the Collector of Salt seems to have misunderstood it. It does not involve any great increase of Government staff—merely the establishment of one or two depots in every district. It is the Government, and not the licensees, that are to have the monopoly; and the scheme does offer scope for economies which could be passed on to the consumer.

R. A. G[raham]—10-4-25.

Question 56.

56. Twenty-five per cent of the salt consumed in India is imported and the fact was the cause of much difficulty during the war. Do you consider that it would be proper to impose a protective duty to enable India to be self-supporting in this respect? Would that be fair to the Bengal consumer?

Answer to Question 56.

Collector of Salt Revenue.

It is undoubtedly *prima facie* desirable that India should be independent of foreign countries for her supply of those necessities which can be supplied by the country itself. Salt is one of these necessities and there is no doubt that that quality of salt which is in demand in various parts of India could be supplied by India herself. It is not because a salt suitable for the Bengal market cannot be made in Madras that Madras salt does not find a market in Bengal but because imported salt is so cheap in Bengal that Madras salt cannot compete with it. Imported salt is cheap because it is imported at ballast rates while Madras salt has to pay heavy transport charges. To attempt to secure a market for Madras or Bombay salt in Bengal by a compulsory lowering of the railway rates for the transport of salt in India would be in the long run a policy of robbing Peter to pay Paul. Under these circumstances, the levy of an import duty seems to be the only feasible method. The one objection raised is that it would be unfair to the Bengal consumer. The argument is—"Why should the Bengal consumer have to pay more for his salt in order to benefit the industries of other provinces"; for it is doubtful, since imported salt now pays an import duty equivalent to the excise duty on Indian salt, whether the revenues of all India would benefit to any great extent by the imposition of an import duty on salt. If, however, a long-sighted view is taken of the situation, it is doubtful if the Bengal consumer over a long series of years would pay more for his salt than he does now. The imported supply is precarious. Not only did the war completely stop the supply but the coal strike in England had the same effect. It may be presumed that strikes will be comparatively frequent over a number of years. On all such occasions there is a dearth of adequate supplies of salt in India because manufacturers cannot budget for a demand which is so uncertain. On such occasions salt is scarce, the price rises and the Bengal consumer has to pay very much more for Indian salt than he would if his regular supplies came from India. Thus, over a number of years allowing for the probable stoppages of imported salt, it is very doubtful if the Bengal consumer would pay more for his salt than he does now. On the other hand, instead of a precarious supply, he would get a steady supply and the suppliers would know definitely the demand which they would be asked to meet each year instead of being called upon to budget for an unexpected demand owing to an unforeseen crisis.

Note by the Finance Department.

Question No. 56.—The question of imposing a protective duty on foreign salt was raised by the Board of Revenue in paragraph 9 of its reference printed on pages 3–4 of G.O. No. 2735, Revenue, dated 29th November 1919. The Government considered that until Madras was able to manufacture as good salt as the imported article it would not be justifiable to levy a protective duty on foreign salt. It was considered that such a duty would raise the price of foreign salt in Bengal. It was accordingly proposed to bring an expert from Italy or France to investigate the possibility of manufacturing in Madras salt of a grade which would suit the Calcutta market—G.O. No. 2279, Revenue, dated 4th October 1919. The expert did not arrive and the matter was dropped.

The Collector, however, considers that Madras can make salt suitable to the Calcutta market but that such salt cannot compete with cheap foreign salt. He therefore advocates the imposition of a protective duty and doubts whether such a course would be unfair to the Bengal consumer in the long run.

E.V.—27-3-25. V.K.C.—28-3-25.

There are recent precedents for the imposition of protective duties (or bounties) to support Indian industries. The Madras consumer has to pay more for his imported steel (25 *per cent* duty, I think) to bolster up the Bombay and Bengal industries: Bengal can well pay extra for imported salt it it will have luxuries.

2. If the market were so guaranteed, the industry would spring up, but the protective duty would have to be high, say, Re. 1-4-0 a maund.

3. Apart from the protective duty, Madras requires a square deal in respect of the bonded warehouses at Calcutta. It is practically impossible for Madras salt to secure access to the bonded warehouses; the reply always given is that no accommodation is available. The consequence is that the Madras salt merchant has to clear his salt direct from the ship, and pay duty long before he has sold the salt. Hence capital is locked up in a way which the more fortunate Calcutta merchants escape.

J. B. Brown—7-4-25.

From the point of view of Madras, protective duty would be welcome; but if the supply were left to excise licensees Bengal, and perhaps ultimately Madras, consumers might be likely to suffer in prices. If Government absolutely controlled the price and kept in mind the necessity for keeping it low, there would be not much cause of complaint. Manufacture would develop in Orissa and possibly in Bengal.

R. A. G[raham]—10-4-25.

Question 57.

57. What are the economic results of the process of sifting? If it is practised solely for the purpose of increasing the trader's profit, do you consider that it should be prohibited?

Answer to Question 57.

Collector of Salt Revenue.

The question of the economic results of sifting has to be considered in close connexion with the question of the retail sale of light salt by measure. The argument of those who would prohibit sifting is something as follows:—In order to make his profits the retail trader wants light salt; the wholesale merchant therefore wants to get light salt from the factory in order that he may have for sale the kind of salt which the retail seller will buy; the wholesale merchant will only buy light salt from the factories; the licensees therefore in order to supply as much light salt as possible will sift their salt and only the light salt will leave the factory; the heavy salt remaining after sifting will be unsaleable. Now so far as the Government revenue is concerned; this process will not affect it since the Government revenue is derived solely from the salt which leaves the factory. But such a process if carried on universally would result in a rise in the retail price of salt. The licensee would be selling only a part of his manufacture: thus in order to pay for the cost of manufacture of the whole he must charge more for the part which he can sell; the wholesale merchant will have to pay more for his salt and consequently the retail merchant will have to pay more and eventually the consumer will pay for the extra expense of manufacture. Thus if this process was carried on and the merchants did really find that it was profitable that it should be carried on, I certainly think that there would be a strong case for prohibiting sifting, since it has the effect of raising the retail price of salt which it is the duty of Government to prevent. But as a matter of fact sifting is not resorted to any large extent in this Presidency and there has been no expressed desire to allow it. Nor as a matter of fact do I think that it would be profitable for merchants. The fallacy seems to lie in the assumption that the retail trader can force on the consumer any sort of salt he likes at any price he likes to ask for it. Public opinion and competition among the traders themselves prevent anything of the sort. If the public found that they had to pay more for light salt they would soon demand a rather heavier salt at a cheaper price. There would not be wanting merchants willing to supply this demand who would be able to buy heavy salt very cheaply from the factories. The sellers of light salt after sifting would soon find their business decreasing and would soon find that the process of sifting was not profitable. Thus in practice I see no necessity for a general prohibition of sifting though I would retain the right of Government to refuse applications for sifting in particular cases.

Actually at present sifting has only been permitted in two places in the Madras Presidency and applications to allow it have only come from these two places—Covelong and Sumadi. At Covelong it is the heavy small grained salt which is wanted for refining purposes and at Sumadi the licensee has agreed to sell both grades simultaneously, he wants the heavy small grained salt for sale in Calcutta.

Note by the Finance Department.

The process of sifting tends to raise the price of salt to the consumer in two ways, viz.,—

(1) the cost of manufacture of light salt is increased as the small-grained salt would become unsaleable, and would have to be destroyed; and

(2) it gives a larger number of measures to a given weight. So long as the practice is for merchants to buy salt by weight and to retail it by measure, the consumer is forced to pay for empty space.

The process of sifting is not resorted to any large extent in this Presidency.

E.V.—27-3-25. V.K.C.—28-3-25.

Under existing conditions, the question has no practical application to this Presidency. Mr. Venkateswarlu Nayudu, the Sumadi licensee, obtained permission to sift, but, so far as I am aware, practically never availed himself of the permission. The Calcutta market turned to its old love foreign salt. In Covelong, I think it was the Schomter Salt Company that obtained the permission, but its business is negligible.

J. B. BROWN—7-4-25.

It has a practical application to this Presidency in that Bombay salt competes with Madras salt in the inland districts.

I have always been of opinion, though I have got no proof of it, that the competition could best be met by a stricter elimination of deliquescent salts from the Madras article. There is no doubt that the greater weight of Madras salt is often due to its containing more moisture than the Bombay salt, and, in so far as this is true, the preference for Bombay salt is reasonable. I think therefore that stricter control of manufacture is of more importance than the prohibition of sifting.

R. A. G[RAHAM]—10-4-25.

Question 58.

58. Would you advocate the enforcement of the sale of salt by weight in areas in which it is now sold by measure?

Answer to Question 58.

Director of Agriculture.

Yes.

Collector of Salt Revenue.

It cannot be denied that theoretically it is desirable that salt should be distributed to the consumer by the same standard as that by which the duty upon it is levied. As in the case of the duty the standard is one of weight, it is desirable theoretically that salt should be sold to the consumer by weight.

In practice, however, there is nothing objectionable in the practice of retail sale by measure unless it can be shown—(1) that the system of retail sale by measure encourages the manufacture and sale to the public of light salt and that light salt is intrinsically bad salt; (2) that the consumer for a certain sum of money gets less sodium chloride if he buys salt by measure than he would get for that same amount of money if he had bought by weight; (3) that the retail sale of salt by measure enhances generally the cost of salt to the consumer.

The practice of retail sale by measure undoubtedly encourages the manufacture of light salt, but it has been proved that just as pure a light salt can be made as heavy salt and that light salt is not intrinsically worse than heavy salt irrespective of the method by which it is sold to the consumer. I do not therefore consider that the first proposition can be substantiated.

With regard to the second proposition, it is perfectly true that a measure of light salt contains less sodium chloride than the same unit of heavy salt, the reason being that in light salt the grains do not lie so close together so that the consumer pays for more space between the grains than he would if he were buying heavy salt where the grains lie closer together. It does not, however, follow that the consumer for the same amount of money would get more sodium chloride if the salt which is sold to him were doled out to him by weight than if it were doled out by measure. The retail trader must make his profit somewhere. As matters now stand, he buys by weight and sells by measure and he makes his profit by selling a light salt by measure which he has bought by weight. It is at least arguable that if he was forced to sell by weight he would make the same profit in another way by charging more for a unit of weight than the amount for which he bought that unit, that his profit would be the same in either case and the amount expended by the consumer would actually buy the same amount of sodium chloride in either case. It comes to this, that, when the consumer buys light salt by measure, he pays for the retail trader's profit by not getting quite so much sodium chloride as the trader bought for the sum which the consumer pays; when the consumer buys by weight, he pays for the retail trader's profit by expending on a unit of salt a little more money than the money which the trader paid to buy that same unit of salt. It is, in fact, light salt which regulates the price of heavy salt and there is nothing objectionable in this state of affairs so long as it is admitted that there is nothing objectionable in light salt *per se*.

It has been argued that, because the retail trader likes to make his profit by selling light salt, he forces the consumer to consume light salt whether he wants or not. There seems to be no real proof of the truth of this statement. If the consumer generally wanted heavy salt, he could have it, but in order that the retail trader might get his legitimate profit he would have to pay more for it though he would get more for his money. It seems to be true therefore that retail sale by measure encourages the sale of light salt, but it is not true that light salt is itself necessarily bad salt or that the consumer, owing to the system of retail sale by measure, is forced to buy the sort of salt which he does not want.

The advantages of substituting sale by weight for sale by measure are certainly not self-evident and there are certain practical objections to doing so. The majority of buyers in the bazaar buy in very small quantities--a pie's worth at a time. The bazaar man could not weigh out such small quantities as this. He would not have the time to adjust his scales and weigh out a pie's worth of salt to each of his consumers on demand. Nor would the buyer like him to do so. He likes to see what he is buying and would certainly prefer to see a measureful given to him for his money where he can actually see if he gets full measure than to have his salt weighed in scales of which he has no means of knowing whether the weights are correct or whether he is being cheated by manipulation of the scales. I am convinced that the sale of salt by weight in the bazaars would not be popular with the ordinary small buyer and I believe that the retail seller would have more scope for cheating the consumer than he has now. Another point worthy of consideration in this connexion is that in wet weather salt weighs very much more than in dry weather. Thus, if the standard of a fair price is to be taken as the price for a certain weight in dry weather, the public will be cheated in wet weather.

Note by the Finance Department.

Question No. 58. The question of enforcing the retail sale of salt by weight instead of by measure is dealt with in Chapter VII of the Salt Committee's Report, 1904. The Government of India then held that the necessity for legislation either in the interests of the consumer or of the revenue had not been established. In 1921, in connexion with a resolution in the Legislative Assembly, the Government of India was informed that it would be advantageous to introduce the system of retail sale by weight in this Presidency, but that it would not be possible to enforce any such measure without a disproportionate amount of harassment to all concerned. Recently the Board of Revenue asked the local officers for suggestions as to how to popularize the retail sale of salt by weight without having recourse to legislation, but the reports received were not encouraging and the question was dropped.

E.V.—27-3-25. V.K.C.—28-3-25.

There is no use in moving in advance of public opinion in this matter.

J. B. Brown—7-4-25.

I do not think it is worth while trying to insist on sale by weight.

R. A. G[raham]—10-4-25.

Question 59.

59. Do you consider that the cost of transport could be reduced and retail prices steadied by opening depots for the sale of salt by Government? Are you in favour of action on these lines?

Answer to Question 59.

Collector of Salt Revenue.

It follows from what I have said in answer to question 54 that I am not in favour of opening Government depots. Generally speaking Government interference in distribution is, I consider, undesirable. It is true that the opening of Government depots might have the effect of cheapening the price of salt for consumers in the interior districts. It is also true that I consider it to be incumbent upon Government to see that the public gets its salt at a reasonable price. On the other hand, the primary duty of Government is to collect as much revenue as possible from the sale of salt, always keeping in mind that the price to the consumer must not be unduly high I do not see that any obligation is laid upon Government to make the price of salt the same in the interior as near the factories at the expense of the public revenues (for that is what the establishment of Government depots amounts to) so long as the price in the interior is not unduly high, which I do not think that it is. Consumers in the interior must expect, and do expect, to pay rather more for their salt than those living near the coast. The position is generally equalized by the difficulty of dwellers near the coast of getting other commodities as cheaply. Competition generally insures that the salt merchant does not profiteer justifying a high price on the score of cost of transport. Recently serious breaches on the west coast lines prevented the import of Bombay salt to Coimbatore. Stocks began to get low and the retail price of the salt rose. The situation was almost immediately relieved by the transport of excise salt to Coimbatore from Adirampatnam the licensees of that factory being only too glad to find a market. If that had not happened the price of salt at Coimbatore could have been regulated by sending Government salt from the Madras depot. In either case the retail price in an interior district was (or could have been) regulated by a measure which did not affect the revenue as the establishment of depots does.

In normal times therefore I see no justification for the establishment of Government depots with a view to reduce retail prices in the interior at the expense of the Government revenue. In a crisis such as the war the establishment of such depots may become necessary but I consider it to be uneconomical and unjustifiable to legislate for the occurrence of such an eventuality.

Note by the Finance Department.

Attention is invited to paragraphs 5 and 9 of Sir Charles Todhunter's note on pages 32–34 of G.O. No. 16, Finance (Separate Revenue), dated 16th January 1924, in which he suggested the railing of Government salt in full train loads to chosen centres using where possible return coal wagons at special rates with a view to reduce the price of salt in the interior.

E.V.—27-3-25. V.K.C.—27-3-25.

Cost of transport would be reduced, no doubt, if large consignments were sent to a certain centre; but it does not follow that retail prices would be reduced if Government opened wholesale depots for the sale of salt in the interior.

2. Assuming that the suggestion is that Government salt should be vended at these depots, I imagine that the excise salt could undersell the Government salt. The cost of managing the depots, loss on wastage of salt in transport, and in store, and incidental charges, including what may be euphemistically described as 'expedition money' payable to Government subordinates, would increase the cost to the consumer. The private dealer runs his establishment on less ambitious lines and has no difficulty in getting rid of incompetents.

3. If the suggestion is that excise salt should be vended at these wholesale depots, we are up against the question of wastage in transit, and the duty on such wastage. If duty is to be paid only on salt issued from the wholesale depots, and salt is in bond until delivery at the depots, the Salt Act must be amended, in the first place; in the second place, there is scope for leakage of salt in transit—and loss of salt revenue. I see no sufficient reason for the imposition of this liability on Government. I think that there is no doubt that there would be more wastage in salt in bond, than there would be in excise salt that has paid duty. There is more merit in doing down Government than in depleting the revenues of the private trader; and railway subordinates are likely to have strong views on this subject.

4. If the suggestion is that Government should open retail depots, I think that the cost would be prohibitive and control over retail prices somewhat ineffectual.

5. On the whole, I should not be in favour of action on the lines proposed.

J. B. Brown—7-4-25.

The suggestion is, I think, for the elimination of excise salt. There is much in the arguments against Government intervention in the trade, but, assuming honesty, there is a good deal in its favour.

R. A. G[raham]—10-4-25.

Question 60.*

60. A note is attached [Annexure G-1] detailing the processes which are recognised in France for the denaturation of salt with a view to its issue free of duty for use in agriculture and industries. Do you consider it practicable to employ any of these methods in India?

ANNEXURE G-1. (Question 60.)

French arrangements for denaturation of salt.

Agricultural salt.—Salt required for cattle food, preparation of manure or improvement of the soil is free of tax if it has been denatured by one of the prescribed methods. Salt must be sent to authorized depots. Farmers can only receive direct from the place of production new salt denatured or impure salt undenatured, subject to the condition that the latter will be denatured by a prescribed process. For the denaturing of new salt for agricultural purposes, 26 formulæ are recognized. Of these the following are a selection :—

For new salt—

1. Oilcake	200	kilos to 1,000 kilos of salt.
2. Red peroxide of iron	5	
Oilcake	100	,, ,,
3. Slaked lime	250	,, ,,
4. Plaste	60	
Fæces or manure	100	,, ,,

For impure salt—

1. Fæces, soil or manure	100	kilos to 100 kilos of salt.
2. Moist manure	75	
Eart	125	,, ,,
3. Bran (moist) chaff or chopped straw.	100	,, ,,

Processes authorized for new salt may be used for impure salt, but not *vice versa*. Salt for use in agriculture must consist of crystals that will not pass through a sieve of No. 5 gauge.

Denaturation must always be conducted under supervision at the cost of the persons interested. It must be done at certain specified places such as salt factories and customs houses, but special depots may be authorized and farmers may receive undenatured impure salt on condition that it is denatured on arrival. In that case it is moved under permit.

There are two kinds of depots—(1) those for the receipt of new salt to be denatured, (2) those for salt already denatured. These are under bond. Salt can only be taken to these depots under permit The depots can only deliver salt to farmers and the latter must produce the certificate of the municipal authorities as to their occupation, and as to the quantity of salt which they can reasonably require. Provisions exist for watching the transit of the denatured salt to the consignee, and for the taking of samples of the salt denatured at the depot.

Industrial salt.—Salt for industrial purposes is also allowed duty free, if denatured. Save by special permission only crystals measuring not more than 3 millimetres may be used. The place from which each industry may receive salt is specified. Transport must be under seal and by permit and denaturing must take place in the presence of an officer of the department, at the expense of the manufacturer. Provision also exists for the taking of samples and the inspection of the premises where manufacture and denaturing take place. Deficiencies in stock are liable to duty. Certain industries may receive salt on condition that they denature it on arrival. These are given the choice of several methods of denaturation, *e.g.*, manufacturers of hydrochloric acid can either (1) mix 10 *per cent* of sulphuric acid, (2) empty the salt into sulphuric acid vats, or (3) add 30 *per cent* of bisulphate of soda.

Other industries must only receive salt already denatured There are three classes—

(1) those which may use any of the four general formulæ. These are (*a*) addition of 1 per cent of crude naphthaline, (*b*) addition of 1 per cent of refined naphthaline, (*c*) addition of ·2 *per cent* of coal tar, (*d*) addition of ·25 *per cent* wood tar.

These industries comprise, aluminium cement, ink, paper, zinc, etc.;

* Please see also Question 169 which relates to Salt.

(2) these industries which may use only one of the four methods, which is specified for each industry. These comprise artificial ice factories, margarine, fish-curing and antimony, etc. ;

(3) those industries which have their own formulæ, which are specified for each industry separately,

e.g., tanning—addition of 1·2 *per cent* of petroleum
Chlorate of soda—addition of bichromate of soda solution.
Washing of rags for paper manufacture—addition of 33·3 *per cent* of slaked lime.

Answer to Question 60.

Collector of Salt Revenue.

Generally speaking it is doubtful if European methods of denaturation would be effective in India because the Indian poor would probably eat salt which would be considered quite uneatable in Europe if they could get it cheaply. The main objection, however, to employing French methods of denaturation in India is the probable cost of the processes specified.

Note by the Finance Department.

The Collector of Salt Revenue doubts if European methods of denaturation would be effective in India. He considers that French methods of denaturation would be very costly if employed in India. Attention is also invited to paragraph 7 of the Government of India's Resolution No. 691, dated 23rd December 1885, in which they have offered a reward not exceeding Rs. 5,000 to the inventor or discoverer of a process which will satisfy the following conditions:—

(1) that the cost of the process must be moderate, not exceeding about 4 annas a maund, and

(2) that the preparation must be such that edible salt cannot be easily extracted from it by any of the ordinary processes in use amongst native salt workers.

E.V.—27-3-25. V.K.C.—28-3-25.

So far as I am aware the offer of a reward still stands, and the reward has never been won.

J. B. Brown—8-4-25.

I do not think that, at present, it is a practical question.

R. A. G[raham]—10-4-25.

Further Notes on Questions 51 to 60.

Extract from a demi-official, dated 31st March 1925, from the President, Indian Taxation Enquiry Committee.

As regards salt, the Central Board of Revenue say they are going to stop the competition between the provinces, the Assembly are keen to get Madras salt into Bengal. I want to get as full and impartial a set of statements as possible on both sides of the following questions (1) sifting, (2) the Bombay and Madras systems of guarding and accounts, (3) the possibilities of making in Madras a white salt suitable to the Bengal market. I have written to Vernon asking if he will help to put up the case as I don't know exactly who is now in charge of Salt.

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

The Central Board of Revenue have expressed their intention of taking steps to limit the competition between the Madras and Bombay Presidencies. The competition at various times has been alleged to be due to differences in policy in relation to the encouragement or otherwise of capitalists in the trade; differences in the policy in regard to the manufacture of light salt; differences in the degree of strictness in respect of guarding, storage, maintenance of accounts and the recovery of cesses from the licensees when the cost of the establishment exceeds a certain proportion of the duty collected. The Committee would be glad to know whether in the formation of the policy of the future there are any considerations which the Madras Government would desire to have taken into account in the interests of the producer or consumer of salt in Madras.

2. They would also be glad of the views of the Government of Madras as to the desirability or otherwise of any special steps being taken to facilitate competition in the Calcutta market by factories in Madras and Bombay in the sale of white small grained salt. The matter is one on which several Madras representatives spoke at the recent budget debate at Delhi. Various means of facilitating such a trade have been suggested, for instance, a protective duty on imported salt, more favourable railway freights, the opening of the Sulke golahs to Madras salt imported by rail and the opening of inland bonded warehouses in Bengal and Behar.

3. The Committee ascertained while in Calcutta that the opening of the Sulke golahs to salt imported by rail was not a practicable proposition, but that the Bengal Government would be ready to give facilities for the opening of inland bonded warehouses. It will be observed that there is legal provision in the Inland Bonded Warehouse Act for the opening of such warehouses anywhere in India.

Note by the Finance Department.

Future policy of the Salt Department.—In connexion with the proposals for retrenchment in the Central Government's expenditure, the Board of Revenue suggested in 1922—

(1) the total abolition of the control then exercised over the process of manufacture of salt, and

(2) the conversion of most of the monopoly salt factories into excise or modified excise.

As regards (1) above, the Board stated that the control had never been really effective and that manufacturers were perfectly well able to produce the kind of salt demanded by Madras consumers without any help from or supervision by the department. The Government considered that, if the control exercised over the manufacture were relaxed, the result would certainly be the production of dirty and impure salt, full of magnesium chloride and detrimental to the health of the community.

As regards the other suggestion of the Board, viz., the conversion of most of the monopoly salt factories into excise or modified excise, it is submitted that the object of the retention of monopoly factories in the past was to ensure that Government had under their control a quantity of salt sufficient to check the prices charged by licensees. The Board doubted whether there was any truth in the theory that Government stocks had exercised any influence over excise prices. It urged that, in the last resort, if a real shortage occurred, prices could only be controlled by Government entering the retail market and opening depots. It pointed out that monopoly factories had always proved expensive to maintain and that the large extensions opened during war time had almost eliminated the possibility of a serious salt famine in the Madras Presidency. It would, therefore, convert monopoly factories, wherever possible, into modified excise or merely retain the right to demand a certain quantity of salt in times of crisis.

The Government did not agree to the radical change in policy involved in the Board's proposals. They considered that if salt were manufactured throughout India under complete Government control, as it is now at Sambhar and Kharagoda, it would be possible to place salt on the market at half its present prices and to collect the difference in added duty. They accordingly recommended to the Government of India that an enquiry be held, as soon as possible, with the object of laying down a general policy for all India.

In regard to the above questions of policy, the Government of India have stated that they would hold over further considerations until the Board of Inland Revenue (now Central Board of Revenue) had been reconstituted and had time to consider the case.

Facilities for trade with Calcutta. The question of the special steps to be taken to facilitate competition of Madras salt in the Calcutta market was raised by the Board of Revenue in 1919 in connection with the disposal of the surplus stock of salt in this Presidency. The Board suggested:

(i) reduction of railway freight on salt,
(ii) export of salt in bond from Madras to Bengal by rail, and
(iii) imposition of an import duty on foreign salt.

The Government were in favour of getting a reduction of railway freight on salt generally but they were not then prepared to press such a special case as that of Tuticorin salt going to Calcutta because that was a journey that should be made, if at all, by sea. The Government did not also consider that there was much use in asking for permission to export salt in bond till there were merchants ready to make such export.

It has been suggested that a protective duty would be welcome. Besides this, facilities for access to the bonded warehouses at Calcutta are also required. Till now the answer of Bengal has been that no accommodation is available in the bonded warehouses. But the Taxation Enquiry Committee state that Bengal Government would be ready to give facilities for the opening of inland bonded warehouses.

V.K.C.—21-5-25.

Madras merchants can't get the Sulke golah even for salt imported in bond by sea.

J. B. Brown—21-5-25.

NOTE BY THE COLLECTOR OF SALT REVENUE, DATED 24TH APRIL 1925, ON SUPPLYING BENGAL WITH MADRAS SALT.

There are two main issues with regard to this question—

(1) Is it *possible* for Madras to supply the Bengal market?
(2) If it is possible, is it *desirable*?

2. *Issue* (1)—Numerous experiments have been conducted in Madras to discover whether it is possible to manufacture in this Presidency a quality of salt suitable for sale in the Bengal market. It is unnecessary in this note to examine these experiments in detail. It is sufficient to state that the experiments have proved that a suitable kind of salt *can* be made in this Presidency and, allowing for the increased cost of making small quantities, that it can be made as cheaply as the kind of salt ordinarily sold in Madras.

3. Whether this kind of salt can be made in sufficient quantities to supply the Bengal market is a more doubtful question and it is a question which raises a number of important issues. Roughly speaking about 140 lakhs of maunds of salt are consumed in Bengal annually. In order to meet the ordinary Madras demand, allowing for the import of about 18 lakhs of maunds of Bombay salt into the Madras Presidency, for the normal export of Madras salt of about 25 lakhs of maunds mainly to the Central Provinces, to Orissa and to Native States and for wastage after manufacture and storage, a quantity of about 120 lakhs of maunds has to be made annually. Now the season of salt manufacture owing to rains in July is shorter in factories in the north of the Presidency than it is in those in the south. Consequently the annual average yield per acre is less in the northern factories than in the southern, and this fact is quite irrespective of the nature of the soil or the quality of the brine supply in particular factories. The average annual yield per acre in the southern factories is about 1,227 maunds; in the northern factories it is about 761 maunds. As however the extent of land under salt cultivation is greater in the north than in the south, the average annual yield per acre throughout the Presidency is less than $\frac{1277+761}{2}$. It works out at about 950 maunds per acre. Thus on this basis in order to supply 120 lakhs of maunds, which is the normal Madras demand, 12,632 acres of land would have to be cultivated. Actuals correspond fairly closely to this estimate. In 1923 about 130 lakhs of maunds were manufactured and 13,263 acres were actually cultivated. In order therefore to supply the total Madras and Bengal demand of 260 lakhs of maunds, 27,370 acres would have to be cultivated. In the existing factories the cultivable area, as opposed to the cultivated area after deducting the area occupied by buildings, channels, bunds, patrol paths, etc., is 21,112 acres. Thus the acreage which could be cultivated but is not at present cultivated is 7,849 acres. It must be remembered however that a large portion of this area has already been given up, as it has proved unsuitable for various reasons such as the porous nature of the soil, for the manufacture of salt. Probably only about half of it, or roughly 4,000 acres, is really suitable for salt manufacture. Thus in order to supply the Bengal demand as well as to satisfy the ordinary Madras demand, 4,000 acres, already existing within the limits of salt factories, would have to be made ready for salt cultivation, and new factories or extensions to existing factories to the extent of 10,758 acres would have to be made. I consider that this is possible though it is impossible to speak positively before a thorough examination of all possible areas for salt manufacture along the coast has been examined. It must be remembered too that it would be expensive business and would take time.

4. If then a sufficient quantity of that kind of salt which the Bengal consumer will buy can be made in Madras, the next question to be considered is as to whether this salt can be sold in Bengal. Clearly it could not be sold unless it was cheaper or at any rate as cheap as imported salt. There seem to be two ways of insuring that the price of Madras salt should be less than that of imported salt (1) by increasing the price of imported salt, which can only be done by enhancing the duty on imported salt; (2) by granting concessional rates for the transport by rail and steamer of Madras salt to Calcutta. It is the transport charges which make Madras salt expensive in Bengal as compared with the imported salt which comes in to a very large extent at ballast rates. It would probably be necessary to use both methods

in order to insure that Madras salt was sold as cheaply in Bengal as imported salt now is. Once having stopped the import of salt by a high duty, I imagine, though I am not acquainted with conditions in Calcutta, that difficulties as to gollah accommodation, etc., would disappear with the breaking up of the Calcutta ring of merchants interested in imported salt.

5. My conclusions with regard to the possibility of Madras supplying the Bengal market with salt are therefore—

(1) It is possible to make in Madras a kind of salt suitable for the Bengal market.

(2) It is possible, though it would take time and cost money, to make a sufficient quantity of this kind of salt.

(3) It is possible to sell this salt in Bengal if the competition of imported salt is stopped by a high import duty.

(4) It is possible to sell this salt as cheaply as imported salt is now sold in Bengal, if transport concessions are given.

6. *Issue* (2).—If then it is possible, is it also desirable?

Three reasons are usually given to show why it is desirable.

(1) It would encourage Indian industries.

(2) The Bengal consumer would get a more *certain* supply, uninterrupted by European crisis such as wars and strikes in the shipping or coal trades.

(3) Calculated over a number of years the Bengal consumer would get his salt cheaper. He might have to pay a little more for his salt in normal years, but would have to pay far less in abnormal years, when the imported supply is stopped and the price of Indian salt is high because stocks are low, manufacture in the previous year having been restricted to the normal demand.

On the other hand from the purely economic or taxation point of view it is doubtful whether it is desirable that Madras should supply Bengal with salt. As matters are at present, Government get per unit of salt the same revenue from imported salt as from Indian Salt, the import duty being equal to the excise duty. If then Madras salt took the place of imported salt in Bengal, Government would get exactly the same revenue from salt as they do now. On the other hand the expense of collection would be far greater. I have shown that the extent of factories would have to be nearly doubled. Not only would there be the capital expenditure of bringing these factories into being, but there would also be a large recurring expense on the upkeep of the factories and on the guarding establishment. On the other side of the account there would be only a small saving on what I suppose is a very small Customs establishment in Calcutta. From the tax collector's standpoint then the proposal that imported salt into Bengal should be stifled by the imposition of a heavy import duty and that Madras should supply the Bengal demand is undesirable. Taking a wider view, it must be considered whether the encouragement of 'home' industries would lead to a real increase in the general prosperity of the population and consequently to an increase in the tax-paying capacity of the people or whether the encouragement of 'home' industries is not itself so desirable an object as to outweigh the purely economic disadvantage. These are big questions of policy upon which I have neither the materials nor the ability to express an opinion.

7. I have not mentioned Bombay in this note because I do not know if it is possible in Bombay to make a kind of salt suitable for the Calcutta market nor what quantities it would be possible to make. It must also be remembered that it would not be so economical for Bombay to supply the Bengal market as it would for Madras, because transport from Bombay must necessarily be more expensive than from factories in the Madras Presidency north of Madras. If, however, Bombay could supply, say, half of the Bengal demand, then the problem of the quantity of supply, so far as Madras is concerned, becomes easier of solution, but I do not think that the nature of the arguments which I have used are affected.

NOTE BY THE COLLECTOR OF SALT REVENUE, DATED 24TH APRIL 1925, ON SIFTING.

I. The wholesale merchant in order to have one maund of salt ready for sale spends the following amounts :—

	RS.	A.	P.
Cost price (cost of manufacture)	0	4	0
Duty	1	4	0
Gunnies, transport, etc.	0	8	0
Total ..	2	0	0

This 1 maund of salt, if it is moderately light, will contain 25 measures.

	RS.	A.	P.
The retailer sells 1 measure for	0	1	6
From 25 measures he will get	2	5	6
Middlemen's profits are therefore	0	5	6

N.B.—(1) These profits have to be divided between the wholesale merchant and the retailer.

(2) If the salt is to be sold far inland the transport charges will increase and consequently the retail price will be higher.

II. If the 1 maund of salt is *exceptionally* light, it may contain 30 measures.

The wholesale merchant still has to spend Rs. 2 to get this maund.

	RS.	A.	P.
The retailer still sells 1 measure for	0	1	6
From the sale of 30 measures he will get	2	13	0
Middlemen's profits are therefore 13 *annas*.			

Now very much more salt containing only 25 measures is sold than salt containing 30 measures. Consequently the average middlemen's profit on the salt sold is less than $\frac{13 + 5{\cdot}6}{2}$ annas. It may perhaps be put down at 8 annas. Now supposing this 1 maund of salt was sold in the bazaar by weight instead of by measure. The consumer must still pay for the amount expended by the wholesale merchant in the first instance *plus* middlemen's profits.

For 1 maund of salt he will therefore pay Rs. 2-8-0.

Thus in the first case he should pay for the weight of one measure Rs. $\frac{2\text{-}8\text{-}0}{25}$ $= 0\text{-}1\text{-}7\frac{1}{5}$.

In the second case he should pay Rs. $\frac{2\text{-}8\text{-}0}{30} = 0\text{-}1\text{-}4$.

Thus in the first case the consumer gains owing to the fact that salt is sold to him by measure while in the second case he loses.

So long as salt is sold by measure in the bazaar, the profits of the middlemen are not constant, but differ according to the nature of each particular unit of salt sold. The retailer can afford, however, to sell salt of average weight cheaply, because he looks for his extra profits in the exceptional cases where he can get exceptionally light salt to sell.

The consumer on the average is not subscribing an undue amount towards middlemen's profits. He pays a little less than he should for salt of average weight and a little more than he should for exceptionally light salt. The more frequent though smaller gains make up for the greater, but less frequent losses.

The point is that whether salt is sold by measure or by weight in the bazaar, the consumer must pay for the middlemen's profit. If it is sold by measure, the consumer pays for these profits by getting a little *less* sodium chloride than the amount of sodium chloride which the wholesale merchant bought for the *same* amount of money. If it is sold by weight, the consumer pays for these profits by getting the *same* amount of sodium chloride as the wholesale merchant bought, but he (the consumer) pays a little *more* for it.

Sifting.—For one maund of salt the wholesale merchant will still pay Rs. 2. Now if he sifts this one maund of salt, he may get three-fourths of a maund of large grained salt containing 30 measures to the maund. That is to say this three-fourths of a maund will contain $\frac{3}{4} \times 30 = 22\frac{1}{2}$ measures. The other one-fourth of a maund will be useless.

The consumer still has to pay for the original cost to the wholesale merchant (Rs. 2) plus middlemen's profits (8 annas). If this $22\frac{1}{2}$ measures is sold at Re. 0-1-6 per measure in the bazaar it will fetch Rs. 2-1-9 and it is clear that the middlemen won't get their usual profit. It must be sold for at least Re. 0-1-9 in order that the middleman may make his usual profits. Thus the process of sifting must raise the retail price of salt. The argument is exactly the same if the salt is sifted before it leaves the factory or even before it is stored. Then the wholesale merchant must pay for three-fourths of a maund of salt the cost of manufacturing one maund. The wholesale merchant will have to pay more for his salt and the retail price will consequently rise.

Yes. But he doesn't pay duty on the refuse salt. He would pay Rs. 2-1-4 for the maund. If he gets 30 measures retail price at Re. 0-1-6 would still pay and give Re. 0-11-8 middlemen's profits which is more than the average 8 annas.

J.B.B.—6-5-25.

In *Madras* sifting is not done and this does not seem to be due to prohibition of the practice, but simply because it would not pay. If it was done, the result would be something as follows :—

Light salt would be sold in the bazaar, but above the ordinary price. The consumer who does not care very much within limits if the salt is light or heavy would find he could get unsifted salt cheaper. Consequently the demand for sifted salt would get less and less owing to the competition of the sellers of unsifted salt.

In *Bombay* sifting is ordinarily done. I believe that this must raise the retail price of salt above the price at which salt would be sold if it was not sifted. There is therefore a case for prohibiting the practice.

The purpose of sifting in Bombay appears to be however the grading of salt in order to suit different markets. Therefore the consumer, owing to the practice of sifting, gets the sort of salt he likes, then it is equitable that he should pay slightly more for the luxury of getting exactly what he wants and no very strong case remains for prohibiting the practice.

One argument used in favour of prohibiting sifting in Bombay is that it fosters an uneconomic competition of Bombay salt with Madras salt. It is clearly uneconomic that Bombay salt should be sold in Madras when Madras salt can be obtained on the spot. If it is so sold, the consumer is paying for transport charges unnecessarily. I do not believe, however, that it is the process of sifting which enables Bombay salt to compete with Madras salt in Madras. The process of sifting would tend to have the opposite effect as tending to make Bombay salt more expensive. If there is any competition it must be due to some other factor which makes the cost of manufacture in Bombay less than in Madras. As a matter of fact, however, Bombay salt is not competing with Madras salt except in those districts of the Madras Presidency which are nearer the Bombay sources of supply than the Madras sources, e.g., the West Coast districts. Here it is economically sound that Bombay salt rather than Madras salt should be sold. No Bombay salt has come into the Madras (City) market in any appreciable quantities since 1916. In that year it came in as the Madras stocks were being depleted to meet the Bengal market and Madras salt was consequently being sold at a price far above its real value.

C. H. MASTERMAN—24-4-25

EXCISE ON LIQUORS AND DRUGS

QUESTIONS 61 TO 74.

Question 61.

61. Do you anticipate the introduction of a policy of total prohibition, now or in the near future, either generally or in particular areas?

Answer to Question 61.

Commissioner of Excise.

It would be a rash undertaking under present conditions to prophesy what may happen in the near future regarding prohibition or local option or any other public question. It may be admitted that among the 'intelligent' and political classes there exists an element which is *bona fide* devoted to temperance, and which advocates either total prohibition or a wide measure of local option as a preliminary step thereto; in alliance with this section of Indian opinion is to be found the missionary influence, which undoubtedly proceeds from sincere conviction. There has been a further and probably a more numerous section which adopts the cause of 'temperance' as a convenient ground of attack upon the Government and the Ministers with the ulterior object of embarrassing them by clamour and by attacking one of the principal sources of the revenues at their disposal. These tactics achieved in 1921 and 1922 a considerable measure of success; in 1921 the Government lost about Rs. 80 lakhs of revenue largely as the result of the anti-drink agitation, carried on for a time by the most lawless methods of intimidation both of renters or intending renters and of consumers of liquor. The attacks on the excise policy of the Government have proceeded, and to a great extent still proceed upon the ground of the growth of the revenue from liquor and ignore the fact that consumption under all or most of the heads has been either stationary or has exhibited of recent years a tendency to decline; they ignore also the fact that prohibition under existing conditions is not a matter of practical politics. I append on this aspect of the matter an extract of paragraphs 57 and 58 of my report on the Excise Administration for 1920-21, written in September of that year (*Appendix I*). In a note written about the same time, I observed 'I do not think that much is to be gained . . . from a discussion of the theoretical arguments on the subject; nor do I think that western experience is of paramount value as a guide . . .' The fact is that each country must work out the problem for itself. In this Presidency we are confronted with two cardinal facts, firstly that nature has provided almost in every field and village the means of indulging the desire for alcoholic stimulants with the minimum of trouble. Secondly that, possibly as the result of these conditions, the greater part of the population notwithstanding the precepts of religion do not abstain from alcohol. The statement that this habit was introduced by the British is one of those falsehoods which are the stock-in-trade of seditious agitators and no candid critic will, I think, maintain it.

The point has been examined at length by the Bombay Excise Committee in Chapter II of their report, which abundantly establishes the falsity of the charge.

Given these conditions, it is surely obvious that what is needed is a change of conviction in the minds of the masses and this can only come as the slow result of the spread of education and of habits of greater foresight and thrift, assisted and stimulated no doubt by social work among the masses. Outside the efforts of mission societies and of temperance societies in a few of the larger towns, such effort has, I think, been on the whole conspicuously absent. The progress must inevitably be slow but in proportion as it rests upon real conviction, it will be sure. When that conviction is shared by the majority or even by a large proportion of the classes affected, local option or even prohibition will be possible and will work. Without it, it is impossible, I consider, to expect success. On the contrary, an unwise reduction of the taxed and licit supply will merely impair the effect of the steady pressure of taxation operating to check consumption and the control which

the Government at present can exercise. Under existing conditions you cannot legislate people into abstinence by the votes of 5 *per cent* minorities, any more than in the long run you can bully them into the abstinence by riding people on donkeys, by covering old women's faces with dung, or by the other methods of lawless intimidation which have characterized the recent 'temperance movement.' Even the imposition of caste penalties without real conviction will, as experience has shown, prove of only temporary effect.

During the three years that have elapsed since the above was written, the use of violent methods has subsided, though it has not entirely disappeared. In other respects, the conditions are unchanged. The natural facilities for obtaining alcoholic stimulant are as widespread as ever and, broadly speaking, the propensity of the lower classes to indulge is not diminished. Nor is it now any easier than it was three years ago to suggest any system of prohibition or local option based upon the votes of the classes affected which will ensure that their real wishes are ascertained. These difficulties may, perhaps will, disappear with the social and political uplift of the masses. Under existing conditions I consider that prohibition would be impossible to enforce, and would be detrimental not only to the interests of Government but to the advancement of true temperance. It is satisfactory to note that there are signs that general opinion is tending towards a somewhat saner attitude, and is more disposed to contemplate what is practicable than what is ideally desirable. A recent temperance meeting in Madras was not content with passing Utopian resolutions, but actually appointed committees to evolve schemes for alternative sources of revenue; and in a recent full dress debate on the excise policy of the Government the Legislative Council approved by an overwhelming majority the Ministerial policy of *festina lente.*

In *Appendix II* to the reply to this question is given a summary of the steps taken to discourage drinking and to limit temptation. Most of the measures taken directly with the object of promoting temperance or abstinence are in an experimental stage, and their results cannot yet be judged. As regards others—such as the reduction in the number of shops—it may be doubted whether the results have not been rather to stimulate excise crime than to promote abstinence: this result has followed analogous measures in other provinces and is one of those foreseen by most people who are familiar with the practical working of the abkari administration.

APPENDIX I.

[Paragraphs 57 and 58 of the Excise Administration Report for 1920–21.]

Answer to Question 61.

The policy pursued in the past and the measures laid down for giving effect to it have been successfully carried out in this Presidency. It has resulted in checking the consumption of country spirit and toddy and definitely decreasing the consumption of opium and hemp drugs. There is therefore no need to look with apprehension on the large increase in revenue, which has only increased the retail price of intoxicants and thus helped the cause of temperance by checking consumption better than any other method.

While this report is being written, keenly organized efforts are being made to prevent the sale of toddy shops for the ensuing lease by methods which, though ostensibly 'peaceful' amount in most cases to intimidation of most oppressive kind. The Board earnestly desires to bring one prominent fact to the notice of any genuine temperance reformer who may have allied himself temporarily with the non-co-operator in an agitation which in its unscrupulous interference with individual liberty is surpassing anything experienced in the history of the much abused bureaucracy. This is that in South India the sources of illicit supply are far more accessible to the regular drinker than in any European country. If the shops are closed, liquor can be had from almost any palm with no more skill than is required to cut an incision or dress a spathe, and no more apparatus than a knife and a toddy pot. In a country where so large a proportion of the lower or labouring class are accustomed to the use of liquor, where every man can (so to speak) have his own beer tap in his own back garden and where the extensive topes which cover most of the countryside can immediately take the place of the elaborate breweries of Europe, it is futile to imagine that the closure of shops will have any permanently appreciable effect in stopping recourse to alcohol. If the policy in question were accepted and the shops remain closed, one of two results must follow, (i) drinking will go on unchecked and uncontrolled, liquor being obtainable at a tithe of its present cost, with a loss of Rs. 543 lakhs of revenue to Government or (ii) the preventive establishment will have to be immensely increased, almost every village constantly patrolled and the agricultural and tapping classes would be subjected to the oppression of a host of petty officials, while the field for blackmail of private individuals and for the corruption of officials would be vastly expanded. Even so, it is unlikely that mere preventive activity could cope with the problem. The majority of the population would be either apathetic or in actual sympathy with the drinkers and experience has amply shown that, under such conditions, mere preventive activity cannot be an adequate substitute for the provision of a reasonable licit and taxed supply. In the face of these considerations the Board would urge those who desire to combat the evils of drunkenness by wholesale closure of shops to realize the shortsightedness of the policy they are following and to adopt the more radical, if less ostentatious, method of removing the desire for alcohol and not the sources of licit supplies.

APPENDIX II.

Answer to Question 61.

The policy of Government has always been to minimize temptation to those who do not drink and to discourage excess among those who do; and to the furtherance of this policy all considerations of revenue are subordinate. To further temperance and carry out the above policy, the following methods have been adopted :—

(*a*) suppression of illicit methods of all kinds;

(*b*) maintenance of the closest possible control and supervision over the liquor and drugs traffic;

(*c*) levy of as high a rate of duty as possible without unduly encouraging illicit methods;

(*d*) reduction in the number of retail shops for the sale of liquor and drugs and the strength of spirits;

(*e*) regulation and close supervision of the hours of sale, selection of sites and the general practices adopted in manufacture and vend; and

(*f*) consulting advisory committees and adopting their recommendations as far as possible.

These have tended to minimize consumption as is evidenced by the fact that the consumption of country spirits which stood at 4·4 proof gallons per 100 of population in 1913–14 and 4·9 proof gallons in 1919–20 was only 3·7 proof gallons in 1923–24 and there is a further fall of 5·6 *per cent* in consumption in the current year compared with 1923–24.

There has been a very drastic reduction in the number of shops as the following table will show :—

Year.	Number of shops.			
	Arrack *.	Toddy.	Opium.	Ganja.
1902–03	10,014	18,781	1,182	549
1906–07	10,239	18,684	1,121	636
1912–13	8,324	14,474	851	538
1917–18	6,619	11,399	650	413
1919–20	6,046	10,727	609	408
1922–23	5,917	10,610	609	417
1923–24	5,932	10,531	608	424

* Excluding shops under outstill system.

The issue strength of liquor was 20° u.p. prior to 1910–11 in some districts and 30° u.p. in others. Reduction was gradually made and it is now 35° u.p. From 1st April 1925 the strength will still further be reduced to 38° u.p. in nine districts.

The limit of private possession has been reduced from 8 drams to 6 drams in the case of country spirits with effect from 1st April 1925. The closing hour of shops has been reduced to 8 p.m.

The opinions of advisory committees are respected and accepted whenever they are consistent with the general principles laid down.

As a temperance measure, other experiments are also under trial.

(*a*) In the Atur taluk of the Salem district, the Shiyali and Tiruttuiraipundi taluks of the Tanjore district, the Tiruvadanai taluk of the Ramnad district and the Tenkasi taluk of the Tinnevelly district, all shops for the vend of country spirits numbering 67 with an annual rental of about Rs. 56,000 have been closed as an experimental measure from 1st April 1924. These areas are mainly toddy or tari consuming areas and as toddy is a comparatively harmless beverage, the experiment is with a view to see what the effect of the closure of arrack shops in these areas will be.

With a view to ameliorate the condition of the Badagas and other hill tribes on the Nilgiris, the sale of liquor to any member of the hill tribes is prohibited on the Nilgiris with effect from 1st April 1925 except on a medical certificate signed by a registered medical practitioner.

It must however be noted that these undue restrictions are stimulating crime to a certain extent. The number of reported cases against the Abkari Laws during the last few years is shown below :—

Year.	Number of cases reported.	
	I.D. and kindred offences.	Toddy offences.
1913–14	1,050	5,071
1914–15	1,197	4,983
1915–16	1,024	4,775
1916–17	1,190	4,416
1917–18	1,028	4,633
1918–19	1,595	4,741
1919–20	1,716	5,204
1920–21	1,408	5,191
1921–22	1,430	6,619
1922–23	2,001	6,623
1923–24	2,123	6,427

At present there is one Licensing Board for the City of Madras and Advisory Committees for mufassal municipalities and major unions. The former has very full powers in regard to the number and location of shops and its decisions are only subject to veto by the Commissioner. In the case of Advisory Committees their recommendations to the Collector are advisory but Collectors always give deep consideration to their recommendations Proposals are now before Government for constituting Licensing Boards for municipalities in the Presidency with a population of over 50,000 and Advisory Committees for other taluk board areas. These bodies will under the proposals have a non-official majority and will have power to elect their own chairman. The rules framed provide for these bodies to publish a list of shops proposed to be sold and call for objections, if any, and consider them.

Question 62.

62. It has been calculated that such a policy would involve a large expenditure for its enforcement, in addition to a loss of revenue of 20·43 crores of rupees. If you are an advocate of total prohibition, how would you recommend that this money be found? Do you approve of either of the following schemes :—

(*a*) Proposals made by Dr. Mathai in his pamphlet "Excise and Liquor Control"—

(i) a super-tax on land revenue at a percentage varying from year to year to be assessed on landholders paying revenue of Rs. 50 and over at graduated rates;

(ii) a provincial surcharge (a rate of 20 per cent is suggested) on the income-tax.

(*b*) Proposals of the Bombay Excise Committee, 1923—

	LAKHS. Rs.
A succession duty to yield	50
A totalizator duty to yield	20
Taxation of "futures" to yield	50
Increase of local fund cess to yield	30
Tobacco tax to yield	5
Employee tax to yield	40
Transit tax to yield	50
Terminal tax to yield	50

Answer to Question 62.

Commissioner of Excise.

I do not advocate total prohibition, and I have not considered possible alternative sources of revenue.

Question 63.

63. Failing total prohibition, do you accept all or any of the following statements regarding the policy to be pursued in the taxation of intoxicants ?—

(*a*) "It is not true that every tax is an evil. A tax on alcohol, which by raising its price diminishes its consumption, may be a positive good." *

(*b*) "The suitableness of distilled and malt liquors and tobacco for taxation is recognized by nearly every civilized country, and it is the uniform practice of European Governments to derive from them the largest possible revenue consistent with efficiency of administration." †

(*c*) "The only important indirect taxes which an intelligent State would retain are those directed to the control and restraint of a few important articles of popular luxury, the large consumption of which is not merely a presumption of the possession of superfluous income, but is definitely detrimental to personal health, morals or public order. Of this character are alcoholic drinks and tobacco in the dimensions of their present use." ‡

(*d*) "Where a tax is levied upon a luxury, a harmful luxury, or something whose consumption is agreed to be sufficiently undesirable to justify its limitation, then we have the best possible case for indirect taxes. The object is not 'revenue only' (in fact it seldom is), but revenue together with an ulterior purpose: the deliberate discouragement of the use of a certain article." §

(*e*) "Human nature being what it is, the increased dearness of a particular article is more likely to have a definite effect on the consumption of that article than an income-tax, which would tend to be saved out of *all* the commodities. That is to say, a direct tax on a wage-earner is more likely to reduce expenditure on primary essentials, and so to react on efficiency as to be thrown off on to other classes, than consumption taxes on specific non-essentials." ‖

(*f*) "The same kind of confusion of causes is shown by the new thought over the taxation of the liquor trade. Alcohol is found to be at the root of very grave social evil, and it is said that for that reason it is taxed. Whatever might be our wish in this matter, starting *de novo*, this can hardly be said to be historically correct . . . . The new doctrine of the State right to a dynamic policy is only subsidiary and the taxation can be justified without it . . . . . The tenth pint of the drunkard pays the same tax as his first, and the same tax as the occasional pint of a most abstemious man. If one could not justify taxation of alcoholic liquors on general economic grounds, but had to rely on the new-found principle, it would find but poor justification in its actual working out in practice." ¶

* Dalton : Public Finance, page 7.
† D. A. Wells quoted in Bullock : Selected Readings in Public Finance, page 786.
‡ Hobson : Taxation in the New State, page 121.
§ Jones : Taxation, Yesterday and To-morrow, page 96.
‖ Stamp Fundamental Principles of Taxation, page 75
¶ Do. pages 150, 151.

Answer to Question 63.

Commissioner of Excise.

(*a*) & (*b*) Accepted in principle.

(*c*) I would accept the propositions here stated so far as intoxicants are concerned. To lay down, however, that the *only* important indirect taxes which should be retained are those on intoxicants or tobacco, is too sweeping. The question whether taxation should be direct or indirect has to be decided not merely with reference to theoretical considerations, but to the habits, ways of thought and preferences of the people taxed ; in this country, for instance, direct taxation is largely resented ; indirect taxation so long as it is not excessive is paid without difficulty.

(*d*) Yes.

(*e*) I believe so. It is for example a fact, that, broadly speaking, the consumption of liquor (arrack and toddy) and consequently the revenue from vend rentals tends to such a degree to rise or fall in sympathy with the prosperity or adversity of the agricultural classes, that these fluctuations serve as a very fair index of the state of the season, present or prospective.

(*f*) No remarks.

Question 64.

64. Regarded as a measure of taxation, does the policy followed in your province fall short or go in advance of that which you would approve ?

Answer to Question 64.

Commissioner of Excise.

No remarks.

Question 65.

65. The table attached as Annexure H shows that the rates of duty on country spirit per proof gallon vary from Re. 0–7–6 to Rs. 20–10–0. Do you consider any of these too high or too low ? Is it practicable to reduce the variety, if not to introduce a uniform rate, as in other countries ?

ANNEXURE H (Question 65).

Rates of duty per proof gallon of country spirit in force on 1st April 1923 in different Provinces.

Provinces.	Rates of duties.
Madras	Rupees 8–7–0 in twenty-one districts. Rupees 10–10–0 in five districts. From Re. 0–15–0 to Rs. 6–4–0 in special localities.
Bombay	Rupees 2–13–0 to Rs. 12–14–0, the average rate being Rs. 8–7–0; the higher rates being in the city and industrial areas.
Bengal	Rupees 2–4–8 to Rs. 20–10–0; the higher rates being in the city and industrial areas.
United Provinces ...	Rupees 5–3–0 in the major portion of the province, a special rate of Rs. 12–2–0 in Dehra Dun and Lucknow and a few other places, and lower rates of Rs. 2, 3 and 4 in a few tracts.
Burma	Rupees 1–4–0 to Rs. 13–12–0.
Assam	Rupees 5–0–0.
North-West Frontier.	Not manufactured in the province.
Central Provinces ...	Rupee 0–7–6 to Rs. 12–5–0.

Answer to Question 65.

Commissioner of Excise.

So far as this Presidency is concerned, there are now practically only two rates of duty per proof gallon, viz., Rs. 10–10–0 in the Gōdāvari, Kistna, Guntūr, Nellore and Madras districts and the Saidapet taluk of the Chingleput district and Rs. 8–7–0 in the other areas. There are specially low rates in certain small areas owing to local conditions, viz., the Agency tracts of the circars, and the enclaves in His Exalted Highness the Nizam's dominions and round the French territory of Pondicherry. In the Agencies, the rate has to be low in order to make liquor available at a comparatively small price; else illicit distillation will become rampant. In the other two cases, the low price is due to the price of liquor being low in the surrounding or adjoining territory.

As regards uniformity of rate, the following table illustrates the position now and during the last about 12 years :—

Area districts.	Rate of duty per proof gallon.				
	1913–14.	1918–19 and 1919–20.	1920–21 and 1921–22.	1922–23 and 1923–24.	From 1st April 1925.
	RS. A. P.	RS. A. P.	RS. A. P.	RS. A. P.	RS. A. P.
Ganjām, Vizagapatam	4 6 0	6 11 8	6 14 0	8 7 0	8 7 0
Gōdāvari, Guntūr, Kistna and Nellore	5 10 0	8 1 3	8 7 0	10 10 0	10 10 0
Ceded districts	5 10 0	8 1 3	8 7 0	8 7 0	8 7 0
Madras Town Circle	8 2 0	10 12 4	10 10 0	10 10 0	11 2 3
Chittoor, North Arcot and Coimbatore.	6 14 0	8 1 3	8 7 0	8 7 0	8 7 0
Rest of Chingleput (excluding Saidapet taluk), South Arcot, Tanjore, Trichinopoly, Madura, Ramnad, Tinnevelly and the Nilgiris.	6 14 0	8 1 3	8 7 0	8 7 0	8 13 6
Malabar	4 6 0	8 1 3	8 7 0	8 7 0	8 7 0
South Kanara	4 6 0	6 11 8	8 7 0	8 7 0	8 7 0
Low duty areas.					
Munagala and Lingagiri	1 14 0	3 5 10	3 7 0	5 0 0	6 0 0
Pondicherry frontier shops of South Arcot district.	2 8 0	3 12 0	*5 0 0	6 4 0	6 4 0

* Rs. 6–4–0 in 1921–22.

It will be noticed from the rates shown under 1922–23 above, that uniformity is being borne in mind. The larger number of rates shown in 1925–26 is due to the fact that the strength has been proposed to be reduced from 35° u.p to 38° u.p. in nine districts and the issue price per bulk gallon has been fixed the same for 38° u.p. liquor as it is for 35° u.p. liquor; when the strength is gradually reduced in the other parts of the Presidency also, uniformity will again be reached.

It is practicable and perhaps desirable to reduce the variety of rates as it would prevent low duty liquor being smuggled into high duty areas, but I would strongly deprecate any laying down of a hard and fast rule on the subject. Local conditions have a considerable bearing on the question of fixing duty. The aim is to fix the duty at the highest possible figure short of stimulating illicit practices. Further the nature of the country and the propensities of the population are not uniform. Many facts arise when the question of fixing duty is considered and though uniformity is on general grounds desirable I do not regard it as essential.

Question 66.

66. Have recent increases in the rates been followed by increases in illicit production?

Answer to Question 66.

Commissioner of Excise.

I believe so. The figures of illicit distillation, etc., cases and toddy cases reported since 1913–14 are—

Year.	I.D. cases.	Toddy cases.
1913–14	1,050	5,071
1914–15	1,197	4,983
1915–16	1,024	4,775
1916–17	1,190	4,416
1917–18	1,028	4,633
1918–19	1,595	4,741
1919–20	1,716	5,204
1920–21	1,408	5,191
1921–22	1,430	6,619
1922–23	2 001	6,623
1923–24	2,123	6,427

Other changes introduced during this period may also have contributed to an increase in crime (as to these see Appendix II to question No. 61), but increase in duty has probably contributed.

Country spirits.—The general rate of duty was Rs. 5-10-0 and Rs. 6-14-0 per proof gallon in 1913–14. This was raised by 10 annas in 1915–16 and 1917–18. In 1918-19, the general rate in the Presidency was raised to Rs. 8-1-3 and in 1920–21 to Rs. 8-7-0. In 1922–23 and 1923–24 the rate in four districts was further raised from Rs. 8-7-0 to Rs. 10-10-0 per proof gallon.

Tree-tax.—Taking the rate for coconut it varied from Rs. 2-4-0 to Rs. 3-12-0 in 1913–14; from Rs. 3 to Rs. 3-12-0 in 1915–16; in 1918–19 the rate was raised to Rs. 4-8-0 in 18 districts and in 1921–22 from Rs. 4-8-0 to Rs. 5-10-0 in four districts. The present rate is Rs. 3-12-0 in two districts; Rs. 4-8-0 in 18 districts and Rs. 5-10-0 in four districts.

Further Notes on Question 66.

Extract from a demi-official, dated 31st March 1925, from the President, Indian Taxation Committee.

Under Excise we have an accumulation of evidence that every province that has played with prohibition has lost revenue and for the most part only substituted illicit for licit consumption. At the risk of emphasising the obvious, I hope Madras will be prepared to clinch this. We have also got a lot of evidence in favour of a complete monopoly of opium and hemp drugs with uniform rates for continental India and of an all-India Excise C.I.D.

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Excises on liquors and intoxicating drugs.—In touring through the provinces so far visited the Committee have been much impressed with the fact that the reduction of licit consumption, which was at first regarded as a great step gained, has been accompanied by an increase in illicit consumption which has reached a point in some places at which it is altogether out of control. Moreover the later declarations of public writers and speakers, which were formerly all in favour of prohibition, are now inclining more towards a policy on the lines of that followed prior to the Reforms. There is appended * hereto an extract from the Excise Administration Report of the Central Provinces for 1923, which compares the decline in licit consumption in different provinces, to which the Committee have attached a table showing the corresponding increase in cases of illicit distillation. There are attached also extracts from the Excise Reports showing the extent to which illicit consumption has increased. The Committee have not yet been favoured with the report of the recent Committee on Excise in Madras. They would be glad to know whether the Madras

* Appendix I.

Government accept the figures of consumption as given in the Central Provinces Excise Report and how they regard the tendencies which are illustrated by the extracts annexed

APPENDIX I.

Showing consumption of and revenue from country spirit for the year 1923 in the Central Provinces and Berar as compared with other Provinces.

Province.	Average for previous quinquennium.			Last year's statistics.			Per cent variation.			Incidence of duty rate per proof gallon.
	Country spirit consumption.	Country spirit revenue.	Total revenue.	Consumption.	Country spirit revenue.	Total revenue.	Consumption.	Country spirit revenue.	Total revenue.	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
		RS.	RS.		RS.	RS.	PER CENT	PER CENT	PER CENT	RS. A. P.
Central Provinces and Berar.	1,072,257	90,29,017	1,27,28,115	451,719	81,12,603	1,24,69,161	— 58	— 10	— 2	11 6 5
United Province	1,151,769	97,77,786	1,60,35,474	473,000	65,49,164	1,34,35,553	— 59	— 33	— 16	10 1 11
Punjab	414,513	62,39,651	1,16,70,859	188,000	46,52,651	1,10,37,436	— 58	— 25	— 5	14 1 0
Bombay (excluding Sindh).	2,514,008	2,61,49,403	3,45,31,584	1,781,000	2,75,73,366	3,63,91,517	— 29	+ 5	+ 5	10 14 5
Assam	233,955	17,53,832	63,43,399	178,966	14,10,015	56,81,294	— 21	— 20	— 11	5 0 6
Bengal	72[illegible],766	79,93,151	1,78,71,260	593,356	94,19,500	2,01,17,030	— 18	+ 18	+ 13	9 10 7
Madras	1,735,523	2,03,79,121	4,87,34,449	1,575,000	2,10,51,938	4,70,70,818	— 9	+ 3	+ 1	8 15 6
Bihar and Orissa	1,218 962	63,00,664	1,25,51,079	1,241,000	76,71,737	1,54,31,391	+ 2	+ 22	+ 23	3 11 2

Illicit distillation (a).

	Average number of cases 1917-18—1921-22.	Number in 1922-23.
Madras	1,435	2,001
Bombay	5[illegible]0	913
Punjab	127	205
United Provinces	223	403
Bihar and Orissa	[illegible]23	1,120
Central Provinces	175	581 (for 9 months only).

Madras Report for 1922–23.

P. 6. This large increase in the number of illicit distillation cases detected is coincident with a fall in licit consumption. There can be little doubt therefore that it represents a real increase in this kind of crime and is not merely an index of better detection. It indicates that the anti-drink movement has had the effect, not of decreasing the amount of liquor drink, but of encouraging illicit practices to supply the normal demand.

Bombay Report for 1923.

It is when the question of illicit practices is considered that a cause for anxiety arises . . . Cases of illicit importation, sale and distillation rose from 1,965 to 2,884 that is by 51 *per cent* . . . In spite of the efforts of the Excise department, there is reason to believe that only a fraction of the illicit practices actually taking place came to light in districts like West Kandesh. Government cannot contemplate with equanimity such a large increase in excise crime in the course of a single year. If the result of any measure is only to drive the people from the licensed liquor to the more potent and injurious unlicensed liquor, not only do the public revenues suffer without any corresponding moral or material benefit to the people, but there is a positive loss in the weakening of respect for law and order, increase of drunkenness and crime and consequent physical and moral deterioration. How far this increase in crime is the result of the policy of the Government and in what respects that policy requires modification is a question which will receive the serious consideration of Government.

P. 15. This increase in cases of illicit distillation was most marked in Surat, Thana, Nasik and West Kandesh. In all these districts the licit sales were a long way short of the ration. The fact that in these districts illicit liquor was to a great extent substituted for licit seems to be obvious.

Punjab Report, 1923–24.

Review—P. 2. It is possible that the duties on the more important of the excisable articles are now so high that Government is not only not obtaining the highest amount of revenue, but the amount consumed is greater than it might be with a lower duty. In other words the existing rates of duty on country spirit, opium, and charas are too high. The worst effect of these persistent breaches of well recognized laws is not the financial loss, although, as has been shown in the report, this is almost certainly very great, but the deterioration in the atmosphere of order. It is noticeable indeed that in many of the worst districts general lawlessness is a concomitant of illicit distillation.

(a) The area covered in the case of each province is the standard distillery area in a particular year.

P. 7. The difference in price between licit and illicit liquor has so greatly increased the profits of the illicit distiller that illicit distillation is now being conducted on a scale and in a manner which was not known in the past.

P. 16. The high price of liquor has led to illicit distillation almost on a commercial scale in many districts and smuggling in some form or the other from the adjacent independent States.

United Provinces.

The gains held out by illegal practices are driving people to crime and the spread of illegal practices is weakening the State's control of intoxicants to a point which may render it impotent to do anything in the cause of temperance.

Assam.

P. 6. The restrictive measures adopted with a view to reduce consumption tended towards the increase of offences.

The increase in the consumption of country liquor indicates, not more drinking, but a return to licit as opposed to illicit sources of supply.

The Central Provinces.

In 1922 the total number of cases of illicit distillation was 1,431 as against an average for the previous five years of 512. In 1923 the figure rose to 1,552, of which 1,005 were in six plateau districts, regarding which it is recorded that for every case detected doubtless fifty escape detection. Elsewhere it is recorded that the department in its efforts to restrict consumption is working nearer to the margin of a breakdown of control than is consistent with absolute safety, and that in certain outlying areas a breakdown has actually occurred, but that the policy being to impose restriction up to the point at which the drinking classes refuse to submit to them, this point can only be ascertained by actual trial and error.

Burma.

Even with the licensed shops that there are, it is impossible to suppress illicit manufacture and traffic in illicit liquor. Convictions for illicit traffic in alcoholic liquor during the last six years have varied between 4,000 and 6,000 (and it must be remembered that the manufacture of toddy throughout the greater part of Upper Burma is not illegal as most of it is outside the five-mile radius). Some increase in the existing staff will probably be found essential to enforce even the existing control satisfactorily. Three times the present staff could not enforce absolute prohibition.

Note by the Finance Department.

In the case of land revenue, stamps and excise, the Revenue Department stated that no information was required by the Hon'ble Member and the Hon'ble Minister (M-2).

T.E.V.—21-5-25. V.V.—21-5-25. J. B. BROWN—21-5-25.

Question 67.

67. Do you consider that locally-made imitations of imported liquors should be taxed at the tariff rate and given the same freedom from restrictions on transport as is given to foreign liquors?

Answer to Question 67.

Commissioner of Excise.

Till 1st April 1924, locally-made imitations of foreign liquor were taxed at the tariff rate. From that date the duty has been reduced to Rs. 17-8-0 per proof gallon, in order to enable it to compete successfully with the cheap varieties of German, Java, etc., foreign liquor. I consider that provinces should have freedom to levy any rate of duty they like on locally-made liquor as local circumstances require. Locally-made imitations of imported liquor do now enjoy the same freedom from restrictions as the imported articles, except in the case of coconut toddy arrack, which is specially so treated because it may otherwise compete with ordinary arrack.

Question 68.

68. Would you approve of the imposition of supplementary duties on foreign liquors by Local Governments?

Answer to Question 68.

Commissioner of Excise.

In theory I see no objection to the levy of such duties. I believe now only the Bombay Government levy such a duty. I doubt, however, whether it would be expedient to do so in this Presidency. The tariff rate of Rs. 21-14-0 per proof gallon is already sufficiently high. The lowering of the rate of duty on locally-made foreign liquor has operated to check the consumption of the cheaper and more deleterious kinds of foreign liquor imported.

Question 69.

69. When varying rates of duty obtain on foreign liquors, whether locally made or imported, how are the relations between provinces to be adjusted?

Answer to Question 69.

Commissioner of Excise.

The detailed arrangements have been recently under discussion with the Central Government. The following suggestions have been put forward by this department.

Following the principle that duty should follow consumption the duty to be charged should be that in force in the province of consumption and not that in force in the province of production. The following procedure has been suggested for recovering duty by the province of consumption:

(*a*) In the case of exports of locally-made foreign liquor excluding beer from a distillery or bonded warehouse in one province to a distillery or bonded warehouse in another province, there should be—

(1) A permit or pass in favour of the exporter or his agent, covering transport with a corresponding advice from the exporting warehouse officer to the warehouse officer of destination, sent direct, with a duplicate advice through the Chief Excise Authorities of the respective provinces.

(2) A bond or security to be executed in favour of the Chief Excise Authority of the province of destination by the exporter, for the safe conveyance and due delivery at destination, of the liquor exported, less any wastage which may be authorized; the bond to bind him to pay full duty with penalty (not exceeding twice the full duty) if adjudged, at the rates leviable in the province of origin or destination whichever is higher. In this case, if all is in order, the levy of duty is made in the province of destination on the liquor being cleared from bond; the rate of duty being that of the province of destination, which also collects the money; the bond is then cancelled.

(*b*) When liquor is sent from a bonded warehouse or distillery in one province to a licensed vendor in another, there should be—

(1) A permit or pass from the Chief Excise Authority of the province of destination, in favour of the exporter. The exporter may prepay the duty in the province of destination to the Chief Excise Authority. If he does, the fact will be certified on the permit, and no further payment of duty will be necessary at either end (except in the case of excess wastage). If he prefers he may pay the duty at the rate prescribed in the province of destination to the Chief Excise Authority of the province of origin. In this case the amount of duty so paid will be adjusted between the province of origin and the province of destination by book transfer.

(2) The exporter must also execute a bond as in the case of (*a*) (2) above.

(3) An advice must also be sent when the exporter removes the liquor to the bonded warehouse, or distillery of the province of origin to the authorities of the province of destination, which will verify the consignment on arrival and assess duty or penalty on excess wastage.

(*c*) When a vendor in one province sends liquor to a vendor in another province—

(1) The exporter will pay duty (if not already paid) on the quantity exported at the prevailing rate of the province of origin.

(2) He will obtain from the authorities of the province of destination a permit for the transport of the liquor on which the Chief Excise Authority of the province of origin will endorse the fact that duty has been paid.

(3) The Chief Excise Authority of the province of origin will, simultaneously with making the endorsement above, advise the Chief Excise Authority of the province of destination that the export has been permitted and that the duty has been paid at the local rate.

(4) The exporter should execute a bond as stated in paragraph (*a*) (2) above in favour of the Chief Excise Authority of the province of destination.

(5) The Chief Excise Authority of the province of destination must arrange to verify the consignment on arrival and will levy differential rate of duty according to the rate in force in province of destination, if it is higher than that of the province of origin; he will also send a verification report to the Chief Excise Authority of the province of origin.

(6) If the rate of duty in the province of origin is higher than that in the province of destination, the Chief Excise Authority of the province of origin will, on being satisfied that the consignment has reached destination, refund to exporter the difference between the duty levied on the quantity exported and the duty leviable on the quantity received at destination. The province of origin will then transfer in favour of the province of destination by periodical book adjustment the duty leviable on the quantity received in the province of destination at the rate fixed by the latter.

In the case of beer manufactured in this Presidency the question of issue underbond does not arise as duty is levied on the quantity manufactured and not on the quantity issued and is collected once a quarter. The duty on beer exported to other provinces will be collected in this province and credited to the revenues of the province of destination once a quarter by book adjustment.

The simplest method of recovery of duty by the province of consumption from that of manufacture is by periodical adjustment by book transfer. In all such cases the adjustment may be made quarterly.

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Excise on liquors and intoxicating drugs.—In regard to the control of locally-made foreign spirit the Committee would be glad to know whether the Local Government are satisfied with the working of the inter-provincial arrangements arrived at in 1923, and what has been the effect of the reduction of the duty on these spirits in Madras; also whether they would be prepared to revert to the old arrangements of levying the tariff rate if some scheme of uniform administration similar to that which was in force prior to the Reforms could be reimposed, and if an arrangement could be arrived at for a division of the revenues which would avoid the present competition of Imperial and Provincial interests.

Note by the Finance department.

In the case of land revenue, stamps and excise, the Revenue Department stated that no information was required by the Hon'ble Member and the Hon'ble Minister (M-2).

T.E.V.—21-5-25. V.V.—21—5-25. J. B. Brown—21-5-25.

Question 70.

70. The experiments carried out at the instance of the Excise Committee, 1906, showed that *tari*, even when freshly drawn, was as intoxicating as a mild beer. In the provinces with which you are acquainted is it taxed adequately, having regard to its alcoholic contents? If not, can the taxation be increased by means of the tree-tax system or otherwise?

Answer to Question 70.

Commissioner of Excise.

Taking merely the alcoholic content, toddy is more lightly taxed than beer. It would not be difficult to enhance the tree-tax, but having regard to other considerations, it would probably be undesirable to do so.

Question 71.

71. Annexure I exhibits the rates of taxation per seer on ganja, charas and bhang. Do you consider that in this case there is any sufficient reason for variety of rates?

ANNEXURE I (Question 71).

Comparative table of the rates of duty in the different provinces of India in 1922–23 for Ganja, Charas and Bhang.

Province.	Rates of duty per seer.			
	Ganja	Charas.	Bhang.	
(1)	(2)	(3)	(4)	
	RS. A. P.	RS. A. P.		RS. A. P.
Madras	20 0 0	Not consumed.		3 0 0
Bombay Presidency proper	22 8 0	50 0 0		3 0 0
Sind	20 0 0	50 0 0		2 8 0
Bengal	20 0 0	30 0 0		1 0 0
Bihar and Orissa	30 0 0	30 0 0		3 0 0
United Provinces	35 0 0	35 0 0	Acreage duty per acre.	10 0 0
			Transport duty per maund.	20 0 0
Punjab	Not consumed.	40 0 0	Acreage duty per acre.	4 0 0
			Import and transport duty per maund.	6 0 0
Central Provinces and Berar	25 0 0	60 0 0		5 0 0
Assam	20 0 0	..		0 8 0
North-West Frontier Province ..	..	24 0 0		0 2 5

Answer to Question 71.

Commissioner of Excise.

I consider that there is no *a priori* necessity to insist on assimilating rates of duty everywhere. Each province must fix its own rate of duty based on consumption, on the habits of people and other local conditions. There are places in India where charas are consumed heavily. None is consumed in Madras. The rate of duty on bhang has been raised in Madras with effect from 1st April 1925 to Rs. 6 per seer.

Question 72.

72. From the point of view of taxation, is the system of wholesale supply of intoxicating liquors and hemp drugs satisfactory?

Answer to Question 72.

Commissioner of Excise.

Arrack is manufactured in distilleries under the contract supply system. These suppliers also are required to establish wholesale depots at required places. Arrack is issued to retail shop-keepers from distilleries, warehouses or depots at rates fixed by Government. Ganja is cultivated by ryots and stored by them *in bond* at two centres wherefrom it is issued to licensed shop-keepers on payment of duty at a price not exceeding a certain maximum fixed by Government. The system is working satisfactorily in the sense that it affords little chance of leakage of revenue.

Question 73.

73. From the point of view of taxation, is the system of disposal of licences for retail vend satisfactory?

Answer to Question 73.

Commissioner of Excise.

All shops for the retail vend of country spirits and tari, all ganja and opium shops and all beer shops and foreign liquor taverns (where consumption is allowed on the premises) are sold by auction. The other foreign liquor shops are licensed on fixed fees. In the case of these fixed fee licences, the respectability and status of the persons applying for licences are taken into consideration as also the trade conditions) i.e., (certain firms are sole agents for certain brands of liquor).

The system of disposal followed in this province is quite satisfactory from the point of view of taxation in the sense that it probably secures to Government the fullest share in the value of the privileges conferred.

Question 74.

74. Annexure J illustrates the reduction that has taken place in the number of licences for retail vend in the last 20 years, and the average area and population per liquor shop in different provinces. It is asserted that this restriction in the number of licences has resulted in a great increase in the value of those that remain on the ground of monopoly. Have you any comments to make on this suggestion ?

ANNEXURE J (Question 74).

—	Burma.	Assam.	Bengal and Bihar and Orissa.		United Provinces.	Punjab.	Bombay.	Central Provinces.	Madras.
I.—1902-03.									
Number of liquor shops ..	1,980	293	32,022		10,519	1,151	4,061	7,246	29,105
Area per shop (in square miles)	118	180·9	5		10·1	68·8	30·1	13·8	4·9
Population per shop	5,298·3	19,940·2	2,354·1		4,497·9	13,743·8	4,573·8	1,652·1	1,811·4
			Bengal.	B. & O.					
II.—1922-23.		*(1920-21.)*	*(1920-21.)*					*(1920-21.)*	
Number of liquor shops ..	1,020	336	3,638	8,197	4,987	540	2,821	4,071	16,643
Area per shop (in square miles).	229·1	157·8	21·1	10·1	21·3	184·9	43·8	24·5	8·5
Population per shop	12,953·1	22,637·6	12,832·0	4,118·1	9,098·8	38,305·6	6,858·6	3,415·0	2,542·7

Answer to Question 74.

Commissioner of Excise.

The figures in Annexure J, so far as this Presidency is concerned, comprise arrack and toddy shops and shops under the outstill system. The closing of shops has been probably overdone in this Presidency and the result has been that as there are a fewer shops for competition the intrinsic value of shops has vastly increased. There is no doubt that the result of reducing the number of shops in this Presidency has had the result indicated in the question as the following figures show :—

Country spirits.

Area.	Year.	Number of shops.	Rentals per shop.	Consumption per shop.	Increase in 1922–23 compared with 1902–03. Rentals.	Consumption.
			RS.	P. GLS.	PER CENT	PER CENT.
Madras City	1902–03	48	2,116	1,146	2,100	570
	1922–23	19	44,552	6,526		
Madras Presidency including Madras City ..	1902–03	10,014	161	101	700	275
	1922–23	5,917	1,140	278		
Madras Presidency excluding Madras City ..	1902–03	9,966	152	96	658	268
	1922–23	5,898	1,001	268		

Toddy.

Area.	Year.	Number of shops.	Average rentals per shop.	Average number of trees marked per shop in coconuts.	Increase in 1922–23 compared with 1902–03. Rentals.	Trees marked.
			RS.		PER CENT	PER CENT.
Madras Presidency	1902–03	18,781	211	103	500	200
	1922–23	10,617	1,085	219		

The increase in rentals is out of all proportion to the increase in consumption and the only possible inference is that the reduction in the number of shops has contributed to a considerable increase in the value of the shops that remain.

OPIUM.

QUESTIONS 75 TO 77.

Question 75.

75. A table of the duty charged in different provinces is given below. Is it practicable to arrive at a greater measure of uniformity?

Province.	Duty per seer of excise opium.
Madras	40
Bombay Presidency (proper)	52
Sind	37
Bengal	37 (a)
Burma	150·9 to 135·8
Bihar and Orissa	40
United Provinces	37
The Punjab	37
Central Provinces and Berar	32 (a)
Assam	43·6 (a)
North-West Frontier Province	37

(a) NOTE.—This is the figure for 1921-22. Reports for 1922-23 are not available.

Answer to Question 75.

Commissioner of Excise.

It is not impossible to arrive at a uniform rate of duty in the case of opium. But I do not see that any great advantage will be gained. Local conditions always operate on the fixing of duty.

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Excise on liquors and intoxicating drugs.—The Committee would be glad to know how the Government would regard proposals for further monopolization and equalization of rates in respect of opium and ganja; whether they would be prepared to accept the issue of opium made up into sealed bottles of pills of fixed size; and whether they have made any further progress in recent years in respect of the caking of ganja.

Note by the Finance Department.

In the case of land revenue, stamps and excise, the Revenue Department stated that no information was required by the Hon'ble Member and the Hon'ble Minister (M-2).

T.E.V.—21-5-25. V.V.—21-5-25. J. B. BROWN—21-5-25.

Question 76.

76. Is the system of employing salaried persons for the retail sale and distribution of opium which is recommended in the draft Opium Agreement in force in any area with which you are acquainted? What is your experience of its working? Is it practicable to introduce it generally? What would be the effect of its introduction upon the revenue?

Answer to Question 76.

Commissioner of Excise.

The draft Opium Agreement recommends the course in the case of prepared opium. The shops in this Presidency are all for the sale of raw opium. The system mentioned is not in force in this Presidency. Shops are sold by auction. Government stock opium and issue to the licensed vendors on receipt of duty and cost price. The number of opium shops in the Presidency is 605 (1924-25) and their rentals are Rs. 10,19,787 (1924-25). The shops are only at important places where there is a real demand for opium. The working of these shops is very strictly supervised and the course of consumption in them is carefully watched. Whenever the consumption increases in a manner which indicates that the licence is being used as a cover for illicit transactions, e.g., for smuggling, the shop is 'rationed,' i.e., the quantity of opium that may be issued to it is specially limited. The number of shops in respect of which a limitation has thus been imposed is comparatively small—7 in 1924-25. They are mostly situated in the sea-board (or adjacent) districts. To introduce a system of 'salaried' opium sellers would involve the abandonment of the existing renting system for opium shops and the conversion of these into Government retail shops. The revenue from rentals would be lost to the province unless the retail selling price of opium were so enhanced as to make good the loss. The direct association of Government with the retail sale of the drug would afford a ground of attack by temperance enthusiasts and those who desire to find fault with the Government. It has also been, in practice, found that the efficient control of a large number of petty shops scattered over the Presidency is a matter of great difficulty The temptations to the 'salaried' sellers to falsify accounts and to cheat the Government would be overwhelming unless their salaries were fixed very high. The opium on sale would not, presumably, be duty paid and it would be impossible to guard it effectively in so many centres. It would be necessary to reduce the number of shops, i.e., centres of distribution to such an extent as to deprive large areas of supply of their legitimate needs. Such a system of State trading could not be carried on, on a paying basis; it would almost certainly result in a loss to Government and would offer no greater safeguards than the existing system.

Question 77.

77. Are further steps necessary for the control of smuggling? If so, should they be taken by the cultivating province, by the consuming provinces, or by the Government of India?

Answer to Question 77.

Commissioner of Excise.

There is generally no smuggling of opium into this Presidency but there is reason to believe that a considerable amount of smuggling exists in sending opium to Burma, especially via Karikkal. On account of the limitation in the quantity supplied to the shops in Burma and the heavy price charged there, it appears a profitable business to smuggle opium to Burma. In Burma, only non-Burmans and Burmans registered as opium consumers in 1893 are allowed opium. The number of cases of smuggling of opium to Burma from the Madras Presidency detected during 1922–23 was 19 involving 208 seers of opium, that in 1923–24, 23 cases involving 162 seers and that in the current year, up to date, 4 involving 27 seers Opium is also smuggled to Burma from the Indian States in this Presidency through Karikkal.

With a view to check the activities of smugglers, a small special force consisting of an Inspector, an Assistant Inspector, four Sub-Inspectors and other clerical and menial establishment is maintained in the Presidency. This force watches the smugglers as closely as its numbers permit, and has been successful in detecting a certain number of cases. But on account of the profitableness of the smuggling trade and the number of active smugglers, their success in suppressing the trade is restricted.

The transmission of opium by post is prohibited.

The import by sea of opium or intoxicating drugs other than those used for smoking is permitted only by licensed dealers in opium for medicinal purposes or by licensed chemists either direct or through their agents on payment of duty at the port of importation. The rules in force in this Presidency do not provide for cases of export by sea.

At present, opium cases are prosecuted by the police. This leads to a division of functions which has sometimes led to difficulty in dealing with opium crime.

A Bill to amend the Opium Act has been prepared and submitted to Government. Its main provisions are—

(a) conduct of prosecutions in opium cases by the officers of the Excise Department instead of by the police,

(b) a preliminary inquiry by the departmental officers so as to avoid prosecution of cases not proved,

(c) compounding by specified departmental officers of opium cases,

(d) infliction of enhanced punishments in the case of second and subsequent offences by the same accused,

(e) taking security from habitual offenders for refraining from such offences,

(f) making it penal to attempt to commit an offence relating to opium or intoxicating drugs, and

(g) bringing under control opium smoking.

The above provisions will, it is expected, tend to strengthen our hands against opium crime.

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Excise on liquors and intoxicating drugs.—The Committee would be glad to know whether the Local Government would favour the institution of an Imperial agency for dealing with inter-provincial smugglers of opium, the extent of whose operations is reported to be increasing very largely.

Note by the Finance Department.

In the case of land revenue, stamps and excise, the Revenue Department stated that no information was required by the Hon'ble Member and the Hon'ble Minister (M-2).

T.E.V.—21-5-25. V.V.—21-5-25. J. B. Brown—21-5-25.

CUSTOMS.

QUESTIONS 78 TO 86.

[Note :—After Question 86, see further notes on Questions 78-86.]

Question 78.

78. Apart from all questions of protection, is it better for a tariff imposed for revenue purposes to be confined to a few articles in common use or to cover all imports?

Answer to Question 78

Director of Industries.

This is a matter in which the practice of highly developed nations differs so materially that I cannot express an opinion one way or the other.

Question 79.

79. "A revenue duty should be at, or below (so as to permit of ready increase of revenue, in case of need), the rate which yields the greatest revenue obtainable : a protective duty would preferably be made so much heavier than this as to check the importation of the taxed goods, even though revenue were seriously diminished as a result." * Have any of the rates in the tariff which are not imposed for protective purposes exceeded the limit here laid down? Have they resulted in diminishing returns or in uncontrollable smuggling?

* Flux: Economic Principles, page 248.

Answer to Question 79.

Director of Industries.

I have no information.

Questions 80 and 81.

80. Are there any articles on which increased rates can be imposed with advantage otherwise than for the purpose of protection ?

81. Are there any respects in which the tariff can be rendered more scientific or rearranged with advantage ?

Answer to Questions 80 and 81.

Director of Industries.

No remarks.

Question 82.

82. Are there any articles, not at present subject to export duties, by the imposition of an export duty on which a revenue could be secured without injuring the trade of India ?

Answers to Question 82.

Director of Industries.

It is generally recognized, I think, that an export duty can advantageously be levied only in the case of an article or product in respect of which the exporting country enjoys a virtual monopoly and that even then the duty levied must not be so heavy in its incidence as to result in a reduction of the consumption of the commodity or in the encouragement of the production of substitutes. It is difficult to suggest commodities on which an export duty could be levied without leading to one of these results, and generally speaking it would seem inexpedient to handicap Indian products by the imposition of an export duty. Brazil has recently imposed an export duty of 5 a bag on coffee and the result has been to raise the price to the consumer and this in turn may lead to a reduction in consumption. An export duty of 5 *per cent ad valorem* on Indian coffee, on the basis of the average exports of the last few years, would yield a revenue of about 6½ lakhs if the demand were maintained at the higher price level. The percentage of India's exports of coffee to world consumption is, however, insufficient to enable this country to impose its price on the market and it is probable therefore that the imposition of an export duty would result in a falling off in the demand for Indian coffee. *Per contra* I consider that there is a good deal of justification for continuing, if not restoring to its former level, the present export duty on raw hides. The reduction in 1923 of the export duty on raw hides and skins to an all round rate of 5 *per cent ad valorem* has inevitably led to an appreciation in the price of raw hides and skins and to increased competition for available supplies between the raw hide exporter and the Indian tanner to the detriment of the Madras tanning industry.

Director of Agriculture.

The possibility of putting a tax on bones, fish and oil-seeds requires consideration. Please see my R. Dis. No. D. 1570/23, dated 2nd May 1924, and G.Os. (*a*) Press No. 1679, dated 30th September 1924, (*b*) Mis. No. 1892, dated 4th November 1924.

ENCLOSURES

(*a*)

Letter from Mr. F. NOYCE, C.S.I., C.B.E., I.C.S., Secretary to the Government of Madras, Development Department, to the Secretary to the Government of India, Department of Education, Health and Lands, No. 1680, dated 30th September 1924.

[*Subject.*—Imposing of restrictions on the export of manures produced in India.]

With reference to Mr. Ewbank's letter No. 1196, dated the 14th September 1923, I am to enclose copies of the reports on the subject received from the Director of Agriculture and the Director of Fisheries, Madras. It will be seen that the Director of Agriculture is of opinion that a fair margin of profit cannot be obtained at existing prices from the use of the fertilizers the restriction or the entire prohibition of the export of which has been suggested. He is therefore strongly in favour of the imposition of export taxes or the prohibition of export. The Director of Fisheries, on the other hand, holds that the fish industry would be gravely imperilled if foreign markets were closed to its by-products. Since Mr. Ewbank's letter was received the question has, as the Government of India are aware, again been discussed by the Board of Agriculture at its meeting held at Bangalore in January last. The Board passed a resolution requesting the Government of India to give immediate effect to the recommendation made at the preceding meeting that a committee should be appointed to investigate the economic position of indigenous fertilizers and to formulate a definite constructive policy to ensure their use for the benefit of the Indian ryot. In the opinion of this Government, the conflicting views put forward by the Directors of Agriculture and Fisheries in the reports now submitted tend further to show the desirability that the subject should, as recommended by the Board of Agriculture, be investigated by a committee which would examine it from all points of view and not solely from that of the Agricultural Department. I am, therefore, to urge on the Government of India that it is only by the appointment of such a committee that a satisfactory decision on this very controversial question is likely to be reached.

(*b*)

G.O. Mis. No. 1892, *Development, dated 4th November* 1924.

Read—the following paper :—

Letter from the Government of India, Department of Education, Health and Lands, No. 1374, dated 20th October 1924.

I am directed to refer to Mr. Noyce's letter No. 1680, dated the 30th September 1924, and to say that the Government of India have decided to postpone the appointment of a Manures Committee till funds become available and till certain other projects for agricultural development and expansion which, in their opinion, require prior attention, have been provided for.

Order—Mis. No. 1892, *Development, dated 4th November* 1924.

Recorded.

Question 83.

83. Do you favour *ad valorem* or specific duties ?

Answer to Question 83.

Director of Industries

I have no opinion one way or the other.

Questions 84 to 86.

84. Is the system of tariff valuations working satisfactorily ?

85. Have you any criticism to offer on the system of appraisement ?

86. Are the arrangements for preventing smuggling satisfactory (*a*) at the main ports, (*b*) along the coast, and (*c*) on the land frontiers ? If not, in what way can they be improved ?

Answers to Questions 84 to 86.

Nil.

FURTHER NOTES ON QUESTIONS 78 to 86—*Customs.*

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Customs.—The Committee understand that the negotiations with the French Government for a mutual arrangement in respect of the land customs round the frontier of the French Settlements in the Madras Presidency have broken down, and they have received evidence that a considerable amount of smuggling across the frontier still continues. They understand that a joint enquiry was made some little time ago by the Commissioner for Excise and the Collector of Customs into the possibility of strengthening the preventive arrangements round the frontier, with the aid of fencing of some sort. The Committee would be glad to know whether the Local Government consider it desirable to take any action in this direction, and also whether they consider that, in respect of any special articles, the facilities for smuggling through French territory are so great as to make it desirable to reconsider the increase in duties recently imposed.

Notes by the Finance Department.

It is a fact that the negotiations with the French Government for the abolition of the customs cordon round Pondicherry and Karikal have broken down and the French Government were informed of the difficulties in arriving at a settlement agreeable to both the Governments—vide correspondence ending with this Government's letter to His Excellency the Governor of French Settlements, No. 30, Finance (C.S.), dated 23rd February 1925.

2. As regards the question of smuggling, instances have been brought to the notice of Government showing the existence of smuggling of highly-dutiable articles especially gold thread, saccharine, match box, etc. The following suggestions among others have been made with a view to check smuggling:—

(i) strengthening the customs barrier;

(ii) growing of a prickly-pear fence along the customs barrier;

(iii) amending Land Customs Act so as to provide for the imposition of fines on smugglers;

(iv) reduction of the high rate of duty recently imposed with a view to remove the incentive for smuggling.

3. *Increase in staff.*—The staff employed on the frontier has been recently strengthened by the addition of one inspector, one sub-inspector and five clerks—vide correspondence ending with G.O. No. 5, Finance, dated 8th January 1925.

4. *Fencing.*—The growing of prickly-pear fence was suggested as a result of the joint enquiry by the Commissioner of Excise and the Collector of Customs who visited Pondicherry and Cuddalore. The following is an extract of the report:—

"It appears to both Mr. Campbell and myself (Mr. A. E. Boyd) that the most satisfactory method of handling smuggling across the frontier would be to have a prickly-pear hedge built throughout the whole line with a track on the British side of it for the patrol parties to move up and down the boundary. This hedge would be 15 feet broad. It would be extremely hard for any one to get over it. It would be necessary of course to have gates in this hedge at certain places to allow the villagers access to their fields and each of these gates would have to be guarded. It is impossible at present to say how many would be required, and this can only be decided when the hedge is being made. Mr. Campbell and I have gone through all the survey maps of the frontier, and as far as we can see we would have to acquire about 10 acres of land at an average cost of Rs. 300 an acre? The hedge will be built as far as possible on poramboke lands."

The present Collector of Customs (Mr. Watkins) stated in May 1924, that he took steps to ascertain the practice in other countries in the matter of a fence on the frontier and requested permission to defer the final opinion on this subject. He added that he was not then convinced that the fence would be worth the cost and would at least prefer to await the result of the other proposals. Nothing further has been heard from him in the matter. The new Land Customs Act came into force on the 13th December 1924, and from that date the Local Government ceased to have control over land customs. Land customs is now controlled by the Central Board of Revenue

5. The commercial firms trading in this Presidency have represented that smuggling in gold thread and saccharine was carried on on an extensive scale on the French Frontier of Pondicherry and Karikal and that it worked detrimentally to their trade. It has been suggested that the reduction in the rate of duty on gold thread imported by land from foreign European Settlements in India would act as a check on smuggling. During the 18 days of March 1924 when the duty was 15 per cent, 1,400 marcs of gold thread were passed on payment of duty at Pondicherry, but, since the re-imposition of the 30 per cent rate, no gold thread has been declared. The quantity declared during those 18 days works out at the rate of about 26 cases a month or more than the quantity known to be imported into Pondicherry in the year. It would therefore appear that if the rate of duty is 15 per cent, it does not pay to take the risk of smuggling. The Collector of Customs reported in May 1924 that the reduction in duty would not affect the Central Revenues adversely, as will be seen from the following extract of his letter:—

"The all India figures for imports of gold and silver thread are as follows;—

	Values.		Duty.
	RS.	PER CENT.	RS.
1920–21	72,53,000	10	7,25,300
1921–22	22,76,000	20	4,55,200
1922–23	24,49,000	30	7,34,700

These duty figures are in the same order of magnitude as the amount it is believed we are losing in Pondicherry alone and it may be found that taking India as a whole we shall not lose money by reducing the rate of duty from 30 per cent to 15 per cent and we shall remove the disability under which the honest trader struggles whilst the dishonest one smuggles."

This Government recommended the suggestions for the consideration of the Government of India. In the meanwhile, the new Land Customs Act was passed providing for the imposition of fines on smugglers. It was thought that this provision could be used effectively against the smugglers and the question of reduction of duty was not pursued further.

The local Government have no longer any concern with customs. They can quite appropriately decline to express any opinion.

V.K.C.—21-5-25. J. B. Brown—22-5-25.

It was decided in Cabinet that a copy of the report of Messrs. Boyd and Campbell on the measures to be taken to prevent smuggling on the land frontier should be furnished to the Taxation Enquiry Committee.

J.B.B.—23-5-25.

Letter from the Secretary to Government, Finance Department, to the Secretary, Indian Taxation Enquiry Committee, dated Madras the 4th June 1925, No. 2440-1.

I am directed to furnish you with a copy of the note of Messrs. Boyd and Campbell on the measures to be taken to prevent smuggling on the land frontier round Pondicherry.

ENCLOSURE

Notes of inspection in connexion with Customs arrangements round Pondicherry.

From 27th September to 2nd October 1923, I investigated the question of the guarding of the Pondicherry frontier with Mr. A. E. Boyd, the Collector of Customs. I inspected the following localities:—

(1) The boundary north of Pondicherry between the sea and Kottakuppam chauki and for about half a mile to the east of it.

(2) The Karidikuppam outpost and the boundary near it in the southerly direction towards the Mailam-Pondicherry road.

(3) The Mortandichavadi chauki.

(4) The portion of the Mailam-Pondicherry road which is in French territory between Vanur and Mortandi chauki and the adjoining boundary of the French territory.

(5) The Valudavur chauki.

(6) The Oosteri outgate.

(7) The boundary of French territory between the Valudavur-Pondicherry road near Valudavur and the Kandappachavadi chauki.

(8) The Kandappachavadi chauki.

(9) The customs arrangements at Chinnababusamudram Railway Station (also called Kandamangalam.)

(10) The boundaries of the French territory between Pondicherry and Cuddalore.

(11) The Madalapet chauki.

(12) The Gangananknppam outgate.

(13) About a couple of miles of the south bank of Pannaiyar river near Cuddalore.

There does not appear to be very much poramboke land along the boundary of French territory but it is to be found here and there. The boundary frequently runs through open fields but there are many scattered gardens, casuarina topes, etc., near the boundary which would form convenient places of concealment. The boundary can therefore be easily crossed by smugglers. The Penniyar river near Cuddalore is said to be in floods only for a few days each year and at the present moment appears to be fordable anywhere.

The Customs staff generally did not seem to know where the boundary between the French and British territory is. Each portion of the Customs staff should know the exact position of the boundary which it is supposed to be guarding even where the boundary runs through fields or gardens. As a matter of convenience patrols may ordinarily pass along recognized roads and paths but the actual boundary itself should be patrolled at least once a month and on these occasions any new members of the party guarding that portion of the frontier should be taken round it so that they may know exactly where the frontier is.

It is desirable that the Customs staff should be in possession of the British taluk maps and plans of the British villages with which they are concerned. It is also desirable that if possible they should have copies of the French maps. The Inspector or Assistant Inspector at least should have copies of these maps and plans so that he may be in a position to put in evidence a plan showing the exact position where any seizure has taken place, the plan being traced from the village map.

Duty can be paid at a chauki but not at an outgate; a person arriving at an outgate with dutiable articles has therefore to be taken to a chauki; the nearest chauki is generally some miles away. The staff employed at an outgate is usually two peons. I doubt if the outgates are really of much use; at some of the outgates, there should be chaukis so that persons desiring to pay duty may have reasonable opportunities of doing so. Other outgates seem to serve the purpose of heat huts only. The peons at outgates do not seem to be under adequate control.

The present line of chaukis is an internal line but it cannot be said to be complete. Moreover it appears from the remarks in the inspection book of the Valudavur chauki that in accordance with a Convention, dated 18th February 1839 which is recorded in G.O. No. 129, Revenue, dated 1st February 1902, the Customs authorities take no notice of any goods passing along the road by the Sutukany channel maintained by the French across a strip of British territory in Valudavur village. The result is that at the present moment the French can send goods through the line of chaukis over this road to French villages beyond the line. This must facilitate smuggling. I am making enquiries as to whether the sovereign rights over this piece of road have been surrendered by the British Government. If the sovereign rights have been surrendered, then there is no doubt that the line to be guarded by chaukis, etc., must be thrown further out so as to be beyond the enclave outside Valudavur.

At the present moment free passes are issued by the French authorities for goods to pass through our chaukis and outgates. But apparently no check is kept on the number of such passes. It appears to me desirable that returns should be obtained from the chaukis as to the quantities of a few specified articles which are liable or likely to be smuggled, so that we can see that the French authorities do not issue free passes for excessive quantities of these articles. If they do so, then representations should be made to the French authorities It may be necessary to request the French authorities to limit the quantities of these articles for which they issue French passes every month to certain definite quantities, that is to say, it may be necessary practically to ration the French villages lying outside our chauki line.

In view of the existence of enclaves of French territory surrounded by British territory, it may be desirable to provide for the levy of customs duty on crossing a certain line which may to some extent have British territory on both sides. There are certain alternative lines which may be taken as the Customs line for this purpose. The following are alternative lines which are possible:—

(1) A line outside all the enclaves. This line would probably be 55 to 60 miles in length.

(2) A line from the French boundary just north of Pondicherry omitting two French enclaves to the north of the Mailam-Pondicherry road, but including all the other enclaves round Pondicherry. The length of this boundary would probably be about 55 miles

(3) A boundary from the immediate north of Pondicherry town, excluding the two enclaves to the north and proceeding north as far as Vanur and thence through Valudavur, Kandappachavidi, Kandamangalam, Mandagapet and through British territory to the Pennar river and thence along the south bank of the Pennar river to the sea. The length of this boundary would be about 40 miles.

(4) The same boundary turning at Mandagapet to Thukanambakkam and Madalapet and through the British territory to the sea. The length of this boundary would be about 35 miles.

Any of these boundaries will have inside it a certain amount of British territory. It would be necessary to give free passes to British villagers inside the boundary to enable them to send their produce into British territory free of duty. The issue of these free passes would however be under the control of British authorities who should have less difficulty in seeing that they were not abused for purposes of smuggling than is now the case where free passes are issued to the French villagers by the French authorities.

In the case of boundaries Nos. (2), (3) and (4) it will be necessary to allow the issue of free passes by the French authorities to enclaves beyond the boundary, but these will be reduced to a very small quantity in the case of boundary No. (2).

It has been suggested that it would be more effective and cheaper to put up a prickly-pear fence and patrol path along the customs line rather than to depend entirely on patrols and other staff It is desirable to ascertain what is done in European countries having a land customs frontier.

If an actual boundary on one of these is laid down, it should be taken as far as possible along porambokes so as to avoid as far as possible the acquisition of land for a patrol path and fence. A possible boundary (No. 2) is described in the appended note drawn up in consultation with Mr. Boyd, the Collector of Customs. Gates would have to be provided for the convenience of villagers passing from one side to the other.

Whatever line is selected, the chaukis and gates should be on or near the line and arrangements should be made for the efficient patrol of the line. In addition to the regular guards at chaukis and gates and on patrol duty, it will also be necessary to have a certain number of men employed on detective work.

The Collector of Customs is working out proposals for rough estimates for effectively guarding the frontier. Before proceeding with the preparation of detailed proposals, it will be desirable to submit to the Government of India, through the Local Government, proposals as to the general lines to be adopted in guarding the frontier. When the views of the Government of India on the general lines are received, it will probably be necessary to place an officer on special duty to make detailed proposals. It will be a question for consideration whether the officer on special duty should be a Customs officer or a Revenue officer. In the latter event he would of course carry out his work in close consultation with the Customs Collector.

A. Y. G. CAMPBELL—10-10-23.

APPENDIX

A note on possible Land Customs boundary round Pondicherry and French enclaves *in its neighbourhood but including certain British Territory.*

(The note below has been drawn up from an inspection of the village maps and is not intended to be final but may be useful for the guidance of an officer who is called upon to draw up definite proposals for a Land Customs boundary. The boundary begins from the north-eastern corner of the area to be enclosed).

Villupuram taluk—(1) *Kottakuppam No* 246.—(*a*) The boundary may run from the south-eastern corner of the village along the French boundary to the boundary stone between Survey Nos 408 and 409 and thence along the southern boundary of Survey No. 409. There is a mound of sand along the boundary for about 200 yards from the sea. The boundary then passes along the edge of some coconut gardens and through house property up to the main road from Pondicherry to Markkanam. After crossing this road the boundary follows a stream with an embankment for about three-fourths mile. From that point onward it would apparently be necessary to acquire land as far as the north-western corner of Survey No. 368 but the exact length to be acquired cannot be settled without reference to the village registers. It may be necessary to acquire about a mile of land for patrol path if a patrol path is to be made.

(*b*) An alternative boundary would be to start at the mouth of the stream passing through Survey Nos. 129 and 137; thence along the northern boundary of Survey No. 134 to the main road and along the main road to the point where the stream crosses it; thence along the stream from Survey No. 119 to Survey No. 315; thence to the north-western corner of Survey No. 368; thence to the southern boundary of Survey Nos. 408 and 409.

Tiruchchittambalam—No. 247.—Along the southern boundary of Survey No. 5 as far as the present outpost and thence to the Mortandi chauki. This may involve acquisition of land for a patrol path of about 1½ miles unless poramboke land is available; thence along the western and southern boundaries of the Pondicherry-Mailam Road as far as the point beyond Vanur where it crosses the boundary between the villages of Pudupakam and Parankani. This road passes for about a mile, where it adjoins Agasamapattu and Pulichapallam villages through French territory; the strip of French territory to the north of it being only about 50 yards broad. This strip of road is apparently maintained by the District Board but the question whether the sovereignty over the road has been transferred to the British must be investigated. If the sovereignty has not been transferred and the French are not willing to allow us sovereign rights, as far as Customs rights are concerned, over it, it will be necessary to take the customs boundary round the boundary of the French territory and to put gates on the road at the places where it enters and leaves the French territory.

Parankani—No. 233.—From the point where the Pondicherry-Mailam Road enters the village (Survey No. 68), the boundary should follow the boundary of Parankani village to the south west and west along the Pudupakkam boundary and the boundary of the French territory as far as the south-west corner of Survey No. 98. This boundary will be a little over two miles in length and does not appear to follow poramboke along any portion of it.

Kondalankuppam—No. 225.—From the trijunction of Kondalankuppam, Parankani and French territory in Survey No. 98 to the stream which passes through Survey No. 98 and thence down the stream on its western bank as far as the Issa Eri.—Survey No. 181; thence along the northern side of the tank as far as the boundary of the village—Survey No. 184 and thence down the western boundary of the village of Sengamedu in Sengamedu village.

Sengamedu—No. 223.—Round the Sengamedu Eri on its northern, western and southern sides; thence along the French boundary on the eastern and southern sides of the village. The southern boundary is formed by the Varahanadi river. This may involve the acquisition of a little over half a mile for patrol path unless porambokes are available.

Tiruvakarai—No. 222.—Along the southern boundary of the village; this is formed by the river Varahanadi.

Korakkeni—No. 220.—Along the southern boundary of the village part of the boundary is formed by the Varahanadi river and there appears to be a stream running close to the rest of the southern boundary but it may be necessary to acqu 300 yards if a patrol path is required.

Aiveli—No. 219.—From the trijunction stone of Aiveli, Korakkeni and French territory, southwards to S. No. 108, along S. No. 108 and thence southward and westward to join S. No. 98 so as to keep the Paracheri outside the boundary: thence southwards along the poramboke as far as the Varahanadi river; thence westwards along the river as far as S. No. 39 of Maduraipakkam.

Maduraipakkam—No. 217.—Along the porambokes through S. No. 39, etc., to S. Nos. 310, 333, 334 to 694: thence along the southern boundary of the village to S. No. 688 and thence along the southern boundary to Mungilpattu.

Mungilpattu—No. 216.—Along the road from Maduraipakkam as far as S. Nos. 237 and 239; thence along the stream in S. Nos. 316, 325 and 270.

Mathur Villupuram—No. 214.—Along the northern boundary eastwards as far as the trijunction of Mathur Villupuram, Vadanur and French territory.

Vadanur—No. 213.—Along the western boundary of the Vadanur tank as far as S. No. 109; thence along the boundary between Vadanur and Kumulam. This might involve the acquisition of about three-fourth mile if necessary for a patrol path.

Kumulam—No. 212.—Thence along the southern boundary of the Pambaiyar river as far as the trijunction of Kumulam, Pudur, Villupuram and French territory.

Pudur Villupuram—No. 210.

Manukuppam—No. 209.—Southwards along the boundary between these two villages and French territory. This may involve the acquisition of one and half miles.

Kangarampalaiyam—No. 170.—Westwards along the northern boundary of S. S. Nos. 1 and 2 to S. Nos. 6 and 362; thence along the boundary of French territory as far as S. No. 385; thence along the stream southwards to the trijunction of Kangarampalaiyam. Kottampakkam and the French territory; thence along the eastern boundary of the village to the south-eastern corner. There appears to be a path along or in the neighbourhood of this boundary line.

Arpisampalaiyam—No 169—Southwards along S. Nos. 1, 5 and 10 (partly poramboke) and thence to the trijunction of French territory, Arpisampalaiyam and Seruvandadu. This might involve the acquisition of about one and half miles if necessary for a patrol path.

Seruvandadu—No. 166.—From the trijunction just mentioned to the south western corner of S. No. 273. This might involve the acquisition of about a mile of land if required for a patrol path.

Mokshakulam—No. 165.—Along the bund of the Ayakulam and Periya Eri as far as S. No. 192, thence along the stream dividing this village from Parasureddipalaiyam as far as the western boundary of S. No. 100; thence as far as the trijunction of Mokshakulam to the trijunction of Parasureddipalaiyam, Kongampatti and Mettupalaiyam. This might involve the acquisition of three-fourth mile if necessary for patrol path.

Mettupalaiyam—No 284.—From the trijunction just mentioned to the south-west corner of S. No. 299 and thence across Pannaiyar river. This might involve the acquisition of less than half a mile if required for patrol path.

Cuddalore taluk.—Along the southern bank of the Pannaiyar river at two places; the whole of the river is included for a total distance of about one and half miles in French territory. It appears probable that it will be generally possible to provide a patrol path without acquisition of land. Perhaps it may be necessary to acquire about two miles throughout the whole length if required for patrol path.

The total length to be acquired for patrol path is to be maintained throughout; may be about 15 miles if existing porambokes can be used for the purpose. The total length of the boundary is estimated to be about 55 miles.

TAXES ON TRANSACTIONS, FEES AND LICENCES.

QUESTIONS 87 TO 95.

Question 87.

87. The list attached as Annexure K specifies some of the taxes on transactions that have been adopted in other countries and not yet tried in India, and some of the principal countries that have adopted them. Do you advocate the substitution of any tax of this nature for any existing tax? If so, which of these would you prefer?

ANNEXURE K (Question 87).

Statement showing the transactions, etc., in connexion with which taxes, fees or licences are levied in countries other than India.

Advertisements ...	Belgium, France, Germany, Italy.
Armorial bearings ...	United Kingdom.
Auction Sales ...	France, Transvaal
Banking Transactions.	America, England, Japan, Switzerland.
Betting	Australia, Belgium, Canada, France, Germany, Italy, New Zealand, South Africa, Sweden.
Bicycles	Belgium, France, Greece, Italy, Switzerland.
Club Subscriptions .	United States of America.
Entertainments * ...	Australia, Austria, Belgium, Canada, Egypt. France, Germany, Italy, Japan, New Zealand, South Africa, United States of America, England
General taxes on turnover, receipts, or sales, or on commercial or industrial transactions.	American States (some), Austria, Belgium, Canada, Czecho-Slovakia, France, Germany, Hungary, Italy, Japan, Jugo Slavia, Mexico, Phillipines, Poland, Portugal, Roumania, Spain, Tanganyika.
Insurance	Argentine, Canada.
Motor-cars †	Belgium, Denmark, France, Japan, Norway, Spain, Sweden, Switzerland, United States, England.
Luxuries	Czecho-Slovaka, France, Germany, Italy.
Railway Travelling ...	America, England, Japan, Switzerland and Austria.
Safe Deposits ..	Spain.
Telegrams	United States.
Telephones	United States.
Tourists	France and Italy.
Transport	Germany and United States

* A tax of this kind is levied in Bengal and Bombay.

† A tax of this kind is levied in the United Provinces and a Bill imposing one has just been passed in the Punjab.

Answer to Question 87.

Commissioner of Police.

I do not advocate the substitution of a tax of this nature for any existing tax. Many of the items mentioned are already taxed in some form.

Question 88.

88. The stamp duties are merely a means of collection of taxes upon transactions, which may be grouped into the following classes:—

Nature of transactions.	Items of Schedule of the Indian Stamp Act.
Free distribution of property ...	33, 58.
Transfer, or lease of property ..	6, 7, 19, 22, 23, 31, 32, 35, 40, 41, 45, 54, 55, 57, 61, 62, 63, 64.
Inheritance	2, 3.
Legal transactions	4, 5, 7, 12, 24, 25, 26, 28, 29, 42, 44, 48, 50, 51, 52.
Commercial transactions	1, 8, 10, 13, 14, 15, 16, 18, 20, 21, 34, 36, 37, 38, 39, 43, 46 47, 49, 53, 56, 59, 60, 65.
Entry into a profession or apprenticeship.	9, 11, 30.

Have you any comment to make on these duties generally, or upon any special class of them?

Answers to Question 88.

Board of Revenue (Separate Revenue).

No remarks.

Inspector-General of Registration.

The Indian Stamp Act is a revenue law which enters largely into the business transactions of daily life. Its operation is more or less automatic in that its application is left to the people themselves. It is therefore necessary that the working of the Act should be as clear as possible, so that the people may thoroughly understand the obligations which rest upon them. The principles underlying the Indian Act having presumably been borrowed from the English Act, any departure made to suit Indian conditions should necessarily take account of those principles.

Commercial transactions, for example, are lightly taxed, compared with others, in accordance with the British practice, and an undue enhancement of the Indian duties in this respect is out of the question in view of the international character of commerce and the comparatively slow progress made by it in this country.

The duties on transactions relating to property are rather heavy, and if a further increase is sought to be effected in these duties, the question of undervaluation of property or distortion of transactions, or both, will have to be faced in all seriousness. There is already section 27 of the Stamp Act which shows which way the wind blows; for it requires that the facts affecting the stamp duty should be fully and truly set forth in instruments. The State is, no doubt, entitled to a share in the periodical rise in the value of land; but such improvement is partly the result of the disproportionate demand therefor as a form of investment consequent on the slow development of trade and industry and the lack of public confidence in business enterprises. There should therefore be a limit to the stamp duties levied on this form of investment which is resorted to by the people not so much for the income it yields as for the element of safety present in it.

The Stamp Act was an All-India measure till the 1st April 1922. From that date, an enhanced scale of duties has been introduced in this Presidency to meet the general deficit; but this has inevitably led to a difference in rates throughout India, necessitating the levy of the balance, where necessary. The disparity in the scale of duties, however, is bound, in the long run, to affect the free course of transactions as between one province and another, and it is to be hoped that the incidence of the duties will once more be equalized in all the provinces so soon as their financial position is restored.

Registrar of Joint Stock Companies.

India being industrially backward, the stamp duties on companies may remain what they are at present; but should it at all be considered necessary to raise them in view of the growing financial needs of the country, the following suggestions may be examined :—

Comparing the incidence of duties and fees payable in the matter of registration of companies in England with that in India, it is seen, in the first place, that the *stamp* duty payable here in India is far less than that payable in England. In England the memorandum of association and the articles of association have each to bear a deed stamp of 10 shillings and, in addition to these, in respect of *limited* companies an ad valorem stamp duty is also imposed on the nominal capital at the rate of * £1 for each £100 or portion of £100 and the like upon any registered increase of capital. (Section 112 of the English Stamp Act, 1891, as amended by section 7 of the Finance Act, 1899, and section 39 of the Finance Act, 1920—10 and 11 Geo. 5, cap. 18.) The form of the statement of nominal capital is enclosed (*Annexure I*). Here, in India no such statement of nominal capital is required to be filed with the Registrar of Companies and the only stamp duty payable is Rs. 30 on the memorandum of association and Rs. 50 on the articles of association (Articles 9 and 32 of the Madras Stamp *Amendment* Act, 1922). As the duty in force in England on the nominal capital of limited companies is ad valorem, the imposition of a similar duty here will not affect companies with small share capital and companies of magnitude should be able to bear the proportionate duty. Having regard, however, to the fact that the conditions in India are not so favourable as in England, a duty of two annas for every Rs. 100 of nominal share capital may be imposed and a reduction may be made in the stamp duty payable on the memorandum and articles of association which is only 10 shillings in England but which is Rs. 30 and Rs. 50 here in the Madras Presidency. The duty on these two documents may therefore be reduced to Rs. 10 each. The effect of the above suggestions is illustrated in *Annexure II* and it will be seen therefrom that the stamp duty increases proportionately with the increase in the nominal capital.

2. Secondly, as regards *registration* fees the fee payable according to Table B of the Indian Companies Act, 1913, is heavier than that payable according to Table B of the Companies (Consolidation) Act, 1908, as will be seen from the following figures :—

Capital		Registration fee in India.		Registration fee in England.
Rs 20,000 (£1,333–6–8)	...	Rs. 40	...	Rs. 30 (£2)
,, 30,000 (£2,000)	...	,, 60	...	,, 30 (£2)
,, 75,000 (£5,000)	...	,, 115	...	,, 75 (£5)
,, 1,50,000 (£10,000)		,, 150	..	,, 93–12–0 (£6–5–0)
,, 15,00,000 (£100,000)	...	,, 625	...	,, 431–4–0 (£28–15–0)
,, 30,00,000 (£200,000)	...	,, 775	...	,, 506–4–0 (£33–15–0)
,, 75,00,000 (£500,000)	...	,, 1,000		,, 731–4–0 (£48–15–0)
Maximum fee.	...	,, 1,000	...	,, 750–0–0 (£50)

In order that the present scale of fees levied on the capital of companies may not hamper the growth of smaller concerns among them it is desirable that it should be brought into line with the scale in the English Act. The scale given in Table B in the First Schedule may accordingly be revised so as to accord with Table B in English Companies (Consolidation) Act, 1908—Rs 15 being taken as equivalent to £1.

The revision of the scale of stamp duty and registration fees as suggested above, whilst increasing the stamp revenue will not in any way fetter the growth of joint stock companies the revision being unfelt in the case of smaller concerns and bearable in the case of the bigger ones—*vide Annexure III*. The actual figures worked out on the basis of the foregoing proposals for the year 1923–24 show a surplus of Rs. 27,476 under stamp duties and registration fees put together—*vide Annexure IV*.

* Prior to 29th April 1920 (*vide* section 39 of the Finance Act, 1920) this duty was only 5 shillings for every £100.

ANNEXURE I.

COMPANY LIMITED BY SHARES.

Statement of the Nominal Capital of Limited.

Pursuant to section 112 of the Stamp Act, 1891, as amended by section 39 of the Finance Act, 1920.

The Nominal Capital

of

Limited

is Pounds, divided into shares

of each.

Signature

Description

Dated the day

of 192

NOTE.—This statement should be signed by an officer of the company and lodged with the memorandum of association and other documents when applying for registration of the company.

ANNEXURE II.

£1 = Rs. 15.

LIMITED COMPANIES.

Nominal share Capital (Limited Companies). (1)	Existing stamp duty. Memorandum. (2)	Articles. (3)	Statement of nominal capital. (4)	Total. (5)	Proposed stamp duty. Memorandum. (6)	Articles. (7)	Statement of nominal capital. (8)	Total. (9)	Stamp duty in force in England. Memorandum. (10)	Articles. (11)	Statement of nominal capital. (12)	Total. (13)
	RS.	RS.		RS.	RS.	RS.	RS.	RS.	S.	S.	£	
Rs. 20,000 (£1,333)	30	50	..	80	10	10	25	45	10	10	14	£15 (Rs. 225).
Rs. 60,000 (£4,000)	30	50	..	80	10	10	75	95	10	10	40	£41 (Rs. 615).
Rs. 15,00,000 (£100,000) ..	30	50	..	80	10	10	1,875	1,895	10	10	1,000	£1,001 (Rs. 15,015).

ANNEXURE III.

TOTAL STAMP AND REGISTRATION FEE (MEMORANDUM AND ARTICLES).

Capital.	Existing. Stamp on memorandum.	Stamp on articles.	Registration fees.	Total.	Proposed. Stamp on memorandum.	Stamp on articles.	Registration fees.	Stamp on capital.	Total.
	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.
Rs. 30,000 (£2,000).	30	50	60	140	10	10	30	37½	87½
Rs. 75,000 (£5,000).	30	50	115	195	10	10	75	93¾	188¾
Rs. 15,00,000 (£100,000).	30	50	625	705	10	10	356¼	1,875	2,251¼
Rs. 45,00,000 (£300,000).	30	50	925	1,005	10	10	506¼	5,625	6,151¼

ANNEXURE IV.

STATEMENT SHOWING THE EFFECT OF THE PROPOSALS ON THE RECEIPTS IN THE FINANCIAL YEAR 1923–24.

Actually collected during the year.					Collections under the proposal.				
Number of companies.									
Registered during the year.	Companies that increased their nominal capital during the year.	Stamp duty.	Registration fees.	Total receipts.	Stamp duty.	*Ad valorem* stamp duty at As. 2 for Rs. 100 of capital (additional).	Registration fees.	Total.	Excess revenue.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.
95	..	7,600 (95×80) (*a*) one company was registered under section 26 and was exempt from stamp duty.	14,610	22,210	1,900 (95×20).	(*b*) 27,397	9,073	38,370	16,160
..	19	Nil.	1,533	1,533	Nil	(*c*) 11,844	1,005	12,849	11,316
96	19	7,600	16,143	23,743	1,900	39,241	10,078	51,219	27,476

(*a*) Memorandum Rs. 30+articles Rs. 50.
(*b*) Nominal capital of companies registered was Rs. 2,19,17,450.
(*c*) Nominal capital was increased by Rs. 91,75,270.
NOTE.—Maximum fee under the proposal will be Rs. 750 (650).

Further Notes on Question 88.

Extract from a demi-official, dated 31st March 1925, from the President, Indian Taxation Enquiry Committee.

Under *Stamps* we have failed yet to get any intelligent criticism of the schedules. I have asked the Inspector-General of Registration, who sent us quite a good paper, if he could take up this point. Can you think of any one else who would be useful, e.g., some vakil who has written a book on the Stamp Act?

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Stamp duties and duties on transactions.—The Committee understand that, unlike some other provinces, the Government of Madras have succeeded in enhancing the rates of court-fees and stamp duties. The Committee would be glad to know whether these increases have led to a diminution of the receipts under any heads. It has been urged in other provinces that the varying rates of stamp duty now prevailing throughout India have led to practical difficulties. A difficulty of another type which has come to light is that there is no guarantee that stamps used in a province have been purchased in that province, and consequently the revenue derived by a particular province from the sale of stamps may bear no relation to the value of the stamps used in that province. It has been suggested that these difficulties can only be solved by making non-judicial stamps a central source of revenue, suitable compensation being given to the provinces. The Committee would be glad to know whether difficulties of this type have been experienced in Madras, and how the Government of Madras would regard the proposal to make non-judicial stamps a central subject.

May be sent to Mr. Stokes u.o. for remarks.

V. RAMAKRISHNA.—19-5-25.

Has Commissioner any information on the two points mentioned above? This is for discussion on Saturday.

E. W. LEGH—19-5-25.

COMMISSIONER'S OFFICE.

Please let me know if we have any information.

H. G. STOKES—19-5-25.

NOTES.

[*Stamp duties and duties on transactions—U.O. from the Government.*]

(*A*)—*Whether increase in Stamp duties led to a diminution of the receipts under any heads.*

The Stamp duties were increased by the Madras Stamp Amendment Act and the Court Fees Amendment Act of 1922. The Stamp Amendment Act came into force from 1st April 1922 and the Court Fees Amendment Act from 18th April 1922. The rate of duty on copy stamp papers was increased from two annas to three annas in September 1922. The total receipts under Non-judicial, Court-fees and Copy stamp papers for four years from 1920–21 to 1923–24 are given below:—

Years.	Non-judicial.	Court-fees.	Copy stamp papers.
1920–21	70,56,103	1,02,53,403	7,08,860
1921–22	72,81,467	1,12,40,409	7,58,210
1922–23	87,82,095	1,22,45,634	9,23,976
1923–24	90,51,695	1,33,20,941	10,30,580

It will be observed that there is a steady increase of revenue under all the items. The Madras Stamp Amendment Act, 1922, increased the duties on certain instruments by 50 *per cent* and on some 100 *per cent* and it was naturally anticipated that there will be an increase in receipts of at least 50 *per cent* under Non-judicial stamps. However this expectation was not realized. A statement showing the details of

Answers to Question 88.]

receipts under Non-judicial stamps for four years from 1920–21 to 1923–24 is submitted. The figures have been adopted from the Stamp Administration reports. Figures of receipt for such heads such as mortgage, conveyance, lease, gift, settlement, transfer, etc., that is revenue figures classified according to important deeds are not available in the office.

(*B*)—This is an inherent danger in commercial transactions which are numerous. In connexion with the Board's proposal to have for the Bills of Lading appropriated special adhesive stamps the Government of India pointed out that this system was likely to be introduced by more than one province and that it was desirable that the overprinting should differ in each such province, as otherwise the head office of a company might purchase all its stamps at one place and distribute them, causing the revenue to go to one province instead of to all the provinces in which the company operates. Similar is the case with the Insurance companies. These are obvious cases.

P.S.—21-5-25. W.B.—21-5-25. H. G. STOKES—22-5-25.

Statement showing the details under receipts of non-judicial stamps since 1920–21.

Year.	Impressed stamps.	Hundi or inland bills of exchange.	Impressed stamps as defined in section 2 (13) (b) of the Stamp Act.	Foreign bill stamps.	Half anna and one anna unified stamps.	Share transfer stamps.	Stamps for legal practitioners licences.	Notarial stamps.	Insurance stamps.	Forms for cheques and receipts.	Miscellaneous receipts.	Total.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.
1920-21 ..	58,02,228	1,22,674	3,13,125	1,06,668	3,50,000	39,294	65,500	1,675	..	62,932	1,92,097	70,56,193
1921-22 ..	60,56,319	1,05,665	3,51,240	52,697	*3,50,000	52,182	65,256	1,102	6,544	81,167	1,59,311	72,81,467
1922-23 ..	78,47,898	1,31,615	2,84,002	56,777	..	43,978	67,760	1,816	10,037	74,798	2,63,894	87,82,095
1923-24 ..	79,85,896	1,63,276	4,24,982	73,762	...	46,434	57,187	3,777	10,748	87,670	1,97,963	90,51,695

* The sum of Rs. 3,50,000 represents the compensation paid by the Government of India to the Local Government for the loss in Provincial revenues resulting from the public use of the unified postage and revenue stamps of one anna and half anna on certain instruments. The *Indian* Stamp Act of 1923 increased the duties on certain instruments such as proxy, promissory note, etc. The Local Government have asked for increased compensation and orders have not been so far passed by the Government of India on the point.

To be added to our file in connection with the Indian Taxation Enquiry Committee.

T. E. M[OIR]—17-7-25.

Question 89.

89. Bentham included among taxes which should be interdicted taxes on judicial proceedings, whether under the name of stamps or of court fees. Please say whether you consider that the stamps collected on such proceedings should be so limited as just to pay for the cost of the courts, including pensions of officers and capital cost of buildings, or whether it is legitimate to tax ability to pay as exhibited by resort to the law.

Answer to Question 89.

Board of Revenue (Separate Revenue).

The stamp duty does not, I believe, cover the cost of the maintenance of courts in this province. For the rest I see no reason why the stamps on judicial proceedings should be limited in the manner suggested. In this province, as elsewhere, people resort to courts of law on the flimsiest of grounds. It appears legitimate to tax ability to pay as exhibited by resort to the law.

Note, dated 23rd May 1925, from the Taxation Enquiry Committee for discussion with the Government of Madras.

Stamp duties and duties on transactions.—With regard to court-fees, the Committee would be glad to know whether the Government consider that the revenue should not exceed the cost of the courts, including pensions and the interest on the capital cost of buildings.

Note by the Finance Department.

In the case of land revenue, stamps and excise, the Revenue Department stated that no information was required by the Hon'ble Member and the Hon'ble Minister (M-2).

T.E.V.—21-5-25. V.V.—21-5-25. J. B. BROWN—21-5-25.

Question 90.

90. Hobson * states that the whole of the stamp duties on deeds of disposal or transfer of property are levied in restraint of trade or other forms of presumable personal and social utility. Do you agree in this criticism ?

* Taxation in the New State, page 126.

Answer to Question 90.

Board of Revenue (Separate Revenue).

The criticism, even if theoretically true, I think, be equally applied to many other taxes, income-tax for instance. I see no reason why it should apply solely or particularly to duties on deed of disposal or transfer of property nor do I see why the social utility of these transactions should be assumed.

Question 91.

91. To what extent is payment of duty on transfers of shares evaded ? Can you suggest any remedy for such evasion ?

Answers to Question 91.

Board of Revenue (Separate Revenue).

No such cases have come to my notice.

Registrar of Joint Stock Companies.

Except in the case of well-managed companies it appears that deeds effecting transfer of shares are in many cases not stamped either intentionally or owing to ignorance or indifference on the part of the company officers. Such cases usually remain undetected since the chances of the transfer deeds being filed before a public officer are few and far between. The best remedy for such evasion appears to be to add a provision in the Indian Companies Act, 1913, requiring that a return in the form annexed (*annexure*) of cases of transfers of shares in the case of every company having share capital, whether public or private, should be filed with the Registrar within a month from the date of registration of transfer as in the case of the return of allotment (section 104), such statements being accompanied by the original transfer deeds concerned which will be returned to the company after inspection by the Registrar. This provision will impress on companies the duty of seeing that the transfer deeds are properly stamped, since insufficiently stamped transfer deeds will be impounded by the Registrar at the time of his scrutiny.

The institution of this return has also the advantage of being found helpful to the public, as it will enable the Registrar's office to keep always an up to date list of the shareholders of a registered company. As the law stands at present, transfers of shares are required to be entered only in the *annual* list of members and summary filed under section 32 of the Indian Companies Act, 1913, and there is no up to date information as regards transfers effected during the period intervening between the filing of any two lists of members.

In case it is not considered expedient to make any new provision in the matter, the object in view, viz., that of ensuring that deeds of transfers of shares are got duly stamped, can be achieved also by adding an additional footnote to Form E of the III schedule to the Indian Companies Act, 1913, to the following effect:—

"The original deeds connected with the transfers of shares noted in columns 7 to 10 of the list should be attached for the Registrar's inspection and return."

Such an alteration of the forms in the III schedule is permitted by section 151 (2) of the Act.

The scrutiny of transfer deeds will inevitably add to the work of the companies department; and failing the remedies suggested above, a declaration may be caused to be added in the annual list of members to show that the deeds in question have all been duly stamped.

ANNEXURE

RETURN OF TRANSFERS OF SHARES.

The Indian Companies Act, 1913.

(Section)

(To be filed with the Registrar within one month after the transfer is registered.)

Return of transfers (*a*) from the of 192 to the of 192 of the (*b*)

Made pursuant to section

Name of transferer with address and occupation. (1)	Name of transferee with address and occupation. (2)	Number of shares transferred. Ordinary. (3)	Number of shares transferred. Preference. (4)	Date of registration of transfer. (5)

NOTE.—(*a*) In making a return of transfers under section of the Indian Companies Act, 1913, it is to be noted that—

1. When a return includes several transfers made on different dates, the actual dates of only the first and last of such transfers should be entered at the top of the front page and the registration of the return should be effected within one month of the first date.

2. When a return relates to one transfer only, made on one particular date, the date only should be inserted, and the spaces for the second date struck out, and the 'made' substituted for the word 'from' after the word 'transfers' above.

(*b*) Here insert name of company.

Question 92.

92. Fees tend to develop into taxes. This has undoubtedly occurred in the case of the liquor licences. Are there any other fees levied in India in which you find that an element of taxation appears?

Answers to Question 92.

Inspector-General of Police.

In Madras City, in 1924, the gross amount collected as registration and licence fees (including motor vehicle driver's licences) in connexion with motor vehicles was Rs. 36,863.

The cost of collection is estimated at Rs. 12,604-10-8 and the profit to Government at Rs. 24,258-5-4. A small element of taxation may perhaps be indicated. On the other hand, the increase of motor traffic has caused extra expenditure to Government in traffic control establishments.

Commissioner of Police.

No element of taxation appears in the fees levied for licences issued by me.

[NOTE.—Though the total fees realized are somewhat in excess over the cost of establishment maintained for it and other charges, they are not felt as a burden.]