

# CLIVE TO KEYNES

( A Survey of the History of our Public Debts and Credits )

BY

J. C. KUMARAPPA



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AVAJIVAN PUBLISHING HOUSE  
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BY

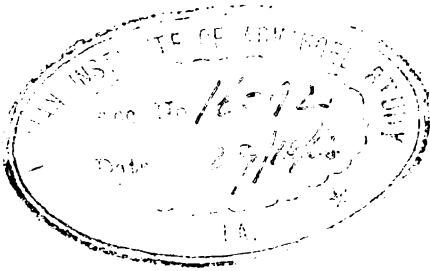
J. C. KUMARAPPA




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## PREFACE

If an individual wants to take advantage of another man's possessions and casts his eyes greedily on property which does not belong to him, he usually resorts to a number of devices according to the circumstances in which he is placed. (1) The simplest is the "hold up" method. By merely terrifying the victim, the victim is made to part with his wealth. (2) The next one is "embezzlement" by which a person misappropriates amounts belonging to another which have been given to him for keeping. (3) Often cashiers resort to "falsification of accounts", i. e. by placing expenditure under capital items or debiting expenses to long term costs. The moneys that have been withdrawn or wrongly dealt with are kept out of the scrutiny of the proprietor. (4) Again an employee may take the valuables of his employer and pawn them for a song or (5) a trustee may commit misfeasance by utilizing the trust property for his own personal use. These are some of the types of financial crimes committed by crooks in the history of private property.

The British connection in India will reveal that full advantage has been taken of all these types of dishonest methods, and they have forged some novel ones besides.

A delegation led by Sir Wilfrid Eady, the second secretary to the British Treasury and Mr. C. F. Cobbold, Deputy Governor of the Bank of England, along with Mr. K. Anderson, head of the Financial Department of the India Office and Mr. P. S. Beale of the Exchange Control Department of the Bank of England are visiting India to have "talks" on India's sterling balances with the representatives of the Government of India and the Reserve Bank.

It may be mentioned that the sterling balances, which are at present engaging the attention of this delegation, is the resultant balance of various items that have been debited to us since the British occupation, and items placed to our credit.

It would, therefore, be interesting to look at the background of the history of the financial obligations between Great Britain and India. It will show that the "stately homes of England" are founded on the skeletons of India.

15th February, 1947

Maganvadi

Wardha, C. P.

J. C. KUMARAPPA

# CONTENTS

	Pages
PREFACE	iii—iv
I. INTRODUCTORY	7—11
Private Finance, Income based 7; Public Finance, Expenditure based 7; Productive and Unproductive Debts 8; Budget, Loans 8; National Debts 9; Public Debts 9; Control 10	
II. THE EAST INDIA COMPANY	11—12
The "hold up" Period 11; The Embezzlement Period 12	
III. THE VICTORIAN AGE	13—26
Falsification of Accouts 13; The Afghan war 15; The Persian War 16; The Mutiny, 17; Purchase of The East India Company 18; External Wars in Abyssnia, Egypt Burma, Soukim etc. 18; Miscellaneous charges 22; Annual Military Expenditures 23; Interest Payments 25	
IV. MODERN TIMES	26—28
The "Gift" Trick 26; Misfeasance 28; Sponging 28	
V. THE PAWNEROKING PERIOD	29—35
Sterling Credits 29; The U. K. C. C. 31; Insecurity of the Sterling Paper 32; Stability of Purchasing Power 32; Misappropriation 34; The Dollar pool 34	
VI. CONCLUSION	35—42
Congress Select Committees Report 35; Gandhiji's Statement on Public Debts 40; Capacity to Pay 40; Demand for Impartial Audit & Inquiry 41	





## INTRODUCTORY

In private finance an individual is expected to keep within his income which he acquires by means of his economic activity. His expenditure, normally, follows his capacity to earn. If he spends, ordinarily more than his earnings by borrowing the excess, he will end up in a bankruptcy court. If he spends less than his income he accumulates purchasing power which we call capital, and which may be used as a reserve or lent for further production. In both cases, where the income is not exactly equal to the expenditure, a debt arises,—in the case of borrowing, it is a debt and in the case of lending it is a credit. We notice that in private finance, income determines the expenditure and the debt.

On the other hand, in public finance, i. e. the finance of a State, the determining factor, within limits, is not the income but the expenditure. So that, if we wish to satisfy ourselves that the debts of a State are properly incurred, we have to scrutinize the various items of expenditure to see that each item is properly chargeable against the revenue of the country and that there is no extravagance. Then we should examine the taxable capacity of the citizen and see if the needed amount cannot be raised by taxation. After such investigation if we find that all items of expenditure are in the interests of the country, and are properly chargeable, and if the ability of the citizen to pay any further taxes is nil, then debts incurred under such conditions are fully warranted.

Unlike a private individual, the State first decides what are the expenses it has to incur for administration and for the nation-building programme for the year. Then it raises the needed funds compulsorily by ordering the citizens to contribute towards the maintenance of the State by taxing them. Thus, in public finance income or revenue is raised to meet the expenditure.

It is not always possible to meet the expenditure out of revenue. Often the State has to incur expenses the benefit of which will only accrue to the public in the years to come. In such cases, it is obviously not fair to ask the citizens of today to pay for the benefits of the future in a lump sum. It may be too heavy a burden on the present day production which may be affected adversely. Under such circumstances, the State may borrow the money needed now and pay it off in future years out of income. Again, there may be sudden emergencies, to meet which it may not be possible to depend upon taxation. The funds may be required immediately — as in the case of a war, famine or pestilence. In such emergencies the State has to resort to borrowing.

In the first case, where the effect is to spread the taxation over the years which receive the benefit and where the expenditure is incurred for developmental purposes to aid the productive capacity of the people and brings in a return on the capital sunk, it is called a 'productive debt'.

In the second case, where the debt is raised to meet an urgent expenditure, which will not necessarily increase productivity, it is termed an 'unproductive debt'.

In deciding the programme of the year, budgetting plays an important part in modern statecraft. It lays before the public what the government propose to do in the year and tells the people how much it is going to cost their pockets. A good budget demands the equalizing of the revenue and expenditure, and where there is need for further funds it indicates how that extra is to be obtained. When the expected income from taxation is tardy in reaching the treasury and the expenditures have to be met, then temporary loans are raised by means of treasury bills which are paid off later on when the taxes will have been collected. Bills and debts so formed bear interest which becomes a recurring charge on the revenues till they are paid off.

Where the interest payments are made to persons within the country itself the production of the people remains in the country and it does not cripple the people to any great extent. Even then there is a maldistribution of wealth as the taxes are collected from the poor and paid to the bond-holders who are usually amongst the rich. When the interest is payable to citizens of a foreign country the debtor country is held to ransom as regards its production. As John Stuart Mill says, 'a country which makes regular payments to foreign countries, besides losing what it pays, loses also something more by the less advantageous terms on which it is forced to exchange its production for foreign commodities.' This assumes a dangerous form when the creditor country is in a position to control the finance, currency and exchange policy of the debtor country and has the placing of orders for materials in its own hands.

In case large amounts are needed which can never be repaid, and for which the State is not prepared to pay interest indefinitely, a government may, by virtue of its summary powers, find its wherewithal by confiscation or by capital levy. Though these amounts so raised are in excess of revenue they do not form 'Public Debts'.

The excess of current expenditure over revenue—budget deficits—should not be capitalized by treating them as interest-bearing debts.

Raising money for public purposes by means of loans is a comparatively modern innovation, dating from the growth of the extensive use of commercial credit. Previously, rulers used hoarded wealth or treasures taken from temples or other public institutions.

When debts are incurred for public purposes by a Government, representative of the people such debts are termed 'National Debts' and they are very often held by the citizens of that same country. Where there is no such relationship between the government and the governed the debts are described merely as 'Public Debts'.

In India, public debt was an unknown factor until the advent of the British rule. Prior to that time, if the rulers of the State incurred any debt, it was their own personal affair, and the debt had nothing to do with the people over whom they ruled. In the days of Clive, India was under the East India Company, which was only a commercial body with certain territorial privileges. The administration of the country was run on a profit-making basis, and there was a steady transfer of capital from India to England. There was no need for an Indian debt as the necessary funds were procurable under feudal conditions of pillage and plunder. At this period of history, England was in a very low financial state. According to Brooks Adam,<sup>1</sup> about 1750 "the English iron industry was in full decline because of the destruction of the forests for fuel. At that time four fifths of the iron used in the Kingdom came from Sweden," and prior to 1760 "the machinery used for spinning cotton in Lancashire was almost as simple as in India." Inventors there were many, but the necessary finances to put the inventions into practical use were lacking. The heart may conceive and the brain may devise, but if there were no hands to execute such conceptions on a commercial scale, all would be vain. The opportunity to supply the needed capital to translate such ideas into action presented itself after the Battle of Plassey.

In the absence of a representative government, it is incumbent on the administration to deal with the funds in their hands as a trustee. The present government of India has succeeded to the tradition created by the East India Company and has modified its methods to suit the conditions of the times. Still there is no proper control over the purse, although there has been a pretence of representative government by the creation of impotent councils since 1861. Till 1909 the budget did not come under the purview of such councils. After that date certain items were allowed to be discussed

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1. *Law of Civilization and Decay*, p. 313.

and since 1920 about 25% of the total expenditure has been made 'votable'. Since then the power of the purse has been in the hands of an executive who are not responsible to the people. With the advent of the Interim Government last year much was expected but as it is constituted at present its "left hand knoweth not what its right hand doeth"!

## II

## THE EAST INDIA COMPANY

**The "Hold up" Period**

In the very early days, there was unvarnished loot from the country by the agents of the East India Company. Macaulay, describing the situation after Plassey, says<sup>1</sup> "The shower of wealth now fell copiously on the Company and its servants. A sum of eight hundred thousand pounds sterling, in coined silver, was sent down the river from Moorshidabad to Fort William, Calcutta, which a few months before had been desolate, was now, more prosperous than ever. Trade revival and the signs of affluence appeared in every English house. As to Clive, there was no limit to his acquisition but his own moderation."

'The empire builder' Clive thus secured the right to loot India and secure finances for Europe. Three years later the flying shuttle made its appearance, and four years later the Hargreaves Spinning Jenny. In 1768 Watts brought out his steam engine. The year 1779 saw the 'Mule' invented by Crompton, and the power loom was patented in 1785. This was the birth of the industrial revolution of England and the industrial devolution of India. The capital needed to exploit inventions was thus supplied by direct and indirect plunder from India.

<sup>2</sup>"Possibly since the world began no investment has ever yielded the profit reaped from the Indian plunder, because for nearly 50 years Great Britain stood without

1. *Essay on Lord Clive* Vol. III, page 240.

2. Brooks Adams, *Law Of Civilization and Decay*, page 317.

a competitor." Burke says that in 1750 there were not even 12 'Banker shops', while in 1790 they were to be found in every market town. <sup>1</sup> Thus, the arrival of Bengal silver not only increased the mass of money, but stimulated its movement, for at once in 1759 the bank issued 10 and 15 pound notes, and in the country private firms poured forth a flood of paper." Probably between Plassey and Waterloo about 1000 million pounds<sup>2</sup> were transferred from Indian hoards to English banks. We can hardly realize the enormity of this sum when we allow for the purchasing power of money in those days. It is interesting to note that in 1815 the whole national debt of England was only 861 million pounds, which was considerably below the estimated loot from India in the previous 50 years.

### **The Period of Embezzlement**

Then we come on to the period of "embezzlement" by the honourable East India Company. The Company was too honourable to make use of the "hold up" method. What they did was, they bought Indian goods out of tax revenues and exported them to Europe for sale on their own account.

Naturally, under the conditions, when the representatives of the British Crown, namely the East India Company, were able to send such enormous amounts to England, there was no question of any public debt in India. Apart from barefaced looting by 'empire builders' this other indirect method was resorted to in order to transfer Indian funds to England under a cloak of decency. The revenues of the East India Company were not all spent on the taxpayers. Out of the revenues Indian goods were bought and exported to Europe for sale, the taxpayer getting no return whatsoever on this transaction. The average revenue so used between 1793 and 1812 was over 13 million pounds per year.<sup>3</sup>

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1. *Ibid*, page 319.

2. William Digby's *Prosperous British India*, page 33.

3. *Minutes of Evidence on the Affairs of the East India Company*, 1813.

**Falsification of Accounts**

As we approach the Victorian age, Great Britain was again too respectable to stoop to the bare-faced loot of Clive or to the commercial dishonesty of the East India Company. They wished to have the booty but were anxious to appear honest and above board. Here, they resorted to a wholesale falsification of accounts.

This way was, not to take the money or goods from India but to debit India with Britain's charges. The result is absolutely the same as the two former methods, that is, the wealth production in India is diverted to England without the producer in India getting any benefit in return, thus impoverishing our country and relieving the burden on the Exchequer of Great Britain. The bulk of what is known today as the 'Public Debt of India' is built up by such false debits.

India had not a 'National Debt' as there was no national government. But according to the Statistical Abstract, India had a 'Public Debt', on 31st March, 1926, of over one thousand crores made up as given below :

In India :

Loans	368.29	
Treasury Bills etc.	49.65	417.94

Provident Fund,

P. O. Savings Bank etc.	94.55
-------------------------	-------

In England :

@ 1/4 to the Re.	513.29
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Rs. 1025.78 Crores

Leaving aside Bills and current liabilities the others are classified as :

'Productive'	737.18
'Unproductive'	221.88

959.06 Crores



And again the 'productive debts' are distributed as:

Railways	626.06
Irrigation	96.04
Post and Telegraph	13.00
Forests, Salt etc.	2.08

---

737.18 Crores

All that the above figures signified was that to that date the government expenditures exceeded the revenues by over one thousand crores. The further details are thoroughly unreliable and mainly fictitious, as no specific loans had been incurred for productive or unproductive purposes or for any particular asset. It is not possible to earmark any specific loan as being due to railways, or irrigation etc. The classification and distribution are both arbitrary. Even the original ratio of 'productive' and 'unproductive' debts has been constantly altered by the government policy of writing off 'unproductive' debts from surpluses of revenue. This was only a cute accounting device to throw dust into the eyes of the public, so that the taxpayer may imagine that the bulk of the debt is represented by assets. If one is to scrutinize these debts, the first requisite is to do away with this window dressing and remember that the total of 'Public Debt' merely represents the overspending of the government; or accumulated deficits met by borrowing. When once this is cleared then the scrutiny will naturally narrow itself into one of investigating what items led to such excessive spending. As we have already explained, such items can be one of two kinds :

1. Emergency expenditures.
2. Capital expenditures.

If these had been incurred on behalf of the people and for the benefit of India, surely such liabilities rest on our shoulders. But if we find that our accounts had been debited with items which were not a proper charge, then such items have to be disallowed. The amounts disallowed may total up to a figure, either equal to, less than, or more than the above figure of public debt,

according as to whether the debt was wholly due to such items, or whether part of such emergent or capital expenditures had been met out of revenues and not wholly out of borrowing, or whether the public debt had been written off from time to time from surplus revenues. As a matter of fact, in India, the last is the case. Large amounts of surplus revenues had been utilized to write off these debts, especially those called 'unproductive', so that, if a proper account were made of all financial transactions which were capable of being challenged, the aggregate of such items would exceed the public debt figures of one thousand crores. Whatever may be the amounts, the only deduction possible is that such amounts should be taken out from Indian accounts and charged to the proper parties.

We shall consider the following few items which have been debited to Indian revenues in regard to this period.

	£
1. 1st. Afghan War	12
2. Two Burmese Wars	14
3. Expeditions to China, Persia etc.	6
4. The Indian 'Mutiny'	40
5. Redemption of Company's Capital and Dividends	37

£109 Million

### The Afghan War

This war was undertaken by the Government of Great Britain in opposition to the desires of the East India Company and yet the whole cost has been charged up to the Indian revenues. In this connection Sir George Wingate wrote:

"The Afghan War was one of the most notable of these, and it is now well understood that this war was undertaken by the British Government without consulting the Court of Directors, and in opposition to their views. It was, in fact, a purely British war, but notwithstanding this, and in defiance of a solemn expression of unanimous opinion on the part of the Court of Directors, and of a resolution of the Court of Proprietors of the East India

Company that the whole cost of the war should not be thrown upon the Indian finances, the ministry required this to be done."

In a letter dated 6th April, 1842, the Chairman and the Deputy Chairman of the East India Company protested and wrote to Lord Fitzgerald:

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

On the 27th June, 1842, the General Court of the East India Company resolved:

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

As regards the other wars in Asia Sir George Wingate wrote:

"Most of our Asiatic wars with countries beyond the limits of our Empire have been carried on by means of the Military and monetary resources of the Government of India though the objects of these wars were in some instances, purely British, and in others but remotely connected with the interests of India. They were undertaken by the Government of India in obedience to instructions received from the British Ministers of the time acting through the Presidents of the Board of Control; and for all consequences they have involved, the British Nation is clearly responsible."

In regard to the Persian War he said:

"The late Persian War was proclaimed by the British Ministry in pursuance of a policy with which India had no real concern; but the war, not the less, was carried on by the troops and resources of India, and one half only of the total cost was subsequently settled to be borne by the revenues of this country. India, in fact, has been required to furnish men and means for everything in all our Asiatic wars and has never, in any instance, been paid a full equivalent for the assistance thus rendered

which furnishes irrefragable proof of the one-sided and selfish character of our Indian policy." <sup>1</sup>

### "The Mutiny"

John Bright, speaking on the East India Loan in March, 1859, said:

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

Sir George Wingate drew attention to the "unparalleled meanness" and "selfish tradition of Indian policy" in these words:

"In this crisis of the Indian Mutiny, then, and with the Indian finances reduced to an almost desperate condition, Great Britain has not only required India to pay for the whole of the extra regiments sent to that country, from the date of their leaving these shores, but has demanded back the money disbursed on account of these regiments for the last six months of their service in this country, previous to sailing for India. There may be good reasons for the adoption of a course that reminds one of Brennus throwing his sword into the scale, which determined the ransom of the vanquished Romans; but as we had the service of the men, and as their pay for the period in question was spent in supporting the industrial classes of this Kingdom, and could have been of no benefit to India, we are laid under a moral obligation to explain the principles of justice, or of honest dealing, by which we have been guided in throwing this additional heavy charge upon the overburdened finances of India."<sup>2</sup>

In regard to an 'extraordinary representation' made by the War Office in a letter dated 14th April, 1872 the Secretary of State for India wrote on 8th August, 1872 as follows:

"It must be remembered, however, that, if similar exertions had been called for by war in any other part of Her Majesty's dominions, not only must the same effort have been made, but the burden of it must necessarily have been borne, in greater part, at least, by the Imperial Government; but, in regard to the Indian Mutiny, no part of the cost of suppressing it was allowed to fall on the Imperial Exchequer, the whole of it was or is now being defrayed by the Indian Taxpayer."

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

2. *Ibid*, pp. 15-16.

### **Capital and Dividend of the East India Company**

The last item we have shown on our list represents the purchase price of the East India Company's stock and the interest paid to them. This is a most unique financial transaction. A company's rights are bought over by one party, but, instead of the buyer paying the purchase consideration, the company itself is made to pay it, with interest, an instance which will be difficult to match even in the shady annals of speculative company management.

The few items above described totalling to about one hundred and nine million pounds, incurred in days before the British Crown assumed full responsibility for India, were definitely charges on the British Exchequer and had been placed on Indian Revenues improperly and dishonestly in spite of repeated protests.

### **Since Under the Crown**

After the 'Mutiny' the British Crown assumed the reins of government in India. This made the pursuing of the policy of false debits simplicity itself. There were no Court of Directors to be wooed or to protest. All that was needed, to relieve the British Exchequer of the burden of some millions, was a firman to the Indian Administration to debit the unwanted charges to Indian revenue and the Government of India found its joy in the unquestioning obedience to such mandates from on high. No doubt, there were a few recalcitrant officers, like the Earl of Northbrooke, who foolishly believed the altruistic utterances of Cabinet Ministers and in their misconceived notions of applying principles of justice and fair play in imperialistic ventures resigned their posts of duty as a protest against dishonourable dealings. Cutting through such flotsam and jetsam the imperial ship of state pursues its course relentlessly and heartlessly.

We shall examine a few examples of such debits.

#### **(a) External Wars**

As regards the cost of external wars that have been wrongfully charged to us the following are the chief ones that call for our attention:

1867	Abyssinian War	600,000 Pounds
1875	Perak Expedition	41,000 "
1878	2nd Afghan War	17,500,000 "
1882	Egypt	1,200,000 "
1882	The N. W. F. Wars	13,000,000 "
1886	Burmese War	4,700,000 "
1896	Soukim	200,000 "

say 38 Crores Rupees

1914-19	European War Expenses	39 "
"	" " 'Gift'	150 "
	Excess defence	170.7 "

Rs. 397.7 Crores

In regard to the Abyssinian War, giving his evidence before the Fawcett Committee (1876) Sir Charles Trevelyan said :

" The Abyssinian War arose out of the Imperial sentiment affecting the whole British Empire and in a much greater degree, in my opinion, our European and American relation than our Indian relation. . . . .

"In fact, the people of India knew nothing about Abyssinia."

Again in reply to question 1600, he answered :

"In fact, India was in no way more concerned with our expeditions to Abyssinia than were Australia and Canada, and that the only reason why we did not make similar demand from Australia and Canada to help to pay the expenses of that war, was that we knew perfectly well that they would indignantly scout such a proposal; they would not listen to it for a moment, would they? — Well, I am bound as an honest man to say that I see no real difference. India had nothing to do with the proceedings which brought about the Abyssinian War and was not much concerned with the result."<sup>1</sup>

The Earl of Northbrook stated before the Welby Commission (1897) that the cost of the Abyssinian War is a sum of money which India has a fair and equitable ground to claim.<sup>2</sup>

1. *Parliamentary Committee on East Indian Expenditures*, 1876, Vol. III, page 151.

2. *Indian Expenditure Commission*, Vol. III, page 23,

Again in regard to the amount illegally charged to India in connection with the Perak Expedition, Lord Northbrook gave his evidence as follows :

"I happened to be the Governor General at the time and I protested against this charge being put upon India. Not only was no notice taken of the protest made by the Government of India but not even were the statutory addresses from both Houses moved, so that the law was broken, and the charge so made upon India has never been repaid. It has remained charged upon India from that time to this, contrary to the law, and contrary to the protests of the Government of India.<sup>1</sup>

In his speech at the Parliamentary debate on the Second Afghan War, Mr. Fawcett protested against the cost of that war being charged to India and said :

"In India, there was a war for which the Indian people were not responsible — a war which grew out of our own policy and actions in Europe, and we are going to make the Indian people, who were not self-governed and who were not represented, pay every six pence of the cost."<sup>2</sup>

And Mr. Gladstone supported Mr. Fawcett and said:

"This Afghan War has been distinctly recognized as partaking of the character of an imperial war . . . but I think not merely a small sum like that (a contribution of five million pounds) but what my Right Honourable Friend, the Chancellor of the Exchequer, would call a solid and substantial sum, ought to be borne by this country at the very least."<sup>3</sup>

After the war the Amir was paid six lakhs a year till 1894. After that he was given twelve lakhs a year. In addition to the cost of the war these payments also were made out of Indian revenues.

Giving evidence before the Welby Commission on the Egyptian operation of 1882, Major General E. H. H. Collen — Military Secretary to the Government of India — gave it as his opinion that "India should not have had to pay even a farthing for such an expedition."

With reference to the North West Frontier Expeditions the Indian Expenditure Commission states, "for all these wars, so far as they were an indivisible part of the

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1. *Indian Expenditure Commission*, 1895, Vol. III, page 20.

2. *Hansard*, Vol. 251, page 926.

3. *Hansard*, Vol. 251, page 935.

great Imperial question, the Imperial Exchequer should primarily have paid."<sup>1</sup>

As to the propriety of charging the Burmese War costs to India, Mr. D. E. Wacha (afterwards Sir Dinshaw) stated before the Welby Commission :

"As to Upper Burma, the entire cost of the Military Expedition and the subsequent cost of the administration should be wholly refunded by England to India, and the province separated from India and made into a Crown Colony as was suggested by the Congress. The occupation was made at the suggestion of the English merchants in Rangoon and Mandalay. India never demanded the annexation and it is unfair to India that for the promotion of the interests of English capitalists and extension of the British Empire any charges be paid out of the revenues of India."<sup>2</sup>

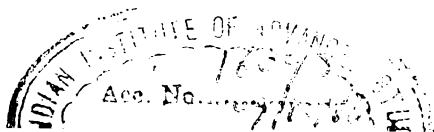
And Mr. Gokhale told the same Commission :

"The conquest was effected in furtherance of Imperial policy and the commercial interests of the Empire and no special Indian interest was ever here at stake."<sup>3</sup>

The expenses of the Soukim Expedition were charged to India in spite of the protests of the Government of India, who wrote :

"In order to strengthen Soukim and to set free Egyptian troops for employment on the Nile, we have been asked to provide for a garrison composed of troops from the Native army in India. We cannot perceive any Indian interests, however, remote, which are involved in carrying on the policy above described. It cannot be alleged that safety of the Suez Canal is involved and the taxpayers of India, who have to bear the ordinary costs of the Indian troops proceeding to Soukim, will hardly comprehend the reasons for taxing them for troops which are not serving in India in order to maintain order on the Egyptian frontier to reconquer part of an Egyptian province or to assist the Italian forces . . . . In these circumstances, we feel it our duty, in the interests of the country of which the administration is entrusted to us, to protest once more, in the strongest terms against the policy which burdens the Indian revenues with expenditure connected with services in which India has no interest; which is unjust to India, because it applied to the payment of the Indian troops lent to England, a different principle from that

1. *Indian Expenditure Commission*, Vol. IV, page 187.
2. *Indian Expenditure Commission*, Vol. III, page 204.
3. *Indian Expenditure Commission*, Vol. III, page 243.





which England imposes when English troops are lent to India; and which is inexpedient, because it exposes our Government to attacks to which there is no adequate answer."<sup>1</sup>

### Miscellaneous Charges

Apart from these external war costs, Indian revenue has been burdened with all manner of other charges, such as, the cost of the Persian Mission, Chinese Consular and Diplomatic establishments etc. Here again it is worthwhile quoting Mr. Ramsay Macdonald on the matter :

" On the civil side there are several payments objectionable to a degree which cannot be measured merely by the amount of the charges. The cost of the Secretary of State's establishment in London is charged to the Indian revenues. The Colonial Office is not so charged to the colonies. Royal visits to India and the visits of the Secretary of State are also paid for by the Indian taxpayer. These items, which now amount to about four hundred thousand pounds are steadily growing. They are all Imperial costs and, in the main, are apart from the Indian Government. Their appearance in the Indian Budget is mean and is altogether unworthy of us. "<sup>2</sup>

The most unconscionable methods adopted by Company Directors find their parallels in the dealings of the British Treasury. To give one such instance, we cite the case of the Red Sea & Indian Telegraph Company, which was formed in 1858, and the Treasury guaranteed 4½% for fifty years. After a day or so the line broke down and a half share of the annuity was charged on Indian revenues. The Welby Commission states in this regard :

" In 1861, an act was passed declaring that the guarantee was now conditional on the telegraph being in working order. By a further act of 1862, the line having ceased to transmit messages, the property was transferred to a new company, and the guarantee of the old company was converted into an annuity of thirtysix thousand pounds for 46 years. It was further provided that India should pay over 18,027 pounds annually to Her Majesty's Exchequer, being half the annuity and cost of management, upto August 4th, 1908."<sup>3</sup>

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1. Quoted in *Financial Developments in Modern India*, page 131.
  2. *Government of India* page, 155.
  3. *India's Expenditure Commission*, 1895, Vol. II, page 370.

If the amount paid under the above-mentioned arrangement were claimed back with 4 p. c. interest, the sum will be in the neighbourhood of two million pounds.

### **Annual Military Expenditures**

It is a notorious fact that the bulk of our revenues have been spent on the primary functions of government. This is not the place to go into the damage caused to the country by starving nation-building expenditures to find the wherewithal for the military expenditures. But it must be observed that the army in India since 1857 has been in the nature of an army of occupation. The proportion of European to Indian troops has been increased since that date from one to five to the present ratio of one to two to assure the safety of British occupation. That the strength of the Indian army has been maintained at a high level for imperial purposes is obvious from the fact that whenever Indian troops were required for Imperial wars outside India, they were taken away for varying periods without any hesitation and without any attempt to replace them during their absence from India. India has thus been used "as a barrack in the Eastern Seas", for providing troops for British Imperial purposes. As the cost of each European soldier is estimated to be about three to four times the cost of an Indian sepoy, the military expenditure of the Government of India has been considerably in excess of what it need have been, if the army was maintained merely for defence and internal order and consisted purely of sepoys. Such being the case, that amount of the expenditure representing the excess over the needs of India, should be legitimately borne by Great Britain.

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

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

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

"Surely, therefore, both on general grounds and from our recent experience of the efficient help that India's military strength can give to the Empire, it is established beyond question that India's strength is the Empire's strength and in discharging these Imperial duties India has a fair claim that part of the burden should be borne by the Imperial Exchequer. There may be difficulties as to the method of making the charge and the amount, 'as to the equity of the claim on the part of India there can be no doubt.'<sup>1</sup>

In the financial statement of 1885-6, paragraph 136, the then Finance Minister, Sir Auckland Colvin, estimated the net cost of the army (exclusive of cost of wars) at about fifteen crores of rupees every year. "This amount," he said, "may be considered to be about the normal military expenditure in India and England." This gives an Indian Government standard for Military Expenditures which has to be adjusted for varying price levels and when so adjusted we get the following standards for Military Expenditure :

1859-60 to 1899-1900	...	15 crores
1900-1 to 1914-15	...	20 "
Since	...	30 "

Calculated on this basis the excessive military expenditures caused by maintaining the Indian army for Imperial purposes which ought to have been borne by Great

1. *Indian Expenditure Commission*, 1895, Vol. IV, page 149.

Britain works out at a little over six hundred crores. This amount also in fairness to the Indian taxpayer has to be refunded to India.

### **Interest Payments on False Debts**

All principles of business practice demand that where an item has been wrongly debited and interest payments have been made on account of these debts, such interest amounts should be made good. If the original debt to India is proved to be wrong, then it is but right to demand restitution of all payments made in respect of such a debit.

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

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

The interest payments have been annual payments, and hence a claim extending over seventy years will more than turnover the original debit three times. But this cannot be helped as the annual charges have been persistently made in the face of many challenges of the original charge by Britishers themselves.

The rate of interest on Government Loans has varied from time to time from  $3\frac{1}{2}\%$  to  $7\%$  and it is difficult to determine the rate that should be claimed. The average rate on all government loans works out at  $4\%$  and it is submitted that a charge to Great Britain at  $4\%$  simple interest on those items cannot be considered unreason-

able. Interest so calculated on the cost of External wars, the amount of redemption money paid to the East India Company on its Capital and Interest and on the 'war gift' works out to over five hundred and seventy crores. The total amount paid by way of interest since 1860 aggregates to over one thousand two hundred crores. So that our claim amounts, in effect, to asking for a refund of about half the sum that has been paid out of our revenues in relief of the British Exchequer.

#### IV

#### MODERN TIMES

##### **The Gift Trick**

In the old Jewish tradition there was a custom by which a son may keep his property from being used by the parents if he called it "corban"—i. e. a gift. From that time forwards the son will be released from all obligations of supporting the parents. This is a kind of self-constituted release from obligations. Some such devices had to be found by Great Britain to meet the possibility of exposure in the lime light of the twentieth century. During the World War No. 1 Great Britain had to incur enormous expenditures in India but the British Treasury was not prepared to shoulder the burden. So they asked their subordinate agents at Delhi to declare that amount as a gift from India to Great Britain. This so-called "gift" has been challenged by the Congress Select Committee on the financial obligations between Great Britain and India, on which two distinguished ex-advocates General of the Bombay Government served. In their opinion, according to their report published in 1931, the Government of India, under the statutes by which it is regulated, had no power whatsoever to make a gift to Great Britain out of the revenues of India. Therefore, such gifts were illegal transactions. But then what law or order can deter Great Britain from doing what she wants? Is she not a first class world power

maintaining world security and collaborating with America, the atom bomb makers? Hence it follows that she is above all law, and she can do no wrong.

Apart from the actual payments, parts of which have been debited to us, Great Britain, consciously or unconsciously, has made herself liable on other scores. India has lost enormous amounts through the Exchange policy of the Government and the Reverse Council operations of 1920-21, in which year alone the loss amounted to 23½ crores.

In regard to the Exchange question, Mr. Macdonald writes :

"One other item in Indian expenditure calls for notice on account of its unfairness to India. For a long time, the value of the rupee was in relation to gold as one to ten, e. g. the rupee in Great Britain exchanged for two shillings in 1873-4. It began to fall and lost 2½ d., it went down slowly but steadily, every drop of a penny meaning the addition of a crore of rurees to Indian indebtedness which had to be met on a gold basis. In 1895 it had fallen to 1-1 d; the mints were closed and the policy begun which created a token rupee, bearing the conventional value of 1-4. Officers, who had to send Home money were badly hit; from 1893 additions were made to salaries of most Europeans called Exchange Compensation Allowances, and in 1912, owing to the settlement of the value of the rupee, the Government issued a decision to add to European salaries amounts equal to these exchange allowances. This again is unfair to the Indian tax-payer. Certainly the officer ought not to suffer, but the fact that exchange considerations affect his real salary is not an Indian affair at all, but an Imperial one, and these extra emoluments should be found by the British Treasury.

"Indeed, the question is wider than this. When the Indian Exchanges were being so grievously disturbed, the disturbance was common to all 'silver' countries. But British policy in India was responsible for a good deal of the Indian unsettlement, and India's obligation to Great Britain seriously increased the difficulty.

"The controversy on the Exchange is voluminous, complicated and obscure in some of its points, but since this country was responsible for the policy which brought the rupee problem to a critical head, it ought not to have left India to pay the whole expense of the depreciation, least of all that part involved in the payments made to the Government in London and its own servants in India." 1

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1. *Government of India*, page 155.

Under this head of Miscellaneous Charges a claim will lie for over one hundred crores.

### **Misfeasance**

*Sponging* : Apart from these financial relations Great Britain which holds herself as a trustee for India, has been attempting to use the trust property to serve her own ends. The I. C. S. and the I. P. S. have been the Imperial Government's agents in India. They have all been paid a salary in keeping with the emoluments got by the ransackers of Cive's regime. These enormous salaries are altogether out of keeping with the income of our people in our land; but now, when there is a National Government in the offing, these agents of British Imperialism are getting nervous and are unwilling to serve the Indian National Government. Their principals from Whitehall wish to compensate them for losing the patronage of Imperial Great Britain. But again, in keeping with their tradition, such compensation as they may decide on, they are striving to make India pay rather than bear it themselves.

The last war was one from which India desired to keep out, yet millions of our men were enticed away to fight under the British flag. These men are now being demobilized. Who should reward them, Great Britain or India? But India is powerless before its mighty "trustee" and, therefore, Indian lands are being given in exchange for services rendered to Great Britain by these soldiers. One wonders why the extensive lands of Canada and Australia cannot come in as a source of reward rather than the over-populated strips of holdings in India itself.

## THE PAWNBROKING PERIOD

**Sterling Credits**

In the previous chapters we noticed the different devices used to secure at the cost of India the finances needed by Great Britain. This tradition was inaugurated by the empire builder Clive with his barefaced loot which was commendable at least for its avowed and undisguised nature. The methods that were adopted by his successors were in the order of increasing concealment of the real purpose of the transaction. The East India Company, which followed on the footsteps of Clive, adopted a more convenient but concealed way of transferring the wealth of India to Great Britain by utilizing Indian revenues for buying commodities for export to Great Britain for sale. This course was improved upon by the British Treasury which by a subtle system of accounting managed to debit to India all kinds of expenses and costs of Imperial Wars legitimately chargeable to Great Britain. The layman would find it almost impossible to find his way to facts through the maze of figures. During World War No. 1 a still better and simpler method was devised. By this, large items of war expenses were wiped out against "Freewill Gifts" made by the "Government of India" which was only a subordinate department of Whitehall. In this manner what was really a repudiation of debt was made to look respectable and seem honourable.

We have to look at World War No. II for the latest development in the scheme for the financing of Great Britain with funds from India. Under this method a semblance of honest contract is made by depositing an acknowledgment against materials taken out of the country without affording our country any facilities for benefitting by its credits. This method is simplicity itself.



There is a flaw in the Reserve Bank Act.<sup>1</sup> While providing for the backing of currency notes, bullion which possesses intrinsic value, and sterling securities, which represent merely the credit of Great Britain, are both placed on the same level by the Act. This is contrary to sound financial principles. Advantage has been taken of this subtle provision to put into circulation unlimited quantities of notes. Paper acknowledgments, under the grandiose name of "Sterling Securities", to the tune of thousands of crores were deposited with the Reserve Bank of India and currency notes to an equivalent amount were printed off.

With this easily manufactured purchasing power valuable commodities such as food grains, jute, tea, etc. were secured at conveniently controlled rates and exported out of the country through the instrumentality of the specially formed agency of the Government—the United Kingdom Commercial Corporation. By this device Great Britain obtained possession of commercial commodities in return for promissory notes and India was made to part with her production against frozen credits. Our circulation of note issue has been inflated to over seven times its original volume without any compensating increase in the quantity of commodities either by imports from abroad or by accelerating internal production. This has resulted in unprecedented conditions of inflation in our country. Referring to the enormous stock of Sterling Securities that built up to the credit of the Government of India the Chancellor of the Exchequer drew the attention of the House of Commons to the easement caused to British Finance by the generosity of the Government of India! Generosity indeed at the cost of the dumb starving millions.<sup>1</sup>

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1. Under the Reserve Bank of India Act, Section 33, sub-section 2 dealing with the currency backing, it is provided that of the total amount of assets not less than two-fifths shall consist of gold coin, gold bullion or sterling securities.

## The Roll of the U. K. C. C.

In regard to the part played by the United Kingdom Commercial Corporation in this high finance, Sir Francis Joseph, the President of this body, stated in London, "When the Corporation began to operate in India in June 1940 it was necessary to get a great variety of goods quickly to the near Middle East . . . India was now one of the major supply bases of the United Nations. With the help of the Government of India the Corporation had lost no time in drawing on this source for supplies urgently required. Prompt shipment of Indian wheat had spared Persia the rigours of famine in the spring and early summer of 1941. Persia had received from India foodstuffs such as sugar, tea, manufactures such as cotton piecegoods, and raw materials. Shipments ranged in bulk from several thousand tons, lots of cement to small parcels of pharmaceuticals. Syria and Palestine were other Middle East countries which have drawn on India for supplies. Turkey received iron and steel, cotton yarn, hessian cloth, jute bags, ropes and hides . . . It was clear that part of Russia's needs could be met from India. Orders were at once placed for a long list of commodities all for prompt delivery and in very large quantities. The list covered such articles as hessian gunny sacks, jute ropes, cotton canvas, hides, shellac, tea, ground nuts, tobacco and graphite. It is not possible to give details of actual tonnages, but the scope of business done in India for Russia was indicated by the fact that one recent order was for eleven million gunny bags."

This is robbing Peter to pay Paul. We may save Persia from famine, but India, which is already underfed and sparsely clothed is not the place from which to snatch away this food or all this valuable material in effect in return for Sterling Securities and that too at prices controlled by Government. India received no commodity in exchange which fact in itself would be sufficient cause for inflation as these exports were not

products of excess output, but were taken mostly out of the normal stock of the country. In any case, half-starved and ill-clad India should have been in the last place to be asked to stint itself to supply rupee finance to Great Britain.

The paper currency of India had been increased to pay for Great Britain's war purchases and costs by setting aside the normal checks by ordinances of the Governor-General.

### **Insecurity of Sterling Paper**

As we have already mentioned "Sterling Securities" represent merely the credit of Great Britain and are in effect purely promissory notes. A promissory note derives its value from the credit standing of the promisor which again is affected by the assets and liabilities of the debtor. The debtor — Great Britain in this case — has been spending at the average rate of about five thousand million pounds per year on the war and to meet this enormous outgoing she has been obliged to launch on a programme of disinvestment and has cashed in to the extent of thousands of crores of her foreign securities. This indeed is an alarming state of falling credit. Promissory notes of such a debtor, when coupled with the prospect of these Sterling Securities being frozen for decades after the war, carry little value. If these credits are not encashable, as the financiers of Great Britain would have them, India cannot use them for obtaining goods from abroad excepting in accordance with the convenience and pleasure of Great Britain. In this manner, to accommodate Great Britain financially, India's political subjection had been exploited depriving her of her rightful dues.

### **Stability of Purchasing Power**

The need of our country for a stable currency is great. We have noticed that the quantity of currency notes in circulation is being increased without reference to our needs. This causes upheavals in the purchasing power of money. Unlike industrialized countries an

agricultural country requires a medium of exchange with a solid backing to ensure stability of purchasing power, for, in industrialized countries the factor of time plays little part in the currency or the intermediate. A capitalist gets the sale proceeds of his goods and pays it into his bank immediately. A labourer gets his wages and exchanges that purchasing power for consumable articles within a week or a month before any change in the value of money can take place. On the other hand, in an agricultural country a farmer sells his produce after the harvest and, as no banking facilities are available to him in the village, he has to preserve his proceeds as best as he can till the next harvest. Therefore, it is essential for a farmer to have an intermediate with a steady intrinsic value which he can store away conveniently. Thus the hoarding habit of farmers is not an incorrigible perversity but is an unavoidable necessity arising out of the nature of their seasonal occupation. Hoarding can be countered only by an efficient organization of a chain of multiple co-operative societies which will take in the produce and market it and finance the farmers in the meanwhile. Until we have such facilities open to the rural population treasure troves supply a fundamental need and the yellow metal will have to be made available for the purpose. Decrying hoarding without understanding its place in the present economy only betrays ignorance or callousness.

Ours is an agricultural country where the intermediate has to serve a dual purpose — (a) as medium of exchange and (b) as a means of storing purchasing power. Often the latter function overshadows the former. Our masses do not invest to live on the unearned income. They are content to keep their capital intact. Hence this evaporation of the backing of currency notes and fall in their intrinsic value is of great consequence to our country. Even in highly industrialized Germany, under the stress of necessity people resorted to hoarding. When inflation was at its worst, the German people got rid of their money as fast as they could

and obtaining whatever commodity they were able to get, hoarded their purchasing power for future use. Even farmers acquired machinery and instruments of production, which may never be used by themselves, as a means of preserving the purchasing power for future use. This function of our currency is frequently overlooked. To ensure this aspect, it is essential to maintain the intrinsic value of our currency by an adequate backing in gold or make bullion available to the people against notes. Instead of this kind of a medium of exchange what is offered today is a fiduciary issue of notes with great instability of purchasing power.

Much has been said about India having benefitted through this war and having become a creditor of Great Britain instead of being as before a debtor. As long as she is deprived of her position in the world markets as an independent purchaser there is little consolation in piling up paper credits in London obtained through the suffering, nay starvation to death, of millions of our villagers. The price that has been paid in actual commodities has been colossal as they have been taken at controlled rates, ignoring the needs of the producers themselves. Thus even in the process of credits accruing to our country we are in effect being impoverished — such is the irony of fate! We are creditors left to the tender mercies of our debtors.

Within the last seven years India has been credited with about Rs. 3700 crores for goods and war materials supplied to Britain. Of this, Rs. 400 crores has been set off against the so-called "Public Debts" and Rs. 1700 crores has been debited to us as our share of the cost of this war in spite of the fact that India never entered this war. The resultant balance of Rs. 1600 crores is sought to be settled by negotiation now.

### **Misappropriation**

*The Dollar Pool* : Not satisfied with pledging their waste paper as "Sterling Securities" and drawing to the extent of 3700 crores, Great Britain had also resorted

to misappropriating all dollar and non-sterling assets held by private individuals in India. These were all compulsorily taken over to put into a dollar pool in London for the benefit of Great Britain. To this day we are not aware of the extent of the commandeered dollar finances ransacked from India.

## VI CONCLUSION

We have wandered far and wide from the eighteenth century financial high priest of the East India Company — Lord Clive, to the twentieth century financial high priest of the far flung British Empire — Lord Keynes. They have run through the whole gamut of financial crimes. If anything, Lord Clive was refreshing in his adventurous exploits, though he may have lacked the 'varsity accent' of his latter day representative. Their policy has been one of continued exploitation, shamelessly sponging on the weaker people's resources. This empire was conceived in avarice, fattened on loot and is gaudily garbed in falsehood.

In 1931, at the Karachi Congress a Select Committee was appointed to carry out a scrutiny into the financial transactions of the East India Company and the British Government in India and the so-called 'Public Debt' of India and report on the obligations which should in future be borne by India or England. The reader is referred to their report for fuller study but we may quote here their final recommendations:

" The History of the British occupation of India, since the East India Company acquired political power, is a history of ever growing material gain in wealth and prestige to Great Britain. On the other hand, the result to India has been that the Indian industries were destroyed or suppressed and India has become a market for the manufactures and other products of Great Britain. Without the growth of that market and the use of India's wealth in her efforts to develop her industries, Britain's present position would never have been anything like what it has grown to. India has also provided a vast field for the employment of

Britishers in all grades of civil and military service and even if the salaries and pensions paid were totalled up, the figure would be colossal. In addition to her actual material gain, her growth as a great world power was mainly due to her possession of India. These facts by themselves should be sufficient reasons for transference of all existing liabilities by way of Public Debts from the shoulders of India to that of Great Britain from every moral and equitable point of view."<sup>1</sup>

And again :

"Every principle of fair play now requires that if India is to start on a new era of National Self-government, it should start freely and without any burden, if any progress is to be achieved at all. India cannot afford to bear any additional taxation. The only possibilities of progress for India, therefore, are the application of national revenues for national purposes, and it is only by reducing the national expenditure on the civil and military administration of the country to suit its own requirements and freeing India from the liabilities for public debts not incurred in her interests, that saving can be effected which would be applicable to the advancement of India in the matter of education, sanitation and other national means of regeneration."<sup>2</sup>

The Committee have drawn attention to the following erroneous charges on India :

Year	Subject of claim	Amount in crores
Prior to 1857	External Wars of the company	35
	Interest on company's capital	15,120
		50,120
1857	Cost of the 'Mutiny'	40,000
1874	Interest on company's capital	10,080
	Redemption of the capital stock of the East India Company	12,000
		22,080
1857-1900	Cost of External Wars	37,500
1914-1920	European War Gift	189,000
	Cost	170,700
		397,200
1857-1931	Miscellaneous charges In respect of Burma	20,000
		82,000
		102,000
1916-1921	Reverse Council losses	35,000
	Premium paid to Railway companies on acquisition by the State	50,000
1916-1921	Cost of strategic railways	33,000
		Crores 729,400

1. Report, page 60-61

2. See *Congress Select Committee's Report*,

The above claims do not include anything in respect of a share of the military expenditure which the committee suggest should be calimed as being properly debitable to the Imperial Exchequer. One member has added a note<sup>1</sup> to the report in which he calculates such amount to come to Rs. 540.13 crores. This is moderate as it is about one fourth of the Military Expenditures, while Mr. Ramsay Macdonald himself is certain that at least half of the army in India is an Imperial Army, and suggests that its cost should be met from Imperial Funds.

Again, there is no refund of interest claimed and another note<sup>2</sup> to the report works out that a refund of Rs. 536.02 crores, out of a total amount of Rs. 1,050 crores, be paid out. Thus the improper charges to India would amount to :

	Crores
As per above statement	729.4
Share of Annual Military Expenditure	540.13
Interest paid out wrongly	536.02
	Rs. 1,805.55

The Indian taxpayer is charged Rs. 1,805½ crores which ought to fall on the British Exchequer. Bulk of these expenditures are due to British Imperialistic Policies and consequent wars. It is not possible to go into details here; we can but refer the reader to the report of the Congress Committee. Annually we are paying in Interest alone about Rs. 50 crores on these wrong debits to us. J. Ramsay MacDonald says: "India does not export tables in order to satisfy its needs by an equivalent import of chairs, India exports tables in order to pay debts." John Stuart Mill says : "A country which makes regular payments to foreign countries, besides losing what it pays, loses also something more by the less advantageous terms on which it is forced to exchange its production for foreign commodities." This becomes worse still when the creditor country controls the finances

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1 and 2. See *Congress Select Committee's Report*.



and the Currency and the Exchange Policy of the debtor country and has the placing of orders of materials etc. in its hands. This has been the lot of India. She has not been able to demand adequate return for her money; and by hanging these false chains round her neck, Britain hopes to retain this stranglehold on her for years to come. If India is to recover her bargaining power in international markets, she has to shake off these stupefying chains and claim what is her due.

In regard to Military expenditures which have been charged to India Mr. MacDonald writes : " Undoubtedly, India has not been dealt with fairly in this respect. It has had to bear the expense of operations that have been mainly Imperial." <sup>1</sup> "When we stationed troops in other parts of the Empire we did not charge them upon the Colonies, but in India we have the influence of the dead hand. When the Company ruled, it hired troops from Great Britain, and not only maintained them when in India, but paid the cost of their transport. When the Company surrendered to the Crown, the habit of 'lending' troops was kept up, as a fiction convenient to the Treasury of Great Britain. Owing to the report of the Financial Commission in 1900 the Home Government now pays £130,000 per annum, which is supposed to be about one-half of the cost of transport and £100,000 is charged to the Home Treasury for half the Military costs of Aden. That is all. India pays the rest. Thus India is treated as an independent State, which, however, we rule and whose Military Policy we control, while, it 'borrows' from us a certain number of troops for which it pays; the arrangement is most unsatisfactory." Then he goes on to add about the external wars: <sup>2</sup> "The Commission which reported in 1900 put an end, it is to be hoped, to a still greater grievance. Frontier wars and wars of Annexation, like the Burmese wars, as well as the Abyssinian

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1. J. R. MacDonald's *Government of India*, page 154.

2. J. R. MacDonald's *Government of India*, page 155.

Expedition, were all paid for by the Indian taxpayer. Only £5,000,000 of the £21,000,000 which the Afghan War cost, was found by the Imperial Exchequer. These expeditions are in a reality events in Imperial Policy and should not be an Indian charge at all. Mr. Gokhale once described the position thus: "England has in the past borrowed troops from India for expeditions undertaken from considerations of Imperial Policy, such as the expeditions to China and Persia, the Abyssinian Expedition, and others, and on all these occasions all the ordinary expenses of these troops have been taken from India, England defraying the extraordinary expenses alone. On the other hand, when India had to borrow troops from England, as on the occasion of the Sind Campaign of 1846, the Punjab Campaign of 1849, and the mutiny of 1857, every farthing of the expenses of these men, ordinary and extraordinary, including even the expenditure on their recruitment, was extorted from India." The Commission's Report met this particular grievance, but self-government would completely end unjust dealing and charge the Imperial Exchequer with expeditions that are Imperial.

It is suggested that as part of that 1800 crores has been paid off, we should not raise any questions regarding that part. This is a queer argument put forward by want of clear thinking. If a merchant debits a customer with Rs. 1800 and the merchant has been taking interest on it before the customer enquired into the occasion for the debit and has also taken Rs. 800 on account of the principal, has the merchant any right to say to the customer, when he demands an account, "As I have taken Rs. 800 towards the principal we shall only have particulars for the balance and you have to forget all about the 800 rupees which has already been paid off?" If there is any part of the Indian debt that has been paid off, who paid it off? It is the Indian taxpayer, and if it is wrongly taken from him, he has to be compensated for it.

In 1931, speaking at the Round Table Conference with reference to the Public Debts, Gandhiji said, "The Congress is emphatically of the opinion that the obligations to be taken over by the incoming government should be subject to audit and impartial examination."

To this 1800 crores must be added Rs. 3700 crores extracted out of India in the last seven years up to 1946 making a total of Rs. 5500 crores in dispute.

### **Capacity to Pay**

In regard to the capacity of Great Britain to pay we may point out that there is no comparison between impoverished India's ability to bear this enormous burden as she has done in the last 7 years, and Great Britain's capacity to re-pay. Great Britain's income is over 9000 million pounds per annum and her debt to us will only be a fraction of this. We have got to remember that these credits of 3700 crores have been built up by their own British agents at their own valuation and controlled rates much below the market rates prevailing in India. In many cases, the goods have been merely commandeered by the autocratic power vested in the Governor General during the war period, and it also does not take into account the tremendous wear and tear of capital goods, such as railways used by the Government during the war period. When the goods were compulsorily taken even the mere necessities of the people in India were not provided for. The Bengal famine of 1943, in which over three millions lost their lives, will bear witness to this. If a poor country like ours can be made to build up a credit, at the lowest values of commodities and under compulsion, to the extent of 3700 crores at the lowest computation in the course of 7 years, how can Great Britain, with its national annual income of 9000 million pounds claim for a long term settlement? As Professor G. D. H. Cole says: "It is a strange world in which a rich and advanced country had to plead with a much poorer country to scale down its debt or even to spread the payment over a long period of years."

## Investigation Called for

This short survey will show that Great Britain had resorted to dubious ways in her financial dealings with India and that the so-called Sterling Securities amounting to 1600 crores sought to be settled now, is not a determined and liquidated balance at all. It is a balance on a current account kept by Great Britain away from the scrutiny of our people in India. Therefore, before any financial responsibility for this account can be assumed, it will be essential for this running account itself to be thoroughly scrutinized by an impartial tribunal. This current account starts from the date of Clive and has never been subjected to popular scrutiny. Hence, we hope that a free national Government of India, before it takes over any assets from Great Britain or agrees to any further liabilities in connection with the Imperial Services, will appoint an impartial tribunal to scrutinize this account current thoroughly. The appointment of such an impartial tribunal was the recommendation made by the Congress Select Committee of 1931.

The amounts finally decided upon as due to India can be liquidated by transfer of some or all of the gold that was taken from India within the last 20 years and by partially making over some of the British owned assets in India. There are great many irrigation schemes totalling up to about 450 crores. A good deal of machinery and material may have to be imported. These may be also supplied by Great Britain. At all events, we must take care that whatever credits we get, such are held in trust for the villages of India.

It is often claimed that payment of large capital items by Great Britain will seriously affect its production and export trade. This is only likely to happen if the capital items are to be paid out of revenue. But Great Britain has more than sufficient capital items which can be transferred to India. We have already referred to the gold lying in the vaults of American banks to the credit of Great Britain. Apart from that, the stock of preference

shares and debentures of railways in Great Britain could easily be transferred to the Government of India. Great Britain possesses millions of tons of mercantile shipping. This too will be an acceptable property to India which is anxious to develop its mercantile marine. In this manner, if there is a willingness to meet its liabilities, there is sufficient financial and business acumen in Great Britain to find out ways and means of discharging its just liabilities. It is unbecoming of a debtor who borrows in an emergency for his own needs, afterwards to sit down and growl at the difficulties of settling accounts.

As and when these assets are received by the Government of India, the Sterling Securities lying in London can be given over in payment for the agreed price of these and the Government of India could either transfer these assets to Indian nationals or may hold them as income producing investments. The money realized should be spent, not in building enormous industries in the cities, but for relieving the distress of rural India in the form of irrigation schemes, drinking water supply, building canals, waterways, etc. These and other such points arising out of the terms of settlement may also be referred to the impartial tribunal suggested above.

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