

Innes, and by the High Commissioner, Mr. (now Sir Dadiba) Dalal.

Thus among the functions of the Secretary of State is the duty of representing India at the Imperial Conferences, and he has been able to associate with himself on these occasions non-official British Indians engaged in the public life of the country and Rulers of Indian States.

Treaties.

The adhesion of India, as of other parts of the Empire, to treaties and conventions negotiated by the Imperial Government with Foreign Powers, had long been a matter for special arrangement, since local conditions might exist which rendered it difficult or undesirable to extend to certain parts of the Empire practical provisions on such matters as extradition or trade marks. But the end of the War brought about a very notable change in the international status of India as of the Self-Governing Dominions. India is herself a contracting party in the Treaty of Versailles and the other international treaties which followed, and India, as a separate entity, became an original Member of the League of Nations. Arrangements for the future negotiation, signature and ratification of Treaties were made by the Imperial Conference of 1923, which decided *inter alia* that "bi-lateral treaties imposing obligations on one part of the Empire only should be signed by a representative of the Government of that part."*

* Cmd. 1987 of 1923, pp. 13-15.

Chapter VI

FINANCE. [By S. F. STEWART]

Revenue and Expenditure

The revenue and expenditure of the Government of India are independent of those of the British Government. Except for the salary of the Secretary of State for India and the Treasury contribution towards the cost of the India Office, the British taxpayer does not contribute towards the cost of the Indian government. India now pays for every British soldier she employs; she not only bears his pay and the cost of his maintenance, equipment and transport, but she pays the Home Government a proportion of the cost of his training and of his pension, corresponding to the length of his service in India. On the other hand the Government of India Act is specific as regards the purposes on which Indian revenues can be expended. "The revenues of India . . . shall . . . be applied for the purposes of the government of India alone" (Section 20). Only one exception to this general principle is provided for in the Act.

The special circumstances contemplated by its framers arose during the Great War. Indian expeditionary forces, comprising British as well as Indian troops, served out of India and Parliament in a series of Resolutions approved of the debit to Indian revenues of the "ordinary" charges of

these Indian forces (i.e. the cost of their pay and maintenance) and the payment of certain contributions by India towards the cost of the war. It has been calculated that India's total contribution in money amounted to £146,000,000.

A description of the financial system of a Government is, broadly, an answer to the following questions: (1) what are the sources of public funds and what is the authority for raising them; (2) on what are they spent and on what authority are they released from its Treasury for the purpose. It will be convenient to deal in some detail with these questions as they concern the Central Government, and then to indicate generally the points of difference in the financial procedure of the provincial governments.

The funds required by the Government of India to carry out the responsibilities laid upon them by the Government of India Act are obtained mainly from three sources—the yield of certain taxes, the profits of commercial undertakings financed and managed by Government, and contributions from provincial governments.

The principal sources of revenue in the first class are Customs, Taxes on Income, the Salt Tax, and Opium. The net yield from Customs in the financial year 1924-5, i.e. the revenue after the payment of the charges incidental to the collection of the tax, was about £33,000,000.* The general import duty is 15 per

* In this chapter and the next the figures in the Indian Accounts, and Estimates, which are mainly in rupees, have been converted into sterling at 1s. 6d. the rupee. The current rate of exchange

cent., but it rises to 30 per cent. on articles of luxury. On cotton goods it is 11 per cent. (A partially countervailing excise duty of $3\frac{1}{2}$ per cent. on Indian cotton goods was withdrawn in December, 1925.) The net receipts from taxes on income in the financial year 1924-25 were about £12,350,000. There is a general tax on incomes, and a super tax. Incomes under Rs. 2,000 a year (£150) are exempt, and the tax rises from about $2\frac{1}{2}$ per cent. to about $9\frac{1}{4}$ per cent. on incomes over Rs. 40,000 a year (£3,000). The super tax is graduated up to 37 per cent. The Salt Tax yielded in 1924-25 a net revenue of about £5,800,000. The net revenue accruing under the head Opium was about £1,000,000, derived partly from an excise duty on opium consumed in British India and partly from the profit on sales of opium to foreign countries. But under the policy recently announced the latter is a disappearing source of revenue. The total revenue from the above sources, and certain others of the same character but of less importance, was about £54,000,000 in 1924-5 or over 77 per cent. of the total revenue.

The second main group of income-yielding sources consists of the Commercial undertakings of the Government of India. Of these, Posts and Telegraphs yielded £688,000, and Railways £4,233,000 in 1924-5. The latter sum represents the profits accruing to the State from its investments in railways, after all charges, including

in the autumn of 1925 ranged round this figure and it is the rate taken, provisionally, by the Government of India in their Budget of 1925-26. But it is in no sense a fixed official rate of exchange.

interest, have been paid, and due allowance made for depreciation and reserves. The net income from Commercial undertakings in 1924-5 amounted to about 7 per cent. of the total revenue.

The balance of income after allowing for Tax revenue and revenue from Commercial undertakings, arises mainly from "Provincial Contributions," which amounted in 1924-5 to about £6,500,000. The history of the financial relations between the Central and Provincial Governments is interesting because it illustrates the trend of constitutional change in the last fifty years. The principal provinces have budgets of their own, but up to 1877 their income consisted of fixed grants made to them by the Government of India, which took all revenue into its own budget. In 1877 there was substituted for the fixed grant a fixed share of the revenue collected within the province under certain heads, e.g. Land Revenue. This gave to the provincial governments an interest in the amount of the revenue they collected, and an income which expanded with the increasing prosperity of the population, and their increasing needs. These financial "settlements" were at first subject to periodical revision, but later assumed a quasi-permanent character.

The changes introduced by the Act of 1919, and the statutory rules made under it, altered the position essentially. Certain sources of tax revenue, of which the most important have been mentioned above, were assigned to the Government of India; the rest were made over to the provincial governments. But since the tax revenues assigned to the

Central Government, together with the proceeds of its Commercial undertakings, were insufficient to enable it to carry out its responsibilities for central subjects, among which was the main "spending" department—the Army—the difference was made up by requiring the provincial governments to contribute to the Government of India's resources from the proceeds of the taxes made over to them. The sum of £6,500,000 referred to above is almost wholly made up of these contributions.

It might appear at first sight as if the wheel had come full circle since 1877, when the Government of India made fixed contributions to the provinces; but the settlement of the amounts to be paid still rests, as it did then, with the Government of India and the Secretary of State in Council. The amount payable by each province was fixed in a statutory rule under the Government of India Act, which provides for the reduction of the contributions only if the Government of India is satisfied that smaller sums will meet its needs. In the Budget of 1925-6 it was found possible to reduce the contributions by no less than £2,250,000, but of this £375,000 has been remitted for one year only.

So much for funds derived from revenue sources. But the Government of India requires money for capital expenditure on railways and irrigation works. There is no surplus revenue adequate to finance them, and the necessary funds are raised by loans on the London or the Indian money market. As railways and irrigation projects in general yield a return in excess of the interest on the capital invested in them, the debt incurred, so far from throwing

a burden on Indian revenues, is a source of future net revenue. In addition to loan funds there are available for capital expenditure any funds accruing during the year to the Government of India as the custodian of all Government moneys, e.g. the balance of Savings Bank deposits over the withdrawals.

The authority on which public revenue was raised before the Act of 1919 was in effect the orders of the Governor-General in Council acting under the superintendence and control of the Secretary of State in Council. Certain forms of revenue, e.g. Land Revenue, which is essentially a payment to the State as the universal owner of land, were based on the immemorial custom of the country; others, such as railways revenue, accrued directly or indirectly from State owned railways. A third class, of which customs revenue is an example, was raised under Acts of the Indian Legislature.

Under the reformed constitution the position has materially changed. The provincial contributions are fixed by statutory rules under the Government of India Act, and the railway revenue comes into Government Treasuries as before. Similarly any tax revenue accruing under existing Acts is required of the public under the authority of these Acts. But when additional revenue has to be obtained, e.g. by raising the rates of Customs Duty, or the Salt or Income-Tax, or postal rates, the change involved in the Reforms becomes apparent. For the increases must be proposed in the form of a Finance Bill which it is open to the Legislative Assembly to reject, though the Governor-General,

if satisfied that "the passage of the Bill is essential for the safety, tranquillity or interests of British India or any part thereof" may "certify" it, and thereby give it the force of law.

The limit of the amount which may be borrowed in sterling on the security of Indian revenues is fixed from time to time by Acts of the Imperial Parliament. Within these limits loans are raised on the authority of the Secretary of State in Council in the London market.

To turn now to the expenditure side of the Government of India Budget, two items account for the greater part of it—Debt Services and Military Charges. The amount shown as expended in 1924-25 under the first head was about £10,500,000, but this does not represent the interest on the whole of the Government of India's debt; for the interest on the loans devoted to the construction and purchase of railways is separately provided out of the receipts from railway traffic, before the net contribution to general revenues from railways is determined.

By far the most serious of the Central Government's financial obligations is the cost of the military services. In 1924-5 the expenditure under this head was £42,000,000. In 1920-21 it was over £60,000,000, but the charge was swollen by the aftermath of the War, and by a war with Afghanistan. A policy of strict retrenchment, reinforced by the recommendations of the Inchcape Retrenchment Committee of 1922, reduced the charges, and from the year 1923-4 to the Budget estimate for the current year they have remained practically unchanged.

There arises next the question of the authority which sanctions appropriations from the public revenues, or loan funds, for expenditure on these and other purposes. The primary enactment on the subject is Section 2 (2) of the Government of India Act which gives to the Secretary of State in Council power to "superintend, direct and control all acts, operations and concerns which relate to the . . . revenues of India." This power was in theory unlimited before the Act of 1919. But in practice it was impossible for a Secretary of State in Council in London to authorise by special or even general orders all the expenditure of an immense country 6,000 miles distant; and the practical delegation of authority went so far at one time as to give colour to the view that the Government of India had full powers in all matters in which the Secretary of State in Council had not by special or general order reserved control to himself. The constitutional position was exactly the reverse, for the language of the Act left the Government of India no powers other than those specifically delegated to them.

The position was materially altered by the Act of 1919, which introduced a new controlling authority over expenditure. The power of the Secretary of State in Council to "superintend, direct and control" still remains, but it is "subject to the provisions of the Act or rules made thereunder." The most important of them is Section 67 A of the Act which lays down that the proposals of the Governor-General for the appropriation of funds shall be submitted to the Legislative Assembly,

which may assent or refuse its assent to these demands for grants or may reduce the amount. But the Act qualifies the Assembly's power to reject demands in two important respects. First, the demands for grants for certain heads, the most important of which are Interest on Loans, the salaries and pensions of officers appointed to the Service by His Majesty or the Secretary of State in Council, and Defence, need not be submitted to the vote. Second, if a demand for any grant is rejected, and the Governor-General in Council is satisfied that it is essential to the discharge of his responsibilities, he can act as if the demand had been accepted. A further provision gives him power in cases of emergency, notwithstanding the general procedure, to authorise expenditure necessary for the safety or tranquillity of British India. These exceptions place an important limitation on the power of the Assembly to refuse supply. In the Budget of the present year, of the total of the demands for grants on revenue and capital account roughly half were under "voted" and half under "non-voted" heads.

Turning now to the Budgets of the provincial governments, their most important source of income is Land Revenue, but Excise, Stamps, Forests and Irrigation make important contributions. On the expenditure side the chief items are Debt Services, civil administration charges such as Justice, Police, Education, Public Health, and the contributions to the Government of India referred to above. Their capital expenditure is mainly financed out of loans from the Government of India which has

established a "Provincial Loans Fund" for the purpose.

The powers of the provincial legislatures over supply are less restricted (within the narrower field of provincial finance) than those of the central body. It will be remembered that under the reformed constitution the provincial field of administration is divided into two branches, the Reserved, administered by the Governor acting with his Council, and the Transferred, the responsibility for which lies with the Governor acting with Ministers. The general Budget procedure is on the same lines as in the Legislative Assembly of the Central Government, but the power of the Governor to replace a demand which he considers essential to the discharge of his responsibilities is restricted to demands relating to a Reserved subject. On the Transferred side he can authorise expenditure in the face of the refusal of the legislative council only if he is satisfied that the grant is necessary for the safety or tranquillity of the province or for the carrying on of any department—a much more restrictive condition.

In the provincial as in the central Budgets there is a group of subjects for which grants need not be submitted for the approval of the legislatures. The most important are the provincial contributions to the Central Government, which as has been stated are fixed by statutory rules under the Government of India Act, and the emoluments of officials appointed to the services by His Majesty or the Secretary of State in Council.

Such are the relative powers under the new constitution of the Governor-General and the

Assembly in central subjects and of the Governor and his Legislative Council in regard to provincial subjects. There remain the relations between the Secretary of State in Council on the one hand and the Governor-General in Council (or the provincial Governor acting under the direction of the Governor-General) on the other. The latter, under the Budget procedure, lays his proposals for appropriation before the Legislature, which, subject to the limitations described above, may reject or reduce, but cannot increase them. The initiative in expenditure therefore lies with the Governor-General (or Governor), and the question suggests itself—how far is his policy limited by the necessity for obtaining the consent of the Secretary of State to the proposals he puts before the Legislature.

As has been stated above, it is in practice impossible for the Secretary of State in Council to scrutinise the great mass of the expenditure of the Government of India, or to express in terms specific enough to be of value the kind of question in which the general direction, superintendence and control vested in the Secretary of State by the Government of India Act make prior reference to him necessary. But however difficult it may be to delimit the fields of responsibility for expenditure in practice, the theoretical position is clear. The Secretary of State remains in law responsible to Parliament for all expenditure from Indian public funds by the Government of India, and for much of that incurred by provincial Governments. At the same time, practical necessity has for many years past required him to delegate large powers of initiative to the

Governments in India, and the policy of the act of 1919 necessitated an increase in this delegation with the result that his previous approval to new expenditure is now required in only a limited class of cases, subject, however, to the general understanding that plans involving important questions of policy should not be initiated without consultation with him. Such questions, and in particular the important and difficult problems of currency policy referred to later, are considered by the Finance Committee of Council before final decision by the Secretary of State in Council. On this Committee there is always a Member of Council of high standing and long experience in the London money market, and a Member who has been intimately connected with the financial operations of the Government of India in India.

The only exception to the statement in the preceding paragraph regarding the responsibility of the Secretary of State concerns provincial Transferred subjects. The essential purpose of the Act of 1919 was to confer on ministers dependent upon elected legislatures the responsibility for the administration of such subjects, and the logical implication was that the Secretary of State in Council should divest himself of his powers of control in regard to them. He has done so in a statutory rule made under the Act which declares that his powers of superintendence, direction and control in relation to Transferred subjects shall be exercised only for certain limited purposes, among which are inter-provincial or international questions and a general control of the civil services.

The above account of the relations between the Secretary of State in Council, the Governor-General in Council, the Provincial Governments and the Indian Legislatures is necessarily involved, for the constitutional position which it describes is far from simple. But subject to the provisos of the Act the general position might be described as follows. The Provincial Governments and the Governor-General in Council have in practice the initiative as regards a great deal of the expenditure, but they are subject, except where provincial Transferred subjects are concerned, to the control of the Secretary of State in Council whenever he thinks fit to exercise it by general or special order. The legislatures have no constitutional power to initiate expenditure but, subject to special powers of overriding them given to the Governor-General, or the Governor, they have important powers of refusing supply, even for objects approved by the Governor, the Governor-General and the Secretary of State in Council. Lastly, the legislatures have, again subject to special overriding powers, control over the raising of additional funds by taxation.

Exchange and Currency

No account of the financial problems of the Government of India, however summary, would be adequate if it omitted to describe the cardinal importance of two factors—the annual monsoon and the exchange value of the rupee. By far the greater part of the taxpaying population of India consists of peasants finding their only source of livelihood in the produce of the soil. The harvests

of India are precarious, for they depend on seasonal rain-bearing winds which on occasion fail completely over immense areas. The Indian cultivator has seldom any resources to fall back upon, and in time of famine Government has to spend large sums on relief. It has also to face a reduction of revenue. Land revenue, is, as has already been stated, the mainstay of the finances of provincial governments. In a famine-stricken area it must be remitted (or postponed) for small tenants on the brink of starvation; and Customs Excise and Railway revenue all suffer.

But the troubles of the Indian financial administration on a failure of the monsoon are not ended with the loss of revenue and the extra expenditure on famine relief. The Government of India has large financial obligations in this country; it has to meet the interest on sterling loans, the cost of material, e.g. railway or military stores, bought here, the sums due to the War Office on account of the training and pension charges of British troops, and the pensions and leave pay of members of the Services. All of these have to be met in sterling, whereas the revenues of the Government of India are collected in rupees. The "Home Charges" described above amount at present to about £25,000,000 a year and a fall in the exchange value of the rupee from 1s. 6d. to 1s. 5d. means that about 20,000,000 more rupees have to be raised in India to discharge them.

"Exchange" has never been a subject of interest except to economists and financiers, but the experience of a depreciated dollar exchange in this

country in recent years makes it possible for the ordinary man to understand the troubles of the Indian taxpayer for whom the situation has been a recurring one.

The Indian exchange market has always been remarkable for the large part played in it by Government transactions. This arises from two facts mainly, that India has normally a large balance of trade in her favour and that the Government of India has large obligations in this country which have to be discharged in sterling. For the five years preceding the War, for example, India's private exports of merchandise exceeded her private imports by goods to an average value of over £52,000,000. Some of this "balance of trade" represents payments due by India for interest on capital invested in Indian business, or for freight charges, and a considerable part of it is paid for by imports of gold and silver into India. But in general there remains a large debt due from private persons in London (as the clearing house of the world's debits and credits) to India. Against it there are the "Home Charges," a *sterling* debt representing the commitments of the Government of India in this country.

The revenues of the Government of India are of course collected in India in *rupees*. The Secretary of State in Council or the Government of India can therefore offer rupees in India in exchange for the sterling required in London, and in normal years rupees held by the Government of India are bought in this way by the banks through which the net indebtedness of commercial firms to

Indian exporters is discharged. But in abnormal years and, in particular, in famine years when Indian exports of raw material are seriously reduced, the net indebtedness of this country to India falls, and may even disappear. Then the demand for rupees in exchange for sterling slackens, and the Secretary of State, failing other means of obtaining sterling funds to meet his Home Charges, has to accept less than usual for the rupees in the Government of India treasuries. The general effect of such a fall in the sterling value of the rupee has been illustrated above.

The main purpose of the currency policy of the Government of India for the last forty years has been to stabilise the rupee. It is not proposed here to relate the history of Indian currency policy over this period, but certain landmarks in the story are essential to the understanding of the problems which have been in the past, and are now, among the most difficult that confront the Government of India and the Secretary of State.

Up to 1893 it was open to anyone to take silver to the Indian Mints and have it coined into rupees, the legal tender of the country. The late 'seventies and the 'eighties of last century saw, for reasons which need not be described here, a serious fall in the price of silver. India's debtors could discharge their debts by buying silver and shipping it to India for coinage. No one, therefore, would buy from the Secretary of State in Council rupees at a cost in excess of the cost of the operation mentioned, and the exchange value of the rupee decreased with the fall in the price of silver until

from about 2s. it had fallen below 1s. 3d. The effect on the finances of the Government of India was disastrous, and in 1893 it was decided to close the Indian Mints to the free coinage of silver. Since that time it has rested solely with Government to decide when fresh coinage is required.

For some years after the closure of the Mints no more rupees were coined, and by the beginning of the present century the rupee had become stabilised at about 1s. 4d. What had happened, broadly speaking, was that the rupee prices in India of articles of international commerce had become established at a level which was roughly equivalent to sterling prices elsewhere, at 1s. 4d. the rupee.

The Secretary of State's main direct concern with exchange operations was to obtain sterling to pay the Home Charges, and he was under no obligation to go on selling Indian currency after his own requirements had been met. But when the rupee had settled down as a result of the closure of the Mints the Government of India undertook to give rupees for gold presented in India at the rate of Rs. 15 to the sovereign (the equivalent of 1s. 4d. the rupee). It was thus possible for persons owing rupees in India to discharge their debts by shipping gold to India and exchanging it for rupees there. The cost of doing this was about $\frac{1}{8}$ d. per rupee and, as an alternative to the shipment of gold, the Secretary of State in Council undertook to sell rupees freely at 1s. 4 $\frac{1}{8}$ d. In effect he took payment in sterling here instead of requiring the buyer to present gold in India. Under the currency

conditions of the period preceding the War 1s. 4 $\frac{1}{8}$ d.* was therefore the upper limit to which the rupee could rise.

The limit set to its fall was not fixed so precisely, for though the Government of India in general was prepared to reverse the process referred to in the preceding paragraph and give a sovereign for Rs. 15, it did not bind itself to do so. A situation occurred in 1907-8 which made necessary a decision of policy on the point. The Indian monsoon failed and concurrently a financial crisis which originated in the United States spread to all the financial capitals of the world. So far from there being a balance of indebtedness in India's favour large payments had to be made by India to London. They could not be made in rupees, for the bullion value of the rupee was far below its exchange value. As has been said above, the Government of India had not bound itself to give gold in exchange for rupees, but the means taken to meet the situation amounted to the same thing in substance. It sold in India, in exchange for rupees, drafts on the Secretary of State in London, payable in sterling, at the rate of a sovereign for Rs. 15 (subject to a deduction corresponding to the cost of shipping gold from India to London which the buyer of the sterling drafts escaped). The measures proved adequate, for the Secretary of State was able to meet from his sterling resources all the drafts sold. A lower limit to the fall in the exchange value of the rupee was thus established, if not by a binding

* For telegraphic remittance the rate was $\frac{1}{32}$ of a penny higher.

undertaking, at any rate by the experience of an unusually severe financial crisis.

The currency system that thus emerged was known as the "Gold Exchange Standard." The principal legal tender currency was rupees (or Government rupee notes). They were over-valued in the sense that their value as bullion was much less than their exchange value. Sovereigns were legal tender and Government undertook to issue rupees for them at Rs. 15 to the sovereign, thus limiting the upward rise of the rupee. Lastly for international settlements the experience of 1907-8 had indicated the Government of India's determination to limit the fall of the rupee by issuing, when a demand for it arose, sterling in exchange for rupees at what was essentially the same rate.

The question naturally arises at this point: from what resources did the Secretary of State in Council meet the sterling drafts sold by the Government of India in the critical months of 1907-8? Apart from the emergency resource of raising a loan in the London market he had three funds at his command. The first was his balances, which are ordinarily fed from the revenue of the Government of India through the sale of rupees for sterling as described on page 104, but also include any unexpended balance of loans raised for capital expenditure on railway and irrigation works.

The second was the Gold Standard Reserve. This is a fundamental element in the Indian currency system. It will be remembered that the rupee is, in general, a "token" coin—the value of its silver content as bullion is less than its "face

value." There is, therefore, a profit on coinage, and the profit is in general considerable. On the other hand it was the general policy of the Government of India to keep the value of the rupee from falling below 1s. 4d., and it was realised that in emergency this might involve heavy expenditure. It was, therefore, decided early in the present century to devote the profits from coinage to build up a fund—the Gold Standard Reserve—primarily intended to support exchange whenever the rupee showed signs of falling. This Reserve was drawn upon in 1907-8 to meet the sterling drafts sold by the Government of India, and so served the purpose for which it was created. At one time it was kept partly in India, but the whole of it is now in London. It has reached a value of £40,000,000 held in the form of sterling securities, mainly of short date. Until it reached this large amount the interest on the investments was added year by year to the fund, but at present it is credited to the revenue account of the Government of India.

The third of the resources used by the Secretary of State in the crisis of 1907-8 was the portion of the "Paper Currency Reserve" kept in London. The note currency in India is a Government issue, and is backed to the full value of the circulation by securities or metal, which form the Paper Currency Reserve. Part of this reserve is kept in gold in London where it is readily available to buy silver when exchange is high and further coinage is necessary. On the other hand when exchange is weak it affords additional resources from which

sterling drafts on the Secretary of State can be met. When this is done the amount taken from the Reserve in London is replaced by rupees in India.

The currency system just described was examined in 1913-14 by a Royal Commission presided over by the Rt. Hon. Austen Chamberlain. The Commission had made recommendations designed to carry its general principles to their natural conclusion when the War broke out. The disturbance of world commerce and exchanges that followed were not, and could not have been, provided for in any currency system based on pre-war conditions and anticipations, and an entirely new group of currency problems presented themselves. From India's point of view the main factors in the new situation were two. After the early stages of the war India's favourable trade balance became larger than ever. Imports from Europe were hard to get and there was an ever increasing demand from the allied powers for India's products. Concurrently there was a continuous rise in the general level of world prices. In particular the price of silver rose, and by 1917 had reached the pitch at which it became profitable to melt down rupees for their bullion value. Government was thus faced with a strong demand for the additional rupees required to carry on the expanded trade of India at a time when they could only be coined at a loss. It became necessary, therefore, to abandon the 1s. 4d. value of the rupee and between 1917 and December, 1919, its exchange value, as measured by the price at which the Secretary of State in Council sold rupee drafts on India, was gradually raised with

the rise in silver until it reached 2s. 4d. sterling. In the interval large quantities of silver were bought for coinage in America and elsewhere. It may be noted in passing that during this period the rise in prices in India was much less than the rise elsewhere.

At this stage (1919-20) the Indian currency system was investigated in the light of the experience of the War by a committee of which the late Sir H. Babington Smith was Chairman. Their main recommendation was that measures should be taken for the establishment of a new exchange value for the rupee, viz., 2s. gold (equivalent to about 2s. 9d. sterling at the time); in other words the sovereign which had hitherto been rated at Rs. 15 was to be rated at Rs. 10. Any tendency of the rupee to fall below this rate was to be met by the sale of sterling drafts as in 1907-8, but at the new rate of exchange.

The recommendation was accepted, but at once a group of circumstances combined to falsify the anticipations on which it had been based. Prices in the United Kingdom which had reached a point nearly 200 per cent. above pre-war level began to fall, and with them exports from India. On the other hand imports remained high because India had been starved of European products during the War and, to make up the leeway, had placed large orders during the period of high exchange. An indifferent monsoon followed with its usual pressure on exchange; and finally the price of silver dropped rapidly. The Government of India in its effort to counteract these influences sold sterling drafts on London to the amount of £55,000,000 between January and September 1920, first on the basis of a 2s.

gold rupee and later at 2s. sterling. But the demand for sterling drafts was far in excess of the amount offered for sale by Government and after a prolonged trial, in view of the uncertain outlook, the effort to stem the tide was given up in September, 1920.

By 1922 the rupee had fallen substantially below the established pre-war rate of 1s. 4d. Since then, under the influence of retrenchment, leading to balanced budgets, and of careful control of the currency, it has recovered to about 1s. 6d. Its future is under the consideration of a Royal Commission which returned in January from taking evidence in India.

The public debt of India on March 31st 1925, was over £700 millions, but about two-thirds of this is "productive" debt; that is to say, it represents investments in railways and irrigation works which yield an income sufficient to cover the interest charges, and indeed to afford in addition a net surplus revenue to Government. In 1914 the total of the public debt was £345,000,000; the difference, in so far as it is not productive debt, is the result of War expenditure, including the War contribution made by India to the British Government, and a series of revenue deficits in the years following the War.

A sum of not less than 4 crores of rupees (about £3,000,000) is charged against the revenue of the Government of India annually and devoted to the reduction or avoidance of debt.

Family Pension Funds

Something must be said in conclusion of the

provision made for the widows and children of members of the Indian Civil Service and the Indian Army. The hazards of service in India made it necessary for the older services to establish funds for the benefit of their dependents. They were managed by trustees, and the rates of subscription and the benefits were prescribed by rules. For various reasons these "funds" were taken over one after another by Government, which now fixes from time to time the subscription and the benefits on the basis of an actuarial valuation of the assets and the liabilities. The subscriptions are not "funded" but are paid into the general account of the Government of India which assumes liability for the benefits. A small liability for the children of members of the Indian Civil Service falls on the State, but apart from this the whole of the Family Pension Rules are based on the principle that the State should make neither profit nor loss. But interest is, of course, credited on the balances standing to the credit of the scheme from time to time. The management of these pensions constitutes in effect an insurance branch of Government under the control of the Secretary of State in Council.

Chapter VII

RAILWAYS AND OTHER PUBLIC WORKS

[By S. F. STEWART]

Railways

To a traveller in India the railway system of the country appears at first sight to consist of a number of separate companies' lines. But the greater and most important part of the railways belongs to the State, which has the right of acquiring nearly all the remainder by purchase at fixed dates.

The railway policy adopted was based from time to time on political theories of the proper attitude of the State to private enterprise; but the recurrent consideration that in the long run governed the development was the fact that India had but small capital resources of its own, and that the return on capital invested in its development was precarious and in any case might be long deferred.

The rapid development of railway communications in this country towards the middle of the nineteenth century led naturally to projects for railway construction in India. The East India Company in 1849 entered into contracts with private companies domiciled in England for the construction of short experimental lines starting from Calcutta and Bombay. The companies undertook to construct and manage specified lines under the general control of the