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Fiscal Strains in British India 1860-1914

By

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## Introduction

After the East India Company's suppression of the 1857 Revolt, British colonial rule in the Indian subcontinent underwent an array of significant political and administrative changes. Among the most significant was the abolition of the government of the East India Company. Instead in 1859 Queen Victoria proclaimed direct rule and assumed her new title as Queen-Empress of India; a Viceroy replaced the Governor-General of the East India Company and a new cabinet member, the Secretary of State for India took up his duties. These new measures which were aimed at rectifying demonstrated weaknesses and bolstering British rule over India, succeeded in their purpose. Between 1860 and 1914 colonial India enjoyed nearly six decades of stability, peace, economic and technical advances and, by some measures, prosperity before the outbreak of the Great War in 1914.

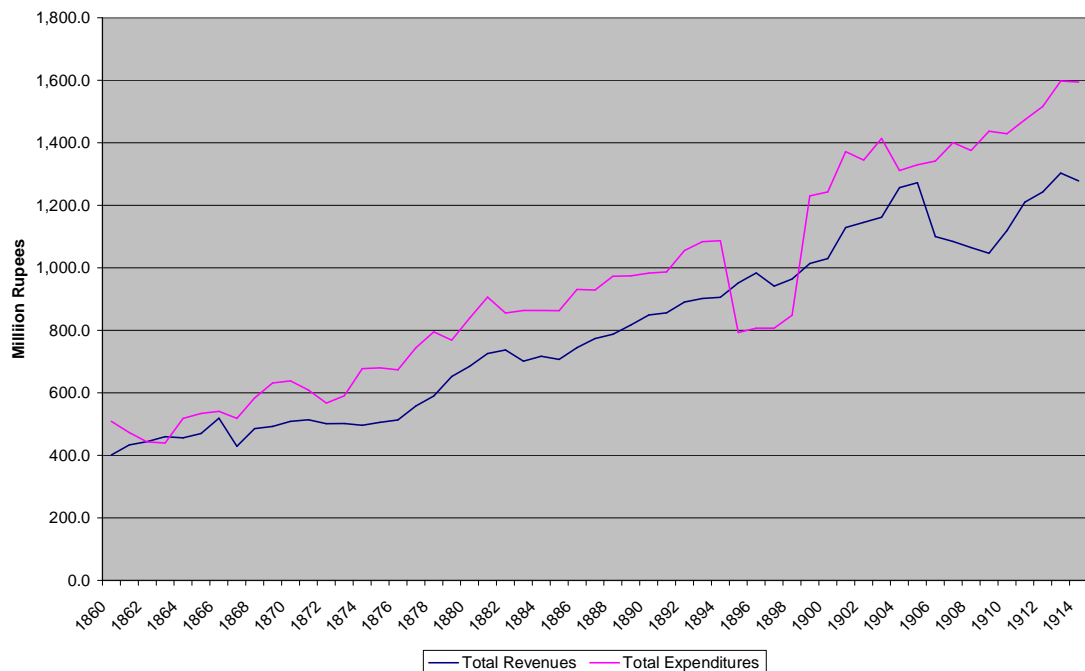
The aim of this essay is to look closely at the new imperial fiscal system that emerged after the 1857 Revolt in the period of high empire. The magnificent Indian Raj, with all its pageantry and pomp, appears to have rested on a constrained financial base. Overall government revenues moved steadily upward between 1860 and 1914, but this was more the result of a growing population and economy than official determination to raise its revenue returns. As Chart 1 demonstrates, despite a doubling of revenues in India, the Government of India carried out a delicate balancing act between its income and its expenditures in India.<sup>1</sup> Between the Revolt of 1857 and the Great War, the Government of India maintained an average surplus of Rs. 30 million. However, Chart 2

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<sup>1</sup> Unless otherwise noted, all quantitative data for charts or tables in regard to the Government of India expenses or revenues are taken from my compilation of these annual data for the period 1860-1914. The figures are taken from the annual reports of the Government of India submitted to Parliament at the close of each fiscal year. The annual reports begin with Sessional Papers of the House of Commons, (SPHC), Finance and Revenue Accounts of the Government of India for the Year 1859-60 1861 XLIII.17 and end with SPHC, Indian Financial Statement for 1915-16 1914-16 XLVII.49 Actual Accounts for 1913-14 Fiscal Year. The data are recorded as reported each year without changes. For the initial compilation of I have used the account headings found in the reports.

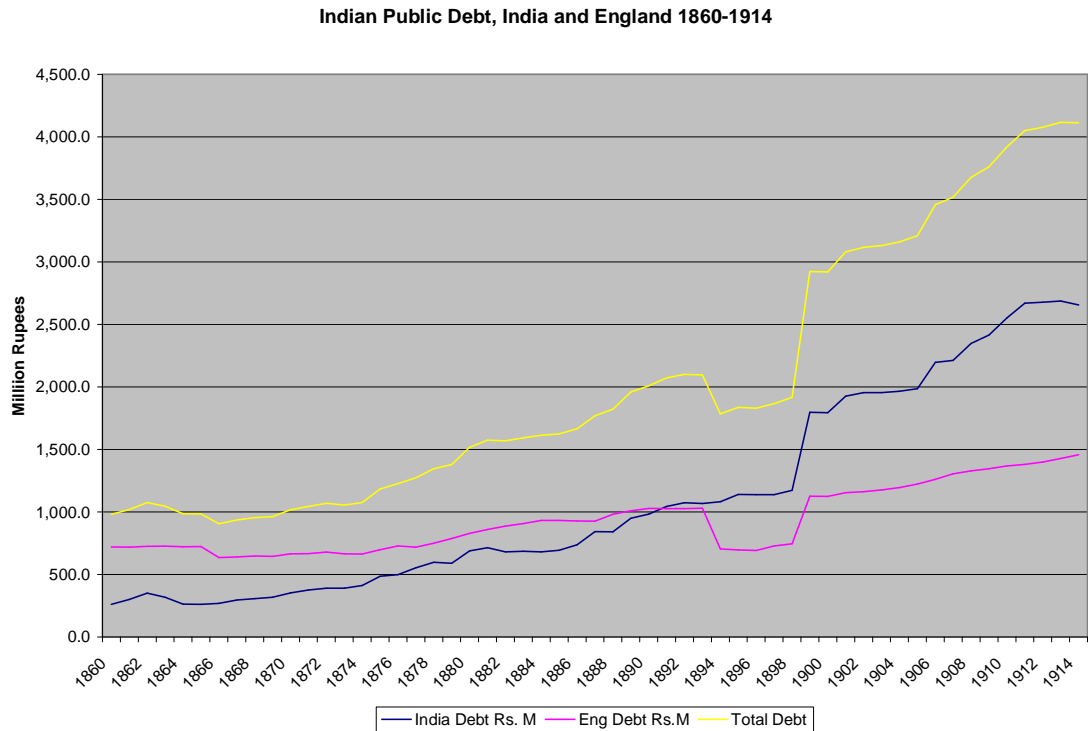
offers a radically different perspective. Under the term “Home Charges” the Government of India was obliged to convert rupees to pay steadily increasing military and civil expenses in £ to the Secretary of State at the India Office in London. These data show a large year-by-year deficit that was only relieved by setting the value of the silver rupee to 15 rupees to the £ sterling in the 1890’s. When we consider both the Indian and England accounts the Government of India suffered an annual average deficit of Rs. 143.8 millions.

**Chart 2 Total Revenues and Expenditures India and England Million Rupees**



How then were recurring deficits dealt with? These shortfalls were made up by steady public borrowing in rupees in India and pounds in England. The total debt of the Government of India rose four times from Rs 981.1 millions in 1860 to Rs 4112.8 million in 1914. (Chart 3). It should be pointed out, however, that not all these debts arose from annual budget deficits. Part of the public debt emerged from what were termed “productive loans”. The Government of India borrowed capital in the Indian and London capital markets to pay for large projects in perennial irrigation and to raise

capital for state-owned railway systems then under construction. However, a considerable proportion of the debt seems to have originated in ordinary deficit spending year after year.



As Chart 3 shows the overall trend marched upward in a consistent pattern. As the debt burden grew, its weight on overstretched revenues became more difficult to manage. Total borrowings Rs. 4112.8 million in 1914. The annual Indian revenues in that year were no more than 30.8% of this debt total. This was in sharp contrast to the same relationship in 1860 when the annual revenues were 89.0% of the total rupee/sterling debt. Because of the cost of exchange, the finance office of the Government of India in the 1880's shifted its policy to issuing loans in the Indian capital market rather than in London. This change is shown clearly in Chart 3 when in 1891 the Indian debt exceeded the Home debt.

#### Constraints on the Revenue Demand

Despite continuing fiscal pressures on the colonial state, the Victorian subjects of the British Crown in the Indian subcontinent were among the lowest taxed populations

in the world. In their meticulous study of the political economy of the global British Empire Davis and Huttenback arrived at some surprising figures for British India and the Princely States<sup>2</sup>. By their calculations between 1860-64 and 1910-12, the residents of British India paid on average only £.26 per capita per year in total government revenue consisting of taxes and fees. The residents of the Indian princely states carried a slightly lower burden at an average £.24. By contrast the residents of the United Kingdom, among the highest taxed people in the world, paid £4.76 per capita on average over the same period. Other dependent colonies in the British Empire paid £1.05 per capita; colonies with responsible government paid far more at £4.17. Foreign developed countries imposed taxes and fees averaging £1.51 per capita on their inhabitants.<sup>3</sup>

If we divide official and unrevised census population data into gross Indian revenues, the results correlate closely with those of Davis and Huttenback. The average per capita revenue burden for British India between 1860 and 1914 was Rs. 3.66 equivalent to pounds .33. For an agricultural laborer, this per capita revenue demand represented just over one-half of his pay for one month in 1873-75. At that date the all-India average was Rs. 6.2 to 6.4 (Rs. 74.40 to 76.80 annually) By the end of our period the average of 3.66 had dropped slightly with monthly wages for 1901-03 rising to Rs. 6.7 to 7.3. <sup>4</sup> For skilled craftsmen—masons, carpenters and blacksmiths— the burden of

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<sup>2</sup> Lance E. Davis & Robert A. Huttenback, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism, 1860-1912*, (Cambridge: Cambridge University Press, 1986).

<sup>3</sup> Davis and Huttenback, Table 8.1A "Total Government Revenue", p. 222. The source of Davis and Huttenback's population figures for India used to calculate per capita revenues is not clear. In Appendix 1.2 "Empire Population by Status", they offer the following figures in 1,000's: 1862-139,360; 1867-148,674; 1872-160,788; 1877-177,702; 1882-209,017; 1887-260,741; 1892-288,683; 1897-292,207; 1902-296,453; 1907-301,795; 1912-322,441. No figures for Native States are given as they are in the other tables throughout the book which leaves these figures uncertain as to whether they refer to all India or British India alone. Moreover the numbers given do not match the decennial Indian census figures for 1872-1911. Some adjustment seems to have been made but the basis is unknown.

<sup>4</sup> *The Imperial Gazetteer of India, The Indian Empire vol. III Economic*, (Oxford: The Clarendon Press, 1908) Appendix, Table 1 p. 472. The gazetteer compilers calculated these averages from data supplied from each province for six time periods.

government revenues was reduced to less than one-fifth the all-India average monthly wage.<sup>5</sup>

Table 1 <sup>6</sup>	Population of British India in 1,000's	Revenues of British India in 1,000's Rupees	Per Capita Revenues of British India Rupees	Per Capita Revenues of British India in £
1857	131,991	333,780	2.53	0.25
1872	185,163	501,102	2.71	0.27
1881	199,104	742,901	3.73	0.37
1891	221,240	857,416	3.88	0.39
1901	231,900	970,861	4.19	0.28
1911	244,268	1,210,237	4.95	0.33
	Averages			0.32

From this perspective India does appear to be lightly taxed. From another viewpoint, however, there may not have been much surplus production to have been wrung from India in this period. Various estimates of Gross National Product suggest low productivity with very slow growth in this period. Table 2 shows a GNP of around 6 billion rupees in 1860 with an increase to about 21 billion rupees by 1914. Government revenues averaged 6.61% of GNP for the period but the average per capita annual share of GNP between 1860 and 1914 was only Rs. 4.95. The elite corps of the Indian Government---the 2,000 or so Indian Civil Service officers---was generally sensitive to the heavy and demanding taxes levied by the former regime under the East India Company. Quietly, but steadily the Indian government lowered levels of demand on the land revenue and the salt tax (as well as making the latter more equitable). What were worthy impulses to restrain the burden of taxation on the vast majority of Indians

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<sup>5</sup> Ibid. Appendix Table 3 p. 474. The Indian average monthly wage for carpenters, masons and blacksmiths in 1873-75 was Rs. 13.2 to Rs. 15.4 and in 1901-03 Rs. 14.5 to 18.9.

<sup>6</sup> The population estimate for 1857 for British India is from SPHC "Return of Area and Population of each Division of Each Presidency" vol. XXIX.83 1857 Session 2 No. 215. The census figures are taken from *Imperial Gazetteer*, I, p. 489 Table 1.

coincided with great political caution about raising taxes after the bloody crisis in 1857. Throughout the half century of our study, the Viceroy of India did not call for raising taxes—even upon those well-to-do Indians in the professions, in trade, in ownership of large tracts of land. And, for that matter, nearly all British servants of the Raj resisted doggedly any thought of taxation on their personal income or assets.

	Revenues of British India Rs. Millions	Gross National Product of British India Rs. Millions	Ratio of Revenues to GNP	Per Capita Gross National Product in Rupees
1857	334	6,140	5.44%	46.52
1872	501	8,580	5.84%	46.34
1881	743	10,220	7.27%	51.33
1891	857	11,720	7.32%	52.97
1901	971	13,050	7.44%	56.27
1911	1,210	19,030	6.36%	77.91
		Averages	6.61%	55.22

#### Centralization and Decentralization

All revenues and expenditures reported in this paper are those of the central government of British India. Unlike other large contemporary states, the Indian central government held extraordinary control over virtually all revenues and expenditures across the subcontinent. Subordinate political or administrative units—provinces, districts, municipalities, ports-- possessed little fiscal autonomy. This is in sharp contrast to states such as the United Kingdom where in 1910-12 centralized expenditures formed only 48% of total state expenditures, or in Germany for 1912 with a figure of 35% or the United States in 1902 at 38%. <sup>7</sup> For these and many other states the per capita central government revenue demand was only a fraction of the total tax and fee burden carried by each person in that political entity. In colonial India, however, the per capita figure was at least 90% of the annual official revenue demand—and probably more. Therefore, if the Indian per capita figures were much lower than those of other states of

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<sup>7</sup> Davis and Huttenback, p. 144 and n.

colonies as calculated by Davis and Huttenback, the Indian population of the 1860-1914 was lightly taxed indeed.

By the end of the nineteenth century, after numerous conquests and territorial divisions and consolidations, the Indian Government ruled over eight major provinces—Burma, Bengal, Madras, Bombay, United Provinces, Central Provinces, Punjab and Assam—where the bulk of the population lived.<sup>8</sup> In the late 1870's the central government had granted each of these provinces a limited degree of fiscal autonomy. Each province retained a specified portion of the revenues from land revenue, stamps, excise, assessed taxes, forest and registration collected in that province. The provincial government could also collect local taxes known collectively as Provincial Rates. By 1900 these were made uniform throughout British India in the form of an additional cess of approximately 6.25% on the rent value of cultivated land.<sup>9</sup>

In their entirety, Provincial Rates brought in relatively modest sums. In 1901, for example, the Provincial Rates generated Rs. 34.3 millions or just under four percent of the total Indian Government revenues for that year. The returns from the Provincial rates were applied only to rural areas for the repair and construction of roads, maintenance of village schools and dispensaries, for village sanitation, or used for famine relief. Like the retained portion of other revenues, Provincial Rates were duly recorded in the budgets and accounting of the Central Government.

Provincial governments, in turn, allocated a portion of the Provincial Rates as well as other funds for expenditure by District Boards set up within each of the 266 Districts of British India. Each province was subdivided into a certain number of Districts, headed by a British Collector and Magistrate. By 1900 the average population of each District was close to a million persons—although these numbers varied widely.

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<sup>8</sup> There were also five minor provinces—North-West Frontier Province, British Baluchistan, Coorg, Ajmer-Merwara, and the Andaman and Nicobar islands whose total populations were only 3.1 millions. These units were subject to more direct and often far more harsh administrative control than the major provinces.

<sup>9</sup> Expressed as “one anna in the rupee”.



In accordance with the Local Government Acts of 1871, followed by further legislation in 1881, District Collectors set up District Boards and sub-boards comprised of appointed officials and appointed and/or elected non-officials. The local boards, usually headed by the Collector of the District, were allocated funds primarily to build and repair roads as well as the other tasks mentioned earlier paid for by a share of the Provincial Rates. The boards also had access to smaller sums from tolls on ferries, animal pounds, house taxes, and market taxes among other sources. Contributions from Provincial Funds were already recorded in imperial accounts; other revenues seem to have been omitted from the imperial accounts.

Although remarkably centralized, the Indian financial system, in an approach dating from the Mughal period, did not receive all its revenues and pay all its expenditures and claims from a Central Bank or Treasury. Instead the subcontinent was covered by a network of 266 District treasuries each supervised by a District Treasury Officer. The District Treasury accepted revenues of all kinds collected within the district and, simultaneously, responded to vouchers or other demands for official payment. The District Treasury officer supervised the Treasury's accounts, approved all expenditures and remitted to the Provincial Accountant General a monthly, detailed report. Both the provincial and central finance officers continually monitored and, if necessary, adjusted the balances in each District Treasury. These District Treasury balances maintained an accessible ready reserve for any and all sudden financial needs of the central government. Prior to the installation of widely accessible telegraph lines, the flow of reports, orders, audits and other documents moved by runners of the official *dak* or post at an extraordinary rate of speed and level of efficiency.

This radically decentralized approach was coupled with a stringent, immediate system of audits in charge of the Comptroller and Auditor General, a high officer in the

Central Finance Department in Calcutta. The actual audit was carried out by the Accountant General or Comptroller stationed at each provincial capital.<sup>10</sup>

The officers in charge of the District Treasury Chests send at the close of each month to the headquarters of the province an account with vouchers of their receipts and issues each month. It has been explained that the whole of the Indian expenditure, whether it be that of the Central Government or that of the Provincial Governments is paid through the district treasuries. Thus the whole of the public expenditure in the province comes before the auditing officer at the headquarters of the province. So far as these issues are for military purposes or for public works, including telegraphs, they are, in the main, imprests, and the Accountant General of the Province, with whom we are dealing, has only to see that issues are made to duly accredited officers of the Military and Public Works respectively....The same remark applies to issues to the Post Office and Forest Departments....The Accountant General then begins his audit. His officers are guided and bound in their work by a minute and exhaustive code of regulations, and they disallow items which are not properly vouched, which are not covered by proper authority, or are otherwise not in accordance with Act or regulation.

Each account from each district treasury was fully audited by the middle of the month following that reported upon and sent on to Calcutta to arrive by the end of that month. The imperial Auditor-General simultaneously received audited accounts of expenditures from the Accountants-General and Controllers in the Military, Public Works, Forestry, and Post Office Departments. He consolidated all these records into one general statement for expenditures for all of British India and presented this document to the Financial Member of the Viceroy's Council no later than the end of the second month after the expiration of the month under audit.

The only significant entities whose finances were not directly controlled by the central government were the municipalities. The latter held discretionary taxation and expenditure powers and could borrow from either the state or capital markets for large

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<sup>10</sup> SSHC, *Report of the Royal Commission of the Administration of the Expenditure of India*, 1900, XXIX.553 p. 23.

projects. In each town or city, a body of commissioners that included a minority of officials, passed legislation in the form of Municipal Acts. Committees of the board levied taxes and fees, approved expenditures, managed employees and acted as custodians of municipal property. The British regime especially stressed municipal responsibility for public health, sanitation and education. They were also given special responsibilities for the relief of famines. Strangely enough, in the latter half of the nineteenth century, the central government arrogated to itself the tasks and funding of policing, the judiciary and jails in these municipalities.

At their discretion, boards of commissioners could levy a variety of taxes. Depending upon the traditions of the region these included octroi, which gradually the British confined from a transit tax to a levy only on items of consumption within the town. In some provinces a tax on houses and lands (property tax) kept under limits of seven or eight percent of assessed value as stipulated by the central government proved to be readily collected. Another source was a levy on income or a license tax on trades and professions. Finally tolls levied on ferries and roads, water rates and interest on investments virtually completed the usual sources of income.

Municipal income and expenditure did not enter the central budget and were therefore an additional burden on urban dwellers. However, as we can see in Table 3 below, municipal taxes and fees were scarcely excessive either in absolute or per capita terms. And they were so limited in scope that municipalities were hard pressed to meet their varied obligations to the public. Average per capita levies on the urban population moved from just over Rs. 1 to Rs. 1.85 over thirty years. In 1901, total municipal income at Rs. 25.6 millions only amounted to 2.28% of the total revenues for the central government.

Table 3	Municipalities		
000's of Rupees	1880-1	1890-1	1900-1
Number of Municipalities	722	739	742
Population ( '000's)	11,830	13,021	13,871
Income			
Taxation	10,217	11,699	16,798
Other Sources	2,635	5,549	6,657
Extraordinary/Debt	0	3,332	2,176
Total	12,852	20,580	25,631
% Municipal Income to Total Revenues Indian Government	1.82	2.40	2.28
Rs. Per Capita Share of Municipal Income	1.09	1.58	1.85
Expenditure			
Ordinary	12,299	18,949	22,247
Extraordinary/Debt	311	1,729	3,355
Total	12,610	20,678	25,602
% Municipal Expenditures to Total Expenditures Indian Government	1.70	2.41	2.64

Certainly the national figures do not account for informal and illegal revenue and service demands made by rural and urban notables. These unrecorded extra-legal exactions were funds that escaped the official coffers and account books. They added to the total revenue burden of peasant cultivators, laborers and hosts of other rural and urban folk. But it is reasonably certain that, in the face of official hostility, they did not go beyond certain customary levels. Since the government abolished internal customs or trade duties in the 1830's the opportunities for private tax collection were severely constrained.

Despite these anomalies and irregularities, a highly-centralized financial system prevailed in British India. The system of audit and control of expenditure was extraordinarily developed and, in theory, at least should have worked smoothly. However, nearly-immediate audits coupled with great bodies of regulations built up over time could also result in delay, in pettifoggery, in excessive caution in dispensing funds. By and large, the Indian fiscal system in this period aimed at controlling and restricting expenditures which it did very successfully. This highly intrusive system, however, also sharply reduced risk-taking, innovation and experimentation in all departments by rigidly clinging to its rules, categories and procedures.

#### The Princely States

Despite its centralized powers, the Government in Calcutta confronted a major self-imposed form of decentralization that had fiscal consequences. After 1860 the imperial Raj could no longer count on massive funds derived from conquest or the creation of dependent princely states. During the century of Company rule (1757-1857) funds from conquest loot and prizes, enforced loans from Indian rulers, payments for the rental of military forces, and tribute enriched the Company coffers. The Company also pursued a policy of actively annexing a number of dependent princely states—a practice that added new revenues to the government's tax base. By this late date, the East India Company had negotiated settlements with many Indian states that ended the rental fees paid for the stationing of Company troops in exchange for territorial concessions. Many others, however, continued to pay tribute. In a survey report compiled by Calcutta in 1852, collectively the remaining dependent states occupied an area of 1.9 million sq. kilometers occupied by a total population of 53.4 million subjects of the princes. These rulers assessed an approximate annual revenue of Rs. 107.0 million rupees and paid a tenth of that sum ( Rs. 10.7 million) to the East India Company in various forms of tribute.<sup>11</sup>

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<sup>11</sup> SPHC, Statistical Papers and Maps Relating to India Prepared and Printed by the Court of Directors of the East India Company, 1852-53, LXIX.543 p. 28.

In the five years intervening between 1852 and the outbreak of the Revolt of 1857, a new Governor-General, Lord Dalhousie, aggressively annexed the smaller regime of Jhansi and the much larger Maratha ruled state of Nagpur in Central India. Dalhousie also forced the Nizam of Hyderabad to hand over the province of Berar to British administration. This was done under the fiction of a long-term lease in order to guarantee the Nizam's payment of the pay and expenses of the Company's Hyderabad contingent of troops. Finally, in 1856, Dalhousie seized the kingdom of Awadh (Oudh) on grounds of the Nawab's misgovernment. This latter move added a population of approximately three million subjects paying revenues of Rs. 14.7 million rupees to British India.<sup>12</sup>

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<sup>12</sup> Note the discrepancy of a later figure with the 1858 figures on Awadh. Table 4 below represents the viewpoint of the East India Company in London as to the eight annexations carried out in just six years, from 1851 to 1857. This compilation omits the leasing of Berar from the Nizam of Hyderabad from its calculations.

Table 4n					
Region or State	Date of Annexation	Area Sq. Kms.	Population	Revenue in Rupees 1855-56	Civil Charges in Rupees 1855-56
Pegu and Martaban (Lower Burma)	1852	83,528	570,180	3,170,100	4,494,770
Territory resumed from Mir Ali Morad, one of the Amirs of Sind	1852	14,017	n/a	n/a	n/a
Territory resumed from Tula Ram Senapati in Cachar	1853	5,594	5,015	n/a	n/a
Udaipur	1853	5,973	133,748	n/a	n/a
Nagpur in Berar	1853	197,959	4,650,000	5,291,270	2,676,830
Jhansi	1851	6,558	200,000	n/a	n/a
Budawal	1855	n/a	n/a	n/a	n/a
Awadh	1856	64,750	5,000,000	2,019,350	1,135,080
Totals		378,379	10,558,943	10,480,720	8,306,680

Source: Adapted from Statistical Office, East India House, "Statement of the Territories and Tributaries in India Acquired since the 1<sup>st</sup> day of May, 1851, with the Area of such Territories,

However, after the Revolt of 1857, because the British regarded popular resentment at the annexation of Awadh in 1856 and other states earlier as one of the causes of the revolt and because nearly all the princes remained loyal to the regime, the practice of annexation ceased altogether. British demands for tribute also diminished. Politically the new policies toward the princely states may have been necessary, but financially the cost was high. Historians studying the post 1857 period rarely, if ever, comprehend or acknowledge the losses incurred. Most of the original treaties signed between newly-dependent rulers and the East India Company did require payment of some sort of annual tribute—usually at a moderate level in comparison to the ruler's total revenues. Once established the tributes were raised infrequently, if ever, and more often lowered or excused altogether. Many rulers and chiefs who displayed their loyalty to the Crown during the 1857 Revolt were rewarded by these reductions in tribute.

This meant that the ruler of each state was largely free to levy taxes free of any substantial payment to the Central power. Each ruler could spend his funds with little interference from the British political agent stationed at his court. Unless a ruler engaged in what the British considered egregiously cruel or capricious spending and behavior, he and his dynasty were assured the throne by British power. Only during some periods of minority rulership did British administrators actively intervene to control the affairs and finances of the state until the young ruler reached his majority.

Taken together, in 1901 there survived 741 princely states covering territories of 2.2 million sq. kilometers. At the turn of the twentieth century the princely states had a population estimated at 68.2 million subjects.—23.1 % of the total population of the subcontinent.<sup>13</sup> The total annual reported revenues for all princely states in 1901 amounted to Rs. 252.9 millions or £16.6 million.<sup>14</sup> The latter figure is 22.4% of the total

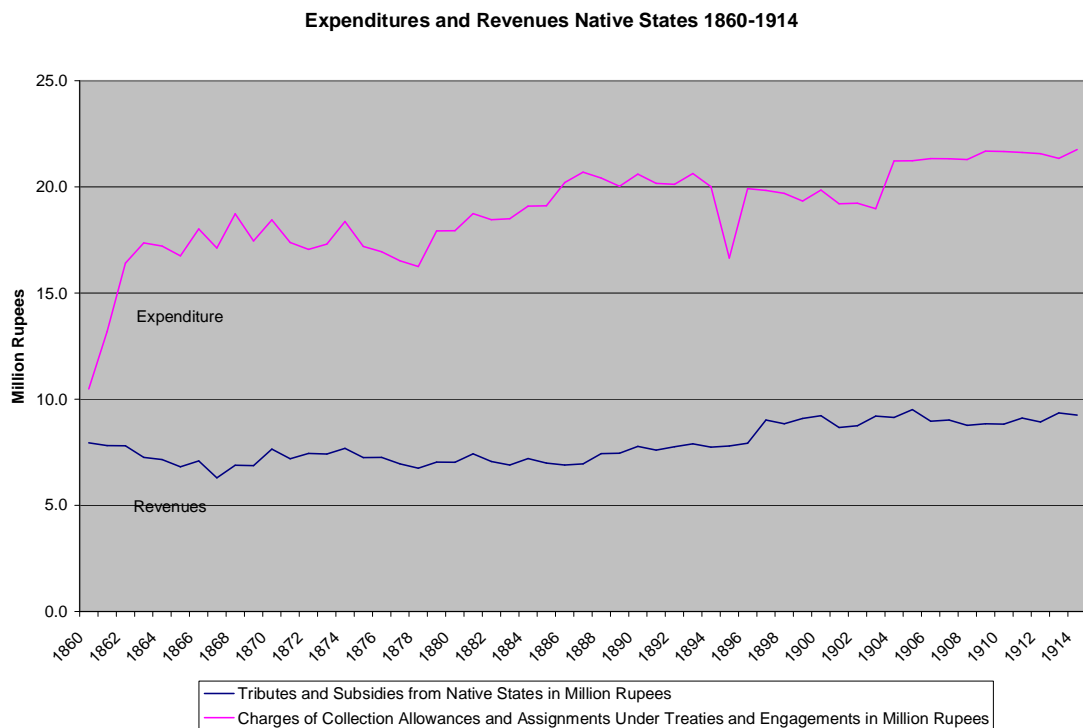
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the Population, the Revenue and the Civil Charges", SPHC, vol. XLII.151 (201-V) Session 1857-58 dated April 16, 1858.

<sup>13</sup> Secretary of State for India in Council, *The Imperial Gazetteer of India: The Indian Empire Vol. IV, Administrative* (Oxford: The Clarendon Press 1909) Appendix "Statement Showing Distribution of Native States, with Particulars as to Area, Population, Revenue. &c. pp.92-103.

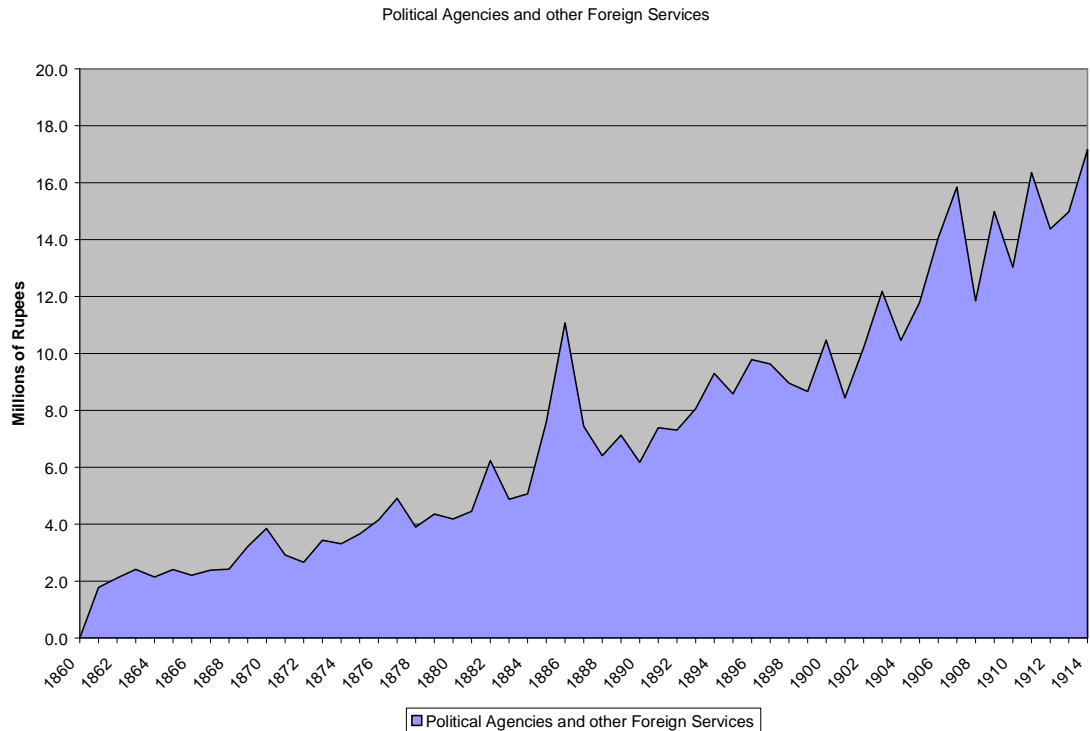
<sup>14</sup> Ibid. p. 103.

Government of India revenues for 1901. In short, annexation and direct British rule conceivably could have added over one-fifth to the Indian revenues. Instead, over the fifty-four year period, the Indian Government collected on average only 8 million rupees each year in tribute from these dependent polities or less than one percent of its annual gross revenues. Moreover, the Government of India paid out annually more than double the tribute it received in hereditary political pensions and compensation for lost revenues—on average 18.9 million rupees-- to the descendants of the rulers and elites of many of these states.



Simultaneously, most of the administrative and other costs for the Indian political service were devoted to the expenses of relations with the Indian rulers. Each of the larger states and collections of smaller states were assigned a British members of the Indian Political Service with his staff was the "Resident" in the capital of the Princely State.





### Declining Revenue Sources

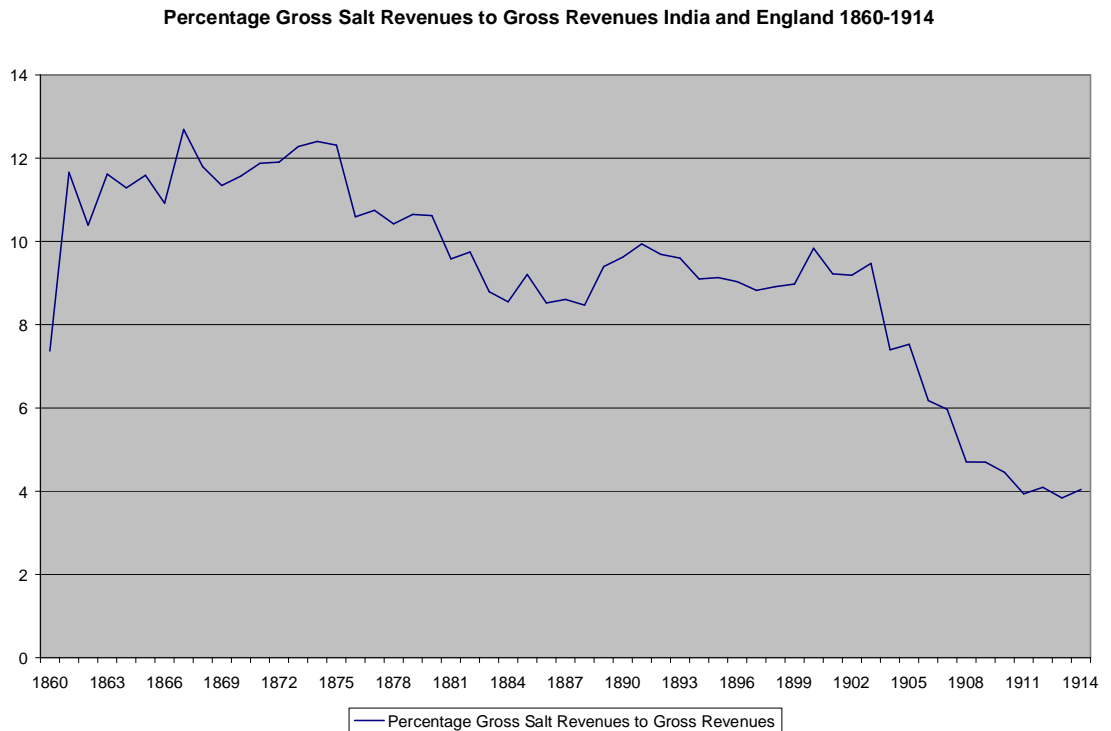
As Chart 2 above illustrates the land tax slid from 46.7% of total revenues in 1860 to 25.1% in 1914. (See also Chart 4) In part the state could not increase the land tax because of binding previous commitments. The most important of these was the fixed land revenue imposed in perpetuity on Bengal, parts of the United Provinces, districts on the eastern Andhra coast and in Assam. Because of the original "Permanent Settlement" with Cornwallis in 1793 the largest zamindars in Bengal became landlords enjoying absolute property rights who paid an annual fixed land tax obligation of Rs. 28 millions. With this assured tax, as prices rose and more of their lands came into cultivation these zamindars and their descendants became some of the wealthiest and most prominent groups in colonial India.

The new Indian Empire claimed a dwindling share of those taxes which had traditionally formed the most lucrative sources of revenue for pre-modern Indian states. For example, the new Raj assessed and collected slowly increasing sums from the land tax (the state's share of agricultural production) in the same decades that cultivated

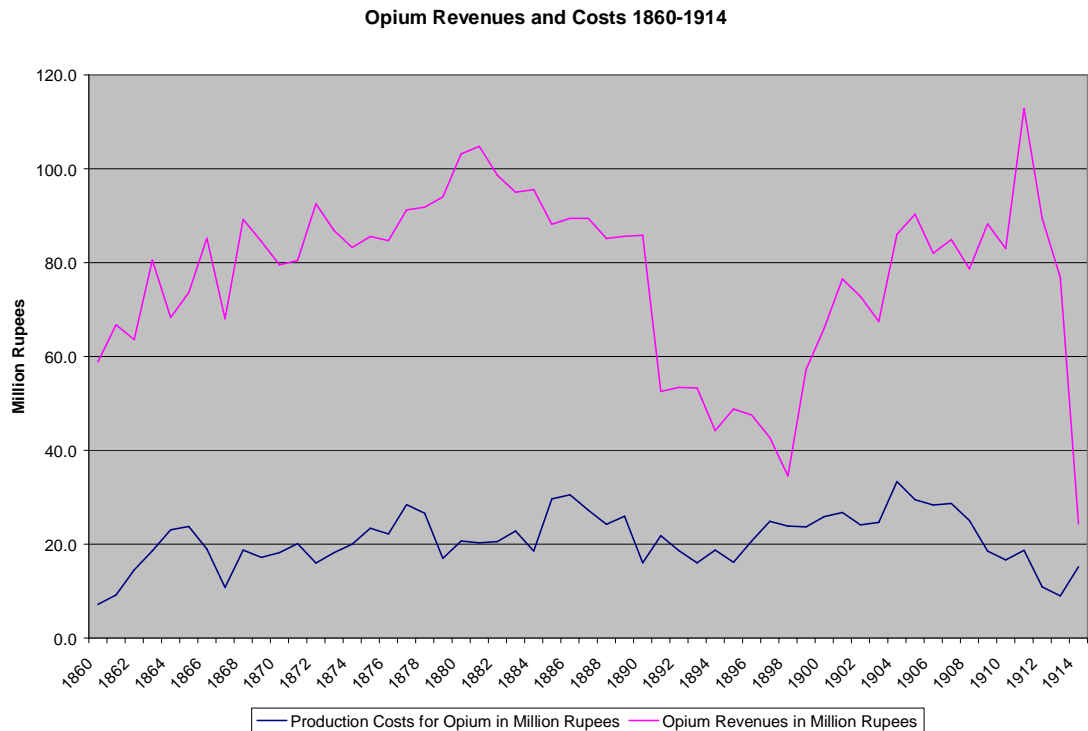
land in the subcontinent reached its maximum historical extent. Over the half century peasant cultivators grew and exported cotton, wheat rice and other crops that found a ready sale on the world market. However, after the crisis of 1857 the central regime, mindful of the rural revolt in Awadh directly after its 1856 annexation, adopted a "moderate" position in regard to raising the land tax at periodic intervals. As a result the state did not share fully in the growth of the agricultural sector. In this situation, political fears trumped the need for more revenue.

Other long-standing methods by which the East India Company's administration had relied upon to fill its coffers declined in value under the Raj . Devised in the eighteenth century, official monopolies over the production and sale of salt and opium continued to be highly lucrative in first half of our period, but dwindled rapidly in the last decades of the nineteenth century. Both monopolies were highly efficient and cost-effective sources of revenue, but each aroused bitter opposition on moral grounds—opposition that in the end forced steep reductions in each system.

The salt tax continually attracted heavy criticism both in India and England because of the regressive nature of the tax and the deleterious effect of high salt prices on the poor. During the 1870's returns from the salt tax exceeded twelve percent of total revenues, but then began a continuing decline until 1914 as recurring fiscal reforms dropped the assessment level on salt.



The export of opium for sale in China and Southeast Asia offered another new buoyant source of state revenue. In the eastern Gangetic plain licensed peasant cultivators planted poppy on specified plots and sold the raw, dried opium juice to agents of the Opium Department at a fixed price. Two government processing plants mixed and shaped the opium into balls packed into wooden chests. Bengal opium traveled under armed guard to repositories in Calcutta to await public auction at regular intervals.

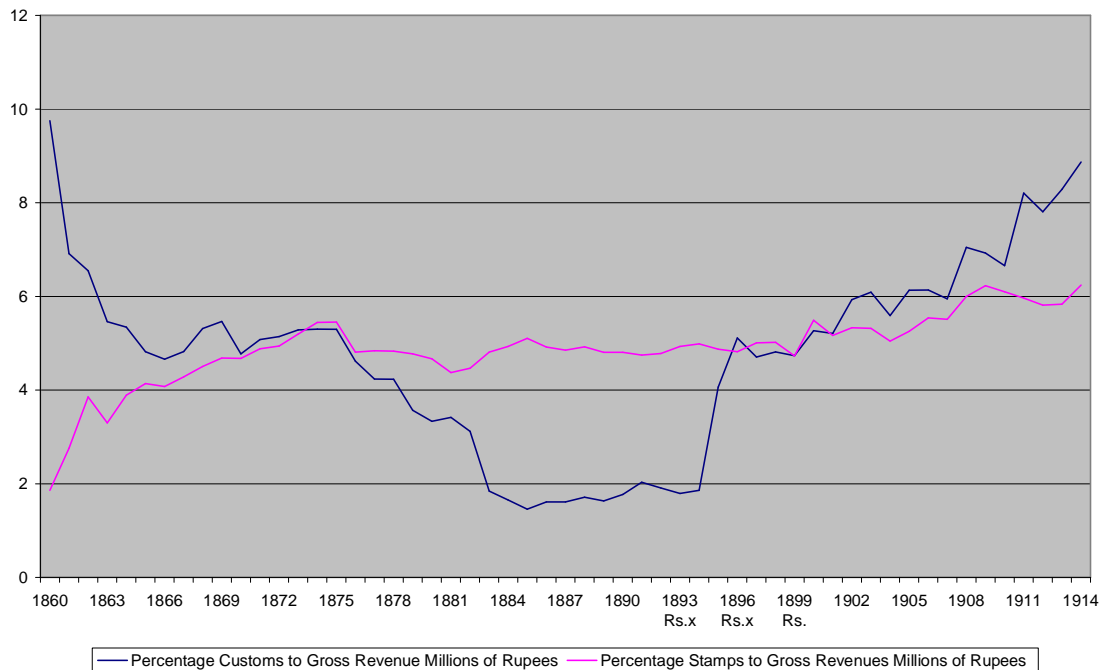


In western India, by 1830 the East India Company declared that Bombay was the only port through which opium could legally be shipped for export. Exporters paid a “pass fee” for each chest they shipped. In this system the peasant cultivators operated in a free market in which traders offered advances and gathered up the raw opium for processing and sale in Bombay. Taken together the two systems produced impressive profits. Between 1860 and 1885 net opium revenues each year after paying production costs, did not fall below ten percent of total revenues and even reached fifteen percent in 1872. Thereafter, opium returns showed a swiftly declining trend until the Treaty of Tsientsin dropped sales in China to almost nothing in 1914.

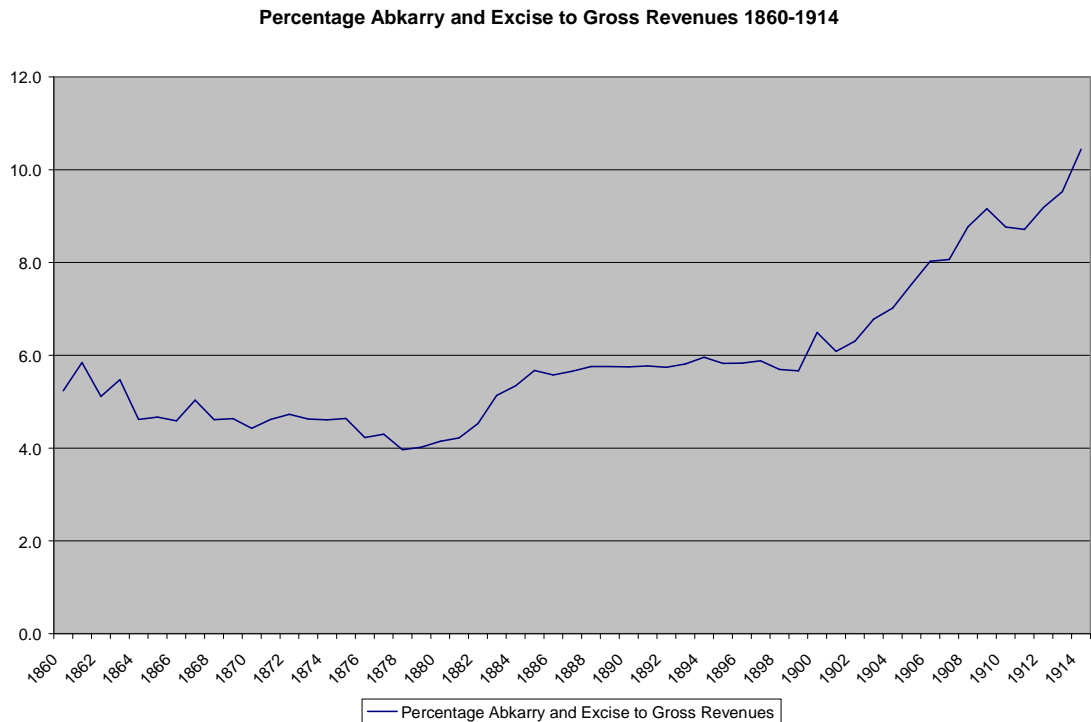
Maritime customs should have been a powerful, growing source of revenues for India. However, as nationalists at the time and subsequent historians have vociferously pointed out, influential British business interests at home blocked attempts to raise customs duties to even a modest percentage fee. Only at the turn of the century did the Government of India, supported by nationalist Indian sentiment, manage to get

substantial increases in customs and enhanced revenues from that source. By 1914 customs had returned to nearly their 1860 level at 8.9% of total revenues.

**Comparison Customs and Stamps Revenues to Gross Revenues 1860-1914**

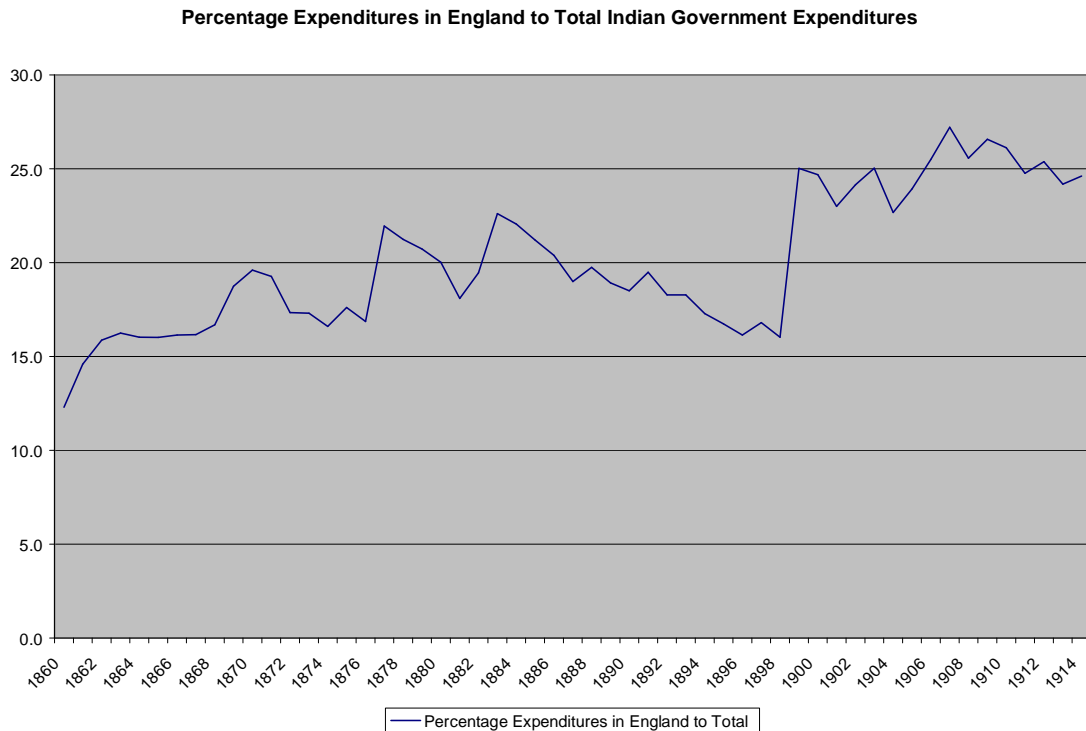


One of the few reliable and buoyant revenue sources readily available was the excise or abkari levy imposed on alcohol, cannabis, opium and other mind-altering drugs. The tax combined duties on manufacture of these substances and fees for sales licences at authorized shops. Cheap and easy to collect, this tax was rarely attacked and often seen as an aid to nation-building by the early Indian nationalists. In absolute figures, abkari collections rose from Rs. Millions 20.8 in 1860 by six times to Rs. Millions 133.4 in 1914.



### Imperial Tribute: the Home Charges

Official payments to the India Office in London for interest on the sterling debt was but one of a number of obligations met by the Central Government at Calcutta every year. These well-known obligations, referred to collectively as the "Home Charges", could not be negotiated, reduced or avoided in any way. The totals rose steadily year after year. The major categories of Home Charges included: interest charges and debt management (primarily by the Bank of England); stores and materials purchased in England for use in India by the administration and state railways; the costs of operating the London establishment of the Secretary of State for India; army and marine charges; and pensions and paid furloughs for British civil servants and military officers. The latter served in India but returned to the British Isles for long furloughs and retirement after thirty years service.



The expenditures in England rose both absolutely and proportionately across the entire period.<sup>15</sup> In 1860 Rs. Million 508.8 was 12.3% of official outlays; by 1914 the total was Rs. Million 1426.6 or 24.6%. One fourth of all monies disbursed by the Raj was sent to England for conversion to £ sterling on the gold standard.

The Secretary of State for India managed these transfers from rupee funds in the Indian treasuries to £ sterling by means of what were termed “Council” Bills (for the Council of India). Since India invariably maintained an export surplus in its balance of trade the demand for a means of payment by European importers was high. Each week the Secretary of State offered for sale bills payable in £’s for a modest service fee. Upon presentation at an official Government of India treasury in India these Council bills would be paid in rupees at the going rate. The Secretary of State had authority to issue Council bills up to the level of payments required for the Home Charges—and after 1905 he could exceed this amount.

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<sup>15</sup> See also Sunanda Sen, *Colonies and the Empire: India 1890-1914* (Calcutta: 1992), Table 2.1 “Pattern of overseas expenditure under home charges: 1861-62 to 1913-14”, p. 29.

By this device, every year the India Office in London transferred a very large share of India's export surplus to Britain in pounds sterling. This was an unrequited transfer from India. In the twenty years before World War One, the Secretary of State worked assiduously to build up Indian reserves held in London. Committed but unspent proceeds from the sale of Council Bills were deposited in the Bank of England where they provided a large share of liquidity for the City which was dependent upon regular injections of pounds sterling for its operations. Using unspent funds from Council Bills, profits from their sale and the returns on the operation of the mints, the Government of India steadily increased its overall reserves with an increasing thrust toward their placement in the Bank of England. For example at the end of the 1912-13 fiscal year the total assets of the Government of India were £96.6 million with £60.2 millions held in Indian treasuries and £36.4 million in England. The assets divided between general treasury balances at £28.4 million ; a Paper Currency Reserve totaling £45.7 millions and a Gold Standard Reserve at £22.5 millions.

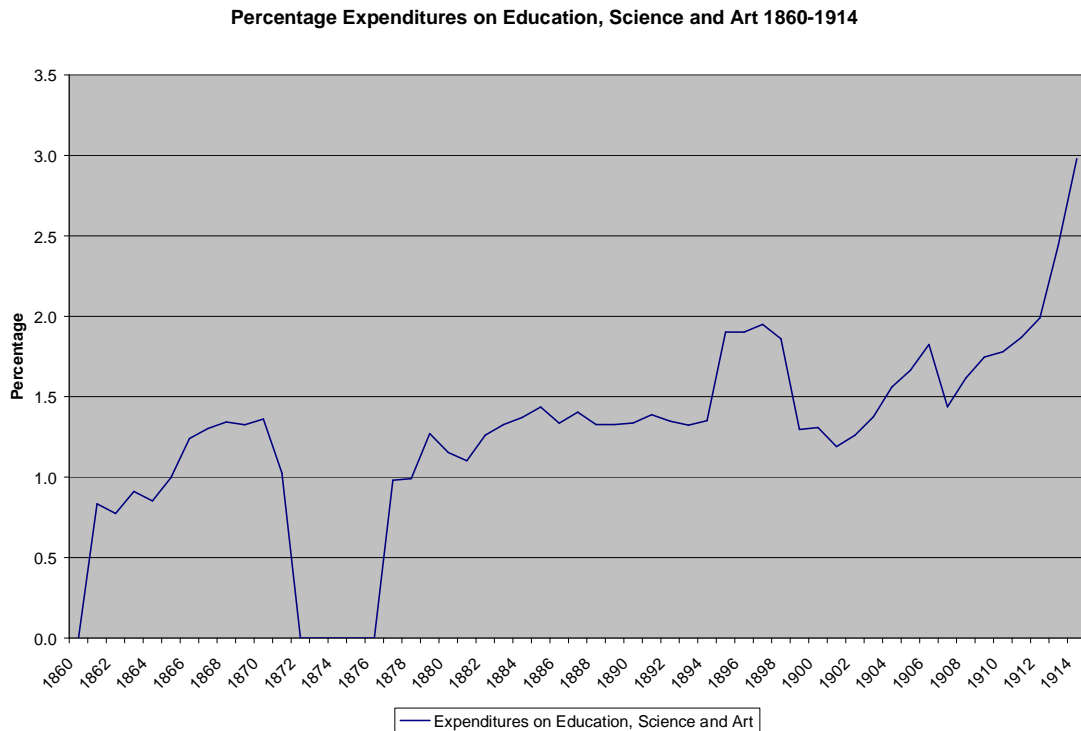
In holding such large reserves—especially in England—the Government of India constrained the money supply in India at an especially difficult time. Beginning in the early 1870's increased silver output from American mines began to reduce the world price of silver in relation to gold. This meant that the long-established official exchange rate of Rs. 10 to one £ was no longer valid. To meet the inexorable demands for Home Charges transfers the Government of India had to meet the new unfavorable exchange rates with more rupees for each pound sterling. By 1895 the government calculated that it had paid £13.7 million in exchange beyond the nominal Rs. 10 to a pound official figure. Finally, in 1899 India moved to a new exchange rate of Rs. 15 to 1 £. This stabilized the monetary situation but simply confirmed the steep decline in the value of the Indian silver rupee. Various remedies suggested including shifting to a gold standard and increasing the paper currency to a widely used medium were both rejected by a series of currency committees in this period.

## Conclusion



Victorian India was taxed so lightly that government revenues were not adequate for the multiple and growing needs of a population that had grown to over 300 millions by 1901. Simultaneously, however, the structure of taxes and fees encrusted with time, was extraordinarily regressive. Government fiscal demands hit hardest the poorer strata of Indian society and spared the landlords, businessmen, professionals and other well-off colonial subjects. British civil servants, professionals and businessmen also enjoyed much lighter taxes in India than they would have been subject to at home.

If we examine the overall structures of revenues, expenditures and debt over fifty-four years (1860-1914), we find that the finances of the Raj had a number of unfavorable consequences for the Indian subjects of the Crown. Not surprisingly, hardest hit was any investment in human capital. The accompanying chart shows the extraordinarily low percentage devoted to education, science and art in this period. In absolute terms, funds did increase dramatically from Rs. Million 3.9 in 1861 to Rs. Million 47.5 in 1914. However it must be borne in mind that education and its accompanying subjects were not the fiscal responsibility of villages, cities or provinces. Central government funds generally flowed out as "grants-in-aid" to encourage groups of Indians to set up their own private schools—mostly in English medium.



Strangely enough, most of these defects stemmed directly from the unwillingness of the Government of India (the Raj) to impose sufficient taxes on its subjects. That reluctance was due in large measure to excessive administrative caution and sensitivity to upper class opinion in the exaggerated fear of provoking another Indian Revolt. As stated earlier, another, less well-articulated position taken by its British rulers, saw the Government of India as a protector of the ordinary Indians: the poor; the peasant small-holder, the small shopkeeper. The result, whatever the reasons, was that for all its splendor, the Raj was starved for resources. Among other effects fiscal weakness hindered development of the Indian army, enfeebled and distorted the official responses to recurring drought and famine, and exacerbated the negative effects of various forms of tributary payments made every year in pounds to the Secretary of State for India in London.