CHAPTER - IV

Gokhale in the Imperial Council - Economic Issues

Introduction – Influences and development of Gokhale’s economic thought

The early Indian economic thought developed within the framework of colonial rule. Economic exploitation of India and the emerging Indian nationalism were at its center. So, whether it was Dadabhai Naoroji’s ‘drain theory’ or R.C. Dutt’s writings on famines, whether it was M. G. Ranade’s ‘economic nationalism’ or the Swadeshi upsurge of the early 20th century, the essence of all these theories was to emphasize the evil effects of the colonial rule. This aroused further political consciousness among the Indians and strengthened the national movement. Hence, a close link was established between the early economic thinking and the Indian National Movement. Most of the early economic thinkers were therefore equally active in the political field as well.

In his economic views, Gokhale was influenced by the prominent Indian economists of the period like Dadabhai Naoroji, R. C. Dutt, M. G. Ranade, G. V. Joshi and D. E. Wacha. During the initial years in the Council, Gokhale relied greatly on G. V. Joshi for the presentation of the budget speeches. He was also influenced by the western liberal economic thought regarding international peace, retrenchment of government expenditure and political and social reforms. However, it was Ranade’s economic views that inspired him most.

Ranade recognized the State as the ‘National Organ for taking care of National needs in all matters in which individual and co-operative efforts are not likely to be so effective and economic as National effort’. Gokhale in his 1903 budget speech took a similar stand by urging the Government of India to follow those advanced notions of the functions of the State, which had found universal acceptance throughout the Western world. This view was close to the theory of welfare state. As a practical application of this view, Gokhale suggested in the Council planned expenditure within a fixed time limit on several welfare schemes.
Like Ranade, Gokhale too believed in progress within the framework of British rule. Hence, instead of completely condemning the entire financial set up of the government, he tried to convince the officials of the drawbacks in the country’s financial system and suggested suitable remedies. The main string of Gokhale’s arguments was a demand for tax reduction, retrenchment of public expenditure and channelizing the large revenue surpluses for the moral and material progress of the masses. He also attached importance to regular public enquiries as a possible safeguard for ensuring proper administration. Hence he recommended the appointment of such enquiry commissions in many of his resolutions.

It should be noted that Gokhale’s main concern was the welfare of the poor class. It was by keeping this class at the center that he framed all his economic reforms so much so that he even opposed those resolutions of his Indian colleagues that promoted the interests of the middle or the upper classes.

It was on the question of State Protection that Gokhale’s views differed slightly from that of his mentor. Ranade upheld the theory of State Protection as applicable to India. Gokhale too agreed with the above theory and even exposed the inconsistency in the British policy of applying the theory of free trade in its colonies and adopting protection at home. However, he believed that until the Indian opinion was able to influence the decisions of the Government, the policy of protection would be ineffective in actual practice. He differentiated between two kinds of protection – the right kind and the wrong kind and inferred that under political domination, India could not enjoy the right kind of protection. The powerful combinations and interests in England would take advantage of the situation. Therefore, he advocated the policy of ‘free trade, reasonably applied’ as the safest policy for India. It is against this view that Gokhale’s stand on excise cotton-duties and import duty on sugar are discussed in the chapter.

Gokhale supported the Swadeshi movement that dominated the political scene in the early 20th century. He regarded Swadeshi as a voluntary form of Protection, which at the same time did not go against the principle of free trade. He therefore urged large consumption of indigenous articles to uphold the Swadeshi cause. He also supported the
promotion of handloom section of the cotton industry and urged for its immediate revival on commercial basis. However, unlike his disciple M.K. Gandhi, he did not believe in complete dependence on handlooms. The main part of the work would have to be done by machinery. Both Ranade and Gokhale believed in rapid industrialization as the only way to economic progress. While advocating Swadeshi, Gokhale maintained his reservations on boycott and pointed out that a strict boycott of foreign goods was impracticable under the then existing industrial condition of India.

Gokhale also highlighted the economic mischief caused by the annual drain of around 30 to 40 crores of rupees from India to England. The result was that there was hardly any capital for industrial purposes. To stop this ceaseless drain, he suggested Indianization of the services and local purchase of stores.

The moral concept that Gokhale introduced in the Indian politics is portrayed in his economic views as well. For example, it was under humanitarian considerations towards the people of China that he supported the Government’s decision to do away with the Opium revenue though it was a source of immense profit to India.

Gokhale did not formulate new economic theories but he successfully attempted the practical application of the theories of his seniors in the legislatures so as to benefit the Indian masses. Many of the subjects that he reviewed in the Council had been dealt with by others before him but he developed a unique style of making his arguments weighty by using relevant statistics and at the same time making his subjects interesting and easily understandable. At the same time, he did not remain static in his views but rather developed and enriched the philosophies of his seniors, and sometimes modified them to suit the circumstances. In the fast changing political situation of the first decade of the 20th century, his economic thoughts assumed importance and his demands for tax reduction, retrenchment of public expenditure and schemes of public welfare proved supportive to the Indian national movement. While outside the Council, the Indians sought for economic independence through ‘Swadeshi’, within the Council, Gokhale sought for economic upliftment by proposing several progressive schemes for the masses.
Gokhale's economic views can be ascertained mainly through his Council speeches. He came to be highly regarded both by the officials and non-officials for the accuracy and the lucidity of his budget speeches. Srinivas Sastri testifies to the intense interest roused by his debates. The very first budget speech of Gokhale (1902) placed him in the first row of Indian economic thinkers. By his powerful argumentation and critical analysis of the financial statements, he emerged as a formidable opponent of the government’s economic policy and put the officials on their defense. They approached his demands sympathetically, gave minor concessions and even adopted some of his suggestions quietly.

General financial condition between 1901-1915

A brief review of the finances during this period shows continuous financial stress from 1885 to 1897. During this period famine grants were suspended, Provincial contracts were drastically revised to the advantages of the Imperial government, old taxes were enhanced and new ones levied. This stress was mainly due to fall in exchange value of the rupee (from 19d to 13d) accompanied by rising military expenditure and falling opium revenue. From 1895 onwards, due to the currency legislation of 1893, the exchange again rose and in 1899-1900, it established itself firmly around 1s4d. It was at this juncture that Gokhale entered the Council. The period after 1900 was that of surpluses as the rupee was strong and there were no major famines or military operations. In view of these surpluses and constant demands from the Indians, the Government reduced certain taxes. However, the year 1909-10 once again projected a heavy budget deficit of Rs. 5 ½ crores. This period also saw a prevalence of high prices in all parts of India. The loss owing to the opium revenue (which the Government had decided to sacrifice by definite stages from 1907 onwards) and extra expenditure on the newly created province of East Bengal made the Government impose fresh taxation in 1910. While the non-officials opposed this hike in taxation, they considered the expanding public expenditure and general depression in trade as the causes behind these imposts. By 1913, the Indian finance thus portrayed three main features - 1) a too costly administration 2) crushing weight of military burdens and 3) a scheme of taxation that pressed more heavily on the poorer class. It was clear that in spite of ten prosperous years the economic condition remained the same as it was in the last
quarter of the 19th century. It was under these financial conditions that Gokhale endeavored to squeeze from the government certain concessions for the Indians.

The major economic issues that Gokhale handled during his tenure were as follows:

**Surpluses**

From the very start, Gokhale put up a strong case against the surpluses that the Indian budgets exhibited every year. He believed that such huge surpluses when the country was passing through trying times only showed the utter absence of due correspondence between the conditions of the people and the finances of the country. He pointed out the bare truth that these surpluses were mainly currency surpluses, resulting from the fact that the Government continued to maintain the same high level of taxation which they considered to be necessary to secure financial equilibrium when the rupee stood at its lowest exchange value in 1894-95. Since then, the exchange rate had raised while the taxation remained high and the result was these huge surpluses. He feared that these surpluses would tempt the Government of India to indulge in extravagant expenditure and also tempt the authorities in England to shift a position of their burden on India. He therefore staunchly opposed them.

While the Government tried to pacify the Indian resentment by providing certain tax relief, the era of surpluses having set in, Gokhale ascertained a definite plan for the proper utilization of these surpluses. He contended that the surpluses were so much more revenue taken from the people than was required by the Government. As it was not possible to return a surplus directly to the people, it had to be spent in meeting non-recurring expenditure most urgently needed for their welfare. He therefore advocated the expenditure of the surpluses on various welfare schemes. At the same time, he objected to the Government's policy of spending these surpluses as capital outlay on railway construction and for the reduction of the debt. In lieu of the several epidemics gripping the country every year, he moved a resolution in 1910 recommending that a part of the surpluses be allotted to the Provincial Governments to be provided in turn by them to the
local bodies for sanitary improvement. Ironically enough the resolution was rejected on grounds of inadequacy of funds. In 1912, he objected to meeting the cost of building the new capital at Delhi partly out of the next year’s estimated surplus and instead suggested that it be met out of loan funds. Finally, in 1912 he came up with a bold scheme of providing $\frac{2}{3}$ of the surpluses if any, to the Provincial Governments every year to form the nucleus of a special Provincial reserves, from which these governments could finance programmes of non-recurring expenditure in their provinces on education, sanitation and medical relief, spread over a period of at least five years. The resolution amounted to a definite planning of the available resources for the benefit of the masses. It would not only bind the Imperial government to allot $\frac{2}{3}$ of its surpluses to the provincial governments but also bind the provincial governments to spend these grants on public welfare schemes only. His resolution was however rejected by 13 to 40 votes. However, he succeeded in creating awareness regarding the question of surpluses and their proper utilization.

Solution to the poverty in India

The question of India’s poverty had been highlighted by Naoroji, R.C. Dutt and also by the Congress and the British officials. However, whether the poverty was increasing or decreasing was a matter of controversy. The officials held that the poverty in India was gradually diminishing and they supported their view by citing the increase in the import of precious metals and the increase in the revenue under customs, excise, stamps etc.

In the Council, Gokhale urged the government to frankly recognize the ‘deep and deepening poverty’ in the country and thwarted the government’s contention regarding the advancing material prosperity of the Indians. Instead, with statistical details, he proved the reverse of that. Pointing out to the excess of exports over imports, he inferred that the unnatural political position of India was responsible for this drain of wealth under which two-thirds (i.e. Rs. 20 crores) of the annual drain was due to the ‘Home Charges’ of the Government of India.
As far as the poor class in India were concerned, he stated that it was this class which, considering its meager resources, contributed relatively more to the revenue than the middle and the upper classes. Hence ameliorating the conditions of this class was necessary. In his famous budget speech of 1906, he suggested certain measures for uplift of people. These were - 1) Reduction of State demand on land 2) Reduction of agricultural indebtedness by appointing a special tribunal. 3) Establishment of Agricultural Banks. 4) Need for irrigation and scientific agriculture. 5) Establishment of Technological Institute. 6) Making primary education free and then compulsory. 7) Undertaking more works of sanitary improvement.

He also enumerated the various resources from which money could be tapped for his scheme like profits from coinage, the famine grant, deposits in Saving Banks and savings acquired by suspension of the Army Reorganization scheme.

Gokhale’s suggestions impressed the officials but Sir Denzil Ibbetson and Sir Edward Baker declared inadequacy of funds for the scheme. However, privately he was congratulated both by the Viceroy Minto and Baker who assured him that they would advance, to some extent at any rate, on the lines indicated by him.

Reduction in taxation demanded

It was against the background of successive surpluses coupled with the increasing poverty of the masses that Gokhale urged for the reduction of the taxation to the lowest level possible. He attributed the ‘large, continues and progressive surpluses’ to the excessive high rate of taxation which was much above the actual needs of the situation and criticized such a financial policy as being ‘against all accepted cannons of finance’. He effectively outlined the evils of the Indian taxation policy by comparing it with that of the European countries, which in spite of being prosperous kept their taxes, as light as possible and met their extraordinary charges out of loans.
It was with this view that Gokhale urged upon the revision of the official policy with regards to certain specific taxes. These were:

1) **Salt tax** - The salt duty that had been enhanced in 1886 fell mainly on the poor masses and the Congress had urged for its reduction every year. In 1890, at Calcutta Congress, Gokhale had supported a resolution pleading a reduction in salt duty. In the Council too, it was one of the first relief that he urged upon the government.

   To Gokhale, the salt duty question in India was essentially a poor man’s question and so, the soundest policy in the matter was to raise an expanding revenue on an expanding consumption under a diminishing scale of duties. He also indicated the severity of the tax by pointing out the increase in the consumption of salt after the duty on it was lowered. He also urged for the relief on ground that the tax fell mainly on the poor classes. However, his objection was not only to the high rate of the tax but also to the import of salt into India. With an extensive seaboard and salt mines, India could easily attain self-sufficiency in salt-manufacture. He therefore demanded home production of salt.

   His persistent demands had their effects. While the Government labeled him as a ‘habitual mourner’ always standing at the door of the treasury and crying ‘give give’, the salt tax was gradually reduced from Rs 2-8/ maund in 1903 to Rs. 1 / maund in 1907.

   Thus, the issue of salt duty that the Congress had undertaken was effectively kept to the forefront in the Council by Gokhale and therefore it went ahead to become a major plank of the Civil Disobedience movement in the later part of the national movement.

2) **Land Revenue** - It was against the background of deep agricultural distress and the utter resourcelessness of the cultivators, that Gokhale raised objection over the high rate of land revenue of 15% to 20% over the gross produce. He considered the revenue as partly rent and partly tax and therefore demanded a general reduction of the State demand in the temporarily settled provinces and a grant of Permanent Settlement to those provinces together with a bold scheme for the composition of the raiyat’s liabilities. Though the
Government had made a definite pronouncement against permanent settlement, he urged the government to reverse their position and enact in favour of it. In 1911, he urged for the suspension of half of the famine grant, which would result in reduction of land revenue and thus relieve the agriculture classes.27

3) **Excise Cotton-duties** - It was under the policy of free-trade that the British Government had since 1896, imposed countereveiling excise duty of 3½ % on all cotton goods produced in India so as to promote the interests of the British mills. The Indians largely condemned this policy. In 1902, 1903 and 1904, Gokhale urged for the abolition of this duty in lieu of the dreadful depression in the industry contrasted to the huge surpluses in the Government treasury. From 1905 onwards, the cotton industry however entered a brief phase of prosperity owing to the Swadeshi upsurge. Hence, the question of excise duty was relegated to the background. It was only in 1911 (9th March) that the question was raised again by Mr. Dadabhoy, the member from Central Provinces, who in his resolution urged for its abolition. However, he and the other Indians urged for the adoption of the proposal as a measure of protection. However, Gokhale took a separate stand. His views on the policy of free trade and protection have already been discussed. He doubted the effectiveness of the policy of protection under foreign domination. Moreover, the manufacturing class that is the upper class had profited during the Swadeshi upsurge inspite of this duty. He therefore supported the resolution from the standpoint of the poor class of consumers upon whom the duty actually fell. Reminding the Council of the brief spell of prosperity witnessed by the Indian mill manufactures, he pointed out that conditions of the poor consumers had even then remained unaltered. Thus, the burden of the duty fell in reality on them.28 In order to make up for the loss of revenue of which the Government complained, he proposed that the excise on the coarser goods be abolished and the loss be compensated by a rise on import duty by 5% and also by increasing excise duty on fine Indian fabrics by 5%. There would thus be no loss and probably some gain to the finances of the country.29 With Government majority the resolution was however rejected by 20 to 32 votes.

4) **Import duty on Sugar** - It was again as a measure of protection that Madan Mohan Malaviya moved a resolution in 1911 recommending the Government to raise import duty
on sugar. Gokhale however pointed out that the imposition of 30% to 40% on sugar would take around Rs. 2 crores from the pockets of the poor class earning between Rs. 100 and Rs. 1000 yearly and transfer this sum practically to the pockets of English manufactures of sugar. Once again he advocated the cause of the poor class. Hence, instead of protective tariffs he proposed to save the industry by appointing expert advisors and by providing better irrigational facilities. He therefore proposed an amendment to the resolution asking for an appointment of a Committee of Inquiry to ascertain the ways to save the Indian sugar industry. Although the amendment was accepted by Malaviya and supported by Dadabhai, Mudholkar and Umar Hyat Khan; it was rejected by 13 to 33 votes.

5) Income-tax - In keeping with the Congress traditions, Gokhale too in his very first budget speech urged for raising the taxable minimum of the income-tax from Rs. 500 to Rs. 1000 a year. In 1903, the same was granted which the Indians warmly welcomed. In 1912 however, he opposed Dadabhoy’s resolution that recommended raising the taxable minimum to Rs. 1500 a year. He believed that it was the poor class, which bore the maximum burden of the taxation whereas the middle class, for whom the above remission was sought for, had comparatively no substantial grievances. He however agreed with Dadabhoy regarding the introduction of the principle of abatement to those who were just above the minimum limit and advocated for a better machinery for tax-assessment in general.

From the stand taken above, Gokhale’s concern for the poor is clearly exhibited. It is also obvious that he attached more importance to principle rather than to personnel. He thus opposed even his Indian colleague in order to adhere to his principles.

6) Tariff Amendment Bills of 1910 and 1911 - It was owing to the falling opium revenue and the additional cost of administration of the newly created province of East Bengal, that the Government in 1910 enhanced duties on liquor, tobacco, silver and petroleum, to bring in additional revenue of half a million. The bill met with strong opposition from the Indian quarters.
Objecting to additional taxation in a perfectly normal year, Gokhale attributed the estimated deficit in the revenue not to opium or East Bengal but to increased cost of civil department, increased working expenses under railways and prevalence of high prices in the country. He along with Sir Sassoon David exposed the defects in the financial statement wherein the opium revenue had been greatly underestimated thereby weakening the Government’s defense of the bill.

As a temperance worker, he did not much oppose the increased duty on tobacco and liquor but he strongly objected the enhancement on silver and petroleum. The former because it would adversely affect the Indian yarn trade in China and the latter because it would adversely hit the poorer class in the country. He instead suggested an enhanced import duty on sugar and a small export duty on jute, raw hides and skins to make up the loss.

With the Government majority the bill was passed but due to high prices, the expected revenue from tobacco could not be realized. Therefore, in 1911 the government once again legislated, this time for reduction in the duty on tobacco. This time Mazharul Haque supported Gokhale in opposing the bill. They contended that it was the pressure from the tobacco companies in England, which had compelled the Government of India to take such an action.

7) New taxes for public welfare - The main object of Gokhale’s economic policy was relief to the poor, firstly by reduction of taxes and secondly, by devoting the budget surpluses for welfare schemes. However, with inadequate funds being provided by the government for such schemes and the urgency of such developmental programmes felt by Gokhale, he as a last option advocated additional taxation for such works. In 1911, he himself proposed a small tax to meet the expenditure on primary education in his bill on elementary education.

Thus, Gokhale identified the defects in the Government’s taxation policy and urged for its reversal for the benefit of the Indians.
Public debt and Sinking Fund

It was the policy of the Finance Department to devote all excess funds to reduce the unproductive debt of the country. Thus, a major portion of the revenue surpluses was used as capital outlay on railway construction for that led to a corresponding reduction in the unproductive debt. Similarly, half of the Famine Insurance Fund (i.e. Rs. 75 lacs) and the opium surpluses whenever they occurred were used to reduce the debt. The Government stand was that such a policy strengthened its credit. However, the non-officials opposed it.

Gokhale impressed year after year that India’s unproductive debt when compared to other countries was so small that it was not necessary to reduce it immediately (in 1911 it was 37 millions in India, 700 million in England, 1000m. in France and 110m. in China.). At the same time, India borrowed at the rate of 3-½ %, which was much lesser to other countries like Japan, Russia, and Italy. Hence, its credit was also excellent. Therefore, throughout his tenure, he objected to the application of the surpluses for remunerative public works like railways and urged for their application to public welfare works.

The government opposed Gokhale’s views as attacking the principle of Sinking Fund. Gokhale maintained that with a small debt to repay and with money required more urgently for other developmental projects, it was not necessary for India to have a Sinking Fund at all. However, with the government obstinate in its view, Gokhale altered his stand slightly. In 1911, he accepted the principle of Sinking Fund but of a definite amount only. He attributed roughly Rs. 2 crores (1 ¼ cr. under Railway Capital expenditure and 3/4 cr. under Famine Relief Fund) to form a standing Sinking Fund. This he stated was four times larger to England’s Sinking Fund. However, he expressed that once the requirements of this fund were provided and all ordinary deficits were covered, all money in excess of that had to be devoted to the pressing needs of the people.
Agriculture problems and their solutions

1) Agriculture indebtedness and Co-operative Credit Societies

The fearful indebtedness of the agricultural class was a question that seriously engaged the attention of the Indian thinkers. The Government's policy of imposing limitation on the power of alienation prior to composition of the debts was objected to by the Indians and they advocated other ameliorative measures to improve the conditions of the cultivator like reduction of land revenue, setting up of credit societies etc. Therefore, in 1904 they welcomed the introduction of the Co-operative Credit Societies Bill. While supporting the bill, Gokhale however pointed out to the absence of sound financial resource as the weakest part of the scheme and suggested remedies. He expected the Government to assist these societies financially but if this was not possible, he suggested a network of these societies federated into unions for mutual support and help linked to Central Banks at the district level and to Presidency Banks at the provincial level. An alternative to this scheme was to attach a Saving Bank to each of these societies; the money from the savings being utilized for productive use as was done in Germany and Italy. He also doubted the success of the principle of unlimited liability in India and instead suggested responsibility in equal shares on the common partnership principle. He was thus not just content with the establishment of credit societies but wanted them to work successfully in practice too.

In the ensuing years, he continued to highlight this question and suggest solutions. In 1905, he urged the government to undertake a great scheme of composition of debts similar to Irish Land Purchase Act, to solve the problem of agricultural indebtedness. During the debate on the Sindh Incumbered Estates Amendment Bill (February 1906) he advised the government to raise loans to free the incumbered estates and pay a fair compensation to the lessee. In his budget speech of 1906 he asked the Government to undertake an experiment in selected areas of each province, by appointing a tribunal with around a million sterling at its disposal, to go into all such cases and make advances for the clearance of the debts, to be recovered in easy instalments. He also suggested the establishment of Agricultural Banks like those introduced in Egypt.
2) Famines

Since Gokhale’s tenure in the Council witnessed only one major famine of 1908 and that too affecting only the United Provinces, the main trend of his demands was directed towards urging the government to undertake precautionary measures to avoid any future conditions of famine. In 1908, he therefore urged the Government to order a regular and careful inquiry into the conditions of a few typical villages in order to ascertain whether the resisting power of the people was increasing or diminishing. He also welcomed the abolition of famine cesses in 1905.

The Famine Relief and Insurance Grant that had been set up in 1879 by additional taxation, to meet the famine relief charges consisted of one million sterlings. Under normal conditions when this money was not required for famine relief, half of it was spent on protective works like railways and irrigation and the other half for reduction or avoidance of debt. Gokhale tried to divert the other half of this grant that was spent on reduction of debt, towards measures of agricultural development like agricultural education, organization of rural credit, industrial education of peasants etc. so that the peasants would be trained to resist the famines. In 1910 and again in 1911, he moved resolutions in this regards but both were rejected.

3) Irrigation

The Indians had a grudge against the disproportion between the expenditure on Railways and Irrigation and demanded more expenditure on the latter. Gokhale moved on the same lines. He objected to the construction of protective irrigational works by departmental agency and instead suggested entrusting that work to expert contractors as was done successfully in Egypt by Lord Cromer. Though an expensive method, it would all the same fasten the construction. In 1910, he supported Mr. Dadabhoy’s resolution on this subject. In 1911 he himself moved a resolution recommending the allotment of ½ million of famine grant devoted for reduction of debt, to be transferred to protective irrigation. The Government maintained that large grants were being made for irrigational works, a
major portion of which was being lapsed because of scarcity of labour. As a solution to this, Mr. Mudholkar asked the Government to increase the wages of the labourers in a resolution that he moved in 1912 asking for an increased grant of Rs. 50 lakhs for irrigation. Gokhale supported him. Thus Gokhale and his colleagues tried to initiate a policy of larger grants for irrigation and faster completion of these works to benefit the masses.

4) **Scientific Agriculture**

Gokhale advocated a methodical pursuit of agriculture and hence supported the Government’s attempts to set up the Agricultural College at Pusa in 1904, the grant of Rs. 20 lacs for agricultural research and experiment in 1905 and appointment of European experts for the task. He however urged the training of Indian experts in the matter for attaining self-sufficiency.

**Industrial development**

As a supporter of the policy of industrial progress, Gokhale wanted the Government to take up responsibility in this regard and promote industrial and technical education. He demanded the establishment of a large, fully equipped Technological Institute at some central place with its branches in different provinces. He also pressed the Government for more financial aid for the purpose.

The cotton textile industry that was the second largest industry after agriculture was subject to acts of continued disfavours from the Government. The evils of the countervailing excise duty and Gokhale’s opposition to it is already discussed. In 1909, the Government introduced the Indian Factories Bill to limit the working hours of the textile workers. Although the year 1905 had been a year of prosperity for the cotton manufacturers in India, it had also led to the workers being overworked. The report of the Factory Commission (1908) also confirmed the overworking in some mills and it proposed to adopt a 12-hour working day for young persons between 14 and 17 years of age. However, the Government of India after consultation with the local governments and experts decided to
limit the working hours of both the adults and the children to 12 hours daily and to give
effect to this the above bill was introduced. It was strongly opposed by both the Indian and
the European commercial class. It was believed that the bill was ill timed as the mill
industry was passing through depression and the government was blamed for promoting the
British interests. Though they were not against the humanitarian considerations involved in
the matter, they were against the restriction by direct legislation. When the bill came up for
final discussion in March 1911, several alternative proposals were put up. V.D. Thackersay
moved an amendment to obtain the 12-hour working indirectly and voluntarily but it was
rejected.\(^{55}\) Gokhale supported Mudholkar’s amendment to limit the working to actual hours
of daylight. He pointed out that the workers being ignorant and illiterate would prefer to
decide their working hours on the basis of sunrise and set.\(^{56}\) He also opposed the extension
of working hours of children from 6 to 6 ½ hours. Instead he proposed for free and
compulsory elementary education of children between 9 and 12 years of age working in the
factories to be provided compulsorily by every factory-owner.\(^{57}\) However all these
amendments were rejected and the bill was passed on 21\(^{st}\) March thereby further hampering
the growth of Indian cotton industry. A further step in this direction was the enhancement
of the silver duty by 4 annas in 1910. It was claimed that the increased duty would
seriously injure India’s trade with silver using countries notably Indian’s yarn trade with
China and Gokhale asserted that it would benefit the Chinese producers and add to the
difficulties of the Indian producers.\(^{58}\)

Since the heaviest item among the Indian imports was cotton piece-goods, the
Swadeshi agitation was directed mainly towards producing as much of these goods in the
country as possible. By supporting the claims of the Indian cotton industry in the Council,
Gokhale thus promoted the cause of Swadeshism.

Railways

Gokhale’s main objection was to the policy of excessive expenditure whether
through loans or surpluses on ‘eternal, unending and insatiable railway construction’ in
precedence to other pressing needs of public welfare. In 1897(evidence before Welby
Commission), when the Indian budgets showed no surpluses and the railways were a losing concern, he advocated railway construction out of surpluses and not from loans. But in the Council when the budgets showed surpluses and the railways also began to show profits he reversed his position and pointed out that railways being remunerative as a commercial undertaking they had to be constructed only out of borrowings. Moreover, he felt that Indian’s unproductive debt was so small that government should not attach much importance to its immediate reduction through railway constructions. In 1908 however, the Finance member Sir E. N. Baker decisively closed the matter by declaring that Gokhale and the government were irreconcilably divided over the question and could only agree to differ.

Gokhale also took up the question of increased working expenses under Railways. For fifteen years before 1905, the working expenses had been between 46% and 48% of the gross receipts uniformly. But after the establishment of the Railway Board in 1905, the expenses started increasing steadily reaching a maximum height of 62% in 1908-09 despite that year being a deficit year. In order to raise this issue for debate in the Council Gokhale moved a resolution on 9th March 1910 recommending a reduction in the working expenses by Rs. 1 crore. He suggested a definite proportion of around 50% beyond which the Railway Board should not go in matters of working expenses. He urged the Government to avoid the systematic extension of the budget in this matter going on for the previous four years. Finally, he suggested State management of the State railway instead of by Companies for that would lead to steady employment of Indians in the higher ranks of the service, which in turn would lead to greater economy in the management of the railways.

In response to his demands, the Government next year, did not exceed the working expenses over the budget estimates and decreased the working expenses slightly (54.4%). However, still finding the proportion too high Gokhale once again on 8th March 1911 moved a resolution, this time asking for reduction of Rs. 50 lacs. He strongly objected to Sir T. R. Wynee’s contention to the incapacity and unfitness of Indians for the railway work and demanded proper facilities and better opportunities for the Indians. His resolution was however defeated by 10 against 43 votes.
Though his resolutions were rejected, Gokhale’s demands supported by other non-official members made the Finance department to put pressure on the Railway Board to tighten its control over the Railway Companies mainly in connection with the growth of working expenses. This strained the relations between the Board and the Company. Therefore, in January 1912, the Secretary of State, Lord Crewe sent Lord Inchcape to hold an enquiry on the matter. After holding a conference with the members of the Board, the Government and the Companies, he sent the report directly to the Secretary of State. There was no official statement made of any kind on the matter and the entire information was received only through the Press. It was believed that influential Directors of the Companies had induced the India Office to send Lord Inchcape to favour their case. This alarmed Gokhale and he immediately moved a resolution on 23rd February 1912 asking the Government to lay on table all papers and correspondence related to this inquiry. He considered the direct correspondence between Lord Inchcape and the Secretary of State independently of the Government of India as a mark of insult to the government and asked the government to assert itself. He also contended that Lord Inchcape, being a senior partner of a big commercial house in India having extensive dealings with the Railway Companies, could not hold unbiased views. The Government however evaded the direct issues put by Gokhale and refused to provide the correspondence on the matter. However, Gokhale succeeded in highlighting the drawbacks in the railway administration and influencing the government to introduce economy in its working to some extent at least.

Military Expenditure

Though a protest against the military policy of the Government and the ceaseless and alarming growth of the military burdens was almost like a cry in the wilderness, yet Gokhale made the protest almost every year in the Council because the true well being of the people was involved in the proper solution of this question. Pointing out to the great disproportion between the military expenditure and the revenue he advocated reduction in the former, the savings thus made to be spent on public welfare schemes.
During this period, a profound change took place in the general position of Asian politics. The Japanese Victory over Russia in 1905, the end of European aggression in China, the Anglo-Japanese alliance in 1905 and the Anglo-Russian Convention in 1908 ensured peace in Asia. Under these conditions, the Indian members in the Council demanded not only a decrease in the military expenditure but also reduction in the army's strength. In 1906, Gokhale demanded the reduction of the recruitments made in 1885. The Government defended its policy on the plea of maintaining the balance of power in Asia. Gokhale however considered this to be a matter of Imperial concern and hence to be born out of Imperial funds only.

The Army Reorganization scheme drawn up in 1904-05 involving a total cost of Rs. 15 crores to be born out of current revenues also invited strong protests from the Indian quarters. Under the improved conditions in Northwestern frontier, Gokhale urged for the suspension of the scheme altogether. However if this was not possible he suggested that the cost being heavy and non-recurring should be met out of loan funds as was done even in England. Under persistent Indian pressure, the Government reduced the annual grant for the scheme by ½ million sterling in 1907 and finally abolished it entirely in 1909.

Police

The general policy of the government was to appoint Europeans with high salaries in the superior grade while allotting the lower grades with low pays to the Indians. Gokhale objected to the gradation of the department in this manner. In 1904, the Government made some advance towards a more improved police service and in 1905 provided Rs 50 lacs for improving the lower grades of the service. This was welcomed by the non-officials. However, the annual consecutive surpluses had led to tremendous increase in public expenditure in all the departments. Hence, in 1912 (8th March) Gokhale moved a resolution recommending the allotment to Police (India General) to be reduced by Rs. 1 lacs. He renewed his earlier attack on the Criminal Investigation Department (C.I.D.) and pointed out that the central government was maintaining this department in different provinces, which already had their own provincial C.I.D. He demanded the abolition of this
duplication in order to facilitate savings.\footnote{69} However, the government having promised an inquiry into the whole question of C.I.D, he withdrew his resolution.

**Indianization of services**

Gokhale demanded the wider employment of the Indians in the higher branches of the public services and in minor services on both political and economic grounds. Under mounting public expenditure and the need for economy felt by everyone, Gokhale advocated larger employment of the Indians as a sure solution to the problem. In the Financial Statements of 1910, 1911 and 1912 he moved several resolutions recommending reduction of expenditure in many of the departments like Police, Post and Telegraph, Scientific departments, Salt, Customs and Railways and urged for appointment of Indians on the higher posts in all these departments. He pointed out that even if Indians received the same salary as the European, some amount would certainly be saved in exchange compensation allowance.\footnote{70}

In the public services, he accepted the differential rate (the salary of the Indians was 2/3 rd that of Englishmen) of payments for the Indians and the European members except in regards to some special offices and on grounds of economy urged for larger appointment of Indians.\footnote{71}

**Demand for public welfare works**

Gokhale's main concern was the moral and material progress of the common man and so his major stand in the Council was to demand for developmental schemes and to explore all possibilities of funds required for such works. He opposed the Government's policy of spending the surpluses on remunerative public works and on reduction of unproductive debt when there were more urgent needs of the country. He also demanded retrenchment in the civil, military and all other administrative departments so that money could be set free for welfare schemes. Not setting his goal too high, he concentrated only on
the two basic needs - better facilities of sanitation and public health and of education and urged for larger financial aid on these scores.

Having served as the head of the Poona Municipality for five years, he was well aware of the problems of both the people and the local bodies. He therefore objected to the Government’s policy of throwing the responsibility of sanitation on the local bodies. While such a policy was alright in the wealthy countries of the West, it was wrong in a poor country like India where the local bodies with their meager resources and increasing expenditure were on the verge of bankruptcy. At the same time, the Imperial Exchequer was overflowing with surpluses. He therefore demanded the Government of India to aid the municipalities to carry on works of water supply and drainage (in 1905, he demanded 1 million sterling/year for this) and to undertake the responsibility for larger works completely on its own. Similarly pointing out to the frightening increase in the mortality rate (in 1905 it was 36/1000, in 1908 – 37/1000 and 1910 – 38/1000) in comparison to western countries he also urged for more funds to promote public health.

In response to the continued Indian demand, the government made a beginning in 1908 by granting Rs. 30 lacs for sanitation. Though the amount was small, it was welcomed as a sign of change in the official policy. In 1910, Gokhale moved a resolution recommending that all the surpluses that were annually realized, should instead of going into cash balances, and from there going into the construction of railways and indirectly to the redemption of unproductive debt, be placed at the disposal of Provincial Governments and be earmarked to assist municipalities in the promotion of sanitation. The resolution was rejected by 15 against 39 votes. However, the next year a grant of one million of sterling for sanitation and education was announced. Not content with it, Gokhale that year asked for 3 millions. In the resolution on Opium Fund moved on 7th March 1911, he appealed for the Opium surpluses to be spent on sanitation, medical relief and education. In 1912, he recommended that 2/3rd of the Imperial surpluses be devoted annually to form Special Provincial Reserves so as to finance programmes of sanitation and education in the provinces.
Besides sanitation, Gokhale also suggested various solutions for making more funds available for educational advancement. He suggested not only curtailment of civil and military expenditure and devotion of surpluses for the purpose but also advocated additional taxation to make primary education free in India (discussed in Chapter 5).

Opium Fund

Opium was an important source of revenue for India owing to its great demand in China. However, in view of the increasing addiction to the drug in China, the liberal government when it came to power in England decided to sacrifice this source of revenue in definite stages. Thus, in 1907, Sir Edward Baker enunciated the new opium policy spreading the loss of the revenue over a period of ten years. The government was also confident of standing the loss without recourse to extra taxation.

Though this policy meant a great loss to India’s revenues, Gokhale welcomed the move on the larger issue of humanitarianism. He said – ‘I confess I have always felt a sense of deep humiliation at the thought of this revenue, derived as it is practically from the degradation and moral ruin of the people of China. And I rejoice that there are indications of a time coming when this stain will no longer rest on us’. While many Indians (like Mr. Chitnavis) demanded that the British Exchequer should make up for this loss by making some special grant, Gokhale opposed all such demands. He felt that since India alone had financially gained form this traffic, it should also be prepared to give up this unholy gain without any compensation from anybody. This stand clearly exhibits Gokhale’s idealistic and moral leanings in politics. He was ready to suffer monetary loss and that too exclusively of others, for upholding what was morally right.

In the ensuing years, though the opium revenue began to fall, there was no corresponding growth of revenues under other heads. The government therefore in 1910 in lieu of deficit in revenues, imposed fresh taxation laying the blame for this on diminishing opium revenue. Gokhale however skillfully pointed out to the increased civil expenditure, loss in railway receipts and the high prices as the real reason behind this additional taxation.
He therefore suggested that the government should henceforth take into account only a steadily diminishing figure as Opium revenue for recurring purposes. That is, the ordinary revenue must be taken in a descending series of figures for each succeeding year terminating in zero in seven years and all the excess over that figure must be treated as an extraordinary revenue to be devoted to extraordinary purposes such as non-recurring expenditure on education, sanitation etc. His suggestion was accepted partially when in 1911 the government introduced a sliding scale.

In the meantime, the reduction in the supply of opium increased its price in China leading to huge opium surpluses, though only temporarily. Instead of application of this surplus for reduction of debt, Gokhale wanted to utilize it to avoid the dislocation of India's finances when the opium revenue would get completely extinct. He therefore moved a resolution on 7th March 1911, proposing that the Opium surpluses, over and above the sliding scale, should be set apart to constitute a new fund called the Opium Fund. This would enable the Government to distribute the inconvenience of the loss of opium revenue over a longer period than would otherwise be possible. He thus advocated savings for future convenience. However, if this proposal was not acceptable to the government, he urged for the devotion of these surpluses for works of sanitation and education. Mudholkar, Thackersay and Madge supported him, but the official spokesman Mr. Metson justified the utilization of the surpluses for reduction of debt because it increased their credit. The resolution was therefore rejected by 15 against 39 votes.

Gokhale's main stand on this issue was that the opium revenue being uncertain, it was unreliable. It also had a demoralizing effect on economy as it encouraged the Government to indulge in wasteful expenditure. In 1912, he suggested that after the opium revenue disappeared an inquiry into the actual financial condition of the country be undertaken by a strong Commission to lay down a definite financial policy.
One of the most important debates that Gokhale raised in the Council was on the subject of increase in public expenditure. In a resolution moved on 25th January 1911, he recommended a public enquiry by a mixed body of officials and non-officials into the causes which had led to great increase in public expenditure, both Civil and Military, so that means could be devised for the greater enforcement of economy. Though couched in perfectly innocent words, the resolution opened up a very large avenue of pertinent criticism, if not direct censure, of the methods of administration for which the government had made itself responsible.

It was however not the first time that Gokhale had raised this question. In his very first budget speech (1902), he had warned that successive surpluses were not conducive to economy and offered temptations for indulging in extravagant expenditure. His prophecy came out true and with huge revenue surpluses occurring year after year, the government indulged in uncontrolled growth of expenditure in all its departments (both civil and military) in the name of increased efficiency. Once again in 1906-07, Gokhale complained against these increased expenses. Finally, this bloated expenditure led to a crisis in 1909-10 when the country had to face the heaviest deficit since 1857. Consequently, an additional taxation of 1$rac{1}{4}$ million sterling was imposed in 1910. Gokhale held the excessive civil expenditure as responsible for such state of things. During the discussion of the Financial Statement that year, he therefore moved several resolutions demanding reduction of expenditure in telegraphs (by 20,000 sterling), Stationary and Printing (by Rs. 2 lacs) and on working expenses of State Railways (by Rs. 1 crores.). The Finance Member, Sir G. F. Wilson also accepted the necessity for economy. After his assurances, a departmental enquiry was expected but since it did not come, Gokhale once again raised this question in 1911.

With the help of relevant figures he pointed out that between 1875 and 1901, the growth in expenditure had been more or less equal to growth of revenues i.e. both being 1$rac{1}{2}$ % per year, but from 1901-02 to 1908-09 the increase in expenditure had been 5%
while the growth in revenue had been only 2%. This great disparity between growth of revenue and expenditure required a scrutiny. He was however against departmental enquiry and instead insisted on public enquiry by a mixed body not stationed at any one place but moving around the country to take evidence. He considered this as the only possible safeguard for ensuring an economical administration of India’s finances. In the context of the phenomenal increase in the expenditure, the opium revenue being on the verge of extinction, large measures of financial decentralization to Provincial Governments being under review and funds required for objects of paramount importance like education, sanitation and relief of agricultural indebtedness, he urged for greater economy.

After having thus established the necessity of retrenchment, he advocated solutions. Firstly, a spirit of economy had to be installed by the Government. Secondly, a substantial reduction in military expenditure was essential. Thirdly, he proposed for more extended employment of the indigenous Indian agency in the public services and lastly he urged for an independent Audit for India with the Auditor-General being independent of the Government of India.

Dadabhoy, Malaviya, Basu, Haque, Mudholkar, Subba Rao and Maharaja of Burdwan supported the resolution. Mr. Gates and Mr. Madge however differed in their opinions. Nevertheless, the debate had its expected effect. The Government seemed impressed with the urgent necessity of effecting economy in their expenditure. While Mr. Metson adopted a defensive line by stating that the finances were ready to adapt themselves to the changing conditions, Sir G. F. Wilson admitted that larger employment of Indians in the public services could ensure economy in the administration. He also promised departmental enquiry and improvement in the audit system and urged Gokhale not to press his resolution. In deference to the considerate and hopeful remarks made, and the tacit understanding given by the Finance Minister Gokhale withdrew his resolution. His work was however greatly appreciated. Gujarati called it a moral victory for Gokhale and Kesari while appreciating the resolution regretted that such an able man as Gokhale could not hope to be appointed as the Finance Member of India.
As a step forward towards retrenchment, Gokhale moved several resolutions to the Financial Statement of 1911-12 demanding reduction of expenditure in several departments such as Mint (by Rs. 50,000), Scientific Departments (by Rs. 50,000), Salt (by Rs. 50,000), Customs (by Rs. 50,000), Post and Telegraphs (by Rs. 50,000) and Railway Working expenses (by Rs. 50 lacs). He urged for employment of Indians on all higher posts as a measure of economy. All of these resolutions were either rejected or withdrawn but government expressed sympathy for retrenchment.

In 1912, the estimates of the Military Department were reduced by Rs. 30 lacs, the Government thus making a beginning towards economy. Gokhale once again emphasized the urgency of enquiry into the matter. He pointed out that the personnel of Government changed rapidly in India and so a consistent policy of financial administration could not be pursued. This necessitated enquiry. Since the Government had opposed his demand for public enquiry only a year before, he this time urged for an appointment of a Royal Commission so that the whole financial position of the country could be carefully examined.

Observations on Currency

1) High Prices and the currency system

Gokhale believed that the quantitative theory of money was more firmly applicable to backward countries like India than the advanced countries, which had a highly developed system of credit instruments. Under this theory, the prices depended on three factors - the volume of the currency, the supply and the demand and any two factors being the same, they varied with the third factor either directly or inversely, as the relation was. His views on currency were based on this theory.

The period under review witnessed a steady rise in prices from 1905 and Gokhale brought this to the government's notice at once. Though he agreed with the official view that the rise in the gold prices of commodities all over the world owing to the financial
depression of America in 1907, had led to rise in prices in India too, he also pointed out to certain other causes for this rise mainly the 'phenomenally high coinage of new rupees' by the government. While the annual average of rupees coined between 1900-1904 was Rs. 8.3 crores it had increased to Rs. 20.7 crores between 1905-07. Again, between 1898-1908 the government had made a net addition of 100 crores to the already existing 130 crores of stock of rupees. With the help of these figures, he pointed out that such sudden inflation of country's coinage was bound to result in a general rise in prices. He contradicted the official contention that the great expansion of trade and industry had necessitated this heavy coinage. He analyzed that the rupees circulated by the government for trade purposes in the interior was unable to flow back quickly to the centers of trade or banks and so new rupees had to be coined. At the same time, the melting of rupees into silver having ceased after the currency legislation of 1893, every issue became a net addition to the volume of the currency. If this situation continued, the prices would rise further.

He strongly objected to this hike in prices as it would thereby adversely effect the balance of trade, lead to a drain from India of whatever gold there was in circulation (in 1908 it was 12 million sterling) and increase the cost of production owing to a rise in the cost of living and thus adversely effect the indigenous industries as against the foreign manufacturers. In 1910 he blamed these high prices as responsible for the proposed enhancement of tax on petroleum and silver that year, firstly because the government as the largest purchaser had to pay more for its purchases and secondly because the pressure of high prices on the resources of the people tended to diminish the revenues contributed by them to the government under the several heads. It was against this background that he suggested a close and immediate investigation of the question of high prices by a competent Committee.

Though the Government maintained that prices had risen in other countries also and that the heavy coinage was due to increased trade, yet they appointed Mr. K. L. Datta of the Finance Department to inquire into the matter who reported in 1914 that there was no sign of a redundancy of rupees for any length of time and that the rise in price depended on world's demand for India's staple commodities of export.
2) **Gold Currency**

In order to arrest the fall in value of rupees, the Government on the basis of the recommendations of the Herschell Committee, decided in 1893 to give up the silver standard in favour of a gold standard and as a first step the mints were closed to free coinage of silver. This however made the currency artificial and the rupee could now be coined by the government only. Though the Government of India and the Fowler Committee (1899) had supported gold coining, the British Treasury had opposed it finding it expensive for a poor country like India. The question thus remained latent.

In 1907, while inquiring about the purpose of and the limits to be put on the Gold Reserve Fund, Gokhale had opposed its application to the establishment of gold currency stating that it was like anticipating the introduction of gold currency into India much in advance. However, it was due to his views on high prices and their relation with the heavy coinage that in 1909, he supported gold currency. He pointed out that the only way out of these difficulties was to follow the example of France and U.S.A and while admitting the rupee to unlimited tender stop the coinage of new rupees and coin gold pieces instead.

On 22nd March 1912, he supported Sir V.D.Thackersay's resolution that recommended the throwing open of Indian mints to the free coinage of gold. The resolution did not propose to substitute gold currency for silver but merely to add a branch at the Mint for free coinage of gold. The reserves of silver coins had reached a low level of Rs. 14 crores and hence the time was ripe for gold coinage, for if more silver coins were minted that would again lead to coining excessive token currency and would cause inflation. Pointing out to the advantages of the gold currency, Gokhale stated that during redundancy, the people could melt gold coins into bullion or export gold coins without loss. To avoid high prices the currency had to be placed on an automatic and self-adjusting basis. Thus, he supported coinage of gold pieces, admitting silver however, for temporary period to unlimited legal tender. With the passage of time, gold had to become the principle coin of the country.
The reply of the Finance Member was favourable and he mentioned that only the final reply of the Secretary of State was awaited. Hence, Thackersay withdrew his resolution.

3) **Gold Standard Reserve**

The profits on the coinage of rupees owing to the difference between the bullion value of silver and the token value of the rupees, had been set apart by the government to form a Gold Reserve Fund from 1900 onwards. The average profits from it was around Rs 2½ crores per year and thus within seven years it had reached up to 16 million sterling. However, the government made no definite pronouncement regarding the limit that they proposed to assign to this fund and how the profits were to be utilized when that limit was reached. While Lord Curzon had declared 10 million sterling as the limit to be put on the fund and stated its purpose to be the maintenance of a stable exchange, Mr. Baker (the Finance Member) declared in 1905 that the fund would have to be raised up to 20 to 30 million sterling and that it would be used for coining gold currency. However, if the latter course was adopted no limit could be placed on the accumulation of the Fund. Hence, Gokhale opposed it, supporting the former view of Lord Curzon. It was due to the confusion created by the conflicting views of the officials that he demanded a definite statement on this matter in 1907.

This Fund accumulated at compound interest and Gokhale suggested that while the fund could be left intact, the profits from it (2 million sterling per year) could be used to provide loans to the agriculturists in a comprehensive scheme for relief of agricultural indebtedness. The government instead invested the money in consols.

Another controversy between the officials and the non-officials was regards the location of this fund. The Gold Standard Reserve was held in London, partly in gold and partly in securities and thus supported the London Money Market. The Indians demanded that since the gold belonged to India, it should be held in India to support the Indian trade. In 1912, Thackersay moved a resolution recommending a substantial portion of the Gold
Standard Reserve to be held in gold in India, and was supported by Gokhale. Although the resolution was lost, as many as 24 votes were cast in its favour and 33 against, clearly indicating a strong sentiment in its favour.

**Provincial Questions**

1) **Provincial Finance**

The system of provincial finance was started by Lord Mayo in 1871 and further modified by Lord Curzon in 1904. On the eve of the Decentralization Commission’s report (1908), the government had to reconsider the question and in presenting the budget speech of 1911-12, Sir G.F. Wilson referred to the new provincial settlements with pride. The main character of these new settlements was that the minute control over the Budgets of Provincial Governments was withdrawn, the doctrine of contractual responsibility was enforced rigidly and as far as possible, provincial revenues was to be derived from portions of growing revenues. Moreover, fixed allotments were no more to be made to the provinces. Finally, a further step was to be taken in the direction of the provincialization of certain revenues, forests in all cases and excise in Bombay and East Bengal and Assam.

While the Government declared the new settlements to be of a permanent nature, Gokhale very much doubted it because the position was not conducive to such permanence. The Government of India had at its disposal too large a share of growing revenues with its expenditure being confined only to few services like Army, and after those claims were satisfied, the surpluses were doled out to provincial governments, which in turn got habituated to such doles. This was most demoralizing. In order to give permanence to the provincial contracts, it was necessary to reduce the revenues that were then at the disposal of the Government of India so that it would have no surpluses to dole out to the provinces. Thus, Gokhale proposed that - ‘instead of receiving its whole income from growing revenues, the Government of India should receive large fixed contributions from Provincial Governments, say, up to one third or one fourths of its revenue, the other two thirds or three-fourths being derived from growing resources.’ He felt that in this matter India
should follow the example of Germany. While upholding financial decentralization he proposed that certain principle heads like land revenue, excise, forests etc. could be provincialized immediately and as Government of India’s revenue from its own sources such as Customs grew, more and more of the other heads could be provincialized. That would lead to the ultimate goal of federal finance.  

Though he recognized that provincial finance could not be independent until the provincial councils had the power of taxation, yet he felt that the time was not ripe to confer such powers safely on the Councils. He emphasized the necessity of Councils with elected majority as a pre-requisite. He thus advocated larger Indian partition in the Councils so that the new powers acquired would be utilized for the good of the masses.

2) Resources of Local Bodies

While there was a plethora of money in the Government of India’s Treasury, the local bodies whose work concerned the health and comfort of the public far more intimately than the Supreme Government, were almost on the verge of bankruptcy. Gokhale, who had been the head of Poona Municipality for five years and had acquired intimate knowledge of working of these local bodies, urged the government time and again to assist the local bodies in a liberal spirit.

While the resources of these bodies were limited, many of them (especially in Bombay) were also deeply in debt to the Government of India incurred for plague and famine relief. Thus in 1905 Gokhale asked the Government to remit the plague loans completely and further to make substantial grants to these bodies for works of permanent improvement like drainage and water supply. In 1906, he asked the Government to relieve the local boards in Bombay of all responsibility for famine relief. The Government rejected both of his above pleas.

Though the Government sympathized with the question, it responded slowly to the Indian demands. In 1905, a grant of 56½ lacks a year to District and Local Boards was
made out of the surplus. In 1906, the Government discontinued certain appropriations from the funds of District and Local Boards for provincial purposes. In 1908, Rs 30 lakh was granted to Municipalities for undertaking sanitary works and again in 1911, one million sterling was granted to them for sanitation and education.

In 1907, the Decentralization Commission with Mr. C.E.H. Hobhouse as its Chairman was appointed to inquire into the general question of local self-government. It dealt with the constitution of local bodies and their powers and functions. However, regarding the resources at the disposal of these bodies, it had inquired only slightly. Therefore, Gokhale brought up this very question before the Council for discussion. As the report of the Commission was under the consideration of the Government of India, the time was opportune to raise a debate on the question so that the government would know the views of the non-official members before final orders were issued.

On 13th March, 1912, he moved a resolution recommending that a Committee of officials and non-officials be appointed to inquire into the adequacy or otherwise of the resources at the disposal of the Local Bodies in the different provinces, for the efficient performance of the duties which had been entrusted to them, and to suggest, if necessary, how the financial position of these bodies might be improved.\textsuperscript{113}

With consummately skill, Gokhale enumerated the functions of the local bodies namely care of health, education and communication and contrasted their wide range with the extremely meager character of the resources at their disposal. He pointed out that while the Municipal Corporations (717 in no.) received their revenue through octroi, taxes on houses, lands, professions and trades and carts and vehicles, the Municipal Boards had only limited power of taxation and the rural bodies had no power of taxation at all it being limited to only one anna cess over the land. He also pointed out to the great disproportion in the distribution of revenues to the local bodies in India and England although the people in both the countries contributed the same proportion of their income in the shape of imperial and local taxation.\textsuperscript{114}
He therefore urged the government to help the local bodies by providing them with large recurring grants and by giving them a larger share of the land tax. He demanded a thorough enquiry of the matter by a Commission. While the Indian members supported the resolution emphasizing the lack of resources of the local bodies in their respective provinces, the officials though sympathizing with the issue, opposed the resolution. Mr. Metson felt that grants to these bodies would encourage them to press the Center for more and more money. The Finance Minister (G.F. Wilson) considered the resolution premature but promised that the views expressed would be considered while taking a final decision on the question. On the basis of this promise, Gokhale withdrew his resolution. However, he was successful in bringing up this important issue for discussion and making the government aware of the Indian point of view on it.

3) Advocate of Bombay Presidency

As a member of the Imperial Council, Gokhale mostly voiced the feelings of the whole nation and his demands, criticisms and suggestions acquired an all-India character. However, as a representative of Bombay he is also seen putting forth the grievances and demands of his province too. He also at times advocated the cause of his Presidency in preference to others though of course on just grounds.

Gokhale’s demands to relieve the local bodies of Bombay from plague loans and famine relief responsibilities has already been discussed (point (2) above) The money thus relieved could be utilized on more urgently needed undertakings like better drainage facilities and other sanitary works and on education. In 1904, he pointed out to the agricultural deterioration and economic exhaustion of the peasants in the Deccan and complained that while the Bombay Government had reduced the land assessments in the Gujarat districts, the Deccan districts remained under high taxation. He therefore appealed for reduction of land revenue in Bombay.

Several instances can also be pointed out when Gokhale supported the case of his own Presidency in preference to the others. When Mr. Gates, the Commissioner of Burma,
demanded more economy in Bombay's budget, Gokhale defended his province by replying that Bombay justified its bloated budget by paying out of its own revenues while Burma had been relying on other provinces and the Government of India for funds for nearly forty years. Similarly, on 7th March 1911, while speaking on Mr. Syed Shamsul Huda's resolution recommending more grant for sanitation in Eastern Bengal and Assam, he questioned the principle on which grants were made to different provinces. He pointed that these grants had no relation either to the revenues raised by the different provinces or to the expenditure incurred by them. The fact was that the government that clamoured most got the most. He thus demanded that the grants claimed by the different provinces be based on the amount of revenue raised and expenditure incurred by each province. In 1910, he suggested that instead of enhancing the duty on petroleum, the government should raise the required half a million sterling by a small export duty on jute. He based his demand on two grounds. Firstly, it was partly for meeting the increased cost of administration in Eastern Bengal that the new tax had been proposed. It was therefore only fair that Bengal, which already paid less than the other provinces owing to permanent settlement, should find the money by taxing one of its own great staples. Secondly, it was not just that while the cotton industry of Bombay was already taxed, a further burden should be laid on it again (for Government proposed enhanced duty on silver also which would hamper India's cotton trade with China) and the jute industry of Bengal should go altogether free.

Thus, at various times Gokhale highlighted the grievances of his province and supported the cause of those who had elected him as their representative.

The technical defects in the financial statement exposed

With mastery over Political Economy, Gokhale exposed the several defects in the framing of the financial statements and suggested solutions. The financial stress for twelve years since 1885 owing to the falling rupee and falling opium revenue made the Finance Department to act on the safe and somewhat over-cautious plan of under-estimating the revenue and over-estimating the expenditure. However, even when the difficulties of the period had passed, the tradition once established continued to hold good. Thus, the estimate
of revenue and expenditure presented at the end of the year differed widely from those forecasted in the budget at its beginning, thereby giving huge surpluses. Gokhale raised a strong objection to this policy as being opposed to all the recognized canons of good finance. He was of the opinion that a balance between the ordinary revenue and ordinary expenditure supported with a provision of moderate surplus was enough to assure a strong financial position. Though Sir Edward Law refused to admit this charge, when Sir E.N. Baker became the finance Member in 1905, he admitted the correctness of Gokhale's contention and put an end to the era of underestimating revenue and overestimating expenditure. In 1910, Gokhale once again exposed the underestimation of the opium revenue for the year and was supported by Sir Sassoon David, an authority on opium trade, in this matter.

In 1904, Gokhale exposed the misleading import-export statistics as presented in that year's financial statement. With the help of relevant figures, he pointed out that the real excess of exports over imports was 64 million sterling and not 46 million as stated by the Finance Member (Sir Law), the extra 18 millions being paid by India under the heads of 'imported goods, imported investment securities and payment abroad of budgeted Government sterling charges.'

Regarding the presentation and form of accounts, he made two important suggestions. Firstly, he suggested (in 1906) that the figures under Railways and Irrigation must be given net in order to avoid the erroneous idea of the country's real revenue and expenditure. In 1907, the Finance Member met his demand halfway by bringing over the working expenses on Railways to the revenue side and deducting them from the gross railway receipts. But he did not deduct the interest on railway debt from the figures. Moreover, the figures under Irrigation were left untouched. Gokhale suggested that figures under all commercial and quasi-commercial services must be taken net. In addition, Assignments, Compensations, Refunds and Drawbacks must be deducted from the revenue of the major heads, and advances to cultivators and the cost of manufacture in connection with opium must be deducted from the so-called Opium revenue. On the expenditure side, the Interest on Ordinary Debt must be taken net. He pointed out that such recourse
would reveal that the real revenue and expenditure was much lesser to what was actually represented in the Statement.

His second suggestion was that the income and expenditure of Local Boards, included under the head of Provincial Rates, should be separated from the accounts of Government of India because it gave rise to much confusion over the actual amount spent by government under the various heads. The government having recognized their fault finally separated the accounts of Local Boards from that of Government of India in 1908.

Gokhale believed in scientific presentation of accounts and it was because of this that he suggested the above changes in the financial statements.

**Conclusion**

With the combined inspiration of his seniors and his own understanding of the Indian economic problems, Gokhale emerged as the most effective critic of the official economic policy as well as the most respected of government's non-official economic advisor. He advocated a severe economy and a rigorous retrenchment of expenditure in all branches of administration the object being to keep the level of public taxation as low as possible so as to leave the springs of national industry free play and room for unhampered movement. By repeating the same demands every year, he tried to keep all the major questions to the forefront so as to make the government realize the importance and necessity of those demands. It is creditable that in a Council with a standing official majority, the government adopted some of his suggestions.
Chapter IV

Gokhale in the Imperial Council - Economic Issues

Footnotes

4. Ibid., P. 400.
6. Ibid., P. 230.
7. Ibid., P. 234.
8. Ibid., P. 229.
11. Ibid., P. 131.
16. Ibid., P. 426.
17. Procds., Imperial Council, 1902, Vol. XLI, P. 133.
20. Ibid., P. 308.
21. Ibid., P. 357 and also P. 384.

22. G. K. Gokhale to Natesan, 2nd April 1906, Sr. No. 203 - 63, Gokhale Papers, Reel No. 4.


25. Ibid., P. 483.


28. Ibid., P. 399.

29. Ibid., P. 401.

30. Ibid., P. 423.

31. Ibid., P. 421.

32. Procds., Imperial Council, 1902, Vol. XLI, P. 129.


34. Ibid., P. 97.


36. Ibid., P. 308 – 09.


38. Ibid., P.449.


41. Procds., Imperial Council, 1904, Vol. XLIII, P. 400.

42. Ibid., P. 399.

44. Ibid., P. 248.
45. Ibid., P. 306.
54. Ibid., P. 307.
56. Ibid., P. 614.
57. Ibid., P. 606.
59. Procds., Imperial Council, 1907-08, Vol. XLVI, P.175.
60. Procds., Imperial Council, 1908 – 09, Vol. XLVII, P. 208.
63. Ibid., P. 379.
64. Procds., Imperial Council, 1911 – 12, Vol. L, P. 102 – 03.
66. Ibid., P. 122.
67. Ibid., P. 119 and also on P. 297.
68. Ibid., P. 115.
71. Ibid., P. 183 – 84.
73. Ibid.
74. Ibid., P. 128.
79. Ibid., P. 161.
82. Ibid., P. 300.
88. Ibid., P. 444.
89. Ibid., P. 447.
90. Ibid., P. 452.
92. Ibid., P. 185.
93. Ibid., P. 182 – 184.
94. Gujarati (English columns), 29th January 1911, Report on Native Newspaper (Bombay), No. 4 of 1911, P. 12.
98. Ibid., P. 642.
100. Ibid.
109. Ibid.
110. Ibid., P. 681.
112. Ibid., P. 294.
114. Ibid., P. 488.
115. Ibid., P. 489.


119. Ibid., P. 314.


121. Procds., Imperial Council, 1905 – 06, Vol. XLIV, P. 123.


123. Procds., Imperial Council, 1904, Vol. XLIII, P. 487.


