M.R.O. 1—77,006—8-6-37.

(1) Number of pages 94

(2) Date of repair 10-9-39

(3) Initials of the Referencer

MADRAS RECORD OFFICE.

Government of Madras.

Finance DEPARTMENT.

G.O. No. 146 Press ~~Mis.~~

56-60

Dated 22-3-1869.

54-60

48/45

Not to be folded or roughly handled

Read the following papers :—

No. 56. MINUTE by the Honorable Sir R. TEMPLE, dated 7th November 1868.

Decentralization or Localization of Finance of British India.

For some time past, I have had my thoughts directed to the questions connected with what is known as the "decentralization" or "localization" of finance. After what has been, within the last year or so, recorded by His Excellency the Governor General on this subject, I should hesitate in approaching it at all. But as the Secretary of State has adverted to it in Parliament, and is apparently desirous that consideration should continue to be given to it, I have consulted the Governor General, and His Excellency considers it proper that I should state what I have to say on the subject, which accordingly I proceed to do. The subject seems to divide itself into two parts—

1*st.*—Imperial Budget.

2*nd.*—Local Taxation and Resources.

PART I.—IMPERIAL BUDGET.

2. I assume it to be agreed that the finances of India must be throughout, in particulars as well as in generals, under the complete and indisputable *command* of the Government of India, subject, of course, to the orders of the Secretary of State. Whatever limited control may be conceded to any local Government must, as I understand, be perfectly subject to such command. I suppose it is admitted that this absolute central command is essential not only for the political safety of the empire in India, liable at any moment to wars and divers other troubles, but also for its financial credit; its public debt of various kinds having been raised on the security of the revenues, not of this or that Presidency or Province, but of British India generally.

3. Besides these general considerations, there would be special difficulties in any complete localization of the finance of Presidencies or Provinces in India. For from the commencement of our power in this country up to the present moment, the interests and affairs of these presidencies and provinces have been interwoven and interlaced, one often over-lapping the other, and *vice versa* in a manner from which extrication or disentanglement is now impossible, without making changes which would entail inconveniences greater than any entailed by the existing system. Without demonstrating that which hardly needs demonstration, I shall merely illustrate briefly what I mean. The army of the Bengal Presidency is quartered, not in the rich districts of the Lower Ganges, but mainly in the poorer districts of the Punjab. Thus placed, that army virtually defends the whole Presidency. The Madras army is not kept within that presidency, but holds, besides the Madras country, the Deccan, the Central Provinces, and British Burmah. Similarly the Bombay army holds, besides it own presidency, the State of Rajpootana and of Malwa. The Lower Provinces, or Bengal Proper, are in themselves rich; but besides their own revenues, they receive large customs receipts, which belong partly to them, but largely also to other divisions of the Bengal Presidency. Even "Bengal Opium" does not entirely belong to Bengal, a large portion being raised in the North-West Provinces. In Bombay, the opium revenue does not, strictly speaking, belong to that presidency at all; being raised beyond its limits, in territories which, if included in any presidency at all, would

pertain to that of Bengal. Some of the salt duties, both of Madras and of Bombay, are raised on salt destined for consumption in Central India, and in strictness should be credited to the Government of India. Instances might be multiplied. But it becomes instantly evident that if an adjustment of matters, with a view to complete localization of finance, were to be attempted, many difficulties, perhaps even disputes, would arise. If the various local Governments were allowed to become parties to such discussions with the Government of India, then a solution satisfactory to both sides would probably be unattainable.

4. If directed to take up these questions, I would, of course, do my best for their settlement. But I do not myself advise their being taken up, and I will assume, *pro hâc vice*, that they are to be avoided. What I have to submit now is indeed framed with a view to their avoidance.

5. Before stating my own view, I will touch briefly on one or two plans which have in some shape or other been suggested.

6. It has been thought that certain items of charges for certain branches of administration might be set off against certain items of revenue, or that certain heads of receipt, or parts and proportions of such heads, might be made over absolutely to a local Government on the condition that these must cover the cost of certain departments. For instance, the stamp revenue might be made over on the condition that it covered the cost of law and justice; the income tax for the public works; a portion of the customs or of the land revenue for education or for police, and so on.

7. I am myself unable to recommend any plan of this kind. I think that it wants the degree of simplicity essential to schemes of this nature; that there is something arbitrary in it; that not being based on a clear principle, it could have no finality; that matters having got so far could never stop there. It cannot be said that particular departments are more local than others; jails and police more than education; fiscal administration more than public works, and so on. Either they are all equally imperial, or they are all equally local. The same remark applies to branches of revenue. It cannot be said that land revenue is more local or more imperial than customs or stamps, and so on. In short, there is no real ground of distinction. If the proposed treatment be applicable to a part, it would be also applicable to the whole. If it were not applicable to the whole, neither would it be applicable to a part.

8. Further, I cannot recommend the absolute surrender of any part of the general revenues. I regard them as all imperial alike. If any part were surrendered, and the principle once impugned, it would be impossible to stop at a part; other parts would be claimed and might be surrendered, until the *command* of the Supreme Government would become so breached as to be materially weakened; a result which *might* be vitally dangerous to the Indian Empire. To this I would make only one exception, namely, that I would give up one-fourth of whatever income tax might be raised to the Local Government for public improvement, according to the principle established by Mr. James Wilson in 1860.

9. But while contending that the civil and general administration, excluding only the army and navy, must be treated all in the same way—so far at least as this scheme goes—I think that the military and marine expenditure for

each presidency is essentially different from all other kinds of expenditure and should be treated as being *sui generis*, and maintained entirely under the control or Supreme Government.

10. I bear in mind that there is a certain quantity of local fund income and expenditure all over India, to which the above remarks about the civil and general revenue and expenditure do not apply. This category would accordingly form an exception to these remarks. The expenditure of the local funds I would leave, as at present, absolutely at the disposal of the local Government. I will advert to this further hereafter.

11. I have still one more general point to clear off, which is this: whatever be the control allowed over the civil and general administration to the local Governments, the authority for the creation of any new Office or Department, and the regulation of salaries and of pay, even the lowest, must remain with the Government of India. As is well-known, the control of the higher salaries does not rest with the Government of India, but pertains finally to the Secretary of State. The lower salaries must still be finally referrable to the Central Government in India. And the same remark applies to rates of allowances, travelling allowances, and the like. If such strictness should seem at first sight to be unnecessary or unreasonable, there will be found weighty reasons for it on examination. Connected by the interchange of information, as the several provinces of India necessarily are, whatever affects the interests of the public servants and establishments in one province becomes known in all the others. If anything be conceded in one place, applications for similar concessions are sure to be made from other places in a manner which cannot practically be resisted. If one local Government were to grant this and that to its servants, the neighbouring local Governments would before long have to follow suit. Thus, it must happen that, unless there were a central check over all the local Governments, any one local Government that might be more than ordinarily progressive, and expensive, would give the lead to its neighbours, and they would have to adopt its pace. As it were, the speed for India generally would have to be measured by the speed of the fastest portion of it. However good this might be in some Departments, the results might be fatal in the Financial Department as respects expenditure. Not indeed that uniformity is absolutely essential, though it should be adhered to as much as possible. There may be, indeed must be, differences in different parts of India. Still the check of the Central Government is indispensable to prevent these differences becoming excessive and embarrassing. Not indeed that an establishment or a department must have exactly the same organization (such as Police or Education) all over India, there will be differences in system and in duties. But here again uniformity should be aimed at as far as practicable, so as to admit of the Central Government making some comparison between the rates of remuneration prevailing in the several divisions of the empire.

12. Before entering upon details, I would just observe that our existing system of finance in India is, as a system, first-rate theoretically: whether it is suited to all the circumstances of India may be a question, and I, for one, think that, in some respects, its adaptability might be improved. But as to its general excellence, I see no doubt. Before 1860 we had no financial system, though practical finance was much attended to. We had an elaborate system of accounts, very carefully worked.

In 1860 we had the English budget system introduced by a first-rate financier sent out from England. That system was further developed by his successors, also possessed of the best kind of English experience. An Indian budget sheet of these days, illustrated by the volume of statements connected with it in reference to the varied counties, the multiform departments with which it deals; to the mass of details which it brings into a focus; to the numerous heads and items of which it takes a comprehensive survey; is a document of which the country need not be ashamed, and which would bear comparison with any similar document in any country. Further, our entire system of accounts from end to end has been examined by special Commissioners from England, and their recommendations have, for some time past, been adopted. There will, of course, be difference of opinion as to the merits or demerits of what has been done; but that it has been done on the best available authority is beyond question.

13. Still I am inclined to admit that the system might, in some degree, be improved so as to give the local Governments a more direct interest in their finances than at present; to ensure their being better informed as to the reasons for what is allowed or disallowed, for what is refused or granted; to produce a visible connexion between increase of revenue and increase of resources for administrative improvement. From this point of view, attention is primarily turned to the presidencies of Madras and Bombay. And I will accordingly offer a brief general analysis of their finances.

14. The following figures are taken from the budget of the current year:—

	Gross Receipts.	Gross Expenditure.	Army and Marine and charges	Gross Receipts, less Army and Marine.	Gross Expenditure, less Army and Marine.	Contribution towards imperial charges, including payment of Local Army and Marine.	Contribution towards imperial charges, excluding payment of Local Army.
	£	£	£	£	£	£	£
Madras....	7,800,000	6,840,000	3,145,003	7,657,000	3,695,000	3,962,000	960,000
Bombay...	9,140,000	8,190,000	3,180,000	8,874,000	5,010,000	3,864,000	950,000
Total contributed by the Government of Madras and Bombay towards civil expenditure of the Government of India.....							£1,910,000

15. It will hence be seen that both these presidencies pay their way, including all their administration and all their army and marine, and yield each a small surplus towards the purely imperial requirements of the Government of India. In round numbers, Madras has a revenue of $7\frac{3}{4}$ millions, out of which she has $3\frac{3}{4}$ millions for her civil administration, inculding public works; she has to pay 3 millions for her Army; in all $6\frac{3}{4}$ millions; this leaves just a million surplus, which represents her contribution to the imperial requirements of the Government of India. Similarly, Bombay has a revenue of 9 millions, out of which she has 5 millions for her civil administration, including public works; she has to pay 3 millions or nearly 3^{3} millions for her army and marine; in all $8\frac{1}{8}$ millions, which leaves also nearly a million representing her contribution to the imperial requirements of the Government of India. The two Presidencies contribute each nearly 4 millions for imperial charges, including army and marine; in all nearly 8 millions. Of this sum, 6 millions pertain to the army and marine, and the remainder, nearly two millions, to other imperial charges under the Central Government. In one respect, the comparison is rather favorable to Madras in reference to Bombay. Out of a revenue of less than 8 millions, Madras contributes nearly 4 millions to imperial charges, including army. Out of a revenue of more than 9 millions Bombay contributes also 4 millions.

16. It will be well to note what proportion of the total imperial charge of British India is represented by the 8 millions of contribution from Madras and Bombay together. The total army charge of the Indian Budget of 1868-69, for army and marine, was as follows:—

	Army.....	£12,904,720
	Less receipts.....	692,400
		£12,212,320
* Marine..... £558,800		
Less receipts..... ,, 294,500		
£264,300	Add Marine... ..	264,300*
		£12,476,620

say in round numbers $12\frac{1}{2}$ millions.

The rest of the imperial charges, including the net expenditure in England; the interest on the public debt; the guarateed railway interest; the charges of the Government of India itself; the cost of certain departments under the direct control of the Central Government; and other charges; may be set down thus for 1868-69:—

	£
General and Political	12,706,040
Net expenditure in India	6,392,400
Guaranteed interest	1,202,900
	20,301,340
Less Military charges in Bengal, gross	6,844,943
Receipts, General and Political, except Military ...	1,828,370
	8,673,313
	11,628,027

or in round numbers say $11\frac{3}{4}$ millions.

The $12\frac{1}{2}$ millions above shown for Army and Marine, *plus* the $11\frac{3}{4}$ millions, make $24\frac{1}{4}$ millions.

The 8 millions as above explained, the aggregate contribution of Madras and Bombay, make just one-third of the total imperial charges for India. The remainder 16 millions (24—8) has to be made up by the Bengal Presidency, or by other ways.

16*a*. Now it can be seen that the aggregate of the revenues of the two Presidencies of Madras and Bombay is just one-third of the revenues of the Empire. For the total for 1868-69 stood at $48\frac{1}{2}$ millions, or just under 49 millions, of which 17 millions (8+9) pertained to Madras and Bombay, or just over one-third. From this point of view, the proportion borne by the two Presidencies, if taken together, appears to be nearly quite correct, neither more nor less. But on these data, the relative burden on Madras would seem to be slightly

more, and that of Bombay slightly less, than it ought to be; the total of the two, however, coming out nearly right.

17. On the two categories of imperial charge, namely, first, army and marine, second, other charges, the two presidencies together pay about half of the first, namely, 6 millions out of 12½ millions; but only about one-sixth of the second, that is nearly 2 millions out of 11¾ millions. In other words, the two presidencies contribute largely to the army and marine, and but little to the other imperial charges. But on the total of the two categories, as already seen, they pay just about right. On the whole, the circumstance that Madras and Bombay together, having one-third of the total revenues of British India, should be contributing just one-third to the total imperial charges of the Indian Empire, is in itself satisfactory, and goes to show that, in the course of events, the financial affairs do sometimes adjust themselves very suitably to the component parts of the Empire.

18. Although I am now referring primarily to Madras and Bombay, I will yet illustrate the matter by applying the same test to the component parts of the Bengal Presidency. The facts will be taken from the budget volume for 1868-69. Bengal Proper has a revenue of close upon 16 millions; of this she has to pay 6⅓ millions for civil administration, including public works; the rest 9⅔ millions being available for imperial and army charges. Similarly the North-Western Provinces have a total revenue of 6 millions and upwards; of this, they pay just under 3 millions for their own administration, leaving the rest just 3 millions available for the Empire. The Punjab has a revenue of 3½ millions, of which it pays 2¼ millions for its own administration, leaving 1¼ millions for the Empire. Oude has a revenue of £1,489,590, out of which she pays £815,770 for her own administration, leaving £673,820 for the Empire. British Burmah has a revenue of £1,169,480, of which it spends £826,414 on its own administration, leaving £3,43,066 for the Empire. The Central Provinces have a revenue of £1,148,500, of which they pay 1,118,354 for their own administration, leaving £30,146 for the Empire.

19. The several contributions for Imperial and Army charges, then, of the provinces composing the Bengal Presidency, may be thus epitomized:—

	Millions.
Bengal	9⅔
North-Western Provinces	3
Punjab	1¼
Oude	⅔
British Burmah	⅓
Total ...	15

Thus is made up 15 millions out of the 16 millions shown in a previous paragraph as the amount which has to be contributed by the Bengal Presidency, and in other ways, to the Imperial and Army charges of British India. The remainder, one million, was really deficit on the Budget of 1868-69, and is made up by the resources of the cash balances, reinforced by the unexpended residue of former loans.*

* In round numbers, the budget receipt side showed 48½ millions, the expenditure side, including public works ordinary, 46½ millions with a surplus of 2 millions. But then there was an extraordinary Department Public Works expenditure of 3 millions, which turned the surplus of 2 millions into a deficit of 1 million.

20. The peculiar distribution of the Bengal Army, of which so large a portion is cantoned in the Punjab, for political reasons too obvious to require mention, renders impossible a satisfactory comparison between most of these provinces separately, and the Madras and Bombay Presidencies. In the Punjab and near the frontier, besides the Military expenditure, there occur a variety of political and semi-military charges which swell the cost of the provincial administration. At first sight the comparison would seem very favorable to Bengal Proper, which contributes some two-thirds of its revenues for imperial charges, and defrays also about two-thirds of the total charge for the whole Bengal Presidency. But from this there should (if anything like a comparison be instituted) be made some considerable abatements. For to Bengal are credited some 4¼ millions of opium revenue (net, after deducting charges) and about a million of customs. These, as already mentioned, do not belong to Bengal alone, but should, for purpose of comparison, be distributed rateably over the several parts of the presidency. If this were done, then the case as respects Bengal would be somewhat altered. But even then it would have to be acknowledged that Bengal is a truly "paying" province, and contributes very handsomely to be charges of the Empire. But if Bengal and the Punjab be excluded from the comparison, let two provinces be considered where there are less disturbing elements, namely, the North-West Provinces and Oudh. These provinces are rich; they have a large civil administration; they have many cantonments to keep up. They spend about half their income on their own administration and contribute the remaining half to the Empire. So far they fairly bear comparison with the Madras and Bombay Presidencies.

21. As already seen, the Bengal Presidency, as a whole, contributes about its right share to the imperial charges of British India.

22. The above calculations include public works, ordinary and extraordinary; in short every thing save the purely imperial charges. It will be interesting to pursue the subject a little further, and to see what proportion the charges of the purely civil administration, excluding public works, bear to the revenue in the several presidencies. Madras has, in round numbers, an income of £7,800,000, and a cost for civil administration of £2,852,000. Bombay has an income of £9,140,000, and a cost for civil administration of £3,436,000. In both cases the proportion between the income and the civil expenditure is almost exactly the same. By the rule of three sum Madras, according the Bombay scale, ought to have £2,920,000, or a few thousand pounds more than she now gets. But the difference is so slight as to be immaterial. On the whole, it may be said that the two presidencies are administered on just the same scale of cheapness, or dearness, whichever it may be called. In both cases, the civil administration costs a little upwards of one-third of the income, or in Madras 36 per cent.; in Bombay 37 per cent. Now how does this test work if applied to the Bengal Presidency as a whole? The aggregate revenue of the seven divisions composing that great Presidency (Bengal, North-West Provinces, Punjab, Oudh, Central Provinces, and British Burmah) amounts to £29,393,760.* The total cost of their civil administration (exclusive as above of public works) amounts to £9,785,860.

*This sum is exclusive of the receipts of the Government of India, £2,249,450.

Thus the proportion of the civil administration to the income is less than one-third, or 33 per cent. So far the Bengal Presidency, as a whole, is administered a little, but not much, more cheaply than the Presidencies of Madras and Bombay. Again, within the Bengal Presidency itself, the detail may be taken of the older provinces, namely, Bengal and the North-West Provinces on the one hand, and of the newer provinces, namely, the Punjab, Oudh, the Central Provinces, and British Burmah on the other hand. Now the total revenues of the older provinces above named amount to £22,054,390, the total civil expenditure to £7,063,660, or just under one-third, or 32 per cent. The total revenues of the newer provinces abovementioned amount to £7,339,370, the civil expenditure to £2,722,200 or over one-third, or 37 per cent. Thus, as might be expected, there is greater cheapness of administration in the older provinces, and greater dearness in the newer. Of course, in the newer provinces, there is necessarily at the outset additional cost to give the administration a proper start, and to bring it up to a standard something like that of the older ones. But on the whole Presidency, the proportion comes out just about right as compared with the other two Presidencies.

23. Again it may be instructive to consider the proportions which the public works assignment bear to the income in the several presidencies. The figures are as follow :—

	Madras Presidency.	Bombay Presidency.	Total of two Presidencies.	Bengal Presidency.
	£	£	£	£
Revenue	7,802,130	9,141,560	16,943,690	29,393,760
Public Works expenditure, viz—				
Ordinary.....	627,430	604,670	1,232,100	2,406,220
Extraordinary.....	215,555	968,375	1,183,930	1,651,833
Total...	842,985	1,573,045	2,416,030	4,058,053
Percentage of Public Works Expenditure on Revenue, viz. :—				
Ordinary	8·	6·6	7·2	8·2
Extraordinary	2·7	10·5	7·	5·6
Total...	10·7	17·1	14·2	13·8

Here again a great similarity of treatment is apparent. The proportion to revenue of public works ordinary expenditure in the two Presidencies is 7 per cent.; in Bengal Presidency 8 per cent.; of the total public works expenditure, including extraordinary, in the two Presidencies, it is 14 per cent.; in the Bengal Presidency 13 per cent.

24. Now, for purpose of comparison, the above figures have been taken, as closely as practicable, from the budget volume of the current year 1868-69. They have been taken absolutely as they were found, without any manipulation or re-arrangement whatever, and without any adjustment in reference to any theory whatever. Many arguments in detail might be adduced both ways, increases here and deductions there might be claimed: I refrain from entering into these, believing that to do so, would be to launch the question upon a sea of doubt. To do

this would be to raise insoluble doubts and undeterminable questions; to cause unsatisfactory enquiries, and indefinite delays. And whether any real result could come out at length would be quite uncertain. I only say that the general result, subject to unavoidable defects, is truly given above; and that despite drawbacks and imperfections, the general distribution of charges has by degrees righted itself in a manner approaching a sort of equitableness to the several parts of British India. Indeed, the symmetry which our finance has, by imperceptible degrees, attained, is perhaps remarkable.

25. In the first place, then, if anything were attempted with a view to giving the presidencies of Madras and Bombay a more direct interest than at present in their finances, I would refer to the existing state of things, and assume that as a starting point or basis.

26. I would accordingly inform the Governments of Madras and Bombay of the amount to be taken from them for imperial charges, including army and marine. Without undertaking minutely to defend any disputable point and maintaining the right of the Central Government to fix this amount according to its judgment, I would give the local Governments such information as would enable them clearly to see how the amount had been rightly or wrongly arrived at, so that they might know generally how the calculation was managed, and what they might, or might not, expect in future. We could not bind ourselves at all that the amount taken one year would not be increased the next year, and so on. For many things might happen, increase of pay to the troops, of pensions payable in England, and the like, to say nothing of campaigns or such like operations, to cause such amount to be enhanced. But I would always explain to the two local Governments the reasons of the enhancement, provided that such reasons were not to be open to question.

27. Having deducted this amount, I would inform the two local Governments that the residue of their revenues would be available for their civil and general administration, including public works. And I would ask them to furnish a budget, according to existing forms, for the said administration, the aggregate being regulated by the residue of revenue available as above. This budget would, of course, be subject to our criticism, but such criticism would be general rather than detailed. But so far as it went, it would be real and effective. If, for instance, we observed that expensive civil or police establishments were kept up, while public works expenditure was falling, we could remonstrate. If we thought that some civil departments were starved in order to feed public works or *vice versa*, we could object. So long as the totals were deemed to be right, and so long as the prescribed rates of salary and of pay and allowances were not interfered with, I would not criticize (or if at all but slightly) the strength of establishments, or the management of departments. For instance, with the above provisos, if the local Government tried to save somewhat in police or other establishments in order to find more money for public works, I would not interfere. Again, I would not allow the salaries of head masters to be altered without the sanction of the Central Government; but the numbers of schools might be increasd without question, provided that the local Government could provide the educational grant. Similarly I would not allow the rates of pay in the police force, or

in the establishments of peons, to be raised without our sanction. But whether the force or the establishments should be numerically raised by some hundreds of men, might be left for the decision of the local Government without question.

28. Then I would leave them to work their budget, thus generally sanctioned, subject only to the condition that no new office should be created, and no rate of pay increased, without specific sanction from the Central Government.

29. The point would arise as to whether the budget heads of service having been once fixed by the local Government and approved by the Central Government, any re-distribution could be made by the local Government within the year. To *some* extent I would allow this to be done without question. But *beyond* that I would require the alteration to be submitted for our sanction, otherwise a large change within the year might compromise the budget of the ensuing year. I would allow re-distribution up to 5 per cent., on the *total* of the head of service, police, education, public works, and the like, without question. But beyond that, our sanction must be obtained. For instance, 5 per cent. might be taken from police, and applied to education without our sanction. But if it be desired to transfer more than that, say 10 per cent., then our sanction must be asked. Any large re-distribution within the year could hardly ever be required, save under very exceptional circumstances.

30. But it would have to be understood that savings could never be carried on from one year to another. All amounts under whatsoever heading remaining unexpended at the close of the year would necessarily lapse to the general finance. Otherwise there would arise some disturbance in our budget sytem.

31. Thus, in effect, I would say to Madras, your revenues are 8 millions, out of that we take 4 millions for imperial expenses (3 millions for the army, and 1 million for other charges); that leaves 4 millions for your own administration, including all public works; make your own budget accordingly; take your obligatory heads of civil services first; keep the rest for improvements, moral or material; let us see exactly your distribution on main heads of service; fix your establishments as you see fit; but do not create any new office, nor alter rates of salaries, pay, and allowances, without our sanction; *this* year out of your 8 millions, you have 4 millions to spend on your Presidency; if happily next year your revenues rise to 9 millions, why you will have 5 millions to spend on yourselves, unless indeed we have to raise our Imperial demand; we cannot promise not to do so; but we will avoid that if practicable, and we will strive to let you have as much benefit as possible of the increase you may effect in your resources; you can raise your income by improved administration of your existing taxes, in the fair hope that you will gain thereby an increase of the amount available for the expenditure of your Presidency; but you cannot, of course, impose *new* taxes without the consent of the Central Government and Legislature of British India. Then *mutatis mutandis* I would say the same to Bombay. Out of its 9 millions of revenue, some 4 millions would be taken for imperial expenditure, including army and marine, and some 5 millions would be allowed for the general and civil administration of the Presidency, including public works. If the revenue should rise to 10 millions, the Presidency would share in the benefit thereof, according to the conditions explained above.

32. In the current year the internal distribution of charges within the two Presidencies is as follows:—

	Aggregate of Civil charges.	Public Works, Ordinary.	Public Works, Extraordinary.	Total.
	£.	£.	£.	£.
Madras ...	2,852,640	627,430	215,555	3,695,625
Bombay ...	3,436,150	604,670	968,375	5,009,195

Such is the existing arrangement. According to my plan, the *internal* distribution within each Presidency would be left to the Local Government. In this existing arrangement, it might at first sight appear that Bombay receives a relatively larger share than Madras in the aggregate. But then, as has been already seen, Madras receives just about an equal proportion relatively to Bombay for its purely civil administration, or only a fraction less; while for public works ordinary it receives a slightly larger proportion relatively to Bombay. For the civil administration and public works ordinary, together, the two Presidencies are treated almost exactly in the same manner. The only difference is in public works extraordinary, for which indeed Bombay does receive a great deal more than Madras. This is unavoidable, as it will be admitted that there are circumstances in Bombay, such as the fortification of its port, the largest commercial outlet in British India, and the like, which justify some exceptional treatment in this particular respect. And a part of the extraordinary expenditure is really an advance from imperial funds to the special land fund of Bombay, which advance is to be ultimately recovered, and when recovered will figure in the receipts of some future year.

33. I would not, of course, allow any public loans on the security of the general revenues to be raised by the local Governments. That business I would maintain on the same footing as at present.

34. The general system whereby the local Governments have to submit projects in the Department Public Works for the sanction of the Central Government should, I think, be maintained in its main features. At present they can sanction works on their own authority up to two lakhs. For amounts in excess of this, they have to submit plans and estimates for the sanction of the Government of India. I would so far modify this rule in their favour as to propose that the limit up to which they could sanction might be raised somewhat, say, up to 3 or 4 lakhs. But beyond that last named limit, whatever the exact amount might be, I would maintain the rule of their sending up the plans and estimates for sanction of the Central Government. I regard this as essential to the general financial interest, as well as for departmental and professional reasons. All existing rules regarding standard plans for barracks and the like, regarding the circumstances under which quarters may be provided by the State for officers of all kinds, and so on, would continue to be sanctioned by the Central Government. Moreover, the Local Governments would be obliged to make all such provision as might be directed by the Central Government for Military buildings ordinary or extraordinary.

35. I would maintain our systems of audit and account; our Accountants, and Deputy Accountants, General, all just as they are.

36. As already indicated, all the existing conditions whereby *new* taxation cannot be imposed without the sanction of the Central Government would be preserved.

37. The main points only have been laid down above, from the determination of which subordinate details of all sorts would be governed.

38. Such is the sketch, or outline, of what I can recommend as regard Madras and Bombay. I would apply it to them only, in the first instance, as they are what is called "full Governments." If Bengal were to be erected into such a Government, then my recommendation would apply equally to it. But I would not try it with the lesser Governments, until it had been first tried with the larger Governments above mentioned.

39. As regards the Financial Department of the Government of India, these recommendations would not, I am quite sure, weaken or impair its control in any material or essential degree whatever. This is said, of course, on the supposition that the checks and safeguards still retained are really preserved. If any of these were to be practically abandoned, or loosened, then no one could be answerable for the success of the plan. So far then these proposals are safe enough.

40. The main feature of change as regards the Financial Department would be this: At present increases and alterations of establishments have mostly, if not wholly, to be submitted by the local Governments for sanction. Hereon is apt to follow detailed criticism, salutary perhaps, but troublesome to the local Governments, and not very effective or satisfactory in the end. I doubt whether much financial advantage comes of it. But so long as budget limits were not exceeded, and sanctioned rates of pay were not exceeded, the local Governments would settle all establishment questions for themselves; and would be relieved of the necessity of making the references above alluded to. As regards rates of pay and salary, the same references would have to be made as at present. Hereon the Financial Department has often to make criticism as is well-known. Our criticism is not indeed always effective, and sometime fails altogether; still we can to some extent judge, and at all events we must try to do so. Not indeed that the rates of pay and salary need always be uniform for different provinces. Variations are, and always must be, allowed. But we must have a sort of general check, otherwise undue discrepancies would arise, rendering the resistance to growth of expenditure more and more difficult, till at last either the said expenditure would outrun the income, or else important interests would be compromised.

41. But if the plan be quite safe and unobjectionable as regards the Government of India, *how* would it affect the two Presidencies of Madras and Bombay? I do not know whether it would give them all the financial independence they would desire, or whether it would be *entirely* acceptable to them. But I imagine that they would regard it as some slight, if not much, improvement on the present state of things, and that they would like it, as far as it goes. I suppose that they would be glad of the relief from the references about establishments. Their management of their own budgets, though like in kind to what now exists, would be considerably increased in degree and in effect. At present their allotment for public works is both proposed and fixed for them by the Central Government. But by this plan they would propose it for themselves according to their available means;

and the Central Government would only give a general approval. They would probably appreciate the connexion which would be established between the growth of the revenues of the Presidency and the increase of the expenditure on its administration. At present they ask, when framing their budget requisitions, for as much as they want; and we grant as much as we see fit; in both cases presumably without any direct reference to the income of the Presidency, for which reference, indeed, there is hardly scope under the existing method.

42. But after having so far admitted as above, that our control over details of "establishment" (as contra-distinguished from salaries and pay and allowances) may, as regards Madras and Bombay, be somewhat relaxed, I must yet, in justice to the Financial Department of the Government of India, point out that, in respect o *retrenchment*, its effect and operation have been marked, and presumably beneficial to economy. For I have examined a statement (which was sent to the last year to the Secretary of State among other papers) of the retrenchments carried out successfully in the several Presidencies and provinces of India between September 1864 and September 1867, while my predecessors (Sir C. Trevelyan, and the Right Honorable Mr. Massey) were at the head of the department. These cases amount to three hundred and one in number. It is hardly possible to give the total of the Government public money affected advantageously by these retrenchments; but must amount to some hundred thousand pounds of annual saving. I trust that under my own administration, the result will be found not dissimilar. This is a duty necessarily unpopular, for which the Financial Department must obtain more odium than credit. In the performance thereof, the Government of India can only look for the satisfaction of its own conscience, and for the approval and support of the Secretary of State.

43. At all events, if my plan as above sketched be not enough, it is as much as I can undertake to recommend at present, though, of course, I should give my best efforts to the successful execution of any scheme that might be laid down.

44. It might be thought that, if an exposition of Presidency finance were made as now proposed, various arguments and questions would be raised by the several Presidencies. No doubt such might, perhaps would, be the case. Well, so far as these might be reasonable and capable of being conveniently obviated, I would attend to them and try to meet them—in extreme resort only, asserting the ultimate authority of the Central Government, and declining controversy. I should, however, have reliance that the local *Governments*, at least knowing the difficulties with which such questions are beset, and the impossibility of their solution, would never press these arguments unduly, or too far. On the whole, I should not consider this contingency as a bar to the very moderate improvement which I suggest.

45. I append a note on the working and effect of this plan, prepared at my request by Mr. E. H. Lushington, the Secretary to the Government of India in the Financial Department.

Part II.—LOCAL RESOURCES AND EXPENDITURE.

46. The foregoing remarks and recommendations apply to what is known in India as the imperial budget. This budget, as will have been seen, I would

keep much as it is, both on the receipt and the expenditure side. There is no existing item on either side which I would place out of, or remove from, that budget. I assume that all heads of general revenue therein shown are to remain under the command of the Central Government. We have fortunately got those revenues; we propose to keep them; we do not want to reduce or abandon them. This admitted, it almost follows that all heads of expenditure remain in the said budget. With the means at its disposal, the Central Government can grant all that it now grants for the various services to the local Governments. It might be driven by unforeseen circumstances to grant less, but it hopes not to be compelled: it rather hopes to be so gradually able to grant more. The question, therefore, will be, not how to alter the existing budget by subtraction or otherwise, but how to develop a supplementary budget for each Local Government. The consideration of this last named question will have been much cleared by what has gone before in respect to imperial revenue.

47. I shall approach the question by remarking that "Local Funds," or "Local taxation," or by whatever name these things may be called, do already exist largely in India, and *are* exhibited in supplementary budgets over and above the Imperial budget above spoken of. In his budget speech of 1866, Mr. Massey spoke of them as amounting to 2½ millions. For the current year 1868-69, they are set down at 3 millions, or £2,932,520. This sum consists of Road fund, Ferry fund, Pound fund, Educational cesses, Police cesses, profits of prison labour, Hospital funds, Port and harbour funds, Municipal octroi, fees under special Acts, like the Cotton Frauds Act, and Miscellaneous. But this aggregate does not really represent the full total. Only those funds are shown which may be under the direct management of Government Officers. There are large funds under the control of Municipalities and such like bodies, which are raised under the Legislative enactments, and really constitute local taxation. Such are the Municipal taxes in the Presidency towns and other large places. But these are not at present shown in the above account. Also there are many resources for the support of the village watch in most parts of the country, which partially escape exhibition in the accounts. If all these were to be shown, the total would probably be swelled from 3 millions, its present figure, up to perhaps nearly 4 millions. This is about one-twelfth of the imperial income of 48 millions. Mr. Massey remarked with much force on the fact that the United Kingdom pays 17 millions for local purposes on a revenue of 70 millions, or one-fourth. But the truth is that in India the imperial taxation is much heavier relatively than in the United Kingdom. The taxable wealth of the United Kingdom must, as compared with that of India, be much greater than in the proportion of 70 to 48. The 48 millions represents a larger share in the resources of India than the 70 millions in the resources of the United Kingdom. In India, therefore, there is not nearly so large a margin to work upon as in England.

48. But even if the people in India were more able than they are to bear increased local taxation, even if they were rich instead of being as they are poor, it would not be correct to suppose that they would willingly tax themselves, as is done by the community on such a large and beneficial scale in England. They are not in India sufficiently intelligent or public spirited for this. They would not see the distinction between taxation for imperial and taxation for local purposes.

They would regard the latter as virtually taxation for the public service. There is not much hope of popularizing taxation by declaring it to be only local.

49. It will be interesting to note the way in which the total of 3 millions is made up by the different parts of India, for 1868-69:—

Province.	Amount of Local Fund annual. £	Percentage of Local Fund to General Revenue.
Madras	452,730	5·8
Bombay	497,800	5·4
Bengal	580,493	3·6
N. W. Provinces. ...	672,240	11·0
Punjab	279,969	7·9
Oudh	142,460	9·6
Central Provinces...	164,200	14·2
British Burmah ...	106,399	9·
Government of India	36,220	
Total ..	2,932,521	

It will be apparent that there is some variety in the growth of the system in the several provinces.

50. The problem is how to increase these amounts either in Madras and Bombay in particular, or in the provinces of India generally. Now hereon, it is frequently held that something in this way *may* be done; but when any method of doing it is proposed, objections are raised, sometimes with truth. In the first place there is the overwhelming consideration that the country cannot afford to pay much more than it now pays. If our 3 or 4 millions are to be compared with the 17 millions of England, the inference might be that 2 or 3 millions *more* might be raised by local taxation in addition to the 3 or 4 millions. But then *can* the country pay 2 or 3 millions in addition to what it now pays. While admitting that it might pay something by degrees more and more, still I fear that it certainly could not pay any such additional sum at present. Then going into detail of particular taxes, I find that some taxes recommended as local taxes have been condemned as imperial taxes; notably, the tobacco duty and the succession duty. Instances might be further adduced, but it would be tedious. Again "Octroi," in its widest sense, has found favor with many local Governments. But a cry arose (not altogether without reason) that this was becoming a transit duty, was interfering with trade, and was likely to affect the imperial customs. Accordingly the Government of India has recently laid down excellent limitations for all India confining octroi to articles brought into towns for food, drink, and building. The effect must be some reduction of the octroi receipts. Besides this, a fear is entertained by many authorities of local taxation being *overdone*, rather than neglected.

51. At present it may be hoped that the local governments would, for the most part, prevent their people being over-taxed. But if any undue pressure were to be put upon them by the Central Government, they might be induced to over-

strain local taxation, and if they were to do this, the political effect would be bad. On the other hand, in some provinces, no doubt local taxation does need expansion, notably Lower Bengal, and the Bengal Government was urgently addressed to that effect in April last. Recently the Bombay Government has been authorized to levy a cess of six per cent. on the land revenue for local purposes. That Government had a project for raising a sort of local license tax; sanction to this has been deferred pending the settlement of the income tax. The Governments of Madras and of the North-West Provinces have had Acts passed for local police defrayable from local resources. The Central Provinces have been allowed a portion of their "Pandree" house tax (an old Mahratta impost) for local purposes. Instances might be multiplied to show that something or other is being constantly done in this direction.

52. The drift of the foregoing remarks is this, then, that the local fund or local taxation system already exists in India to a considerable extent; that it is being developed already; that additions are frequently being made; that there is little fear of the matter being lost sight of; that in some respects there is even danger of *over*-growth and over-development in this direction. Nevertheless, I dare say that there may be room for additions here and there, though not for general expansion

53. The Local Governments might understand that the Central Government, while retaining under its direct and immediate control the existing heads of imperial revenues, would leave all local funds and taxes, provided that such imposts were approved by the Central Government, to be at the disposal of the local Government. Whether the local Government could devise, or propose, any such taxes in addition to those already existing, or whether such proposals would be approved by the Central Government, I am not sanguine.

54. In 1865 my predecessor, Mr. Massey, addressed a demi-official circular to the heads of all local Governments and Administrations on this subject. Examining the various replies, I find that the following taxes have been recommended by one or other of these authorities in different parts of India, namely, a tax on

Tobacco.
Betelnut and pawn.
Horses and Ponies.
Native marriages.
Butter—meant to fall on certain classes of graziers.
License of Trades and Professions { License Tax. / Pandhree ,,
Houses.
Succession duty.

A special rate upon property in permanently settled zemindary or other settled lands for repair and construction of roads.*

Without now pronouncing on the feasibility or otherwise of these proposals, I apprehend that but few of them would be allowed by the Government of India. If this apprehension be correct, it follows that we must look, rather to the natural

*I once recommended, in the Central Provinces, that a tramway, some fifty miles long, should be constructed by private capital on the security of local funds, and again that a road rate should be levied on a district for a particular road directly benefitting the locality.

increase of existing taxes, than to the addition of new ones. If any tax can be properly added which however will seldom, I fear, prove to be the case, it would be included in the local funds would swell, and the local fund budgets.

55. I have elsewhere officially recommended that one-fourth of whatever Income Tax may be levied shall be given up to the Local Governments for material improvements; following the principle established by Mr. James Wilson in 1860. If this be allowed, I would include the amount in the Local Funds.

56. I have seen a suggestion to the effect that a per-centage of the "wet revenue," that is, the revenue from irrigated lands, be made over to the local Government for repairs to the works, &c. With all deference to the high authorities who may advocate this, I cannot at all recommend it. These items form an integral part of the land revenue, a heading of all others the most imperial, and the one which particularly pertains to the general Government.

57. I have further examined the details grouped under the budget headings of imperial receipts, and especially the heads "Forest," "Law and Justice," "Police," "Education," "Miscellaneous," to see whether any items under these heads could be excepted and made local. But I find that nothing material could be done in this way. The forest receipts could not be made partly local and partly imperial; with great trouble during the last two or three years, all the items of receipt have been gathered and grouped together. Nor would it do to make "forests" local, for the necessity of having trained foresters from Europe, and such like circumstances, render it necessary that this department should continue imperial, and its resources be husbanded. The receipts under law and justice largely consist of fines and surplus of fees on summonses and the like. After some discussion it was settled, a short time ago, that these should be credited to the general revenues. They should not, I think, be made local. They are wanted, not for local improvements, but for the defrayal of judicial salaries and establishments. And, as before explained, the raising of salaries peculiarly pertains to the Central Government. The education receipts partly consist of "schooling fees;" we have recently released nearly all these to the Local Governments. From "Miscellaneous" one or two items might be picked out and made local. On looking at the details, however, I only found one item fit for localization, and that was "unclaimed deposits."

58. So much for regular "local" income. Perhaps with good management, and by bringing everything to account, it might be made up to some 4 millions, or one-twelfth of the imperial income. It might be added to by loans. This principle is understood already in India. Sometimes the local Governments ask for leave to raise a small loan in the market, on the security of some local fund. There is no objection to this; but it is considered better that the money should be lent by Government at 5 per cent. interest. Sometimes, as in Calcutta, a municipality has borrowed in the market, but with the sanction of Government. Sometimes the State has advanced money for water works to be recovered with interest from the rates. I am in favour of granting such loans by Government wherever fair cause can be shown, preferring this to the raising of loans in the open market. It would be better for the local funds, as Government would probably lend at cheaper rate than the money lenders.

59. The question would then arise, on *what* principle are these loans or advances on interest to be granted? How is the concession to be apportioned? I think the rule should be that the amount of loans should be regulated exactly according to the fund for which it was raised. The amount should be limited to the yearly proceeds of the local fund, and might amount to one or two years' income. Up to this limit the Local Government might order advances re-payable with interest, on its own authority. Beyond that it should apply to the Central Government for sanction. For instance, the road fund of a Zillah District amounts to £1,000 a year, the Local Government may advance £1,000 or £1,500 for the completion of roads in that district on its own authority. If, however, the Local Government desire to advance £3,000 or £4,000, then it must refer to the Central Government. The Municipal revenue of a place amounts to £10,000 annually; if the Local Government wish to advance £10,000 or £15,000 for water supply, it can do so on its own authority. Beyond that, it must apply for sanction.

60. The question would then arise as to how should the limit of such advances for each Local Government be regulated? May such loans aggregate half a million for Madras, and three quarters of a million for Bombay, or *vice versa?* or should the same limits be fixed for both? or how is the proportion to be settled relatively to the calibre of the two Governments? or can the General Treasury afford to lend them as much as half a million each?

61. I would regulate the limit exactly according to the annual sum of the local funds of the particular Government. I would allow the loans in each to come up to half a year or a year's income, or whatever period might be fixed. Madras has half a million of local funds per annum. She might have advances out to the sum of a quarter million (half year's income) or half a million, one year's income, as might be determined. Then what term should be fixed? Now if a year's income were allowed as a limit, Madras and Bombay between them have a million of local funds annually, and they might have a million of advances out; if all India claimed the same, we should have at least 3 millions of advances out (inasmuch as the yearly income of all the local funds is now up to 3 millions). And this would, I apprehend, be too much. Perhaps half a year's income might be fixed as limit; then we should have a quarter million out in Madras and in Bombay, or half a million in the two together, or a million and a half in all India. This would be a more manageable amount. Perhaps even this would be thought too much, but I think that if the thing were tried at all in a *general* way, some such amount as the above would have to be allowed. This amount might or might not have to be borrowed; that would depend on the cash balances of the time or place. If they were low, as they are just now, the money would have to be borrowed. If they were high, as they sometimes are, especially in the interior of the country, then borrowing need not be resorted to. In that case, the amount advanced would not appear in the Imperial budget statement, but would figure in the statement known as that of the cash requirements or cash balances, which is appended to the financial statement.

62. On the whole, I would, first, allow a Local Government to advance, on its own authority, at 5 per cent. interest from the treasury up to a year's income, on

the security of any local fund in any one district or place; secondly, provided always that the total of all advances should not exceed half a year's total income from local funds under that Government.

63. If more than the above were required, then application must be made to the Central Government, which should then consider whether the amount could be afforded from the cash balances, or whether the amount must be raised by public loan. To such loan there would be no objection, if the work was remunerative; in that event, the amount of such loan would be included in the aggregate of loans for remunerative works, for which we propose to have a separate heading in our general statement of public loans of India.

64. So much for income and resources. Now, as to the disposal of these, I would lay down no more rules than those which now exist whereby, indeed, the disposal of all these funds is left to the local Governments.

65. To this I would, however, make one exception. At present, there seems to be no clear rule as to salaries and pay, and nothing to prevent a local Government from allowing a rate of salary in the local fund department, which would not be allowed in any of the regular branches of the service. I do not undertake to say that any inconvenience has as yet arisen herefrom, but the danger is manifest if the local fund system is to be much developed. How could the salaries of the regular branches be checked by the Central Government if the local Governments could fix local fund salaries at pleasure? The same objections would apply to local fund allowances being paid to officers drawing fixed pay from Government. If this were to be done (which it is not, I believe, at present) by local Governments, great confusion would arise, and there would always be doubts as to what the total emoluments of a particular officer might really be. Perhaps a local Government desiring to do this in any special case might refer to the Central Government, but the circumstances ought to be very exceptional that would enable us to allow it. As a rule it would not be allowed.

66. I would fix a limit up to which a local Government might sanction, on its own authority, salaries payable from local funds—say £300 a year for a new office—and increase of an existing salary up to £500 a year; beyond these limits, application to be made to the Central Government. Within these limits also, I would lay it down as a rule that the general rates of pay in the lower grades should not exceed those allowed for the regular branches of the service.

67. Such, in brief, is what I have to submit regarding local resources and expenditure in India. These proposals are not meant to relieve the imperial budget of any charges. This budget, as I understand it, does not require relief. It would keep its revenues, and it can therefrom afford what it now grants, though it can hardly do more. The object of these proposals rather is to develop a supplementary budget for each local Government, which shall prevent this imperial budget being drawn upon more than at present, and shall cause the demands on the Central Government to be more moderate and limited than heretofore.

68. It will be borne in mind that, according to these views, the borrowing for large irrigation works would not be included in any local fund system. These must be on a scale far beyond the resources of any local funds or taxes;

the money for them must be raised on the credit of the imperial revenues, and the whole affair must be included in imperial finance. But small irrigation works within the means of the local funds would be arranged for in the manner described in the foregoing paragraphs.

CONCLUSION.

69. Having now stated what I have to say regarding Part 1st, the imperial budget, and Part 2nd, local taxation and resources, I shall touch briefly on expenditure and income of reproductive works, a subject to which my attention has been drawn by the Secretary of State simultaneously with localization of finance. How far it is or is not connected with localization of finance, according to my view, will have been apparent from the foregoing paragraphs. It is chiefly imperial, and, but to a limited extent, local.

70. The matter has been duly taken up by me, and is under the careful consideration of the Government of India. Meanwhile I will just state my conclusions briefly, as this Minute has already become so lengthened.

71. I understand that, always as much as possible, and for the present certainly, borrowing is to be restricted to reproductive works, that is works yielding a positive money return. Such works are primarily those of irrigation; but railways undertaken by the State, and works of municipal supply (if any such were undertaken) and the like, would be included. But works, which however useful were not directly reproductive, would be excluded. The loans raised for productive works would be separately detailed in our statements, and carefully grouped, and the interest on the same would be separately shown under the general head of interest as a charge of the special loans for irrigation works, &c. On the other hand, the income from such works would be separately shown; such as water rent, land revenue; directly due to irrigation from the works; the traffic income from State railways; the gain on exchange in railway transactions, and the like.

72. Such an exposition in figures would display the greatness of the interest dependent on these works, and would facilitate the obtaining of resources for their prosecution.

(Signed) R. TEMPLE.

Note by E. H. LUSHINGTON, Esq., Secretary to Government of India, Financial Department.

The question of decentralizing the finances has again been taken into consideration in the Financial Department, with the view mainly of enlarging the powers of the Governments of Madras and Bombay.

In lieu of assigning a few grants or portions of grants, as in the former scheme, to meet certain civil charges, the entire revenues of each of those two presidencies would be made over to meet the civil expenditure, subject to certain deductions, in the first instance, on account of the shares of those Governments towards the home and imperial expenditure, and subject also, as regards expenditure, to certain conditions to be presently noticed, which would, on the one hand, maintain the financial control of the Government of India in all essential particulars, while on

the other, they would leave the local Governments unfettered to regulate the details of their several departments in the manner best suited to their requirements.

The deduction from the revenues of these two local Governments on account of the home and imperial expenses would be annually regulated by the Government of India according to the necessities of the Supreme Government on general considerations, and with sufficient regard to the population, area, or proportionate charge of taxation per head in other parts of India.

As a rule, the object would be to maintain the sum once fixed at the same figure so as to allow each of these two local Governments the power of expending any surplus revenue over and above that which would be required to meet the ordinary civil charges of the year, and their contributions towards the ways and means of the Government of India in the improvement of their respective administrations, or in enlarged disbursements of public works.

As a basis of calculation, that sum might be taken as a contribution from each local Government to the imperial revenues which might be found, from an examination of the accounts of the last few years, to represent the actual contribution made by them to meet imperial charges. In making such an examination, receipts and charges, not purely of a local nature, would be deducted from the actual figures on each side of the account, and whatever balance of receipts remained over charges, would be held to have been the actual contribution from the local Governments to imperial purposes.

The following conditions should be required from the local Governments in regard to the exercise of this proposed extended financial authority:—

I.—The annual submission of a budget estimate showing, as at present, the estimated receipts and charges under their respective heads.

II.—No transfer to be made from one major head to another without the previous permission of the Government of India.

III.—No new office to be created, and no increase over existing rates of pay to be passed without previous authority.

In addition to the removal of much of that friction which so frequently now arises between the local Governments and the Government of India in regard to petty matters of expenditure, the local Governments would obtain the substantial advantage of having a personal interest in the increase of the revenues of the provinces under their control, as every rupee, after the payment of the imperial contribution, might be spent by them in the improvement of those branches of their administration which most needed it. They might also remodel all establishments, or branches of service without reference to the Government of India, provided they observed the conditions previously stated.

On the other hand, the Government of India would give up no financial control which could be considered essentially necessary to the interests of British India. Their requirements for home and imperial purposes would be secured by the annual appropriation from the Local Governments of a sufficient sum to meet their share of expenditure under these heads, whilst the preservation of the authority of the Government of India over rates of pay and transfers between major heads would

effectually check the payment of salaries in excess of those allowed in other parts of India for similar services, under similar conditions of cost of living, and the stinting of one Department of the service to the undue encouragement of another.

The following statement, founded on the figures contained in the budget estimate of the present year, shows the result of the application of this scheme to the Governments of Madras and Bombay.

Out of a revenue of £48,580,000, the Government of India would retain its present control of 40 millions, and exercise a modified control over the remaining 8 millions.

According to this, these Governments would have placed at their disposal the following sums respectively:—Madras £3,695,000, and Bombay £5,010,000. According to the figures of the present year, these sums will not be distributed thus in a general budget.

GOVERNMENT OF INDIA.

I. Gross Receipts, less Army.	II. Gross Expenditure, less Army.	III. Net Expenditure, less Army.	Remarks.
£1,828,370	£13,560,000	£11,731,630	As the figure in column 3 contains a charge for Military stores which cannot easily be separated; also some items of charge which are local the net expenditure should be taken at 10 millions.

	Gross Receipts.	Gross Expenditure.	Army and Marine Charges.	Gross Receipts, less Army and Marine.	Gross Expenditure, less Army and Marine.	Contribution towards Imperial charges, including payment of local Army.	Contribution towards Imperial charges, treating payment of local Army as a local charge.
	£	£	£	£	£	£	£
Madras	7,800,000	6,840,000	3,145,000	7,657,000	3,695,000	3,962,000	960,000
Bombay	9,140,000	8,190,000	3,180,000	8,874,000	5,610,000	3,864,000	950,000
		Total contributed by the two Governments of Madras and Bombay towards Civil Expenditure of Governments of India			.....	.....	1,910,000

No. 57. MINUTE by the Honorable A. J. ARBUTHNOT, dated 5th January 1869.

The proposals made by Sir R. Temple in his Minute of the 7th November last, on "the decentralization* of finance of British India," are, I think, a decided step in the right direction, and are, in my humble opinion, very much to be preferred to those made in the Memorandum circulated with the consent of the Government of India in the latter part of 1867. They are calculated to impart to the Provincial Governments that practical interest in the development of the local resources, and in distributing to the best advantage the local expenditure, which is, in a great measure, wanting under the present system, and if it were not for the restrictions on the action of the Provincial Governments which it is still proposed to retain in the matter of salaries, and which I consider are carried further than is either necessary or expedient, I should regard the scheme as being, on the whole, a judicious and equitable settlement of the relations, administrative and financial, which ought to exist between the Central and Provincial Governments. I may here observe that, subject to the exception of the restrictions to which I have alluded, and to the further exception that it makes no provision for utilizing the local Legislative Councils in the annual revision of the Provincial Budgets, the measure of decentralization, which Sir Richard Temple has now put forward, is nearly identical with that which I submitted for the consideration of my colleagues in my Minute of the 25th February last year, which was sent to the Government of India with our Chief Secretary's letter of the 7th March following; and it is very similar to the scheme propounded by Major Chesney in the 3rd Chapter of his admirable work on Indian Polity, published some months ago.

2. It will be gathered from my former Minute that I entirely assent to the position laid down by Sir Richard Temple in the paper now before us, and which is still more forcibly urged in Lord Napier's Minute of the 15th February last, that the finances of India must be under "the complete and indisputable command of the Central Government," and that, in the words of the Financial Minister's Minute, "whatever limited control may be conceded to any local Government, must be perfectly subject to such command;" but I cannot think it in the least degre essential to the maintenance of that central command in a complete and indisputable form, that the system of referring to the Government of India all petty alterations in the rates of salaries or allowances, and all questions relating to the creation of new offices, however small, should be retained. To take the instances given by Sir Richard Temple in the 27th paragraph of his Minute, I cannot perceive that any practical barrier against extravagance is established by prohibiting the Government of Madras from altering the salaries of the Head Masters of Government Schools, or the rates of pay of their Police Constables, or of their office peons, without the sanction of the Central Government, while they are to be left at liberty to increase the number of their schools, or to raise the numerical strength of their Police force, or of their office establishments, at their discretion, within the limits of the budget grants. Sir Richard Temple argues that the check of the Central Government on the rates of salaries and allowances, even

* The term "decentralization" is, perhaps, an unfortunate one, for it has hitherto been connected with the idea of a Federal system, which few men of practical experience in Indian affairs would advocate; but it is difficult to find any single word to describe the scheme now under consideration.

in the case of the lowest appointments, is necessary, on the ground that "if anything "be conceded in one place applications for similar concessions are sure to be made "from other places in a manner which cannot practically be resisted;" that "if one "local Government were to grant this and that to its servants, the neighbouring "local Governments would before long have to follow suit;" that "unless there were "a central check over all the local Governments, any one local Government that "might be more than ordinarily progressive, would give the lead to its neighbours, "and they would have to adopt its pace;" and that thus "the speed for India "generally," in the matter of expenditure, "would have to be measured by the speed "of the fastest portion of it." These arguments, it appears to me, do not sufficiently take into account the motives and incentives to making the best possible use of their available resources by which the Provincial Governments will be influenced if they are invested with larger powers, and at the same time with a more real and better defined responsibility in regard to the administration of their revenues, and the distribution of the Provincial expenditure. It is hardly probable that the members of a Provincial Government, having a certain sum available for educational purposes, will be disposed to fix the salaries of their schoolmasters at unnecessarily high rates, when they are aware that every rupee which they expend unnecessarily on salaries is so much taken from the fund available for the establishment of additional Government schools, or from grants in aid of private schools, or from some other purpose to which it might be applied, to the benefit of education and to the credit of the Government. Nor is it reasonable to suppose that a Government, having a fixed grant for the maintenance of its Police, which it cannot increase without trenching on the ways and means of some other useful and necessary branch of the administration, would, in the absence of a well-established necessity, increase the pay of its constables at the cost of diminishing the numerical strength of the force, and thereby risking its efficiency. If a Provincial Government can be trusted with the expenditure of a million annually on public works, subject* to no further restriction than that projects which are estimated to cost more than four lakhs, (the limit now suggested by Sir R. Temple,) shall be submitted for the previous sanction of the Government of India, and that the amount to be expended on Military buildings shall be regulated by the Central Government, it may surely be allowed to exercise its discretion in settling the wages, as well as the number, of its Police Constables and of its office peons.

3. And as a matter of fact, under the rules which have been in force since the present Budget system was introduced, the settlement of these matters *is* left practically with the Provincial Governments. Under these rules it is competent to the Local Government to sanction any alterations in rates of salary in the case of other than Gazetted appointments which they may deem necessary, or to create any new appointment, provided that any increase of charge that may be involved in the arrangement can be met from the Budget grant of the year, and also provided that in the case of revisions of salary, no salary shall be raised to a sum of Rupees 5,000 per annum without the previous sanction of the Government of India and of the Home Government, and in the case of new appointments that no new office can be

* The statement in the text is, I believe, a correct description of the effect of Sir R. Temple's proposals as regards that portion of the Public Works expenditure which is defrayed from current revenue. All projects of works to be executed by means of loan money will have to be submitted to the Government of India.

created on a salary exceeding Rupees 3,000 per annum without a similar sanction. The sanctions thus given by the Local Governments are entered in monthly statements submitted to the Government of India, and are subject to the confirmation of that Government, which however is very rarely withheld; so rarely that it may be safely asserted that, in the case of all really petty alterations in the rates of salary, the discretion of the Provincial Governments is practically unfettered. During the period of nearly seven years that I have been connected with the Madras Government, first as Chief Secretary and latterly as a Member of Council, I cannot call to mind a single instance in which the proceedings of that Government, in the exercise of the discretionary power thus vested in it, have been overruled by the Central Government. It is possible that there may be one or two isolated cases of interference which have escaped my recollection, but if so, their number is so insignificant, that it does not really affect the correctness of my statement. Very much the same may be said in regard to the creation of new offices of a petty character with reference to which the interference of the Government of India is by no means frequent. In one notable instance, the revision of the expenditure of the Revenue subordinate establishments, amounting to upwards of 20 lakhs per annum, which was entrusted to Mr. Pelly, the senior member of the Board of Revenue, and which extended over a period of several years, the proceedings of the local Government were practically uncontrolled by the Government of India, and the revised scheme, the greater part of which had been in operation for some years before the final report was submitted, was accepted, as a whole, without the alteration of a single item of charge. What, I would ask, is the real advantage of a power of control which is so rarely put in force?

4. The disadvantages of the system, on the other hand, are sufficiently obvious. It certainly is not conducive to the prestige of the Provincial Governments; and indeed it is almost ludicrously inconsistent with the somewhat costly machinery which has been provided for the administration of the Madras and Bombay Presidencies, that these Governments should be compelled to go through the form of submitting every trifling matter of this nature to the Central Government for confirmation. In the case of an able and zealous Government the apparent want of independence in matters of such a petty nature can hardly fail to be an occasional source of irritation and annoyance. With Governments of a different calibre it is often made use of as an excuse for shortcomings, which are in reality attributable to other causes. I am persuaded that the scheme of decentralization, sketched out in Sir R. Temple's Minute, will prove far more conducive to the best interests of the country, not excepting the maintenance of a sound system of finance, if the restrictions on the action of the Provincial Governments, in regard to altering rates of salary and creating new offices, are confined* to appointments of a comparatively high grade, say to salaries exceeding Rs. 500 a month.

5. I also think that the measure would be much improved by making it an essential part of the new system of finance that the Provincial budgets shall be subjected annually to the revision of the Local Legislative Councils. There is no check on extravagance, or on mal-administration of any description, so effective, as that which is imposed by the knowledge that every act of Government which in any way affects

* Of course any proposition for the establishment of a new Department would have to be submitted, as a whole, for the sanction of the Government of India. In such a case the lowest salaries, as well the highest, would be included in the estimate of cost.

its finances; every omission to utilize its resources to the best advantage, is liable to be subjected to public discussion and criticism, conducted by persons who either have, or have the means of obtaining on the spot, an accurate knowledge of local facts, and of local wants and requirements. I dare say that at the commencement no very marked consequences would result from the adoption of this arrangement. Possibly the first Provincial Budget would pass through the Council with but little comment or questioning, on the part of the unofficial members. For a time the novelty of the work would deter them from doing much, but before very long questions would be asked, and amendments moved. One member would urge that a certain line of road or a particular bridge, the want of which had long been recognised, should be inserted in the Public Works Budget for the ensuing year. Another would bring forward the claims of a rising town to a higher and more efficient grade of judicatory. A third would draw attention to the irrigation wants of a District or Talook. A fourth would bring under notice the inadequacy of the provision made for educational grants-in-aid. And inasmuch as the aggregate expenditure must be restricted within the limit imposed by the Central Government, unless additional resources can be provided, no proposition which involved an increase of charge in one direction, could be adopted, unless it could be shown that the additional cost could be met, either by retrenchment in another direction, or by the imposition of a new tax, or by some better method of administering an existing source of revenue; and in this way discussion would be promoted, followed by criticism in the public press, and an impetus would be given to an economical, and at the same time a judicious prosecution of public improvements, for which it cannot be said that there is any adequate guarantee under the existing system. Another very valuable effect of the change would be, as Mr. Laing observed in his Financial Statement of the 27th April 1861, an extract from which I appended to my former Minute, to add materially to the dignity and to the sense of responsibility of the Local Legislative Councils.

6. Sir R. Temple proposes that the existing state of things should be taken as the basis for settling the quota to be contributed by the several local Governments to the Imperial expenditure. Assuming the present annual revenue of the Madras Presidency to be in round numbers eight millions, and the annual sum at present contributed by it to the general expenditure of the Empire including the Army and Marine, to be four millions, he would fix the latter sum as the annual contribution of the Madras Presidency to the Imperial Exchequer, not to be exceeded, unless, owing to unforeseen causes, it should be absolutely necessary for the Central Government to raise the Imperial demand, and would leave four millions for the expenditure of the Province, which might be raised hereafter in the event of the revenue increasing and the Imperial demand not being proportionately increased. This question of the amount of the annual contribution to be made by each Province to the general expenses of the Empire, is one which will have to be settled by the Supreme Government, but it is one which will require to be determined with great care and consideration, and on which the Local Governments, on the first occasion at all events, should be heard before any decision is come to. In connexion with it, it will be necessary to settle how that portion of the expenditure which is composed of interest on loans raised for irrigation works is to be debited, whether to the General or to the Provincial budgets. The latter course would appear to be on the

whole the more equitable, and to be that best adapted to ensure due caution on the part of the Local Governments in recommending projects to be carried out by means of loan money.

7. I agree with Sir R. Temple in thinking it expedient that an effective check should be imposed on the Local Governments in regard to the re-distribution of the several budget heads of service within the budget year. It is of great importance that those Governments should have every motive for framing their budgets with the utmost possible care. Five per cent. on the total head of service might be fixed as the limit of re-distribution, and for any transfer in excess of that limit the sanction of the Central Government should be obtained.

8. I also agree in the opinion expressed in paragraph 30 of the Minute that savings, at the close of the year, should lapse to the Imperial Exchequer.

9. The suggestion made in paragraphs 61 and 62, that the Provincial Governments should be empowered to make loans on its own authority on the security of the local fund of any one District or place up to a year's income, provided that the total of such loans shall not exceed half a year's total income from local funds of the Presidency, appears to me a very good one. I also concur in the proposal made in paragraph 66, that salaries from local funds beyond a certain limit should require the sanction of the Central Government, but I would fix that limit at the amount up to which the Local Government may be empowered to sanction salaries or alterations in the rates of salary without reference to the Government of India; and that amount, I should say, ought not to be less than Rupees 500 a month.

(Signed) A. J. ARBUTHNOT.

No. 58. MINUTE by the Right Honorable the PRESIDENT, dated 11th February 1869.

The last proposal framed by the Supreme Government, with a view to conferring a greater measure of financial independence on the local Governments, was one to which I could not give my support. It contemplated the disintegration of the existing Imperial Revenues. Certain taxes, or certain portions of taxes, were to be permanently ceded by the Government of India, and appropriated to particular heads of expenditure in the respective Presidencies. The scheme appeared to me to be wanting in breadth and simplicity. I did not see that it was called for by any urgent necessity, by the pressure of any serious defects or abuses in the existing system. It did not afford a remedy for the slight embarrassments which the existing system might justly be held to embody. It was associated with an intimation that it might be desirable to introduce something of a federal character into Indian finance, which would, in my humble opinion, impair the credit, energy, and splendour of the Supreme Government which it is most important to support. That project has been laid aside, and one of a radically different nature has been substituted in its place—a plan which seems to me to reconcile the authority of the Central Power more happily with a legitimate freedom of decision and action in the Presidency Governments.

2. The great merit of the proposal submitted by Sir Richard Temple is that it is simple. It does not parcel out the taxes of the country into Imperial and Presidency taxes by an arbitrary classification. It does not, with a single exception,

divide any particular tax between the Supreme Government and the Presidency Governments; it does not apportion any particular tax to any particular purpose. It preserves the Imperial Revenue intact; it leaves the whole in the hands of the Central Power; it provides that from the whole the Imperial charges shall, by an annual estimate, be defrayed, each Presidency contributing approximatively in the existing proportions; it would apppropriate to each Presidency a round sum representing approximatively the balance of the provincial revenue for admininistration and public works, leaving the repartition of this sum to the judgment of the Presidency Government, but maintaining a general and effectual control in the Government of India.

3. To the general outline of the project I accede; but I venture to demur to some of its features.

(1.) I object to the exceptional treatment of the Income tax sanctioned by Sir R. Temple. I do not see why the Imperial tax should be divided rather than any other tax, rather, for instance, than the Land Revenue, or the License duty, or the revenue derived from the Farm of Spirituous liquors. Of all taxes the Income tax appears to me to have the most Imperial character.

Much might be said in favor of permanently appropriating a portion of the assessment on wet lands, or a portion of the License duty to Presidency or even to local purposes, but little, I think, specifically in favor of dealing with the Income tax in this way. We are surely not bound for all time by a declaration on the part of one of the predecessors of Sir Richard Temple, which must have been rather the expression of an intention than a positive engagement.

The Income tax is a tax to be imposed in a case of proved exigency; it ought to be a financial reserve to be brought forward when the State has a great obligation to fulfil, a great necessity to meet, a great exertion to make. It ought not, in my humble judgment, to be identified with provincial wants and provincial habits; it ought not to be naturalized in the Revenue system. It seems to me that, if the Supreme Government is disposed to make the sacrifice of any source of material revenue in favor of Presidency or local wants, it would be better to give up a whole tax than part of a tax, and that the License duty would be the most appropriate concession. In regard to that tax there is also an engagement. The promises made by Mr. Massey are not less respectable than the "principles established" by Mr. Wilson, and in this case they are more consistent with public expediency.

4. Sir R. Temple would refuse the Presidency Governments the faculty of creating any new office or department, and of regulating the amount of any salary without the sanction of the Government of India. He would, however, leave it to the Government of the Presidency to increase the number of its functionaries in existing establishments keeping within the limits of the Budget grants. In fact, while sanctioning a facility which might be dangerous, he denies a power which would be decidedly useful. The Government could multiply ill-paid offices, but could not consolidate them and pay them better. But the true policy of Government is to diminish the number of its servants, and raise their status. I heartily agree with Sir R. Temple in all that he says respecting the absolute necessity of maintaining the controlling power of the Supreme Goverment in respect to the

creation and remuneration of the higher offices, especially in regard to those for which Englishmen are particularly eligible. An absolute independence of the Presidency Governments concerning the nomination and emoluments of Officers in the Educational and Public Works Departments might launch them on a course of competitive expenditure, in which Bombay would probably lead the race, and Madras always be hindmost. We should get the worst men, and still pay too much. But the Finance Minister surely presses the rule of incapacity in the Presidency Governments and of control in the Supreme Government too far. On the other hand, with all possible deference to the judgment of my Colleague Mr. Arbuthnot, I think that he contends for too large a measure of independence. Mr. Arbuthnot would grant the Presidency Government the power of creating and raising salaries up to Rupees 500 per mensem without referring to the Government of India. I would rather fix the limit at Rupees 250 per mensen. This would exclude the higher class of Englishmen who enter the Uncovenanted Service, and restrict our provincial independence to dealing with the great bulk of Native employés whose desires do not extend beyond the confines of their Native Presidency. The same rule might be applied to functionaries whose salaries are defrayed from local funds.

5. The suggestions made by Sir R. Temple in reference to the powers to be conferred on the Presidency Governments for contracting or sanctioning loans on the security of the local funds of any District or place appear to me to be too liberal, not with reference to the ratio of the loan to the revenue, but with reference to the description of localities in which these powers would be exercised. I incline to restrict the power of sanctioning loans for the present to places having a Municipal Constitution. Such local loans ought not to be made without some consent, expressed or implied, on the part of the inhabitants of the locality. The Municipal Commissions are not formally representative bodies, but they are so essentially, and when they assent to a loan for public improvements, it may be fairly assumed that the measure is not only useful in itself, but acceptable to the tax-paying community. In the country districts I know of no method now existing by which the popular consent would be conveyed or inferred. We have no Departmental Councils, no Quarter Sessions, no Commissioner of supply. I would not grant the Presidency Government the power of saddling a Native Country District with a local loan on the mere recommendation of the Revenue Officers. The loan might be altogether repugnant to the public feeling of the place. In general I would deprecate the expansion of the loan system, and the faculty of running into debt. The present local taxes are unpopular though the funds are spent directly on a few simple local objects most patent to the apprehension of the people. I would not swell these imposts, by adding the interest on loans contracted without local cooperation, and perhaps applied to purposes in advance of the popular understanding. It may be possible hereafter to frame some form of departmental representation from the class of landholders which might be associated with the Collector for the discussion of local interests. In such a body the proposal for a local loan might properly originate, and it might be safely sanctioned by the Presidency Government under the restrictions laid down by the Finance Minister.

6. Prompted by the desire to make his proposals simple and practical, Sir R. Temple has adopted the repartition of Imperial Revenue, made under the existing

system among the Presidency Governments for their respective local administrations, as the starting point for the future. He would put aside any elaborate argument based on a comparison of Presidency Revenues and Presidency appropriations. Approximatively he would, in the first instance, take from each what each at present pays for Imperial charges, leaving approximatively to each what each now receives for Presidency purposes. It has been succinctly but to me convincingly shown by the Finance Minister that the present basis is sufficiently equitable, and certainly no other basis could be attained without complicated discussions, which might easily degenerate into an embittered controversy. I confess, however, that I regret that Sir Richard Temple has lent any countenance to the maxim that Presidency appropriations should be discussed or fixed at all with reference to Presidency payments. The repartition of Imperial Revenue in each Presidency or Province should be based on an appreciation of the wants of each, rather than on a consideration of the contributions of each. The Revenue of India is one great National Revenue to be carried and wielded by the Supreme Government, not only for Imperial interests, but for provincial interests. There will never be enough money to satisfy the claims of all. The Supreme Government can alone decide which claims ought to be satisfied first. The Imperial Government should, in this respect, act for India as the Provincial Governments act in their respective boundaries. The district of Tanjore pays the greatest amount of revenue in this Presidency. But in fixing the appropriations for the several Districts, it does not follow that Tanjore will receive the highest share. It will not receive much because it pays much. It may receive little because it needs little. The distribution of the Imperial Revenue to the several Presidencies and Provinces for Establishments and Public Works may safely be left to the equitable decision of the Supreme Government under the control of public opinion and the Secretary of State, but if the Supreme Government, having appropriated the general Revenue, not with reference to provincial payments, but to the greatest good, will consent to make the several provincial appropriations *en bloc*, leaving the lump sums so awarded to be bestowed and applied by the Provincial Governments according to their better local knowledge, such a determination I would accept as most reasonable and politic.

7. It has been suggested by Mr. Arbuthnot, that, under the proposed order of financial administration, the repartition of the lump sum, awarded by the Supreme Government for the use of the Presidency, should be discussed and settled in the Legislative Council. The measure appears to me to be recommended by several reasons. The motives of Government in the application of the revenue to specific objects would be better understood by the public. The native members of Council would have some voice in the distribution of funds which are almost exclusively supplied by the classes which these gentlemen represent. The Legislative Council would gain in public consideration by this addition to its functions. The Government would be protected against influences brought to bear upon it by the India Office, or by class interests here.

8. While I adhere in general terms to the project communicated by Sir R. Temple which I really believe to be of substantial use; while I highly appreciate

the liberal and practical spirit in which it is conceived; and while I adopt the proposal of Mr. Arbuthnot that the discussion of the Presidency Budget may properly be transferred from the close chamber of the Executive to the more public scene of the Legislative Council, it would be a mistake, in my opinion, to exaggerate the results which may be expected from the proposed innovations. We do, in fact and practice, now exercise the greater part of the powers with which we should be invested by the Charter of Sir R. Temple. The Budget of the Presidency of Madras is sanctioned by the Government of India in conformity with the counsels of the Government of Madras, and the Government of Madras make, I firmly believe, a repartition of the funds which they ask for essentially similar to that which would be made by anybody to which the same task could be entrusted. The controlling or correcting power of the Government of India is certainly not exercised frequently or wantonly. The recommendations of the Executive Council are made with an intelligent view to the public interest. The Government of India meets this Government with confidence and cordiality, with as much liberality as general necessities and obligations will allow. The only matters which, under a different system here, could give rise to serious discussion would be the appropriations in the Department of Public Works, and in nine cases out of ten I do not see how any deliberative Council in this country could do otherwise than adopt the recommendation of the Secretary in the Public Works Department, or of the Revenue Authorities, who must after all exert the soundest judgment in making a selection from the numerous objects of indisputable importance which claim our attention. Under the proposed arrangements we should have much more of the forms of independence, and something more of its essence; but the new method would, for the most part, produce the same results as the old. What we need is more money rather than a different machinery for dividing it and spending it. We can hardly spend it ill. But the scheme of Sir R. Temple will not give us more money. At least it will scarcely increase our Presidency appropriations any faster than they have increased under the existing system.

(Signed) NAPIER.

No. 59. MINUTE by the Honorable H. D. PHILLIPS, dated 2nd March 1869.

I have perused with much interest and have carefully considered the "Confidential" communication transmitted to His Lordship, the President, by Sir Richard Temple. Adverting to the source from which this communication proceeds, I have to regret my inability to say that I should regard as an improvement on our present system of Government, the plan of decentralization which Sir R. Temple has sketched out. It will leave to be done by this Government, far more than has heretofore been done; but it does not remove, in certain matters, the general control of which complaints have at times, unduly in my opinion, been made. Neither does it remove the check on the creation of new offices, or relax the rule against the grant of increased salaries. The check and rule are, to my mind, good, proper, and salutary; and if Sir R. Temple's proposals are ever carried out, I would advovate their retention. I am quite aware that this system of restraint has been considered

to be a galling one, but on the whole, I am disposed to believe, that, exercised as it has been by the Government of India, with due regard for our real wants when they have been fully explained, it has operated beneficially for the general benefit of the State, and I do not, therefore, see what good reason there is for a change of system.

As regards the other changes on the more important matter of the general administration of this Presidency which it seems intended to introduce, I fail to understand why they have been thought necessary. During the existence of the present system, we have done well everywhere in India, particularly so, perhaps, in the Madras Presidency, and this, though formerly the difficulties in our communications with the Central Government have been measured by weeks and months. Now hours and minutes are sufficient, and this improvement promises to reduce to a minimum, any occasional, trifling impediment resulting from distance. I look upon the control of the Supreme Government, felt as it ever has been, as a discreet and useful control, whether in revenue or political matters. I shall be glad to see it continued in its present form, and would let well alone.

(Signed) H. D. PHILLIPS.

No. 60. ORDER THEREON, 22nd March 1869, No. 146.

Resolved that the foregoing Minutes of the Members of this Government be communicated by His Excellency the Governor to Sir Richard Temple, in reference to his Minute above recorded.

(True Extract).

R. S. ELLIS,
Chief Secretary.

Ed. J. Wright.

3551

Minute.

The proposals made by Sir R Temple in his Minute of the 8th November last on the decentralization of finance of British India are, I think, a decided step in the right direction, and are in my humble opinion very much to be preferred to those made in the Memorandum circulated with the consent of the Government of India in the latter part of 1867. They are calculated to impart to the Provincial governments that practical interest in the development of the local resources and distributing to the best advantage the local expenditure, which is in a great measure wanting under the present system, and

Note.

The term "decentralization" is perhaps an unfortunate one, for it has hitherto been connected with the idea of a Federal system which from want of practical experience in Indian affairs would not advocate, but it is difficult to find any single word to describe the scheme now under consideration.

A P A.

and if it were not for
the restrictions on the ac-
-tion of the Provincial Go-
-vernments which it is
still proposed to retain
in the matter of salaries,
and which I consider
are carried further than
is either necessary or
expedient, I should regard
the scheme as being on
the whole a judicious
and equitable settlement
of the relations, adminis-
-trative and financial,
which ought to exist
between the Central and
Provincial Governments.
I may here observe that
subject to the exception
of the restrictions to
which I have alluded,
and to the further excep-
-tion that it makes no
provision for utilizing
the local Legislative
Councils in the annual
revision of the Provincial
Budgets, the measure

of

of decentralization which
Sir Richard Temple has
now put forward is,
~~nearly~~ nearly identical with
that which I submitted
for the consideration of
my colleagues in my
minute of the 25 February
last year, which was
sent to the Government
of India with our Chief
Secretary's letter of the
7 March following; and
it is very similar to the
scheme propounded by
Major Chesney in the
3d chapter of his admir-
-able work on Indian
Polity published some
months ago.

2. It will be gathered
from my former minute
that I entirely assent to
the position laid down
by Sir Richard Temple
in the paper now before
us, and which is still
more forcibly urged

in

in Lord Napier's Minute of the 15th February last, that the finances of India must be under the complete and indisputable Command of the Central Government, and that in the words of the Financial Minister's Minute "whatever limited control" "may be conceded to any" "local Government, must" "be perfectly subject to" "such command"; but I cannot think it in the least degree essential to the maintenance of that Central Command in a complete and indisputable form that the system of referring to the Government of India all petty alterations in the rates of salaries or allowances, and all questions relating to the creation of new offices, however small, should

39

should be retained. To take the instances given by Sir Richard Temple in the 27th para of his minute, I cannot perceive that any practical barrier against extravagance is established by prohibiting the Government of Madras from altering the salaries of the Head Masters of Government Schools or the rates of pay of their Police Constables or of their Office peons without the sanction of the Central Government, while they are to be left at liberty to increase the number of their Schools or to raise the numerical strength of their Police force or of their office Establishments, at their discretion, within the limits of the Budget Grant. Sir Richard Temple argues that the check of the Central Government

on

on the rates of salaries
and allowances, even in
the case of the lowest ap-
pointments, is necessary
on the ground that "if
"anything be conceded
"in one place application
"for similar concessions
"are sure to be made from
"other places in a manner
"which cannot practically
"be resisted", that "if
"one local Government
"were to grant this and
"that to its servants, the
"neighbouring local Govern-
"ments would before
"long have to follow suit"
that "unless there were
"a Central check over
"all the local Governments,
"any one local Govern-
"ment, that might be
"more than ordinarily
"progressive would give
"the lead to its neighbours,
"and they would have
"to adopt its pace," and
that thus "the speed

for

"for India generally" in
the matter of expenditure
"would have to be measured
"by the speed of the fastest
"portion of it." These
arguments, it ap-
pears to me, do not
sufficiently take into
account the motives and
incentives to making
the best possible use of
their available resources
by which the Provincial
Governments will be
influenced, if they are
invested with larger
powers, and at the same
time with a more real
and better defined re-
sponsibility, in regard
to the administration
of their revenues and the
distribution of the Pro-
vincial Expenditure. It
is hardly probable that
the members of a Provin-
cial Government, having
a certain sum available
for Educational purposes,

will

will be disposed to fix the salaries of their School masters at unnecessarily high rates, when they are aware that every rupee which they expend unnecessarily on salaries is so much taken from the fund available for the establishment of additional Government Schools, or from Grants in aid of private Schools, or from some other purpose to which it might be applied, to the benefit of education and to the credit of the Government. Nor is it reasonable to suppose that a Government, having a fixed grant for the maintenance of its Police, which it cannot increase without trenching on the ways and means of some other useful and necessary branch of the administration, would

D 45

would in the absence of a well established necessity, increase the pay of its constables at the cost of diminishing the numerical strength of the force and thereby risking its efficiency. If a Provincial Government can be trusted with the expenditure of a million annually on Public Works, subject to no further restriction than that projects which are estimated to cost more than four lakhs (the limit now suggested by Sir R. Temple) shall be submitted for the previous sanction of the Government of India, and that the amount to be expended on Military buildings shall be regulated by the Central Government, it may surely be allowed to exercise its discretion in settling the

wages

× note.

The statement in the text is, I believe, a correct description of the effect of Sir R. Temple's proposal as regards that portion of Public Works expenditure which is chargeable to Provincial current revenue. All works to be executed by means of loan money will have to be submitted to the Govt. of India as heretofore.

A.P.

wages as well as the number of its Police constables and of its office peons.

3. And as a matter of fact, under the rules which have been in force since the present Budget system was introduced, the settlement of these matters is left practically with the Provincial Governments. Under these rules it is competent to the local Government to sanction any alterations in rate of salary in the case of other than gazetted appointments which they may deem necessary, or to create any new appointment, provided that any increase of charge that may be involved in the arrangement can be met from the

the Budget Grant of the year, and also provided that in the case of revisions of salary, no salary shall be raised to a sum of Rs. 5,000 per annum without the previous sanction of the Government of India and of the Home Government, and in the case of new appointments that no new office can be created on a salary exceeding Rs. 3000 per annum without a similar sanction. The sanctions thus given by the local Governments are entered in the monthly statements submitted to the Government of India and are subject to the confirmation of ~~the~~ that Government, which however is very rarely withheld & so rarely that it may

be

be safely asserted that in the case of all really petty alterations in the rates of salary the discretion of the Provincial Governments is practically unfettered. During the period of nearly seven years that I have been connected with the Madras Government, first as Chief Secretary and latterly as a Member of Council, I cannot call to mind a single instance in which the proceedings of that Government in the exercise of the discretionary power thus vested in it have been overruled by the Central Government. It is possible that there may be one or two isolated cases of interference which have escaped my recollection, but if so, their number is so insignificant, that it does

does not really affect the correctness of my statement. Very much the same may be said in regard to the creation of new offices of a petty character with reference to which the interference of the Government of India is by no means frequent. In one notable instance, the revision of the expenditure of the Revenue subordinate Establishments amounting to upwards of prarayan no lakhs which was entrusted to Mr. Kelly the senior Member of the Board of Revenue, and which extended over a period of several years, the proceedings of the local Government were practically uncontrolled by the Government of India, and the revised scheme, the greater part of which had been in operation for some years before

before the final report was submitted, was accepted as a whole without the alteration of a single item of charge. What, I would ask, is the real advantage of a power of control which is so rarely put in force?

4. The disadvantages of the system on the other hand are sufficiently obvious. It certainly is not conducive to the prestige of the Provincial Governments, and indeed it is almost ludicrously inconsistent with the somewhat costly machinery which has been provided for the administration of the Madras and Bombay Presidencies, that these Governments should be compelled to go through the form of submitting every trifling matter of this nature to the Central Government for confirmation. In the case of an able and zealous Government the apparent want of independence in matters of such a petty nature can hardly fail to be an occasional source of irritation and annoyance. With Governments of a different calibre it is often made use of as an excuse for shortcomings which are in reality attributable to their own causes. I am persuaded that the scheme of decentralization sketched out in Sir R. Temple's minute will prove far more conducive to the best interests of the country, not excepting the maintenance of a sound system of finance, if the restrictions on the action

actions of the Provincial Governments in regard to altering rates of salary and creating new offices are confined to appointments of a comparatively high grade, say Rs ala-ries exceeding Rs500 a month.

5. I also think that the measure would be much improved by making it an essential part of the new system of finance that the Provincial budget shall be subjected annually to the revision of the Local Legislative Councils. There is no check on extravagance or on mal-administration of any description, so effective as that which is imposed by the knowledge that every act of the Government which in any way affects its finances, — every

nota.

× of course any proposition for the establishment of a new department must have to be submitted as a condition for the sanction of the Govt. of India. In such a case the lowest salaries as well as the highest, would be included in the estimate of cost.

A. J. A.

5

49

51

every omission to utilize its resources to the best advantage, is liable to be subjected to public discussion & criticism, conducted by persons who either have, or have the means of obtaining on the spot, an accurate knowledge of local facts and of local wants and requirements. I dare say that at the commencement no very marked consequences would result from the adoption of this arrangement. Possibly the first Provincial Budget would pass through the Council with but little comment or questioning on the part of the unofficial members. For a time the novelty of the work would deter them from doing much, but before very long questions would be asked

asked and amendments moved. One member would urge that a certain line of road or a particular bridge, the want of which had long been recognized, should be inserted in the Public Works Budget for the ensuing year. Another would bring forward the claims of a rising town to a higher and more efficient grade of judicatory. A third would draw attention to the irrigation wants of a District or Taluk. A fourth would bring under notice the inadequacy of the provision made for educational Grants in aid; and inasmuch as the aggregate expenditure must be restricted within the limits imposed by the Central Government, unless additional resources can be provided, no proposition

proposition which involved an increase of charge in one direction, could be adopted, unless it could be shown that the additional cost could be met, either by retrenchment in another direction, or by the imposition of a new tax, or by some better method of administering an existing source of revenue; and in this way discussion would be promoted, followed by criticism in the public press, and an impetus would be given to an economical, and at the same time a judicious prosecution of public improvements, for which it cannot be said that there is any adequate guarantee under the existing system. Another very valuable effect of the change would

would be, as Mr Laing observed in his Financial Statement of the 27 April 1861, an extract from which I appended to my former minute, to add materially to the dignity and to the sense of responsibility of the local legislative Councils.

6. Sir R. Temple proposes that the existing state of things should be taken as the basis for settling the quota to be contributed by the several local Governments to the Imperial expenditure. Assuming the present annual revenue of the Madras Presidency to be in round numbers 5 millions and the annual sum at present contributed by it to the general expenditure of the Empire including the Army & marine, to be 4 millions, he would fix the latter sum as the annual contribution of the Madras Presidency to the Imperial Exchequer, not to be exceeded, unless owing to unforeseen causes it should be absolutely necessary for the Central Government to raise the imperial demand, and would leave 4 millions for the expenditure of the Province, which might be raised hereafter in the event of the Revenue increasing and the Imperial demand not being proportionately increased. This question of the amount of the annual contribution to be made by each ~~Province~~ Province to the general expences of the Empire, is one which will have to be settled by the Supreme Government, but

but it is one which will require to be determined with great care and consideration and on which the Local Governments, on the first occasion at all events, should be heard before any decision is come to. In connexion with it, it will be necessary to settle how that portion of the expenditure which is composed of interest on loans raised for irrigation works is to be debited, whether to the General or to the Provincial Budgets. The latter course would appear to be on the whole the more equitable, and to be that best adapted to ensure due caution on the part of the Local Governments in recommending projects to be carried out by means of loan money.

7. I agree with Sir R. Temple in thinking it expedient that an effective check should be imposed on the local Governments in regard to the redistribution of the several budget heads of service within the budget year. It is of great importance that those Governments should have every motive for framing their Budgets with the utmost possible care. Five per cent on the total head of service might be fixed as the limit of redistribution, and for any transfer in excess of that limit the sanction of the Central Government should be obtained.

8. I also agree in the opinion expressed in para 30 of the Minute that Savings at the close

close of the year should lapse to the Imperial Exchequer.

9. The suggestion made in paras 61 & 62 that the Provincial Governments should be Empowered to make loans on its own authority on the security of the local fund of any one district or place up to a years income, provided that the total of such loans shall not exceed half a years total income from local funds of the Presidency, appears to me a very good one. I also concur in the proposal made in para 66 that salaries from local funds beyond a certain limit should require the sanction of the Central Government, but I would fix that limit

7

53

59

limit at the amount up to which the Local Govern-ment may be Empowered to sanction salaries or alterations in the rates of salary without reference to the Government of India; and that amount, I should say, ought not to be less than Rs 500 a month. —

A. J. Arbuthnot

5th January 1869.

2 Nov 1867 — 1-2
7 Mar 1868 — 15-24

Fin. 1869. Dep.t

From 22d March 69

Minute by the Hon.ble A. J. Arbuthnot.

Ja. 22 Mar 1869.

9th January 1869.

No 246.

Regarding the proposals of Sir R. Temple on the decentralization of finance of British India.

5j.

Minute by H.E. the President

63

The last proposal framed in the Supreme Government with a view to conferring a greater measure of financial independence on the local governments was one to which I could not give my support. It contemplated the disintegration of the existing Imperial Revenues. Certain taxes or certain portions of taxes were to be permanently ceded by the Government of India and appropriated to particular heads of expenditure in the respective Presidencies. The scheme appeared to me to be wanting in breadth and simplicity. I did not see that it was called for by any urgent necessity, by the presence of any serious defects or abuses in the existing system. It did not afford a remedy for the (light) embarrassments which the existing system must justly be held to embody. It was associated with an intention that it might be

desirable to introduce something of a federal character into Indian finance which would, in my humble opinion, impair the credit, energy and stedfastness of the Supreme government which it is most important to support. That project has been laid aside and one of a radically different nature has been substituted in its place, a plan which seems to me to reconcile the authority of the Central Power more happily with a legitimate freedom of decision and action in the Presidency Governments.

II. The great merit of the proposal submitted by Sir Richard Temple is that it is simple. It does not classify all the Taxes of the Country into Imperial and Provincial taxes by an arbitrary classification. It does not, with a single exception, divide any particular tax between the Supreme Government and the Presidency government. It does not apportion any particular tax to any particular purpose. It preserves the Imperial Revenue intact, it leaves the whole in the hands of the Central Power, it provides that from the whole the Imperial charges shall by an annual estimate to be prepared each Presidency contributing approximately in the existing proportion, it would appropriate to each Presidency a round sum representing approximately the balance of the Provincial revenue for administration and public works leaving the repartition of this sum to the judgment of the Presidency Government but maintaining a general and effectual control in the government of India.

III. To the general outline of the project I accede but I venture to demur to some of its features.

(1) I object to the exceptional treatment of the Income tax sanctioned by Sir R. Temple. I dont see why this Imperial

Tax should be divided rather than any other tax, rather, for instance, than the Land Revenue, or the License duty, or the Revenue derived for the Sale of Spirituous liquors. Of all taxes the income tax appears to me to have the most Imperial character. Much might be said in favor of permanently appropriating a portion of the Assessment on cultivated lands or a portion of the License Duty to Presidency or even to local purposes, but little, I think, specifically in favor of dealing with the Income tax in this way. We are surely astounded for all time by a declaration on the part of one of the predecessors of Sir Richard Temple which must have been rather the expression of an intention than a positive Engagement. The income Tax is a tax to be imposed in a case of grave

2

exigency, it ought to be a financial reserve to be brought forward when the State has a great obligation to fulfill, a great necessity to meet, a great exertion to make. It ought not in my humble judgment to be identified with local or provincial wants and provincial habits, it ought not to be naturalized in the Revenue System. It seems to me that if the Supreme government is disposed to make the sacrifice of any source of Imperial Revenue in favor of Presidency or local wants it would be better to give up a whole tax than part of a tax and that the License duty would be the most appropriate exception. In regard to that tax there is also an engagement. The promises made by Mr. Massey must be respected rather than the principles established by Mr. Wilson

and in this case they are more consistent with public expediency.

IV. Sir R. Temple would refuse to the Presidency governments the faculty of creating any new office or department and of regulating the amount of any salary without the sanction of the government of India. He would, however, leave it to the government of Bombay the Presidency to regulate increase the number of its functionaries in existing establishments keeping within the limits of the Budget grants. In fact while sanctioning a facility which might be dangerous he denies a power which would be decidedly useful. The government could practically fill paid offices but could not consolidate them and pay them better. But the true policy for government is to diminish the

number of its servants and to raise their status. I heartily agree with Sir R. Temple in all that he says respecting the absolute necessity of maintaining the entirely power of the Supreme government in respect to the creation and remuneration of the higher offices, especially in regard to those for which Englishmen are particularly eligible. An absolute independence of the Presidency governments among the nomination and emoluments of offices in the educational and Public works Departments might launch them on a course of competition constitutions in which Bombay could hardly lead the race and Madras always be kicked most and we should get the worst men and still pay too much. But the Finance Minister surely keeps the rule of vicarship in the Presidency governments and of control in the

Supreme government too far. on the other hand with all possible deference to the judgment of my colleague Mr. Arbuthnot I think that he contends for too large a measure of independence. Mr. Arbuthnot would grant the Presidency Governments the power of creating (and raising) Salaries up to Rs. 500 ~~Rs. 3000. each~~ ~~raising salaries to Rs. 500~~. per mensem ~~annum~~ without referring to the Government of India. I would rather fix the limit at Rs. 250 per mensem ~~Say each then up to Rs. 1000 and~~ raise them to Rs. 300. This would exclude the higher class of Englishmen who enter the uncovenanted service and restrict our provincial independence to dealing with the great bulk of Native Employes whose salaries ~~education~~ designs don't ~~use~~ extend beyond the confines of their Native Presidency. The same rule might be applied to functionaries whose salaries are defrayed from local funds.

3/

V. The suggestions made by Sir R. Temple in reference to the power to be conferred on the Presidency governments for contracting or sanctioning loans on the security of the local funds of any District or place appear to me to be too liberal as with reference to the rates of the loan to the revenue but with reference to the description of localities in which these powers would be exercised. I incline to restrict the power of sanctioning loans for the present to places having a Municipal Constitution. Such local loans ought also to be made subject to some consent expressed or implied on the part of the inhabitants of the locality. The Municipal Commissions are not formally representative bodies but they are so essentially and when they spent to loans for public improvements it may be

fairly assumed that the treasurer
is not only useful in itself but
acceptable to the taxing community. In the
county districts I know of no method
now existing by which the popular
consent could be conveyed or inferred.
We have no departmental councils,
no quarter Sessions, no commissioners
of supply. I would not grant the
Presidency Government the power of
saddling a Native County District
with a local loan on the mere
recommendation of the Revenue
Officers. The loan might be altogether
repugnant to the public feeling of
the place. In general I would
deprecate the extension of the loan
system and the facility of running
into debt. The present local
taxes are unpopular though the
funds are spent directly on a
few simple local objects most
patent to the apprehension of the

people. I would not swell these imposts
by adding the interest on loans contracted
without local cooperation and perhaps
applied to purposes in advance of
the popular understanding. It may be
possible hereafter to frame some form
of departmental representation pom
the class of landholders which might
be associated with the Collector for the
discussion of local interests. In such
a body the proposal for a local loan
might properly originate and it
might be safely sanctioned by the
Presidency Government under the
restriction laid down by the Finance
Minister

VI. Prompted by the desire to make
his proposals simple and practical
Sir R. Temple has adopted the
repartition of Imperial Revenue
made under the existing system
among the Presidency governments

for their respective local administrations
as the starting point for the future. He
would put aside any elaborate argument
based on a comparison of Presidency
Revenues and Presidency appropriations
approximately he would, in the first
instance, take for each what each
at present pays for Imperial charges
having approximately to each what
it now receives for Presidency
purposes. It has been recently laid
to me convincingly shown by the
Finance Minister that the present basis
is sufficiently equitable and certainly
no other basis could be attained
without complicated discussions which
might easily degenerate into an
embittered controversy. I confess however
that I regret that Sir Richard
Temple has lent any countenance
to the notion that Presidency

appropriations should be discussed or
fixed at all with reference to Presidency
payments. The repartition of Imperial
Revenue in each Presidency for Provincial
should be
based on an appreciation of the wants
of each rather than on a consideration
of the contributions of each. The Revenue
of India is one great National Revenue
to be carried and wielded by the
Supreme government solely for Imperial
interests but for provincial interests.
There will never be enough money to
satisfy the claims of all. The Supreme
Government can alone decide what claims
ought to be satisfied first. The Imperial
Government should in this respect act for India
as the Provincial Governments act in
their respective boundaries. The District
of Tanjore pays the greatest amount of
revenue in this Presidency. But in fixing
the appropriations for the several Districts
it does not follow that Tanjore will receive

the highest shire. It will not recommend because it says much. It may recommend little because it needs little.
The distribution of the Imperial Revenue to the Several Presidencies, and Provinces for establishments and public works may safely be left to the equitable decision of the Supreme government under the control of public opinion and the Secretary of State. But if the Supreme government having adjudicated the general Revenue act with reference to provincial payments but to the greatest good will consent to make the several provincial appropriations en bloc leaving the lump sums so awarded to be bestowed and applied by the Provincial Governments according to their better local knowledge, such a determination I would accept as most reasonable and politic. -

VII. What has been suggested by Mr. Arbuthnot the under the proposed order of ~~financial~~ itinerant administration the apportion of the lump sum awarded by the Supreme Govt. for the use of the Presidency should be decided and settled in the Legislative Council. The measure appears to me to be recommended by several reasons. The motives of government in the application of the revenue to the specific objects would be better understood by the public. The native members

5

Council would have some voice in the distribution of funds which are almost exclusively supplied by the classes which these gentlemen represent. The Legislative Council would gain in public consideration by this addition to its functions. The government would be protected against influences brought to bear upon it through by the Indian office or by class interests here.

VIII. While I adhere in general terms to the project communicated by Sir R. Temple, while I highly appreciate the liberal and practical spirit in which it is conceived and while I admit the principal of Mr. Arbuthnot that the discussion of the Presidency Budget may properly be transferred from the close Chamber of the Executive Council to the more public scene of the Legislative Council it

would be a mistake in my opinion to exaggerate the ~~to exhibit any considerable~~ results which may reasonably be expected from the proposed ~~loan~~ loan operations. We do in fact at present exercise the greater part of the powers with which we should be ~~formally~~ invested by the Charter of Sir R. Temple. The Budget of the Presidency of Madras is sanctioned by the government of India in conformity with the counsels of the Government of Madras and the government of Madras make ~~?~~ firmly claim a repartition of the funds which they ask for essentially similar to that which could be made by any body to which the same task could be entrusted. The controlling or correcting power of the Government of India is certainly not exercised frequently or wantonly. The recommendations of the Executive Council are made with an ~~earnest~~ intelligent view to the public interest. The Government of India meets this government with confidence and cordiality, with as much liberality as general necessities and obligations will allow. The only matters which under a different system here could give rise to serious discussion would be the appropriations in the Department of Public works and in nine cases out of ten I do not see how any deliberative Council in this country could do otherwise than adopt the recommendations of the Secretary in the Public works Department or of the Revenue Authorities who must after all exert the soundest judgment in making a selection from the numerous objects of similar suitable importance which claim our attention. Under the proposed arrangements we should have

much more of the forms of subservience
and something more of it, expence but
the new ~~machinery~~ method for the most
part produce the same results as the
old. What we ~~really~~ need ~~want~~ is more
money ~~at~~ rather than different machinery for
~~a different way of~~ dividing
it and spending it. We ~~cannot~~ can hardly
stand it ill. But the scheme of
Sir R. Temple will not give us
more money. At least it will ~~hardly~~
scarcely increase our Presidency appropriations
any faster than they have
increased under the existing
System.

February 11th 1867 Napier

Finl. 1869. Sept.

Pros. 22d March 1869

Minute by his Excellency
the President.

Sd 22 March

9/11 Feby. 69.

No 247.

Regarding the proposals
of Sir R. Temple on the
decentralization of
finance of British India

83-1

I have perused with much interest
and have carefully considered this
"confidential" communication transmd.
to the Govt. of India, the President, by Sir
Richard Temple. Adverting to the
source from which the communication
proceeds, I have to regret my inability
to say, that I should regard as an
improvement on our present system
of pdc., the plan of decentralization
which Sir R. Temple has sketched
out. If more have to be done by
the Govt., far more than has hitherto
been done; but it does not remove
in certain matters, the general control
of which complaints have at times
and, in my opinion — been made.
Neither does it remove the check on
the creation of new offices, or relax the
rule against the grant of increased
salaries. The check and rule are to
my mind, good, useful, & salutary;
and if Sir R. Temple's proposals
are ever carried out, I cannot advocate
their retention. I am quite aware
that the system of restraint has been
considered to be a failing one, but
on the whole, I am disposed to
believe

scheme, that, conceived as it has been by the Govt of India, with due regard for our real wants when they have been fully explained, it has operated beneficially for the general benefit of the State. And I do not think we see what good reason there is for a change of system.

As regards the other changes in the more important matter of the General administration of the Presidency Govt I cannot intended entirely, I fail to understand why they have been brought forward. During the existence of the present system, we have done well many things in India, particularly as perhaps, in the Madras Presidency, though the difficulties in our communications with the Central Government have been measured by weeks & months, while at present, hours & minutes are sufficient & thus promise to reduce to a minimum, any occasional, hitherto impediments resulting from distance. I look upon the control of the Govt, felt as it has been, as a decided useful control, whether in revenue or political matters. I shall be glad to see it continued in its present form & would let well alone —

A Elphinstone

March 2. 1864

Financial Department.

87

PROCEEDINGS of the MADRAS GOVERNMENT.

Read the following ~~letter~~ Minutes.

By the Hon'ble Sir R. Temple. K.C.S.I. Dy 7th November 1868.
— " — A. J. Arbuthnot — 5th January 1869.
— His Excellency the President — 11th February —
— the Hon'ble H. D. Phillips — 2d March —

Order thereon No 146 - 22 March 1869.

Resolved that the foregoing Minutes of the Members of this Government be communicated by His Excellency the Governor to Sir Richard Temple in reference to his Minute above recorded.

8 April/69 Mr Arbuthnot — 3
16 — Do — H E Governor — 1

Proto-15

59

Fin. Dept. 1869. Sept.
Nos. 22 March 69.

Transmitted by the Hon'ble H. D. Phillips.

Rs 22 Mar 69 - 146 - H. D. Phillips.
Rs 22 Mar 69 - 148 - P. Francis 1869.
Rs 248.

Regarding the Honorary Pay to Dr. Temple as the Secretary of State for Finance of British India.

Copy

Madras. March 12th 1869

89/

My dear Sir Richard Temple,

I have the pleasure of transmitting to you herewith three printed copies of the Financial Memorandum which you were so kind as to communicate to me some time since for the unofficial notice of the Members of this Government.

You will see from the papers forwarded that Mr. Arbuthnot is decidedly in favor of your project, that he attaches great value to it and that he would gladly move further in the direction of decentralization and independent action preserving however the superior controlling power of the Supreme Government intact. I am not so convinced

To The Hon'ble Sir Richard Temple. K.C.S.I.

of the necessity of change, or of the importance of the results which would ensue upon it, but I would gratefully accept the concession of an allowance for establishments and public works in a lump sum and sincerely believe that this would be a measure of substantial utility. Mr. Phillips is satisfied with the present system and would not disturb it. I regret the delay which has occurred and which has partly been owing to the desire which Mr. Arbuthnot and I felt to place our views in a greater degree of harmony than they appeared at first to offer. I may mention that Mr. Arbuthnot would not insist on the greater latitude which he contends for in

his Minute in respect to the creation and increase of offices and salaries. He would 91
concur in the limitations which I have submitted. He also agrees with me in reference to the power of contracting loans for local purposes or the security of local funds.

Believe me
Very truly yours
Napier.

Demi-official from H.E.
Lord Napier to Sir
Richard Temple.

9/12 March 1869.

Giving cover to minutes recorded by the members of this Govt. on his proposals on the decentralization of finances of British India.

Govt. of {1869} Madras.

Financial Dept.

To

Dated 22d March. } 1869, No. 446.
Recd.

Nos. 56 - 2 - 60 -

Communicating to Sir Richard Temple the Minutes of the Members of the Madras Govt. on his proposals for the decentralization of finance

56 to 60