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MADRAS RECORD OFFICE.

Government of Madras.

Finance DEPARTMENT.

G.O. No. (Misc) 1134 Press Mis.

2-1A-D

Dated 15-7- 1872.

46/4

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Read the following:—

No. 21-A. MINUTE by the Right Honourable the PRESIDENT, dated 6th June 1873.

The Resolution of December 1870, by which a fixed sum was determined upon as that which should be allotted annually to each of the local Governments, for the purpose of enabling them to meet the aggregate expenditure in certain specified branches of provincial administration, has, there can be no doubt, been productive of very considerable advantage to the public service. By giving to local Governments a direct interest in restraining, instead of a direct interest in increasing, expenditure, by entrusting the application of public money in certain departments to those best able to appreciate their relative claims, and by putting an end, so far as those departments are concerned, to the vexation and delay consequent on the annual financial controversy between the Imperial and Local Governments, it has conduced in a material degree to economy, efficiency, and harmony of administration.

2. As regards the financial effect of the new measure, the accompanying statement shows the expenditure, provincial and local, in this Presidency, on each of the services to which the Resolution applied in the year before it was acted upon and in the years which have followed its application. It will be seen that in the year (1870-71) which preceded the fixed assignment, the provincial expenditure on the services which it affected was £979,472, while the local expenditure on the same objects was £237,552. In the first year (1871-72) of the fixed assignment the provincial expenditure on these objects was £770,675 (which was nearly the amount of the provincial grant), and the local expenditure upon them £282,862; and these amounts increased (according to the regular estimate for 1872-73) to £860,934 and £330,614, respectively. It thus appears that in the year following the adoption of the new arrangement the local expenditure on the services to which it applied increased by nearly £150,000. For the year 1872-73 it still further increased to an amount which may be approximately stated at £400,000. This addition to the local imposts of the Presidency was effected under the Madras Local Funds Act and the Madras Municipal Act of 1871, and would, no doubt, in great part have taken place irrespectively of the new arrangement in regard to provincial grants; but in part also it must be considered to have been a consequence of that arrangement. This Government is, however, fully aware of the importance of restraining the progress of local taxation, and of adopting such measures as may appear practicable and desirable to alleviate its pressure upon the people.

3. Great as have been the advantages resulting from the Resolution, there are nevertheless some important respects in which it may fairly be characterized (1) as inconsistent and (2) as defective.

4. In the first place, from the objects of expenditure to which the fixed assignment applies, some are excluded which are more peculiarly "Provincial" than those which it includes; as, for instance the expenditure in this Presidency on public parks and gardens, and the contribution by the Government to certain charitable institutions.

5. In the next place, it is not easy to see on what ground the application of the principle has been confined to the particular departments specified in the Resolution, or why it should not be extended, with proportionately increased advantage, to every department which is administered exclusively by the local Governments. The same grounds which rendered it expedient that the Local Governments should be entrusted with the distribution of public money for purposes of Education, Police, and Civil Buildings appear to apply with equal force to the expenditure on the administration of justice, on the collection of the revenue, on forests, or for ecclesiastical purposes. The collection of the land revenue in this Presidency may be especially mentioned as depending upon conditions totally different from those which attend it in any other part of India, and as a service in respect of which it is therefore desirable that as much freedom as possible should be given to the Provincial Government.

6. It would appear that the scope of the Resolution might with great advantage be extended so as to include all the departments specified in the Civil Budget, except those which are administered by the Central Government, or which are in their nature of an imperial rather than a local character, and among which the Customs, Opium, and Salt Departments would be included. If this proposal were adopted, the charges transferred to the Local Governments in addition to those already entrusted to them, would be as follows :—

Land Revenue.	Minor Departments.
Forest.	Law and Justice.
Excise.	Marine.
Assessed Taxes.	Ecclesiastical.
Stamps.	Medical.
Administration.	Miscellaneous.

7. It might probably be expedient that the Central Government should at the same time retain power to fix a maximum for the higher official salaries.

8. The amount of the fixed assignment which would be made to the Local Governments as a provision for the additional charges so transferred to them would be determined as before by the present expenditure on the departments concerned; but that amount could not be reduced, as in the case of the fixed assignments already made. In that case, the deficiency was supplied by local taxation; but no such resource will be available as regards the branches of expenditure which would thus be included. And thus the objection (already noticed) to the principle, as applied in its present limited degree, that it has caused an addition to local burdens, could not be urged against its extension as now proposed.

9. Supposing that the measure were developed as here suggested, there would remain the important consideration that, while giving to Local Governments a direct interest in the economical and effective application of public money, it leaves them without any such interest in the improvement of the revenue. In this respect, indeed, the case is even worse than before, since the present system of fixed assignments implies a degree of probability, which did not before exist, that whatever increase may take place in provincial revenues, no corresponding addition will be made to imperial grants.

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10. To remedy this defect, the following methods have been proposed, viz.:—

1. That over and above the fixed annual grant, each province should receive a certain portion (say half or one-fourth) of any increase which might hereafter take place in its contributions to the imperial revenue.
2. That each province should receive a certain percentage on the revenue which it collects, so fixed as to provide for the charges transferred to it, taking them at their present amount.
3. That all the receipts and charges, except those which may be classed as "Imperial," comprised in the Civil Budget of each Provincial Government should be made over to that Government, and that a fixed annual contribution, equal to the present surplus (as shown in the Budget) of such receipts over charges should be made by the Local Government to the Imperial Treasury.

11. These proposals appear to satisfy only in a very partial degree the requirements of the case. By the first and second a remedy is indeed provided for the evil under consideration (the absence of interest on the part of Local Governments in the increase of the revenue), but the remedy is very incomplete; and the third is open to the serious objection that it would deprive the Central Government of all direct financial advantage from the improvement of the provincial revenues.

12. The arrangement which, for simplicity, for completeness, and for adaptation in other respects to the object in view, would appear to be most desirable, is that the receipts as well as the charges in all the departments specified at paragraph 6 of this Minute should be transferred to the Local Governments, and that each of those Governments should contribute annually to the Imperial Treasury a certain fixed percentage upon the revenues so made over to it, the amount of such percentage being determined by the existing surplus (as appearing in the Budget) upon the receipts and charges so transferred. It would at the same time be distinctly understood that full power was reserved by the Central Government to deal as it pleased with the proceeds of provincial taxation, and, therefore, to increase or diminish, should any emergency or change of circumstances require it (such, for instance, as a political crisis, or a failure of crops in a particular province so serious as to cripple its revenue), the percentages of contribution so assigned.

13. Such an arrangement could not fail to be followed by beneficial results of the highest importance to the country. The anomaly which has existed so long and with such serious injury to the finances of the Empire—of Governments charged with the collection of taxes from which they derive no direct advantage, and, regardless of economical considerations, vying with each other in the annual attempt to obtain as large a share as possible from the general fund—would be at an end. Each Administration would have a direct and active interest in the protection of its revenue and the development of its commercial and industrial resources, and would at the same time be able to avail itself of an improved financial condition in the manner best calculated both to benefit the Imperial Exchequer and to promote the welfare of the population entrusted to its care. On the other hand, the Supreme Government, while retaining control over the revenues, would benefit, to an extent which it is not easy to limit, directly by the increased financial pros-

perity of every district under its charge, and indirectly by the improved administration which in all parts of the empire would be a necessary consequence of the change.

14. It may be objected to this proposal that for a system under which the Central Government is the recipient and dispenser of the proceeds of taxation throughout the empire, retaining for imperial purposes as much as circumstances may appear to require, and allotting to each province that which may be considered a suitable provision, with reference not only to its individual requirements, but to the part which it plays in the general scheme of imperial policy, there would be substituted a system which would assign to Local Governments a financial position approaching to that of independent but associated communities—a system, in short, of federal for one of imperial finance; but this objection seems to be rather formal than substantial. In point of fact, a certain aggregate sum which does not materially vary from year to year is now made over to the different provinces; and the surplus is retained by the Government of India and applied to imperial needs. All that would be necessary, in order to deprive the objection of force, is that the power of the Supreme Government to modify the arrangement, should its modification be deemed advisable with reference to special circumstances or to general requirements, should be distinct and unquestioned.

15. If, however, from regard to general considerations of this nature, it should be determined not to adopt the larger and more effectual measure here proposed, it would appear that of the three expedients which have been suggested and which are above indicated, the first, which would make over to the Local Governments a part (one-half or one-fourth) of any annual increment on their revenues (except in those departments which may be classed as Imperial) is that which might most advantageously be adopted.

16. I should propose to reply to the Government of India in the sense of this Minute.

HOBART.

Proceedings of the Madras Government, Financial Department, 5th July 1873.

STATEMENT showing the Assignments from Imperial Funds for Services now classed as

Head of Service.	Net Provincial Assignment	Net Expenditure, Provincial.			Provincial Estimated		
		Prior to the Decentralization Scheme, 1870-71.	1871-72.	1872-73.	Income.	Expenditure.	
					1873-74		
	£	£	£	£	£	£	
Jails	79,118	74,341	69,033	a69,083	15,620	93,520	1
Registration	11,238	13,545	11,706	9,719	32,000	23,094	
Police	301,885	310,819	331,383	338,695	3,000	360,000	
Printing	23,465	22,103	21,913	20,610	2,800	25,212	
Miscellaneous	50,778	101,034	8,531	40,930	8,930	50,203	
Educational	77,550	86,074	70,169	67,797	11,000	95,518	
Do. grants to Local Funds	.....	.....	2,026	2,217	.....	6,027	
	77,550	86,074	72,195	70,014	11,000	101,545	
Medical	63,785	55,250	41,401	46,301	900	52,656	
Public Works.							
Communications		153,983	3,762	8,502		11,000	2
Grant to Local Funds from Provincial Funds		.....	92,280	114,383		117,533	
Grant to Local Funds from Special* Funds		11,382	38,087	31,685		31,351	
Civil Buildings	213,198	58,847	58,472	68,152	5,000	72,000	
Miscellaneous Public Improvements		7,744	3,787	3,500		.....	
Petty Construction and Repairs		.....	797	1,093		15,000	
Establishment, Tools and Plant		84,350	17,328	38,267		22,400	
Total, Public Works	.....	316,306	214,513	265,582	5,000	269,284	2
Grand Total of Expenditure on Provincial Services	821,017	979,472	770,675	860,934	79,250	975,514	2

* Cattle Trespass Act I. of 1871 (Section 18).

Net ... 896,264

Provincial, and the Expenditure on those Services before and since the Change of System.

Expenditure from Local Funds exclusive of Grants from Provincial and Special Funds.				Grand Total.				Remarks.
				Net Expenditure, Provincial and Local.			Gross Estimate, Provincial and Local Funds	
1870-71.	1871-72.	1872-73.	1873-74.	1870-71.	1871-72.	1872-73.	1873-74.	
£	£	£	£	£	£	£	£	
.....	.....	.....	.....	74,341	69,033	69,083	93,520	a Partly estimated.
.....	.....	.....	.....	13,545	11,706	9,719	23,094	
.....	.....	.....	.....	310,819	331,383	338,695	360,000	
.....	.....	.....	.....	22,103	21,913	20,610	25,212	
.....	.....	.....	.....	101,034	8,531	40,930	50,205	
.....	b17,592	c34,727	c41,056	86,074	87,761	102,524	136,574	b Includes municipal and local fund expenditure. c Estimate of expenditure in Local Fund Circles only.
.....	.....	.....	.....	.....	2,026	2,217	6,027	
.....	17,592	34,727	41,056	86,074	89,787	104,741	142,601	
.....	b25,922	c12,183	c17,635	55,250	67,323	58,484	70,201	
37,552	b238,582	c333,704	305,374	391,535	242,294	442,206	316,374	
.....	.....	.....	.....	.....	92,280	14,383	117,533	
.....	.....	.....	.....	11,382	38,087	31,685	31,351	
.....	816	.....	.....	58,847	59,288	68,152	72,000	
.....	.....	.....	.....	7,744	3,787	3,500	.....	
.....	.....	.....	.....	.....	797	1,093	15,000	
.....	.....	.....	.....	84,350	17,328	38,267	22,400	
37,552	239,348	333,704	305,374	553,858	453,861	599,286	574,658	
37,552	282,862	380,614	364,065	1,217,024	1,053,537	1,241,548	1,339,579	
						Net ...	1,260,329	

No. 21-B.—MINUTE by the Honourable J. D. SIM, C.S.I., dated 18th June 1873.

The Government of India desire our "matured opinion upon the general operation of the system of fixed allotments of imperial revenue for Provincial Services," and our suggestions "as to any possible modification or extension of the system."

2. The system may be briefly described as the transfer to the Local Governments of certain branches of the Administration, with perpetual assignments from the Treasury, averaging nearly seven per cent. less than the net grants made for them in the year 1870-71. The deduction in this Presidency was £55,000 per annum. It devolved on the Government to make the reduced grant suffice, or to raise whatever additional sum might be requsite by local taxation. Several minor services have since been transferred to the Government without any deduction, but, of course, with liability for any increased expenditure that may hereafter become necessary.

3. The operation of the system has certainly been successful; the services are in as efficient condition as they ever were, at a less cost to the Imperial Treasury, and the relations of the Government with the Supreme Government have been far more satisfactory. Of course, it must not be supposed that the services have been performed for the money allowed; recourse has necessarily been had to fresh local taxation, and charges which used to be met from the imperial assignments have been transferred to Local Funds, as was contemplated by the Supreme Government, *vide* paragraph 8, Resolution of Government of India, 14th December 1870, Financial Department No. 3334 (Accounts).

"It would have been satisfactory had His Excellency in Council been able to propose the enlargement of the power and responsibility of the Local Governments, without charging upon local resources any part of the existing imperial expenditure. This cannot be done."

4. But the degree in which this has been done, merely to maintain the services as they were, has not pressed materially on the people, while the administration of the transferred departments has undoubtedly improved from the greater independence accorded to the Government and their "command of the purse."

5. The extension of the system is no doubt desirable and expedient, and the success which has attended the experiment on the very limited scale on which it has been tried, will, I hope, encourage and embolden the Supreme Government to entrust to our charge departments of greater importance. The returns of expenditure will show that the Government has been careful to restrict its outlay as much as possible, and to incur no hazard of exceeding its income.

6. Of the three different methods of extending the system enumerated by his Lordship, the third is certainly the one which would be most acceptable to the Local Government, but I see no probability of its being assented to by the Supreme Government. A scheme of this kind was suggested by our Board of Revenue in 1868, and came under the consideration of the Supreme Government at the time, but did not meet with acceptance. The first method suggested by his Lordship seems to me the best under existing circumstances. By it, departments would be made over to the independent control of the Government, with grants equivalent to those now allowed, and a certain proportion of future increase in their revenues above a certain standard. It is impossible to adhere to the principle adopted in the

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existing provincial system of reducing the grants, for we have reached the goal in the way of local taxation. And as, in the nature of things, charges of administration must increase, it is absolutely necessary that the Government should have some source whence to meet such increase; and a share in revenues augmented by their good management is at once the best and fairest mode of providing for the exigency.

7. I cannot concur in the arguments that "economy" will result from the extension of the provincial system, nor can I admit that a percentage of all increase in the revenues administered by the Government should be allowed, in order that the Government may have an "interest" in augmenting the revenue. To acquiesce in either proposition seems to me an admission that the Government has, in the past, been extravagant in its expenditure and negligent of its duty; and for neither charge is there, I opine, any valid ground. The greater efficiency of provincial administration is due to other and more legitimate causes—the placing power in the hands of those whose special knowledge enables them best to wield it, greater freedom of action, &c.

8. The departments which I would suggest as those which may with most advantage be thus transferred, are Land Revenue, Forests, and Abkári. The Government would receive the sum annually spent on these departments, in order to administer them, and a certain share (say one-fourth) of all increase in their receipts over the average of the preceding three or five years. These are all departments in which local knowledge and experience are most conducive to efficient administration—in which, indeed, successful administration is otherwise impossible. The revenue system of this Presidency is peculiar to itself. Practically, all these departments are left to our management, the control exercised being over expenditure, not income. I doubt if the Supreme Government would be willing to go further for the present.

9. The only "modification" in the existing system which it seems desirable that we should bring under the consideration of the Supreme Government is the long-standing grievance of inequality in the grants made in 1870-71. It is matter of notoriety that the Madras Government has all along considered that Madras has received less than her due share of the public revenue. It is generally understood that this was the view of Lord Napier and Ettrick, and that, as Viceroy, he brought the subject before the Supreme Government; and the public of Madras share the opinion, which certainly *prima facie* receives support from the amount allowed. This view may be right or wrong, but it is eminently desirable that the doubts which exist should be removed; that if Madras really has received less than its due, the deficiency should be made good, either now, or in any future extension of the system. Any feeling of dissatisfaction which rulers and ruled alike share should be removed, or shown to be unfounded.

10. I do not think we should experience any difficulty in showing that the Madras Presidency merits liberal treatment. The principle adopted in the introduction of the provincial system, viz., basing the grants in perpetuity on the grants of the single year 1870-71, fell with peculiar severity on us, for we had carried out most rigorously and scrupulously the orders of the Supreme Government enjoining the utmost economy on account of the apprehended deficit. Our expenditure and

demands were, therefore, much less than the real requirements of the Presidency dictated. We have also much inevitable outlay to provide for, in the way of education, civil buildings, and other necessities of good government. We may fairly claim consideration of these circumstances.

J. D. SIM.

No. 21-C. MINUTE by the Honourable R. S. ELLIS, C.B., dated 27th June 1873.

I concur with my colleagues generally in the opinions they have expressed upon the results of the system of fixed allotments of imperial revenue for Provincial Services, introduced by the Resolution, No. 3334, of the 14th December 1870. I think we may without exaggeration affirm that the increased power given to the Local Governments in the branches of the administration assigned to their independent management has been usefully applied in the more speedy remedy of existing defects, and in departmental revisions and alterations, by which the efficiency of the administration has been sensibly increased. The Resolution has also had the effect of creating a confidence in the intentions of the Government of India towards this Presidency which did not before exist, and has removed the doubts and jealousies of ancient date and natural to all Provincial Governments.

2. *The ease with which effect* has been given to the Resolution of the 14th December 1870, and the success which has attended that measure, naturally point to its extension, and I entirely agree with His Excellency the Governor in hoping that the confidence placed in the Local Governments by the Government of India, which in the first instance was perhaps wisely restricted, will now be more widely extended, and that the principle applied to a few departments will now be applied to all the departments specified in the Civil Budget, except those which are administered by the Central Government, or which are in their nature of an imperial rather than a local character. I firmly believe that the result of this extension will be improved efficiency, and possibly some increased economy of expenditure. I believe that it will be difficult to introduce any great savings in the administration under the Madras Government, which has been consistently careful in its management; but I think that the advantages which have resulted from the Resolution will be felt in its further extension, and that the Government of India may safely carry out to its logical conclusion the principle they have introduced.

3. It is hardly to be expected that this Government, while replying to the questions of the Government of India on the effect of the Resolution of December 1870, and discussing the merits of increased independence in the management of the services allotted for provincial expenditure, should remain silent on the question of the assignments made to this Presidency from the Imperial Exchequer for provincial requirements, and a large portion of the Minute recorded by His Excellency the Governor is devoted to this most important question.

4. As I have before said, I do not anticipate that the effect of the Resolution of 1870, even when it receives, as I hope it will, its fullest extension, will do much in increasing the assets in the hands of the Madras Government. We shall, I believe, introduce reforms more rapidly, and administer all the departments with more vigour; but I doubt if, on the whole, we shall be able to make any serious amount

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of money out of the concession. Whether, therefore, we present our request in the form of having a direct interest in the increase of our revenues, or under any other guise, the question that we are forced to bring respectfully, but very earnestly, before the Government of India, is, that our grant from the Imperial Exchequer is insufficient, and should be increased.

5. I see no advantage in re-opening the question whether we have, as compared with other provinces, received our proportionate share of the imperial revenues. I prefer pointing out to the Government of India the circumstances under which the amount of our grant was fixed, and the serious disadvantage under which the Madras Government was placed. This representation is all the more necessary, because I most entirely agree with Mr. Sim, that we have reached the limit of local taxation, and that it is to the liberality of the Government of India alone that we can look for the money we require to give effect to moderate, but necessary, measures of administrative improvement which we have long had under contemplation.

6. I joined cordially in the immediate suspension of the house-tax in the rural districts, and in the approaching abolition of the trades-tax in the towns. There was a universal and consistent opposition to the house-tax, which it would have been unwise to disregard, and the trades-tax is, from its nature, inquisitorial and extremely unpopular.

7. While we have done wisely, I think, in relieving the people from these taxes, we have an anxious problem to solve—how we are to meet the difficulty of a loss of Rupees 5,57,680, the amount which we expected to realize from the abolished taxes. We have before us the necessity of extending and controlling primary education throughout the country. We must, while making the people pay for the education of their children, assist them with trained teachers, with grants-in-aid of various kinds, and with qualified inspection. To do this with even moderate and very gradual success, our progress in other administrative improvements, if our financial condition remains unaltered, must be lamentably delayed.

8. The amount assigned for our civil buildings is totally inadequate to our requirements. It is true that our larger jails are at last in a satisfactory condition, but our subsidiary jails in most districts are a discredit to our administration, and there is hardly a district in which large sums ought not to be expended in providing suitable buildings for the transaction of official business.

9. We have continually been paring down our Police expenditure till we are on the verge of seriously impairing the efficiency of the Force, and it was only the other day that we discovered that the reduction in the numbers of the Force made it necessary to allow only two nights' rest in the month to our Police guards.

10. If, as proposed by His Excellency the Governor, the departments of Law and Justice were assigned to our management, we shall have to face the urgent necessity of giving respectable salaries to the Ministerial Officers of our Courts throughout the Presidency, their present rate of salary being known to be inadequate to secure honest service.

11. I could go on detailing defects and requirements due to deficient means, but I prefer pointing out what has been, I believe, an unintentional injustice to this Presidency, viz., the inadequate allotment it received when the provincial assignments were fixed in 1870-71.

12. The grants to the several provinces in that year were taken as the standard on which the "actual wants of each province" were determined, and the sum at the disposal of the Government of India was distributed by that standard, or rather in proportion to it. From a reference to Account No. 21 of the Financial and Revenue Accounts of British India from 1863 to 1871, which detail the total civil charges of each province, it appears that in the year taken as the standard the expenditure in Madras had been unduly reduced owing to special circumstances.

13. It will be perceived in the first place that between 1863-64 and 1869-70, owing partly to the economy of the Madras Government, and partly to the difficulty in obtaining grants from the Supreme Government, the civil expenditure only increased from £2,493,000 to £2,804,000, or by 12 per cent., while during the same period the charges in the North-West Provinces, Bombay, and the Punjaub had increased by from 20 to 34 per cent.

14. It will be further perceived, from the same account, that the Madras civil expenditure was so largely reduced, in view of the supposed serious financial crisis of 1869-70, that the outlay in the following year was only 3 per cent. above the outlay in 1863-64, although in no other province was the expenditure reduced below 9 per cent. in excess of the expenditure of that year (1863-64).

15. Thus, the result of six years' economy, and of a loyal compliance with the supposed pressing necessity of the Supreme Government during the financial crisis, has been to fix for Madras the standard rate of civil expenditure at a proportionately much lower rate than that adopted for any other province, and to render our allotment really insufficient for our requirements.

16. I think these facts should be prominently brought to the notice of the Government of India. I firmly believe in the wish of His Excellency the Governor-General in Council to hold the balance fairly as regards the several provinces in the empire, and I believe that there are real and incontrovertible grounds for a re-consideration of the allotment fixed for the Madras Presidency.

17. That an improvement should be made in our financial condition, either by a direct addition to our provincial grant, or indirectly by a percentage on the increasing revenues, is a matter worthy of consideration, and I incline to the latter course.

18. I believe that there is a probability of a gradual and certain increase in the Land Revenue and Abkári, and that undoubtedly these desirable results will be more rapidly and certainly obtained by these services being handed over to the independent management of the Local Governments.

19. I am not prepared to say what should be the amount of percentage allowed to Madras on the increasing revenues which it may pay into the Imperial Exchequer, but I think we should take this opportunity of laying before the Government of India the insufficiency of our present assignment and its probable cause, and that we should leave to them to determine how they will relieve us from a financial pressure from which we cannot free ourselves by further local taxation, and which, if continued, must most seriously retard the progress and welfare of the people of this Presidency.

R. S. ELLIS.

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No. 21-D. To the Secretary to the Government of India, Financial Department, dated Ootacamund, 5th July 1873, No. 934.

Referring to your letter of 17th August 1872, No. 2019 (Accounts), I am directed to forward, for submission to His Excellency the Governor-General in Council, the accompanying Minutes on the subject of the system of provincial assignments recorded by His Excellency the Governor and the Hon. Messrs. Sim and Ellis.

2. This Government are of opinion that the system of fixed allotments of imperial revenue for Provincial Services has been productive of decided advantage to the public service by adding to the inducements to careful scrutiny of proposed expenditure, by entrusting the distribution of the assigned funds among the transferred services to the hands of those best able to appreciate their relative claims, and by limiting the occasions for financial controversy between the Local and Supreme Governments.

3. As regards its financial effect, it may be briefly stated that, while the provincial expenditure on the transferred services now exceeds the fixed allotment for them by £75,247, the combined provincial and local fund expenditure on them (exclusive of municipal) exceeds the imperial expenditure on them in the year preceding the change by £280,857, the measure having been accompanied by the imposition of local *and municipal* taxation for the same services, which at present may be approximately stated at £400,000 yearly.

4. The Madras "Local Funds" and "Towns' Improvement" Acts of 1871, under which this addition to the local imposts of the Presidency was effected, are in extension of previously existing enactments, and were in contemplation prior to the introduction of the new system of provincial assignments, but had certainly been in some measure prompted by the discussion on the subject which preluded the change, and were unquestionably rendered more than ever necessary by its adoption.

5. The Government are, however, fully alive to the importance of restraining the progress of local taxation, and of alleviating its pressure on the people; and they are decidedly of opinion that the limit of local taxation has been reached, and that it is to the liberality of the Government of India alone that this Government can in future look for the requisite means to give effect to those moderate but important measures of administrative improvement which are of such pressing necessity and have been so long under contemplation.

6. The Government trust that the amount of success which has so far attended the policy of decentralization will encourage the Supreme Government to advance further in the same direction, and, in doing so, they trust that opportunity may be found and taken for remedying the doubtless unintentional injustice which was done to this Presidency by adopting the grants for 1870-71 as the criterion of the needs of the transferred services. The greater moderation in expenditure by this Government, and the loyalty with which they responded to the appeal of the Supreme Government in 1869-70, when a financial crisis was supposed to be impending, have unquestionably been productive of injury to the interests of the Presidency, in that the inadequate grants which were then accepted

as a State necessity have now become a permanent obstacle to effective administration to a far greater extent here than is the case elsewhere.

7. A reference to the Parliamentary Return of the Financial and Revenue Accounts of British India from 1863 to 1871 will show that the civil expenditure of this Presidency increased in the interval from 1863-64 to 1869-70 by only 12 per cent., while in the North West Provinces, Bombay, and the Punjab, the increase in the same interval was from 20 to 34 per cent., and the reduction in 1869-70 made by this Government brought down the charge to only 3 per cent. above what it was in 1863-64, while in no other province was it reduced below 9 per cent. above the same datum. Yet this disproportionately inadequate grant was the standard by which the provincial assignments were regulated for all time to come.

8. I am directed to urge this fact upon the impartial consideration of the Government of India, in order that it may be borne prominently in view in determining on any extension of the system of fixed assignments.

9. As to the direction in which such extension might with advantage proceed, the Governor in Council considers that at present some objects of expenditure are excluded from the system which are more properly provincial than those which it includes; as, for instance, the expenditure on public parks and gardens, and the contributions to charitable institutions. The Government also consider that the scope of the Resolution of December 1870 might with great advantage be extended so as to include all the departments specified in the Local Budget, except those which are administered by the Supreme Government, or which are in their nature of an imperial rather than a local character.

10. The fixed assignment to be made as a provision for the transferred charges would be determined as before by the present expenditure on the departments concerned, but there would be no room for such reduction of grant as was made on the first occasion, as no additional resource is now available from whence to supply the deficiency.

11. But supposing the adopted policy to be developed as suggested, there would still remain the important consideration that, while giving to Local Governments a direct interest in the most economical and effective application of public money, it leaves them without any such interest in the improvement of the public revenue; and in this respect indeed the present system is more discouraging than that which preceded it, as it bars the expectation of increased grants for the transferred services whatever improvement may occur in the provincial revenues.

12. To remedy this defect, I am directed to suggest for the consideration of the Supreme Government that, over and above the fixed annual grant, each province should receive a certain portion (say one-half or one-fourth) of any increase which may hereafter take place in its contributions to the imperial revenue. Under this arrangement, each Administration would have a direct and active interest in the protection of its revenue and the development of its commercial and industrial resources, and would at the same time be able to avail itself of an improved financial condition in the manner best calculated both to benefit the

Proceedings of the Madras Government, Financial Department,
5th July 1873.

Imperial Exchequer and to promote the welfare of the population entrusted to its care. The Supreme Government, on the other hand, would benefit directly by the increased financial prosperity of every province, and indirectly by the improved administration which would be rendered possible by the change.

W. HUDLESTON,
Chief Secretary.

Exd. J. H. Burn?

1872.

MADRAS.

From

The Chief Secretary to the Government

To

The Secretary to the Government of India

Dated 5th July 1872.

Read

No. 934.

Enclosure.

JULY.
Nos. 21-1—21-3.

Provincial Administration.—The views of the Madras Government upon the general operation of the system of fixed allotments of imperial revenue for Provincial Services, introduced by the Resolution of 14th December 1870, communicated to the Government of India.

Transmitted
Letter from F.C. Madras
of 17th Dec: 1870

The Resolution of Decr 1870,
by which a fixed sum was
determined upon as that
which should be allotted
annually to each of the
local Govts for the purpose
of meeting them to meet the
aggregate Expenditure in
certain specified heads
provincial administration
&c, then can be ascertained,
from products of every
considerable advance in
the public service - By
giving to local Govts

a debt incurred in
redemption, certified by a
debt interest in ascertaining
expenditure; - by retarding
the application of public
money in certain departments
of those best able to appreciate
their relative claims, - and
by putting an end, no fear
in those departments are
concerned, to the uncertainty
and delay consequent on
the annual financial
readjustment between
the Imperial and Local
Govts, - it has conduced in
a material degree, to
economy, efficiency, and

harmony of administration.

As regards the financial
effect of the new arrange-
ments accompanying National
shows the expenditure,
pronounced and local in
the Revenue, each
since and since the Reduction
effected, in the year before
it was acted upon, and in
its application. It will
be seen that that in
the year (1870-71) which
preceded the fresh apportionment
the Provincial expenditure
on the services taken over
amounted to £ 929,472,
while the Local Expenditure

on the same object were only £13,511. In the first year (1871-2) the first payment, the provincial expenditure on these objects was £776,548 (which were mainly the Provincial grant) the local expenditure upon them £282,862: and these amounts (annually the regular charge) for 1872-3 of £860,934 & £380,614 respectively. I then appeared that the addition of the new system the local expenditure on the services

£23,552

£17265

It would it appear that the increase from ~~the~~ increased ~~expenditure~~ to was £400,000: that is, it has increased to an extent far more than proportionate to the addition (which may be stated in round figures at £150,000) caused by the reduction in the amount of the fixed Assignment or compared with the preceding year and the Sir's for the same purposes. Then the addition to local ~~taxation~~ imposts Police Pensions &c. upon effected under the Counties Local Finance Act, and the Counties Management

for 1872-3 £150,000

Then in the year 1872-3 it has been stated, increased - does account not deal by the apparent gain of £

Act of 1871, and would no doubt in practice have taken place irrespectively of the new arrangement with regard to promoted grades; but in practice it must be considered to have been a consequence of that arrangement. It is for it, however, fully warranted by experience of retaining the power of local [illegible] and of such measures as

Great
[illegible] as have been the advantages resulting from the Regulations, there are, unquestionably, certain respects in which it may justly be characterized as defective.

In the first place, from the list of objects of expenditure to which the fund is proposed to be applied [illegible] are excluded which are peculiarly promoted by the Act which it succeeds, as providing the expenditure in the Parishes of roads and footways, and the contribution of the first [illegible] of the cost of

institutions,

In the next place it is not easy to see on what ground the application of the principle has been confined to the Jurisdictional departments specified in the Resolution, or why it should not be extended, with proportional increase of revenue, to every department which is administered exclusively by the local Govts. The same grounds which render it desirable that the local Govts should be vested with the distribution of public money for Medical Education, Police, & civil Buildings, appear to apply with equal

force to the expenditure on the administration of justice, on the collection of the Revenue, or Assets, or for Ecclesiastical purposes. The collection of the Land Revenue may be dispensed with sooner in Districts where it is found to be a source of local expenditure than in others where it is therefore desirable that as much freedom as possible should be given to the provincial Govts

It would appear that this
resolution might
with great advantage be
extended so as to include
all the Departments effected
in the Civil Budget, except
Mint which are somewhat
of a Central ~~Revenue~~ Service, & which
are in their nature of an
Imperial rather than a
Local character, and
which [illegible] the Customs,
Opium, and Salt Departments
would be included. In
their place would be added
the charges hitherto transferred
to the Local Govts, in addition
to those already included in

them, would be as follows:—

Land Revenue	Minor Departments
Forest	Law & Justice
Excise,	Marine,
Assessed Taxes,	Ecclesiastical
Customs	Medical
Administration	Miscellaneous

—

It would further be expedient
that the Central Govt should
also have some discretion given
to fix a maximum for the
higher official salaries.

The amount of the fixed
assignment which would be
made to the Local Govts on
a principle for the additional
charges so transferred to
them, would be determined

ex before by the present
expenditure on the departments
concerned. But that amount
could not be reduced, as in
the case of the fiscal expenditure
already made. In that case
the deficiency was supplied
by local taxation: but no
such resource will be
available as regards the
branches of expenditure
which have been transferred or
excluded. And thus the
objection (already noticed)
to the principle as applied
with present limited degree
of that it caused an addition
to local burdens — could not
be urged against its extension
as now proposed.

despairing that the measure
could be successfully
developed as here
suggested, there would
remain the important
consideration
desert that while giving
to local Govts a direct
interest in the economical
and effective application
of public revenues it leaves
them without any such
interest in the improvement
of the revenue. In this
respect reduced the case
is even worse than before;
since the present system
of fixed assignments

implies a degree of probability which did not before exist that whatever increase may take place in provincial revenues, no corresponding addition will be made to Imperial grants.

To remedy this defect, the following methods have been suggested, viz.

1. That over & above the fixed annual grant, each province should receive a certain portion (say ½ or ¼) of any increase which might hereafter take place in its contributions to the Imperial revenue.

2. That each province should receive a certain percentage on the revenues which it collects, and to fixed as to provide for the charges transferred to it, taking them at their present amount.

3. That all the receipts and charges† comprised in the Civil Budget of each provincial Govt should be made over to that Govt: and that a fixed annual contribution equal to the present surplus (or shortfall) in the Budget of receipts

† (except those which may be stopped or suspended)

over such charges
should be made by the
Local Govt. to the Imperial
Treasury.

Since proposals should be
offered to Parliament
in a very practical shape
the experiences of the case.
By the first and second
a remedy is indeed
provided for the evil under
consideration — the absence
of interest on the part of
local Govts. in the economy
of the system; but the
remedy is very incomplete
and the third is open to
the serious objection, that
it would deprive the central

financial adviser
Govt. of all direct interest
from the expenditure of the
Provincial revenues,
after transfer.

The arrangement will,
would be simplicity, for
completeness, and for
adaptation in other respects
to the object in view, would
appear to be most
desirable, in that the
receipts as well as the
charges in all the
departments specified
in para 4 of this Despatch
should be transferred to
the local Govts, and that
each of those Govts should