[L. & M.
3,000—5-4-99.]

Local & Munl. (1899) Department.

MISCELLANEOUS.

G.O., No. 2383 L

DATED 23-11-99.

[Despatch Abstract.]

Provincial Finance.

Recording G.O. F.D., directing that the Govt. of India be addressed regarding certain proposals for the extension of the system of ——.

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G.O.	No.	Department	Date	G.O.	No.	Department	Date

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Government {1899} of Madras.

FINANCIAL.

LOCAL & MUNICIPAL DEPT.
CURRENT No. 1993 L.

Misc: Order No 2383 [illegible]
23/11/99

Recorded

Recd. } 1899. Enclosures
Regd. } Spare copies

V.R.
3/10/99

[illegible]
4. XI. 99

G.O., No. 773, 7th July 1899.

JULY.

Provincial Finance.

Directing that the Government of India be addressed regarding certain proposals for the extension of the system of —.

20/7/99

9C/14/10/99

GOVERNMENT OF MADRAS.

FINANCIAL DEPARTMENT

Read—the following paper:

From J. B. Brunyate, Esq., Under Secretary to the Government of India, Finance and Commerce Department, to the Chief Secretary to the Government of Madras, Financial Department, dated Simla, 7th October 1898, No. 4360-A.

I am directed to forward, for the consideration of His Excellency the Governor in Council, a copy of the correspondence with Her Majesty's Secretary of State for India noted on the margin, regarding certain proposals for the extension of the system of provincial finance, and to request that the Government of India may be furnished with the views of His Excellency on the subject dealt with in the correspondence.

1. Despatch to the Secretary of State, No. 68, dated 3rd March 1898.
2. Despatch from the Secretary of State, No. 125, dated 28th July 1898.

Enclosures.

Despatch from the Government of India, Finance and Commerce Department (Accounts and Finance—Provincial Finances), to the Right Honourable Her Majesty's Secretary of State for India, dated Calcutta, 3rd March 1898, No. 68.

Your Lordship is aware that many questions of great importance relating to the principles of provincial finance have been for some time under our consideration, and the general nature of the problem which presented itself for solution was indicated in your speech on the India Estimates, in the House of Commons, on August 5th last. You contrasted the financial obligations of the Imperial and Provincial Governments in the following terms:—

"Upon the Imperial Government rests the primary duty of maintaining order internally and of protecting the frontiers; of the risk of war, famine, exchange, and sudden emergencies; of the responsibility of maintaining not only national solvency, but also the solvency of the Provincial Governments. It is, moreover, their business, whenever they can, to remit or abolish taxation. On the Provincial Governments, on the other hand, rests the duty of developing the resources of their respective provinces, and by so developing them to add to the general prosperity, comfort, and taxable power of the community at large. The number of objects associated with these purposes is ever increasing, and the expenditure involved by them ever growing. In this country we know how local expenditure has increased much more rapidly than Imperial expenditure; and this is not due to inherent extravagance of the bodies controlling this expenditure, but to the inevitable result that, as civilisation and prosperity increase, so the functions of local authorities are raised to a higher standard of duty and ambition. In this country, however, the great bulk, if not the whole, of this expenditure falls directly upon the rate-payers, and this acts as a natural check upon undue development of expenditure; but if the great bulk of expenditure fell, not upon local rates, but upon portions of Imperial revenues, the House will easily understand that local wants and local expenditure would develop with extraordinary rapidity."

2. You went on to point out that the weakness of the present system of provincial finance lay in the fact that the Provincial Governments, subjected to the continual pressure of demands for increase of expenditure, were not with equal directness subjected to the restraint imposed by their having to find the means of meeting it, and that the question presented itself to them as that of making out a case for the assignment to them of larger portions of the Imperial revenues (that is, of the revenues of

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India generally) and not that of submitting in their own provinces to larger demands upon the rate-payer or tax-payer. Accordingly in your Despatch written about the same time (29th July 1897) you stated that you awaited any proposals we might have to make as to the possibility of enabling the Provincial Governments to impose taxation for local purposes, with the view of ensuring that those who demand additional outlay should have some share of the responsibility of supplying the funds.

3. The extension given to the powers of Local Legislative Councils by the Act of 1892 has forced this subject into greater prominence. It is natural and right that these Councils should, in the interests of their provinces, press upon the Local Governments the desirability of the expansion of expenditure in several directions, and the inevitable result is that the Imperial and Local Governments are forced into antagonistic positions, the former finding itself quite unable, with due regard to the general financial position and obligations of the Empire (the measure of which the Local Governments have only scanty means of estimating), to concede to the latter the means of meeting demands, the merits and urgency of which it must nevertheless fully admit.

4. We desire to note in connection with this subject that we are unable to admit that the Provincial Governments, or rather those who champion their cause in these matters, have any just reason to consider that the real operation of the Provincial contract system in the past has been to unduly restrict Provincial expenditure, and to appropriate the increases of revenue in an undue measure to the expenditure which is under the direct administration of the Supreme Government; such as Military expenditure, expenditure on central establishments of the Government of India, and expenditure on Political agencies. Some of the facts bearing on this question were set forth by Mr. Jacob in his final examinations before the Expenditure Commission; and we would further supplement his evidence with the figures shown in the following statement, from which it appears that, to take the Army expenditure as an example, not even with all the increase of Military force which was found necessary in 1885, has the Army expenditure increased in the same ratio as Provincial expenditure has increased:—

Provincial expenditure.	1877.	1897.	Ratio of increase.
	Rx.	Rx.	
Bengal	2,110,700	3.125,500	48·0
Madras	1,773,900	2,237,400	26·1
Bombay	2,079,600	2,544,100	22·3
North-Western Provinces	1,712,200	2,428,700	41·9
Punjab	996,500	1,538,300	54·3
Central Provinces	443,800	710,700	60·0
Burma	722,000	1,205,100	67·0
Assam	328,200	564,900	72·1
Total Provincial ..	10,166,900	14,355,700	41·2

Imperial expenditure.	Budget, 1876-77.	Budget, 1896-97.	Ratio of increase.
	Rx.	Rx.	
Army—			
India	11,820,700	17,480,100	..
England	4,158,300	4,408,500	..
Total ..	15,979,000	21,888,600	37·0 } 34·0
Military Works	1,228,400	1,171,600	— 4·6 }
General Administration, "India" ..	374,100	462,000	23·5
Political Establishment, "India" ..	136,500	188,000	37·8
Total of Above Imperial Heads ..	17,718,000	23,710,200	33·8

5. A reference to the Proceedings in settlement of the last quinquennial "contracts" with the Governments of Bengal, Madras, and Bombay will show how great the

difficulties are which the present system has developed. The quinquennial revision of the contracts in the case of these three prosperous provinces have almost always been in the direction of examining to what extent it is possible for them to resign some of the increase of their provincial share of revenue, either for the poorer and more backward provinces, or for such general Imperial burdens as have been thrown upon us by the fall of exchange, by war and by famine. In the present case, on the contrary, they presented to us in each case a list of new demands for expenditure, requiring in two out of the three cases [illegible] to the assignments of revenue as they stood before the revision was taken in hand, and this in the presence of a treasury impoverished by the most widely spread and most costly famine of the century. The Lieutenant-Governor of Bengal described his position thus:—

"The improvement of the status of [illegible] the extension of primary education among the rural population; the provision of healthy courts and residences for [illegible] sits; the introduction of the system of [illegible] jails; the reconstruction and re-equipment of the Calcutta hospitals; the [illegible] of ministerial officers [illegible] increased salaries; and the adjustment on an equitable basis of the financial relations between the Government and local authorities. All these projects [illegible] of being summarily put aside in the manner adopted in your letter under reply. Each and all of them involve considerations of policy of more than local and passing importance. Some have been expressly enjoined and insisted on by the Government of India; others have been brought to the front by a wave of public opinion which finds expression in the public press or in speeches and interpellations in the Provincial Councils, and which cannot be resisted indefinitely. Large administrative reforms of this kind necessarily transcend the normal growth of expenditure on civil administration, which, as is stated in paragraph [illegible] of your letter, was intended to be met from the increase of revenue secured by Provincial management."

And both the Government of Bombay and the Government of Bengal urged that the weight of famine expenditure should not be allowed to stop the way of administrative improvement:

Bengal.—"I am to say that as His Honour understands the policy involved in the maintenance of a recurring surplus by way of insurance against famine, it seems to him to pledge the Government of India to meet famine expenditure, at any rate to the extent of the sum charged as reduction and avoidance of debt, from Imperial funds, rather than by exhausting Provincial balances and suspending the progress of material improvements for several years to come. Had even half its balance in hand on 1st April 1897 been left to this Government, there would have been comparatively little difficulty in carrying on the administration. As it is, every improvement is brought to a standstill: the very position which the device of the Famine Insurance policy was designed to obviate."

Bombay.—"In view of the terms of your letter under reply, the Governor in Council has not thought it expedient to press his view that provision should be made for the other expenditure shown to be urgently required. But he must express his deliberate conviction, in view of the fact that the Government of India can now borrow at about 3 per cent. interest, that in most, if not all, of these cases the objections to using the money to meet the expenditure would not be greater than the advantages to be gained by incurring it."

We attach also in Appendix A to this letter a succinct summary of the speeches in the Budget debates of 1896 in the Local Councils of the three great provinces by way of showing how in these Councils the one subject urged is that of increase of expenditure, and not a word is said of the means by which it is to be provided. The same feature will be seen in the speeches of the Provincial representative members in the Budget debate in our own Council on 27th March last.

6. There seems to us only one way of meeting these difficulties, and it is by carrying into still further operation the principle upon which the Provincial system of Finance was originally based, and which is thus put by Sir John Strachey:

"The Government of India had totally failed to check the constant demands for increased expenditure; there was only one remedy to prevent the demand being made, and this could only be done by imposing on Local Governments a real and effectual responsibility for maintaining equilibrium in their local finances; there would be no standard of economy until apparent requirements were made absolutely dependent upon known available means." (Quoted from Financial Statement for 1877–78.)

Our object, in short, should be to impose with much greater directness than at present the condition that the people who urge, and are to benefit by, the expenditure

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shall bear the burden of it, and that (at all events beyond definite limits) a Local Government, which proposes or allows increase of expenditure, shall have the responsibility of finding the means within its own borders, and shall not merely look to, and claim for the purpose of it, a larger share of the general revenues. A condition of this sort was not only contemplated but actually imposed in Lord Mayo's first measure of decentralization in 1870; but is ceased to be effective on the expansion given in 1877 to the original scheme.

7. Before we proceed to set out the details of the scheme we propose for Your Lordship's consideration, it is necessary to explain shortly the point of view from which we look at the existing contracts. They may be described for present purposes as a combined contract consisting of three portions—

(*a*) The assignment of definite shares of the revenues and of the cost of collecting them—say the Net Revenue Account.

(*b*) The assignment of particular heads of expenditure on Civil Administration, and of the receipts corresponding to those heads—say the Net Civil Expenditure.

(*c*) The assignment of certain Irrigation Works, and, in one or two instances, of certain Railways.

This third part involves different conditions in different provinces, and in some of the provinces does not exist at all. The other two parts are, barring some differences on the proportionate shares of revenue, practically the same and of the same extent in all provinces. As we have no proposal to make with reference to the Irrigation and Railway portions of the contracts (where they exist), we shall leave them out of account, and deal only with the remaining part of the contract, that is, treat the contracts as if they comprised only—

(1) an assignment of a defined portion of the Net Revenue Account;

(2) the obligation to meet out of this Net Revenue the Net Expenditure on Civil Administration.

(Note.—The charges which in the accounts are classed under 3.—Land Revenue are regarded as portion of the expenditure on Civil Administration, and not as part of the Net Revenue Account.)

The assigned portion of Net Revenue is ordinarily so adjusted as to be sufficient, at the time when it is made, for the expenditure that has to be met out of it, and this adjustment is made every fifth year on a consideration of the amount of expenditure admitted as having to be provided for.

8. Now the expenditure that has to be provided for may be divided into two classes,—the general expenditure on administration, and what in the above extracts from Your Lordship's speech and despatch is regarded as expenditure for local purposes. The "local" category includes such items as roads and communications, most of the Educational and Medical expenditure, grants for Municipal purposes, including Municipal police, and a few others. It is still our experience, as it was in 1884 (*vide* paragraphs 112, 113 of Financial Statement for 1884–85), that it is in this local class of expenditure that the greatest tendency to increase shows itself. Members of the public obtain little or no advantage by there being too many District Officers engaged in administration, too many Judges for the amount of judicial work to be disposed of, too many police for general protection; the Supreme Government, the Local Governments, and the people have in respect of this class of expenditure the same object before them, namely, to do a given amount of work as efficiently and as economically as possible. But with the local class of expenditure it is far otherwise. To the amount of money that can be usefully spent on roads, schools, hospitals, and dispensaries, there is practically no limit; at all events, the amount of money which Government can levy in the form of taxation for such purposes is far within the amount that can be usefully spent. The benefit of such expenditure is felt immediately and directly, and it is in respect of it that the great pressure for increase makes itself felt. In the three principal provinces the educational and medical expenditure charged to General Revenues has increased in twenty years as follows.

	Lakhs and thousands of rupees.		
	1877.	1887.	1897.
Education.	Rx.	Rx.	Rx.
Bengal	[illegible]	324,600	(a) 317,600
Madras	[illegible]	166,600	167,900
Bombay	104,[illegible]	152,200	182,100
Total	[illegible]	643,400	667,600
Medical.			
Bengal	112,[illegible]	[illegible]5,900	186,600
Madras	[illegible]	118,400	130,700
Bombay	[illegible]	[illegible]8,000	160,000
Total	[illegible]	[illegible]2,300	477,300

(a) Including about two lakhs transferred to Local Board management, with a contribution equal to the cost.

9. These figures are quite independent of any increase in similar expenditure provided for by local taxation. In every province in India there are arrangements by which money is raised by local rates for expenditure on these local purposes, but they are nowhere nearly enough to meet all the expenditure of the kind. The consequence is that there is no complete division, theoretical or practical, between the expenditure that has to be met by local taxation and that which has to be met by Imperial or general taxation. Local taxation is availed of so far as is considered advisable or practicable, but the balance of "local expenditure" (as above defined), which is not met by local rates, falls on the general treasury; and thus any increase in that class of expenditure is, as a matter of fact, provided for not by any increase in the standard of local taxation, but by larger demands on the general revenues.

10. And this brings us to another aspect of the same subject, namely, that the tendency of present arrangements is to transfer to general revenues expenditure which has been provided for, and should continue to be provided for, by local taxation. The revenues of the provinces have, under the provincial system of finance, been usually prosperous enough during the currency of their quinquennial contracts, to render it possible for the Local Governments, not only to increase local expenditure without finding any necessity for increasing the rates of local taxation, but even to receive as charges against their general revenues expenditure which has hitherto been borne by local or municipal taxation; and although theoretically arrangements of the sort may be disallowed at the end of each quinquennial period, and the burden thrown back upon local or municipal sources, yet, as a matter of fact, it is most difficult to disturb arrangements of the kind, and they have, for the most part, been allowed to stand. The larger and more prosperous provinces of Bengal, Madras and Bombay are those in which (as is perhaps natural) this result is chiefly shown; the other ones have not found the same margin of general revenues to utilize in relief of local or municipal burdens.

Some figures bearing on this subject will be found in Appendix B.

11. The proposal which we have to make in modification of the present system of Provincial finance is that a final and definite assignment be now made out of the general account for all the "local" purposes of the Provincial Government; or rather that the Provincial Government be informed how much out of the net revenue assigned to it in the 1897 contract is to be taken as assigned for "Local Purposes," that this portion of the "Contract" be regarded as permanent, and that in future quinquennial revisions no further regard will be paid to any expenditure of the class defined as local, but the quinquennial adaptation of revenue to necessary expenditure will be made only with reference to the remaining or "general" portion of the account. The Local Government will thus know that to whatever extent it allows any increase to take place in its local expenditure, it accepts for itself the responsibility of finding, without further assignment from general revenues, the means to meet it,

and if it outruns in its expenditure the measure of its "local" assignment thus permanently fixed, it will have to fall back on some form of local taxation for the levy of the necessary funds, as the increase will not be taken into account in fixing the total of the assignment from general revenues.

12. It is not our proposal to apply this scheme at present to any provinces but those of Bengal, Madras and Bombay: we quite recognize that the other provinces are not, in respect of the questions involved in the scheme, on the same plane with the large provinces. Their system of Local Self-Government is not nearly so developed either in respect of Municipalities or of District Funds, the Local Government having a much more direct concern in, and control over, the affairs of local bodies. The Local Councils and the pressure of public opinion which they represent are, outside Bengal, Madras and Bombay, only in the beginning of their development, and it will be long ere the standard of local expenditure already reached in these three provinces extends to the others. They are as yet immature in the matters affected by the proposed policy, and it would be unjust to them to throw them upon their own resources until they have reached something approaching to the state of development attained by the older provinces. It is practically in the older ones alone that the pressure exists, to which it is necessary to set a limit by the imposition of a large measure of financial responsibility for the results.

13. We are afraid it is not possible to allege that even the three greater provinces will be left, by introducing this new scheme with practical effect from 1897, under precisely equal conditions. Any minute comparison of the relatively favourable conditions in which the three provinces stand with reference to the general financial state of the Empire involves so many and such abstruse considerations that probably no two persons—experts even—would agree on any conclusions arrived at. Sir John Strachey said in 1872:

> "The object at which the Government aimed in introducing the new system of Provincial assignments was not to attempt the impossible task of making a theoretically equitable distribution of Imperial revenues between the various provinces, but to make better practical arrangements for meeting actually existing charges * * * *
>
> "The fact appears to me to be that the questions raised * * * * are insoluble;"

and in this we entirely agree. Each province can urge considerations which show that it has greater claims than the others, and there may be any number of different opinions as to the comparative value of the considerations thus set forth.

14. It is certain, we think, that the development of the provinces under the financial and administrative system which has been applied to them since 1870 has been such as to bring forward those which under a more dependent system would have lagged behind, and to restrain the too rapid advance of those which were more favoured either in position or in natural wealth. Bengal, Madras and Bombay are certainly much more capable of being treated on a common basis in 1897 than they were in 1870, and the measure we propose to apply to them will rather tend to eradicate than to accentuate any inequalities that exist in the conditions of their partnership in the general financial position.

15. One reason may be mentioned, besides that of comparative backwardness in "local" development of other provinces, why we should throw upon the three greater provinces the burden of finding from their own revenues the means of meeting future measures of local expenditure.

So far as regards Madras and Bombay, it will be remembered that in 1877 and 1878 when it became necessary to take measures to enhance the revenues of India, the principal measure adopted was the imposition of local cesses on land in Bengal, North-Western Provinces, Punjab and Central Provinces. Madras and Bombay were at that time exempted from the demand, partly because the salt duties in these provinces had just been enhanced up to the standard of Northern India, and partly because the provinces were just recovering from the famine of 1877 and 1878. (See Financial Statement for 1880-81, paragraph 53). But no steps have since been taken to levy on them the assessment then made in Northern India, and it may fairly be considered that, so far as the burden of taxation of this kind is concerned, they can afford to bear, if necessary, a higher rate than the present one before they have any cause for complaint of unfavourable treatment as compared with Northern India.

16. Then, as regards Bengal, we are entitled to bear in mind the very favourable position in which it is placed as regards taxation upon land by the permanent settlement of its land revenue. The question of the policy of that settlement lies outside the present discussion; so far as we are at present concerned, we may assume it to be both wise and fair as between the State and the landholder. But when we come to discuss claims of the province, in comparison with those of other provinces, to have assignments made to it out of the general revenues of the Empire for the increase which it voluntarily admits in its local expenditure, we are entitled to remind it that a province which in one important respect contributes to the common fund in more scanty measure than any other province should not expect to derive, by increase of its assignment out of that common fund to its purely local objects, a compensation for the disadvantage under which it lies in respect of its inability to develop its revenue on the same lines as other provinces.

17. It will be observed that we do not put forward any theory that expenditure of the kinds which we designate as local should not be met, in part at least, out of the general revenues of the Empire. In this respect we adopt the principle upon which the Provincial contracts have all along been founded, namely, that we accept as the starting point the existing condition of affairs. Local taxation has everywhere come in as a supplement to Imperial and general taxation, but we accept the fact that in the circumstances in which we find ourselves, there is no objection on principle to the general revenues that are levied for the maintenance of the regular administration of the country being partly applied also to those classes of expenditure in aid of which local rates are levied. This is all the more necessary in India where the land, which is in other financial systems the main source of local taxation, is already the direct source of a large portion of the general taxation. Our object is rather to impose a limit on the extent to which the demands on general revenues may be in future increased, in consequence of too rapid increase of local expenditure.

18. We might indeed absolutely stop all future increase of these demands by fixing the proposed assignment for local purposes at a lump sum equal to that which was assigned in the 1897 contract. But some of us are impressed with the dangers which may arise from too free resort to local taxation, and we therefore shrink from a proposal which, seeing that it is quite impossible to avoid all development of local expenditure, would be equivalent to a direction to the three local Governments concerned to have immediate recourse to new sources of taxation. Our proposal is to make the assignment in the form of an assignment of a fixed portion of some of the general revenues,—an amount fixed in consideration of the proportion of increase we can easily afford to set aside for development of local expenditure,—and to inform Local Governments that this being the limit of the increase of admissible burden on general revenues, they must either so regulate their local expenditure as to keep it within the limits set, or, if they do not, they must provide, by development of local sources of taxation, for any greater rate of increase which they allow.

19. We believe that we have now sufficient information and experience to warrant fixing a "local" assignment on these principles in the three larger provinces, and thus removing the local portion of our account from the area of the quinquennial revision. It may become possible, under the conditions mentioned, to give "Local" matters over in full control to the Local Governments concerned, though we would still have to reserve for the present system of five years' contract the general administrative portion of the expenditure only, in respect of which we are not able to the same extent to demit our responsibility.

20. It is desirable in order to give a clear explanation of our proposals to set them out in actual figures, so far as can be done without reference being made to Local Governments for details of information which on some points are wanting.

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21. The detailed figures upon which the Provincial contracts of 1897 were based in the cases of Bengal, Madras and Bombay are set out in Appendix C annexed. It will be seen that, after elimination of such irrigation and railway figures as enter into them, the arrangement amounted to an assignment of a portion of the general revenues estimated at— to enable the Local Governments respectively to meet their net charges of Civil Administration of all kinds. The Bengal figure, it should be borne in mind, includes net receipts of Rx. 409,500 under the head of "Provincial Rates," which being a local rate should not perhaps be described as an assigned portion of general revenues; that is, this amount could not, under the conditions of the permanent settlement prevailing in that province, have been assessed upon the land for general purposes in the same sense as the land revenue of Madras and Bombay is assessed.

Bengal.	Madras.	Bombay.
Rx.	Rx.	Rx.
3,125,500	2,237,400	*2,544,100

22. An analysis of the expenditure for which this assignment is made shows that it may be divided between "General" and "Local" as follows :—

—	Bengal.	Madras.	Bombay.
	Rx.	Rx.	Rx.
A.—Estimate of net General Expenditure	2,491,430	1,889,200	2,101,300
B.—Estimate of net Local Expenditure	634,100	348,200	442,800
Total ..	3,125,500	2,237,400	2,544,100

The precise discrimination between General and Local is discussed in Appendix D. The detailed distribution of the two portions of the account is shown in Appendix E.

23. Now our proposal is to regard the Provincial contract of 1897 as composed of two separate portions, namely, first, a portion of the revenues equal to the amount marked A in the above statement is assigned for meeting the expenditure classed as general. This assignment is made for five years in the same way as it is done under the present system, and will be liable to revision at the end of five years by adjustment to the amount of expenditure of this class which at the end of that time it is found necessary to provide for. In the case of these wealthy maritime provinces it may be hoped that this revision will be a resumption in favour of the general account of the Empire of part of the previous assignment, as under these Governments the revenue should increase at a greater rate than the general administrative expenditure.

24. The second portion of the contract would be the assignment of the portion of the revenues equal to the amounts marked B, for the purpose of meeting the local expenditure. This assignment would be made once for all and would not be liable to revision at the end of five years. No objection would be made to the Local Governments during the five years' currency of the A portion of its contract devoting to local purposes any actually realized surplus of the share of the general revenues over the general portion of the expenditure; but since in the new contract the assignment made for local expenditure will not be revised on consideration of the then attained standard of local expenditure, but will remain at its originally settled figure, it follows that the burden of providing for any permanent increase of local expenditure over the rate of increase, if any, of the revenues originally assigned for it will remain entirely with the Local Government, and will not (as under present arrangements is the case) be passed on to the General Account of the Empire.

25. It will be observed that it is possible under this system either to make the assignments for local expenditure the fixed and definite amounts of Rx. 634,100, 348,200, and 442,800, or to make them in the form of increasing revenues, of which the standard is at present taken at these amounts. In the first case the burden thrown on the Local Government will be that of finding from local sources any future increase

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* This figure in the case of Bombay does not include the adjustment of alienated land revenue peculiar to that province.

of local expenditure, and in the second it will be the burden of finding from local sources only so much of future increase of local expenditure as is in excess of the increase of the assigned revenues. We take it that it is not possible to prevent some increase in the rate of local expenditure, and therefore if we adopt the first plan, increase of local taxation will be an inevitable result of the proposals. As above observed, there appear to be weighty administrative objections to this, and we are disposed to make the assignment in the form of increasing revenues. We might, for example, make the assignment in this form:—

One-twelfth of the land revenue, and of the net excise revenue of the province.

Plus or *minus* a fixed addition or deduction of the same nature as the present "Provincial" fixed adjustment.

This would give, approximately, as follows:—

	Madras.	Bombay.
	Rx.	Rx.
$\frac{1}{12}$ Land Revenue	[illegible]	317,000
$\frac{1}{12}$ Net Excise Revenue	[illegible]	87,000
Fixed adjustment	[illegible]	+ 38,800
Total ..	[illegible]	442,800

For Bengal it would be:—

	Rx.
The Provincial Rate would take the place of the $\frac{1}{12}$ Land Revenue	409,500
$\frac{1}{12}$ Net Excise Revenue	105,000
Fixed adjustment	119,600
Total ..	634,100

There would remain for the Provincial portion of the assignment the balance of the present Provincial share of land and excise revenues, after deducting the above one-twelfth.

26. The result of this arrangement would be that (with the above variation as regards Bengal), so long as the increase of local expenditure did not exceed in its amount one-twelfth of the increase of land revenue and excise taken together, there would be no question about local taxation. But if any Local Government permitted a larger amount of increase, it would be obliged to find the means out of sources independent of the general revenues.

We have already remarked that the assessment of revenue upon land which is the ordinary source of local expenditure in countries like England being already so largely appropriated as portion of the general revenues, it is only fair to regard a portion of the increase of land revenue as appropriable to increase of the local expnditure. And we may observe in passing that these two heads are particularly adapted to the purposes of a permanent assignment, as it is not likely that any question of reduction of taxation will at any time arise with reference to them.

27. We may observe that judging from the present rate of increase of revenue this arrangement would permit of a quinquennial increase of the annual local expenditure by 3 lakhs in Bengal, 7½ in Madras and 3 in Bombay, without raising any question of new local taxation. There seems to be no objection to the permanency of an assignment on this scale, and the admissible rates of increase seem to us not unfair as between the provinces; it is no doubt a narrow limit for Bengal, but we see no reason why that wealthy province should be allowed more than the same proportional rate of increase of its local expenditure merely because there is a limit to the assessment, for general purposes, on its land. We have referred to this point in paragraph 16 above.

28. A local account, settled upon this basis, will give these Local Governments an independent financial existence in a sense which is not possible under present arrangements. Only the most general intervention, if any intervention at all, will be

necessary on the part of the Supreme Government. The whole benefit of good administration by the Local Government, of their "Local" account and of development of local taxation (whether the administration of present local taxation or any new additions to it) will remain absolutely with the Local Government, and there will be no feeling (as at present undoubtedly there is) that any economies in expenditure or development or increase of revenue are made for the ultimate advantage not of the Local Government, but of the general account. The financial side of the Local Government and of the local councils will have a reality which under the present system can exist only in a subordinate sense; and the whole system of Government in local matters, including District Boards and Municipalities, will be separated off in its financial relations from the general administration of the Empire, and the responsibility for it and for its financial results placed upon the shoulders of the Local Government.

29. We do not, of course, expect a sudden development of all these advantages within a short space of time. The measure we propose will at first be limited in its extent, both with respect to the particular objects of expenditure which it covers and with respect to the number of Local Governments to which it will be applied. But it embodies a new principle which may, in future, in both these respects be capable of extension.

30. To another portion of the existing financial system a reality can be given which is not under present circumstances possible; we refer to the responsibility for productive works. This part of the scheme of 1877 has in practice failed of its effect. There is no means by which, in making a provincial assignment in a new contract, allowance can be made for the effect of a productive work upon provincial finance. To add its revenue to the assignment independently fixed assumes that that revenue has not yet been utilized for increase of expenditure, which is most likely not the case; while when a Local Government undertakes financial responsibility for a proposed productive work, it really undertakes it only for the currency of the existing contract, for at the end of the five years all adverse financial results are necessarily passed on to the general account. In the system we propose, the financial responsibility will be real, for if we include the financial results within the local branch of the account provincial, the effect will be that the Local Government will directly benefit by the success, or directly bear the financial effect of the failure, of the scheme for which it has accepted responsibility.

31. We may remark that the scheme does not necessarily introduce any change whatever in the form in which our accounts are now drawn up. It may be advisable for clearness' sake to redistribute the "Provincial" and "Local" columns as they are at present compiled, and to show the assignment to local in the former column as a charge on account of "Contribution to Local"; that is, we might distribute the charges between these two columns according to their nature, instead of according to their method of administration. This question, however, involves other considerations, and all that need be said here is that, if such a change of arrangement were carried out, it would involve no alteration in the statement of accounts as a whole, as the entry disappears when the columns are combined.

32. We have also to observe that we have not yet consulted Local Governments regarding the scheme. It is one of considerable importance and, as we hope, fruitful of results; but before laying it before Local Governments for consideration from their side, we are desirous of first ascertaining whether the change which it involves in the financial relations between the Supreme and the Local Governments commends itself to your Lordship, subject to what they may have to say, as likely to attain the objects aimed at in the instructions quoted at the commencement of this despatch.

APPENDIX A.

Proceedings of Local Councils.

Bengal, [illegible] April 1896.

Honourable G. P. Sen—Proposed reduction of Court-fees. Complained of limitation of expenditure on Education. Proposed general increase of pay of native clerks.

Honourable S. Banerjee—Approved of increase made in grant for Education. Urged expenditure on water-supply in districts, provision of houses for Munsifs and increase of pay to menial and ministerial servants.

Honourable A. M. Bose—Approved of increase in grant for Education.

Honourable M. S. Das—Wished more money spent on Agricultural Education and pay of ministerial officers.

Honourable Rai E. C. Mitra—Wished grants to be made for water-supply of villages and for house accommodation of Munsifs.

Honourable Moulvie M. Yusuf, K. B.—Wished money spent on translations of Muhammadan Law Books.

Honourable Mr. Gladstone—Urged claims of General Hospital in Calcutta.

Honourable Mr. Womack—Urged reduction of Court-fees in Small Cause Court, Calcutta.

Madras, 8th April 1896.

Honourable Mr. Bliss—Presented the Financial Statement.

Honourable Mr. Pantulu—Regretted no provision was made for farm schools; and approved of increases of allowances to taluk establishments.

Honourable Mr. Mudaliyar—Approved these same increases. Asked for more expenditure and greater progress in primary and female schools.

Honourable Mr. Nayar—Complained of smallness of grant for Education.

Honourable Mr. Chambers—Considered amount allotted to technical education should be very largely increased.

Honourable Mr. Vijayaraghavachariar—Considered more money should be spent on Courts of Justice and on Education. Primary education should be compulsory and free, secondary education cheap, and collegiate education by no means prohibitive.

Complaints were made by several members of scale of Land Revenue assessment.

Bombay, 17th August 1896.

Honourable Mr. Setalvad—Urged separation of Judicial and Executive. Reductions in certain salaries under Law and Justice. That expenditure on Education must increase and increase by leaps and bounds. Increase of pay of Hospital Assistants and Assistant Surgeons.

Honourable Mr. Yajnik—Urged that Provincial finance should be made independent of Imperial claims. Approved higher grant for Education.

Honourable Mr. Dharamsi—Urged that Bombay should get a larger Provincial assignment. Urged claims of Muhammadan Education and of Law School. Also of village sanitation and water-supply.

Honourable Mr. Mehta—Claimed that Bombay Municipality should be relieved of Police charges. Objected to withdrawal of grant to University; and urged claims of certain colleges to grants and necessity of expenditure on school buildings.

Honourable Mr. Wadia—Urged general increase of expenditure on Education.

Honourable Mr. Kharé—Urged that Bombay had claims to better treatment in the Provincial Contract; that the allowance made for Education, though larger than previous year, was not large enough.

Honourable Mr. Tilak—Urged that the growth of revenue should be utilized to carry out the most needed reforms in the Educational, Medical, Agricultural, Judicial, and similar other Departments, these being the principal grievances and demands of the people.

APPENDIX B.

Tendency to Relief of Local at expense of General Taxation.

1. About 1888 the Legislature of Bengal passed an Act with regard to the Calcutta Municipality, which relieved that Municipality of over three lakhs a year of expenditure by throwing it on the general provincial account. This financial effect of the Act was not realized at the time, and in fact to ascertain the precise effect of the law, the point had to be referred to more than one eminent Counsel in Calcutta. It was strongly objected to by the Government of India when it was realised, but the fact remains that the Government of India has at present to add 3½ lakhs to the Provincial assignment of Bengal on account of expenditure which ought on principle to be borne by local taxation.

2. Last year, in the same way, the Government of Bengal announced its intention of making over to Local Boards certain revenues (ferries and tolls), which are appropriated to Provincial roads and communications, and took for granted that the expenditure hitherto met from that source would be provided for in the assignment to be made to Provincial in the contract just settled. The Government of India intervened in time to prevent this transaction. But both in Bengal and in Madras there have been during a long course of years large alienations in favour of Municipalities of ferry and toll revenues, and the expenditure upon communications which ought to be met from that ferry and toll revenue has now in great part to be met directly or indirectly by the general tax-payer, at whose cost the municipal tax-payer has been relieved.

3. In 1891-92 the Government of the North-Western Provinces made certain grants to Municipalities for drainage and water works. In some cases the money was not wanted at the time, and it lay for years in the municipal coffers, and indeed was let out at interest by the Municipality. Long before it was spent, the Provincial Government were in financial difficulties, which were due in part to this premature alienation of its funds. At the present moment the Government of Madras has made a considerable grant to the Municipality of Madras, and the money lies unused in the municipal balance, while in consequence of this grant the Government of Madras has failed to meet a corresponding portion of its famine expenditure, and the burden will necessarily fall on the Imperial Government. No objection is made to grants to Municipalities being made out of accumulated surpluses, but they are not reckoned among the expenditure to be provided for by assignments out of General Revenues.

4. We may here point out the partial failure, owing to this same cause, of the financial portion of the Local Self-Government policy of Lord Ripon's time. Part of the proposal then made was—

> "The Governor-General in Council would therefore be glad to see Municipal Bodies relieved altogether of the charge for Police, an equal amount of expenditure on Education, Medical charity, and, if possible, public works of local interest, being transferred to them with as full control as may be practically expedient over the details of such expenditure."

5. The figures which were before the Government of India at the time when this proposal was made to the Local Governments were the following:—

Expenditure of Municipalities in 1879–80 (in Rupees).

—	Police.	Education.	Hospitals and dispensaries.
Central Provinces	1,08,967	30,536	Not separately stated.
Burma ..	1,46,889	28,956	
Assam ..	11,133	110	
Bengal,—Presidency ..	3,01,132	..	
" Mofussil ..	5,73,377	24,389	
North-Western Provinces ..	5,70,237	56,789	
Punjab ..	4,46,698	1,14,243	
Madras,—Presidency ..	..	6,635	
" Mofussil ..	84,115	63,492	
Bombay,—Presidency ..	3,88,284	17,000	
Mofussil ..	1,24,212	79,707	

The same expenditure in 1895–96 was—

—	Police.	Education.	Hospitals and dispensaries.
Central Provinces	10	1,32,760	78,780
Burma (Lower) ..	9,070	2,21,360	2,87,760
Assam ..	2,410	1,080	6,790
Bengal,—Presidency ..	..	..	70,580
" Mofussil ..	11,350	60,900	3,02,790
North-Western Provinces ..	4,76,360	90,200	1,02,940
Punjab ..	5,47,490	6,92,320	3,70,980
Madras,—Presidency ..	..	..	53,630
" Mofussil ..	..	2,08,020 (a)	2,77,260
Bombay,—Presidency ..	5,01,100	78,230	65,750
" Mofussil ..	18,560	6,62,700 (a)	3,02,300

(a) Of these amounts the following sums were contributions from Government, and from Local funds; the balance only was spent from Municipal funds:—Madras, 32,920; Bombay, 2,56,770.

6. These figures show that the Bengal Municipalities have not carried out their share of the compact. They have got rid of their police expenditure by transferring it to the general tax-payer, but they have not taken over corresponding expenditure on education and medical. In respect of its undertaking what are properly municipal or local burdens, that wealthy province is far behind Burma, the North-Western Provinces, and the Punjab. Similarly, the Madras Presidency Town bears an unduly restricted share of municipal obligations; and in fact, although it bears no police expenditure, no educational expenditure, and very little hospital expenditure, it is continually getting large grants from Madras Government out of the general revenues.

7. The comparison between provinces of the expenditure on hospitals and sanitation is as follows:—

Expenditure on (1) Hospitals and Dispensaries and (2) Sanitation and Vaccination.

(Figures of 1895–96 in thousands of rupees.)

—	From General Revenues.			From Local Revenues.		
	Provincial.					
	Hospitals.	Sanitation, &c.	Total.	Hospitals.	Sanitation, &c.	Total.
Central Provinces	63	15	78	25	42	67
Burma (Lower) ..	10	9	19	42	28	70
Assam ..	45	25	70	84	10	94
Bengal ..	4,55	2,24	6,79	1,71	22	1,93
North-Western Provinces ..	34	80	1,14	4,30	86	5,16
Punjab ..	61	59	1,20	2,80	65	3,45
Madras ..	3,42	1,20	4,62	7,10	(a) 7,00	14,10
Bombay ..	5,59	3.00	8,59	1,30	53	1,83

(a) Apparently this 7,00 includes water-supply.

8. It will be seen from these figures that the two wealthiest provinces, those of Bengal and Bombay, have passed on to the general tax-payer of India the burden of finding them in what in other provinces is largely provided at local cost.

APPENDIX C.

Detailed figures working up to the assignment for Provincial Expenditure made to Bengal, Madras and Bombay in the Provincial Settlement of 1897.

Statement of Revenue Accounts.

(In thousands of rupees.)

Heads.	Bengal.	Madras.	Bombay.
Receipts.			
I.—Land Revenue ..	3,85,31	5,37,84	(b) 3,81,12
II.— Do. wholly Provincial ..	4,90	..	..
III.—Salt (Rents and Miscellaneous) ..	..	1,27	66
IV.—Stamps ..	1,71,40	79,67	61,20
V.—Excise ..	1,34,50	1,48,80	1,10,00
VI.—Provincial Rates ..	43,20	..	..
VII.—Customs (Miscellaneous) ..	..	..	92
VIII.—Assessed Taxes ..	47,50	24,00	37,21
IX.—Forests ..	9,30	20,50	32,54
X.—Registration ..	13,65	12,00	6,80
XII.—Interest ..	2,68	1,48	3,41
Total Receipts ..	8,12,44	8,25,56	6,33,86
Provincial share (variable portion) ..	3,78,13	2,62,41	2,11,95
Charges.			
1.—Refunds and drawbacks ..	2,86	2,34	5,25
2.—Assignments and Compensations ..	1,62	..	(b) 18,13
5.—Salt (Provincial) ..	..	5.49	..
6.—Stamps ..	6,77	3,60	2,94
7.—Excise ..	6,83	6,28	3,61
8.—Provincial Rates ..	77	..	..
10.—Assessed Taxes ..	1,91	27	54
11.—Forests ..	4,80	15,50	21,48
12.—Registration ..	8,60	8,40	2,99
13.—Interest ..	1,95	1,50	2,54
Total Charges ..	36,11	43,38	57,48
Provincial share ..	22,20	24,57	35,25
Net Revenue Account Total ..	7,76,33	7,82,18	5,76,38
Net Revenue Account Provincial share (variable portion) ..	3,55,93	2,37,84	1,76,70
" " Fixed addition (+) or deduction (—) (a) ..	— 43,38	— 14,10	+ 77,71
" " Total Provincial share ..	3,12,55	2,23,74	2,54,41

(a) Civil portion only, excluding Railways and Irrigation.

(b) Excluding alienated revenue adjustment which is as follows:—

Revenue—	
I.—Land Revenue ..	97,51
Expenditure—	
2.—Assignments ..	84,75
3.—Land Revenue ..	7,78
20.—Police ..	4.98
Total ..	97,51

Statement of Expenditure on Civil Administration.

(In thousands of rupees.)

Heads of expenditure.	Bengal.	Madras.	Bombay.
Civil.			
3.—Land Revenue Administration—			
Survey and Settlement	(a) 2,00	3,69	1,40
Other heads	36,31	44,66	53,22
9.—Customs	8,07	2,46	..
15.—Post Office (District)	5	1,02	1,03
Other Civil Departments.			
18.—General Administration	17,22	9,93	11,61
19A.—Courts of Law	59,31	46,92	46,68
19B.—Jails	22,06	10,51	6,73
20.—Police	61,00	46,04	(c) 53,20
21.—Marine	8,86	30	41
22.—Education	26,76	16,79	18,21
24.—Medical	18,66	13,07	16,10
25.—Political	22	84	3,65
26.—Scientific and other Minor Departments	4,51	4,20	2,25
Miscellaneous Civil Charges.			
29.—Superannuation Allowances and Pensions	19,74	15,52	18,44
30.—Stationery and Printing	11,22	9,00	8,10
32.—Miscellaneous	2,52	1,71	2,08
Total Charges, Civil Department	3,28,51	2,26,68	2,46,01
Deduct—Receipts, *see* next page	51,05	25,63	19,18
Net Civil Charges	2,77,46	2,01,03	2,26,83
Public Works.			
Civil Works.			
45 (A).—Civil Works by Public Works Officers—			
(1) Original Works	11,00	11,00	..
(2) Repairs	12,20	4,85	..
(3) Establishment	7,84	5,50	..
(4) Tools and Plants, &c.	39	65	..
(B).—Civil Works by Civil Officers	1,01	(b)	..
Total Civil Works	32,44	22,00	31,66
Deduct—Receipts, *see* next page	4,00	1,58	8,73
Net Public Works Charges	28,44	20,42	22,93
Contributions to Local Funds (net)	6,45	79	4,65
Addition to above expenditure allowed for in assignment	..	1,50	..
Miscellaneous Adjustments	20	..	..
Total Net Expenditure	3,12,65	2,23,74	2,54,41

(a) In addition to this annual assignment a special assignment of 6,23 will be made in 1897-98.
(b) Included under Public Works Officers.
(c) Excluding charges against alienated revenue.

Receipts under Expenditure Heads.

(In thousands of rupees.)

Heads.	Bengal.	Madras.	Bombay.
VII.—Customs (Miscellaneous)	91	73	..
Civil Departments.			
XVIA.—Courts of Law	8,80	7,40	4,19
XVIB.—Jails	8,58	4,26	1,86
XVII.—Police	1,97	4,41	4,19
XVIII.—Marine	9,35	..	64
XIX.—Education	5,69	1,93	3,15
XX.—Medical	2,05	1,22	1,34
XXI.—Scientific and other Minor Departments	2,45	2,13	24
Miscellaneous.			
XXII.—Receipts in aid of Superannuations	68	47	2,31
XXIII.—Stationery and Printing	1,32	1,38	70
XXV.—Miscellaneous	9,25	1,70	56
Total Civil (a)	51,05	25,63	19,18
XXXII.—Civil Works (a)	4,00	1,58	8,73

(a) Carried to statement of expenditure.

Statement of the portion of the Provincial Contract relating to Railways and Irrigation.

(In thousands of rupees.)

State Railways.			
Revenue	..	+ 2,71	+ 1,50
Expenditure	..	− 1,68	− 1,40
	..	+ 1,03	+ 10
Irrigation.			
Major Works—			
Direct Receipts	+ 16,59	..	..
Working Expenses	− 14,00	..	..
Interest on Debt	− 24,64	..	..
Minor Works—			
Revenue	+ 7,95	+ 1,86	+ 24
Expenditure	− 15,00	− 33,45	− 5
	− 29,19	− 31,59	+ 19
Total	− 29,19	− 30,56	+ 29

Statement showing total "Adjusting entry" under Land Revenue.

(In thousands of rupees.)

On account of Civil Administration (*see* Statement of Revenue Account)	− 43,38	− 14,10	+ 77,71
Railways and Irrigation (*see* Statement of Railways and Irrigation)	+ 29,19	+ 30,56	− 29
Total as settled in the "Provincial Contract"	− 14,19	+ 16,46	+ 77,42

APPENDIX D.

Definition of Expenditure classed as Local.

The expenditure taken in order of the heads of our accounts is—

1. All refunds and cost of collection of Local Revenues.

2. *Administration.*—The establishments of Local Boards. The expenditure of Account Offices in auditing, keeping, and supervising their accounts. The expenditure on District, Commissioners', and Secretariat Offices should be regarded as General, though nothing in this must interfere with any rule, law, or practice for levying a contribution on these accounts from Local Boards. This is specially done in Madras.

3. *Police.*—Presidency Police and Municipal Police should be classed as Local whether, as a matter of fact, they are provided for by a Local rate or not.

The question whether a portion, say for example a quarter, of the cost of Presidency and Municipal Police should be regarded as "General" as distinguished from Local is a minor one.

Cattle-pounds are Local, their surplus being always applicable to local objects.

4. *Education.*—All charges and receipts under this head should be Local except the minor head "Direction" and perhaps the salaries and allowances of the officers of the Indian Educational Service appointed from England. This closely corresponds with the proposals made in 1881.

5. *Medical.*—The following should be the distribution of minor heads:—

General.	*Local.*
Medical establishments. (a)	Hospitals and Dispensaries.
Medical Schools and Colleges.	Sanitation and Vaccination. (b)
Lunatic Asylums.	Grants for medical purposes.
Chemical Examiners.	Lock-Hospitals.

(a) Except special allowances for hospital work.
(b) Except the appointments and office establishments of Sanitary Commissioner and Deputy Sanitary Commissioner.

The receipts would be similarly distinguished.

6. *Scientific Departments.*—Gardens, except the few maintained for scientific purposes, Public Libraries, veterinary charges.

7. *Pensions, Stationery and Miscellaneous* charges connected with local bodies. Also all rates and taxes paid to Municipalities; also any payments made under Act XI of 1881 (Power to prohibit certain municipal taxes).

8. *Civil Works.*—Roads and communications; buildings connected with "Local" purposes as above defined.

It would require to be arranged that a proportion of the establishment charges, due to the charges on local works, should be charged to Local. This could be done according to the regular system of the Department of Public Works.

The following are "local" charges also:—Rest-houses, Grants to Municipalities or for municipal purposes. All grants for drainage and water-supply.

On the Receipt side—Tolls, ferries, and rents of "Local" buildings.

9. *Contributions to or from Local Funds.*

APPENDIX E.

TRIBUTION between Provincial and Local of the net Expenditure on Civil Administration provided for in the Contracts.

(In thousands of rupees.)

Heads of Expenditure.	Bengal.			Madras.			Bombay.		
	General.	Local.	Total.	General.	Local.	Total.	General	Local.	Total.
3.—Land Revenue—									
Local Fund Establishments	..	..	..	..	63	63	..	..	..
Other items	38,31	..	38,31	47,72	..	47,72	54,62	..	54,62
9.—Customs	8,07	..	8,07	2,46	..	2,46	.	..	..
15.—Post Office	10	..	10	1,02	..	1,02	1,03	..	1,03
18.—General Administration—									
Local Audit Establishment	..	74	74	..	45	45	..	14	14
Other items	16,48	..	16,48	9,48	..	9,48	14,47	..	14,47
19-A.—Courts of Law	89,31	..	89,31	46,92	..	46,92	46,68	..	46,68
19-B.—Jails	22,06	..	22,06	10,51	..	10,51	6,73	..	6,73
20.—Police—									
Presidency Police ..	68	7,06	7,74	10	2,54	2,64	14	3,26	3,40
Municipal Police	..	45	45	..	..	..	..	46	46
Cattle-pounds	..	5	5	..	2,84	2,84	..	..	..
Steam Boilers	..	..	..	..	9	9	..	..	..
Other items	45,76	7,00	52,76	35,47	5,00	40,47	44,34	5,00	49,34
21.—Marine	8,86	..	8,86	30	..	30	41	..	41
22.—Education—									
Direction	72	..	72	58	..	58	50	..	50
I. S. Officers	4,74	..	4,74	2,52	..	2,52	2,39	..	2,39
Other charges	..	21,30	21,30	..	13,69	13,69	..	15,32	15,32
24.—Medical—									
Medical Establishment.	7,13	..	7,13	5,20	..	5,20	3,77	..	3,77
Medical Schools, etc. ..	2,93	..	2,93	1,80	..	1,80	1,80	..	1,80
Lunatic Asylum ..	1,20	..	1,20	85	..	85	1,17	..	1,17
Chemical Examiner ..	28	..	28	22	..	22	25	..	25
Sanitation and Vaccination	47	1,82	2,29	35	99	1,34	99	2,16	3,15
Other charges	..	4,83	4,83	..	3,66	3,66	..	5,86	5,86
25.—Political	22	..	22	84	..	84	3,65	..	3,65
26.—Scientific and other Minor Departments—									
Gardens	90	32	1,22	21	12	33	..	3	3
Veterinary charges ..	..	18	18	..	35	35	47	26	73
Other items	3,11	..	3,11	3,52	..	3,52	1,49	..	1,49
29.—Superannuation, etc.—									
Education Department.	..	1,29	1,29	..	33	33	..	73	73
Medical do.	..	65	65	..	21	21	..	29	29
Provincial Rates ..	..	4	4	..	..	..	..	..	..
Other Departments ..	17,76	..	17,76	14,98	..	14,98	17,42	..	17,42
30.—Stationery and Printing.	10,52	70	11,22	8,50	50	9,00	7,60	50	8,10
32.—Miscellaneous—									
Charitable Donation ..	..	1,02	1,02	..	55	55	..	29	29
Petty Establishments ..	..	36	36	20	..	20	..	9	9
Rates and Taxes ..	..	28	28	..	9	9	..	99	99
Other items	86	..	86	87	..	87	71	..	71
45.—Civil Works—									
Works and Repairs ..	8,82	15,39	24,21	8,42	7,43	15,85	10,22	11,63	21,85
Establishment, Tools and and Plant	3,12	5,11	8,23	4,06	2,09	6,15	4,60	5,21	9,81
Contributions (net) ..	..	6,45	6,45	..	79	79	..	4,65	4,65
Lump addition to assignment	..	..	..	1,50	..	1,50	..	..	..
Charges hitherto passed on to Upper Burma.	20	..	20	..	..	..	..	..	..
Total expenditure ..	2,92,61	75,04	3,67,65	2,08,60	42,35	2,50,95	2,25,45	56,87	2,82,32
Deduct receipts as on next page	43,47	11,63	55,10	19,68	7,53	27,21	15,32	12,59	27,91
Net expenditure ..	2,49,14	63,41	3,12,55 (a)	1,88,92	34,82	2,23,74 (a)	2,10,13	44,28	2,54,41 (a)

(a) These figures agree with the statement in Appendix C.

DETAILS of Provincial Receipts under Expenditure Heads.

Heads of Revenue.	Bengal.			Madras.			Bombay.		
	General.	Local.	Total.	General.	Local	Total	General.	Local.	Total.
VII.—Customs	91	..	91	73	..	73	..	..	..
XIII.—Post Office	5	..	5	..	..	..	..	..	..
XVI-A.—Courts of Law	8,80	..	8,80	7,40	..	7,40	4,19	..	4,19
XVI-B.—Jails	8,58	..	8,58	4,26	..	4,26	1,86	..	1,86
XVII.—Police—									
Presidency Police	..	1,00	1,00	..	29	29	..	1,39	1,39
Municipal Police	..	..	..	..	..	..	..	57	57
Cattle-pound	..	31	31	..	3,55	3,55	..	..	..
Steam Boiler Inspection	..	..	..	..	5	5	..	..	..
Other Items	66	..	66	52	..	52	2,23	..	2,23
XVIII.—Marine	9,35	..	9,35	..	..	..	64	..	64
XIX.—Education	..	5,69	5,69	..	1,93	1,93	..	3,15	3,15
XX.—Medical	48	..	48	14	..	14	26	..	26
College and School-fees, Lunatic Asylum	28	..	28	13	..	13	16	..	16
Other items	..	1,29	1,29	..	95	95	..	92	92
XXI.—Scientific, etc., Departments—									
Gardens	2	3	5	3	1	4	..	..	..
Veterinary receipts	..	4	4	..	..	..	..	5	5
Other items	2,36	..	2,36	2,09	..	2,09	19	..	19
XXII.—Superannuation	68	..	68	47	..	47	2,31	..	2,31
XXIII.—Stationery and Printing	1,32	..	1,32	1,38	..	1,38	70	..	70
XXV.—Miscellaneous—									
Audit fees	..	75	75	..	11	11	..	4	4
Contributions	..	..	..	..	64	64	..	2	2
Other items	8,50	..	8,50	95	..	95	50	..	50
XXXII.—Civil Works—									
Tolls and Ferries	..	2,52	2,52	..	..	..	..	6,45	6,45
Other receipts	1,48	..	1,48	1,58	..	1,58	2,28	..	2,28
Total Revenue	43,47	11,63	55,10	19,68	7,53	27,21	15,32	12,59	27,91

Notes explanatory of above figures.

Expenditure Side—

Presidency Police.—The items of River Police, Marine Police, Salt Police and Guards for Public Buildings are taken to general.

Police : other items.—The figure passed into the local column represents three-fourths of the police force employed within the limits of municipalities. The figure taken for the present is little more than a guess, as neither accounts nor police reports (so far as available at present) give any information on the point.

Education.—The cost of Indian Service officers is taken by estimate.

Medical : Medical Establishments.—The figure appears to include some hospital charges which should go to the local column; and the same may be the case with "Sanitation and Vaccination."

Veterinary Charges.—The 47 in Bombay is the charge for stallions.

Stationery and Printing.—It has to be ascertained how much of this figure represents expenditure of departments classed as local (*e.g.*, Hospitals, Schools and Colleges, Presidency and Municipal Police). The figure at present shown in the local column is taken by guess only.

Miscellaneous.—The figures for rents, rates, and taxes are probably not complete.

Civil Works.—A separate annexure is prepared in explanation of the manner in which these charges are distributed between General and Local.

Receipt Side—

Audit Fees.—The figure includes recoveries from Wards' Estates in Bengal which cannot at present be separated.

Possibly Some of the Miscellaneous—Other items, and Civil Works—Other receipts, belong to departments of expenditure that would be classed as local, but in the absence of information no figures are taken.

ANNEXURE TO APPENDIX E.

DISTRIBUTION OF CIVIL WORKS CHARGES INTO GENERAL AND LOCAL.

The three statements annexed, marked X, Y and Z, give some details of the expenditure charged under civil works in the provinces of Bengal, Madras and Bombay. There is not sufficient information to enable us to distribute this expenditure accurately between "General" and "Local"; for example, the first head "Police" must certainly contain expenditure within municipal boundaries, which should be classed as local; and educational and medical buildings may perhaps comprise some that are not local. But taking the figures as the basis of an estimate, the following summary distributes the total expenditure of the four years on works, as distinguished from establishment, into the two classes, general and local. The figures are all stated in pairs, the first of each pair being departmental expenditure, and the second that in charge of civil officers :—

Expenditure of four years in thousands of Rx.

—	Bengal.		Madras.		Bombay.	
	General.	Local.	General.	Local.	General.	Local.
Buildings—						
Works—						
Education and Medical	..	133+ 5	..	107+ 0	..	68+0
Other	219+2	..	363+18	..	327+0	..
Repairs—						
Education and Medical	..	31+ 0	..	9+ 0	..	25+0
Other	91+6	..	76+ 3	..	125+0	..
Communications	..	321+23	..	103+ 39	..	394+0
Miscellaneous Public Improvements	..	23+19	..	8+140	..	24+3
Total Works and Repairs	310+8	508+47	439+21	227+179	452+0	511+3
	318	555	460	406	452	514

Now the total civil works expenditure for which allowance was made in the assignments was as follows (in thousands of rupees):—

—	Bengal.	Madras.	Bombay.
Works and Repairs	24,21	15,85	21,85
Establishment, tools and plant	8,23	6,15	9,81
Total	32,44	22,00	31,66

The allowance under works and repairs should, upon the above figures, be distributed between general and local in the proportions—(1) for Bengal 318 : 555 ; (2) for Madras 460 : 406 ; and (3) for Bombay 452 : 514. This division gives—

—	Bengal.	Madras.	Bombay.
General	8,82	8,42	10,22
Local	15,39	7,43	11,63
Total	24,21	15,85	21,85

(*N.B.*—More of the 'Local' expenditure is in the hands of Local Boards in Madras and Bombay than in Bengal.)

The establishment charges for the four years come to Bengal 268 + 18; Madras 240 + 0; and Bombay 392 + 3. The charge is therefore almost entirely that of the Public Works Department, as works in charge of civil officers are, where they are of any magnitude (as in Madras), carried out without any separate establishment

charge. Here therefore the division into general and local should be made on th basis of the proportions found in the Department of Public Work charges, namely (1) in Bengal 310 : 508; (2) in Madras 439 : 227; and (3) in Bombay 452:
The distribution so calculated becomes :—

—	Bengal.	Madras.	Bombay.
General	3,12	4,06	4,60
Local	5,11	2,09	5,21
Total ..	8,23	6,15	9,81

These are the figures passed into the account in appendix E.

X

STATEMENT showing the Expenditure from Provincial Funds on Civil Works in Bengal, excluding outlay from Contributions, from 1892–93 to 1895–96.

—	1892–93.		1893–94.		1894–95.		1895–96.		Total.	
	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.
	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.
WORKS.										
Buildings—										
Police	2,470	..	4,469	..	3,515	..	4,581	22	15,035	22
Educational	21,881	..	11,856	200	5,995	5,000	39,292	118	79,024	5,318
Medical	9,056	..	9,834	..	9,029	..	25,643	302	53,562	302
Other heads	54,691	591	50,013	..	44,117	..	55,245	686	2,04,066	1,277
Total ..	88,098	591	76,172	200	62,656	5,000	124,761	1,128	351,687	6,919
REPAIRS.										
Buildings—										
Police	1,457	..	2,272	..	1,314	..	2,422	58	7,465	58
Educational	2,179	..	1,755	..	2,849	..	3,913	..	10,696	..
Medical	2,531	..	7,135	..	7,252	20	3,650	20	20,568	40
Other heads	21,719	1,376	19,736	1,285	20,117	1,199	21,776	1,734	83,348	5,594
Total ..	27,886	1,376	30,898	1,285	31,532	1,219	31,761	1,812	122,077	5,692
Communications—										
Works	32,949	594	26,225	..	24,336	233	16,506	218	100,016	1,045
Repairs	51,160	4,374	56,575	3,076	56,462	6,579	56,832	7,676	221,029	21,705
Miscellaneous Public Improvements—										
Works	— *874*	5,524	514	311	2,431	6,000	869	1,369	2,940	13,204
Repairs	5,898	1,318	6,099	2,860	3,340	360	5,541	1,698	20,878	6,236
Establishment	71,990	1,271	71,153	4,346	75,747	4,396	74,898	4,634	293,788	17,647
Tools and Plant	2,697	72	1,886	78	2,078	105	2,105	105	8,766	360
Suspense	— *7,411*	..	— *13,577*	..	— *9,490*	..	— *4,297*	..	— *34,775*	..
Miscellaneous	..	..	..	..	..	..	..	..	..	..
Total ..	272,393	18,120	255,945	12,156	249,092	23,892	308,976	18,540	1,086,406	72,808

Y

STATEMENT showing the expenditure from Provincial Funds on Civil Works in Madras, excluding outlay from Contributions, from 1892–93 to 1895–96.

—	1892-93.		1893-94.		1894-95.		1895-96.		Total.	
	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.
WORKS.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.
Buildings—										
Police ..	5,973	..	7,670	..	8,628	..	9,883	..	32,154	..
Educational	17,654	..	20,179	..	28,762	..	24,222	..	90,817	..
Medical	6,374	..	1,050	..	2,532	..	6,463	..	16,419	..
Other heads	70,202	7,239	78,553	3,945	78,259	145	103,476	6,808	330,490	18,137
Total ..	100,203	7,239	107,452	3,945	118,181	145	144,044	6,808	469,880	18,137
REPAIRS.										
Buildings—										
Police ..	1,056	..	661	..	456	..	1,174	..	3,347	..
Educational	841	..	1,470	..	627	..	721	..	3,659	..
Medical	920	..	2,135	..	1,210	..	1,622	..	5,887	..
Other heads	15,963	439	17,175	857	16,977	906	21,628	1,405	71,743	3,607
Total ..	18,780	439	21,441	857	19,270	906	25,145	1,405	84,636	3,607
Communications—										
Works	24,084	1,370	10,570	474	6,396	1,052	7,747	3,499	48,797	6,395
Repairs	11,488	2,948	15,531	10,624	11,838	12,994	15,619	6,528	54,476	33,092
Miscellaneous Public Improvements—										
Works	302	26,407	458	19,015	167	22,368	775	57,785	1,702	125,575
Repairs	1,314	82	1,788	33	1,583	4,595	2,152	9,565	6,837	14,275
Establishment	50,822	..	57,124	..	51,537	..	55,916	..	215,399	..
Tools and Plant	14,194	..	4,047	..	4,378	..	7,551	..	30,170	..
Suspense	— 5,878	..	10,777	..	— 4,357	..	— 5,813	..	— 5,271	..
Miscellaneous	..	..	..	..	..	..	..	..	..	..
Total ..	215,309	38,485	229,188	34,918	208,993	42,058	253,136	85,590	906,626	201,081

Z

STATEMENT showing the Expenditure from Provincial Funds on Civil Works in Bombay, excluding outlay from Contributions, from 1892–93 to 1895–96.

—	1892-93.		1893-94.		1894-95.		1895-96.		Total.	
	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.	By Public Works Department.	By Civil Department.
	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.	Rx.
WORKS.										
Buildings—										
Police	11,719	..	12,029	..	12,994	..	29,532	..	66,274	..
Educational	3,929	..	5,491	..	11,726	..	10,743	..	31,889	..
Medical	17,344	..	7,427	..	5,972	..	5,202	..	35,945	..
Other heads	64,808	..	70,929	..	64,486	..	60,541	..	260,764	..
Total ..	97,800	..	95,876	..	95,178	..	106,018	..	394,872	..
REPAIRS.										
Buildings—										
Police	4,665	..	4,700	..	4,972	..	5,163	..	19,500	..
Educational	2,700	..	2,458	..	2,251	..	2,818	..	10,227	..
Medical	3,870	..	3,597	..	3,861	..	3,565	..	14,893	..
Other heads	24,210	..	27,261	..	26,059	..	27,582	..	105,112	..
Total ..	35,445	..	38,016	..	37,143	..	39,128	..	149,732	..
Communications—										
Works	23,633	..	12,551	..	18,443	..	10,173	..	64,800	..
Repairs	83,730	..	81,587	..	81,097	..	83,087	..	329,501	..
Miscellaneous Public Improvements—										
Works	2,919	1,219	4,624	..	2,345	..	1,869	..	11,757	1,219
Repairs	3,348	1,662	2,939	4	3,286	..	2,968	..	12,541	1,666
Establishment	92,719	..	94,285	..	94,812	..	90,696	..	372,512	..
Tools and Plant	4,847	..	5,237	..	5,242	..	5,012	..	20,338	..
Suspense	3,556	..	921	..	— 5,248	..	180	..	— 591	..
Miscellaneous	..	855	..	840	..	842	..	840	..	3,377
Total ..	347,997	3,736	336,036	844	332,298	842	339,131	840	1,355,462	6,262

Despatch from the Right Honourable Lord GEORGE HAMILTON, Her Majesty's Secretary of State for India, to His Excellency the Right Honourable the Governor-General of India in Council, dated India Office, London, 28th July 1898, No. 125, Financial.

I have considered in Council your Excellency's letter, dated the 3rd of March, No. 68, making certain suggestions regarding the system of Provincial finance, with the view of placing a limit to the increase of expenditure for local purposes, so far as it is defrayed from Imperial revenues.

2. Your Excellency in Council desires to ascertain whether the change which your scheme involves in the financial relations between the Supreme and Local Governments commends itself to me. I am not prepared to express a definite opinion at this stage; but your proposals are interesting and important, and the discussion of them with the three Local Governments concerned, who have not yet been consulted, is likely to clear the ground, and furnish the means of finding a solution of the questions raised. I therefore agree that your proposals should be placed before the Local Governments, and I will confine myself on this occasion to a few general remarks.

3. The most tangible complaint of the Local Administrations appears to be that, when they have sanctioned additions to their expenditure as against the natural increment of the assigned revenues during the term of a five years' contract, their plans are disconcerted by the resumption of a part of such increment at the next quinquennial revision. In response to a summons to resign some share in the increase of their revenues, the Governments of three prosperous provinces presented a list of large demands for fresh expenditure, "and this in presence of a treasury impoverished by the most widely spread and the most costly famine of the century." I do not here propose to enter into the merits of this controversy; I desire, however, to observe that, as a matter of public policy, the financial needs of the Empire must, necessarily and reasonably, take priority over schemes of local improvement and reform,—and that any unusual strain upon the general resources of the State, such as is produced by famine or war, must inevitably affect outlay upon every branch of local as well as of Imperial administration. It is plain that you are justified in attempting to devise some check upon transactions such as are illustrated in Appendix B. of your letter; and I also appreciate your intention of equalising, as far as is practicable, the position of the three Provinces concerned as regards their grants from the general revenues, and their responsibility for supplementing these from local sources.

4. Your Lordship's Government explains, in paragraph 7, that your object is to impose a limit on the extent to which the demands of Local Administrations for local purposes on the general revenues may be in future increased in consequence of too rapid increase of local expenditure. You do not maintain the theory that expenditure of the kind which you designate as local should not be met, in part at least, out of the general revenues of the Empire. You accept the fact that there is no objection in principle to the general revenues that are levied for general administration of the country being partly applied also to those classes of expenditure in aid of which local rates are levied. It is a principle, indeed, which is universally recognised; for, even in countries like the United Kingdom, where local self-government has been so long and so firmly established, the system of making large annual grants in aid of local resources for purposes similar to some of those classified under Appendix D, is well known to prevail. Nor am I aware that the inconvenience arising from the necessarily variable character of such subsidies, which must always depend more or less on the financial and political situation of the national Government, have in practice been found serious.

5. These classes of expenditure (Appendix D) include, indeed, all those in which an increasing outlay is not only justifiable, but inevitable, in every country in which civilisation is not stationary or retrograding; and I do not infer, from the cautious and measured terms in which you recognise their claims on the general revenues, that you regard the pressure of those claims as an unhealthy or abnormal symptom. The ratio of increase of 41 per cent. in twenty years in Provincial expenditure, mentioned in paragraph 4, appears to me to supply more ground for satisfaction than the corresponding ratio of 33 per cent. shown in certain branches of Imperial expenditure.

I should be doubtful of the policy of imposing too absolute a check on the further growth of the former, while there is no suggestion that the latter should be limited or reduced.

6. I question, therefore, whether your assignment of revenue to local purposes can be as permanent as you seem to contemplate, when you say that "this assignment would be made once for all," and describe it as "a final and definite assignment." I fully admit the advantage that, under your scheme, "the financial side of the Local Governments and of the Local Councils will have a reality which under the present system can exist only in a subordinate sense." But I think it unlikely that Local Governments will accept, under certain heads of general revenue, the assignment, for local purposes, of a fixed proportion which is never to be augmented; and perhaps you may be able, on reconsideration, to promise to meet an active and judicious administration of local resources with the hope of some future increase of assignment. Some objections may be removed by a liberal grant at starting, which may perhaps be intended in your description (in paragraph 18) of the assignment as "an amount fixed in consideration of the proportion of increase we can easily afford to set aside for development of local expenditure." And I presume that you would exempt the local assignments from such requisitions for aid as have been made on the Provincial surpluses in past years, except on very grave emergency.

7. I have not overlooked the fact that your proposal is to assign a share of revenue (such as land revenue or excise) which would afford an increase of income by natural growth, and that you anticipate that by these means a too free resort to local taxation may be averted. I entirely agree with you that the increase of local taxation is open to weighty administrative objection, which may, in fact, be found to preponderate over financial considerations. Your intention on this point should be made very clear, for I apprehend that difficult questions as to fresh local taxation will inevitably arise, unless the limits of what is permissible are very distinctly explained to the Local Governments. I see the strongest objections to the imposition of local taxation of a kind indistinguishable from Imperial taxation. It may be urged, in reply, that no fresh burthens can be placed on the Provinces by the Local Legislatures, without the sanction of the Government of India and the Secretary of State. Impolitic measures may no doubt be vetoed, but the power of veto is exercised at the very last stage, and, before that stage is reached, much apprehension may have been excited in the minds of the people. It is, therefore, necessary to maintain in the hands of your Government, as at present, some substantial measure of control from the first initiative of any legislation imposing additional taxes. I am afraid that, if your project is placed before the Local Governments with the assurance (paragraph 28) that "only the most general intervention, if any intervention at all, will be necessary on the part of the Supreme Government," the position will be misunderstood. You might then find that the new system will have the undesirable result of opening a fresh source of controversy in place of that which you are seeking to close; and the solidarity of fiscal policy which is essential in India would not be maintained. I suggest, therefore, that, in communicating your scheme to the Local Governments, the limitations on the methods of increasing local resources which they are expected to accept should be explained so fully as to obviate any possibility of a misunderstanding. It would probably be desirable, also, that any disclaimer, on the part of your Government, of an intention to intervene, should be carefully guarded.

* * * * *

No. 773, Financial, dated 7th July 1899.

Order—The following reply will be addressed to the Government of India.

[Here enter letter, No. 774, Financial, dated 7th July 1899.]

(True Extract.)

for *Chief Secretary.*

To the Local and Municipal Department,
with copy of Letter No. 774, Financial, dated 7th July 1899.

Exd. Md. Pahilwan.

Government (1899) of Madras.

FINANCIAL.

Recd. } 1899.
Regd.

Enclosures
Spare copies

Letter, No. 774, 7th July 1899.

JULY.

Provincial Finance.

Submitting the views of His Excellency the Governor in Council on certain proposals for the extension of the system of —.

FINANCIAL DEPARTMENT.

Letter—from

The CHIEF SECRETARY to the GOVERNMENT of
FORT ST. GEORGE,

To

The SECRETARY to the GOVERNMENT OF INDIA,
Finance and Commerce Department.

Sir,

I am directed to reply to your letter No. 4360-A, dated 7th October 1898, forwarding for the consideration and opinion of the Governor in Council a copy of correspondence with Her Majesty's Secretary of State for India regarding certain proposals for the extension of the system of Provincial finance.

2. This Government understands these proposals, which are set out in the despatch from the Government of India to the Secretary of State No. 68 (Accounts and Finance), dated the 3rd March 1898, to be as follows. The expenditure provided for in the Provincial contract would be divided into two heads, (1) general expenditure and (2) expenditure on local purposes, the "Local" category including such items as roads and communications, a greater part of educational and medical expenditure, grants for municipal purposes including municipal police, &c.; and a final and definite assignment would be made for all the "Local" purposes of the Provincial Government. The Provincial Government would accordingly be informed how much of the net revenue assigned to it in the contract settlement is to be taken as assigned for "Local purposes", this portion being regarded as permanent, and in future quinquennial revisions no further regard would be paid to any expenditure on the classes defined as "Local", the quinquennial adaptation of revenue to necessary expenditure being made with reference only to the remaining or "General" portion of the account. The existing condition of affairs would be taken as the starting point for the settlement of this question, and of the total expenditure on Civil Administration, which amounts according to the present contract figures to 250·95 lakhs, 208·60 lakhs would be treated as "General" and 42·35 lakhs as "Local". The Provincial contract would then be regarded as composed of two separate portions, viz., (1) an assignment of the portion of the revenues sufficient to meet the net expenditure classed as "General" (188·92 lakhs), this assignment being made for five years in the same manner as under the present contract system and being liable to revision at the end of each quinquennial period by adjustment to the amount of expenditure of this class for which at the end of that time it is found necessary to provide; and (2) an assignment of a portion of the revenues equal to meet the net Localized expenditure (34·82 lakhs), this assignment being made once for all and not being liable to revision at the end of five years. Whilst there would be no objection to the Local Government,

during the five years currency of the renewable portion of the contract, devoting to "Local" purposes any actually realized surplus of the share of the "General" revenues over the "General" portion of the expenditure, the burden of providing for any permanent increase of "Local" expenditure over the rate of increase if any, of the revenues originally assigned for such expenditure, would remain entirely, with the Local Government. In order to avoid any increase of local taxation, which would be the inevitable result if the assignment for "Local" expenditure were placed at fixed and definite amounts, the assignment for "Local" expenditure would be made in the form of increasing revenues, of which the standard is at present taken as the amount of the Localized expenditure based on the contract figures. For this purpose, one-twelfth of the Land Revenue and one-twelfth of the net Excise revenue of the province would be appropriated to this Localized expenditure, the difference between the sum of these amounts and the total Localized expenditure as now fixed being treated as the fixed adjustment from Provincial to Imperial, or *vice versa*. These proportions of Land Revenue and of the net Excise revenue would be excluded in calculating the assignment on the "General" account. The result of this arrangement would be that so long as the increase of Localized expenditure did not exceed, in its amount, one-twelfth of the net increase of Land Revenue and of the net Excise revenue taken together, there would be no question as regards local taxation; but that in the event of the Local Government permitting a larger amount of increase, it would be obliged to find the means out of sources independent of "General" revenues.

3. The Government of India claims for this scheme that it would give the Local Government an independent financial existence in a sense which is not possible under present arrangements, while the whole benefit of good administration by the Local Government of its "Local" account and of the development of local taxation would remain absolutely with it. In short, the scheme would separate off the whole system of Government in local matters from the general administration of the Empire.

4. It will doubtless have been gathered from my letter No. 264, Financial, dated 18th February 1899, that the present scheme cannot commend itself to the Governor in Council, for the reason that he considers that the existing contract system calls, in fairness to Local Governments, for considerable modification. To quote again the words of Sir Arthur Havelock, this Government is of opinion that the results of the present system of quinquennial settlements and their demoralizing effect on the administration are accurately described in the following passage:—

> "It appears to me that the contract system, so called, is bad in itself. It is demoralising
> "to the Provincial and Supreme Governments. It is bad in that each revision that takes place
> "has a terribly disturbing and dislocating effect on the Local Administration, especially in the
> "important Department of Public Works to which the pruning knife has to be suddenly and
> "ruthlessly applied. It is demoralising to the Provincial Government, because it tends to impair
> "the sympathetic co-operation between Supreme and Provincial Governments which is so desirable,
> "and because it tempts the Provincial Government in its financial relations with the Supreme
> "Government, which is the master of the situation, to have recourse to the tactics of the weak.
> "When we are well off, we try to hide our money and spend it recklessly lest the Supreme Gov-
> "ernment should lay hands upon it. When we are poor, we try to give undue emphasis to our
> "poverty. The system is demoralising to the Supreme Government because it relieves that
> "Government from the consequence of extravagance. In my opinion the financial condition of
> "the Presidency will not be satisfactory until a larger degree of financial independence and
> "control is conceded to the Provincial Government, and until some arrangement more consistent,
> "more permanent and less one-sided than the present contract system has been adopted."

5. In paragraph 5 of its despatch to the Secretary of State, No. 68, dated 3rd March 1898, the Government of India refers to the provinces of Bengal, Madras and Bombay as the "three prosperous provinces" and remarks that the quinquennial revisions of the contracts in their case have almost always been in the direction of examining to what extent it is possible for them to resign some of the increase of their Provincial share of revenue, either for the poorer and more backward provinces, or for such general Imperial burdens as have been thrown upon the Government of India by the fall of exchange, by war and by famine. In connection with this point, I am again to state that the Governor in Council has always been, and will ever be, ready to come to the aid of the Imperial Government in times of stress, but he would draw

special attention to the facts dwelt on in paragraph 8 of my letter, No. 261, Financial, of the 18th February last, where the figures of the Contract Settlement of 1882 were compared with those of 1897 for the three provinces in question. It was there shown, by taking the amounts remaining from the net revenues after deducting the net expenditure on Civil Administration—that is, the amounts which have been withdrawn for purposes other than Provincial in each province — that, while in 1882, 67·14 *per cent.* of the revenue of Madras was withdrawn for purposes other than Provincial, in 1897 the percentage thus withdrawn rose to 71·40 *per cent.*; that in Bombay the same process was carried out; while Bengal was fortunate enough to be subjected to the opposite process, since in 1882 that province contributed 65·96 *per cent.* to purposes other than Provincial, whilst in 1897 it contributed 59·74 *per cent.* only. It was further shown that whilst under the settlement of 1897, as compared with that of 1882, the Presidency of Bengal received 48·29 lakhs *per annum* more for expenditure, the provinces of Madras and of Bombay received, respectively, 33 and 51 lakhs less. Taking the percentages of increase in the net revenue account and in the net expenditure on Civil Administration between the Contract Settlement of 1882 and that of 1897, whilst in Madras and Bombay the former increased by 37·38 and 40·60 *per cent.*, respectively, and the latter rose by only 19·60 and 17·14 *per cent*, respectively, the respective increases in Bengal were 21·28 *per cent.* and 43·46 *per cent.* These facts prove that the three prosperous provinces alluded to have not received the same treatment at the hands of the Government of India, but that, on the other hand, a considerable portion of the revenues of Madras has been flowing into Bengal. That Madras has suffered the most will be apparent from the figures in statements I, II and III appended to my letter just quoted.

6. This Government, as already intimated, contends that it should possess a greater fixity of interest in the revenues and in the normal growth of the revenues of the province; that the present system under which the Supreme Government resumes, at the end of each quinquennial period, the whole normal excess of revenue over expenditure should therefore cease; that the Local Government should be granted a definite share in the normal growth of the revenues which are produced by its own improved administration; that it should be given definite burdens which cannot be increased but by its own action; that it should, within a well-defined category of subjects, have an independent revenue and expenditure which it could deal with after the methods and principles of a financially independent Government, and which would not in any way be hypothecated to the demands of a Central Government; that the Supreme Government should, as contemplated by the Secretary of State, recognize clearly its responsibilities in regard to expenditure on calamities such as plague and famine; and that the resources of the Local Government should, as far as possible, be devoted to their legitimate object—viz., the development of the province—and to enabling the Local Government to accomplish its functions as enjoined and recognized by the Secretary of State in the House of Commons (*vide* paragraph 1 of the despatch which forms an enclosure to your letter under reply).

7. Paragraph 15 of the despatch from the Government of India to the Secretary of State No. 68, dated the 3rd March 1898, after referring to the additional taxation imposed in Northern India during the years 1877 and 1878 and the exemption therefrom of Madras and Bombay, states that no steps have since been taken to levy on the latter provinces the assessment then made in Northern India, and that it may fairly be considered, that so far as the burden of taxation of this kind is concerned, they can afford to bear, if necessary, a higher rate than the present one before they have any cause for complaint of unfavourable treatment as compared with the Northern India.

With reference to these remarks I am to draw attention to the following facts which have been collected from such information as is at the disposal of this Government. In Bengal there are two cesses on land, the maximum rate thereof together being one anna in the rupee, or 6¼ *per cent.* on the annual value of lands. The proceeds of one of these cesses—the road-cess—are paid into the District Fund, whilst the other —the Public Works cess—goes to the public treasury. In the North-Western Provinces the maximum rate of cess appears to be 8 *per cent.* and in Oudh it is apparently 3¾

per cent. In the Punjab the local rate is leviable at a maximum rate of 6¼ *per cent.* on the annual value of lands; four-fifths of the net proceeds, after deducting the expenses of collection, being credited to the District Board and the remaining one-fifth to Government. A Village Officers' cess is also leviable at the same rate, *i.e.*, 6¼ *per cent.* The rate of local cess in Bombay appears to be 6¼ *per cent.* of the annual value of lands. In Madras, a cess not exceeding one anna in the rupee, or 6¼ *per cent.* is leviable, under the Local Boards Act, on the annual rental value of all occupied lands on whatever tenure held, this rate being doubled in the districts of Malabar, South Canara and the Nilgiris. In addition, the Village Cess Act provides for a money cess on land, not exceeding one anna in every rupee or 6¼ *per cent.* of assessment and water-tax payable to Government by each land-holder. Thus the total local rates levied in Madras would seem to be much higher than in any other Province.

It is to be noted, moreover, that, except in Bengal and in the Central Provinces, the cesses imposed in Northern India during 1877 and 1878 were not new cesses, but merely re-impositions, with slight modifications, of cesses that already existed. There is further considerable difference in the manner in which the proceeds of cesses are credited. In some provinces, as in Madras, the whole of the proceeds go to Local Funds; in others the proceeds of only some of the cesses go to Local Funds, the remainder being credited to Provincial; in others again, a portion only of the net proceeds of the cesses goes to Local Funds.

The foregoing remarks do not apply to minor cesses, such as the village sanitation and village chowkidars'. They indicate, however, that the existing burden of local taxation presses very heavily on the land-holder in Madras as compared with his brethren in other provinces, and they considerably discount the statement of the Government of India which has been quoted above. Independently of the varying methods of local taxation and of crediting such taxation which exist in different provinces, I am to draw attention to the facts stated in paragraphs 8—12 of Mr. Arundel's letter, No. 230, Financial, dated the 5th March 1898, where it was shown by quotations from statistics issued by the Government of India that the incidence of local taxation per head of the population is highest in the Madras and the Bombay Presidencies, and that the total amount of local taxation collected as rates on lands, which constitute the only form of direct local taxation, is highest in Madras. In any case, the remarks in the despatch to which allusion has just been made and the comparisons implied therein, together with other portions of this despatch, appear to be opposed to the observations in Mr. Risley's letter, No. 4385-A, dated 7th October 1898, where such comparisons were deprecated.

8. In Appendix B to the same despatch, in which illustrations are afforded of the tendency of Local Governments to relieve local revenues at the expense of general taxation, it is stated that both in Bengal and in Madras there have been during a long course of years large alienations in favour of municipalities of ferry and toll revenues and that the expenditure upon communications which ought to be met from the ferry and toll revenue has now in great part to be met directly or indirectly by the general tax-payer, at whose cost the municipal tax-payer has been relieved.

The facts, so far as Madras is concerned, appear to be as follows. The resolution of the Government of India, No. 516, Financial Department, dated the 28th January 1864, authorised the transfer to Local Funds from the 1st April succeeding of all collections from tolls, or ferries, or bridges of boats on Imperial roads, on the understanding that the cost of maintaining the ferries and bridges of boats and all charges of collection would be defrayed from the receipts. Madras Act No. I of 1870 authorised the levy of tolls and license fees on canals, lines of navigation and ferries, and constituted "The Canal and Ferry Fund" to which all rents, license fees, tolls and fines collected under the Act and remitted to the public treasury were to be credited. Madras Act II of 1890, which repealed the foregoing Act, empowers the Local Government to assign the management of any canal or public ferry to a Local Board or Municipal Council, the revenue accruing therefrom being credited to the funds of such managing authority.

The receipts from ferry rents made over to municipalities in Madras have been comparatively small, and those for the seven years ending 1897–98 were as follows :—

Year.	Number of municipalities.	Amount. RS.
1891–92	3	3,862
1892–93	2	5 506
1893–94	3	3,472
1894–95	5	4,574
1895–96	5	3,559
1896–97	4	3,755
1897–98	6	5,012

Tolls on carriages, carts and animals entering municipal limits have always been recognised to appertain properly to local bodies, and in the case of municipalities these tolls form one of the chief sources of revenue and are the least objectionable form of municipal taxation. The levy of such tolls has, moreover, legal sanction and throws on the municipalities the burden of maintaining and repairing their roads.

9. The scheme dealt with in your letter under reply is, it is observed, similar to that contained in Finance and Commerce Department No. 5362, dated 2nd October 1888. I am directed to refer to Mr. Price's letter, No. 913, Financial, dated the 3rd December 1888, in connection with that scheme, and especially to paragraphs 5, 7 and 8 thereof. In paragraph 5 [it was observed that the original object in the constitution of Local Funds was to supplement, not to displace, general expenditure for the purposes to which local taxes may be applied and to protect the funds raised by special taxation from being diverted to Imperial uses; that such diversion had not taken place, but that Local Funds had been utilized to relieve general revenues by the gradual transfer of charges and withdrawals of grants, so that the benefits which the special taxation was intended to confer had been curtailed; that, nevertheless, the formal repudiation of the obligation to provide for services, which had hitherto been recognised as functions of Government in India, was new and startling and amounted to a decree in arrest of improvement; [that the special circumstances in India make it a necessary function of the Government to organize and pay from general taxation for internal improvements, such as schools, hospitals, roads and police; and that the fact that the Government has annexed for general purposes the main source of local rates—viz., the taxation of the land—furnishes an overwhelming argument against the withdrawal of subventions from general revenues, and imposes on the Government of India the obligation to spend—and to spend largely—on internal improvements which might otherwise be classified as purely local.]

In paragraph 7 it was pointed out that the principle that general revenues should not contribute for local purposes, which was stated to be borrowed from English practice, is in England itself as much honoured in the breach as in the observance; and that in English Imperial finance subventions in aid of local rates play a large part, as also direct expenditure on purposes classed by the Government of India as local, and this notwithstanding the fact that the general taxation on the land is infinitesimal and the whole produce is available for local rating. As examples were quoted the expenditure of the education vote in England; the cost of the National School system in Ireland, of the Queen's Colleges, of the Royal University, and of the whole of the constabulary in Ireland both in town and in country; the numerous grants for museums, institutes and art purposes; the grant to County Councils of several millions from the taxes on successions, usually called the death duties—a source of revenue as much Imperial as the Income Tax; and the assignment for local expenditure of fees on licenses of places of vend of liquor, and other taxes levied on a general and uniform basis. These instances were, it was observed, sufficient to show that the proposal of the Government of India could not be fortified by analogy drawn from English practice. Even if it were shown that the principle were fully recognised and carried into effect in England, the propriety of adopting it in India would, the Governor in Council contended, remain to be proved.

Paragraph 8 dealt with the argument that the necessity of the proposal to remove local expenditure from the general account rested upon the necessity of restricting the growth of expenditure for local purposes and removing the defect of the existing contract by which the Supreme Government was forced to permit the continuance at the close of the term of the scale of expenditure established during its currency, such continuance being at the expense of other provinces. It was held by the Government of Madras that this argument was neither true nor fair; that it was the declared intention of the contracts in force since 1877 to leave to Provincial Governments the benefit of surpluses of revenue which they had brought about by good management; and that the assurance that they would be allowed this benefit had been held out to them as an incentive to thrift and to the development of the revenues shared with them. In support of these statements, it is only necessary to refer to paragraphs 17 and 18 of Government of India Financial Department Resolution No. 3334, dated 14th December 1870, in which it was declared that unless some fiscal misfortune such as a heavy loss in the opium revenue, or national disaster, such as war and severe famine, occurred, the Governor-General in Council would maintain, for the future, the assignments for "Provincial services" at the amounts then fixed; that they would not in any case be reduced without previous consultation with the Governments; and that any portion of the assignment made to any province that might be unspent at the end of the year would not lapse to the Imperial revenue but would remain at the disposal of the Local Government. Again in paragraph 6 of Government of India Finance and Commerce Department Notification No. 3353, dated the 30th September 1881, it was declared that the Imperial Government would make no demand on the Local Governments except in the case of disaster so abnormal as to exhaust the Imperial reserves and resources and to necessitate a suspension of the entire machinery of public improvement throughout the Empire. It was accordingly pointed out in paragraph 8 of Mr. Price's letter of 1888 that if during the currency of a contract the scale of expenditure is increased, this is possible only because surpluses had been created; that the increase is paid entirely by the tax-payers of the province where it accrues; that for one rupee so gained to the province nearly three goes to the general treasury; and that the argument of the Government of India really meant that the Supreme Government cannot, at the termination of the contract, appropriate the Provincial shares of the increased revenue so far as the Provincial Governments may have made use of them to improve the administration.

The foregoing arguments appear to the Governor in Council to be equally applicable to the present scheme of the Government of India and to render its introduction undesirable from every point of view.

10. I am to point out that a vital objection to this scheme exists in the fact to which attention has been drawn by the Secretary of State in its despatch No. 125, Financial, dated 28th July 1898, viz., that the classes of expenditure which the Government of India would localize—*i.e.*, those for which it would virtually make a fixed assignment—include all those on which an increasing outlay is not only justifiable, but inevitable, in every country in which civilization is not stationary or retrograding.

11. Another objection to the present scheme is to be found in the fact that the heads of revenue which the Government of India has selected as those from which the localized expenditure is to be met are heads which are seriously affected in times of famine, so that in years of scarcity the Local Government would apparently be compelled, in addition to providing for famine expenditure and loss in revenues, practically to meet a large portion of the localized expenditure from the "General" account.

12. The Secretary of State suggested that in formulating this scheme the Government of India should engage to meet "the active and judicious administration of local resources with the hope of some future increase of assignment" for the localized expenditure, and that the limitations on the methods of increasing local resources which the Local Government would be expected to accept should be explained so fully as to obviate any possibility of a misunderstanding. Your letter under reply throws no further light on either of these points, and it seems to be necessary, before this Government can offer a final opinion on this scheme, that it should be supplied with the information indicated by Lord George Hamilton.

13. The result contemplated by the Government of India from the introduction of the scheme—viz., the development of the financial control of Local Governments—would doubtless follow in a measure; but it appears to the Governor in Council that there is a great danger of his obtaining greater financial control with crippled resources, in other words that he would be granted increased financial control over decreased revenues.

14. I am to state that for the foregoing reasons the Government of Madras is not prepared, on the information now before it, to signify its adherence to the scheme which has been formulated.

I have the honour to be,
Sir,
Your most obedient servant,

G. STOKES,
Chief Secretary.

OOTACAMUND,
7th July 1899.

Exd. A F. Ecoleston.

Copy of Note by the Honourable Mr. Arundel C.S.I., against paragraph 9 of the letter to the Government of India No.774, Financial, dated 7th July 1899:-

Please utilize the facts in this para in replying to India's suggestion in another current that we should legislate to throw more famine expenditure on local funds.

14.7.99

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