draw upon the history of Federalism for arguments in its favour, but because the events of the time had inclined them to support the Imperial system. The Imperial system had saved India from the hands of the Mutiny of 1857, and when their fears of its repetition were not yet allayed it was too soon to expect them to consent to disrupt a machine that had just then proved its worth in the great contest. Conscious though they were of its defects, people recoiled from any attempt to tamper with it. So strong was the partiality of the people for the Imperial system that, notwithstanding the many defects which to their knowledge detracted from the efficiency of the system, they could give a sympathetic hearing to the Hon'ble Major-General Sir H. M. Durand, who wrote :

> "..... I assert confidently that at present there is absolutely no ground whatever for the allegation that the financial control of the Government of India goes to undue lengths in what it attempts, and miscarries miserably..... On the contrary, any partial miscarriage of control..... is no proof whatever that the rules are faulty, but that their relaxation is highly inexpedient, and that more rigid subordination of them should be enforced both by the Government of India and the Home Government. To subvert the financial control of the Central Government because one out of nine administrations has proved rather refractory, is about as sensible a procedure, to my mind, as to annul the articles of. War and the powers of the Commander-in-Chief because a regiment should somewhat happen to misbehave. I venture to doubt the statesmanship of ruling either India or armies in this way."[1]

Notwithstanding the victory of the Imperialists, it must be said the Federalists lost a cause which was bound to succeed. For the sentiment of the time, however favourable to the retention of the Imperial system, was powerless to resist the force of events. The Imperial Government had to be extricated from the state of chronic penury in which it had fallen, and if statesmanship did not favour the system of Federal Finance as a means, financiers soon learnt that the system of Imperial Finance was doubtful as an end.

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[1] Minute dated October 7, 1867, *vide* op. cit., pp. 94-7.

CHAPTER III

THE COMPROMISE

IMPERIAL FINANCE WITHOUT IMPERIAL MANAGEMENT

If the Federalists failed to carry the day, they at least led their opponents to improve the system by removing some of the most radical defects from which it suffered. Attention was mainly directed towards revising the revenue laws and improving the machinery of control so that more revenues be obtained and less wastefully spent. With the primary object of making the Imperial system strong and prosperous, serious attempts were made about the close of the rule of the East India Company to do away with the oppressive taxes which had so long retarded the prosperity of the people and consequently of the Government. The internal custom duties were done away with, and the country was not only freed from all restrictions which hampered the growth of trade and industry, but positive encouragement was given to them by introducing the element of protection in the import tariff and trade was facilitated by equalizing the duties on English and foreign shipping. Articles of export were also relieved from the handicap of export duties and efforts were made to improve the cultivation and pressing of cotton, tea and other staples which commanded a great market in Europe and elsewhere.

The administrative machinery was next subjected to revision. Advantage was taken of the Indian Councils Act of 1861 authorizing the Viceroy "to make from time to time rules and orders for the more convenient transaction of business in his Council," to bring legally to an end the system under which the whole Council was supposed to take part collectively in the disposal of all the business of the Government by assigning to each member of the Council the charge of a separate department of administration; the Council was thus virtually converted into a Cabinet of which the Governor-General became the head. In this manner a place for a

Chancellor of the Exchequer was created to which was appointed the well-Known financier, Mr. James Wilson. The attention of Mr. Wilson was directed first of all to the improvements in the machinery of fiscal administration. The credit of establishing in India a uniform system of accounts, centralization of civil and military audit, and the introduction of an appropriation budget, rightly belongs to him. With the improvement in the revenue laws and the check on waste through improved and efficient administration was combined the policy of retrenchment in expenditure,[1] and the budget and audit rules were

> "so framed as to leave to the head of each Local Government or of each branch of administration a much larger (*sic*) discretionary power than..... heretofore..... allowed in rearranging the details of expenditure"[2]

if that led to retrenchment. So drastic was the economy practised that, soon after the inauguration of the policy of spreading education throughout the country initiated by the dispatch of the Secretary of State in 1854, a stop was put to any increase of expenditure on education.[3]

But notwithstanding all these efforts at betterment howsoever diligently sustained, they did not improve the finances of India materially; at any rate. Mr. Wilson in his Financial Statement for 1860-1, by way of summing up the financial situation, said:

> "we have a deficit in the last three years of £ 30,547,488; we have a prospective deficit in the next year of £ 6,500,000; we have already added to our debt £ 38,410,755."

To meet this huge deficit Mr. Wilson was obliged to augment the stamp duties, double the external customs, and impose an income tax, hitherto unknown to the people. Even the yield of these "three tremendous taxes" did not help Mr. Samuel Laing, the successor of Mr. Wilson, to a prosperous condition, for he too in his Financial Statement for 1861-2 wanted £ 500,000 fairly to weather his deficit and get into smooth waters with a small surplus. A few years of financial prosperity intervened. But Mr. Massey, who relieved Mr. Laing in 1866,

[1] Cf. Finance Department Resolution No. 126 of November 19, 1860, published in the Appendix to the *Calcutta Gazette* dated November 24, 1860, p. 35.

[2] *Ibid,* para. 20.

[3] Notifications, *Calcutta Gazette,* August 14, 1858, p. 1642.

> "upon a review of the financial condition of the Empire and the increasing demands made upon its resources..... deemed it expedient to make provision for a permanent addition of a million sterling at the least to the existing revenue."[1]

Why the efforts of these successive Finance Ministers were not crowned with success is to be explained chiefly by the fact that the administrative and public needs of the country had grown beyond measure. After the Mutiny

> "thousands of Englishmen, not only soldiers, but Englishmen of almost every class, poured into India. Ten thousand things were demanded which India had not got, but which it was felt must be provided. The country (had to be) covered with railways and telegraphs, roads and bridges. Canals (had to be) made to preserve the people from starvation. Barracks (had to be) built for a great European army, and every sort of sanitary arrangement which would benefit the troops (had to be) carried out. This was not only true in regard to matters of Imperial concern. Demands for improvements similar to those which fell upon the Central Government cropped up in every town and in every district controlled by the Local Government. The demands for improved administration also made themselves effective. The police was in a shameful condition throughout India..... and the inadequacy of the pay given to native judges and other subordinate officers employed in the posts of importance in the courts was declared by Lord Lawrence when he was Viceroy to be a public scandal. Among more than four thousand of these officers in the Bengal Presidency, the highest paid of all, and these were very few, received £180 a year. The great majority received from £12 to £24 a year sums less than those earned in many parts of India by common bricklayers and carpenters. All these had to be put on a completely new footing."[2]

While the needs for expenditure were thus growing, economy in expenditure became difficult of achievement. Comparatively easy at first, each successive measure of economy became directly, as well as relatively, more arduous than its predecessor. The growing

[1] Circular letter to the Local Governments dated February 21, 1866.

[2] The above is taken with some alterations of a purely literary character from the "Observations on some Questions of Indian Finance," by Sir John Strachey. House of Commons Return 326 of 1874.

needs of improvements, hitherto neglected, and the contracting scope for economy, combined to demand an ever-increasing scale of taxation. The dangers of increased taxation by an alien Government of a people not interested in obtaining the amenities of life, much less at the cost of a tax, were uppermost in the minds of the three great financiers who were sent out from England in succession to rehabilitate the finances of India on a sound and stable basis. They realized that unless bounds were set to these demands for improved administration and improved material and moral conditions, the immediate benefits of which were enjoyed more by the European than the native population, taxation howsoever high would be inadequate for financial solvency, besides being dangerous to the political stability of the Empire. Under the existing system of barren uniformity and pedantic centralization their object was thought to be impossible of achievement; for the Local Governments, on which alone the Central Government could depend for economy, rendered at best to that Government not only a cold and languid support in financial vigilance and *reform,* but too often exhibited a passive resistance, and even countenanced evasions of regulations intended to be conducive to economy. The only way to make Local Governments economical in their ways was to give them the power and responsibility of managing their own affairs. As a matter of administrative experience the financiers had found that while some of the branches of revenue and expenditure were truly imperial, there was a wide field of both of them which was properly local in character, and ought to have been entrusted to Local Governments. They were convinced that there could be no standard of economy until the requirements of the Local Government were made absolutely dependent upon known means, and nothing they thought would serve to make known to the Local Governments the means available for their outlay than to carve out from the Imperial purse a separate purse of definite magnitude for the use of Local Governments and to throw on them the responsibility of meeting their demands and maintaining an equilibrium in their finance.

Thus they were led to the same conclusion as the Federalists. However, to make the plan acceptable to the Imperialists, they

made certain concessions without seriously compromising the working of the plan. The Federal plan required a change in the constitution of the system of government in India. It necessitated a *legal* partition of the revenues and charges of India between the Central and the several Provincial Governments. While all, including the Imperialists, recognized in the Federal plan a powerful measure for enforcing financial responsibility and economy, the chief objection to it arose from the fact that it sought *legally and permanently* to divest the Central Government of the resources of India. The financiers as practical politicians soon found out a way to obviate this defect in the Federal plan. By virtue of their experiences of the working of the British Parliament they found that there was no necessity to resort to a constitutional change. Convention was deemed to be as good as law and, once established, can seldom be altered without disturbance. Separation of charges and revenues between the Central and Provincial Governments was therefore proposed to be made a matter of convention which could be upheld so long as it was profitable for the parties concerned to do so. This gave all the advantages of the Federal plan without legally divesting the Central Government of its control over the resources of India. In its nature it was a compromise between constitutional Imperialism and constitutional Federalism. It meant Imperial finance without Imperial management. Under the compromise the revenues and charges remained Imperial in their status, but their management was to be provincialized, so that each of the Provincial Governments was given to administer a part of the Imperial charges incurred in its territory within the limits of a part of the Imperial revenues collected within its territory. This was the essence of the new plan. It differed from the Federal plan in retaining to the Imperial Government the supreme controlling, councilling and regulating authority in all matters pertaining to Indian Finance, without its being actually engaged in the details of the administration of a *part* thereof.

In the essence of the plan as described above all the three finance ministers who were called upon to undertake the task of reconstruction had agreed. They differed, however, in the scale on which it was to be carried out. Whether Mr. Wilson had ever

elaborated his own skeleton of the plan is doubtful; but that the idea of it had occurred to him seems pretty certain. The Income Tax Act XXXII of 1860, imposed by him

> "was meant to consist of two parts—first, a variable tax, originally fixed at 3 per cent on incomes, which percentage it was intended should be raised or lowered as the general exigencies of the Empire required, and which might if the state of the finance should ever permit, be entirely remitted; and secondly, a permanent tax of 1 per cent., which was to be at the disposal of the local administration, and to be expended on roads, canals, and other reproductive public works, within the area which paid the tax (*vide* sections 190-4 of the Act). This portion of the tax was never intended to be remitted. It was always to be kept up, not only to meet the charges to which it was applicable, but in order to maintain the machinery of the tax so that at any moment of exigency, after a temporary remission the other portion of the tax, applicable in aid of the general finances, might be re-imposed without agitation, discussion, or trouble."[1]

But, as Mr. Wilson did not live long enough to elaborate his ideas into a scheme, it is difficult to say to what extent he intended to work them out in practice.

Mr. Laing, the successor of Mr. Wilson, put it in a much more definite shape. His budget for 1861-2 was for a deficit caused chiefly by the pressing demands of the Local Governments for useful public works, and his sense of financial safety compelled him

> "to curtail roads, canals and other useful works of this description, to the allotment on which they (had) been carried on or rather..... starved, since the Mutiny."

But his anxiety to promote the useful public works, the urgency of which he fully recognized, led him to propose to the Provincial Governments a method of supplementing the scanty Imperial grants made to them. He said to them :

> "Take what we are able to give you, and for the residue take certain powers of taxation and raise it yourself..... for there are certain subjects which can be dealt with far better by local than by Imperial taxation..."

[1] Minute by Sir B. Frere dated November 25,1866, para. 30. *Papers, etc., on the extension of the Financial Powers of the Local Governments,* p. 42.

His object was to enact local budgets "not merely to meet a temporary difficulty but to inaugurate a permanent improvement," to the relief of the Imperial treasury and the benefit of the Provincial Governments. This scheme involving the management of the public works charges by the Local Government with an allotment from the Imperial revenues supplemented by the power to tax had secured a general approval. But at the time when the scheme was put forward the Local Government was without the requisite machinery for carrying into execution the powers of legislation necessary to impose the taxes proposed to be given to them. The execution of the scheme had therefore to be postponed pending the enactement of local legislative councils then undertaken by Parliament. But, the ensuing years having been years of financial prosperity, the interest in the scheme relaxed and it was consequently dropped *sine die*.

This spell of prosperity, however, proved to be only a passing phase and the stress of returning adversity which beset Mr. Massey compelled him to revive the scheme in a much more enlarged form.[1] He proposed that:

> "In considering the ways and means by which the additional amount (of one million sterling) should be raised .....the most convenient mode of proceeding would be by a partial transfer of charges of a local character from Imperial to local account."

As the annual produce of local funds applicable to local purposes in India did not much exceed two million sterling, it was proposed to make the moderate addition to this amount of £1,200,000 in round numbers to be raised in rateable proportions in the several Presidencies and Local Governments, and applied in relief of a corresponding amount of charge for local services then borne by the Imperial revenues. The above-mentioned sum of £1,200,000 was arrived at by an assessment of 4 per cent on the estimated revenues of the several Local Governments (except Burma) for the current year, after excluding customs duties and the income tax.[2] The heads of charges to which the proceeds of the new funds were applicable were (1) education, (2) police, (3) district jails, (4) public works, (5) repairs and maintenance of roads. The list of taxes suggested to provide ways and means

[1] Demi-official letter dated February 25, 1866, to the Local Governments. *Papers, etc., on the extension of Financial Powers of Local Governments,* p. 67.

[2] *Ibid,* para. 8.

included (1) a license tax on trades and professions, (2) a house tax, (3) an octroi duty in towns, and (4) a succession duty on lands which did not pay revenue. The Local Governments were to be left free, subject to the approval of the Government of India in Council, to select the particular tax most suited for being levied in their respective territories so as to yield the full amount required, after deducting the cost of collection, and spend the proceeds on the services mentioned above, *on* all or any of them, according to their discretion.

The replies of the Local Governments and administrations addressed in connection with this scheme, indicated a general agreement as to the practicability of such a transfer of charges being made and being met by new local taxation, though there was also a general disposition to object to the transfer of charges without a simultaneous transfer of revenue with which to meet the expenditure on them. Under the circumstances the Government of India agreed to reduce the expenditure to be transferred to the Local Governments to £ 800,000 and to transfer to them the proceeds of the license tax as a means for making adequate provision for the same.[1] The favourable reception accorded to the scheme and the sympathetic criticism to which it was subjected led Mr. Massey to extend and modify it. In his exposition[2] of the new and enlarged scheme Mr. Massey wrote :

> "my first object has been to select, for the first series of charges to be transferred to local authorities, those items of expenditure which being least susceptible of control by the Government of India, give as a whole, an amount of such dimensions as will not be difficult to manage, and yet will be of sufficient importance to indicate that the measure is intended to be a reality, and a step towards the more complete transfer of the financial administration to the local government. Taking the civil estimates..... it seems to me, plainly, the most convenient method of proceeding to transfer a few entire grants or section of grants, in preference to selecting special items from several

[1] Circular letter dated September 19, 1867. *Op. Cit.,* p. 67.

[2] The new scheme was outlined at the request of Mr. Massey by Col. R. Strachey in Note on the Transfer to Local Governments of the Control over Certain Portions of Public Expenditure, *ibid,* pp. 51-62.

grants..... By adopting the plan..... no change whatever in the system of accounts will be called for; and the only alteration will be, that certain sections of the grants for various purposes, will be provided in a special manner. The only exception to this rule..... is in dealing with a head 'Miscellaneous' which..... is rather an incongruous collection of charges. Among these will be retained, for transfer to local management, all those items which would reasonably be termed local..... and the residue..... could easily be classed under some of the other main heads of charge. The most important of the charges which I should propose to transfer is that for 'Jails' subordinate to 'Law and Justice,' which may... be taken in lump. The charges for ' Registration 'and' Tulubana' also under 'Law and Justice' follow. These are met from special fees credited under the head of 'Law and Justice'. To set off against these charges, a transfer of the revenue under 'Law and Justice' is also proposed... Under 'Education' the 'Miscellaneous' charges are proposed to be transferred to the corresponding transfer of the revenue credited under 'Education'. Next follows the whole of the charges under 'Medical Services' except the fixed 'Medical Establishments and Chemical Examiners'. The entire charge under 'Stationery and Printing' is also taken. Under 'Police' the charges met by contributions from local sources are transferred, including the Railway Police. Against this is set off the receipts under 'Police'. 'Besides the above it is proposed to transfer a portion of the charges, for the collection of the Land Revenue and of the Income Tax and License Tax, which... I have assumed as likely to be levied in future. It has been necessary to assign a sum sufficient to cover the general charges which would be transferred and the propriety of transferring a corresponding portion of the cost of collection seems apparent. Under the designation of charges of collection of the Land Revenue were not included the cost of the Revenue Survey or Settlement as they were exceptional and variable, though the charges under 'Allowances to Village Officers' were included.

* * * *

"The first and principal transfer of revenue will be a portion of the Land Revenue, which I propose to fix at $^{1}/_{16}$th or one anna in

the rupee. The same rate will govern the proportion of the charges for collection transferred.....

"The next item of revenue which I assume at one-fourth of the Income Tax and License Tax, which I shall suppose to be raised.[1]

"It is next proposed to transfer the whole of the receipts under the following heads : (1) Law and Justice, (2) Police, (3) Education, (4) Miscellaneous, except items of a financial nature, and also (5) all income under Police Works excepting that derived from Irrigation. The items of expenditure under Public Works proposed to be transferred are (1) Roads, (2) Repairs of Civil Buildings, (3) Miscellaneous works both new and repairs, and (4) Tools and Plant."

The scheme thus enlarged was discussed at length from various points of view. But though it won the approval of cautious critics[2] the scheme was too large for the Imperialists. And as the two greatest of them, Lord Lawrence, the Viceroy of India, and Lord Napier of Merchistoun, Governor of Madras, disapproved of it, it failed to materialize in consequence of their opposition.

But unfortunately for the Imperialists, throughout this decade during which they were stubbornly objecting to any surgical operation on their patient—the Imperial system of Finance—it did not show any sign of convalescence. On the other hand, the delay in the operation aggravated its ills. Notwithstanding the constant enhancement in taxation and the reduction in expenditure, the three Chancellors of the Indian Exchequer sent from England could point to only three years of surplus during the decade between 1860 to 1870. On the other hand, to the embarrassments due to constant deficits was added the bewildering breakdown of the budget system created to bring about order and economy in

[1] In thus calculating the share Mr. Massey wrote, "The Income Tax I have taken at 2 per cent, and I have conceived that it will cease below incomes of 2,000 rupees. The Licence Tax I have supposed to be a trade tax beginning at the existing limit and going upwards to meet the Income Tax."

[2] Sir Stafford Northcote declared—"We must take care that the solidarity of Indian Finance is not shaken, and we must provide safeguards against reckless expenditure. We have a system which has raised the credit of India to the highest pitch, and therefore I should be the last to disturb it, and would be slow and cautious in introducing any change. Nevertheless, I repeat that in the principles of Mr. Massey's suggestions I concur."—*Hansard's Parliamentary Debates,* Vol. 191, April 23, 1868.

the public finances of the country. Not to speak of its efficiency as an instrument of economy, the budget system under the strain due to excessive centralization proved useless even as an instrument of order. The finances fell into a chaos. Notwithstanding the elaborate circulars and orders issued with regard to the accuracy in the framing of the budget estimates, it was an extraordinary phenomenon which confronted the Finance Ministers when the budgets, which were begun with large estimated surpluses, strangely enough closed with large actual deficits. To what extent the actuals erred from the estimates may be seen from the following table :

DERANGEMENT OF GOVERNMENT FINANCES [1]

Year	Estimate Deficit— Surplus	Actual Deficit— Surplus
	£	£
1866-67	—66,700	—2,307,700
1867-68	1,628,522	— 923,720
1868-69	1,893,508	— 2,542,861
1869-70	48,263	— 1,650,000(est.)

From the above table it is clear that the estimates for 1868-9 and for 1869-70, which were based on the revised estimates of 1868-69, were expected to end with an estimated surplus of £1,893,508 and £48,263 respectively. But when the actuals of the year 1868-69 showed that instead of a surplus there was to be a large deficit, Lord Mayo, who was in the meantime appointed to the Viceroyalty of India, became convinced that if his budget was recast on the basis of these results, it would close with an actual deficit instead of the estimated surplus. This financial surprise threw his budget into confusion, and to restore order he was obliged to adopt the

[1] Hunter, W.W., *Life of Mayo,* Vol. II, pp. 7-8.

The figures for actual deficits given in the Table differ from those given by Mr. Chapman, Offg. Secretary to the Government of India, F.D., in his Circular letter of 17-8-1870 to the Government of Bombay communicating to the latter Lord Mayo's scheme. According to Mr. Chapman the figures for deficit (actual) are as follows:—

In	1866-67	the actual deficit was	... ...	£2,517,491
"	1967-68	" "	... ...	£1,007,695
"	1968-69	" "	... ...	£2,774,031

—*cf. Papers, etc., on the extension of Financial Powers of the Local Governments,* p. 243, for the Circular letter referred to.

unusual procedure of addition to taxation and the reduction of expenditure in the midst of the fiscal year.

The following is a synopsis of the measures he adopted :—

				£
I.	Additional Taxation			
	(1) Income Tax raised from 1 to 2½ per cent			320,000
	(2) Enhanced Salt Duty (in Madras and Bombay)			180,000
		Total	...	500,000
II.	Reduction of Expenditure—			
	(1) Education		...	350,000
	(2) Public Works		...	800,000
		Total	...	1,150,000
	Estimated Deficit		...	1,650,000

So grave was the crisis that with all these measures he could do nothing more than close his budget with an estimated deficit of £1,650,000 which would have been inevitable had it not been for certain windfalls such as the recovery of the value of supplies in the Abyssinian War and the adjustment of other large outstanding accounts which enabled him to convert his large deficit into a small surplus. Happy as he was over the immediate results of his efforts, Lord Mayo was convinced that there was something rotten in the system of Imperial Finance and, while anxious not to end it, he courageously set forth to mend it by inaugurating the scheme of Provincial Finance represented by the compromise the growth of which will be the subject-matter of Part II of this study.

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PART II

PROVINCIAL FINANCE : ITS DEVELOPMENT

CHAPTER IV

BUDGET BY ASSIGNMENTS

1871-72 TO 1876-77

The origins which led to the formulation of the scheme of Provincial Budget having been presented in the foregoing part of this study, we may now proceed to examine the constitution of the scheme as it was introduced and the changes which it underwent from time to time.

With his sureness of instinct Lord Mayo traced the financial deficits and surprises to the inefficiency of the Imperial and the irresponsibility of the Provincial Governments, and was led to the conclusion that the inauguration of Provincial Budgets was the only remedy equal to the malady. But it must be recalled that the situation was yet dominated by Imperialistic considerations, and while every one in charge of the affairs was desirous, even anxious, to ease the situation by some means or other, few were willing to do so at the cost of Imperial control. Even Lord Mayo was not without his Imperialistic leanings. But the force of the baffling circumstances compelled him to break through the hitherto prevailing spirit of hesitation and indecision, although the steps he took in determining the constitution of the Provincial Budget were slow and cautious.

The scheme which actually came to be introduced from the financial year 1871-2 was first adumbrated in a confidential circular of the Home Department of the Government of India, dated February 21, 1870. Enlarging upon the policy of retrenchment by which the road grant for 1869-70 fixed in the beginning at £ 1,236,000 came to be reduced at the close of the year to £1,021,178 and that estimated for 1870-1 at £ 1,000,000 came to be finally settled at £ 784,839 supplemented by £ 29,110 for Miscellaneous Public Improvements, the circular gave the Provincial Governments

> "to understand that the diminution that has been made in the Imperial grant for communications and roads is not a temporary diminution caused by present financial pressure. It is the result

> of a settled policy, deliberately adopted, independently of temporary considerations, and it is far more probable that in future years the special grant for these purposes will be reduced than that it will be increased. It therefore becomes a matter of very urgent necessity that no time should be lost in providing from local sources the funds necessary for the maintenance of the existing provincial and district roads, and for the construction of the new lines of communications which become every day more necessary."

That local wants should be met by local resources had been the ideal of Indian financiers during the entire period of its reconstruction. But that the view had by that time passed beyond the stage of academic discussion is obvious, for the Circular stated that "the Governor-General in Council had fully resolved that he will insist on full effect being given to this principle" in future. Many of the Local Governments took the sentiments of the Government of India conveyed in the Circular in all the seriousness in which they were meant to be taken and had begun to develop their local resources. In the Bombay Presidency a cess of 6¼ per cent. on the Land Revenue was levied and two-thirds of it was set aside for roads and works of public utility. The Madras Government under an old Act of 1866 levied a cess of one-half of an anna on every rupee of annual rental equal to 3⅛ per cent. on the Land Revenue for purposes of district roads. The Bengal Government had declared its intention to follow the Madras Presidency. Encouraged by the steps taken by these Local Governments the Circular urged upon other Local Governments and Administrations in Northern India, namely, North-Western Provinces, Punjab, Oudh and Central Provinces, to consider the expediency of increasing their road cesses on the land revenue to 5 per cent. The object of the move evidently was to relieve the Imperial treasury of the road grant, once the Provincial Governments were in possession of adequate local revenues.

In this way the Circular contemplated a very meagre scheme of Provincial Budget, incorporating only the charges on local public improvements and the revenues derived from local resources to meet them. But before it could be set into operation the financial difficulties of the Government of India called for a larger measure of relief. Bad as the position already was, there was little confidence to be placed in the stability of the opium revenue; and,

while there was practised a retrenchment in expenditure, the charges for interest on public debt was found to swell enormously. In the midst of such a percarious situation the Government of India decided to reduce the hitherto prevailing rate of the income tax in order to silence the outcry raised against it by the richer classes. As a possible method of ways and means to meet the additional deficit of £1,000,000 that was expected to arise from the reduction in the income tax rate, the Government of India issued another Confidential Circular, dated August 17, 1870, in which a much wider scope was given to the contemplated scheme of provincial Budgets. It was stated in this Circular that

> "If the income tax was to be reduced, the ways and means of government must be otherwise recruited..... preferably..... through the agency of Local Governments, and by adopting such methods of taxation as are considered most suitable to each province and least burdensome to the people."

The method of throwing the burden on Local Governments consisted in making over to them charges of certain departments of the administration more or less local in character with a net grant on them for 1870-1 reduced by a million sterling.[1] It was proposed to distribute this sum among the various provinces in the proportion which the net provincial grant of each bore to the total net grant and leave them free to make up their respective quota of retrenchment either by redistribution, retrenchment, or taxation.

After the concurrence of the Provincial Governments had been obtained to the plan of the Circular, it was announced by the famous Financial Resolution of December 14, 1870, as being adopted for execution from the commencement of the Financial year 1871-2.

We will now proceed to analyse the constitution of the Provincial Budgets as framed by this Resolution. Taking first the expenditure side of the Provincial Budget, it may be noted that the charges for the following Imperial services were incorporated into it:—

*1. Jails.

[1] Net grant means total expenditure on a service minus the receipts from the service.

*Appendix B of the Resolution gives a schedule of certain works for which separate funds were to be provided from the Imperial Revenue. They were Buildings and Offices of the following Departments :—

Opium (not including the Board of Revenue's office in Calcutta).	
Mint and Currency.	
Post Office.	
Telegraph.	
Offices of the Supreme Government.	
Viceregal Residences.	
Imperial Museum.	Calcutta.
Stamp and Stationery Office	Calcutta.
Treasury Buildings	Calcutta.
Bhishop's Palace	Reserved as Imperial for the present.
Godavery Works	Reserved as Imperial for the present.
Karachi Harbour Improvements	Reserved as Imperial for the present.

Such Military Roads as have been till the current year provided for from the grant for "Military Works".

2. Registration.
3. Police.
4. Education.
5. Medical services (except Medical establishments).
6. Printing.
7. Roads.
8. Miscellaneous, Public Improvements.
9. Civil Buildings.

To provide the Provincial Governments with funds to meet the above charges incorporated into their budgets the Government of India surrendered to them the receipts which accrued from services handed over to them with an additional assignment from the Imperial fisc to bring about an equilibrium. The receipts surrendered and assignments granted to the Local Governments were as follows:—

Assignments made to Provincial Governments for services incorporated into their Budgets by the Financial Resolution No. 3334 dated December 14, 1870.

Services incorporated into Prov. Budgets	Imperial Assignments for Services								
	Oudh	C.P.	BL Burma	Bengal	N.W.P.	Punjab	Madras	Bombay	Total
	£	£	£	£	£	£	£	£	£
Jails ...	26,922	27,881	32,777	218,210	88,394	58,204	91,983	73,440	617,811
Registration ...	...	3,509	...	36,609	20,129	11,623	22,970	25,372	120,212
Police ...	103,269	130,607	139,253	555,757	348,135	289,950	350,730	388,703	2,306,409
Education ...	26,056	27,864	10,998	234,385	103,528	64,909	90,052	118,271	676,063
Medical services (except Medical establishments)	5,049	11,770	6,460	89,713	27,607	24,935	61,696	74,852	302,532
Printing ...	7,609	3,640	3,000	41,732	25,302	14,106	25,840	27,050	148,279
Roads and misc. public improvements	32,900	63,403	63,000	157,800	82,636	84,200	123,880	121,900	729,819
Civil buildings ...	20,090	14,406	23,959	111,370	63,341	39,710	58,506	107,500	438,882
Public Works Establishments	13,777	20,230	22,635	69,984	37,954	32,217	47,421	59,644	303,862
Tools and Plant ...	1,060	1,556	1,741	5,383	2,920	2,478	3,648	4,588	23,374
Total ...	237,182	304,866	303,923	1,520,943	799,946	622,332	876,726	1,001,320	5,667,243
Estimated Receipts of the Services									
Jails ...	1,575	6,000	9,420	110,385	11,154	...	7,300	664	146,498
Registration ...	...	5,500	...	40,000	35,030	20,694	34,000	30,141	165,356
Police ...	10,566	12,520	18,671	70,363	51,730	41,724	32,350	14,000	251,944
Education ...	1,482	...	500	42,012	11,050	5,000	6,900	10,480	77,424
Printing ...	1,080	...	...	2,000	2,160	...	1,260	...	6,500
Total ...	14,723	24,020	28,591	264,760	111,124	67,418	81,810	55,285	647,731
Grand Total of net assignments	222,459	280,846	275,332	1,256,183	688,822	554,914	794,916	946,040	5,019,512

Constituted on the basis of figures given in the Resolution of December 14, 1870

These would have been the total assignments to the Provincial Governments for meeting the charges on the incorporated services, had it not been for the fact that the Government of India desired to obtain relief by way of retrenchment of the provincial resources to make up for the deficits expected to follow the reduction in the income tax. The relief originally fixed at £1,000,000 was reduced to £350,000, distributed rateably among the various provinces. Taking account of these retrenchments the permanent assignments made to the provinces were as shown below:—

Provinces	Next Assignments	Proportion of Retrenchment	Permanent Assignments
	£	£	£
Oudh ...	222,459	15,511	206,948
C.P. ...	280,846	19,583	261,263
Burma ...	275,332	19,199	275,332
Bengal ...	1,256,183	87,591	1,168,592
N.W.P. ...	688,822	48,030	640,792
Punjab ...	554,914	38,693	516,221
Madras ...	794,916	55,428	739,488
Bombay ...	946,040	65,965	880,075
Total	5,019,512	350,000	4,688,711

For conversion into Rupees, £1 equal to Rs. 10.

Before the commencement of the time appointed to carry the scheme into practice the Government of India incorporated the following additional services[1] into the Provincial Budgets :—The Charges for Petty Construction and Repair of Buildings in the Civil Department excepting the Opium Department in Bengal, the Salt Department outside the Lower Provinces of Bengal and Medical Services such as (1) Salaries of Medical Officers of Medical Colleges and Central Jails, and of Lunatic Asylums at the Presidency towns; (2) Extra allowance to Medical Officers for the Medical charge of Lunatic Asylums in the mofussil, and of Colleges, Central Jails, etc., also extra allowances to Medical Officers for the executive charge of jails, and (3) charges for sub-assistant Surgeons and Apothecaries employed in other than civil medical charge of the sudder stations or districts, and for all other subordinate medical establishments. Side by side with these transfers the Government of India withdrew the Calcutta

[1] Finance Department Resolution No. 1659 of March 20, 1871.

IMPERIAL ASSIGNMENTS FOR 1871—72[1]

	Oudh.	C.P.	Bt. Burma	Bengal	N.W.P.	Punjab	Madras	Bombay	Total
Assignment as per Resolution of December 14,1870 ...	£ 1,69,355	£ 205,271	£ 192,488	£ 1,176,406	£ 613,095	£ 463,727	£ 643,271	£ 707,693	£ 4,171,306
Add—									
Official Postage ...	1,551	5,093	...	4,893	10,840	8,031	4,163	4,311	38,882
Transfer from Medical Services ...	2,139	1,767	745	6,649	5,624	2,828	7,597	8,500	35,849
Transfer of petty construction and repairs of Civil Buildings	699	1,778	420	6,508	2,555	1,908	1,050	4,050	18,968
Other items net	...	...	...	7,866	1,485	...	...	4,600	13,753
					633,599				4,278,758
Deduct—									
Transfer of Ajmere charges to Government of India ...	...	...	...	...	28,714	...	...	...	28,714
Total ...	173,744	213,909	193,653	1,202,124	604,885	476,494	656,081	729,154	4,250,044
Deduct—									
Receipts per budget of 1870-1	14,723	24,020	28,591	260,578	109,992	67,418	81,810	55,285	642,417
Net charge in Civil Department	159,021	189,889	165,062	941,546	494,893	409,076	574,271	673,869	3,607,627
Add budget grant for P. W. as per Res. of 14-12-1870, viz—									
Roads and miscellaneous public improvements ...	32,900	63,403	63,100	157,800	82,636	84,200	23,880	121,900	729,819
Civil Buildings	20,090	14,406	23,959	111,370	63,341	39,710	58,506	107,500	438,882
P.W. Establishments	13,777	20,230	22,635	69,984	37,954	32,217	47,421	49,644	303,862
Tools and Plants	1,060	1,556	1,741	5,383	2,920	2,478	3,648	4,588	23,374
Total public works ...	67,827	99,595	111,435	344,537	186,851	158,605	233,455	293,632	1,495,937
Grand total ...	226,848	289,484	276,497	1,286,083	681,744	567,681	807,726	967,501	5,103,564
Deduct—									
Proportion of £350,000	15,557	19,853	...	88,199	46,753	38,931	55,394	66,351	331,038
Revised permanent assignment	211,291	269,631	276,497	1,197,884	634,991	528,750	752,332	901,150	4,772,526
Or in round numbers	211,300	269,600	276,500	1,197,900	635,000	528,800	752,300	901,200	4,772,600
[2]Add—India	...	...	...	...	...	...	...	...	26,700
								Total ...	4,799,300

[1] Based on the Fin. Dept. Resolution No. 1660 of March 20,1871.

[2] The item opposite to" India" in the above table is for the Calcutta University and for Prov. services (not including Public Works) in Coorg, Ajmere and other district under immediate administration of the Government of India.—Sir Richard Temple's Financial Statement for 1871-2.

University from the Provincial to the Imperial Budget.[1] To take account of the revision of charges for Official Postage,[2] and Bengal Police,[3] and the additions and withdrawals of services referred to above, the Imperial assignments to Provincial Governments for the year 1871-2 were further altered so that they stood as shown in the table on the preceding page.(Page 117)

Besides these assignments for the fiscal year 1871-2, the Government of India gave the Local Governments a special donation of £200,000 in the year 1870-1 in order that they "may be able to inaugurate the plan successfully, and to have as it were a fair start." Taking round numbers then, the several Provincial Governments had the following resources[4] at their disposal in the year 1871-2 to meet the expenditure incorporated in their budgets :—

Provincial Budget for	Resources		Total
	Receipts surrendered by the Imperial Government	Assignments from the Imperial Treasury	
	£	£	£
Oudh	14,700	211,300	226,000
Central Provinces	24,000	269,600	293,000
Burma	28,600	276,500	305,100
Bengal	264,800	1,197,900	1,462,700
N.W. Provinces	110,000	635,000	745,000
Punjab	67,400	528,800	596,200
Madras	81,890	752,300	834,100
Bombay	55,300	901,200	956,500

Having analysed the constitution of the Provincial Budgets and noted the receipts and charges incorporated into them, we will proceed to inquire into the peculiarity which marks their constitution as framed in 1870-1. No method of ascertaining this peculiarity would be more direct in its approach towards the question raised above than to ask ourselves what problem the framers of the Provincial Budgets were presented with and how it

[1] Letter from the Secretary to the Government of India, Finance Department, No. 1683 dated March 21, 1871.

[2] Finance Department Resolution No. 1659 of March 20, 1871.

[3] Finance Department Resolution No. 1587 of March 20, 1871.

[4] Financial Statement of 1871-2.

was solved. From our knowledge of the history of the controversy that raged over the creation of Provincial Budgets we can say that what items of expenditure to incorporate into Provincial Budgets was no longer a prominent question of the time. Long since it was settled that there were charges in the Imperial Budget of a purely local character. By common consent they were regarded as the most unsatisfactory part of the Imperial Budget. It was admitted on all hands that, knowing nothing about these charges, the Government of India was either obliged to sanction an unnecessary charge which may have been carelessly endorsed by the head of a department having no immediate interest in guarding against the waste of public money, or by a too cautious spirit of a random parsimony, or by parsimony regulated only by the state of public revenue, refuse its sanction and check prudent and profitable expenditure. As either procedure was likely to cause mischief, it was commonly agreed that such matters over which the Central Government by its supreme ignorance was powerless to exercise any control, should be transferred from the direct purview of the Imperial Government to the immediate control and responsibility of the Provincial Government. One side of the problem had thus been solved by sheer force of circumstances. The matter on which all attention was mainly concentrated was the problem of providing the Provincial Governments with funds sufficient to meet the charges incorporated into their budgets. It was allowed on all hands to be reasonable that the receipts arising from the incorporated services should be appropriated by the Provincial Governments. Two good reasons were advanced for adopting such a procedure. It is laid down as a canon of good finance that tax administration and tax appropriation should go as far as possible together. On this principle it was but proper to have allowed the Provincial Governments to appropriate the receipts from the services which they administered. But there was also another weighty reason which influenced this decision. The main idea in the inauguration of Provincial Budgets was to interest the Provincial Governments in a judicious and economical management of the finances, and one way of sustaining their interest in the same was to have given them the receipts of the services they managed. The receipts, however, were so small a portion of the total funds necessary to meet the provincialized expenditure that the problem of balancing the Provincial Budgets remained unsolved notwithstanding. Two possible ways of solution were before the Government of India at the time : either to transfer for provincial uses

certain sources of Imperial revenue or to give a lump assignment from the Imperial treasury. It was difficult for a time to decide which was the more suitable of the two, for they were not only of unequal merits, but they made different appeals to the different parties concerned. To the Provincial Government assignment of revenues was preferable to fixed assignments as giving greater elasticity to their finances. To the Government of India, on the other hand, assignment of revenues seemed to be fraught with grave consequences. The past and the existing financial condition of India did not warrant the Central Government to alienate the sources of revenue it then possessed with equanimity and safety for the future. On the other hand, its prospective condition looked as precarious as its past, and it therefore desired to retain its control over the sources the mobilization of which alone could enable it to stave off any impending crisis. The second alternative, on the other hand, was just such a one as to give the provinces sufficient funds without the Government of India forfeiting its control over its resources. It must not be forgotten that the Government of India by reason of its constitutional position had the sole authority to manage and appropriate the revenues of India. Any solution for financing the provinces had therefore to be in accord with its interests as conceived by itself. This being the situation the method of assignments was adopted in preference to that of assigned revenues in solving the principal problem that arose in connection with the constitution of provincial budgets.

It is because assignment of funds from the Imperial treasury was adopted as a method of supply to balance the Provincial Budgets that the system instituted in 1871-2 has been characterized in this study as a system of Budget by Assignments.

This principle on which the Provincial Budgets were constructed in 1871-2 endured till 1876-7. The assignment made to the Provincial Governments for the year 1871 -2 had been declared to be fixed and recurring. Recurring they were, but fixed they were not; for, every year, since the start, the Government of India kept on adding to and withdrawing from Provincial Budgets items of charge already incorporated in them. In accordance with these modifications in the incorporated charges the Imperial assignments had to be either reduced or augmented as necessity dictated. The progressive changes in the assignments from 1871-2 to 1876-7 with the specific purposes for which they were granted are entered in the following tables :—

Statement of Imperial Assignments to the Provinces for the year 1871-72

Purpose of the Assignment	Amount Assigned	
	Details	Total
	Rs.	Rs.
Original Assignment		1,19,79,000
Add—		
For Cemetery establishments	4,000	
,, Compensation for Agra Brick Factory	28,000	1,14,000
,, Office and House Rent	82.000	
		1,20,93,000
Deduct—		
For transportation charges for convicts	15,000	
,, fees for licensing cargo-boats	2,600	1,24,690
,, receipts of public Works Departments	1,07,000	
		1,19,68,310
Special Grants		
Add—		
For Calcutta University	60,000	
,, Midnapore Civil Court Buildings	31,680	3,41,680
,, Calcutta Small Causes Court Building	2,50,000	
		1,23,09,990
Total Assignments for 1871-72 ...		1,23,09,990

Statement of Imperial Assignments to the Provinces for the year 1872-73

Purpose of the Assignment	Amount Assigned	
	Details	Total
	Rs.	Rs.
Original Assignment		1,19,79,000
Add—		
Permanent additions in 1871-2 (as above)	1,14,000	
For Miscellaneous services	2,67,070	3,88,936
,, books and publications	7,600	
,, ground-rent of Orphan School at Howrah ...	266	
		1,23,67,936
Deduct—		
Permanent deductions in 1871-2 (as above)	1,24,680	1,30,390
For repairing charges of University	5,700	
		1,22,37,546
Special Grants		
Add—		
For Burdwan Fever Relief	1,00,000	
Compensation for Sudder Court Building	4,00,000	9,66,670
Capital value of annual, rent of Rs. 21,000 for public offices	4,66,670	
		1,32,04,216
Deduct fractions		380
Total Assignments for 1872-3 ...		1,32,03,836

Statement of Imperial Assignments to the Provinces for the year 1873-74

Purpose of the Assignment	Amount Assigned	
	Details	Total
	Rs.	Rs.
Permanent Assignment for 1872-3 as above ...		1,22,37,546
Add—		
For payment of Medical Officers in charge of Civil stations	3,85,000	4,85,000
For Land Revenue Sub-divisional establishments ...	1,00,000	
		1,27,22,546
Deduct—		
Reduction of rent for public offices	21,000	21,000
		1,27,01,546
Sanctioned for 1873-4		1,27,01,000
Add for—		
Ground rent for Howrah Orphan School	266	
Charges on account of European vagrants	11,500	18,066
Ground rent charges	6,300	
Deduct—		
For pay of medical pupils withdrawn from provincial to Imperial.		5,400
		3,90,400
For pay of medical officers in charge of civil stations ... ... withdrawn from provincial to imperial.	3,85,000	
Special Grants.		1,23,28,666
Add—		
For rent of Small Cause Court		14 400
Total Assignment ...		1,23,43,066

Statement of Imperial Assignments to the Provinces for the year 1874-75

Purpose of the Assignment	Amount Assigned	
	Details	Total
	Rs.	Rs.
Permanent Assignment for 1873-4 as above ...		1,23,28,666
Add—		
Assignment for encouragement of Mohammedan education	50,000	50,000
Sanctioned assignment		1,23,78,000
Add—		
Grant on account of Model Farm	7,000	8,180
Additional grant for ground-rent	1,180	
		1,23,86,180
Deduct—		
Reduction of outlay on account of churches and burial grounds	14,314	
Reduction on account of Assam transferred	13,30,000	13,44,580
For ground rent Howrah Orphan School	266	
Total Assignment sanctioned ...		1,10,41,600