

Statement of Imperial Assignments to the Provinces for the year 1875-76

Purpose of the Assignment	Amount Assigned	
	Details	Total
Permanent Assignment for 1874-5 as above ...	Rs.	Rs.
Add—		
Grant for Botanical gardens	52,500	53,680
" " Ground rents	1,180	
		1,10,94,680
Deduct—		
Public Works charges on account of the Salt Department	13,683	33,163
Assignments on account of lighthouses and ships withdrawn	1,769	
Assignment on account of Town Improvement Fund of Assam		17,711
Total Assignment ...		1,10,61,517

Statement of Imperial Assignments to the Provinces for the year 1876-77

Purpose of the Assignment	Amount Assigned	
	Details	Total
Original Assignment for 1875-6	Rs.	Rs.
Add—		
For ground rents	1,180	53,680
" Botanical Gardens	52,500	
		1,10,94,680
Deduct—		
Public Works charges for Salt Department		13,683
		1,10,80,997
Deduct—		
For Form Store Department	8,034	6,034
Add—		
For Exhibitions and Fairs	2,000	
Total ...		1,10,74,963
Assignment as sanctioned		1,10,75,000
Add—		
Grant on account of Bankee and Ungool Estates ...	3,271	58,753
Cost of the snake-poison commission, establishments and contingencies.	6,000	
Grant on account of census registers	49,482	1,11,33,753
Deduct—		
Assignment on account of lighthouses and lightships withdrawn.	1,769	
Assignment of Town Improvement Fund, Assam ...	17,711	22,180
Annual cost of lunatics transferred to Tezpore Lunatic Asylum.	2,700	
Total Assignment ...		1,11,11,573

This completes the account of the services incorporated from time to time and the assignments made for them by the Imperial exchequer during the period in which the system of budget by assignments remained in force. It now remains to consider whether the system under the assignment plan was a success. What constitutes success is a question which is always open to discussion, for what may seem successful from one point of view may be the reverse of it from another standpoint. A discussion, however, of this aspect of the question cannot be avoided, for it was on the results of one stage that an advance towards the second was made to depend all throughout the expansion of Provincial Finance. As the definition of success varies with the standpoints, we must first ascertain them for the purpose of our investigation. Let us therefore inquire into the possible parties whose standpoints counted in the moulding of Provincial Finance, and without whose satisfactory opinion about the results achieved, a new step in advance could not have been taken. The Government of India and the Provincial Governments were obviously the two principal parties. Naturally their standpoints were different, if not antagonistic. The question prominent in the mind of the Government of India was how big was the gain to the imperial treasury on the transfer. On the other hand, the Provincial Governments were concerned to know whether the resources offered by the Government of India were adequate enough for their safely accepting the responsibility of managing the incorporated expenditure. It is obvious the Provincial Governments would not undertake the responsibility of managing the Imperial expenditure within a certain assignment unless they were sure that the assignments were adequate. Similarly, the Imperial Government would see no advantage in making the transfer unless the Provincial Governments undertook to manage the expenditure at a sum less than what it cost under the direct management of the Imperial Government. Adequacy to the provinces and gain to the Imperial treasury were therefore the two chief considerations which prevailed in the determination of the continuance and expansion of the scheme. The people of the Provinces may also be conceived of as a third possible party whose concurrence may have been deemed a necessary factor in the situation. What their view-point would have been is not altogether a matter of guess. On the other hand, anyone sufficiently acquainted with the nature of popular

demands for political advancement could easily imagine that the most urgent concern of the taxpayers would have been neither the well-being of the Imperial nor that of the Provincial Governments, but the distribution of the money they paid along the different channels of expenditure; and if their approval of the results of the scheme had been made a necessary condition of advance, it is probable that the development of Provincial Finance would have been along different lines.

There was a suggestion even at that time that the people of the country should have some voice in the financial arrangements of the country. In paragraph 19 of its Resolution of December 14, 1870, announcing the scheme of Provisional finance, the Government laid down that

“Each local Government will publish its own Provincial Service Estimates and Accounts in the local Gazette, together with a financial exposition (which should, where possible, be made before the local Legislative Council) analogous to that annually made in the Legislative Council of the Governor-General.”

If this suggestion had materialized, the Indian taxpayer would have obtained a voice in determining the financial arrangements between the Government of India and the Provincial Governments. There were, however, certain legal difficulties in the way of giving effect to this suggestion. If the Budget was introduced in the Council and debate had followed upon it, such a proceeding would have offended against Section 38 of the Indian Councils Act (24 and 25 Vic. c. 67) and would have, therefore, been illegal unless the Budget involved some proposal for tax legislation. For, that Act had provided that the activity of the legislative Council should not be called into play except for strictly legislative purposes. If, on the other hand, there was to be no debate, there was no advantage in this mode of giving publicity to the Budget which was not equally secured by its publication in the official Gazette. As a solution of these difficulties, the Government of Madras proposed¹ to the Government of India.

“that the Provincial Budget should form a schedule to an Appropriation Bill, the contents of which would, after all the necessary explanation and discussion, be voted section by section.”

But the Government of India, which had first broached the subject, was shocked by this suggestion as being revolutionary. In reply² it observed:—

¹ Letter to the Government of India, Finance Department, No. 147 of April 18, 1871.

² Legislative Letter to Madras dated July 11, 1871, No. 765.

“2. His Excellency in Council does not..... consider that the plan proposed..... for bringing the annual financial statement within the terms of the Indian Council’s Act, would be appropriate or possible. The passing of the Appropriation Bill in the House of Commons is a proceeding by which authority is given to carry into effect the Resolutions of the House in Committee of Supply which till the passing of the Appropriation Bill are not law. The Bill enumerates every grant that has been made during the whole session, and authorizes the several sums voted by the Committee of Supply to be issued and applied to each separate service. It also contains a provision that the various aids and supplies shall not be issued or applied to any other uses than those mentioned.

“3. Such a proceeding would, His Excellency in Council considers, be out of place in India, and might have the effect of transferring from the Executive to the Legislative Council, the power of disposing of all public moneys. His Excellency, therefore does not consider that the introduction of an Appropriation Bill would be advisable.”

Against this ruling the Government of Madras appealed to the Secretary of State¹ and pleaded that either the proposal of an Annual Appropriation Act be approved or

“such an alteration in the Council’s Act be made as will allow the financial statement to be legally made and discussed in the Local Legislative Council.”

But the Secretary of State upheld the decision of the Government of India² on the ground that

“such mode of procedure is only applicable in a representative assembly, which has full powers of control over the Executive, and any such powers Parliament has advisedly withheld from the Legislative Council of India.”

The suggestion was therefore dropped and was not given effect to till 1921. As the voice of the people did not prevail³ in the framing of the financial contracts between the Imperial and Provincial

¹ Letter from the Government of Madras, Financial Department, dated September 19, 1871, to the Secretary of State and the whole of the correspondence accompanying it.

² Legislative Despatch No. 4 to the Government of India, dated January 18, 1872.

³ In fact the point that decentralization should not be extended unless it was followed by devolution of political and financial power on the representatives of the people was not specifically raised till 1908, and that too only by the late Hon. Mr. Gokhale in his evidence before the Royal Commission on decentralization of India, *q.v.*

Government, it is of no immediate advantage to seek for results that would have interested them to know, if they had been allowed their say in the matter. In so far then the results of the past influenced the policy of the future we have only to lay ourselves out to seek for results in which the two remaining parties to the contract were primarily interested, namely, gain to the Imperial treasury and adequacy to the Provincial Governments. Applying ourselves first to the test of adequacy to the provinces the results of the period may be gauged from the annual surpluses and deficits in the finances of each of the different provinces brought within the pale of the system of Provincial Budgets.

PROVINCIAL SURPLUSES AND DEFICITS

Province	1871-2	1872-3	1873-4	1874-5	1875-6	1876-7
	£	£	£	£	£	£
C.P. ...	20,988	—8,423	2,268	13,108	8,307	16,800
Bt. Burma ...	27,634	33,832	—9,922	—21,889	—5,471	5,100
Assam ...	...	...	...	5,159	590	9,833
Bengal ...	180,622	74,622	393,955	271,044	27,397	46,978
N.W.P. and Oudh	31,595	64,036	36,358	11,693	20,945	128,501
Punjab ...	109,828	28,008	—33,347	—117,644	—92,724	26,908
Madras ...	40,787	—19,264	—56,381	4,303	—14,210	504
Bombay ...	65,553	128,805	—64,373	9,929	—18,354	—140,718

Compiled from the annual Finance and Revenue Accounts of the Government of India for the respective years.

It is evident from these figures that the surpluses outnumber the deficits in frequency and magnitude to such an extent that the deficit could have been easily met from the accumulated balances without seriously exhausting them. Care, however, must be taken in explaining the cause of this apparent prosperity of Provincial Governments. Did the province succeed in building up their balances from the savings from the assignments and receipts made over by the Imperial Government is what we have to find out. The answer to this question cannot be given in a categorical form, for the total resources and changes to which the above figures refer include more than the receipts and assignments set apart for provincial management. Besides Imperial assignments and receipts of incorporated services they include a part of what hitherto were known as Local Funds. It must be recalled that long before the separation of provincial from

Imperial Finance there was created since the year 1855 a separation between the Imperial and Local Finance in British India. The Local Funds when separated were under the immediate management of the several Provincial Governments and comprised of two different classes : (a) those which by law or custom were required to be spent within the districts in which they were collected and on the specific objects for which they were collected; and (b) those collected all throughout the province and over the disposal of which the Provincial Government possessed unrestricted discretion. When the scheme of provincial Finance was inaugurated it was deemed natural to merge the second class of Local Funds into the Provincial Funds. The total addition made thereby to the provincial resources it is difficult to ascertain. But it ' was the opinion of Sir John Strachey, the Finance Minister of the time,¹ that such addition was " inconsiderable" and could not therefore have affected materially the financial consequences of the new system² .

The question of estimating the gain to the Imperial treasury need not detain us very long. The indirect gain due to the economical management of the services by the Provincial Governments will come for discussion when we come to consider the influences that played a prominent part in bringing about the second state in the evolution of Provincial Finance. The direct gain made by the Imperial treasury was effected throughout the retrenchment in provincial assignments already referred to. It may be recalled that the Government of India had planned to obtain relief to the extent of one million sterling annually on the services transferred,³ but the Government of India soon realized that all this retrenchment would necessitate some taxation by the provincial authorities. The burden had already grown since the Mutiny, and being anxious not to add to it directly by Imperial levy or indirectly through provincial levies, it decided to reduce the relief it sought by lowering the retrenchment on provincial assignments from £ 1,000,000 to £350,000, or more accurately to £ 350,801 if we deduct, as we must, the sum of £ 19,199 restored to Burma, being its quota of relief owing to the special circumstances of that province.

¹ See his Minute, dated March 15, 1877, appended to the Financial Statement for 1877-8.

² This amalgamation was, however, abandoned with effect from 1876 to enable the Government of India to ascertain the financial consequences of the new system as compared with the old.

Summing up the results of the period, the Government of India, it must be said, realized full share of the benefits it had contrived to obtain by the annual relief of £330,801, though not without causing an insufficiency, however small, in the Provincial finance. But notwithstanding the burden thrown on the Provinces their position as disclosed by the results cannot by any means be called unhappy.

One unwelcome feature marred the inauguration of Provincial Finance. That feature consisted in the large increase in the levy of rates and cesses for purposes of local improvement.

***Receipts from New Resources of Income and Cesses
enhanced since 1870***

	1870-1	1871-2	1872-3	1873-4	1874-5	1875-6
	£	£	£	£	£	£
Oudh—						
<i>Ord.</i> cesses on :						
Land Revenue ...	38,813	29,018	34,354	34,259	33,208	33,146
Margin Fund ...	7,363	3,461	...	...	...	...
Local rate ...	...	36,810	42,535	42,883	41,097	41,461
Total ...	46,176	69,289	76,889	77,142	74,305	74,607
Assam—						
<i>Ord.</i> cess on land:						
Rev. Old Fund ...	6,506	4,333	711	1,916	17,149	...
New Fund ...	...	...	...	...	15,267	16,300
Total ...	6,506	4,333	711	1,916	32,416	16,300
Bengal—						
Road Cess Fund: ...	...		22,917	59,039	120,128	158,516
N. W. Provinces ...	168,532	201,548	216,818	213,672	215,968	150,619
Punjab ...	58,330	214,441	216,194	208,063	211,862	193,573
Madras—Road Cess ...	212,813	234,567	377,031	368,031	371,311	369,325
Madras—Tolls Cess ...	...	...	12,144	12,234	14,860	26,531
Grand Total ...	492,357	724,178	922,704	940,333	1,040,850	980,545

*Balances recovered from Bengal on account of Road and Government Estates Improvement Fund.

For the new resources of income and cesses given above, refer to *Papers, etc., on the extension of the Financial Powers of the Local Governments*, p. 494.

This shows an increase in 1875-6 over 1870-1 of £488,188, chiefly by raising the cesses in the North-West Provinces, the Punjab and the Madras Presidency to $6\frac{1}{4}$ per cent. on Land Revenue in the two last mentioned, to about 5 per cent. in the North-Western Provinces (after deducting the rural police charge); by a road cess in Bengal and by granting an assignment

to Assam, at the Imperial charge, of $6\frac{1}{4}$ per cent. instead of 3 per cent. on Land Revenue pending the levy of a cess of a corresponding amount on the ryots. In the Bombay Presidency the $6\frac{1}{4}$ per cent. was imposed some years before and hence is not included in the above table. The only province which did not levy any additional cess was the Central Province, though a cess of $6\frac{1}{4}$ per cent, on the Land Revenue was in 1870 considered practicable but not opportune.

Of what benefit, a cynic may say, was the institution of Provincial Finance if it did not obviate the necessity for further taxation? If further taxation was unavoidable, why did the Imperial Government throw the onus of facing it on the Provincial Government under the garb of Provincial Budgets when it would have done that itself? It must be said in reply that the merits of Provincial Finance are to be looked for in other directions, and it will be shown in its proper place that they justified its institution, even though a certain amount of enhanced taxation followed in its wake. It would indeed be unwise to decry against taxation in general, for no benefit can be obtained without a charge. But it would be equally unjust not to protest against the kind of taxation resorted to, for what really mattered was not the increase of taxation but the inequity of taxation. The method of taxation resorted to to make up the deficit in the Provincial Finance was an imposition of rates and cesses on the already over-burdened class of tax-payers, namely the landholders. Now the services incorporated into the Provincial Budgets, for whose support these rates and cesses were levied, though called local, were not more local in the sense of their being beneficial to the particular localities than those retained by the Imperial Government. On the other hand, the former were from the standpoint of the localities as onerous to them as the latter, and yet they were financed by rates and cesses levied from the localities as though they were directly beneficial to them, which as a matter of fact they were not. This is all the more lamentable when it is recalled that the necessity for retrenchment which caused the levy of these rates and cesses was occasioned by the abolition of the income tax. As a matter of justice we should have expected the continuance of the income tax to the relief of the State and the ratepayers. But justice was for a long time absent from the Financial Secretariat of the Government of India. A few cared for it in the abstract, but none looked upon it as an element worthy of consideration in providing for the exigencies of provincial or local finance; and as it was unrecognized, its violation by the Provincial Governments was no bar to the development of Provincial Finance.

CHAPTER V

BUDGET BY ASSIGNED REVENUES

1877-78 TO 1881-82

The scheme of Provincial Budgets, the second stage of which we shall presently study, was launched not without mixed feelings. Boundless hopes were entertained, though not unmingled with a sense of misgiving. Just what was expected of the scheme may be correctly gauged from the remarks of Sir Richard Temple, who, when introducing the scheme in 1870, said :—

“We hope that this concession (of increased control over revenues and expenditure) will give the Local Governments an additional interest in the study and the enforcement of economy in expenditure; will afford them a just inducement to supplement their local receipts from time to time by methods either most acceptable to the people or least fraught with popular objection; will cause a more complete understanding to arise between the executive authorities and the tax-paying classes respecting the development of fiscal resources; will teach the people to take a practical share in the Provincial Finance, and lead them up gradually towards a degree of local self-government; and will thus conduce to administrative as well as financial improvement.”¹

While entertaining these hopes he also took the opportunity of asking the Council to be prepared for disappointment, for he went on to remark:

“the hopes which I am expressing, however sanguinely, or confidently entertained, are after all but hopes, and like all other hopes may or may not be fairly realized. But let all this eventuate as it may, sure I am with certainty free from shade of doubt, that the measure is advantageous to the Imperial Budget of British India. For it will have the direct effect of definitely limiting, for the present, the expenditure from the general Exchequer on certain important branches of civil expenditure, the very branches indeed, where, from the progressive state of the age, the demands for increased outlet have most arisen,

¹ Annual financial statement for the official years 1860-1 to 1873-4, with Appendices: Calcutta, Office of the Superintendent of Government Printing, 1873, p. 348.

and in which from the nature of the case the supreme Central Authority is least able to check the requirements of the local authorities.”

The actual results, however, far surpassed these very moderate hopes and were more than necessary to dispel the misgivings that still lingered in the minds of those who looked upon the institution of Provincial Finance as a project of doubtful utility. Confining ourselves to the issues immediately affecting the Government of India or the Provincial Governments, it was abundantly proved that Provincial management was more economical than Imperial management. If we compare the expenditure incurred upon the services while they were an Imperial charge with the expenditure on them after they were provincialized, the superior economy of provincial management is overwhelmingly proved.

Year	Total excess Expenditure on all Transferred Services except Registration over Total Receipts from them inclusive of all Contributions other than those for Bengal Famine under Imperial management	Year	Total excess Expenditure on all Transferred Services except Registration over Total Receipts from them inclusive of all Contributions other than those for Bengal Famine under Provincial management
	£		£
1863-4	5,111,297	1871-2	4,835,238
1864-5	5,606,248	1872-3	4,964,407
1865-6	5,587,779	1873-4	5,329,180
1867-8	5,821,438	1874-5	5,379,509
1868-9	6,030,214	1875-6Est.	5,135,677
1869-70	5,856,310		
1870-1	5,197,250		

Compiled from an official volume of Notes on Imperial, Provincial and Local Finance, 1876.

It was therefore with confirmed belief in its utility and even with a sense of relief that the Government of India proceeded to incorporate into the Provincial Budgets additional services local in character or more amenable to local control. But these additions to the incorporated services made the problem of a supply of funds to Provincial Governments assume greater proportions. In the first period the gap between the receipts of incorporated services and the total charges for them was comparatively smaller than what it was found to be the case on the present occasion. The mode of bridging the gap entirely by assignments was deemed to be ill-fitted for the success of the scheme in its enlarged form. The most radical defect in the system of budget by assignment consisted in its rigidity. The provinces did not favour it as a mode of supply for the reason that while the outlay on the services under

their management continued to expand the assignments made to them remained fixed in amount. Sir John Strachey, to whom belonged the credit of carrying the scheme a stage further, was particularly alive to this weakness of the system. In place of fixed assignments he desired to give the provinces certain sources of revenue, the yield of which largely depended upon good management. His primary object in doing this, no doubt, was to make better and more elastic provision for the growing needs of the provincialized services. But he had also another, and, as he conceived it, a far more important reason in the substitution for assignments of assigned revenues. That economy was the fruit of good management had by that time become a commonplace, but few were sure as to what good management consisted in. it was Sir John Strachey who, for the first time, defined in unmistakable language his notion of good management, which was since his time applied in an everincreasing degree in the development of Provincial Finance. To him good management of finance was to be had

“not by any action which gentlemen of the Financial Department or by any other department of the supreme Government can take whilst sitting hundreds or thousands of miles away in their offices in Calcutta or Simla; not by examining figures or writing circulars, but by giving to the Local Governments..... a direct and, so to speak, a personal interest in efficient management.”¹

And in this he had the strong support of recent experience; for, taking the results of the past stage the provinces not only managed the services at a lesser cost to the revenue than was the case under the Imperial regime, but the services yielded increased revenue under the more immediate and fostering care of the provinces than they did under the remote, uninformed, and therefore impotent vigilance of the Imperial Government.

Sir John Strachey had long held to the view that so long as the Provinces collected the revenues *for* the Government of India they did not care to check evasion, which they would have surely done if they had collected them for their immediate benefit, or, as he put it,

“when the Local Governments feel that good administration of branches of revenues will give *them*, and not to the Government of India alone, increased income and increased means of carrying out the improvements which they have at

¹ Financial Statement, 1877-8.

RECEIPTS FROM INCORPORATED SERVICES

Allocated Services	Under Imperial Management					Under Provincial Management				
	1865-6	1867-8	1868-9	1869-70	1870-1	1871-2	1872-3	1873-4	1874-5	1875-6
	£	£	£	£	£	£	£	£	£	£
Jails	89,260	96,910	141,218	133,806	128,773	149,888	195,755	271,915	297,198	326,023
Police	140,166	231,859	277,179	287,529	270,855	203,624	97,735	90,708	80,509	89,895
Education	53,256	66,869	67,207	72,848	60,740	76,789	80,869	101,306	99,537	101,909
Registration	86,997	127,070	153,488	165,048	147,152	155,262	171,735	121,470	172,111	184,461
Printing	3,333	3,282	2,803	3,718	9,244	10,923	14,383	21,174	18,220	18,066
Medical	...	...	...	...	3,273	20,594	30,649	36,370	43,097	26,583
Miscellaneous	4,070	5,666	4,076	4,489	6,116	20,991	31,345	32,396	39,666	36,234

Compiled from the same source referred to above.

heart, then, and not till then, was to be had the good administration that every one desired.”

This evidence of the expanding receipts of provincialized services were therefore a pleasant surprise which went a great way in confirming the view he had advocated. It was therefore for a double purpose, of augmenting the revenues and of introducing elasticity in Provincial Finance, that Sir John Strachey substituted assigned revenues for assignments as a mode of supply to the provinces.

The plan adopted by Sir John Strachey was not new, neither was it brought forward for the first time. It was present in the minds of the people who took part in the discussions of Provincial Finance in 1870, and was actually advocated by Sir John Strachey as early as 1872.¹ That the Government of India did not look upon the plan with favour in 1870 was due to the fact that it was afraid to permanently alienate the sources of revenue on the growth of which its stability depended. By now, however, the financial position of the Government of India had a bit improved, and the six years' trial of provincial management had also engendered a greater confidence in the scheme in the minds of those who had never completely accepted the administrative utility of the project. To this was added the prospect of the plan being a means of increased productivity in their resources as it had been of increased economy in expenditure. The force of all these factors combined to bring a new stage in the evolution of Provincial Finance which, because of the distinct mode of supply adopted, may be well designated as a stage of Budget by Assigned Revenues.

To be sure, assignments still formed a part of the new system. But that was because of the difficulty of assigning such revenues the yield of which would have been precisely equal to the incorporated expenditure. Under any circumstances there was sure to be some difference. It happened that the normal estimated yield of the ceded revenues fell short of the requirements and the margin of difference had to be made up by some adjusting assignment in the case of each province.

The method of fixing the adjusting assignment for the different Provinces was on the whole a little too complicated, and may therefore be conveniently explained before proceeding to examine the constitution of the Provincial Budgets of the different Provinces as laid down under the second stage of their growth.

¹ See his Minute dated July 27, 1872.

It must be borne in mind that the total resources of the Provinces were made up under this system of (1) the receipts accruing from the incorporated services, (2) the yield of the revenues assigned, and (3) the adjusting assignment. How to fix upon an adjusting assignment for a particular Province was a question involving nice calculations. Before arriving at a definite figure for the adjusting assignments it was obviously necessary to have settled the normal yield of the receipts of incorporated services and of the revenues made over. The assessment of the normal yield was a contentious matter. As a rough and ready method the Government of India took the average yield of each over a series of years as the normal yield, and made it the basis from which to calculate the assignments. Similarly on the basis of the annual growth of the revenues in the past years it assumed a certain normal rate of increase for each of the sources, so that the normal for the succeeding years exceeded the normal for the preceding year at the normal rate of annual progression assumed. And as the normal yield of the assigned revenues increased at their assumed normal rate of growth the assignments fixed for the subsequent years diminished in like proportion. This normal rate of growth assumed for the assigned revenues was sometimes an assumption unjustified by their past productivity. At all events, as a higher rate of increase meant lessened assignments, the Provinces questioned its magnitude. To pacify the Provinces and to make due allowances for errors of estimating, the Government of India made a very ingenious concession. It agreed that if the actual results showed deviations from the estimated normal yield, either below or above, they should be equally divided between the provincial and Imperial Governments. If the actual yield was greater than the normal the adjusting assignment from the Imperial Government fixed for the year would be reduced by half the excess, and if it were less than the normal the assignment would be increased by half the deficit.

All this very delicate mechanism was adopted primarily for the advantageous manner in which it enabled the Government of India to adjust the assignments without undue hardship being inflicted on either party. But there was also another advantage which, though unperceived at the time, was none the less effective. The consent secured from the Provinces to bear half the

burden of a possible deficit in the normal estimate directly put a premium on economical and judicious administration of the ceded revenues. If the Government of India had agreed to bear the whole of the deficit below the estimated normal, it is doubtful whether the Provinces would have exerted themselves sufficiently to develop their resources to such a degree as to bring their yield to the level of the normal. But the fear that their obligation to bear half the deficit might assume a larger proportion, which would undoubtedly be the case if there was a great falling off in the revenue, compelled them to bestow greater vigilance than they would otherwise have done. Whilst an effectual check on relaxation was thus provided the scheme was not wanting in a stimulus to exertion. The prospect of gaining half the excess over the normal gave a more direct stimulus to the Provinces to develop their resources beyond the normal than would have been the case if the total excess had been entirely appropriated by the Imperial Government. In short, the deterrent effect of a deficit to bear and the stimulating effect of a gain to reap made the mechanism of Provincial Finance as perfect as it could be made from the standpoint of economy in expenditure and productiveness in resources.

Having noted the factors that led to the conception and execution of this new step in Provincial Finance and the features which marked its novelty, we may now proceed to the study of the constitution of Provincial Budgets and the revenue and charges that were incorporated into them. Unfortunately it is impossible to present a conspectus of Provincial Budgets as a whole, for the charges were not uniformly incorporated in all the Provincial Budgets. Each Province was treated individually. This compels us to enter upon the analysis of the Provincial Budgets as they were reconstituted in 1877-8 separately for each of the different provinces.

North-Western Provinces and Oudh¹

The budget of the Province was recast rather than enlarged by additions to the already allocated items, as was the case with regard to some other Provinces. In its new form the budget of the Province incorporated the following heads of expenditure and revenue:—

¹ Financial Department Notification No. 1807, Gazette of India, Part I, March 31, 1877, p. 172.

HEADS OF CHARGES		HEADS OF REVENUE	
3.	Refunds of all Assigned Revenues.		
4.	Land Revenue (excepting settlements, allowances to district and village officers, and Bahbar estates and and special temporary compensations to covenanted civil servants in N.W.P.)	I	Land Revenue—collections from the Terai
6.	Excise	IV	Excise.
10.	Stamps.	IX	Stamps.
14.	Administration (excepting Account and and Currency Officers).		
16.	Law and Justice (excepting special temporary allowances to covenanted civil servants in N.W.P.)	XIII	Law and justice.
17.	Police.	XIV	Police.
19.	Education	XVI	Education.
21.	Medical (excepting the pay of Medical Officers in charge of civil stations).		
22.	Stationery and Printing.		
28.	Miscellaneous (excepting remittance of treasure and any unenumerated item exceeding Rs. 10,000).	XX	Miscellaneous (excepting "Gain by Exchange," "Premium on Bills," unclaimed Bills and unenumerated items exceeding Rs. 10,000 each).

Public Works Ordinary; Roads and miscellaneous public improvements, civil buildings (except opium, post office and telegraph buildings) and tools and plants; also whole of the Public Works establishment of the P.W.D. excepting that in the Military works and irrigation branches; the imperial government paying towards their cost 20 per cent on the outlay from the imperial funds and works and repairs executed by the establishment.

Public Works Receipt such as appertained to the Public Works charges incorporated into the Provincial Budget.

In assigning the heads of revenue the Government of India added the proviso that

"the Governments of North-Western Provinces and Oudh must surrender to the Imperial treasury half of any sum by which the net revenue from Excise, Stamps, and Law and Justice (omitting Jails and Registration), deducting Refunds under these heads and the charges under 6, Excise and 10, Stamps, exceeded Rs. 83,75,000"

and agreed to reimburse the province with a sum equal to half the deficit if the yield fell below the above sum. This adjustment was effected by operating upon the balances of the Province so that if the expenditure of the North-Western Provinces and Oudh upon the incorporated services exceeded the enumerated revenues plus any Provincial contribution in support of them by less than Rs. 83,75,000, the difference was to be added to; and if such excess expenditure was more than Rs. 83,75,000 the difference was to

be deducted from the balances of the Government of the Northwestern Provinces and Oudh in the Imperial treasury.

Bengal

Items of Expenditure incorporated in the Bengal Budget	Grant as existing in 1877-8	Retrenchment	Proposed Consolidated Grant
3. Refunds of Revenue from Excise, Stamps, Law and Justice, and of Deposits.	4,91,000	...	4,91,000
4. Land Revenue (Collectors, Deputy Commissioners, etc. Establishments and charges on account of Land Revenue Collections).	22,62,000	...	22,62,000
6. Excise on spirits and drugs ...	2,92,000	...	2,92,000
8. Customs ...	6,93,000	...	6,93,000
9. Salt ...	39,000	...	39,000
11. Stamps ...	2,38,000	...	2,38,000
15. Administration (excepting Account Office, Allowances to Presidency Banks, Stationery Office at Presidency and stationery purchased in the country).	12,61,000	...	12,61,000
16. Minor Departments (excepting meteorological and archaeological departments, census and gazeteers).	1,68,000	...	1,68,000
17. Law and Justice (excepting Law Officers).	63,97,000	1,00,000	62,97,000
18. Marine ...	10,92,000	...	10,92,000
23. Political (Govt. House Police Guard).	7,000	...	7,000
26. Miscellaneous (excepting remittance of treasure).	25,000	...	25,000
Stationery and Stamps ...	4,98,000	50,000	4,48,000
27. Provincial allotment as now existing	1,10,59,000	4,40,000	1,06,19,000
Maintenance of Bishop's Palace, etc.	7,000	...	7,000
Total ...	2,45,29,000	5,90,000	2,39,39,000

The budget of the Province of Bengal¹ was enlarged rather than recast by additions to the already incorporated heads of revenue and expenditure. For the second stage of the scheme the Government of Bengal was made responsible for the charges shown in the above table.

¹ *Gazette of India*, Part I, March 31, 1877, p. 174.

To meet these charges the following revenues were handed over to Bengal for its use :—

ASSIGNED REVENUES (ooo omitted)

Heads of Revenue	Estimated Yield in 1876-7	Estimated Yield at the assumed Rate of Growth				
		1877-8	1878-9	1879-80	1880-1	1881-2
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
IV Exercise in spirits and drugs	6,300	6,400	6,500	6,600	6,700	6,800
VI Customs (see, Customs Misc. and Warehouses and Wharf rents).	3,600	3,600	3,600	3,600	3,600	3,600
VII Salt (Rents of Warehouses, fines and forfeitures and misc.).	220	220	220	220	220	220
IX Stamps	10,300	10,575	10,850	11,125	11,400	11,675
XIII Law and Justice						
XIV Marine (pilotage receipts, registration and other fees and misc.).	1,091	1,084	1,084	1,084	1,084	1,084
XVI Misc. (all except premium on bills, unclaimed bills, and any unenumerated item exceeding Rs. 10,000).	771	792	792	792	792	792
Total ...	...	22,671	23,076	23,421	23,596	24,171

Complied from statements in the *Gazette of India* referred to above.

But as the revenues assigned were not sufficient for meeting the incorporated charges transferred, after taking account of the excesses over normal to be paid to the Government of India, the Government agreed to make the following assignments from the Imperial treasury to the Government of Bengal:—

Year				Assignments
				Rs.
1877-78	...	...	...	48,32,000
1878-79	...	...	...	44,57,000
1879-80	...	...	...	40,82,000
1880-81	...	...	...	37,07,000
1881-82	...	...	...	33,32,000

Central Provinces¹

In the case of the Central Provinces the following additional items were incorporated in its budget:—

Heads of Charge	Grants as already fixed for 1877-78	Retrenchment	Proposed Net Consolidated Grants
	Rs.	Rs.	Rs.
Refunds of Excise, Stamp, Law and Justice and Miscellaneous.	47,000	...	47,000
Excise	52,000	...	52,000
Stamps	14,000	...	14,000
Land Revenue exclusive of settlement charges	6,66,000		
Administration (exclusive of Account and Currency Office).	3,39,000	90,000	17,74,000
Minor Departments (exclusive of Meteorology and Archaeology).	4,000		
Law and Justice	6,91,000		
Stationery and Stamps	69,000		
Miscellaneous (excepting Remittance of Treasure and Discount on Supply Bills.	5,000		
Add—			
Existing allotment for provincial ... services	27,73,000	...	27,73,000
Total Grant for Services to be borne upon the Central Provinces Budget.	46,60,000	...	45,70,000

To meet these charges the Government of Central Provinces was authorized to appropriate the yield of the following sources of revenue :—

Heads of Revenue Assigned	Estimated Yield in 1876-7	Estimated Yield at the Assumed Rate of Growth in		
		1877-8	1878-9	1979-80
	Rs.	Rs.	Rs.	Rs.
Excise	13,90,000	14,50,000	15,10,000	15,70,000
Stamps	9,70,000	9,75,000	9,80,000	9,85,000
Law and Justice	1,67,000	1,75,000	1,83,000	1,91,000
Miscellaneous (excepting Premium on Bills, undrawn Bills of Exchange and any unenumerated items exceeding Rs. 10,000 each).	7,000	7,000	7,000	7,000
Total ...	...	26,07,000	26,80,000	27,53,000

Compiled from the *Gazette* referred to above.

¹ *Gazette of India*, Part I, dated June 2, 1877, p. 274.

As these revenues were insufficient the Government of India undertook to supplement them by the following assignments from the Imperial exchequer:—

Year				Assignments
				Rs.
1877-78	...	...	...	19,63,000
1878-79	...	...	...	18,90,000
1879-80	...	...	...	18,17,000

These assignments were, however, subject to change because of the proviso applying to the assigned revenues. By virtue of that proviso the Government of India was to claim half the net increase of their combined annual yield over the estimated normal and was to bear half the deficit if their actual combined yield failed short of the normal. If there was an increase above the normal the assignments were to be reduced by a sum equal to half the increase, and if there was a decrease the assignments were to be increased by a sum equal to half the decrease.

Bombay

Coming to the Provincial Budget¹ of the Bombay Government we find the following charges were incorporated in it:—

Heads of Charge				Grant as already fixed for 1877-8	Retrench- ment	Consolidated Grant
				Rs.	Rs.	Rs.
3. Refunds	...	...	...	1,10,000	5,67,000	2,13,96,000
4. Land Revenue	...	...	...	65,07,000		
6. Excise	...	...	...	80,000		
7. Customs	...	...	...	8,09,000		
8. Salt	...	...	...	5,69,000		
14. Administration	...	...	...	11,43,000		
15. Minor Departments	...	...	...	1,13,000		
16. Law and Justice	...	...	...	43,12,000		
18. Marine	...	...	...	31,000		
20. Ecclesiastical	...	...	...	3,25,000		
21. Medical	...	...	...	2,68,000	...	1,04,54,000
22. Stationery and Stamp	...	...	...	2,29,000		
24. Allowances and Assignments	...	...	...	64,81,000		
26. Superannuation allowances	...	...	...	8,00,000		
28. Miscellaneous	...	...	...	28,000		
Add—						
Existing allotment for provincial services				1,04,54,000		
Total				3,24,17,000	5,67,000	3,18,50,000

¹ *Gazette of India*, Part I, dated August 4, 1877, p. 468

Besides the receipts accruing from the already incorporated services the Government of India assigned to the Government of Bombay the following sources of revenue :—

ASSIGNED REVENUES (ooo omitted)

Heads of revenue assigned	Esti- mated Yield in 1876-77	Estimated Yield at the Assumed Rate of Growth in				
		1877-8	1978-9	1979-80	1880-1	1881-2
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
I Land Revenue (receipts of Inamdari adjustments and service commutations).	5,199	6,624	6,624	6,624	6,624	6,624
IV. Excise	3,946	4,000	4,100	4,200	4,300	4,400
Stamps	4,186	4,300	4,350	4,500	4,550	4,600
Law and Justice	277	270	270	270	270	270
Total ...	...	8,570	8,720	8,970	9,120	9,270
Miscellaneous (excepting gain by exchange, premium on Bills, and on Money Orders, lapsed Money Orders, Sales, Proceeds of Durbar Presents and unenumerated items— exceeding Rs. 10,000 each).	52	70	70	70	70	70
Total ...	...	15,264	15,414	15,664	15,814	15,964

Compiled from the *Gazette of India*.

The adjusting assignments to cover the difference between the expenditure and revenue incorporated in the Bombay Budget were as follows :—

Year	Assignments Rs.
1877-78	1,53,20,000
1878-79	1,51,70,000
1879-80	1,49,20,000
1880-81	1,47,70,000
1881-82	1,46,20,000

These assignments, it must be noted, were subject to the same proviso as obtained in the case of the Central Provinces.

Punjab

The only remaining Provincial Budget that was framed on the principle of assigned revenues was that of the Punjab.

The heads of charge incorporated in this budget were as hereinafter specified—

Heads of Incorporated Expenditure	Grant as Settled for 1877-8	Retrenchment	Proposed Net Consolidated Grant
	Rs.	Rs.	Rs.
Refunds	65,000	2,24,000	51,38,000
Land Revenue, excluding settlement charges ...	16,21,000		
Excise	58,000		
Stamps	72,000		
Administration (excluding Account and Currency Offices and settlement Secretary).	9,74,000		
Minor Departments	16,00,000		
Law and Justice	20,94,000		
Superannuation and Retired Allowances, Compasionate Allowances and Gratuities.	3,38,000		
Miscellaneous, excluding Remittances of Treasure.	41,000		
Stationery and Stamps	83,000		
Add—			
Existing allotments for provincial services ...	54,22,000	...	54,22,000
Total ...	1,07,84,300	2,24,000	1,05,60,000

To defray these charges it was proposed to assign the following revenues to the Government of the Punjab :—

Heads of Revenues Assigned	Net Revenue in 1876-7	Estimated Net Yield in		
		1877-8	1878-9	1879-80
	Rs.	Rs.	Rs.	Rs.
Assessed Taxes	...	...	12,00,000	12,00,000
Stamps	...	24,85,000	25,05,000	25,25,000
Law and Justice	...	4,15,000	4,15,000	4,15,000
Excise	...	10,30,000	10,50,000	10,70,000
	...	39,30,000	39,70,000	40,10,000
Miscellaneous (excluding gain by Exchange, premium on Bills, and unclaimed Bills of Exchange).	...	60,000	60,000	60,000
Total ...	...	39,90,000	52,30,000	52,70,000

In making over these revenues the Government of India had reserved to itself a share of the improvement in the net yield from Stamps, Law and Justice, and Excise. The estimated net yield

having fallen short of the estimated expenditure the Government of India agreed to make the following assignments to the Government of the Punjab in order to restore balance in its budget:—

Year			Assignment	Less Share of Improvement in Net Revenue from Excise, Stamp, Law and Justice	Net Assignment
			Rs.	Rs.	Rs.
1877-8	...	...	65,70,000	107,000	64,63,000
1878-9	...	...	53,40,000	85,000	52,55,000
1879-80	...	...	53,10,000	...	53,10,000

It should be noted that the Government of Madras refused to undertake the responsibility of a provincial Budget based upon the new principle of assigned revenues. It preferred to remain on the old basis. Provincial Budgets of Assam and Burma are not included in this chapter. As the principle involved in their constitution appertains to the study undertaken in the following chapter it is deemed expedient not to include them in the present.

Before closing the study of the second stage in the development of Provincial Budgets it is advisable to take stock of the results achieved during its prevalence from the standpoint of sufficiency to the Provincial Governments and gain to the Imperial exchequer. The following is illustrative of the results of this stage from the standpoint of sufficiency to the provinces :—

Provinces			Annual Surpluses or deficits				
			1877-8	1878-9	1879-80	1880-1	1881-2
			£	£	£	£	£
C.P.	...	...	5,992	7,049	—28,133	2,956	95,221
Bengal	...	...	173,380	158,932	82,523	—11,313	255,189
N.W.P. and Oudh	...	...	4,469	237,100	320,729	280,790	667,613
Punjab	...	...	18,578	48,195	7,017	59,497	135,979
Bombay	...	...	—609,672	61,249	—11,201	37,855	418,783

Compiled from the Finance and Revenue Accounts of the Government of India.

From this it is clear that except in Bombay the funds provided by the Imperial Government proved not only sufficient for the purpose of carrying on the services incorporated in the Provincial Budgets, but were such as to afford a safe margin of revenue over

expenditure. That the provinces had enough and to spare is clearly proved by the assistance which they gave without much detriment to their finances to the Imperial Government in the years 1879-80 and 1880-1. In the year 1879 the financial position of the Imperial Government had become rather critical. The fall in the value of the rupee and the commencement of hostilities with the Afghans were expected to bring about a deficit estimated in 1879-80 at £ 1,395,000. As the first line of defence the Government of India urged on the several Local Governments and Administrations the necessity of reducing the ordinary expenditure of the country within the narrowest possible limits and directed that measures for suspending or postponing all optional expenditure, whether Imperial, Provincial, or Local, should be adopted forthwith and that no proposals for increase of salaries or establishments should be entertained without real necessity.¹ As a second line of defence the Government of India ordered that until further—

“arrangements could be settled with the Local Governments... no new work estimated to cost more than Rs. 2,500 shall be commenced at the cost of the Imperial or Provincial Funds, even though it may already have received the sanction of the Government”²

and decided to make large reductions in the expenditure on productive public works. When it was discovered that these restraints on expenditure were not enough to bring about an equilibrium in the Imperial Budget the Government of India adopted a plan of levying benevolences on the provincial balances as a better alternative to increased, taxation. It was, of course, an abrogation of one of the most fundamental conditions of Provincial Finance that the Provincial Balances, though in possession of the Imperial Government, were a sacred trust to be released only when required by the provinces. But the solvency of India was deemed to be more sacred than the sanctity of the terms of Provincial Finance. Accordingly the following sums were appropriated by the Imperial Government from the balances of the provincial Governments :—

¹ Resolution of the Financial Department, No. 4063, dated November 9, 1878.

² Finance Department Resolution of May 1, 1879, *Gazette of India*, Part I, May 3, 1879, p. 329.