Province	Contributions to the Imperial Government		
	1879-80	1880-1	Total in Lakhs.
	Rs.	Rs.	Rs.
N.W.P.	10	10	20
N.W.P.	7½	7½	15
Bombay	4	4	8
Punjab	3	3	6
Burma	3	3	6
Central Provinces	2½	2½	5
Madras	2	2	4
Assam	1½	1½	3
Total ...	33½	33½	67

These contributions were repaid in 1882-3; but for the time being they were in effect a gain or at least a relief to the Imperial treasury. The real gain to the Imperial treasury consisted in the retrenchments made in assigning allotments for services transferred to provincial management. The amount of retrechment secured in the case of each of the provinces may be summarized as follows :—

Province		Retrenchment
	Rs.	
N.W. Provinces ...	3,54,000	5 per cent. of the total allotment.
Oudh	73,000	,, ,, ,,
Bengal	5,90,000	,, ,, ,,
Central Provinces ...	90,000	,, ,, ,,
Bombay	73,000	,, ,, ,,
Punjab	2,41,000	,, ,, ,,

This does not exhaust the total gain reaped by the Imperial Government. Two other ways of gain must also be mentioned along with this. It should be borne in mind that by taking the standard yield of the assigned revenues at a level higher than what was justified by their history, the Government of India was able to assign reduced sums for the provincial services than what it would have been required to do if the standard yield had been fixed at a lower level. This reduction in assignments owing to abnormal estimates of the ceded revenues was a direct gain. The excesses

above the standard also opened additional possibilities of gain owing to the clause governing the cessation of revenues, although it must be recognized that under the same clause the Government of India stood to lose in the eventuality of the actual revenue falling below the standard. How much it gained from, these conditional channels of gain it is difficult to say. On the whole, it cannot be denied that the gain to the Imperial treasury was substantial.

Thus the results show that the scheme of Provincial Finance on the basis of assigned revenues was a success both from the standpoint of the Provincial and Imperial Governments, so that they agreed mutually to make a further move in the development of the scheme which constitutes its third stage.

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CHAPTER VI

BUDGET BY SHARED REVENUES

1882-83 TO 1920-21

At every step in the direction of enlarging the Provincial Budgets the crucial question, as has already been pointed out, was with regard to the difficulties of balancing the revenues and charges proposed to be incorporated therein. The two steps heretofore taken, one in 1871 and another in 1877, in the direction of the evolution of Provincial Finance, were marked by two distinct methods of balancing the Provincial Budgets. On the former occasion the Imperial Government supplied the Provincial Governments with fixed lump sum assignments from the Imperial treasury. On the latter occasion this mode of supply was partly replaced by assigning certain sources of revenue for the use of provincial Governments. The plan of assigned revenues, though it went a great way to remove the most serious defect of the measures of 1871-2, which transferred to the Local Governments the responsibility of meeting charges which had an undoubted tendency to increase, with income which, although not quite fixed, had little room for development, fell short of the requirements of Provincial Finance from the standpoint of elasticity. Superior to those of 1871 though they were, the measures of 1877 were so short of the fullest requirements of elasticity in finance that the Government of Madras refused to accept the enlarged scheme and preferred to abide by the arrangements of 1871. The scheme of 1877 was not offered to Burma or Assam. But when the Government of India made such an offer in 1879 it was obliged to turn over a new leaf, for, though the difficulty of meeting expanding charges with fixed assignments was overcome in some of the provinces by economy and good management, it was considerably felt by the province of Burma. The expenditure of the province in the seven years preceding the scheme of Provincial Finance aggregated to Rs. 1,98,45,970, while the assignments for the following seven years, aggregated apart from special additions, Rs. 2,20,22,770, showing an excess of Rs. 21,76,800, in all or

about 3 lakhs a year. But the expenditure during the same period amounted to Rs. 2,40,77,885, being an excess of Rs. 42,31,915 in all or about 6 lakhs a year. The difference therefore between the excess assignment of 3 lakhs, and the excess expenditure of 6 lakhs a year, had to be made good by the Imperial Government by special grants averaging $2^{3}/_{4}$ lakhs every year to maintain the solvency of the Province.[1] The Government of India while making the supplementary assignments was not unconscious of the demoralizing effect of such doles. In fact it was admitted that it would have been much better to have augmented the provincial assignments to Burma by 22½ lakhs at the start had it foreseen the necessity for it, than to have been obliged to grant an equal amount in the form of supplementary aids so detrimental to economy and good management. The experience of Burma had driven home the fatuity of assignments as a mode of supply and the Government of India had realized that elasticity in revenues was a vital condition for the success of Provincial Finance. To assign revenues to Burma was therefore inevitable. Being overborne by the needs of the Province and by the fact that the Province yielded a substantial surplus to the Imperial treasury, the Government of India conceded that the Province was "entitled to have its real wants supplied more liberally than heretofore."[2] It is in the method adopted for the purpose of giving a liberal treatment to the province of Burma that the new step in the method of supply to the Provinces was taken. In the settlements made in 1877-8 with the five Provinces—Central Provinces, N.W.P. and Oudh, the Punjab, Bombay and Bengal—the Heads of Account under Revenue and Expenditure comprising the Indian Budget were grouped under two distinct categories : (1) wholly Imperial and (2) wholly Provincial. But in the case of Burma the Heads of Account were grouped under three distinct categories : (1) wholly Imperial, (2) wholly Provincial, and (3) jointly Imperial and Provincial.[3] In so far as items of revenue and expenditure were in the exclusive keeping of the Imperial or the Provincial Government, the settlement did not differ in spirit from that obtaining in other provinces. The difference consisted in carving out a third category of Account to be made of *jointly Imperial and Provincial.* By it certain revenues

[1] Finance Department Resolution No. 1488 dated March 26, 1879, para. 2.

[2] *Ibid.,* para. 22.

[3] Financial Statement, 1879-80, para. 24.

and charges were marked off from the rest and were shared between the Imperial and the Provincial in some definitely fixed proportion. The object of the arrangement was to replace rigidity in the Provincial revenues by elasticity. In the finances of the other Provinces there was elasticity in so far as their assignments were replaced by assigned sources of revenue. But to the degree in which their revenues were made up of fixed assignments their finances inevitably suffered from rigidity. In the case of Burma, however, the substitution of shares of growing revenues for fixed assignments gave complete elasticity to the Provincial revenues without which it had become so difficult to shoulder the responsibility of meeting expanding charges.

In recasting the framework of the Provincial Budget of Burma on the principle of shared revenues, all the heads of receipts and charges were made wholly Provincial, with the exception of the following, which were treated as wholly Imperial :—

(1) The Army	...	...	Receipts	and	Charges.
(2) Post Office	...	...	”	”	”
(3) Telegraph	...	...	”	”	”
(4) Account Department		...	”	”	”
(5) Meteorological Department		...	”	”	”
(6) Political	...	...	”	”	”
(7) Remittance of Treasure and Premium on Bills of Exchange and unclaimed Bills of Exchange.			”	”	”

The third category of revenues and charges, namely, jointly Imperial and Provincial, covered the following items :—

(1) Land Revenue, including capitation tax, but excluding Fisheries, with such Land Revenue Refunds, charges of collection and settlement as cannot be attributed to Fisheries only.

(2) Forest revenue. Expenditure and Refunds.

(3) Export Duty on rice, and Refunds.

(4) Salt Revenue, Expenditure and Refunds.

Items comprising the third category were divided between the Imperial and Provincial Governments in the proportion of five-sixths to the former and one-sixth to the latter. By adopting this method of supply Burma, unlike other provinces, secured funds of an elastic character, for, even though the shares remained fixed the amount they brought in in any one year varied with the variation in the total yield of the revenues assigned or shared. Of course everything depended upon how Burma nursed the revenues

delegated to its control. But if it did its duty, unlike the other provinces, its labours were not to be unrequited.

The same principle of shared revenues was applied to the province of Assam, which had hitherto continued on the old basis of 1871. Although the settlement with that Province had been made after that with Burma had been carried out, the principle of shared revenues as a mode of balancing the Provincial Budget was not adopted on any appreciable scale. The reason for this break in the progressive realization of the principle is not to be attributed to any spirit of hesitation on the part of the Government of India, but is to be ascribed mainly to the necessity of the case. As it was contemplated to reincorporate the province into Bengal it was deemed expedient to frame the Provincial Budget of Assam on the same plan as that of Bengal so that their financial fusion might be as easy as the administrative. Thus the heads of revenue and expenditure which were provincial in Bengal since 1877 were also made provincial in Assam in 1879, including "Law Officers," which for temporary reasons were reserved as Imperial in Bengal. The only point at which the new principle was applied consisted in making the Land Revenue head in Assam a joint head to be shared by the Imperial and the Provincial Governments in the proportion of four-fifths of its net yield to the former and one-fifth to the latter.[1]

The beneficial results of the new settlement with these two Provinces are easily to be seen from the following comparative table of the estimates of their budgets as prepared on the old basis and as recast on the new :—

000 omitted

	Assam Budget Estimates				Bt. Burma Budget Estimates			
	Old Basis		New Basis		Old Basis		New Basis	
	1878-9	1879-80	1878-9	1879-80	1878-9	1879-80	1878-9	1879-80
	£	£	£	£	£	£	£	£
Revenue ...	2115	2110	3657	3596	4013	4078	9459	9673
Expenditure ...	2253	2261	3480	3566	4169	5111	8926	10119
Surplus ...	...	...	177	30	...	...	533	...
Deficit ...	138	151	...	...	156	1033	...	526
Closing Balance ...	206	55	521	555	873	161	1562	1436

From the Resolution of the Government of India in the Department of Finance and Commerce, No. 1249, dated March 13, 1879.

[1] Finance Department Resolution No. 1598, dated April 17, 1879.

Once the new principle of shared revenues was established in the case of Burma and Assam it was not possible for the Government of India to withhold its application from the other Provinces. The settlements made in 1877 with the several Provinces were not only of short duration but were also of unequal durations. It was only in the case of Bengal and Bombay that the settlements were made for five years commencing from 1877-8. In the case of the Central Provinces and the Punjab the period fixed was three years, while in the case of the North-Western Provinces it was as short as two years, from 1877-8. It is evident from this that the settlements with some other Provinces were to have expired soon after those with Burma and Assam had been completed, and would have required to be reconstituted on the basis of shared revenues. The Government of India, however, delayed the process, and in that it did wisely, for it was too soon to make the new principle of shared revenues and charges a basis for universal application. It was nothing but prudent to have regarded it as it were in its experimental stage. Secondly, the disadvantages of the *ex-parte* treatment of the Provincial Budget had come to be realized. It then dawned upon the Government of India that the several provincial Budgets were only parts of an organic whole, viz., the Imperial Budget, and it was manifestly inadvisable to frame the Provincial Budgets each by itself without regard to the claims, needs and exigencies of all others. But in order that this comparative and compromising operation of judging the claims of one in the light of the needs of others be performed with the desired effect of treating the different provinces in an equitable manner, it was essential that all the Provincial Budgets be dealt with simultaneously. The importance of this consideration and the desire to gain time in order to profit by the experiences of Burma and Assam led the Government of India with the consent of the Provincial Governments to extend or shorten, as the case may be, the duration of their financial agreements with the Provinces so as to bring about a synchronous expiry of them all on March 31, 1882.

Financial Settlements of 1882-3

The new settlements made with all the provinces with effect from 1882-3[1] were marked by an extension of the principle applied to Burma since 1878. Certain heads, as few in number as possible, of revenues and charges were wholly, or with minute local excep-

[1] Resolution of the Government of India in the Department of finance and Commerce, No. 3353, dated September 13, 1881.

tions only, grouped as Imperial. Others were classed as wholly Provincial. The remaining were placed in an intermediate category designated as joint and were in most part shared equally between the Imperial and the Provincial Governments. In those cases, however, where the provincialized expenditure exceeded the resources from the provincialized as well as the shared revenues, the balance instead of being provided as heretofore by fixed assignments from the Imperial exchequer was rectified for each Province by a fixed percentage on its land revenue—a wholly Imperial head of revenue except in the case of Burma, where the percentage was extended to the Imperial rice export duty and salt revenue as well.

Along with the enlargement of the scheme of Provincial Finance in 1882 the Government of India was also anxious to introduce simplicity and uniformity in the matter of grouping the different heads of revenue and expenditure under the three catgegories now established. It will be remembered that the agreements effected in 1877 were marked by diversity and intricacy. The same charges were not provincialized in all the Provinces. A charge which was Provincial in one was Imperial in another. Again, in transferring charges a grant was often broken up so that a part was made Provincial and a part reserved as Imperial. On the revenue side the arrangement was not a little intricate. The computations owing to the proviso in respect of the assigned revenues made the calculations far from simple. Both these defects were, however, removed when the settlements were framed in 1882, and it is to indicate what heads of revenue and expenditure were provincialized, what were imperialized, and what were divided and to what extent, that the following attempt is made.

Revenues

		Imperial	Provincial
1	Land Revenue	The whole except as entered in the Provincial Column.	In *Burma,* fisheries; in the *N.W.P. and Oudh* collections from the Terai, Bhabar and Dudhi Estates, Rents of Water-Mills and Stone Quarries; in *Bombay,* Rents of Resumed Service Lands and Service Commutations. In all Provinces, a fixed per-

Revenues—*Contd.*

		Imperial	Provincial
			centage on the Imperial land revenue to cover the difference between Provincial Revenue and Provincial Expenditure.
II	Tributes	The whole.	Nil.
III	Forest	Half.	Half.
IV	Excise	Do.	Do.
V	Assessed Taxes	Do.	Do.
VI	Provincial Rates	Nil.	The whole.
VII	Customs	All except as entered in the Provincial Column.	All items other than Customs Duties; and, in *Burma* only, the same percentage on Export Duties as on the Land Revenue.
VIII	Salt	All except as entered in the Provincial Column.	All items other than Duty on Salt and sale of Salt; and, in *Burma* only, the same per centage on the salt Revenue as on the Land Revenue.
IX	Opium	The whole.	Nil.
X	Stamps	Half.	Half.
XI	Registration	Do.	Do.
XIII	Post Office	Nil.	The whole.
XIV	Minor Departments	Do.	Do.
XVI	Law and Justice	Do.	Do.
XVII	Police	Do.	Do.
XVIII	Marine	As at present.	As at present.
XIX	Education	Nil.	The whole.
XX	Medical	Do.	Do.
XXI	Stationery and Printing.	Nil.	The whole.
XXII	Interest	All except as entered in the Provincial Column.	Interest on Government securities (Provincial).
XXIII	Pensions	Book transfers from the Military and Medical Funds and subscriptions to these Funds.	The remainder.
XXIV	Miscellaneous	Gain by Exchange on Imperial transactions, Premia on Bills and unclaimed Bills of Exchange.	The remainder.
XXV	Railway	As at present.	Whatever is now provincial in each Province.
XXVI	Irrigation and Navigation.	Do.	Do.
XXVII	Other Public Works	Receipts from Military Works.	The remainder.
XXXI	Gain by Exchange on Transactions with London.	The whole.	Nil.

Expenditure

		Imperial	Provincial
1	Interest ...	The whole except as entered in the Provincial Column.	Interest on local Debenture Loans. 4½ per cent. on the capital cost to the commencement of the year, and 2½ per cent. on the capital cost during the year, of all Public Works, whether classified as *Productive Public Works* or not, of which Capital and Revenue Accounts are kept: excepting, always any portion of their cost supplied from the Provincial Revenues or by Local Debenture Loans. The rate of interest on the cost of *Protective Public Works* will be the subject of a special agreement.
2.	Interest on Service Funds and other Accounts.	Interest on Service Funds and deposits in Savings Banks.	The remainder.
3.	Refunds and Drawbacks	Of the Imperial share of revenues.	Of the Provincial share of revenues.
4.	Land Revenues ...	The same percentage on charges for collection of Land Revenue and on the cost of Surveys (including expenditure hitherto charged in the Accounts of the Central Government) and Settlements elsewhere than in *Bombay* and *Madras,* as is retained of Land Revenue.	The remainder.
5.	Forest ...	Half.	Half.
6.	Excise ...	Do.	Do.
7.	Assessed Taxes ...	Do.	Do.
8.	Provincial Rates ...	Nil.	The whole.
9.	Customs ...	Do.	Do.
10.	Salt ...	In *Madras* the whole. Elsewhere the purchase and manufacture of salt; and in *Bengal* the cost of preventive lines and operations; in *Bombay* charges connected with the administration of Salt Revenue in Portuguese India.	The remainder.
11.	Opium ...	The whole.	Nil.
12.	Stamps ...	Half.	Half.
13.	Registration ...	Half.	Half.
15.	Post Office ...	Nil.	The whole.
16.	Telegraph ...	Do.	Do.

Expenditure—*contd.*

		Imperial	Provincial
17	Administration ...	Account and Currency Offices and allowances to Presidency Banks.	The remainder.
18	Minor Depts ...	Archaeological and Meteorological Depts., Census, Gazetteers and Statistical Memoirs.	The remainder.
19.	Law and Justice ...	Nil.	The whole.
20.	Police ...	Frontier Police and Police employed on Imperial State Railways on Salt preventive duties.	The remainder.
21.	Marine ...	Whatever is now Imperial.	Whatever is now Provincial.
22.	Education ...	Do.	Do.
23.	Ecclesiastical ...	The whole.	Nil.
24.	Medical ...	Nil.	The whole.
25.	Stationery and Printing	Stationery purchased for Central Stores.	The remainder, including cost of stationery obtained from Central Stores.
26.	Political ...	The whole.	Nil.
27.	Allowances and Assignment.	The whole except as in the Provincial Column.	In *Bombay,* items now Provincial.
28.	Civil Furlough and Absentee Allowances.	The whole.	Nil.
29.	Superannuations ...	Items not provided for in the A Provincial Column.	pensions and gratuities, except pensions payable from the Military and Medical Funds brought to account in India; each Government being responsible for pensions and gratuities which it now pays, or hereafter grants or recommends, however earned and wherever paid.
30.	Miscellaneous ...	Remittance of treasure, and discount on Supply Bills.	The remainder.
31.	Famine Relief ...	Secondary liability.	Wholly Provincial.
32.	Railways ...	As at present.	Whatever is now Provincial.
33.	Irrigation ...	Do.	Do.
34.	Other Public Works ...	Military Public Works, and except in *British Burma,* Offices of the Supreme Government; Works in the Salt, Opium, Post Office, Imperial Telegraph and Ecclesiastical Depts. and Mint and Currency Offices; and Bengal Surveyor General's Offices.	The remainder.
38.	Loss by Exchange ...	The whole.	Nil.

On the transactions of 1881-82 the Government expected to gain £ 470,000 a year. Of this sum, however, it returned to the Central Provinces £ 77,900, for improving the position of the subordinate civil services and other general purposes; to Madras, £ 20,000, for provincial public works; and to the N.W.P. and Oudh, £326,000, of which £ 10,000 was for additional Kanungoes in Oudh, and the remainder, £ 316,000, for a remission of local taxation. Besides these benefactions the Government of India gave for a favourable start to Bengal, £ 285,000; Burma, £20,000; N.W.P., £ 55,000, to be added to their balances before the close of the year 1881-2. These benefactions, which amounted to £ 496,000 a year, were expected to turn the annual gain of £ 470,000 into an annual loss of £ 26,000 to the Imperial exchequer.[1]

In this connection it must also be recalled that the Government of India reimbursed the Provincial Governments of the amount of the benevolences it had levied on them in the years 1879-80 and 1880-1. But not long after the revision of 1882 the financial position of the Government of India, which had permitted of such a liberal treatment, suffered a reverse, and the necessity for levying benevolences on the balances of the Provincial governments reappeared in 1886-7. In presenting the financial Statement for that year the Finance Member of the Government of India argued :—

> "22. Since the estimates for 1885-6 were presented..... Indian administration and finance have entered on a new phase. The brief period of rest which the country had enjoyed since 1882 had drawn to a close..... By the events of the late years in Central Asia, India finds herself almost in contact with one of the great European Powers, and she cannot hope to escape the necessity which the position imposes on her of increasing her military strength. Events impending have occurred which have changed, as it was known they must change, the face of our estimates, and have thrust us violently out of the peaceful path of internal progress in which we had hoped to have been left undisturbed."

Among the other means employed to weather the storm the Government of India resorted a second time to nibbling at the provincial resources, and gathered a sum of £400,000 in the year 1886-7 by appropriating from their balances the above amount.

[1] Financial Statement for 1882-83, p. 15.

The condition of Provincial Finance during this period may be summarized in the following table :—

Provinces	Annual Surpluses and Deficits				
	1882-3	1883-4	1884-5	1885-6	1886-7
	£	£	£	£	£
C.P. ...	33,775	76,212	18,047	22,080	115,656
Burma ...	171,207	—90,030	—89,725*	†	71,743‡
Assam ...	13,887	—5,216	—40,577	25,299	28,576
Bengal ...	539,611	146,027	48,910	26,777	52,911
N.W.P. & Oudh ...	281,222	357,630	—69,276	—180,060	—12,408
Punjab ...	—110,966	—15,765	—41,545	42,447	3,106
Madras ...	108,421	10,820	—87,284	146,692	—78,689
Bombay ...	—149,894	—2,585	6,006	291,976	—161,369

* No balance left at the close of the year.

† Equilibrium.

‡ Balance obtained by excess of current revenue over current expenditure of the year.

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

The settlements entered into with the Provincial Governments in the year 1882-3 not only differed from the preceding settlements in the replacement of fixed assignments by shares in the Imperial revenues, but they also differed in another important respect, namely, their duration. Though the results of the scheme of provincial Finance have been presented in one Table covering the period 1871-7, it must not be supposed that the settlements with the various Provinces were made for the period of six years. On the other hand, the settlements were only annual and lasted up to 1877 by the process of constant renewals. The results have been presented together for a continuous period not because the setttlements were made for that period, but because the principle on which they were based endured for that period. After 1877 the settlements no doubt were made for a longer period. In two cases they were for five years and for the rest the period ranged between two and three years. The short duration system, like the fixed assignment system, was of immense advantage to the Imperial treasury. The object of these settlements, it will be recalled, was firstly to put a definite limit on the demands of the Provincial Governments on the already too scanty resources of the Imperial Government. Evidently this object would have been better served had the duration of the settlements been longer than it was. But a longer duration would have deprived the Imperial treasury of its right to profit by an early revision of the revenue side of the contract. It was this consideration of not remaining too long out of

pocket, that had hitherto prevailed upon the Government of India to shorten the duration of contracts as much as possible. But what was an advantage to the Imperial treasury was from the standpoint of the Provincial Government a serious drawback. Owing to the short durations of the settlements the Provincial Governments were not in a position to distribute the funds at their disposal on the incorporated services so as to open a new page in their financial history. They could not adopt a definite financial policy, for they feared that the new terms on renewal might compel them either to give up the policy or modify it so seriously as to prejudice its results. A single budget may seem nothing more than the conspectus of financial happennings of the year to which it pertains, yet to the financier who frames them year after year they embody a definite policy running towards its consummation. But a policy, however wisely adopted, may be thwarted by an unwise disturbance of the uniformity of conditions on which its fulfilment depends. This was just the flaw that deteriorated the sound working of Provincial Finance. Constant renewals had a general disturbing effect, and the duration between any two of them was indeed too short to give a stable state of conditions. Being impressed by the fact that the advantages of a short-duration-contract to the Imperial treasury were enormously counterbalanced by its disadvantages to Provincial Finance, the Government of India, on the occasion of revising the settlements in 1882-3, made it a definite rule that they shall be quinquennial in duration; that is, they shall not be subject to revision before the end of the fifth year from their commencement.

Revision of 1887-8

By virtue of this rule the settlements made in 1882-3 expired in 1887. The revision then undertaken, as well as the subsequent ones, left as a rule undisturbed the two categories of revenue and expenditure, namely, those wholly Provincial and wholly Imperial. It became almost a convention to leave them as they were since the separation in 1882, when the constitution of Provincial Budgets was thoroughly overhauled and consolidated. The only heads of revenue and expenditure that were revised, as revision fell due, were those that were grouped under the third category, namely, jointly Imperial and Provincial, otherwise known as "Divided Heads."

In the revision of 1887-8 the decisive factor was the unsatisfactory position of the Imperial Finances already referred to. To improve its financial position the shares in the joint heads were altered so that each Local Government was allowed to appropriate three-fourths of the stamps and one-fourth of the excise revenue, and required to bear the expenditure under those heads in like proportion. The proportions of land revenue were also altered so that three-fourths of it was made Imperial, and one-fourth Provincial. But the needs of the Imperial treasury were so great that the Government of India even revised some of the heads of the other two categories, namely, Salt, Customs, Interest, Irrigation and Railways, to its own advantage. The details of the gain to the Imperial treasury are as given below :—

Revenue	Imperial Share Increased —Decreased	Net Gain
Land Revenue	437,500	
Stamps (share reduced from ½ to ¼	—810,000	
Excise (share increased from ½ to $^3/_4$)	947,500	
Salt revenue of Burma imperialized	5,000	
Customs revenue of Burma imperialized	155,000	
Assessed taxes—divided in moieties	—290,000	215,000
State Railways gross earnings—		
Nagpur Chhattisgarh Patna-Gaya Cawnpore-Achneyra	—310,000	
Eastern Bengal, provincialized	—540,000	
Expenditure	**Increased —decreased**	**Net Gain**
Land Revenue, entire provincialization of survey and settlement	145,000	
Salt in Bombay imperialized	—90,000	
Customs in Bombay imperialized	—50,000	
State Railways—		
Working expenses:—		
Provincialized	305,000	395,000
Imperialized	—215,000	
Interest—Provincialized	—70,000	
Imperialized	—65,000	
Irrigation—Provincialised. Bengal	65,000	
" " Madras	230,000	
Add—Small items of accounts unenumerated ...	... ...	20,000

This gain to the Imperial treasury was distributed in the following proportion among the various Provinces :—

Provinces	Increase of annual resources under the principal Provincial Heads of Revenue as estimated on comparison of 1882 and 1887			Amount by which Annual Provincial Resources were reduced by the Revision of 1887
	Land Revenue	Stamps and Excise	Total	
	£	£	£	£
C.P. ...	2,200	45,500	47,700	15,600
Burma ...	4,700	9,200	13,000	...
Assam ...	22,300	21,300	43,600	24,600
Bengal ...	19,200	171,550	190,750	103,600
N.W.P. ...	8,000	130,150	138,150	100,000
Punjab ...	32,800	23,100	55,900	...
Madras ...	27,750	142,550	150,300	174,400
Bombay ...	99,000	198,550	297,550	221,900
Total ...	195,950	741,900	937,850	640,100

This would have been the net gain to the Imperial treasury had it not been for the fact that it conceded to Burma the sum of £ 10,000. The net gain was thus reduced to £ 530,100 per annum.

The condition of Provincial Finance during the period of 1887-92 may be judged from the following table presenting the annual surplus and deficit of each of the different Provinces :—

Province	Annual Surpluses and Deficits				
	1887-8	1888-9	1889-90	1890-1	1891-2
	Rs.	Rs.	Rs.	Rs.	Rs.
C.P. ...	13,148	22,583	—12,322	—31,573	17,540
Burma ...	77,028	11,560	64,072	106,216	50,598
Assam ...	7,751	26,343	20,090	—17,871	31,185
Bengal ...	131,007	—65,792	102,547	—120,377	—11,934
N.W.P. & Oudh ...	—53,900	45,949	102,710	—12,544	—4,399
Punjab ...	12,446	32,142	29,264	31,367	—1,719
Madras ...	105,371	113,932	144,571	—136,739	—241,770
Bombay ...	—24,574	18,322	41,361	—123,887	—53,189

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

Revision of 1892-3

The next revision of provincial settlements under the rule of quinquennial revisions occurred in 1892-3. The new settlements to commence from that year did not differ in principle from those

of 1887-8. The shares in the Joint Revenue were so readjusted as to give to the Imperial treasury a larger gain from the growing yield of the provincialized sources. The amount resumed by the Imperial Government at this revision through readjustments of shares was estimated as follows:—

Province	Increase of Revenue in 1891-2 (Revised Est.) as compared wih the Estimate for the Contract of 1887-8 to 1891-2	Amount resumed by the Government of India
	Rs.	Rs.
C.P. ...	119,200	22,700
Lower Burma ...	334,900	58,900
Bengal ...	517,700	51,900
N.W.P. & Oudh ...	53,300	56,900
Punjab ...	195,400	41,000
Madras ...	313,200	103,800
Bombay ...	399,200	131,100
Assam ...	99,800	.....
Total ...	2,042,700	466,300

But this gain to the Imperial treasury seriously disturbed the equilibrium between the expenditure of the Provinces estimated as normal for the ensuing period and the normal estimated yield of revenues left to them. To restore equilibrium between their normal expenditure and normal revenue the Government of India reverted to the discarded method of fixed adjusting assignments, so that while the actual revenues and charges deviated from what was estimated as normal for the period of the settlement, the adjusting entry allowed by the Imperial Government to each of the provinces remained fixed throughout the whole period. The following is a statement of estimated normal expenditure and revenues of the different Provinces with their respective adjusting assignments as fixed for the new period :—

Provinces	Provincial Revenues			Provincial Expenditure
	Ordinary Revenue being a share of certain Receipts	Adjusting Assignments	Total	
	Rs.	Rs.	Rs.	Rs.
C.P. ...	567,600	220,500	788,100	788,100
Lower Burma ...	1,427,500	414,300	1,841.800	1,841,800
Assam ...	657,700	—112,700	545,000	545,000
Bengal ...	4,249,300	—143,900	4,105,500	4,105,900
N.W.P. & Oudh ...	3,403,500	—250,000	3,152,900	3,152,900
Punjab ...	1,370,400	348,500	1,718,900	1,718,900
Madras ...	2,479,300	325,400	2,804,700	2,804,700
Bombay ...	3,123,900	771,400	3,895,300	3,895,300

The evil effect of large resumptions and fixed assignments will be clearly seen in the condition of Provincial Finance as indicated by the annual surpluses and deficits over the period of the settlement:—

Province	Annual Surpluses or Deficits				
	1892-3	1893-4	1894-5	18S5-6	1896-7
	Rs.	Rs.	Rs.	Rs.	Rs.
C.P. ...	—21,798	—60,772	—105,108	19,653	—37,408*
Burma ...	66,642	—90,653	—272,319	226,505	780
Assam ...	9,336	28,532	—27,422	30,507	—25,421
N.W.P. & Oudh ...	—16,752	—25,155	—165,987	—139,798	—164,740
Bengal ...	—9,826	36,887	169,796	149,808	—186,558
Punjab ...	—106,050	—22,699	—24,811	—7,156	—64,073
Madras ...	—159,081	33,636	92,328	44,118	—200,579
Bombay ...	—23,883	19,443	—102,472	100,690	—221,119

* No closing balance left.

Complied from the Annual Finance and Revenue Accounts of the Government of India.

It must, however, be admitted that the financial arrangements of the Provinces during this period were considerably disturbed by the outbreak of plague and famine towards the close of the settlements. The expenditure which the Provinces were obliged to incur to meet these two calamities depleted the resources of all and brought the Central Provinces and the North-West Provinces to the verge of bankruptcy, from which they were rescued by the following contributions made by the Government of India in aid of their balances in the year 1896-7 :—

To Central Provinces	...	Rs. 526 lakhs.
To N.W.P. and Oudh	...	Rs. 1,609 lakhs.

Revision of 1896-97

This depression in Provincial Finance was alleviated to some extent at least in the revised settlements of 1896-7 by allowing a higher standard of expenditure and of revenue to the Provinces than was granted to them in 1892. The following table presents the old and the new standard of expenditure with the percentage difference between them :—

Provinces	Standard Net Expenditure		Increase per cent.
	1892	1897	
	Rs.	Rs.	
Central provinces ...	653,300	710,700	8.8
Lower Burma ...	1,064,600	1,206,100	13.3
Assam ...	467,600	564,900	20.8
Bengal ...	2,816,700	3,125,500	10.9
N.W.P. ...	2,215,400	2,428,700	9.6
Punjab ...	1,384,600	1,537,300	11.0
Madras ...	2,054,800	2,238,600	8.9
Bombay ...	2,049,500	2,544,100	5.6
Total ...	13,066,500	14,355,900	9.9

This new and enhanced standard of expenditure called for a revision of the shares of the Imperial and Provincial Governments in the joint revenues. But the revision had to be so devised that while it gave larger resources to the Provinces it obviated the necessity of making fixed assignments as much as possible; for the Government of India had learnt to its cost that fixed assignments on a large scale tended to make the resource side of the Provincial Finance rigid to such an uncomfortable degree that, if the variability of expenditure surpassed the expansibility of the revenue incorporated in the Provincial Budgets, it was perforce obliged to distribute benefactions to ease what would otherwise be a difficult situation. Secondly, these fixed assignments also created a certain degree of inequality as between the backward and the more advanced Provinces. In the advanced Provinces the fixed assignments formed a comparatively smaller part of their resources than they did in the case of the relatively backward Provinces, and, as larger expenditure could be undertaken by the Provinces only when their revenues expanded, the advanced Provinces, a larger part of whose resources were of an expanding nature, obtained a more favourable treatment than the relatively backward Provinces, a large part of whose resources were of a frozen character. This was rightly conceived by the Government of India as the reverse of what ought to have been, having regard to the fact that the needs of the backward Provinces were relatively more imperious than those of the advanced Provinces. To obviate this injustice the Government of India enhanced the shares of the backward provinces in the joint revenues by reducing *per contra* the fixed assignments made at the last revision. To the Punjab it gave .4 and to the Central Provinces .5 of the Land Revenue instead of .25 only. The share of Burma in the Land Revenue was raised to .66, and to make provision for the enhanced expenditure due to the addition of Upper Burma, and in lieu of the railway revenue withdrawn from it, Burma was allowed to appropriate .5 of the Excise instead of .25 only. The financial condition of the North-Western Provinces was not very happy. Its revenue had proved so very unprogressive that it advanced only 2 per cent. between 1892 and 1897. The treatment of the North-Western Provinces at the revision of 1892 was also a little unjust. The revision had left its revenues short by 5 lakhs of its standard expenditure, to be made up by reduction of its balances. To make

amends for this the Government of India re-distributed the shares in the Land Revenue to the advantage of the North-Western Provinces. In addition to this the Government of India gave to that Province a grant of 4 lakhs for the year 1897-8, to enable it to establish district funds on a financially independent footing, a result accomplished long ago in every other Province in British India. To give an equitable treatment to the backward as well as to the advanced Provinces, it realized that an unequal treatment was the only properway. It therefore adopted a less liberal attitude in revising the terms of the settlements with the more advanced Provinces of Bengal, Madras and Bombay. It allowed them a proportionately smaller increase of expenditure than the backward Provinces, as may be seen from the figures given above, and reduced slightly their shares in the revenues.

On the occasion of this revision the gain to the Imperial exchequer was practically negligible. In 1877 its total gain by retrenchment amounted to 40 lakhs a year; in 1882 the Imperial Government was so very prosperous that instead of contriving for a gain it surrendered to the Provinces 26 lakhs of the annual imperial revenue. But in 1887 it resumed 63 lakhs and in 1892,46 lakhs. On this occasion however its gain was nil, for what it got from the advanced Provinces it gave to the backward ones.

Just and liberal as the terms of the settlement were, the abnormal circumstances which disturbed the entire period of the settlement made such heavy demands on the Provincial resources that, ample though they were, they fell far short of the requirements of the Provinces. The famine of 1896 and 1897 affected all the Provinces, although in unequal degree. In the North-Western Provinces and Oudh, the Central provinces, and Burma the effect was most severely felt. In Madras, Bengal and the Punjab it was serious, and in Burma it was slight. On the other hand, the famine of 1899 and 1900 affected Bombay and the Central Provinces most severely, the Punjab very seriously and the rest of the Provinces slightly. And Assam, though unaffected by either of the two famines, suffered very severely from the great earthquake of June, 1897. Besides famine the plague was also making its ravages and taking its toll. As a result of these unforeseen calamities all the Provinces were forced to incur extraordinary expenditure on preventive measures, for which no provision was made in the standard of revenue fixed for the period of settlement. The expenditure on these unforeseen calamities being of an extraordinary nature was treated as imperial and

defrayed from the Imperial exchequer, but even this much succour did not prove equal to the necessity and the Government of India was obliged to make special grants-in-aid of the Provincial Revenues as shown on page 168.

Thus the Government of India was not only obliged to pay for the cost of the famine, but to grant funds to restore equilibrium and to provide for useful public services held up or curtailed by the Provincial Governments owing to the extraordinary circumstances of the time.. All this aid from the Imperial Government was made available because of the very prosperous condition of the Imperial finances throughout this period. While it is better that governments in general should always be in penury, the surpluses in the Imperial Finance proved a timely resource, the utility of which was doubled by the commendable way in which they were spent. Besides giving them grants for useful public works the superfluous funds of the Imperial Government were utilized in carrying out the following additional measures to the relief of the Provinces :

(1) Remission of Imperial Land Revenue Rs. 50,94,000 and reimbursement to the Provinces for their share remitted Rs. 59,81,000; in all Rs. 1,10,75,000.

(2) The abolition of the pandhari tax in the Central Provinces, costing Rs. 7,000 a year.

(3) The reduction of the patwari rate in Ajmere, from 10 per cent. on land revenue to 6¼ per cent.; the amount of the local revenue remitted was—Rs. 13,000, but the contribution paid to the local fund was Rs. 23,000.[1]

Taking into account these various contributions in aid of Provincial Revenues, the following table is presented as indicative of the condition of the Provincial Finances during this period of settlement :—

Provinces	Provincial Surpluses or Deficits						
	1897-8	1898-9	1899-1900	1900-1	1901-2	1902-3	1903-4
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
C.P. ...	(a)	12,288	—1,22,883	(a)	22,42,408	—705	—7,40,742
Burma ...	1,69.435	4,11,494	26,14.312	15,16,220	7,55,285	...	...
Assam ...	—45,580	86,742	—8,15,488	—86,829	1,47,353	10,08,393	11,40,517
Bengal ...	—3,03,250	2,19.449	7,01,899	4,43,224	6,44,170	6,23,640	87,23,496
N.W.P. ...	(a)	3,28.562	7,53,815	8,04,789	...	...	...
Punjab ...	—2,278	1,15,379	—16,53,794	(a)	14,96,350	10,28,770	6,74,880
Madras ...	—1,57,707	1,60,706	—17,58,029	—3,21,013	40,41,297	—15,810	52,40,809
Bombay ...	—1,29,663	1,00,427	—15,04,271	(a)	58,23,235	—24,23,235	—1,23,000
U.P. of Agra and Oudh	...	...	...	...	—9,63,788	—64,372	37,11,281

(a) No closing balance left because of Budget equilibrium.

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

[1] Financial Statement of the Government of India, 1902-3, para. 146.

IMPERIAL SPECIAL GRANTS-IN-AID TO PROVINCES*

Year	India	C.P.	Assam	Bengal	N.W.P. and Oudh	Punjab	Madras	Bombay	Burma
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1897-98	...	7,72,000	8,00,000		10,27,000	...	...	12,18,000	...
1898-99	...	5,00,000	18,00,000	17,00,000	10,00,000	5,00,000	16,96,000	48,75,000	...
1899-1900	...	19,32,000	...	...	...	95,000	3,49,000	34,37,000	...
1900-01	...	34,15,000	...	...	...	5,98,000	...	64,79,000	...
1901-02	...	26,89,000	2,00,000	...	...	12,40,000	32,14,000	91,00,000	...
		6,50,000	...	...	...	4,00,000	10,00,000	19,50,000	...
1902-03 1		2,00,000	1,00,000	10,00,000	5,00,000	4,00,000	8,00,000	6,00,000	4,00,000
2	A 70,000	2,00,000	2,80,000	6,00,000	4,50,000	5,00,000	5,50,000	5,50,000	...
3	B 1,00,000	2,00,000	1,50,000	...	3,50,000	3,00,000	3,50,000	3,50,000	...
1903-04 1	...	2,00,000	1,00,000	10,00,000	5,00,000	4,00,000	8,00,000	6,00,000	4,00,000
2	...	5,00,000	5,00,000	2,00,000	3,00,000	10,00,000	5,00,000	10,00,000	...
3	...	1,90,000	1,11,000	...	2,26,000	2,76,000	3,50,000	3,50,000	...

1. For education (recurring).
2. For use Public Works.
3. For improving district and other establishments.

A. Allotment for Public Works in Baluchistan, Rajputana and Central India.

B. Amount taken the "India" estimates for subsequent distribution to the provinces.

* Complied from the annual Financial Statements of the Government of India.

Revision of 1902-3

Settlements made with the Provinces in 1897 should have ended in the ordinary course of time in 1902-3. The central operation in the periodic revision of the settlements was to arrive at the standard provincial expenditure for the ensuing quinquennium and as a rough and ready method of decision the average expenditure during the expiring quinquennium was taken as a standard expenditure for the opening quinquennium. There is nothing grossly erroneous in such a procedure, provided the preceding and succeeding quinquenniums are equally normal with respect to the course of their events. But as we have seen, the events of the past quinquennium were entirely abnormal and could not have been made the basis of any calculations worthy of trust. To be on the safe side the Government of India thought it desirable to await the return of normal times before undertaking wholesale revisions of provincial settlements. The occasion of 1902-3 for revision was therefore postponed save in the case of Burma. For, the last settlement had become unduly favourable to that Province in comparison with the other Provinces, notwithstanding the very nice and equitable calculations on which the settlements of 1896-7 were based. The extent to which the revenues had exceeded its expenditure is indicated in the following table :—

Burma	Estimated Standard for the Settlement of 1897-8 to 1901-2	Estimates for 1902-3	Difference
	Rs.	Rs.	Rs.
Revenues	2,93,81,000	3,73,86,000	80,05,000
Expenditure	2,93,81,000	3,31,86,000	38,05,000
Surplus	...	42,00,000	...

The continuance of such an outcome was deemed unfair to the Imperial and unjust to the other Provincial Governments. The financial settlement of the Province of Burma was accordingly revised notwithstanding the established canon of simultaneous revision, when the occasion presented itself in 1902-3. The revision resulted in the resumption by the Government of India of this surplus by readjusting the shares of the Province in the joint revenues. The share in the Land Revenue was reduced from two-

thirds to one-half and that in the Excise from one-half to one-third, and a few minor heads were added to the already provincialized heads of expenditure. By these changes the standard revenue and expenditure of Burma for the new settlement of 1903 to 1906 assumed the following totals :—

Revenues	Adjusting Assignment	Total Revenues	Total Expenditure
Rs.	Rs.	Rs.	Rs.
2,78,31,000	53,02,000	3,31,33,000	3,31,33,000

Another province whose settlement was revised was the Punjab; but the reason of it was different. The territory covered by the North-Western Provinces was divided into the North-Western Frontier Provinces and the United Provinces of Agra and Oudh, usually styled U.P. Along with this some of the districts of the Punjab were separated from it and joined to the newly created North-Western Frontier Province. This caused a readjustment of the provincial revenues and expenditure, but not any wholesale revision of the settlement. The changes were confined to the necessary alterations in the adjusting assignment.

Quasi-Permanent Revision 1904-5

With the exceptions noted above the settlements of 1897 were extended up to the end of the year 1904. The primary cause of the postponement of the revision as explained above was the abnormality of the conditions prevailing in the year 1901-2. But there was also another reason why the Government of India was so very anxious for the return of normal conditions before taking any steps towards revision. It was about this time that the Government of India contemplated to introduce permanency in Provincial Finance. The five-year budget system which in 1881 replaced the annual budget system as the basis of Provincial Finance, though a marked improvement in the direction of continuity and stability, was not deemed to be quite sufficient. Under it the Provincial Governments were left free to enjoy the fruits of their economy in expenditure and of the successful nursing of their resources for the period of five years. Beneficial as far as it went, this time-bar was found to exercise a most pernicious influence on Provincial Finance. Under the quinquennial budget system it so happened that the provincial Governments as the result of feeling their way under the new conditions were parsimonious in the first few years lest their expenditure should prove too much for their revenues,