

Thursday, March 11, 1869

ABSTRACT OF PROCEEDINGS

COUNCIL OF THE GOVERNOR GENERAL OF INDIA

LAWS AND REGULATIONS.

VOL 8

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*Abstract of the Proceedings of the Council of the Governor General of India,
assembled for the purpose of making Laws and Regulations under the
provisions of the Act of Parliament 24 & 25 Vic., cap. 67.*

The Council met at Government House on Thursday, the 11th March 1869.

P R E S E N T :

His Excellency the Viceroy and Governor General of India, K. P., G. C. S. I.,
presiding.

His Honour the Lieutenant Governor of Bengal.

His Excellency the Commander-in-Chief, G. C. S. I., K. C. B.

The Hon'ble G. Noble Taylor.

Major General the Hon'ble Sir H. M. Durand, C. B., K. C. S. I.

The Hon'ble H. Sumner Maine.

The Hon'ble John Strachey.

The Hon'ble Sir Richard Temple, K. C. S. I.

The Hon'ble F. R. Cockerell.

The Hon'ble Rájá Shioráj Singh, C. S. I.

The Hon'ble Maharájá Sir Dig-Bijay Singh, Bahádúr, K. C. S. I., of
Balrámpúr.

The Hon'ble G. S. Forbes.

The Hon'ble D. Cowie.

The Hon'ble M. J. Shaw Stewart.

The Hon'ble J. N. Bullen.

INCOME TAX BILL.

The Hon'ble SIR RICHARD TEMPLE said—"I have now to move that the 'Bill for imposing duties on incomes and profits arising from offices, property, professions, and trades,' which has been before the Council since Saturday last, be referred to a Select Committee, with instructions to report upon it on the 20th instant, on which date it is my present intention to ask your Excellency to suspend the Standing Orders, so as to enable the Council to pass the Bill, as it may be amended, into law.

The general procedure and plan of the Bill is that of the License Tax Act of 1867, and the Certificate Tax of 1868 suitably modified to adapt it to a pure Income Tax.

The exemptions allowed by the Acts of 1867 and 1868 have been for the most part swept away; the only exception being the pay and allowances of Military men not in Civil employ whose pay and allowances do not exceed Rs. 500 per mensem, and property dedicated to religious and charitable public uses. These exemptions, which are based upon principles of general policy, and which have descended to us from the Income Tax Act of 1860, we have somewhat reluctantly resolved to continue.

A general power of exemption is also reserved to the Government of India as before; but it is not intended to exercise it, except in favor of tribes whom it may be desirable to exempt on political grounds, or of classes who already pay any special imperial tax of the nature of an Income Tax. Military, Non-Commissioned, and Warrant Officers in Civil employ, the Officers and men of the Police Force, Assistant Chaplains, and such persons will not be exempted from the tax imposed by the Bill.

The minimum limit of salaries liable to the Certificate Tax of last year was Rs. 1,000 per annum; under the Income Tax the minimum limit will be the same as that of other profits, *viz.*, Rs. 500 a year. The tax upon salaries, annuities, and pensions being precisely computable without any returns, will be levied as under the Acts of 1867 and 1868 at exactly one per cent. As a compensation for this precision, which may, no doubt, sometimes press with comparative severity, the existing procedure is preserved, by which the tax upon such incomes is recovered by monthly deductions. The scope of this part of the Bill has been enlarged so as to include annuities and pensions, and so as to take in the servants of municipal, charitable, and other public bodies and associations. Should it seem advisable to the Select Committee, the Government will not object to bring the servants of firms into the same category. There can be little doubt that it is a boon to the persons who fall under this Part to pay the tax by monthly deductions from their incomes. The Government can extend this boon to the servants of firms without material inconvenience, and are willing to do so if it be desired. It is not intended that persons should be exempt from the Income Tax whose incomes arise in British India, merely because their lives are spent chiefly or even entirely on boardship.

Upon Companies, as upon servants, the tax is to be levied at an exact percentage. The precise profits made in India by most of such Companies can be ascertained and returned without much trouble. In order to reduce this trouble to a minimum, it is proposed to assess the profits of Companies as ascertained by their latest completed accounts, instead of requiring the preparation of special accounts for the purposes of the Bill.

The principle upon which it is proposed to tax Shipping Companies is to reckon half the profits of a voyage between India and a foreign port as accruing in India. It is believed that there will be no difficulty in ascertaining such profits upon this principle.

Insurance Companies are, as the Bill stands, exempted from this Part, truth to say, because owing to the effect upon all such Companies of the mutual principle and to the difficulty of ascertaining what share of any profits made by the Agencies of Foreign Companies can be credited to British India, a plan of satisfactorily taxing them has not yet been ascertained. Should it be found possible to do so, this feature in the Bill may be amended in the Select Committee; otherwise Insurance Companies, as such, will escape taxation; the shareholders, however, paying upon their profits under Part IV of the Bill. The profits of shareholders in Companies taxed under Part III will not be taxed under Part IV.

The schedule, in accordance with which it is proposed that the duties be levied under this Part, is intended to preserve the principle of rough assessment without returns, while avoiding the sacrifice of revenue involved in the very broad classification heretofore adopted.

Under Rs. 1,000, the Assessors, under the Act, will have to estimate incomes within a margin of Rs. 250. From Rs. 1,000 and under Rs. 2,000 the margin proposed is Rs. 500; from Rs. 2,000, but under Rs. 10,000, the margin is to be Rs. 1,000; from Rs. 10,000, but under Rs. 1,00,000, the margin is to be Rs. 2,500; and from 1,00,000 upwards the margin for estimate is to be Rs. 10,000.

The tax levied is to be one per cent. upon the minimum income estimated, with an addition, to cover broken sums, of two-fifths of the difference between the minimum and the maximum. The exact mean is not taken, because it is presumed that more incomes will fall below the exact mean than above it.

Thus a person whose income is estimated to be between Rs. 500 and 750 will pay one per cent. upon Rs. 600.

A person whose income is estimated to be between Rs. 6,000 and 7,000 will pay upon Rs. 6,400.

A person whose income is estimated to be between Rs. 15,000 and 17,500 will pay upon Rs. 16,000.

A person whose income is estimated to be between Rs. 1,10,000 and Rs. 1,20,000 will pay upon Rs. 1,14,000; and so on.

Although no provision is made in the Bill for the formal return of any information to the Collector in the first instance, it is the confident expectation of the Government that persons liable to the duty will assist the Collector by disclosing such facts as he may require to know to enable him to make his assessment, thereby avoiding the annoyance of the over-assessment, which is likely perhaps to result if information be withheld.

It is proposed that the procedure under Part IV should differ slightly from that adopted under the Acts of 1867 and 1868, being at once simpler and, it is hoped, more convenient to the taxpayers.

The lists and certificates of these Acts are abandoned, and a notice will be served on each person showing the duty to which he is assessed. Should he object to the assessment, he will be allowed to petition the Collector without the preliminary payment of the amount heretofore required. It is only when a person wishes to appeal from the final decision of the Collector to the Commissioner, that payment of the amount assessed will be insisted upon as a condition precedent.

A provision has been introduced to enable the Collector to enhance the assessment made on any objector, in case it be discovered in the course of the enquiries following upon his objection, that the original assessment was too low. This will tend to prevent unfounded objections.

A person not paying either at once or after the disposal of any objection that he may make, will be liable to be summoned before a Magistrate without further notice, and the Magistrate will, as heretofore, have no option but to fine him in double the amount assessed upon him.

Provision has been made to enable a Collector to supplement an assessment deficient by reason of his being in ignorance of any particular source of income or profits. To this extent, the *onus* of informing the Collector correctly at the time when the assessment is first made is thrown upon the taxpayer.

Penalties are provided by which the proper officers of Companies, &c., can be forced to deliver the returns required. Power is given to the Commissioner of the Division to remit the penalty in part or entirely.

The year of assessment under the Acts of 1867 and 1868 commenced on the 1st May. This is found inconvenient; the Income Tax year will therefore coincide with the ordinary Financial year, and commence on the 1st April.

Provision is made in the Bill for the deduction from duty payable under it of any tax paid for April 1869 under Act IX of 1868.

It is not proposed to allow any discount to persons paying at once a sum which they might have paid, if they preferred it, as a second instalment. There is no sufficient advantage to the Exchequer from such pre-payments to compensate for the trouble that the accounting for discount gives.

The form of Schedule B. has been amended, so as to make it absolutely clear that though the last complete year's income of a taxpayer is to be an important *prima facie* guide to the Assessor, it is not to be an absolute standard. Either the assessor or the assessee may show cause why it should not be followed.

It is not intended to levy any duty upon the interest paid upon the Public Debt to persons not residing in British India, or upon annuities or allowances paid to persons so situate.

Such, my Lord, is the measure which I have to propose. In framing it I have made large use of the experience gained in working the valuable measures introduced in 1867 and 1868 by my Right Hon'ble friend Mr. Massey.

If the present Bill shall be found, as I have striven to make it, as little burdensome to the taxpayer as is consistent with the necessities of the Exchequer, this result will be largely owing to the antecedent labours of my Right Hon'ble friend and predecessor."

The Hon'ble MR. BULLEN said that, when the Bill for taxing trades and professions was under consideration last year, it was opposed by his friend Mr. Skinner, who preceded him in the Council, on two grounds—first, on the ground that it was unnecessary, because from the statement of revenue submitted to the Council, it would, in all probability, be found that there was in reality no deficit but rather a small surplus, or at all events an equilibrium. Secondly, on the ground that it was unjust to select particular trades and professions for taxation, whilst other classes were allowed to go free, and especially unjust if those trades and professions were selected whose incomes were precarious, whilst those whose incomes were derived from fixed property were allowed to escape. That those objections were well founded was shown in the first place by the figures which Sir Richard Temple read on last Saturday, regarding the expenditure and income of the year 1868-69, as far as they could be ascertained. If Hon'ble Members would refer to the accounts at page 53 of the pamphlet, they would find that the regular expenditure for 1868-69 amounted to £50,259,171, but that included

£1,822,090 for public works, which were originally treated as extraordinary, but which had now been transferred to ordinary expenditure. That sum must consequently be deducted, because the Government had no intention at that time of treating the expenditure on barracks and public works of that kind as ordinary expenditure. If that was admitted, it would leave £48,437,081 as the expenditure of the last year. The receipts had been £49,288,700, from which must be deducted the amount received under the head of assessed taxes, which would not have been received if the Certificate Tax Bill had not been passed. Deduct £520,000, the amount realised under the Certificate Act, and £48,768,700 would be the result as the amount of actual receipts, which showed a surplus of £331,621. Therefore, as far as Mr. Skinner's first objection went, it was satisfactorily proved by the result that the objection was well founded.

As to the second objection, it was sufficiently vindicated by the fact that the Hon'ble Sir Richard Temple now came and asked for the repeal of the Certificate Act and the introduction of another which would tax all classes equally.

It was not MR. BULLEN's intention to repeat the opposition of last year. He was free to confess, after having given careful consideration to the arguments adduced with regard to the separation of ordinary and extraordinary expenditure, that he coincided in the principle laid down. Taking such public works as barracks which were principally alluded to, he agreed that they could in no sense be considered as of a reproductive kind, and were therefore properly chargeable to the revenue of the current year. Of course that must be taken with some reservation, because if the Government proposed to disburse the ten millions, which the barracks were estimated to cost, in two instead of ten years, it would not be a fair charge on current revenue. But considering that it was to be spread over several years, he considered it was a charge which could fairly be placed in the current expenditure. If that was admitted, it followed that there must be taxation, unless the expenditure could be reduced here or in England. The Council had been told that economy here had been carried as far as possible consistently of course with the maintaining of the services in a proper state of efficiency. With regard to the expenditure in England, Sir Richard Temple had told the Council that the estimates received from the Secretary of State must be implicitly accepted. MR. BULLEN would revert later to that point. If therefore the expenditure could not be reduced, could the revenues be increased? Turning to the different heads of the budget, the only one in which he saw that an increase might possibly arise was opium. He thought it possible that the receipts on account of opium were a little under-estimated, because, although the provision for the year would be small

owing to short yield on account of the badness of the season, yet it was probable that the prices would rise in proportion to the reduced quantity, and the result would be that opium would show some increase on the amount estimated. If they looked to customs, there also there might possibly be some increase by the natural growth of trade; but against that must be set that the fixed valuations on which the duties were levied was to be reduced. A recommendation to that effect had been made to the Government, and he believed it was the intention of the Government to accede to it. There could not therefore be a great increase in the customs. Then, the article of salt had been suggested as one from which an increased revenue might be derived. It was a favourite argument with the Native community that a small increase to the Salt Tax would not be felt, and that it was preferable to direct taxation. He knew that any proposition to increase the salt tax would find little favour in the Council, nor was he prepared to recommend that course. The increase could only be fair to the people if a reduction was made on other dutiable articles which entered largely into Native consumption.

If then an increase of revenue from indirect taxation was impossible, there was no resource but to resort to direct taxation, and in that case MR. BULLEN preferred an income tax on profits, to the certificate tax which it repealed. He thought the unpopularity of the late income tax amongst the Natives arose in a great measure from the inquisitorial nature of the returns which they were required to make, and also from the great oppression of which the collection of that tax was made the engine. Of course it would be clearly the duty of the Government to endeavour as far as it could to prevent such oppression. Only yesterday he had read in a Native paper, whose statements on other subjects were accepted as correct or at least as deserving of investigation, that recently great oppression had been proved in the collection of the certificate duty in the Húgli district. Persons had been assessed who were really not liable owing to their incomes being smaller than the minimum sum taxable, and also persons had been classed as partners and made to pay the certificate tax when they were not partners at all. In any proved cases of that kind it would be the duty of the Government to punish the parties who had gone beyond the provisions of the law.

It was not MR. BULLEN's intention to follow Sir Richard Temple into any discussion on the general clauses of the Bill; that could better be done in Committee: but there was one remark he had intended to make, and in which he had to some extent been answered by anticipation. The Bill did not make provision for the levy of the income tax on Government securities the interest of which was paid in England. There did not seem any good reason

why a person residing in England, the interest on whose securities was drawn by his agent in India, should pay the income tax, and another person residing in England getting paid his interest by drafts in India should be exempt. But that was a question which might properly be considered in Committee.

He would now revert to the question of Home charges. There was a peculiarity in the expression made use of in the budget statement in referring to this question. Sir Richard Temple said that the accounts rendered by the Secretary of State must be implicitly accepted. MR. BULLEN thought there was something in this expression of Sir Richard Temple's which implied that he would like to discuss this question if he were at liberty to do so. MR. BULLEN did not find himself under the same restraint. Formerly a statement of the Home charges used to be appended to the budget statement, and the Council had the opportunity of seeing what they consisted of: that for some reasons had not been done for the last two or three years. Whether because it was understood that this Council had no control over those charges, he did not know; but he thought it would be some satisfaction to know in what way the large sum of seven millions was expended in England. No one, he believed, doubted that every penny of the money was honestly disbursed for the service of India; but at any rate the least the Council could ask was that the tax-payers should have an account rendered to them of the way in which the money was expended. There was another question connected with this: it was the question of the Home balances. He found that those balances amounted generally to four or five millions. That appeared to be an unduly large sum, and it was not clear for what it was required. He had very often seen statements in the city article of the *Times* that the Secretary of State for India had lent half a million or a million on the Stock Exchange. No doubt the interest of that loan was credited to the Government of India; but lending money on the Stock Exchange at about one per cent., and borrowing at five per cent., was an operation in which one did not see the profits. At the very time that the Government here was under the necessity of borrowing large sums from the presidency banks at heavy rates of interest, which loans to some extent disturbed commercial operations, as far as they knew there was a large balance lying idle in the hands of the Secretary of State.

There was another matter on which he would ask for information,—it was with reference to the paper currency. Sir Richard Temple had made a satisfactory statement on that subject. He stated that the Government had now invested, as security against issue, four millions sterling. MR. BULLEN assumed that the interest on those four crores appeared somewhere in these accounts. It did not, however, appear under what head it would be found. The Hon'ble Mem-

ber spoke as if those four crores had been cancelled. MR. BULLEN apprehended that that was not exactly the way in which those securities were dealt with, for it might at some time become necessary for the Government to realise those securities, and if once cancelled it did not appear what authority the Government would have to re-issue them. He would suggest that it would be well if the paper currency account should appear under some head in the budget account; that the expenditure should appear on one side of the account, and the interest received in other departments on the other side.

The measure which the Government had taken to increase the weight of letters which might be carried by a single postage rate was a very great boon to the public. He might say the same of the uniform telegraph rate; he did not think the financial loss eventually would be important. He thought, on the contrary, that there would probably be an increase of revenue from these sources.

Then, with regard to the loans which Sir Richard Temple had stated that it would be necessary to raise. He need scarcely say that it was extremely important for the mercantile community to know when those loans would be raised, and in what form. He understood that half a million would be raised immediately on debentures, and another half a million in the course of the year. Two millions he understood were to be raised in England. There was a further two millions, as to which the Council did not know where or when it would be raised. He trusted that as soon as Sir Richard Temple was in a position to do so, he would make known to the public the intentions of the Government, because it was of the greatest importance that a loan of two millions should not be hanging over the market. MR. BULLEN thought the whole loan could be raised more easily in England, and at a lower rate of interest than in India, and being raised on reproductive public works it would be readily taken up.

In conclusion he wished to assure the Government that, as far as the European non-official community was concerned, he believed there was no indisposition to submit to such taxation as was necessary for the good government of the country. Strict watchfulness over expenditure they did expect, but undue economy might prove in the end to be very wasteful. With the increased cost of living in this country, and the constant demand for improved civil administration which the progress of education brought in its train, no one could expect that the cost of the civil government of the country would diminish; rather they must expect year by year to find it increase. Nor could the military expenditure remain stationary so long as the European force was maintained at its present strength; and he for one was not in favour of that force being reduced. No one begrudged to the European soldier the extra pay,

nor to his wife the extra subsistence allowance; nor to the sepoy his good conduct pay. These additional charges were not to be met by a little paring, here and a little retrenchment there, ending as it probably would in reducing establishments below the point of efficiency, from which inevitably there would be a costly reaction. Rather it should be the aim of Government by fostering industry and commerce, and by improving communications, to increase those sources of revenue which were elastic, so as to meet the increased expenditure. The happiness of the people would thus be promoted and the administration of India, already so creditable to England in the eyes of all impartial observers, would become still more honorable to the nation to whose government, by the Providence of God, these millions had been entrusted.

The Hon'ble MR. SHAW STEWART said that he had very few remarks to make on this Bill. He trusted the Hon'ble Sir Richard Temple would accept his sincere congratulations on the success with which he had vindicated and re-established the policy of the Income Tax of 1860. He had always thought that it was an unfortunate day for India when those counsels prevailed which resulted in the reversal of that policy, and in the abrogation of the entire tax, including both the three per cent. tax, to the repeal of which Government was pledged, and the one per cent. tax, regarding which there had been no such pledge given, and which it was originally intended to retain permanently. It was also satisfactory to observe that the Hon'ble gentleman expected to realize upwards of £900,000 by this tax. When it was remembered that the four per cent. income tax of 1860, in the only year it was efficiently worked, yielded but two millions, it was most satisfactory to think that there was every prospect of obtaining now a result proportionately double.

Reserving his remarks on minor details, he (MR. SHAW STEWART) would refer to two points in the Bill before them. The Hon'ble Mover stated his expectation that the public would afford information as to the extent of their private incomes, and that the Collectors would thus be able to assess the tax without calling for returns: he feared very much that this was expecting too much from the public and from the Collectors, and he did not see how to attain any degree of exactness in the assessments, unless the Collectors were authorized to call for returns of income.

The other point in the Bill to which he desired to refer was the rate of assessment; he doubted very much if that would be sufficient. With the proposed rate, the Hon'ble gentleman expected a sum of £900,000, and so to obtain a slight surplus, or at all events an equilibrium; but there was one branch of the estimated revenue which he thought was taken for too much: he referred to Stamps. The Hon'ble gentleman in his budget speech remarked as follows:

"As the Council knows, there is a revision going on of the schedules of the stamp-duties; but no provision has been made for the fiscal effect of any changes, as they have not yet been finally determined."

But on turning to the tabular statements, MR. SHAW STEWART found that an increase was expected from £2,340,000 in the current year, to £2,397,000 in the year about to commence, or upwards of £57,000. Remembering that these duties rose at a jump in 1867 by upwards of £700,000, he thought that there was room to fear that no allowance had been made for revision on the side of decrease, but that it was intended to strain these duties to the utmost. Ever since this law was proposed, he had steadily opposed the enormous increase of stamp-duty on civil plaints, and the institution-fee on criminal proceedings. The former had involved an increase in the stamp-duty on civil suits, which varied, he believed, from four-fold to forty-fold; by the latter it had been for the first time enacted as law throughout India, and in opposition to the opinion of the Governments of Madras and Bombay, that no one of the population of this country could bring a criminal charge without paying a fee equal to a week's earnings of an ordinary labourer. By steady perseverance in his opposition, he elicited at last from His Excellency's predecessor, Sir John Lawrence, an acknowledgment that more had been done than ought to have been done; that in some respects the new stamp-duties were excessive and unreasonable, and that the law did press severely on the poorer classes, and His Excellency admitted the reasonableness of his (MR. SHAW STEWART'S) wish to have the question reconsidered. The question of revision was, he knew, in the hands of a member of this Council of whose ability and judgment he had the highest opinion, and he was confident that in his hands no delay would occur in dealing with a mode of taxation which had been condemned by the Local Governments. If these stamp-duties were revised so as to afford the relief that was expected, there would be a considerable falling off in the revenue from this source, which could only be met by an increase in the rate of the income tax.

With the general policy enunciated in his Hon'ble friend's budget speech he almost entirely concurred; there was only one point which caused him regret. It would be remembered that two years ago the Right Hon'ble Mr. Massey referred to a scheme for giving greater financial independence to the Local Governments of Bombay and Madras. He described forcibly the unsatisfactory nature of the control exercised by the central Government over local charges, and expressed a hope that he would be able to bring that arrangement to maturity before the close of the year 1867-68. Last year MR. SHAW STEWART reminded the Right Hon'ble gentleman of the statement, and he said that the plan was still under the consideration of Government. This year his

Hon'ble friend could only repeat that the subject was still under consideration. MR. SHAW STEWART ventured to express a hope that, when the subject had received mature consideration, something would be done. He had had a little to do with the administration of one of these Local Governments, and he could confidently assert that if they were placed in a position of greater financial independence and responsibility, they would be endued with far greater life and usefulness.

The Hon'ble MAHARAJA SIR DIG-BIJAY SING, speaking in Hindústání, said that his Hon'ble colleague Sir Richard Temple had, in his report on the Budget for the coming year, so ably and distinctly proved a deficit of £3,50,000 in the proposed charges against the receipts of the coming year, that the necessity of imposing a fresh tax appeared unavoidable.

He would, under such circumstances, propose that permission be granted (under certain conditions) to re-open the Salt works in the North-Western Provinces and Oudh, in the places where salt was formerly manufactured, and had only lately been stopped by Government, as he believed this would in some measure add to the receipts of the coming year, and at the same time fill the hearts of the majority of poor people with gratitude by placing this most indispensable article within their reach at a much reduced price. He would also advocate a closer supervision of the 'Public Works' expenditure, as he was certain that, by so doing, a very large saving might be effected without in any way impairing the efficiency of the Department or the number or quality of the works undertaken by it. Besides the above, if even the most imperceptible reductions were to be made in the miscellaneous and other expenses, each item, though most insignificant in itself separately, would, when added together, amount to something near the present deficit.

The Hon'ble Mr. COWIE said that he believed he was right in assuming that the financial statement of the Hon'ble Sir Richard Temple had the full sanction of the Executive Government as well as that of the Secretary of State. In making any remarks upon it he could hardly hope to effect any immediate change in their views. He could only ventilate his own opinion as an independent Member of this Council. He conceived that the Hon'ble Member, in spite of his expressed anxiety to slay the giant, deficit, had had to create that giant first and to despatch him afterwards. He had done this by placing the heavy amount of a million and a half for the partial cost of new barracks among items of ordinary expenditure to be met out of current revenue.

Now he (MR. COWIE) could not subscribe to the reasons for this which were insisted upon in the Budget speech, except perhaps to the last one, that it was the order of the Secretary of State.

But then that ought to have been placed first, for it over-rode all the others. This new barrack accommodation, which would do so much for the soldier and eventually for the country and the revenue, ought, if faithfully constructed, to be good for the next half century, and why the cost was to come out of the current revenue of two or three years, or, in other words, out of the pockets of the tax-payers of that limited period, he confessed he could not comprehend. He might here, with reference to what fell from his Hon'ble friend Mr. Bullen, record his opinion that barracks of the nature proposed would prove in one sense reproductive works. His Excellency the Commander-in-Chief could inform us how many hundreds of British soldiers were annually brought out to this country and at what heavy cost to its revenues. Improve the condition, moral, social and sanitary, of those soldiers, and you would in the course of years find a material reduction in the numbers required and in their consequent cost to the State. He (MR. COWIE) was very far from desiring to saddle posterity with this outlay. But he maintained it was only fair and reasonable that it should be extended over a moderate series of years. For instance, if ten millions were required for such an object, issue debentures payable annually within fifteen years. The budget provision for these annual instalments, with their interest, would surely be a more legitimate task for the Finance Minister of the year than the setting down, as on the present occasion, an arbitrary sum productive of a deficit, which again had to be made up by the imposition of new taxes.

If the Hon'ble Member, in his present estimate for 1869-70, would transfer one million of the cost of barracks to extraordinary charges, and provide for it by the issue of debentures at two and three years, he would find himself in possession of an estimated surplus which would enable him to reduce or remove the objectionable export duty on grain, and such portions of the $7\frac{1}{2}$ per cent. duties as had lately been shewn to press heavily on commerce. The Hon'ble Member, in explaining why the tax-payer of the present day should be subject to this proposed heavy outlay, warned us that other demands of a like nature would constantly be cropping up; but surely this prophecy might fairly be taken in connexion with the extraordinary elasticity of revenue which was at the same time commented upon, and which would no doubt be progressive. He might now say that he cordially approved of the supersession of the license tax by the new income tax, and would even have welcomed a somewhat higher per centage, if it had been made contemporaneous with the desired remission in customs' duties. In regard to the details of the Bill he would only say that he hoped the Hon'ble Member would place Mr. Bullen and himself on the Select Committee, where they could give their consideration to it. In conclusion he wished to ask the Hon'ble Sir Richard Temple whether, in the

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present greatly improved state of intercourse by rail, wire and steam, it was requisite to hold such large cash balances as twelve millions. Where such facilities of communication existed, that sum would appear to bear a very large proportion to an annual expenditure of fifty-two millions. His Hon'ble friend, Mr. Bullen, had made a similar enquiry in regard to balances in London, so he (Mr. Cowie) confined himself to those of India. Possibly the occasional use of the exchequer bill system might obviate the necessity of keeping such heavy unemployed balances.

The Hon'ble MR. COCKERELL said that as the policy of the Bill which was now before the Council was one in which he entirely concurred, inasmuch as it aimed at the removal of those defects of the certificate tax which he, in common with a late Member of this Council, the Hon'ble Mr. Skinner, had so especially deprecated, in the debate which preceded the adoption of that measure last year; as, moreover, this proposed taxation had on the present occasion elicited no opposition whatever, and consequently needed no defence, it would have been unnecessary for him (MR. COCKERELL) to take up the time of the Council with any remarks in this debate, but for the fact of the Hon'ble Mr. Shaw Stewart having, with his customary pertinacity, availed himself of the opportunity afforded him by this debate of ventilating his opinion as to the impolicy of the increased stamp-duty on judicial proceedings and especially the one rupee stamp on criminal petitions, which resulted from the enactment of Act XXVI of 1867. As the investigation of the results of that legislation which Mr. Shaw Stewart condemned, had been specially entrusted to him (MR. COCKERELL), it seemed right that he should not allow his Hon'ble friend's remarks on this subject to pass without stating the facts of the case. He (MR. COCKERELL) could assure the Council that the Government of India had been in no way unmindful of the pledge which it gave that the operation of the Act would be carefully watched, and if the proved effects of its operation should be found to be as prejudicial to the due administration of justice as the Hon'ble Member (Mr. Shaw Stewart) assumed, that some substantial relief would be afforded.

In pursuance of this undertaking the Government of India had, at the close of the first year's operation of the new Act, directed the submission of certain statistical returns and reports which were calculated to afford a fair test of its actual effect on general litigation. These returns and reports had now been received from almost all parts of the empire, and he (MR. COCKERELL) had been employed for some time in collating the facts established by them regarding the working of the new and enhanced rates of stamp fees levied on judicial proceedings.

The Hon'ble Mr. Shaw Stewart, from what source of information he (MR. COCKERELL) could not conceive, had stated to the Council that the reports of all local officers went to show that the effect of the stamp fee levied on criminal petitions was universally condemned. As all the reports on the working of the Act had been referred to him (MR. COCKERELL) for examination and analysis, the Council would probably deem him better qualified to speak authoritatively on such a subject than his Hon'ble friend.

The Governments of Madras and Bombay had expressed their condemnation of the policy of imposing any stamp-fee on criminal proceedings, but this opinion was certainly not universally, even if it could be said to be generally, shared by the local officers subordinate to those Governments; nor could it be said to be strongly supported by the statistical returns of the working of the Act on this branch of judicial proceedings which had been submitted by those officers. On the whole, opinion might be said to be very much divided on this point, and the statistical returns were far from conclusive as to the impolicy of levying stamp-fees on criminal petitions.

So also as regarded the increased rates in civil and revenue suits, the information as yet obtained was insufficient to lead to any sound conclusion as to the real effects of those rates. There had no doubt been a very considerable reduction, amounting to something like twenty per cent. of the litigation of the previous year, during the first year's operation of Act XXVI of 1867; but those officers whose expressed opinions evinced the most thought on this subject, hesitated to accept this reduction as a fair and certain test of the oppressive character of the stamp-fees imposed by that enactment.

It was urged, and the argument commended itself to the reason, that in the first year's operation of so greatly enhanced rates, a considerable reduction in the number of suits instituted was to be expected as the necessary result of the declaration of the policy of the Government, made at the time of the enactment of this measure, to the effect that it was to be considered as tentative, liable to be modified to such extent as the experience gained of its operation might suggest.

In such case, where the institution of suits could be delayed, they would certainly be kept back in the expectation of some modification of the rates of institution-fee; hence deductions from the returns of the first year's operation of the new law were inconclusive.

The working of the Act was therefore still under observation and consideration, and the Government would, he felt sure, take action in the matter, if

necessary, when there was sufficient information before it to enable it to judge by practical results whether the rates of fees levied on the institution of civil suits had been too greatly enhanced, and whether it was expedient that the imposition of a one rupee stamp on criminal petitions should or should not be retained.

HIS HONOUR THE LIEUTENANT GOVERNOR said the Hon'ble Mr. Shaw Stewart had anticipated him in the only remarks which he had intended to make when he doubted its being possible to work the Bill before the Council without having returns of income. HIS HONOUR shared that doubt very strongly; indeed he had read section 16 two or three times before he could believe that the Collector was himself to ascertain, without any assistance at all, the incomes of persons, from whatever sources derived, resident within his own jurisdiction.

The principle of that clause might possibly work in a tolerably fair way when it applied only to professions and occupations; but when we came to apply that principle to every kind of income, it seemed to HIS HONOUR simply impossible that the Collector could do any thing but make the very widest guess at any man's income. HIS HONOUR having now heard what the Hon'ble Sir Richard Temple had said, that his expectation was that the tax-payers would themselves be good enough to inform the Collector in every case what their incomes were, HIS HONOUR entirely agreed with Mr. Shaw Stewart in thinking that the Hon'ble Member was expecting too much, and HIS HONOUR could not but fear that the attempt would throw something like ridicule on the measure. HIS HONOUR therefore expressed the strongest hope that the Select Committee would not, without very careful consideration, keep the Bill in its present shape.

If the Hon'ble Mr. Shaw Stewart had anticipated HIS HONOUR on one point, he made a remark which led HIS HONOUR to make an observation on another point. HIS HONOUR congratulated Sir Richard Temple in having restored or reverted to the policy of the Right Hon'ble Mr. Wilson in 1860, and HIS HONOUR must say that whatever the merits of the present policy might be, there was no sort of analogy whatever between that and the policy of 1860. HIS HONOUR did not propose to detain the Council by attempting to prove that statement; he would only refer any one who doubted it to the speech made by Mr. Wilson in 1860, and his statement of the circumstances under which the income tax was proposed. Those circumstances, and the circumstances under which a general income-tax was now proposed, were as different as it was possible to conceive.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF said he had intended to have given a silent vote on this occasion in support of the proposals of his Hon'ble colleague Sir Richard Temple. Indeed, HIS EXCELLENCY had revolved very carefully in his mind the propriety of the course which he was now about to take; he would assure the Council that he proposed to make no opposition to the measure before it, but, on the contrary, as a Member of His Lordship's Government, and as one who had been admitted to all the previous discussions and deliberations on the measures before the Council, HIS EXCELLENCY was not only prepared to vote in favour of the measure, but also to say something in favour of it. But there were points in Sir Richard Temple's statement which HIS EXCELLENCY confessed gave him, as a Member of Sir John Lawrence's Government, and as a very intimate friend and hearty colleague of the Right Hon'ble Mr. Massey, considerable pain. If we looked at the pamphlet which contained Sir Richard Temple's budget statement, in page 22 we found that his Hon'ble friend had adopted the method of bringing on the carpet the financial liabilities of the preceding years. We were there told of the deficits of the previous three years; we were told of the loans which were made in order to meet those deficits; and we were finally afforded the reasons, according to Sir Richard Temple's apprehension, of the loans. In regard to the deficits and in regard to the loans there was no question; but HIS EXCELLENCY desired immediately to join issue with Sir Richard Temple on the reasons which led to the loans. It was said that on account of certain Civil Public Works of a remunerative character, three millions of money had been obtained by loans, and Sir Richard Temple then proceeded to say that three and a half millions had also been provided by loan to meet the charge on account of Barracks. Now HIS EXCELLENCY must trouble the Council with a short detail of what took place some time back. A few months ago, within closed doors, this Council, under the presidency of HIS EXCELLENCY's predecessor, had a very long and active discussion on the matter, which had received its solution by the decision of the Governor General in Council with regard to the measures introduced by Sir Richard Temple. One of the points which was then discussed was the amount of borrowed money which had been spent on these very Barracks, and on which it was now declared that $3\frac{1}{2}$ millions had been expended, the said $3\frac{1}{2}$ millions having been raised by loan. It was established in that discussion that only £364,000 had been so raised on that account; that is to say that the large gross charge of nearly four and a half millions had been defrayed out of the ordinary revenue excepting the sum of £364,000. That point was established by HIS EXCELLENCY. In Sir Richard Temple's reply to HIS EXCELLENCY's Minute comprising numerous points of controversy which had arisen between HIS EXCELLENCY and Sir Richard Temple, that point was not controverted. Therefore His

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EXCELLENCY had a right to say by assumption—he would rather say that his assertion, based on the figures furnished by authoritative departments, that only £364,000 of borrowed money had been expended on account of the Barracks, was correct; for it was not controverted by Sir Richard Temple in the course of that discussion. HIS EXCELLENCY was therefore at a loss to understand what was the meaning of the statement which he found in the pamphlet, that 3½ millions of borrowed money had been expended on account of those Barracks. Now that statement did really cast a great imputation on the reputation of the Right Hon'ble Mr. Massey, and it also cast a great imputation on the Government of which Mr. Massey was a member. HIS EXCELLENCY would proceed to show how that arose. The Right Hon'ble Mr. Massey was at great pains, in the statements which he delivered in 1867 and 1868, to explain how it was that deficits had occurred, and that it might be necessary for the Governor General in Council to have recourse to the market instead of depending on the ordinary revenues of the country. HIS EXCELLENCY found in the first place, in the statement of 1867, that it was originally intended to build steamers for the transport service, involving an expenditure of about one million, out of borrowed money. It appeared that in England there must have been much controversy on this point, and finally it was determined not to borrow on this account, but to take the money out of the cash balances. Consequently, we had the Right Hon'ble Mr. Massey declaring that this money was provided from the cash balances, and instead of having to meet a very small charge for interest and the eventual re-payment of the loan, he had to encounter an immediate charge of half a million on that account: that disposed of 1½ millions out of the 3½. If we went on to the next budget statement, we found the following; this it would be recollected was delivered this time last year (1868). The Right Hon'ble gentleman was describing the actual results of the year 1866-67. He said:—

“Our estimated expenditure was £44,307,000; our actual was £44,530,000. Our estimated deficit was £2,400,000; our actual deficit turned out to be £2,517,000. The difference between our estimated deficit and the actual result was, in round numbers, £120,000. I stated to the Council last year that the very large deficit which I had to meet was not attributable to any falling off in the revenue, but mainly to accidental causes. It was, in the first place, owing to an over-estimate of opium, but not a very considerable over-estimate. The deficit under this head was still further increased by the accident that we had calculated upon bringing to the market in Calcutta a greater number of chests than we were by our engagements enabled to do. In fact we were obliged to keep back 5,320 chests of opium, which would have realized £691,600. The deficit was also swollen by other special and temporary causes. We were disappointed in our expectation of repayment of £460,000, advanced to Bombay against the proceeds of the Land Sales. There were losses of nearly £300,000, under Customs and Salt, owing to the depression of trade; and the Home charges were increased by £480,000 on account of the new transport ships and stores for India.”

Thus it appeared that, instead of debiting this deficit to the charge on account of Barracks, Mr. Massey debited it to every other conceivable item of expenditure. The importance of this would be shown in HIS EXCELLENCY's further remarks. But it must also be observed that, whilst Sir Richard Temple threw all the burthen of the loans on the Barracks, he omitted to consider another cause of this deficit which led to those loans. HIS EXCELLENCY should rather say of this nominal deficit; because, under the instructions of the Secretary of State, we were desired to take under the head of Ordinary Expenditure, not only these Barracks, but also vast civil works which on the average exceeded £400,000 per annum in their cost. Therefore, in addition to the particular cause to which HIS EXCELLENCY had just referred, we had also to add the cost of such civil works, but which were not included in the present statement. HIS EXCELLENCY thought that he had now shown that Sir Richard Temple, when he committed himself to that statement, committed himself to an oversight, and it was important that the oversight should be freely explained, as HIS EXCELLENCY would venture to do, because the reputation of the Right Hon'ble Mr. Massey was seriously concerned, seeing that Sir Richard Temple ascribed the causes of the loans to wholly other causes than those accepted by us under the Government of His Lordship's predecessor.

It was necessary perhaps that HIS EXCELLENCY should elucidate this point still farther. In 1865-66 this barrack reform first came to be carried into practical effect after a vast deal of deliberation. The Right Hon'ble Mr. Massey, in his statement in 1866, was unwilling to load the estimates with a loan on that account, and he was supported in his caution by the members of Sir John Lawrence's Government; but in the next year, not only Mr. Massey, but, HIS EXCELLENCY believed, every member of the Administration of that year, was strongly impressed by the notion that the ordinary revenues of the country were greatly too much devoted to this item of extraordinary military expenditure, and that in consequence civil designs and works of great importance to the community at large would be indefinitely postponed. Therefore it was that the resolution was adopted in 1866, to follow that course which had been already shadowed out by Lord Halifax as Secretary of State in 1865, when he told us "Build your Barracks as well as you can out of your income, but having done so, you may borrow the remainder for it." What was the course of the Right Hon'ble Mr. Massey? He did not commit himself, as was done in England in the analogous case of the fortifications, to an immense loan; he did not commit himself to a declaration that the whole of the works were to be constructed out of borrowed money; he did not hastily contract loans, but he declared that he would adopt the plan of Lord Halifax,

and having built the Barracks as far as he could out of the ordinary revenues of the year, would borrow the difference to give him the means for their completion. That was the policy agreed to in Sir John Lawrence's Council in 1866, he believed without a single dissentient voice. There were present to-day those who could correct HIS EXCELLENCY if he was wrong, but he believed Mr. Massey was supported in that proposition by the unanimous voice of the Council of that day. Lord Halifax was succeeded by Lord Cranbourne, who fully adopted the principle which was carried out by the Government of India, and he gave his sanction to the proposition of Mr. Massey. Accordingly we saw that in 1867 the Right Hon'ble Mr. Massey, or rather the Secretary of State on his account, borrowed a million of money on account of these Barracks: but such was the elasticity of the revenue in 1867; such was the difference between the actual returns as compared with the budget estimate, that Mr. Massey told us this time last year that out of the borrowed million he had only spent £200,000; the remainder was in our cash balances, and could be spent on remunerative works, or would go to increase our income for the next year. We therefore arrived at this conclusion, that not only were the loans not to be attributed, as Sir Richard Temple had solely attributed them, to the sums expended in the building of these Barracks, but also to this conclusion that the Right Hon'ble Mr. Massey took the greatest possible precautions to limit loan obligations on this account. That was a very important fact. HIS EXCELLENCY invited the attention of the Council to the epithet used in the 41st page of the pamphlet, in which the policy pursued by the Government of India for three years—a policy which had received the sanction of three successive Secretaries of State, a policy which was finally reversed without argument, a policy which the Government never asked to be reversed—was stigmatized as intolerable; if we turned to the 41st page we saw that that policy had been thus stigmatized. HIS EXCELLENCY thought that, notwithstanding the compliment paid to the Right Hon'ble Mr. Massey by his Hon'ble friend, notwithstanding that a change of view had actuated the policy of the present day, to use such a term with reference to a policy which had been very deliberately adopted and approved was not respectful to the Government of that time, and certainly not of a character which would be grateful to Sir Richard Temple's predecessor.

HIS EXCELLENCY had already said that it was not only his wish to give a vote in support of the measure before the Council, but that he thought there was something to be said in favour of the policy now pursued. It was no secret in this Council that HIS EXCELLENCY had been a humble follower of the doctrines of the Right Hon'ble Mr. Massey and his predecessor Sir Charles Trevelyan with regard to direct taxation, but as times and circumstances

changed, so it might be necessary with regard to expediency to alter our views. It had been determined to spread the building of these Barracks over a period which HIS EXCELLENCY thought would be nearer ten, or perhaps ten or twelve years, than the term of five years originally determined on. That was not a mere matter of finance, but was also a matter of engineering necessity and construction, and on a final review of all the circumstances of the case by the present Secretary of State, it had been determined that, at all events during the current year, such a sum only should be set aside for extraordinary expenditure on account of these Barracks as, if the example were followed in future, would defer the final completion of those Barracks to (say) six or seven years from this date, instead of the original five years, besides the four or five years already expired. That being the case, the great argument against including this expenditure in ordinary revenue had to a certain extent been cut away; that is to say, with the finances in a healthy condition, the annual expenditure for Barracks had been so restricted that Sir Richard Temple could fairly declare that "as I have met you half way, you must consider this and allow me to take the remainder from revenue." But there was another point. It was clearly laid down in the despatch to the Secretary of State six or seven months ago, to which he had already referred, that if it were necessary to have recourse to an extension of the certificate tax, it might be augmented on the largest possible considerations, *viz.*, that we were about to commence a regular system of reproductive public works by becoming a great borrowing Government (that was Mr. Massey's expression), and that consequently it was necessary to fortify the credit of the country by taking measures that no works were borrowed for which might not fairly be expected to give returns. That brought HIS EXCELLENCY to the Hon'ble Mr. Cowie's view, and much might be said in its favour. It was quite true that the better you made the barracks, the more you looked after your men, the fewer the casualties would be, and undoubtedly the army charges would be lessened. But HIS EXCELLENCY was sure that any change of that sort must be one of the most gradual kind, and it was hardly one which a financier could take into calculation. There was another point, one of engineering and construction, which to a certain extent did strengthen Mr. Cowie's argument, that so long as troops were living in temporary barracks constructed only to last a small number of years, it did happen that a large amount was expended in the repairs of those barracks. HIS EXCELLENCY found, from the returns of Mr. Wilson, that in 1856-57 the ordinary charge for public works did not exceed £350,000. Now, however, we discovered that the ordinary charge for ordinary military public works, as distinguished from those great works of construction, amounted to about £700,000 a year. That was an alarming fact, because those ordinary works did not go to increase your fixed capital in the

shape of great permanent buildings, but they were mainly directed to keep in a fairly habitable state the buildings in which your troops were temporarily lodged. Therefore a very large proportion of that charge, which was principally devoted to repairs, would subside altogether, and although that would not be sufficient to cover the interest of such immense sums as would be required for the completion of the Barrack reform, it would act as a considerable set-off. HIS EXCELLENCY thought that, in order to make out a good case for the policy pursued by the Government (the point was noticed by His Honour the Lieutenant Governor), a sufficient distinction was not drawn by Sir Richard Temple between the state of things at the present day, and that to which Mr. Wilson alluded, and to which Mr. Laing in his subsequent statements drew marked attention for two years. If we looked at the deficits to which Mr. Wilson and Mr. Laing repeatedly invited notice, we found that they were deficits caused by the effects of the war that had just come to an end. Such was the period at which the experiment of the income tax was launched by Mr. Wilson and Mr. Laing, the latter of whom fully acknowledged the exertions of Major General Balfour and his Commission in reducing the military expenditure. Sir Charles Trevelyan also called marked attention to the fact of the vast expenditure still going on, and which was not finally put an end to till he had left the country. Well, what were the facts of the deficit now? Was it right to call it a deficit at all? or was it not rather right to say that, whatever deficit there was, was a supposed one, or rather that it was the result of an expenditure on ultimately remunerative account which was already to a great extent met by positive surplus. What then did the deficit in general consist of? It consisted in the first place of remunerative works. Sir Richard Temple had told us that these remunerative works amounted to three millions during three years. HIS EXCELLENCY had also shown that there were other works which, though not remunerative, were paid out of revenue and not out of loan. But in addition we had seen that half a million had been lent to the Calcutta Municipality at a reasonable rate of interest, and the terms and conditions of which were such as to extinguish the debt in a certain number of years.

There was another point to be considered. This extraordinary expenditure on account of the Barracks it had been determined as a matter of principle should be included under the head of Ordinary Expenditure, so that it might be defrayed out of the yearly revenue. But whilst that had been done, the Government of India did not depart from the proposition on which their original policy was founded, and they were careful in the despatch to the Secretary of State, which went some months ago, to show that although it was right, according to their view and the Secretary of State's bidding, to include this expenditure

under the head of Ordinary, still they saved their position by saying that the works themselves were extraordinary, that whilst the works still preserved that character of Extraordinary, they were built out of ordinary revenue. It was impossible to put any other construction on the words of the Government of India or the directions given successively by three Secretaries of State.

But, there was another point yet. It would be found by the Returns appended to Mr. Laing's statement that he took a reasonable view of the guaranteed interest on Railways. He was careful to distinguish between deficits which did include that guarantee, and deficits which did not include that charge. He distinctly stated (and it was a proposition which had not been controverted) that properly such guaranteed interest was a charge on capital. We knew that, on nearly all the great Railways in Europe and the United States, when large capitals were embarked by private Companies for the construction of Railways or other remunerative works, it was the ordinary custom to raise a sufficiency of capital for the whole, so that the interest on capital should be paid from capital till the work became remunerative, that was to say until it was in operation. The Government of India being anxious to obtain the great sums wanted when the schemes of Lord Dalhousie were first submitted to the English market, adopted a policy which did not commend itself to private capitalists, and undertook to pay the guaranteed interest. What was the inference? It was that, far from being deficit proper, this large sum, accruing from year to year on account of guaranteed interest paid to Railway Companies, was in truth a sinking fund for the benefit of posterity. According to the plan of Lord Dalhousie, and fathered by every successive Financier, it was, in fact, a sinking fund for the use of those coming after us.

HIS EXCELLENCY did not wish to lay too much stress on this point, or to make any prediction as to when the returns of the Railways would be such as to commence the realization of the policy referred to, but it was certainly right to bear carefully in mind how the gross total of our expenditure came to be made up, especially with regard to the considerations to which he had now ventured to invite attention.

HIS EXCELLENCY did not wish to detain the Council any longer. He thought it right that a proper distinction should be drawn, and when we embarked on a great policy, HIS EXCELLENCY thought we ought to take measures befitting that policy; but at the same time we should draw proper distinctions, and not allow ourselves to run away with the idea that there was a deficit such as that dealt with by Mr. Wilson, when in point of fact we had to deal with a

time of financial prosperity which had never been equalled in India, and not even in any country in Europe, and at the present time was superior to that of our own country, England herself.

The Hon'ble MR. TAYLOR said that, before the debate went further, he wished to correct a statement of figures made by His Excellency the Commander-in-Chief, which, if unexplained, might lead to misapprehension. His Excellency said that the Hon'ble Mr. Cowie's remark as to the Barrack construction being in a sense remunerative was so far true that, since 1857-58, there had been a great increase in the charge for maintenance or repairs, and that in the former period the charge had not exceeded £3,00,000, whereas now the ordinary charge was £7,00,000. The figures quoted by His Excellency referred to repairs only. Now, what he (MR. TAYLOR) wished to explain was simply, that what was called *ordinary* included all new work not being parts of the great scheme for new Barracks. In the present Budget the sum for repairs was about £3,00,000, which was just about the sum quoted by His Excellency as that in 1857-58. The rest of the £7,00,000 was for minor new works.

The Hon'ble Major General SIR H. M. DURAND said that, after the communication of the decision of the Secretary of State, he felt precluded from entering into any discussion on the merits of the reversal of the financial policy which previous Secretaries of State had allowed in case of necessity, with respect to the extraordinary expenditure on Barrack-accommodation for our European soldiers. Accepting the decision of the Secretary of State as settling the question, he would avoid any analysis of this matter on its merits. Viewed in connection with the measures of the Right Hon'ble Mr. Massey, our late Member for Finance, the observations of His Excellency the Commander-in-Chief on the present budget-statement and in defence of Mr. Massey's policy, rendered it unnecessary on his part to review what had passed with reference to this more restricted ground. He would therefore confine his remarks to subsidiary considerations, and would not take up the time of the Council with any observations on either of the foregoing subjects.

That which he would first touch upon was that, although his Hon'ble colleague, Sir R. Temple, had himself avowed (p. 24) that Barracks ought not to be selected as the cause of deficit, yet that the whole tenor of the budget-statement was calculated, by the prominence given to this one item of expenditure, to mark it out as the main cause of the deficit, and to throw on the military expenditure the whole onus of the existing deficit. He (SIR H. M. DURAND) hardly thought this quite correct or fair to the Military Department.

He would therefore call the attention of the Council to the fact that, beginning from the time that Mr. Wilson was the Financial Member of this Council, that was from 1859-60, to the nearest period for which results could be obtained correctly, 1867-68, there had been a total Civil Public Works expenditure of upwards of thirty-seven millions (£37,000,000), whereas the total Military Public Works expenditure only amounted to an aggregate of upwards of eight millions (£8,000,000). He would not take up the time of the Council with going over the details, year by year, during the above period, which showed an aggregate on the part of the Civil Works alone of eighteen millions nine hundred thousand (£18,902,319) for construction, and eighteen millions one hundred and eight thousand (£18,108,779) for repairs, salaries, &c., against a sum of upwards of six millions (£6,006,314), for construction of Military Public Works, and upwards of two millions (£2,142,813) for repairs, salaries, &c. Without entering into the series of annual details in comparison of the two sources of Public Work's expenditure—details which the Council might be sure corresponded with the aggregate—he called its attention to these figures in support of what he had stated, that it was hardly fair, where the disparity was so great between Civil and Military Public Works expenditure, to saddle the latter wholly, or at any rate in a very prominent way, with the creation of the deficit.

From the review of our financial position there was, he was afraid, no doubt that our expenditure had, year by year, exceeded not only our revenue but the accommodations by loan, &c., with which the Government had supplemented receipts in order to cover expenditure. This excess could not, in his opinion, be fairly charged to the Military Department alone; it must be distributed among all Departments; and the accumulated deficit should not be saddled on the construction of new Barracks for our European Troops which had lately commenced.

His Hon'ble colleague, Mr. Cowie, had adverted to the designation of reproductive and unproductive public works in reference to the new Barrack expenditure. Without any very nice dissection of this question, he thought the term reproductive works was rather a vague one, and that we were gliding into a somewhat loose use of it, the tendency being to accept the attribute of "reproductive" as in itself a sanction for any enterprise to be provided for by loan. At a time when we were about to embark on an expenditure of some thirty millions for Irrigation Works, besides many millions for State and other Railways, and other classes of works, he thought that this facility

in favour of reproductive works required watching. Besides, the broad division into reproductive and unproductive works, we might divide the former into three classes, viz :—

1. Reproductive works where the return was almost immediate.

2. Reproductive works where the return, though pretty certain, was deferred.

The third or last class was one which he would not call, in the face of their classification, unproductive, but in which the returns upon the capital expended were very remote.

Attaching the greatest importance to the maintenance of the credit at present enjoyed by the Government of India in the money-market in England and India, he was anxious to call the attention of the Council to this subject, and to the expediency of distinctly showing to which of these three classes any projects, whether for irrigation or other reproductive works, belonged. No one had more strongly advocated the progress of Irrigation Works, and of other reproductive works, than himself, therefore he had no hesitation, being extremely solicitous of maintaining the high credit of the Government of India, in recommending that the Committee appointed to consider the Income Tax Bill, and to which the Hon'ble Mr. Bullen proposed improvements and additions in the mode of rendering the annual balance-sheet, should also arrange for the more distinct exhibition of the character of reproductive works. He was certain that, if this were carefully and lucidly done, the Government of India would gain, not lose, in the estimation of the money-market. To take a stock of past reproductive works, showing their cost and actual returns, especially when new works were in connection with, or improvement of, the old, might be advantageous. But certainly the Government of India would more and more command the confidence of the money-market, with respect to this growing item of reproductive works, the more distinctly it exhibited their character and prospects to the searching analysis of capitalists, and for this purpose the annual budget-statement might, on the heading in question, be more explicit.

Sir RICHARD TEMPLE said—"I regret to be obliged to refer, though in the briefest terms, to the remarks which have fallen from His Excellency the Commander-in-Chief (Sir William Mansfield).

Remembering that we are both Members of the Executive Government, I cannot follow His Excellency's example by entering into any discussion regarding the financial deliberations of the Government of India."

Only I must state that I have not intended to cast, and in fact have not cast, any reflection whatever on the policy and proceedings of any of my predecessors. In reference to the accounting for the Barrack expenditure, I quoted the recorded authority of my immediate predecessor, Mr. Massey, in support of the manner in which I am now dealing with that expenditure. I explicitly affirmed the correctness of the financial conclusions which he stated according to the manner in which the accounts were then made up. And whatever explanation was offered in my Budget speech on the loans, and the deficits and the barracks, was given (as I expressly stated) "in justice to what had been previously done."

Next, I understood the Commander-in-Chief to say that I ought not to throw the whole burden of the deficit on the Barracks, which deficit ought not to be attributed to that single cause. This I allow, and I also allowed it in the Budget speech. For though I certainly remarked that, under one view of the account, it might be said that the deficit was owing to the Barracks, yet I added "I do not at all mean to admit that the Barracks *ought* to be selected as the cause of deficit. On the contrary, I say that 'Barracks *ought not* thus to be singled out from our general expenditure.'

Then I understood the Commander-in-Chief to say that I applied the word 'intolerable' to what was really the policy of my predecessor. I cannot perceive that I did anything of the kind. What I said was (as can be seen from the printed speech) that the 'running into debt for such a purpose (*i. e.*, the construction of Barracks) would be intolerable.' To that opinion I fully adhere. But I am certainly not aware that it ever formed part of the policy of my predecessor to run into debt in this way.

I am not sure that I can follow the Commander-in-Chief into what I understood him to discuss, as to whether these deficits were 'deficits proper' or 'deficits at all;' or as to whether these military works should be classed as ordinary or really extraordinary; or as to the analogy to be drawn from the management of private capital. The 'deficit' that I have to deal with means the difference which arises when the ordinary expenditure exceeds our income. *That* is the sort of deficit which I wish to be put an end to. The financial principle which I understand, and which has been enunciated by high authority in England, is this, that we must manage either to spend less than we receive, or to receive more than we spend.

Whether the expenditure heretofore incurred on the Barracks should be considered to have been defrayed from borrowed money or not, may

be a question. Be that as it may, however,—whichever way the account be looked at,—the existence of deficit is unfortunately beyond question, and the placing of that deficit in a clear light was the matter which I really had in hand.

I understood His Honour the Lieutenant Governor of Bengal to say that, according to the Schedule attached to the Bill, it would be impossible for the Collectors to guess the income derived by people from all sorts of sources. But in reality this guessing is the manner in which the late License Tax and the Certificate Tax have been worked. It was also the manner in which the Income Tax of 1860 had really to be worked. For is it not notorious that the returns required by that Act were not only vexatious to the people, but useless to the Collectors? In a vast number of cases the Collectors ‘surcharged;’ it might almost be said that the Act was worked by surcharging. Now what were these surcharges? Why, guesses pure and simple. If the Collectors guessed then, they can do so better now that experience has so much increased. The task may not be easy, but the rough assessment will become more and more of an approximation as time and experience are gained. At all events, it is essential to avoid calling for returns.

In reference to what the Hon’ble Mr. Bullen very properly remarked, to the effect that the interest on the public securities forming part of the paper currency reserve should be credited and shown under some head of income in the Budget, I have to state that this interest *is* so credited, and appears under head XVII on the receipt side of the Budget, entitled ‘Interest.’”

The Hon’ble MR. STRACHEY said: “In justice, my Lord, to the Hon’ble Sir Richard Temple, I think it right to say that there is, in my opinion, no reason whatever to attribute to him the imputation of having thrown discredit on the measures of his predecessor. It is impossible that Sir Richard Temple should have done so, for this simple reason that he has really proposed to do almost nothing beyond what was proposed by the Right Hon’ble Mr. Massey last year. Sir Richard Temple said that the running into debt for such a purpose as building Barracks would be intolerable. It seems to me that this was little more than what Mr. Massey himself said a year ago, and he gave the best possible evidence that that was his real opinion when he invited the legislature to impose the certificate tax. For Mr. Massey might have said with perfect truth that if we charged the expenditure on account of these Barracks, not to income but to a loan, that tax would have been altogether unnecessary. And as His Excellency the Commander-in-Chief has referred to the discussions which took place in the Executive Council under the Govern-

ment of Sir John Lawrence, I think it right to say that exactly the same objection (if I understood His Excellency rightly) which has now been made by His Excellency to the statement of Sir Richard Temple, was made by His Excellency a year ago to the measures of Mr. Massey himself. His Excellency then protested against the imposition of a certificate tax for the purpose of building these barracks, and he complained that Mr. Massey was setting aside the sound policy of the last three years, which had been approved both by the Indian and Home Governments. I myself endeavoured, in the debate on the Budget of last year, to controvert these opinions, and the views which I stated on that occasion were concurred in by the late Viceroy. I think, therefore, that the charge, if I may so call it, which has been brought by His Excellency the Commander-in-Chief against Sir Richard Temple, of having treated his predecessor with scant respect, is really not deserved. It was said by the Hon'ble Mr. Cowie (and I gathered from the remarks of His Excellency the Commander-in-Chief and Sir Henry Durand that they were somewhat inclined to agree with him) that this deficit, which was now to be met, had really been caused by charging the cost of the construction of the barracks to revenue, and the Hon'ble Mr. Cowie stated that he considered that these charges ought to be met by borrowing. I am by no means prepared to admit that there has really been any change of policy in regard to this matter; for, so far as I have been able to discover, the policy which we are following now is in all essential respects the same as the policy followed for the last three years. Certainly it is the same as that followed by Mr. Massey last year. But whatever may have been formerly the case, the policy of the Government, which has been strongly supported by the Secretary of State, is, I think, under present circumstances strictly correct, that we ought not to borrow for these works but pay for them out of income. I think that the answer was complete which has been repeatedly given by Sir John Lawrence and by others to the opinion that charges such as this should not fall on the taxpayers of the present day. If there were any real prospect, when these barracks were completed, that we should be able to reduce our ordinary expenditure on public works, something might be said in favour of borrowing for these works and throwing a portion of the burthen on those who come after us. But in reality there is no such prospect. Demands for works of public improvement may be considered to be practically unlimited. If these barracks ought to be constructed out of borrowed money, the same might with equal propriety be said of our jails, our court-houses and a hundred other necessary works. The most pressing object at the present time is to afford better accommodation for our soldiers, but a thousand other equally pressing demands will infallibly arise hereafter, and indeed they arise already every day: if those

demands are resisted, they are resisted only because it is impossible to meet them. In the debate of last year I mentioned that in two provinces alone, Bengal and Bombay, which had £2,055,000 allotted to them for public works, demands for urgent works in addition, amounting to more than two millions of money, had been made; and I said that the same sort of story might be told of all the other provinces in India. The same thing happened every year. Thus I have now before me letters from the Government of Bengal regarding the allotment of funds for public works during the ensuing year. I find that the total sum granted for Bengal was nearly $1\frac{1}{2}$ millions, out of which only £250,000 were allotted for the construction and maintenance of military buildings; but although nearly the whole of this grant was on account of works for the civil administration and public improvement, His Honour the Lieutenant Governor stated that he had been unable to provide to any extent for any new civil works. His Honour shortly afterwards submitted a list of urgent works which required immediate attention; it includes court-houses and sub-divisional buildings, lock-ups, jails and a great number of other works which have become necessary from improved administration, the increase of Europeans in the country and a number of other causes. Nearly all the jails are said to require alteration to fit them to the improved system of the day, and His Honour goes on to mention many works of most pressing importance for the improvement of the country. It cannot, I fear, at the present time be denied that in consequence of these great demands for military works, we are to some extent starving works of great importance throughout the whole of India. But however much we may regret this, it arose necessarily from the fact that our means are limited. Long after these barracks are completed, our successors will certainly hear the same story, and will find that the requirements of the country are infinitely greater than the means for meeting them. Posterity will have enough to do in meeting its own burthens, without having to meet ours also. If we were now to borrow for barracks, we should be borrowing for works which were quite as legitimate charges against income as any other expenditure of the year. And to borrow for such purposes now would be especially objectionable, when we have embarked on a great system of borrowing for railways and other great works of improvement, which, however profitable they may ultimately prove, will be for many years a heavy burthen on the income of the State.

Fortunately the sum we have now to raise is very insignificant, only the sum of £350,000.

Borrowing being put out of the question, the Government had to consider what was the measure of taxation by which this sum could be raised with the

least possible objection. It is highly satisfactory to find that there has been in this Council (and also outside these doors) a general concurrence in the proposals of Sir Richard Temple. When the certificate tax was imposed, and before that when the license tax was imposed, there were considered to be special reasons for preferring those taxes to a general tax on incomes. The tax in the restricted form it then took was at the time much more generally approved by the public, and for other valid reasons it was preferred by the Legislature. Moreover the sum which it was expected to yield was enough to meet the requirements of the Government as they were then estimated. But, however wise it may have been formerly to adopt the system actually in force, I think it clear that the right conclusion has been come to, that now, when we want more revenue, it is wise to provide for the extension of the existing law. The certificate tax is nothing (as has always been admitted) but an income tax falling on the commercial and professional classes only. It has been, as everybody knows, the constant objection to an income tax in England and in all other countries where an income tax has been imposed, that it fails to recognize the injustice of taxing incomes from temporary sources at the same rate with incomes of a permanent character; and if no remedy has hitherto been applied for this injustice, I believe that the reason is simply this, that it has been found impossible to determine what that remedy should be. But in India we have singled out the classes which derive their income from temporary sources as the sole classes on which the tax is to be imposed. We tax the precarious profits of trade, and the hardly-earned salaries of the servants of Government, but we leave untouched all incomes of a permanent character, such as those for instance of the great landholders of Bengal, who, though they constitute the richest class in all India, and the class which has perhaps derived the greatest advantage from our Government, undoubtedly contributes less in proportion to its means than the very poorest and most degraded classes in the country. I think it clear that it is unjust that such classes as this should escape direct taxation. Even if no more money had been now wanted, I should have said that we ought to correct this injustice by extending direct taxation to all classes of the community. It fortunately happens that the same process by which we correct a flagrant anomaly, and by which we render our system of taxation more equal, enables us, without throwing any additional burthen on the present tax-payers, to obtain the additional funds now required for the service of the State.

His Honour the Lieutenant Governor and the Hon'ble Mr. Shaw Stewart have referred to difficulties which they anticipate in consequence of the fact that, under the Bill, it is not proposed to call for any returns of income, and they have expressed their fears that it will be impossible for Collectors to make any-

thing but the widest guesses of the income of those whom they have to assess. It appears to me that no special or new difficulties of this kind will arise. In point of fact the only serious difficulty in assessing the old income tax—and it is the only serious difficulty felt in assessing the income tax in England—was felt in regard to the assessment of the incomes of those very classes who, for the last three years, had been taxed under the license and certificate taxes. That difficulty has been got over, and it has been generally admitted to have been got over in a manner fairly satisfactory. I can see no reason why, if this difficulty was got over in the case of the Income Tax of 1860, and under the License and Certificate Acts, there should be any difficulty in getting over it under the proposed new law, which practically maintains the whole procedure of the existing Act. There can be no more necessity for the exercise of inquisitorial powers or calling for returns or harassing enquiries in carrying out the proposed law, than there was under the certificate or license taxes.

The Hon'ble Mr. Cowie seems to think that it would have been wise to impose this income tax at a higher rate, and to take the opportunity of carrying out reforms in the customs duties. I think that it cannot be denied that the income tax throws on the professional classes and on persons with fixed incomes a comparatively heavy burden, and I must confess that the evil of this inequality is, in my eyes, aggravated rather than diminished by the fact that the chief sufferers are my own countrymen, on whose energy and integrity India, at the present time, is mainly dependent for its progress. The evil of this inequality is further aggravated by the fact that the same classes on whom the income tax falls the heaviest, are those which pay the largest share of the customs duties. With reference, therefore, to the remarks made by Mr. Cowie, I will say for myself, that I sincerely hope that the time may come when we shall see great reforms carried out in our system of indirect taxation; and I believe that such reforms will conduce to the benefit both of the tax-payer and the State. The measure now before the Council is at any rate a step in the right direction; it is based on a true principle, and while it provides for the immediate necessities of the State, it will tend to make our system of taxation more equal and more just."

HIS EXCELLENCY THE PRESIDENT said,—“I cannot allow this discussion to close without expressing in a few words my satisfaction that the proposals made by Sir R. Temple on the part of the Government have been received with such general assent. In such a large scheme as has been submitted, it is impossible to expect that some exception should not be taken to many of its details.

It must be a source of great satisfaction to all those who were responsible for the Budget, as explained on Saturday last, that no serious opposition has been made to it in any quarter whatsoever. I think, however, that I should not be doing my duty were I not to express my entire concurrence in the principle which is really the basis of the financial scheme for the present year—a principle which will, I hope, form for the future a leading feature in Indian Finance; which has been adopted with great advantage at home, and has received the sanction of two Secretaries of State—namely, that expenditure on works which are not of a clearly reproductive nature, are for the future to be borne by the ordinary revenue of the year.

There may be some difference of opinion on this subject, but I believe that it is so inherent a principle of all sound finance, that though the taxpayers of to-day may be called upon to make some present sacrifice, yet that it will eventually be found to lead to such economy and to such a satisfactory mode of dealing with all our great sources of expenditure, that, before long, it will be generally accepted as containing the elements of increased credit and lasting security.

Now, I think that the distinction between reproductive and unproductive works may be very easily drawn. I do not propose here to discuss the question, or to refer to the difference between military barracks and other kindred works, but it is very easy to distinguish these from works which are essentially reproductive, and which may be expected at no very distant time to bring in a direct return to the State, and to discharge in full those monies which have been advanced to them, and so relieve the Exchequer from permanent charge.

Now, there are two great heads of expenditure which may be placed under the reproductive class—namely, the large liabilities which we are about to undertake at a very early period for the purposes of irrigation, and also any expenditure which may be deemed necessary hereafter for the construction of State Railways. There may be other important works—such as the improvement of our harbours, the cleansing and water-supply of our towns, and the erection of bridges in populous places—which, there being therein a distinct prospect of speedy return of capital invested, may be brought into the category of reproductive undertakings. There can be no difficulty therefore in comprehending the principle upon which our finance is to be conducted for the future, namely, that as we have the power, we are determined to make every effort to discharge all expenditure, which is not of the character to which I have referred, out of the ordinary revenue of the year. There is an additional reason why it is so essential that this principle should now be adopted, and that we should declare our determination to adhere to it as long as possible.

This reason was alluded to by my Hon'ble friend Mr. Strachey, and cannot be expressed too strongly.

There is no doubt that probably we are now entering upon a time for borrowing for reproductive objects to a far greater extent than has been attempted before. I am in hopes that our power of borrowing for these great reproductive works may for the future only be limited by the power of the money market to yield, by the extent of our constructive organization, and by the capacity of the revenues of the year to pay the interest of a loan which must in its nature be temporary. Under these circumstances, we are bound to be most prudent, and to show that our general finance is in a thoroughly sound state; for it is possible that if in time of peace we were forced to go to the money market to meet a deficiency in ordinary revenue, we might find investors shy in entrusting their money to a Government which had been unable to conduct their affairs according to the rules that should guide the ordinary affairs of men. But if it is known that we do not propose to make any addition to our permanent debt, that every shilling we borrow will be laid out on works which carry with them the certainty of repayment, and at the same time will add to the general prosperity of the country, we can have no fear that Indian credit will hold the position it now does in the markets of the world. I have a lively recollection of the result of a different course which was taken at home—a course which, I own, I at one time supported, but which, I believe, is now deemed by its authors to have been unsatisfactory and wasteful. I am not without recollection of a circumstance which took place some years ago, when a debt of eleven millions was incurred for coast defences, fortifications which have not been completed, are now almost useless, and will never benefit the posterity who will have to pay for them.

With regard to what Mr. Bullen stated in respect to the Home charges and the deficiency of information that is afforded to the public concerning them, I can only say that a statement of the details of those charges is published every year, and certainly ought to be circulated as widely as possible. I am not prepared to say that advantage might not arise from exhibiting these Home charges in a form a little more minute than they are at present. I will make further enquiry, and if I find it necessary, I will take care to make a representation on the subject to the Secretary of State.

With regard to the remarks of the Mahārājā of Balrámpúr on the subject of the salt tax, I can only say that it is our intention to endeavour, by every means in our power, to reduce the cost of the carriage of salt, and, if necessary, to provide for its local manufacture. The whole question of the duty is one of very great importance and also of difficulty; but with regard to the establish-

ment of such local manufacture as would bring salt more nearly to the homes of the taxpayers, I can only say the Government are at present engaged in the consideration of measures to effect that object, and I hope, before long, we may be able to reduce the price of salt in some of those districts where its price is highest, and the impost is consequently most oppressive to the taxpayer.

I entirely concur with what has been said by my Hon'ble friend Sir Henry Durand, with regard to reproductive undertakings, that the returns of each work should be shown as distinctly as possible, and that the form of accounts should be of that character that everybody should know, in the first place, what are the prospects of the work which has been undertaken, and secondly, what are its exact returns. I think that the whole success of these great works which we are about to undertake, depends upon that principle of account being most rigidly adopted. I believe nothing would tend more to create confidence in the Government than their being able to show the exact position and products of each particular work. I can only say, in conclusion, that I believe everyone of my colleagues is fully impressed with the necessity of endeavouring in every branch of expenditure to enforce the most rigid economy that is consistent with efficiency. It is well known that in every department of the Administration constant efforts are being made to enquire into and to see how expenditure can be kept within its proper limits.

These enquiries have been attended with success in many departments for the last few years, and I am in hopes that whatever may be said with regard to our general policy, a charge of reckless or wilful extravagance will never be laid to the door of the Government of India."

The Motion was put and agreed to.

POLICE SUPERANNUATION FUNDS' BILL.

The Hon'ble SIR RICHARD TEMPLE also moved that the Bill to abolish the Police Superannuation Funds be referred to a Select Committee with instructions to report in a week.

The Motion was put and agreed to.

TRANSSHIPMENT OF OPIUM BILL.

The Hon'ble SIR RICHARD TEMPLE also moved that the Bill for imposing a transshipment fee on Opium be referred to a Select Committee with instructions to report in a week.

The Motion was put and agreed to.

LAND CUSTOMS' BILL.

The Hon'ble SIR RICHARD TEMPLE also introduced the Bill to make better provision for the collection of land customs on certain foreign frontiers of the Presidencies of Fort Saint George and Bombay, and moved that it be referred to a Select Committee with instructions to report in a week.

The Motion was put and agreed to.

CUSTOMS' DUTIES BILL.

The Hon'ble SIR RICHARD TEMPLE also introduced the Bill to amend the law relating to Customs' Duties, and moved that it be referred to a Select Committee with instructions to report in a week.

The Motion was put and agreed to.

The following Select Committees were named :—

On the Bill for imposing duties on Income and Profits arising from Offices, Property, Professions and Trades—the Hon'ble Messrs. Maine, Cockerell, Gordon Forbes, Cowie, Shaw Stewart, Bullen and the Mover.

On the Bill to abolish the Police Superannuation Funds—the Hon'ble Messrs. Maine, Strachey, Cockerell, Gordon Forbes, Shaw Stewart and the Mover.

On the Bill for imposing a transshipment fee on Opium—the Hon'ble Messrs. Maine, Cowie, Shaw Stewart, Bullen and the Mover.

On the Bill to make better provision for the collection of land customs on certain foreign frontiers of the Presidencies of Fort Saint George and Bombay—the Hon'ble Messrs. Maine, Gordon Forbes, Cowie, Shaw Stewart, Bullen and the Mover.

On the Bill to amend the law relating to Customs Duties—the Hon'ble Messrs. Maine, Gordon Forbes, Cowie, Shaw Stewart, Bullen and the Mover.

The Council adjourned till the 12th March 1869.

WHITLEY STOKES,

Secy. to the Council of the Govr. Genl.

for making Laws and Regulations.

CALCUTTA,

The 11th March 1869. }