

*Wednesday,
27th March, 1889*

ABSTRACT OF THE PROCEEDINGS
OF THE
Council of the Governor General of India,

LAWS AND REGULATIONS

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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,

1889

VOLUME XXVIII



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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 Vict., cap. 67.*

The Council met at Government House on Wednesday, the 27th March, 1889.

PRESENT:

His Excellency the Viceroy and Governor General of India, G.C.M.G.,
G.M.S.I., G.M.I.E., *presiding.*

His Honour the Lieutenant-Governor of Bengal, K.C.S.I., C.I.E.

The Hon'ble A. R. Scoble, Q.C., C.S.I.

The Hon'ble Sir C. A. Elliott, K.C.S.I.

The Hon'ble P. P. Hutchins, C.S.I.

The Hon'ble Sir D. M. Barbour, K.C.S.I.

The Hon'ble R. Steel.

The Hon'ble F. M. Halliday.

The Hon'ble Syud Ameer Hossein, C.I.E.

The Hon'ble Rájá Durga Charn Laha, C.I.E.

The Hon'ble G. H. P. Evans.

The Hon'ble Maung Ôn, C.I.E., A.T.M.

The Hon'ble Muhammad Ali Khan.

The Hon'ble J. W. Quinton, C.S.I.

NORTH-WESTERN PROVINCES AND OUDH KANUNGOS AND
PATWARIS BILL.

The Hon'ble MR. QUINTON moved that the Report of the Select Committee on the Bill to authorize the imposition of a Patwari-rate in the North-Western Provinces and Oudh and make certain provisions respecting Kanungos and Patwaris in those Provinces be taken into consideration. He said :—

"The alterations made in the Bill by the Select Committee are not numerous. The changes in sections 2, 4 and 9 merely save appointments made and rules issued under existing Acts and set out at length definitions for which the Bill as introduced made necessary a reference to other enactments. We have amended sections 7 and 15 so as to leave it to the Local Government to lay down the rules and conditions under which the patwari-cess is to be computed and payable in the exceptional cases of land being rent-free or rent being payable in kind or service. It would be inexpedient to force landlords or tenants into

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court for the purpose of having the liability of tenants determined in such cases. In sections 9, 13 and 15 we have adopted a recommendation of the Local Government and declared under-proprietors of entire villages in Oudh liable to the whole rate and entitled to collect the cess from the tenants. This is in accordance with the practice which prevailed almost universally in the province before the Act of 1882. Under-proprietors of plots of land not being whole villages will be treated as tenants and pay the cess only. We have, as suggested by the Local Government, given landlords in Oudh the same voice in the nomination of patwaris as is possessed under the North-Western Provinces land law by the landlords of those provinces.

"With the assent of my hon'ble friend the Finance Member, we have embodied in section 18 a legislative recognition of the undertaking of the Local Government, that the present contribution to the patwari fund by Government shall not be less than 10 lakhs of rupees, and we have made the concurrence of the Government of India a condition precedent to any reduction of the grant below that amount. When the landlords and tenants of the provinces are being called on to pay their share towards an object in which Government as well as they are interested, it is but fair that Government should pledge itself so far as it properly can to maintain its part of the burden.

"In the general principle of the Bill we have made no change. The Select Committee approached the subject with a strong inclination to modify the provisions of the Bill as introduced in favour of the tenant, but the reasons given by the Lieutenant-Governor in the passage I am about to quote, and the knowledge that the tenants of both provinces had so benefited by an unusually long series of prosperous years as to render the payment of a cess of 1 or $\frac{3}{4}$ per cent. on their rent a matter of no difficulty, constrained the members to the conclusion that the principle of the Bill was sound and should be maintained. Sir Auckland Colvin in his Secretary's letter of the 9th instant, which has been published as a paper on the Bill, writes as follows:—

"To the general principle of the Bill no objections have been made. The justice of re-distributing the present cost of the patwari-establishment among the different classes which profit by its maintenance has not been impugned. It is, in fact, merely a reversion to the original arrangement by which the patwari, as the servant of the village and not of the landlord only, was paid by an allotment from the grain heap before the produce was divided between the landlord and the tenant; with this addition, that the State, which now derives great advantages from the statistical information furnished by the village-papers, and which will be greatly benefited thereby at future periodical revisions of the land-revenue, will

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now make a corresponding contribution to the total expense. The importance to the statutory tenant in Oudh, and to the tenant with right of occupancy in the North-Western Provinces, of the punctual and accurate maintenance of the record by which their rights are established is obvious, and to the tenant-at-will the advantage is hardly less, as he depends on the rent-rolls for the correct statement of his rent, and of the continuous holding which, after a period of twelve years, secures him a right of occupancy. The justice of demanding their contribution from the owners of privileged tenures seems too clear to require discussion, and was recognized in the arrangements which existed in the North-Western Provinces prior to the passing of Act XIII of 1882; but, if tenants of all classes are exempted from liability, it is nearly certain that while the privileged tenants, whose annual payments are guaranteed by law, will escape altogether, the tenants-at-will, whose interests in the matter, though considerable are not so obvious, will nevertheless be compelled by their landlords to pay at least as much as could be demanded from them under the present provisions of the Bill. Experience has shown that it is impossible to hinder the landlord from demanding from tenants-at-will any cess which may have been imposed on the land.' [In this connection I may add that nearly one-half of the tenant cultivation of the North-Western Provinces is in the hands of tenants-at-will, and that a general exemption of tenants from payment of the cess would leave them to bear not only their own share of the cost but probably that of the privileged class of tenants also.] 'Moreover, as a result of recent legislation, nearly the whole of the land in Oudh is held by tenants with statutory rights. The concurrence of the landlords of that province to the proposed taxation has rested mainly on the understanding that they would be allowed to recover from their tenants, who are now in a far better position than they were then, a cess corresponding in principle, though it is considerably less in amount, to the cess which they were allowed to collect before the legislation of 1882. On the general principle, then, that the cost of establishment should be distributed, in proportions roughly corresponding to the benefit they respectively derive from it, between the State, the landlords and the tenantry, Sir Auckland Colvin has no criticism to offer, and he trusts that it may be maintained without any material modification.'

"The Committee considered carefully the possibility of exempting from the cess tenants who might prove that they were paying a share of the cost of the patwari in the shape of enhanced rent; but their enquiries established that no workable plan could be devised which would not be attended with greater evils than those it was meant to provide against. In my remarks on the introduction of the Bill I stated that an enquiry made under the orders of Sir Alfred Lyall in 1884 showed that it was impossible to resolve rents then existing into their component parts so as to say what portion of the rent was to be remitted on account of the abolished cess. As to thirteen districts of the North-Western Provinces, it was then proved that no separate patwari-cess ever existed, or that if it existed it became merged in the rent at a period so remote

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that no memory of it survived. In other districts the cess was merged in the rent under the Saharanpur Settlement Rules issued in 1855, or under the Land Act of 1873. What was held on such good grounds to be impossible in 1884 would certainly be equally impossible in 1889, and under such circumstances to give a power of re-opening all cases of enhancement throughout the length and breadth of the provinces for many years previous to 1882, in order to ascertain whether the tenant might now be fairly called on to pay an addition to his rent of two pies in the rupee, is a course which the Select Committee could not recommend. Such a remedy would be worse than the disease.

"These are the only points to which it seems necessary for me to call the attention of the Council on this occasion. My hon'ble friend Sir David Barbour will no doubt explain the relations between this measure and the financial arrangements of the Government of India in the statement which he is, I understand, about to make."

The Hon'ble MUHAMMAD ALI said :—

"Having had occasion to take part in the discussion of the Patwari Bill in the Select Committee, I have nothing more to add. The Bill after amendments is, in my opinion, quite unobjectionable. It is not reasonable that the Government alone should bear the whole cost of the patwari establishment to the extent of thirty lakhs of rupees as it has been doing for the last seven years. As the keeping of an accurate patwari record is proportionately useful to all the parties interested in the land, the cost should be borne by each of them in proportion to the benefit he receives. For this reason the distribution of the cost between the Government, the zamindár and the tenant, as made by the Bill, is just and fair.

"The expenses incurred by the Government on the occasion of every new settlement were not less than, on an average, ten lakhs of rupees in every district, while the present Bill imposes on Government an expenditure of only ten lakhs for both the provinces. In view of the great savings of expense likely to be realised by the Government in future settlements it is only reasonable that the Government should contribute the aforesaid sum. It is a well known fact that people always dislike the imposition of any rate, but when they find that the Government is also ready to contribute its share they will have no fair grounds for complaint."

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The Hon'ble SIR CHARLES ELLIOTT said :—" As an old North-West official to whom the patwari and the patwari-cess have been familiar terms for the last thirty years, I cannot let the occasion of the passing of the Patwari-cess Bill go by without expressing my satisfaction at its enactment, and without laying before Your Excellency's Council two special grounds for congratulation. The first is, that this Bill, although it involves the imposition of a cess upon themselves, is about to be passed into law with the approval of the great land-holders of the North-Western Provinces as represented by my hon'ble friend Muhammad Ali, and with the written consent of the influential body of taluqdars of Oudh, who have themselves assisted through the Secretary to the Taluqdars Association in framing the details of the Bill. It shews that a great step has been gained in modifying the hitherto somewhat despotic character of the government of the country, when the Lieutenant-Governor is able to win so completely the confidence of the landed gentry of his province, when they co-operate so heartily with him in legislation of this kind, and when they shew such a wise and statesmanlike patience of taxation.

" The second point I wish to draw attention to is the improvement which this Bill may be expected to produce in the working of the patwari staff. There is nothing so important to the agricultural community of the North-Western Provinces, who comprise about 90 per cent. of the population, as the accurate registration of the mutual rights of landlord and tenant. It is well known that a great reform has taken place of late years in the completeness and accuracy of the village-records—a reform with which the name of Sir Edward Buck is honourably connected. But the basis of this reform rests on the education, discipline, supervision and proper payment of the patwari. As long as the sum which could be devoted to paying the patwari staff depended on the amount which could be spared from the provincial treasury, on which a thousand other demands were being constantly made, so long there was little hope of obtaining such increased grants as were necessary to meet the constantly expanding wants of the establishment. Now that the old system of a cess has been restored, we have got a fund which acts automatically in the right direction. As new land is broken up and cultivated, as fields are subdivided, and competition for land causes rents to rise, the patwari's work of record increases, and with it increases the annual value of the village on which the patwari-cess is based. I trust, therefore, that this Bill, in addition to the relief it gives to the imperial treasury, will have the secondary and, as it were, accidental advantage of strengthening the hands of the Revenue and Agricultural Department, and enabling it to carry out

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more completely than before the objects which were defined by the Famine Commission and accepted by the Government of India nearly ten years ago, but which have been to some extent retarded by that eternal want of pence which is the most constant check on all attempted reforms in administration."

The Hon'ble SIR DAVID BARBOUR said :—

"The Bill which we are now considering was introduced mainly, but not solely, with the object of adding to the revenue, and I will therefore take this opportunity of explaining the present state of the finances.

"It will not be necessary for me to go into great detail, as the Financial Statement is published to-day and a copy of it has been furnished to each Member of Your Excellency's Council, but for the purpose of obtaining a correct general view of our present financial position it will be well to go back a little and to briefly indicate the financial position of two years ago, when the Statement for 1887-88 was made.

"Revised Estimates of 1888-89.

"The Estimates of 1887-88 as originally framed in March, 1887, showed a surplus of Rx. 16,700, representing practically a bare equilibrium of Revenue and Expenditure.

"The trifling surplus shown in the Budget Estimate of 1887-88 has proved, on closing the accounts of the year, to have become a deficit of Rx. 2,028,832.

"The deterioration in the financial position which led to this result manifested itself in the course of 1887-88, and steps were taken towards the close of the year to add to the revenue by the imposition of fresh taxation. The measures adopted for this purpose were the following :—

(1) the raising of the rate of the duty on salt from R2 to R2-8 a maund, with effect from the 19th January, 1888, except in Burma, where the rate was raised from 3 annas to R1 a maund ;

(2) the imposition of a duty on the import of petroleum with effect from the same date ; and

(3) the extension of the Income-tax Act to Lower Burma, from 1888-89.

"These measures were estimated to produce about Rx. 1,900,000 ; but, as they were introduced in the end of 1887-88, they had but little effect on the Revenue of that year.

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"The full effect of the measures just referred to would be felt in 1888-89, and the Budget Estimates of that year, which is now about to close, showed a deficit of only Rx. 698,000 after including in the expenditure of the year a sum of Rx. 1,121,500 for Special Defence Works. If the Expenditure on Special Defence Works had been excluded, the Estimates would have shown a surplus of Rx. 423,500. The financial position has, I regret to say, been again affected injuriously by various influences during the progress of the year. On the expenditure side we have had to allow for a considerable fall in Exchange. In the Estimates the rupee was taken at 1-4'9; the rate actually received has been 1-4'38—a fall of more than a half-penny per rupee, which adds Rx. 684,400 to the expenditure of the year. There has also been unforeseen expenditure, estimated at Rx. 387,500, on Military Expeditions—being Rx. 142,500 on the Black Mountain Expedition and Rx. 210,000 on account of Sikkim, besides Rx. 35,000 on account of the Lushai Expedition. The Revenue Account has been affected by a reduction in the quantity of salt that has paid duty, and there have been short crops in some part of India—a condition which exercises an injurious effect on the revenue generally.

"In face of these adverse circumstances it will be a surprise to most people to learn that, including expenditure on Special Defence Works, we now estimate for a deficit of Rx. 201,700 as against the deficit of Rx. 698,000 which was anticipated in the Financial Statement of March last, and, if the cost of Special Defence Works be excluded, for a surplus of Rx. 616,600 as against the previous estimate of Rx. 423,500. Although the improvement is due in some respects to what may be termed accidental and temporary causes, yet, on the other hand, some of the influences which have adversely affected the finances of the year are of a precisely similar character, and the final result is not unsatisfactory.

"I shall now explain the various causes which have tended to modify the Budget Estimates of 1888-89.

"The Revenue of the current financial year 1888-89 was estimated in March last at Rx. 80,010,500; it is now estimated at Rx. 81,585,500, an improvement of Rx. 1,575,000.

"The Expenditure proper of 1888-89 was estimated at Rx. 81,192,100 and the Provincial adjustment at *minus* Rx. 483,600, giving a total charge against Revenue of Rx. 80,708,500, the deficit being Rx. 698,000. What is meant by a *minus* Provincial adjustment of Rx. 483,600 is that the total Provincial Expenditure of the year was estimated to exceed the total Provincial Revenue

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by Rx. 483,600, and this sum was consequently shown as a charge against the accumulated balances of former years, and not against current Provincial Revenue.

"The Expenditure properly so called is now estimated at Rx. 81,584,100, and the Provincial adjustment at *plus* Rx. 203,100, giving a total charge against Revenue of Rx. 81,787,200, being an increase over the former estimate of Rx. 1,078,700. The increase of Revenue over the Estimate has exceeded the increase of Expenditure chargeable against that Revenue by Rx. 496,300, and the estimated deficit has been reduced by that amount and now stands at Rx. 201,700 instead of Rx. 698,000.

"Revenue of 1888-89.

"The increase of Revenue for which we have to account is Rx. 1,575,000, and it is due mainly to increases under the following heads:—

| | Rx. |
|---|------------------|
| Receipts under Exchange | 536,800 |
| Railways | 243,300 |
| Interest | 182,500 |
| Forests | 154,100 |
| Land-revenue | 111,800 |
| Post Office, Telegraph and Mint | 109,100 |
| Opium | 107,000 |
| Excise | 96,200 |
| Irrigation | 80,200 |
| Stamps | 77,800 |
| Assessed Taxes | 56,800 |
| TOTAL | <u>1,755,600</u> |

"The total increase under these heads comes to Rx. 1,755,600, and there are increases under other heads amounting in the aggregate to Rx. 283,200, and making the total increase of Revenue under certain heads no less than Rx. 2,038,800. On the other hand, there is a falling off of Revenue under certain heads amounting to Rx. 463,800; of this sum the falling off under Salt accounts for no less than Rx. 445,600, leaving Rx. 18,200 as the total falling off under the remaining heads. The net increase of Revenue, as already explained, is Rx. 1,575,000.

"In attempting to present an intelligible statement of a subject so extensive and complicated as the financial position of British India, more would be lost

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than gained by going into minute details and attempting to explain every petty fluctuation in Revenue and Expenditure due to ordinary causes. I shall, therefore, confine myself to dealing with those variations in Revenue or Expenditure which are due to important or special causes, and which have had a perceptible influence on the financial results of the year.

“The head under which the greatest increase of Revenue is anticipated is Exchange, and the increase is no less than Rx. 536,800.

“The receipts under Exchange arise from the net gain accruing to Government in consequence of certain remittance transactions being carried out by it, under contract or as concessions, at a rate of exchange different from the average rate obtained by the Secretary of State by the sale of bills and telegraphic transfers on India. These receipts occur chiefly in connection with the contracts with Guaranteed and Subsidized Railways, with transactions with Her Majesty's Imperial Government, with family remittances of officers serving in India, and with remittances for the purchase of stores through the Secretary of State for Local Bodies and Native States.

“The very large amounts of revenue accruing in this way in the current and past years have been due almost entirely to the heavy transactions of the Subsidized Railway Companies. Transactions are carried out at contract rates which are more favourable than the market rates, and a gain is made in this way which increases as the market rate falls below the contract rate. Of course, this is not a source of gain to which we can permanently look forward, and we run the risk of loss when the reverse transaction takes place, as well as when the rate of exchange is rising instead of falling.

“The large difference between the Budget and Revised Estimates of the current year under this head is due partly to the fall in the rate of exchange since the Budget Estimate was prepared, but mainly to no provision having been made in the Budget Estimate for the gain, now estimated at Rx. 266,000, accruing from the payments made to the Railway Companies in England, as the question whether this should be treated as current revenue was under the consideration of the Secretary of State at the time the Estimates were prepared, and credit was not taken for it. The gain accrued mainly in connection with transactions relating to the Indian Midland, the Bengal-Nagpur, the Southern Mahratta and the various Guaranteed Railways.

“Increased Railway receipts account for an improvement of Rx. 243,300, and, as the receipts under this head are intimately connected with the expendi-

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ture on working expenses and surplus profits of Guaranteed Companies, I propose to deal with both the Revenue and the Expenditure at the same time, thus anticipating to some extent what it would otherwise be necessary to say hereafter. The improvement in Railway Revenue amounts to Rx. 243,300, but there is an increase of Rx. 393,300 in Expenditure (including Exchange), so that the net result in the Railway Account is a deterioration of Rx. 150,000.

"The following are the increases or decreases under the Revenue heads of the Railway Account:—

| | Increase + and Decrease — Rx. |
|---|-------------------------------------|
| State Railways (gross receipts) | —500 |
| Guaranteed Companies (net traffic receipts) | + 247,500 |
| Subsidized Companies (repayments of advances of interest) | —3,700 |
| TOTAL | 243,300 |

"The gross earnings of State Railways are almost the same as in the original Estimate, but there are considerable increases and decreases in the case of particular lines.

"The main fluctuations are as follows:—

| | Increase. Rx. | Decrease. Rx. |
|---|------------------|------------------|
| <i>State Railways (gross receipts)—</i> | | |
| East Indian | ... | 250,000 |
| North-Western | 150,000 | ... |
| Rajputana-Malwa | 95,000 | ... |
| Eastern Bengal | 70,000 | ... |
| <i>Guaranteed Companies (net traffic receipts)—</i> | | |
| Great Indian Peninsula | 270,000 | ... |

"The serious falling off on the East Indian Railway is ascribed to a variety of causes, amongst which may be enumerated the cessation of an abnormal traffic in the previous year caused by scarcity in the North-Western Provinces, a continued falling off in the traffic of wheat and grains from Upper India, certain writes-back due to overcharges, and, possibly, a diversion of traffic consequent on the opening of the Indian Midland Railway.

"On the other hand, the grain traffic of the North-Western Railway, which fell off so much in the previous year, has revived to a great extent; the Rajputana-

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Malwa and Eastern Bengal Railways have both had prosperous years, the jute season having been extremely favourable for the latter Railway.

"The total increase of expenditure in the Railway Account amounts to Rx. 393,300, which is mainly due to the loss on sterling payments owing to the fall in Exchange.

"The rupee expenditure in India has only increased by Rx. 86,400, and the expenditure in England by only £37,100 (true sterling), but the conversion of the sterling payments on account of interest and annuities (which amount to £5,652,600 (true sterling)) into rupees at a lower rate of exchange than was taken in the Budget Estimate raises the total increase to no less than Rx. 393,300.

"It should also be explained that a more unfavourable exchange adds to the working expenses, under the head of Indian Expenditure, by increasing the rupee price of stores procured from England, though, owing to the system of accounting, this factor does not appear separately in the Accounts.

"It is possible that up to the present this loss by the fall in exchange may have been to a great extent met by a corresponding fall in English prices; but with prices constant it is obvious that an unexpected fluctuation in exchange would have a considerable effect on working expenses.

"The increased receipts under Interest appear in the Home Accounts, and are due to the Secretary of State having, as explained hereafter, raised the loan required for purchase of the Oudh and Rohilkhand Railway earlier than it was actually required. This had the effect of placing a large cash balance at his disposal, most of which he was able to lend out temporarily at interest.

"The increase of Revenue under Forests is Rx. 154,100, but there is an increase of Expenditure on the other side of the Account amounting to Rx. 39,700, and making the net improvement Rx. 114,400. This increase is due mainly to increased receipts in Upper and Lower Burma. The increase in Upper Burma is Rx. 81,500, and includes a payment of Rx. 37,700 by the Bombay-Burma Trading Company on account of previous years. The increase in Lower Burma amounts to Rx. 84,700. The increased expenditure is mainly due to the payment of Rx. 43,400 to the Trading Company just referred to in satisfaction of a claim against the late Government of Upper Burma, and of Rx. 10,000 on account of expenditure incurred by the Company for guards owing to the disturbed state of the country.

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"In the Budget Estimate for 1888-89 the total Land-revenue, including the portion due to Irrigation, which is shown in the Estimates under the Irrigation head of account, was estimated at Rx. 23,680,800. The Revised Estimate now shows a net increase of Rx. 111,800.

"Considering the magnitude of the Revenue under this head in the different Provinces, the various items of increase and decrease are of little importance, with the exception of increases of Rx. 103,100 in Bombay, of Rx. 78,500 in Madras and of Rx. 36,200 in Upper Burma, and a decrease of Rx. 71,500 in Lower Burma. The decrease in Lower Burma is due entirely to the postponement of the date of the Land-revenue demand in two districts, which transfers Rx. 87,000 from 1888-89 to 1889-90. The increase in Bombay is stated to be due to prompt realisation of the demand; that in Madras is due to land newly brought under cultivation having raised the demand of the year and to expected advance collections, and in Upper Burma to growing receipts in that Province as order is established. The decrease in Bengal and the North-Western Provinces reflects the influence of an unfavourable season and poor crops in some places.

"The increase of Revenue under the group which comprises Post Office, Telegraph and Mint is made up as follows:—

| | Rx. |
|-----------------------|---------|
| Post Office | 49,800 |
| Telegraph | 33,400 |
| Mint | 25,900 |
| | <hr/> |
| TOTAL | 109,100 |
| | <hr/> |

"The increased revenue of the Post Office is due to the steady growth of the Department; the receipts of the Telegraph Department have increased from a similar cause and from the extension of private lines; while the increased revenue of the Mint is due to a larger amount of copper coin passing into circulation than was taken credit for in the Estimates.

"The increase of Rx. 107,000 in receipts from Opium is entirely due to the rise in the price of the Bengal drug. The increased revenue from this source alone has been Rx. 444,600, against which has to be set a reduction of Rx. 333,000 in duty on exports of Malwa Opium and a small falling off of Rx. 4,600 under other heads. The average price of Bengal Opium has been Rs. 1,120 a chest, as against an estimate of Rs. 1,042. In the Budget Estimate it

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was anticipated that duty would be paid on 35,350 chests of Malwa Opium. It is now expected that duty will be paid on only 30,300 chests. The rise in the price of the Bengal drug, and the reduced exports of Malwa, appear to have been due to short crops both in China and Malwa.

"The increase of Rx. 56,800 in Assessed Taxes is mainly due to the following changes: In the "India" Account an increase of Rx. 23,100 chiefly in interest on Government securities; in Bengal Rx. 5,000 due to revision of assessments and realization of arrears; in Madras Rx. 10,000 from revision of assessments, and in Bombay Rx. 9,200.

"The year 1887-88 was the second in which the Income-tax of 1886 was in operation, and it may be of interest if I state here that the smoother working of the administrative machinery is indicated by the reduction in the number of objections from 100,428 to 72,571, in the amount refunded from Rx. 27,067 to Rx. 19,949, and in the cost of collection from Rx. 50,157 to Rx. 28,679. The net collections amounted to Rx. 1,382,808, and exceeded those of the previous year by Rx. 105,297.

"The estimated falling off in the Salt-revenue is Rx. 445,600, and it is due to a reduction in the quantity of salt on which duty was paid. The question of the causes which have brought about this reduction is of importance, because it has followed the increase of duty which took place towards the close of last year. I shall deal specially with this matter hereafter. Further details of the less important variations in the revenue of the year will be found in the Financial Statement and I need not repeat them here.

"Expenditure of 1888-89.

"Turning to the Expenditure side of the Account, we find a total increase in Expenditure proper of Rx. 392,000, as well as an alteration in the Provincial adjustment of Rx. 686,700, the result appearing as an increase on the whole Account of Rx. 1,078,700.

"It will be convenient, in the first place, to divide the total increase of Expenditure into its three component parts of (1) rupee expenditure in India, (2) sterling expenditure in England, and (3) exchange.

"In the Indian or rupee expenditure there has been an increase of Rx. 208,800 in Imperial expenditure and a reduction of Rx. 254,400 in Provincial expenditure. In the English or sterling expenditure there is a decrease

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of £168,400 (true sterling), and, notwithstanding this reduction in the gold payments, an increased charge on account of Exchange of no less than Rx. 606,000. If the sterling expenditure had equalled the Estimate, the increased charge for Exchange would have been Rx. 684,400. This increased charge on account of Exchange is due of course to the Budget Estimates having been calculated in March last at an exchange of 1s. 4'9d. per rupee, while in the Revised Estimate we have only been able to take 1s. 4'38d.

"The principal heads under which increases of expenditure have occurred are the following :—

| | Increase. Rx. |
|--|------------------|
| Army | 402,500 |
| Railway Revenue Account | 393,300 |
| Interest on debt | 189,100 |
| Opium | 93,800 |
| Superannuation Allowances and Pensions | 88,800 |
| Political | 51,800 |
| Irrigation | 48,500 |
| Forests | 39,700 |
| TOTAL . | 1,307,500 |

"The aggregate increase under these heads comes to Rx. 1,307,500. Minor increases under other heads come to Rx. 166,700, making a total increase of Rx. 1,474,200. Against this figure must be set decreases amounting to Rx. 1,082,200, of which the following are the most important :—

| | Decrease. Rx. |
|-----------------------------------|------------------|
| Special Defence Works | 303,200 |
| Civil Works | 221,600 |
| Land-revenue | 145,200 |
| Stationery and Printing | 71,000 |
| TOTAL . | 741,000 |

"The explanations of the increased expenditure under the Railway Revenue Account and Forests have already been given.

"The increased cost under Army is accounted for by an increase of Rx. 210,000 in India, of £16,000 (true sterling) in England, and of Rx. 176,500 for Exchange. The increase in India is due to the Sikkim, Black Mountain

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and Lushai Expeditions already mentioned, to the rupee payments to British troops having been increased by the fall in the rate of exchange, and to the introduction of the practice of fixing the rate of exchange for the issue of pay to British troops serving in India for the half-year only, instead of for the whole year, and to higher expenditure on account of dearness of provisions and forage (including compensation paid to Native troops on this account). These increases were balanced to some extent by considerable savings in Military expenditure in Burma.

"The increased charge of Rx. 189,100 on account of Interest on debt is made up of an increase of £68,100 (true sterling) in England, and a decrease of Rx. 27,400 in India, *plus* an increase of the charge for Exchange amounting to Rx. 148,400. The increase in the English sterling payment is due to the loan for the purchase of the Oudh and Rohilkhand Railway having been raised before it was actually required. There is a corresponding receipt owing to the Secretary of State having been able to lend a portion of his surplus balance.

"The increase in the charge for Opium is due to a larger crop than was anticipated, and the increase under Superannuation Allowances and Pensions of Rx. 88,800 is due, to the extent of Rx. 72,800, simply to the increased exchange on the sterling payments made in England.

"The increased Political charge of Rx. 51,800 is chiefly due to the payment of arrears of the subsidy of the Amir of Afghanistan, as well as to an advance payment on the same account of Rx. 20,000.

"The increase in expenditure under Irrigation is the net result of a great many variations, amongst which may be mentioned a heavy increase in the Punjab (Rx. 26,300) to repair damages by flood, and the classification of the Khushdil Khan Reservoir (Rx. 26,124) in Biluchistan as a work to be constructed from Revenues instead of from Loan Funds, as was originally intended.

"The decrease of Rx. 303,200 in the estimated expenditure on Special Defence Works is mainly due to a decrease in the estimated expenditure in England of £186,300 (true sterling) caused by the fact that payments for heavy guns for arming the Indian defences were not made as rapidly as was expected.

"The decrease in the expenditure on collection of Land-revenue is distributed over the several Provinces.

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"The alteration in the Provincial adjustment arises in the following manner :—

"The original Estimate of Provincial Revenue was Rx. 21,668,100, and of Expenditure Rx. 22,151,700, giving a Provincial deficit of Rx. 483,600, which represents the Provincial adjustment of the Budget Estimate of 1888-89.

"The Provincial Revenue of the year is now taken at Rx. 22,100,400, and the Provincial Expenditure at Rx. 21,897,300, giving a surplus on Provincial Account of Rx. 203,100, which represents the Provincial adjustment of the Revised Estimate. As already stated, the net result of the transactions of the whole year is that the deficit of Rx. 698,000 estimated exactly a year ago now promises to be reduced to a deficit of Rx. 201,700.

"Estimates of 1889-90.

"The financial problems and difficulties of 1888-89 will soon be a matter of history. The all-important question of to-day is the financial position of the coming year.

"The Revenue of the coming year 1889-90 is estimated at Rx. 82,935,300, and the total Expenditure at Rx. 83,469,800.

"The Provincial adjustment for the year is estimated at *minus* Rx. 640,800, and consequently the expenditure chargeable against the Revenue of the year is Rx. 82,829,000 and the estimated surplus is Rx. 106,300. This surplus is obtained after including in the expenditure of the year a sum of Rx. 1,102,900 on account of the cost of Special Defence Works. Exchange has been taken at 1s. 4'38d.=1 rupee.

"A comparison of the Budget Estimates of 1889-90 under the different heads with the Budget Estimates of 1888-89 will show the progress of Revenue and Expenditure during the year which is now drawing to a close.

"Before, however, proceeding with this comparison, it is necessary to give some explanation of a special arrangement which has had a considerable influence on the Estimates of the coming year. It was explained in the Financial Statement for 1887-88 that the Provincial Contracts had been renewed with Local Governments for a further period of five years from 1st April, 1887. The average annual gain to Imperial Revenues during the period of revision was stated to be Rx. 550,000, in addition to which a greater share in the improvement of the revenue was secured under the new arrangements. I have already explained that the continued fall in exchange and other causes compelled the Government to

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raise the duty on salt and to impose a tax on imported petroleum. The Secretary of State, in sanctioning this additional taxation, examined and reviewed the financial relations between the Imperial and Provincial Governments, and pointed out the inequality of the existing arrangements which secure freedom from financial difficulties to Local Governments while the Supreme Government may be passing through a phase of acute embarrassment. The Government of India was requested to reconsider the propriety of arrangements which protected Local Governments from sharing in the financial responsibilities of the Empire, and from contributing to their relief.

"Proposals for an alteration in the financial relations between the Supreme and Local Governments, which virtually had the effect of terminating the Provincial Contracts of 1887-88, were made on 2nd October last. These proposals met with much opposition, and it was decided to postpone decision on the questions involved. It was, however, settled as a temporary expedient that each Local Government, except the Punjab, should make a contribution in aid of Imperial Revenues in 1889-90. The total of this contribution is Rx. 740,000, and, with scarcely an exception, Provincial resources are so ample that the contribution has been made without seriously affecting the financial position of any of the Local Governments.

"The contributions made by the several Local Governments are as follows :—

| | Rx. |
|-----------------------------------|----------------|
| Central Provinces | 30,000 |
| Burma | 50,000 |
| Assam | 10,000 |
| Bengal | 100,000 |
| North-Western Provinces | 200,000 |
| Madras | 175,000 |
| Bombay | 175,000 |
| TOTAL | 740,000 |

"In the case of the North-Western Provinces and Oudh and Lower Burma the contributions will be permanent. In the former case the Local Government will be reimbursed its contribution by receiving the proceeds of the Patwari-cess now about to be re-imposed; in the case of Lower Burma the financial position of the Province has so far improved in recent years that a special annual grant of Rx. 47,900, made to it in 1887-88, has been simply resumed.

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"The important and difficult question of the nature of the future financial relations between the Supreme and Local Governments remains for future consideration.

"Revenue of 1889-90.

"The Revenue of the year 1888-89 was estimated in March last at Rx. 80,010,500, and the Revenue of 1889-90 is now estimated at Rx. 82,935,300. The increase is Rx. 2,924,800.

"The following are the principal heads under which the increase occurs :—

| | Increase. |
|---|-----------|
| | Rx. |
| Railway Account | 1,501,800 |
| Land-revenue | 301,200 |
| Provincial Rates | 244,700 |
| Post Office, Telegraph and Mint | 197,400 |
| Irrigation | 130,600 |
| Excise | 117,800 |
| Receipts under Exchange | 112,300 |
| Stamps | 105,100 |
| Forest | 98,000 |
| Assessed Taxes | 63,500 |
| Customs | 49,300 |
| | <hr/> |
| TOTAL | 2,921,700 |
| | <hr/> |

"The total increase under the heads just specified comes to Rx. 2,921,700, leaving a balance of Rx. 3,100 unaccounted for, which is the net result of variations under other heads of which the most important are a decrease of Rx. 193,900 under Opium, and of Rx. 92,600 under Salt.

"In the Budget Estimate of 1888-89 the receipts from Railways were estimated at Rx. 15,184,700. For 1889-90 they are estimated at Rx. 16,686,500, giving the increase of Rx. 1,501,800. If we consider the expenditure side of the Account, however, we find that the estimated expenditure of Rx. 17,299,600 in 1888-89 has risen to Rx. 18,713,100 in 1889-90, showing an increase of Rx. 1,413,500; the net improvement in the Railway Revenue Account is, therefore, only Rx. 88,300.

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“The variations in receipts of the Railway Account fall under the following heads:—

| | Increase + Decrease— Rx. |
|--|--------------------------------|
| State Railways (gross receipts) | + 1,362,600 |
| Guaranteed Companies (net traffic receipts) | + 155,000 |
| Subsidized Companies (repayment of advances of interest) | — 15,800 |
| TOTAL | <u>Rx. 1,501,800</u> |

“The increased receipts of State Railways shown in the above figures are not altogether real, as they are exaggerated by the transfer of the Oudh and Rohilkhand Railway to this head from that of Guaranteed Railways. The line was purchased by the State on 1st January, 1889, so that the transactions relating to it, which were entered in the Budget of 1888-89 for nine months under Guaranteed Railways and for three months under State Railways, now appear in the Budget for 1889-90 wholly in the latter category.

“The principal increases and decreases of receipts occur in connection with the following lines:—

| STATE. | Increase + Decrease— Rx. |
|----------------------------------|--------------------------------|
| East Indian Railway | — 240,000 |
| Rajputana-Malwa | + 100,000 |
| Bengal-Nagpur | + 95,000 |
| Tounghee-Mandalay | + 85,000 |
| Eastern Bengal System | + 90,000 |
| Oudh and Rohilkhand | + 550,000 |
| Indian Midland | + 400,000 |
| North-Western Railway | + 200,000 |
| Mysore Railway | + 54,600 |
| TOTAL | <u>1,334,600</u> |
| GUARANTEED. | (Net Receipts.) Rx. |
| Madras | 20,000 |
| South Indian | 40,000 |
| Bombay-Baroda | 15,000 |
| Great Indian Peninsula | 310,000 |
| Oudh and Rohilkhand | — 230,000 |
| TOTAL | <u>+ 155,000</u> |

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"The cause of the increase and decrease in the case of the Oudh and Rohilkhand line has been explained. In the case of the Indian Midland, Bengal-Nagpur, Tounghoo-Mandalay and Mysore Railways it is due to the opening of additional lengths of line.

"On the remaining lines noticed, the estimate has been fixed principally on a consideration of the current year's results. The very serious falling off on the East Indian Railway has been explained in dealing with the Revised Estimate. The opening of the Indian Midland will probably still further affect the receipts, but to what extent it is impossible to foretell.

"The falling off is fortunately more than covered by the increase on the Great Indian Peninsula line. The estimated gross receipts of this line show an anticipated increase of Rx. 400,000 over the Budget of the year about to close; the estimate is based on the traffic of the past twelve months, which has shown a steady improvement, likely not only to be maintained but to be still further augmented by the opening of the Indian Midland and Bengal-Nagpur Railways. The opening of the Indian Midland may, on the other hand, tend to reduce the earnings of the Rajputana-Malwa and Bombay-Baroda lines, so that there is considerable uncertainty in framing the Estimates this year of individual lines: taken as a whole, the estimate is likely to prove a fairly correct one.

"Turning to the Expenditure side of the Railway Account, it will be found that there has been an increase of Rx. 1,177,900 in the Indian or rupee portion of the transactions, a decrease of £11,600 (true sterling) in the English expenditure, and an increased charge of Rx. 247,200 on account of exchange.

"The increase in working expenses of State Railways is mainly due to the Oudh and Rohilkhand Railway being treated as a State line for the whole year, to the opening out of new lines, and to increase of traffic on lines already open.

"An item appears for the first time in the Estimates, namely, 'Interest chargeable against Companies for advances of Capital.' It represents interest on moneys raised directly by the Secretary of State, under the provisions of the Oudh and Rohilkhand Railway Purchase Act, to meet expenditure incurred by Companies in preference to allowing Companies to borrow themselves. It is found that Capital can be raised on more favourable terms in this way.

"The increase in the charge against Revenue for Exchange is wholly due to the fall in value of the rupee, the estimated sterling expenditure, other than on

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account of Revenue stores, being actually less than in the current year; in addition to the amount shown on this account, a large sum, representing a further loss, is concealed in the working expenses, as I have already explained.

"Considering the very heavy increased burdens on account of the fall in exchange, and bearing also in mind the fact that in recent years a very large amount of Capital has been expended on lines for the defence of the Frontier, which cannot be expected to prove fully remunerative, a net improvement, though only of Rx. 88,300, cannot be considered unsatisfactory.

"The rapidity with which the construction of Railways has been pushed on and the fall in exchange have had an injurious influence on the net results of the Railway Revenue Account in recent years.

"The net loss on the Railway Account has increased from Rx. 1,044,203 in 1880-81 to Rx. 2,026,600 in the Estimates of 1889-90.

"Between March, 1880, and March, 1889, the number of miles of Railway open for traffic has increased from 8,382 to 13,671, or by more than 63 per cent.

"The average yearly expenditure of capital on Railways for the interest on which Government is directly or indirectly responsible has been Rx. 7,197,000.

"Land-revenue (including the portion due to Irrigation) is estimated to increase by Rx. 340,300, distributed over the several Provinces.

"Provincial rates are estimated to increase by Rx. 244,700, due mainly to the receipts expected from the re-imposition of the Patwari-cess. The Revenue classed under this head is appropriated to local purposes and shown in the Local column in the Estimates.

"The receipts under Irrigation are expected to increase by Rx. 1,30,600, but there is an increased charge of Rx. 32,400, giving a net improvement of Rx. 98,200.

"The increase in Revenue is due to increase of direct receipts from Irrigation in the North-Western Provinces and the Punjab, and to an increase in the Land-revenue due to Irrigation in Madras and Bombay. The increased expenditure is chiefly due to increase in the charge for interest owing to additional capital expenditure.

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"Post Office, Telegraph and Mint.—The net account of these Departments is expected to improve as follows :—

| | Improvement. |
|-----------------------|------------------|
| | Rx. |
| Post Office | + 63,300 |
| Telegraph | + 26,400 |
| Mint | + 21,600 |
| TOTAL | <u>+ 111,300</u> |

"The improvement in the case of the Post Office is due to steady progress of the Department. The figures just given do not profess to be the result of a strict Profit and Loss Account of the working of the Departments concerned. They represent merely the difference between the Revenue and Expenditure as recorded in the Accounts and Estimates, but they are sufficient for the purpose of indicating the financial progress of the Departments.

"The increase of Rx. 117,800 in the case of Excise and of Rx. 105,100 in the case of Stamps is generally distributed over the several Provinces with the exception of Bengal, where a decrease of Rx. 50,000 in Excise-revenue is anticipated on the ground that the unfavourable crops and the changes which are being introduced in the management of the Excise may have an unfavourable effect on the Revenue for a time.

"The increase in Customs (Rx. 49,300) is mainly due to large exports of rice anticipated from Burma in 1885-90.

"The Petroleum-tax when it was first imposed was expected to give a Revenue of Rx. 100,000 on a total import of 32,000,000 gallons. It is expected to give in the current year a Revenue of Rx. 115,000 on an import of 38,000,000 gallons; and for 1889-90 it is expected to give Rx. 120,000.

"I have already explained the nature of the Receipts under Exchange. In the Budget Estimate of 1888-89 these Receipts were estimated at Rx. 415,000; in the Revised Estimate for that year the figure has been raised to Rx. 551,800, due largely to the addition of a credit, now estimated at Rx. 266,000, which was not included in the original Estimate owing to a difference of opinion as to the proper method of dealing with it in the Accounts. The estimate of these receipts in 1889-90 is Rx. 527,300. The large decrease as compared with the Revised Estimate is due to reduced capital expenditure on some of the Subsidized Railways now approaching completion.

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"In the case of Forests the improvement expected in Revenue is Rx. 98,000, against which must be set an increase of expenditure amounting to Rx. 30,700, giving a net improvement of Rx. 67,300. This improvement is due to increased Revenue in Upper and Lower Burma.

"Under Assessed Taxes the increase of Revenue is expected to be Rx. 63,500. The expectation of an increase is based on the results of the current year.

"The decrease of Rx. 193,900 under Opium is due to an increase of Rx. 159,600 under Bengal opium, the selling price having been taken at Rs. 1,070 instead of Rs. 1,042 as in the current year's Estimates, and to a decrease of Rx. 347,000 under Malwa Opium, owing to an expected reduction in the number of chests exported from 35,350 to 30,000.

"For Salt we have taken a moderate estimate of Rx. 8,029,900, which is Rx. 353,000 more than the Revised Estimate and Rx. 92,600 less than the Budget Estimate for the current year. A large increase over the receipts of the current year is expected, as the falling off this year is mainly due to unfounded rumours of an immediate reduction of the duty.

"This concludes what I have to say on the Estimates of Revenue for 1889-90, and I now turn to the question of Expenditure.

"Expenditure of 1889-90.

"The Expenditure of 1889-90 is estimated at Rx. 83,469,800 as compared with an estimated expenditure of Rx. 81,192,100 for 1888-89, showing an increase of Rx. 2,277,700.

"The Provincial Adjustment is *minus* Rx. 640,800 as against an adjustment of *minus* Rx. 483,600 in the Estimates of 1888-89.

"The increase of Rx. 2,277,700 is made up of an increase of Rx. 1,651,500 in the rupee portion of the Account, of a decrease of £39,700 (true sterling) in the Home Account, and of an increase of Rx. 665,900 in Exchange. The increase in Exchange of Rx. 665,900 is almost entirely due to the fall in the value of the rupee; the alteration in the rate of exchange for converting the pay of the British troops, which is fixed in gold but payable in rupees, adds an additional charge to the Military expenditure of about Rx. 195,000, so that the additional expenditure for which the Government of India has to provide

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has been increased in one year by Rx. 860,900 on account of the fall in Exchange, excluding the effect which the fall in exchange may have had on the rupee cost of stores.

"It will facilitate explanation of the various increases or decreases if the heads of expenditure are dealt with in the first instance according to the grouping which is generally adopted in the Accounts.

"The figures I am about to quote show the groups under which (I) increases and (II) decreases have occurred :—

| | | Expenditure Increased. |
|--|-------|---------------------------|
| I. | | Rx. |
| Railway Revenue Account | | 1,413,500 |
| Army | | 1,005,700 |
| Salaries and Expenses of Civil Departments | | 192,900 |
| Post Office, Telegraph and Mint | | 86,100 |
| Irrigation | | 32,400 |
| Famine Relief and Insurance | | 27,300 |
| | TOTAL | 2,757,900 |
| | | Expenditure Decreased. |
| II. | | Rx. |
| Interest | | 149,800 |
| Direct Demands on the Revenue | | 133,000 |
| Buildings and Roads | | 110,500 |
| Miscellaneous Civil Charges | | 34,700 |
| Construction of Railways (charged against Revenue) | | 33,600 |
| Special Defence Works | | 18,600 |
| | TOTAL | 480,200 |

"The aggregate of increases is Rx. 2,757,900 and of decreases Rx. 480,200, giving a net increase of Rx. 2,277,700.

"The causes of the increase under Railway Revenue Account, Post Office, Telegraph and Mint, and Irrigation have already been explained.

"By far the most important of the other increases is that under Army. The total increase of Rx. 1,005,700 is made up of an increase in rupee expenditure of Rx. 477,000, in English expenditure of £245,500 (true sterling), and

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of Rx. 283,200 under Exchange. The increased charge for Exchange is chiefly due to the fall in the value of the rupee, and the increases of which special explanation is necessary are an increase in the Indian Estimates of Rx. 477,000, and an increase in the English Estimates of £245,500 (true sterling).

"Taking the latter item first it may be said with practical accuracy that the increase in the Home Expenditure is due to provision made for the purchase of magazine rifles and 12-pounder breech-loading guns. However much the Government of India may regret that it should be necessary to incur such expenditure, it is not possible to avoid it without placing the Indian Army in a position of inferiority as compared with that of other countries. The cost of these rifles and guns accounts for £206,000 (true sterling) of the Home expenditure.

"As regards the increased cost of the Army in India, it will be obvious that the increase to the number of troops, European and Native, must give rise to petty increases in the various Departments that deal with them, and minor reforms account in the aggregate for a perceptible amount of increase. But the greater portion of the increase is due to special measures, of which the most important are the following:—

| | Rx. |
|--|---------|
| Provision for rapid mobilisation of an Army Corps in case of necessity | 203,500 |
| Exchange on pay of British Troops | 195,000 |
| Provision on account of Troops in Sikkim | 100,000 |
| Ditto ditto Lushai Country | 10,000 |
| Increased cost of provisions, including compensation for dearness of provisions and forage | 79,500 |

"The total comes to Rx. 588,000, but there is a saving of Rx. 220,000 in the extra cost of troops in Burma, so that the additional cost is reduced to Rx. 368,000. The difference of Rx. 109,000 between this figure and the total increase in India of Rx. 477,000 is due to the minor elements of increase to which I have just referred, balanced to some extent by savings under other heads.

"The sum of Rx. 203,500 on account of mobilisation is intended to meet the cost of purchasing transport animals, provisions and equipments, so that in case of need an Army Corps may be in a position to take the field promptly. This is one of these precautions which in the present days of scientific warfare

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cannot safely be neglected. The greater portion of the cost will be incurred once for all, and will not recur. The pay of the British troops is fixed in sterling, and as the Exchange falls the number of rupees which they are entitled to receive increases. In the Estimate of 1888-89 the rate was taken at 1s. 5½d.; it has now been fixed at a much lower rate, and the change has added Rs. 195,000 to the estimate of expenditure for 1889-90. We have hopes that this charge may be somewhat reduced, but in the meantime it has been thought necessary to provide the full sum in the estimates.

"The increased expenditure on Salaries and Expenses of Civil Departments is mainly due to the entertainment of additional Police. The increase of expenditure on Police is Rs. 168,800, and of this Rs. 125,600 is on account of Police in Upper Burma. There is also an increase of Rs. 45,200 in Bengal, due to Government undertaking to bear the whole cost of the Police of the presidency-town. There is some increase in Madras, due to a provision for giving a special allowance to officers in charge of police-stations.

"The decrease of Rs. 149,800 under Interest is made up of a decrease of Rs. 21,300 in the rupee portion of the Account, of a decrease of £167,400 (true sterling) in the English Account, and an increase of Rs. 38,900 in the charge for Exchange.

"The decrease in England in 1889-90 is accounted for by the conversion of £53,262,000 of 4 per cent. stock into 3½ per cent. stock, which reduces the yearly interest charge by £266,300. The increase in Exchange requires no explanation.

"The decrease under 'Direct Demands on the Revenues' is Rs. 133,000. It occurs under Opium cultivation and manufacture (Rs. 190,400), Collection of Land-revenue (Rs. 55,000), and Stamps (Rs. 40,700). The other heads in this group, except Customs, show increases. The expenditure on Opium cultivation and manufacture is determined by the amount of crude opium produced. The area under cultivation in the present season is 14 per cent. less than last year, and the produce is estimated at 15 per cent. less. Our reserve is unusually large and is expected to stand at 49,705 chests at the end of 1889. With a reserve of this magnitude it is obviously desirable to temporarily contract production, and this policy has been adopted in making the engagements for the present season.

"The reduction under Buildings and Roads of Rs. 110,500 is due to a reduction of Rs. 110,600 in Civil Works. Of the decrease under Civil Works,

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Rx. 96,200 is in Imperial expenditure, and is owing to the completion of the bulk of the Frontier Roads and other Imperial works. On the other hand, a large Imperial grant (Rx. 298,100) is still being made for Civil Buildings and Roads in Upper Burma.

"The reduction in Miscellaneous Civil Charges is the net result of a number of increases and decreases, of which the most important are an increase of Rx. 118,000 on account of Superannuation Allowances and Pensions, and decreases of Rx. 47,500, Rx. 81,000 and Rx. 40,000 under Territorial and Political Pensions, Stationery and Printing, and Miscellaneous.

"The increase in Superannuation Allowances is very largely due to the increase of Exchange on sterling pensions, the decrease in Political Pensions to the death of the ex-King of Oudh, and the decrease under Stationery and Printing to a reduced demand for stores from England.

"In the Budget Estimates of 1888-89 Provincial Revenues were estimated to yield Rx. 21,663,100, and Provincial Expenditure was taken at Rx. 22,151,700, the Provincial Adjustment being *minus* Rx. 483,600.

"In the Estimate for 1889-90 Provincial Revenues are taken at Rx. 21,781,300, and Provincial Expenditure at Rx. 22,422,100, and the Provincial Adjustment is *minus* Rx. 640,800.

"General Financial Position.

"Having now explained the Estimates of Revenue and Expenditure for 1889-90, I propose to make a few remarks on the general financial position and the prospects of the future. The special difficulties with which Indian finance has to contend are, War, Famine, the fall in Exchange and the reduction of the Revenue from Opium. On the question of War I can say little; petty frontier wars are almost certain to occur at intervals, but their cost is not such as to seriously embarrass the finances. I am not aware of any reasons for thinking that War on a large scale is likely to occur in the immediate future, but expenditure must be incurred as an insurance against national danger. The country has happily escaped Famine for a decade, but we have no ground for assuming that the climatic conditions of the Indian continent have changed and that there will never be drought sufficient to produce famine.

"Regarding the future of Exchange, it is impossible to give a confident opinion. Before the year 1873 gold and silver were never used as legal standards without the regulating influence of a system of double legal tender, and

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there is consequently no experience in the past to which we can appeal in forming our opinion as to the probable course of events in the future. The sanguine declare the rupee will soon be worth two shillings; the despondent anticipate a further fall of undefined magnitude.

"I cannot pretend to arbitrate between these conflicting views. But during the last fifteen years the great falls in the value of the rupee have coincided to an extent, which can hardly be the result of accident, with corresponding falls in the gold prices of commodities. If this law should hold good in the future, the gold value of the rupee will not again fall largely and suddenly unless the gold prices of commodities fall.

"I will venture to depart so far from the safe attitude of reserve as to say that, if there is another heavy fall in gold prices, it will probably be accompanied by another heavy fall in the gold price of silver. At present gold prices have ceased to fall, and there is even a slight tendency to a rise.

"It is needless to say that the question of the future relations between the gold and silver standards is one of great importance for India. The present condition is not one of permanent equilibrium. Either there will be continuous progress in the direction of demonetising silver and substituting gold, or the world will revert to the old system of double legal tender. In the former case our financial difficulties will probably be greater in the future than they have been in the past, and it is impossible to forecast the ultimate result; in the latter case we may have to pass through a severe convulsion caused by foreign nations attempting to restore the old ratio of 1 to $15\frac{1}{2}$ between gold and silver. If we are unable to join with them in attempting to settle the question by international agreement, we cannot expect them to consider our interests in any course which they may think fit to adopt.

"In the interests of India a sudden reversion to the old ratio of 1 to $15\frac{1}{2}$ brought about by the action of foreign countries, and the continuous and progressive demonetisation of silver, accompanied with a fall in the value of the rupee to an unknown and unlimited extent, are alike to be deprecated. Yet, if the question is not dealt with by international agreement, we must accept the risks and inconveniences of either the one result or the other, unless we are prepared to choose the heroic and hazardous remedy of adopting a gold standard. Nor is it possible for us to conjecture at what time the action of the United States and the continental nations of Europe may bring on a crisis either of the one kind or the other.

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“ For these reasons it is of paramount importance to India that an attempt to settle the question by international agreement should be made. No other course affords a prospect of a safe solution to be gradually carried out with the minimum of disturbance to existing interests. It is to be hoped that, if any prospect of a settlement appears, India shall not be required to subordinate her interests to the needs, or supposed needs, of countries which may desire to maintain the single gold standard.

“ The future of the Opium-revenue is surrounded with almost as much uncertainty as the question of Exchange. There has been, during the current financial year, a considerable rise in the price of the Bengal drug, but that rise appears to have been due, in a very large degree, to poor crops in Malwa and China, and has been accompanied with a large falling off in the exports of Malwa Opium.

“ Already the price of Bengal Opium has fallen from its highest figure of **Rs. 1,244** a chest in November to **Rs. 1,126** a chest at the sales of the present month.

“ The dangers I have just indicated are of a general nature. We must also anticipate some falling off in revenue in the immediate future from two special causes. As I have explained elsewhere, we expect to receive in the coming year a contribution of **Rs. 740,000** from Local Governments. Of this amount **Rs. 250,000** is permanent, being made up of **Rs. 200,000** from the Patwari-cess and about **Rs. 50,000** from Lower Burma. The balance of **Rs. 490,000** we receive for a single year only, and, unless other arrangements can be made, we must be prepared to accept a reduction of **Rs. 490,000** in the Estimates of 1890-91. There is also a credit of **Rs. 527,300** arising from receipts on account of exchange on the capital transactions of Railway Companies. This credit must soon disappear with a corresponding reduction in revenue. It may then be said that temporary causes give us an additional revenue of **Rs. 1,017,300** in 1889-90, which is not permanent, and which will be largely reduced in future years and will ultimately disappear altogether.

“ But I should give a very erroneous opinion of our position if I were to dwell only on the difficulties and dangers of the future. There are hopeful as well as discouraging elements, and I may say at once that in my judgment there are no grounds for a despairing or pessimist view of Indian finance. If we could get rid of the exchange difficulty, I should be prepared to adopt a hopeful

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view of the future, and, if there were in addition no risk of a great war, I should look forward to our progress in coming years with as much confidence as it is ever safe to feel in financial matters.

"Among the more encouraging features in Indian finance is the elasticity of the ordinary revenue. It is true that we have not many new sources of revenue open to us, but the receipts from existing sources grow with satisfactory rapidity. The figures which I have given in comparing the Budget Estimates of 1888-89 with the Budget Estimates of 1889-90 have made this point sufficiently clear, and I need not add anything more on the subject.

"In Upper Burma, too, we appear to have turned the corner and may now look forward to steady reduction of the net charge which that Province imposes on the finances.

"The account for Upper Burma in the Estimates of 1888-89 showed a net charge of Rx. 1,875,000.

"In the Estimates of 1889-90 the net charge is Rx. 1,625,300, a reduction of Rx. 249,700.

"A net improvement of Rx. 249,700 in a single year is an encouraging symptom, especially as there is every ground for supposing that the improvement will continue. The improvement is really greater by Rx. 77,800, as the account now presented includes a net charge of Rx. 77,800 on account of railways, which does not appear in the Estimates of 1888-89.

"It should also be recollected that in recent years we have had to bear the burden of a considerable increase to the Native and European Army. That increase has been completed and its cost provided for, with the exception of the expenditure on the Reserve for the Native Army, which will not be great.

"Heavy expenditure has also been incurred on Frontier Railways. The total estimated cost of these Railways is Rx. 13,410,700, of which Rx. 10,083,300 will have been met at the end of this month, and Rx. 1,191,800 is provided for in the Estimates of 1889-90, leaving only Rx. 2,135,600 for future years.

"We have also been carrying out an extensive scheme of Coast and Frontier Defences, estimated to cost Rx. 5,449,515 (which is charged against Revenue), of which Rx. 1,850,768 will have been expended by the end of this year, and

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Rx. 1,102,900 is provided for in the Estimates of the coming year, leaving Rx. 2,495,847 to be incurred in subsequent years. There are also special charges in the Estimates for next year of Rx. 314,500 for the Sikkim and Lushai Expeditions; and for thoroughly equipping at least one army corps with transport, and of Rx. 301,800 on account of magazine rifles and 12-pounder breech-loading guns. The former charge will not recur, and, though considerable expenditure may be necessary for a time on account of rifles and guns, the charge is not a permanent one.

"It would be rash to assume that we are able to foresee the end of all special military expenditure. In such matters there is no finality; new dangers may arise involving further preparations and additional expenditure, but the figures I have given are sufficient to show that the sacrifices which the country has been called on to make in recent years have not been in vain; that the original programme of military defences is approaching completion, and that there is at least some prospect of an alleviation of existing burdens.

"The improvement of means of communication by the opening out of Railways is exercising a marked beneficial influence on the country, and India is entering on what I hope may prove to be but the beginning of a prosperous industrial career. No better example of the change that is taking place can be found than the progress of the cotton-spinning industries.

"In 1880-81 there were 13,307 looms and 1,470,830 spindles at work, employing 39,537 people. In 1887-88 there are no less than 18,840 looms and 2,375,739 spindles and 80,515 people at work.

"The exports of Indian yarn and cotton cloth were valued at Rx. 1,909,134 in 1880-81. In 1887-88 they came to Rx. 5,227,928, and the returns of the current year show still further progress.

"These are results of which India may well be proud; they have been achieved without the fostering aid of Protective Tariffs or any special assistance from Government, and are due to the patient industry and intelligence of the Indian people, and to the enterprise of her capitalists, who have begun to avail themselves of the natural advantages of the country; under these circumstances it may confidently be anticipated that the ground that has been occupied will be maintained, and that still greater progress will be made in the future.

"Nor does there seem to be any good reason why India should not shortly undertake the manufacture of iron on a large scale with success.

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"I have tried to state fairly both the probable difficulties of the future, and the reasons that exist for holding that we shall be able to encounter them successfully, and my deliberate conclusion is that, while there is every need for economy and for husbanding our revenue, there is no ground for desponding or pessimist views. Unless some unforeseen disaster occurs, there is every reason to hope that the lapse of two or three years will show a decided improvement in the financial position of the Government of India. It is true that the surplus which we have been able to show in the Estimates of the coming year is little more than nominal, only Rx. 106,300, but the Estimates have been framed with great moderation, and, if the Indian revenues continue to exhibit their usual elasticity and no unforeseen disaster occurs, I anticipate that the Financial Statement of 1890-91 will show decided improvement.

" Falling off in the Revenue from Salt.

"As a preliminary step in dealing with the question of the causes of the falling off in the Salt-revenue during the current year, I wish to point out that the quantity of salt paying duty in any year is not a perfect test of the quantity of salt actually consumed in that year by the people. There is always a large amount of salt in the hands of dealers, and a falling off in any one year in the quantity of salt paying duty may represent a reduction in the quantity of salt in the hands of dealers, and not a reduction in the quantity of salt actually consumed.

"It will be convenient to treat Burma separately from the rest of India, as that Province has been subject to special conditions.

"In 1884-85 the recorded consumption, that is, the quantity of salt on which duty was paid, increased by 2,010,000 maunds, or 6·8 per cent.

"In 1885-86 there was a falling-off of 742,000 maunds, or nearly 2·4 per cent.

"There is no ground for assuming that in 1884-85 there was anything approaching to an increase of 6·8 per cent. in the quantity of salt actually consumed by the population, and there is just as little ground for supposing that in 1885-86 there was a falling-off in the real consumption of 2·4 per cent.

"These variations were due entirely, or almost entirely, to trade fluctuations, and the actual consumption of salt in 1884-85 per head of population was probably not, in any considerable degree, higher than in 1883-84, and was not lower in 1885-86 than in 1884-85. I state these figures in order to show that

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an increase or decrease in the quantity of salt that pays duty in any one year does not necessarily indicate a corresponding increase or decrease in the quantity actually consumed.

“Opinions vary as to the effect on the real consumption of a rise of duty. Some authorities hold that it has very little effect; others that it has a considerable effect. Experience seems to show that the truth lies between the two opinions, and that a rise in the rate of duty has an appreciable, but not a very great, effect on the real consumption. But a rise in duty may have a considerable temporary effect on the trade and on the quantity of salt on which duty is paid, especially when rumours prevail that the rise in duty is not likely to be permanent.

“The raising of the rate of duty in January, 1888, was followed by reduced issues, and rumours regarding an impending reduction of the duty have had an unfavourable effect on the trade during 1888-89. In Northern India persistent rumours have prevailed of an impending change, and it was believed by the dealers that the rise in the rate of exchange which took place in January, 1889, would so improve the position of the Government of India as to lead to the reduction of the duty. These rumours have had the effect of checking issues and causing traders to keep their stocks at a minimum. No trader was willing to pay a duty of Rs 2-8 a maund on salt so long as it was expected that the duty would be shortly reduced.

“This state of affairs was accentuated and brought to a crisis by a telegram sent by Reuter's Agency on the 1st of March and published in the Indian newspapers of the following day. The telegram stated that the Secretary of State for India, speaking on 28th February, had said that ‘he was convinced that the earliest occasion should be taken to abrogate the increase in the salt-tax.’

“The telegram was published on a Saturday. On the following Monday sales of salt in Bombay began to fall off, and by Tuesday they had practically ceased. On that day only one application was received for the removal of 267 maunds of salt. The salt merchants applied to the departmental officials stating that trade was paralysed, and enquiring whether it was true that the duty was to be reduced. On the 5th of March one firm telegraphed direct to the Government of India in the same sense.

“On the 9th and 10th of March the Government of Bombay drew attention to the disturbance to the trade, and on the 12th the Accountant General tele-

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graphed that the estimate of salt receipts must be reduced for that Province alone by nearly 16 lakhs of rupees, as salt sales had ceased since the 4th of March.

"The Commissioner of Northern India Salt-revenue telegraphed on the evening of 15th as follows :—

'Trade is disturbed by telegram published locally on second instant. Lord Cross's opinion regarding salt-duty understood to mean that reduction is imminent. Collections fell from average Rs. 55,000 to under Rs. 1,000 daily from fourth to eleventh. In consequence of the contradiction published on twelfth trade is since recovering. Collections on twelfth were Rs. 16,000, on thirteenth Rs. 38,000. Progress is watched.'

"The recent news is more favourable, as the rumours of an intention to reduce the duty have been contradicted through the agency of the Press. But the magnitude of the effect of these rumours on the revenue will be understood when I explain that at the end of February the estimate of Salt-revenue for the current year was Rs. 7,840,700, whereas it is now taken at Rs. 7,676,900, a reduction of more than 16 lakhs of rupees. No doubt, this amount will be to a very great extent recovered, but probably too late to materially affect the revenue of 1888-89.

"There have been other causes also at work which unfavourably affected the Salt-revenue. In Calcutta, the trade was greatly disorganised after the increase of the duty, and the price of salt (free of duty) rose from 11½ annas a maund in December, 1887, to 28½ annas a maund in February, 1888, but has since fallen to 14½ annas a maund in February, 1889.

"In Madras, where the Government was giving up its monopoly of manufacture, the manufacturers and traders secured something like a monopoly for themselves with the natural result of raising the price to the public. The Salt-revenue of the year has also been adversely affected by the want of rain and prospects of a bad harvest in certain tracts. I mention these facts not with the view of showing that the increase of the salt-duty can have no effect on consumption, because I cannot believe that an increase of 25 per cent. should not have some effect, but in order to make it clear that there is as yet no ground for assuming that the falling off in the issues of salt, which has occurred, is permanent and due to the increased cost which the public have to pay for that article. The publication of the present Financial Statement will dissipate the fears of an immediate reduction of the salt-duty, and we shall doubtless see an increase of the issues.

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"The following figures giving the total quantity of salt on which duty was paid from the beginning of the financial year to 22nd February for a series of years shows the amount of falling off in the current year (Burma excluded) :—

| | Maunds. |
|-------------------|------------|
| 1882-83 | 25,068,000 |
| 1883-84 | 25,832,000 |
| 1884-85 | 27,093,000 |
| 1885-86 | 26,714,000 |
| 1886-87 | 27,603,000 |
| 1887-88 | 27,847,000 |
| 1888-89 | 26,797,000 |

These figures show distinctly that there had been a considerable falling off before Reuter's telegram was received, but the quantity that paid duty up to 22nd February in the current year is larger than the quantity which paid duty in any year, except one, previous to 1886-87, and is 1,729,000 maunds, or 6'9 per cent. in excess of the quantity that paid duty in 1882-83, the first year after the duty was reduced. Even allowing for increase of population, the issues of salt in the current year to 22nd February last are sufficient to provide as large a quantity of salt per head of population as in 1882-83.

"In Lower Burma there has been a great falling off in the quantity of salt that paid duty in 1888-89, but that falling off is mainly due to the excessive imports of the preceding year.

"The falling off in 1888-89, which seems excessive at first sight, is explained by the great imports of 1887-88, the average for the two years being not much below the normal quantity.

"Salt is locally manufactured on the sea coast in Burma, and there is a certain amount produced from brine wells in Upper Burma. The local manufacture is, from the nature of the case, insufficiently supervised, and an experienced officer of the Northern India Salt Department has just been deputed to Burma by the Government of India to enquire into the whole question on the spot. It is said that the increase in the rate of duty on salt interferes to some extent with the local production of *ngapi* and salted fish, and has led to an increased import of salt fish from abroad. The facts are, however, obscure, and a final opinion cannot be formed until the report of the officer specially deputed to Burma has been received.

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“Excise Policy.

“I take this opportunity of correcting a misapprehension which has arisen in some quarters regarding the policy of the Government of India in connection with the Excise-revenue. Last year Mr. Westland used the following language in the Legislative Council :—

‘I look hopefully to a considerable increase in the Excise-revenues, and believe that a great deal might be done in Northern India by the introduction of the methods which, in Bombay and Madras, have so powerfully contributed to the increase of revenue under this head.’

“With reference to this language it has been alleged that Mr. Westland expressed gratification at the prospect of an increase in drinking among the Indian population on account of the increased revenue which such a change in the habits of the people would produce. I make no insinuation of wilful misrepresentation against those who have brought this charge, nor do I say that they acted otherwise than in good faith, and yet the charge is absolutely without foundation. Mr. Westland used the language which I have quoted in the Legislative Council of the Government of India, and in the presence of the Members of that Council. His remarks passed without challenge. Is it conceivable that if he had meant, or been understood to mean, that the people of India should be encouraged to drink in order that the revenues of the Government of India might grow, there would have been found not a single Member of that Council, official or non-official, to protest against the adoption of such a policy?

“Less than two months afterwards the Financial Statement for 1888-89 was published under Mr. Westland’s signature, and in that statement he used language which puts his meaning beyond the reach of cavil. The words he used were as follows :—

‘As regards Excise it will be seen that it is in Madras and Bombay that the revenue-administration has been most successful, as these two provinces with 31 and 16½ millions of inhabitants respectively produce a revenue nearly as large as that of Bengal with 69 millions. In fact, in both these provinces a very remarkable progress has been made. The whole system of distillation has been brought more thoroughly under control, and stricter and more methodical preventive measures have enabled the Government to greatly enhance the rate of duty : for the question of the rate of duty which it is possible to levy is simply the question of the prevention of illicit distillation.’

“Mr. Westland’s expectation was that by the prevention of illicit dealings it would be possible to raise a larger revenue, the increase of revenue being

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accompanied not by an increase of, but by a check on, drinking. To show that there really was, and is, extensive smuggling in Northern India, I will quote a passage from the report of the Financial Commissioner of the Punjab, who is now the Lieutenant-Governor of that Province, for the year 1881-82 :—

‘ Mr. Hawkins, the Deputy Commissioner of Amritsar, says—“ There were twelve cases of illicit distillation. It is notorious that there are few villages in this district which have no private stills of their own. The police are constantly finding pieces of stills and jars of materials in deserted houses while searching for other property.” The Lahore District has also a bad reputation in this respect. The Deputy Commissioner of Jullundur, Mr. Bullock, writes—“ Illicit distillation is of very general occurrence throughout the district. Twenty-four cases have been detected, and it is to be hoped that some check will be found to have been given to the system, which, however, we can never expect wholly to extirpate.”

‘ In Hoshiarpur the khansama of a dāk bungalow was found to possess a still, and there were three cases in which villagers were convicted of the same offence. * * * *

‘ Whenever liquor-shops in Native States are situated close to our border, it is a common practice for our villagers to resort to them, and they often bring back small quantities of spirits for their own use and that of their friends. Even when the sadr distillery system has been adopted at the request of our Government in independent States, the price of liquor is far less than in our own territory. This must be due to lower rates of still-head duty. The Assistant Commissioner in charge of excise at Sirsa, Mr. Kennedy, says—“ In Patiala spirits are sold at about 8 annas a bottle, not differing much in quality from the Sirsa spirits at ₹1-8 a bottle. The only hope of grappling with the existing evil is to lower the price of Sirsa spirits so as to bring them into competition with the Patiala spirits. Any other method is impracticable. The Sikh Jats will drink ; and we cannot wean them from the practice by making the cost of liquor high ; the only effect of this is to demoralize them by leading to a continual evasion of the law without any corresponding benefit in increased sobriety.”

‘ There is probably some exaggeration here. Mr. Lyall is inclined to believe that the dearness of lawfully-distilled liquor had led to a decrease in drinking among the Sikh population, but to an increased use of opium and perhaps also of bhang.’

“ The state of things which these extracts show to have existed in the Punjab in 1881-82 is the state of things which has continued to exist up to the present time.

“ In May 1887 the following opinion was expressed by a Punjab officer :—

‘ The Excise Department in this Province has never been properly supervised and controlled, for the simple reason that the Department has never had a responsible head

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and has been left to take care of itself with such perfunctory attention as district officers have been able to pay to it. I can speak on this point from twenty-four years of district experience in various parts of the Province. The extent to which country spirit is illicitly manufactured and sold is enormous, and the quantity so disposed of is in my opinion as large as that which is lawfully sold; and the excise-revenue is therefore much smaller than it would be if the Department were carefully controlled.'

"It is right that I should mention that the Financial Commissioner did not accept these remarks in their entirety. He remarked that the 'description of Excise management in the Punjab must, in the absence of specific evidence, be regarded as exaggerated,' but no authority, so far as I am aware, has ever denied that there was, and is, a very great amount of smuggling and of illicit distillation in that Province.

"I have now shown that, when Mr. Westland, speaking on behalf of the Government of India, anticipated an increase of Excise-revenue in Northern India, he based his expectation of an increase not on the possibility of being able to increase the consumption of liquor and drugs but on the prospect of being able to increase the revenue by means of a stricter control and the suppression of illicit practices. I shall show by one or two instances that the policy which Mr. Westland favoured had already proved a marked success in other Provinces, both in respect of checking consumption and increasing the revenue.

"From 1st October, 1884, a new system of Excise-administration was introduced into a portion of the Madras Presidency. The change in system resulted in a rise in the price of country liquor, varying from eight annas to one rupee per gallon. The average annual consumption of the three years of the new system is less than the consumption of the last year of the old system by more than 6 per cent., while simultaneously the average annual revenue increased by more than 35 per cent. These figures show conclusively that a large increase of Excise-revenue is not necessarily attended with an increase of consumption, and may coincide with a positive decrease.

"A still more remarkable illustration of the possibility of increasing the Excise-revenue while diminishing the consumption is afforded by the statistics of the consumption of ganja in Bengal. Ganja is probably the most pernicious of all drugs in common use, and the Government has never felt any hesitation in increasing the rate of duty leviable on it.

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"Notwithstanding the large increase of population which must have taken place between 1858-69 and 1887-88, the number of shops for the sale of ganja has decreased during these years by more than 27 per cent., and the consumption by more than 22 per cent., while simultaneously the revenue has increased by more than 150 per cent., and the incidence of taxation per seer has increased by more than 226 per cent. These figures may be left to speak for themselves. The reduction during the same period in the number of shops for the sale of opium and in the quantity of opium consumed is even more remarkable than in the case of ganja, but there has not been the same increase of revenue, mainly, I believe, because opium smuggling prevails extensively.

"In mentioning this subject my object has been to defend my predecessor against the charge which has been brought against him, and indirectly against the Government of India, of encouraging intemperance for the sake of revenue, and it must not be supposed that I have been dealing with the whole Excise-system of India, or that I intend to assert that that administration has been as successful in every instance as in the cases which I have quoted.

"MANAGEMENT OF GOVERNMENT BALANCES.

"The present year has seen a great scarcity of money in the Indian markets, which has kept the Bank rate at 12 per cent. for a considerable period, and, as usually happens in such cases in this country, the question has been raised whether Government might not in some way come to the assistance of trade.

"The scarcity is no doubt owing in part to an early cotton season in Bombay coinciding with a demand for rice in Burma, and other customary requirements at this season; but the difficulty appears to have been aggravated by the doubtful position of silver. But for this it seems inexplicable that for week after week there should be a difference of 9 per cent. in the rate of money in London and India, and yet that in some weeks the whole amount of bills and transfers offered by the Secretary of State should not be taken up.

"That so high a rate of interest is prejudicial to trade is obvious, and Government has not been unmindful of the fact. The best way in which Government can assist trade is by providing that the Secretary of State's drawings shall never be curtailed for lack of money to meet them, and in one week demands for bills and telegraph transfers exceeded 77 lakhs. Arrangements are also made to grant telegraph transfers freely at a small charge between the three Presidency-towns, and Government, besides keeping up the normal current balances,

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has further been able to offer to the Presidency Banks at Calcutta and Bombay temporary loans at their own minimum rate of interest if they cared to avail themselves of the offer. Owing to the demands upon it the Government cash balance, during this period, fell lower than it had done for some years, and at the end of February was about two crores lower than on the corresponding date of last year.

"The charge that Government does not do all it might to assist trade sometimes takes the form of an assertion that the currency balances should be lent out in a time of pressure. This is of course impossible, as the currency balances are pledged by law to secure the convertibility of the currency notes, and can no more be lent to the market than can the gold in the Issue Department of the Bank of England.

"Another contention is that the cash balance of the Government of India is too high. Now, the question whether the Government cash balance is too high or too low is one that must be determined by the experience of those who actually deal with that balance and are responsible for seeing that there is sufficient money in the treasury to meet all the claims against Government.

"I do not think I exaggerate when I say that every person who has experience of the actual work of dealing with the balances in this country is in favour of rather a high cash balance. The question has been frequently considered both in India and in England, and though a cash balance of 10 to 13 crores may seem enormous, yet if we reflect on the special difficulties in the way of suddenly obtaining a large amount of cash in this country, on the sudden and large demands to which Government is exposed, and on the enormous extent of country over which the balance has to be spread, it will easily be recognised that the mere fact of the cash balance being large is no proof that it is larger than is required by the wants of the case.

"Some authorities hold that, if anything, the Indian cash balance has been kept somewhat too low in recent years. In that opinion I am inclined to concur. The cash balance of recent years has been low, because the claims against the Government were heavy owing to expenditure of all kinds, and it was thought desirable to avoid borrowing more than was absolutely necessary.

"I have mentioned the allegations (1) that Government ought to lend out the currency balance, and (2) that Government keeps too high a cash balance, simply in order to clear the ground. There is no force in them, and

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they could only be made by persons ignorant of the facts of the case. I now come to what is the real question, namely, the expediency of the maintenance of the Reserve Treasuries in the Presidency-towns. Should the Government keep the whole of its spare cash in the Presidency Banks, or should it aim at keeping balances of tolerably constant amounts in those Banks, the surplus being kept in the Reserve Treasuries? This is a question which deserves consideration, and on which there may reasonably be a difference of opinion, though I can hold out no hope of a change in the policy of the Government in this respect, and, speaking for myself, I cannot recommend any such change.

“The justification for the existence of the Reserve Treasuries is to be found in the special conditions affecting the Indian money market. These special conditions are the liability of that market to extreme pressure at times, the difficulty in adding temporarily to the amount of cash by drawing on other markets, and the magnitude of the cash transactions of the Government as compared with those of the trade. Under the circumstances I have just stated, and looking to the fact that the Government in case of war, famine or other unexpected cause is exposed to the risk of having to meet sudden and large demands on it for cash, it was decided by Lord Northbrook's Government that it would be to the interest both of the commercial public and the Government of India that the surplus cash for the time being of the Government of India in excess of certain regulated balances in the Presidency Banks, and the cash in Mufassal Treasuries, should be kept in Reserve Treasuries.

“It was held that, if the whole of the surplus cash was kept in the Presidency Banks, trade would rely on the permanence of the resources thus supplied to it, and that, in case of a sudden demand for cash, the Government of India would either be forced to abandon its right to reduce its balance in the Presidency Banks, or risk producing a financial crisis by suddenly and largely reducing the resources of these Banks.

“To show that this is not an imaginary fear I will quote a telegram received in 1874 from the Government of Bombay :—

‘Clear the line. You are placing the Exchange Banks and trade of Bombay in great danger. The eight Exchange Banks are indebted to the Bank of Bombay 68 lakhs of rupees, half payable on demand, secured by Government paper, and remainder in February. Their balances for current purposes in the Bank of Bombay are under 20 lakhs of rupees; balance of other customers of Bank of Bombay exceedingly low. Bank of Bombay has to meet Council Bills for 25 lakhs of rupees arrived from England this

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morning, and similar Bills for 20 lakhs of rupees will shortly arrive. Bills on Calcutta absolutely unsaleable. If you draw more on Bank of Bombay, they must call in the sums due from the Exchange Banks, and there will be a general panic and serious danger of stoppages.'

"There was at that time a Government balance of about 100 lakhs in the Bank of Bombay, and the proposed withdrawal, which called forth this startling protest from the Governor of that Province, only came to 35 lakhs. This money was required for immediate expenditure in connection with the Bengal Famine. I do not think a stronger argument could be produced to show the dangers that might arise if the Government of India reverted to the old system of keeping all its spare cash in the Presidency Banks. The arguments which weighed with the Government of India in introducing the system of Reserve Treasuries are contained in a Despatch to the Secretary of State, No. 256, dated 30th June, 1874, printed as an Appendix to the Financial Statement. It will show that the policy of the establishment of Reserve Treasuries was adopted deliberately and in order to meet real difficulties.

"It has been urged that Government could relieve the market by lending out the balance of the Reserve Treasuries on favourable terms to the Banks; but if this course were followed the same difficulties that arose when the Presidency Banks held the whole of the surplus balances would again occur. Trade would become accustomed to rely on the resources furnished by the Government, and at a time of pressure the withholding of the assistance usually given by Government might have a very serious effect.

"Ways and Means—India, 1889-90.

"The cash balance of the Government of India is expected to be Rx. 12,900,000 on 1st April next. It is the present intention of the Government of India to raise a loan of 2½ crores during the coming year, and the closing balance of 1889-90 is estimated at Rx. 12,533,000.

"It is expected that the Secretary of State will have drawn £14,310,100 (true sterling) during the current year, and that in the coming year he will draw £14,690,900 (true sterling).

"PROPOSED RUPEE LOAN.

"Although it is estimated that a loan of Rx. 2,500,000 will be required during the year, no pledge can be given either as to the amount of the loan or the time when it will be issued, or the conditions which will attach to it. According to

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the estimates, a loan of Rx. 2,500,000 will give an ample cash balance, and if matters turn out favourably it may not be necessary to borrow so much.

“ LOANS TO MUNICIPALITIES, &c.

“ Before 1888-89 all loans and advances of public money were treated as advances on Imperial account. The loans were made on the advice and through the agency of Local Governments, and Local Governments were so far responsible that irrecoverable sums were charged off as Provincial Expenditure. But they had no special concern with the punctual and complete realisation of the interest due on these advances, which was credited as an asset of Imperial Revenue. At the instance of the Secretary of State the arrangements were re-considered, and the occasion was thought appropriate for extending the principle of decentralisation beyond the limits of the Revenue account. The interest received on these loans is almost always higher than that paid by Government on its public loans, and by surrendering this advantage it was obvious that an inducement might be offered to Local Governments to undertake complete responsibility for the administration of this department of finance. This responsibility was accepted in every case, the necessary arrangements were completed last year, and orders were published in the Gazette of India of 5th January, 1889.

“ In connection with this subject the question of lending from public funds to Municipalities and other public bodies was considered. It was believed from the Secretary of State's observations in a despatch of September, 1887, that, under the arrangements described above, sanction might be given to a relaxation of the restrictive policy which has been followed in this matter since 1876.

“ Experience has shewn that the rigid refusal to lend money to small Municipalities and Local Boards has operated unfavourably in delaying and preventing sanitary improvement and reform. It has been found that such bodies cannot raise money in the market, except at high rates of interest; and Municipalities have in several cases found it necessary in consequence to abandon, or indefinitely postpone, well-considered schemes of drainage and water-supply. The Government of India accepted the Secretary of State's invitation to review the question, and the Secretary of State has, in consideration of the fact that, under the scheme described above, Provincial responsibility will be enforced, withdrawn the prohibition.

“ It is not proposed at present to adopt the policy of lending to the Presidency Corporations, as they have a public credit of their own and can borrow,

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in ordinary cases, in the open market, while the claims on the Government of India are so great that it cannot without difficulty find the necessary funds. But in pursuance of the principles enunciated above, Local Governments have been authorised to grant loans to Mufassal Municipalities in future, on the following conditions:—

“(1) Loans may be granted only for works of public and general convenience and utility, such as drainage and water-works, bridges and the like; and not for works which are merely or mainly ornamental or convenient, such as town halls, public gardens or market places.

“(2) A local body, having borrowed from Government, may not borrow from any other source until it has obtained the sanction of the Local Government concerned, which should not be given until it is clearly shown that the sum lent by Government, with interest thereon, is duly secured.

“I have stated that the rules regulating the new scheme were published in the Gazette of India on 5th January. The demands of Local Governments have since been received. These demands, so far as they relate to advances to cultivators, to embarrassed landed proprietors, and for drainage embankments and the like, have no special interest, as the only change in respect of them is the transfer of administration and responsibility. As regards loans to Mufassal Municipalities, the importance attached to the change of policy will be understood when it is stated that, notwithstanding the short notice given, the applications for loans for Municipal sanitary purposes amount to Rx. 254,900, which sum it has been found possible to place at the disposal of Local Governments. The projects comprise schemes of water-supply for Allahabad, Agra, Nagpore, Delhi and Pesháwar. Although an important step has now been taken towards facilitating the carrying out of local works and improvements, the large claims on the resources of the Government of India on account of railway and irrigation works will prevent, for the present, any very important extension of the system.

“Summary.

“It will be convenient if I briefly summarize the chief features of the financial position as they now present themselves.

“(a) The Accounts of 1887-88 have closed with a deficit of Rx. 2,028,832, including as expenditure Rx. 456,017 on account of Special Defence Works. Excluding the cost of these works, the deficit was Rx. 1,572,815. This has

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resulted mainly from a special charge of Rx. 1,059,000 incurred in connection with the conversion of the 4 per cent. sterling stock into $3\frac{1}{2}$ per cent., from heavy military expenditure in Burma, from a fall in exchange and in the price of opium, and from a reduction in Railway Revenue, counterbalanced by an improvement in Revenue and reduced Expenditure under other heads.

“(b) The Revised Estimates of 1888-89 show a deficit of Rx. 201,700, including as expenditure Rx. 818,300 on account of Special Defence Works, and a surplus of Rx. 616,600 if the cost of these works be excluded. Seeing that there has been a further fall in the rate of exchange, which has been taken for the current and coming year at Rs. 4'38d. = 1 rupee, heavy unforeseen expenditure on Military Expeditions, and a decline in the Salt-revenue owing to persistent rumours of an impending reduction of the duty, the result is satisfactory.

“(c) The Budget Estimates for 1889-90 show a surplus of Rx. 106,300 after providing Rx. 1,102,900 for Special Defence Works. If the cost of these works be excluded, there is a surplus of Rx. 1,209,200. Imperial revenues have exceeded a special asset of Rx. 740,000, towards which all Local Governments, except the Punjab, contributed. Of this only Rx. 250,000, most of which represents the proceeds of the re-imposed Patwari-cess in the North-Western Provinces and Oudh, will be permanent, the remainder being a receipt of next year only.

“(d) The Capital expenditure on Railways and Irrigation Works is expected to amount to Rx. 1,857,800 in 1888-89, and Rx. 4,089,500 is provided for 1889-90. The expenditure in 1888-89 is really Rx. 3,264,500, but Rx. 1,406,700 of it has been transferred to the Capital Accounts of the Indian Midland and Bengal-Nagpur Railways on account of the cost of the Sindia and Katni-Umaria Railways transferred to them.

“(e) As regards the general financial position of the Government of India, while there is every need for economy and for husbanding the revenue, there is no ground for desponding or pessimist views. There are probable difficulties in the future, but there are also reasons for holding that we shall be able to encounter them successfully. The Estimates of Revenue for 1889-90 have been framed with moderation.

“(f) The Secretary of State proposes to draw, during 1889-90, £14,689,900 of Council Bills. He also proposes to raise a loan of £3,750,000 under the Oudh and Rohilkhand Railway Purchase Act for the purpose of advancing funds to Railway Companies.

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"(g) The Government of India will probably raise a loan of Rx. 2,500,000 in India, of which Rx. 584,000 is required for the Dock-Works at Calcutta and Bombay, and Rx. 254,900 for Municipal Water Works, but no pledge can be given either as to the amount of the loan or the time when it will be issued, or the conditions which will attach to it."

His Excellency THE PRESIDENT said :—"I think the best mode of procedure, unless hon'ble members see fit to object, would be that I should now put the Motion which is on the paper and that we should adjourn until Friday next. It will then be open to hon'ble members, if they desire to offer observations on the Financial Statement, which we have just had the advantage of hearing, to make them on the Motion that the Bill should pass. In the meanwhile hon'ble members will have had the leisure to consider the Statement in all its bearings."

The Motion was put and agreed to.

The Council adjourned to Friday, the 29th March, 1889.

S. HARVEY JAMES,
Secretary to the Govt. of India,
Legislative Department.

FORT WILLIAM ; }
The 29th March, 1889. }