

Thursday, March 9, 1871

ABSTRACT OF THE PROCEEDINGS

COUNCIL OF THE GOVERNOR GENERAL OF INDIA

LAWS AND REGULATIONS.

Jan to Mar

1871

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

The Council met at Government House on Thursday, the 9th March 1871.

P R E S E N T :

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

His Honour the Lieutenant Governor of Bengal.

The Hon'ble John Strachey.

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

The Hon'ble J. Fitzjames Stephen, Q. C.

The Hon'ble B. H. Ellis.

Major General the Hon'ble H. W. Norman, C. B.

Colonel the Hon'ble R. Strachey, C. S. I.

The Hon'ble F. S. Chapman.

The Hon'ble J. R. Bullen Smith.

His Highness Sarámade Rájáháo Hindústán Ráj Rájendra Sri Mahárájá-
dhiráj Sivái Rám Sing Bahádur, of Jaypúr, G. C. S. I.

The Hon'ble F. R. Cockerell.

The Hon'ble J. F. D. Inglis.

The Hon'ble D. Cowie.

The Hon'ble W. Robinson, C. S. I.

FINANCIAL STATEMENT.

INCOME TAX BILL.

The Hon'ble SIR RICHARD TEMPLE in moving for leave to introduce a Bill for imposing duties on Income, said,—“MY LORD, I have now to present the Budget of British India for the year 1871-72, this being the twelfth annual statement presented since the introduction of our existing financial system.

I shall commence by adverting to the form in which the statement has been drawn up.

It will be recollected that in my exposition delivered before this Council on the 2nd April last, I explained the alteration made in the exhibition of the account of Government with the Guaranteed Railway Companies. By that alteration we showed on one side the amount of guaranteed interest payments,

and, on the other side, the amount of net traffic receipts, instead of the former method, whereby only one item was shown, namely, the guaranteed interest less the net traffic receipts. In other words, we exhibited the account gross on both sides, instead of the expenditure net on one side. Well, the Secretary of State has determined, after considering all our representations in favor of the alteration, that we must still continue to exhibit the account as before by its net result on the expenditure side, that is, by one item, namely, "guaranteed interest less net traffic receipts." I have accordingly to exhibit the guaranteed interest net in the statement itself. But at the foot of the statement there are appended figures showing the account gross in the method explained in my last financial statement, which method was, I believe, approved generally by this Council and by many others interested in this portion of our finance. Thus the important objects set forth in my last exposition will still be fully attained.

This modification will make no difference in the ultimate result of the figures as regards surplus and deficit. But it will make a difference in the totals of receipts and expenditure, that is, the deduction of an equal amount from both sides of the account. The grand totals, therefore, of the statement I shall make to-day will not admit of exact comparison with those of my statement in April of last year. But the figures of surplus and deficit on this occasion and the last will be strictly comparable.

Also I explained in April last why we had transferred the canal water rent from the heading of public works receipts to the heading of land revenue. We have since determined, on a further review of all the circumstances, to exhibit these irrigation receipts separately. I trust that this growing item, now nearly half a million annually, will prove of general interest. Its growth is indeed anxiously awaited by us, in order that there may be some appreciable off-set to the fast-accruing interest on capital outlay.

Lastly, it has been considered proper to show again under one head the entire revenue raised by stamps, whether under the General Stamp Act or the Court Fees' Act.

After this brief preface, I proceed to deal with the figures in the same order as that observed in all previous statements,—that is, *firstly*, the actual figures for the past year 1869-70; *secondly*, the approximate figures for the current year 1870-71, according to the regular estimate; and *thirdly*, the proposed figures for the coming year 1871-72, according to the budget. I shall take the figures from the combined statement for England and India in the same manner as I did last year.

I begin then with the past year 1869-70. The Council will recollect that the regular estimate for that year exhibited in my last exposition showed an anticipated deficit of income below ordinary expenditure of £625,594, or more than half a million sterling. The actual figures, however, now show a small surplus of £118,668. Thus the actual turns out more favorable than the estimated account by £744,262, or three quarters of a million. It is also slightly more favorable (by £57,796) than the approximately actual figures published in September last; this small difference being attributable mainly to the railway account. I shall explain briefly the causes of this fortunate result. The receipts of the year were taken in the regular estimate at £50,297,052; they have proved to be £50,901,081, showing a difference favorable of £604,029. The ordinary expenditure was estimated at £50,922,646. It has proved to be £50,782,413, showing a difference favorable of £140,233. The favorable difference in receipts is partly nominal, arising from certain items being shown gross which in the estimate were shown net; but chiefly real, arising from unexpected recoveries in the Military Department by the sale of stud cattle and by the adjustment of the value of supplies to the Abyssinian Expedition and to the civil departments and administrations, and also from a variety of small increases under several heads of revenue,—to wit, land revenue, income tax, customs, salt, stamps. The difference favorable in expenditure arises chiefly in the military heading, the savings from the reductions of expenditure proving somewhat greater than had at first been hoped for; partly also from the amount of unpaid dividends and unclaimed allowances being more than was anticipated; partly, further, from various smaller savings in civil branches,—to wit, land revenue, opium, administration departments, post office, and police. In a word, the largest difference on the whole account (£315,116) is attributable to the unexpected additional military recoveries and to the favorable financial effect of the military reductions which had been ordered.

Thus ends the financially eventful year 1869-70. The original estimate showed a small surplus of £52,650. As the year wore on, a large deficiency, arising partly from a fall in opium and depression of trade, was anticipated. Various measures detailed in the last financial exposition were taken to avert the threatened deficiency. Still, as proved by the regular estimate, fears were entertained up to the close of the year that the deficit, though greatly diminished, would not be altogether avoided. The result, however, as shown by the actuals, proves that the original estimate has been more than fulfilled, the actual surplus being £118,668.

This result is owing partly to management, and partly to fortune. The management consisted in the measures adopted within the year by the Supreme

Government and in the economies carried out by the local Governments. The fortune consisted of a variety of adjustments and recoveries, for the most part unestimated, bettering the account, on the whole, to the net extent of £866,580. I am constrained to make this remark because it seems to have been supposed in some quarters that we brought out the surplus lower than it ought to have been by a variety of debit adjustments made at the last moment! Now we certainly had to make a variety of adjustments (all of which were completed before the production of my last statement to this Council), thereby clearing once for all a number of long-standing and unsettled items from the public accounts. Some of these were on the credit, others on the debit side. After setting the latter against the former, the result was a net advantage to the account, as just set forth. Thus the unavoidable operation was not, as has sometimes been supposed, at all unfavorable to the final out-turn, but actually favorable!

Further, if I have apprehended rightly, it seems to have been understood in some quarters that the favorable result just described shows that the measures taken during that year by the Government of India were, after all, not necessary, or that there may be difference of opinion as to their necessity. I will therefore declare, for the last time, that those measures were both just and necessary, and that there is not—there never has been—any difference of opinion in the Government of India on the subject. I showed in my last exposition that those measures bettered the account by $1\frac{1}{2}$ million sterling. Had it not been for them, therefore, there would have been a deficit of nearly $1\frac{1}{2}$ million, instead of the small surplus which I have the pleasure to announce to-day. It seems to me that this is as strong a financial justification of those measures as could reasonably be expected.

Further, I understand it to have been held in some quarters that the occurrence of this small surplus, instead of deficit, for the past year 1869-70, does, to some extent, cut away the ground from under the measure of the increased rate of income tax for the present year 1870-71. I can admit, however, nothing of the sort. It is true that amidst an accumulation of many reasons for the enhanced rate of income tax, the anticipated deficit of 1869-70 was one. But the disappearance of this one reason does not at all affect the other and graver reasons. Among these reasons were the deficits of preceding years, unfortunately beyond question, evincing unsatisfactory tendencies in our finance, which tendencies could only be stopped by fresh taxation. But the principal reason lay in the condition and prospects of the year 1870-71, to which I have yet to advert. The increased income tax was imposed for 1870-71, the estimate

for which year was framed on data of its own, many of which were independent of the out-turn of the preceding year. Even if the actual figures of the year 1869-70 had been known, which was impossible, the prospect of deficit for 1870-71 would have remained unaffected in any essential degree. The surplus of one year cannot be carried over as it were to mitigate the prospect of deficit for the following year.

This brings me to the figures of the current year 1870-71. As the Council recollects, the budget showed a surplus of £163,440. The regular estimate now shows a surplus of £997,100, amounting to a difference in our favor of £833,660, of which I shall briefly explain the causes.

The receipts, omitting the net railway traffic receipts, were estimated in the budget at £19,479,585; they are now estimated at £51,048,900, showing a difference in our favor of £1,569,315. Of this increase, the main item is £1,074,519, under the head of opium. The improvement of the opium receipts arises from the price of Bengal opium having been, on the average of the year, Rs. 1,121-8, or £112-3s., per chest, instead of Rs. 975, or £97-10s., per chest, as was first estimated; also from the quantity of Malwa opium having been 38,742 chests, instead of 33,600, as was first estimated.

In my last exposition, I gave to this Council the reasons why the opium estimates had been cautiously framed,—namely, the actual fall and the further downward tendency of prices on the Bengal side and the indifferent prospects of the drug on the Bombay side. The out-turn of the crops on both sides of India has proved, however, even better than was expected; and throughout the year the advices from China have been favorable. The improvement of the Indian opium trade in China must, of course, have had its causes, which causes may be connected with the condition of the indigenous culture of the drug in China itself; but what exactly those causes are, I hesitate to state to this Council. I may have my opinion and conjectures, but I really do not know, and I have not heard of any one who does know. Those nearest to the spot and best qualified to judge have not as yet been able to explain satisfactorily. All I can say now, therefore, is that we are carefully watching every indication afforded by each fact in detail as it becomes known. But I must add that assuredly, at the commencement of the year, when the last budget was prepared, we had no right whatever to reckon on the improvement which has occurred, and no sign or fact whatever to reasonably indicate that it would occur. Therefore, this stroke of fortune does not, in the least, shake my conviction as to the prudence and propriety of the moderate estimate which was made. Nor does

it at all encourage me to relax the watchfulness and caution necessary in framing the opium estimates for the coming year.

Recently we have published a resumé of all the official information possessed by us regarding the growth of opium in China. The facts therein shown regarding the quantity and quality of the Chinese drug fully bear out what I stated in my exposition of last year, to the effect that the Indian opium trade with China is threatened with a serious competition. It appears that the culture of the poppy in China expanded in the years 1866 and 1867, and that the produce obtained in the summer of 1868 was abundant, and was nearly as good in the summer of 1869. After that, reports reached us of injuries to and failures in the Chinese produce of the summer of 1870. These were corroborated by the subsequent rise in the price of the Chinese drug. Now, is there any connexion, and if so, what, between these circumstances in China and the recent rise or fall of prices of the Indian drug? I really cannot answer these questions. There may be no such close or direct influence exercised by the Chinese upon the Indian drug. It may be said that the two drugs are consumed by different classes in China. The Indian prices must be affected by the increased supply from India itself; also speculation forms an important element in the case; and our experience of Chinese opium, on any considerable scale, is as yet but short, while the information obtainable from the interior of China is often tardy and uncertain.

There remain some items of increase on which the Council may desire a word of explanation. There is an increase of £92,508 under land revenue. This is due to a considerable improvement in Madras, apparently from the realization of arrears outstanding from previous years of drought.

The increase of £141,500 in customs has accrued at the ports of Calcutta, British Burma and Madras, and not at all at the port of Bombay. This increase may, perhaps, surprise those who are not practically acquainted with the import trade. The major part of that trade, namely, the European piece goods, has not, despite large importations, been altogether flourishing, inasmuch as the sale of these important goods for the markets in the interior has not been so favorable to importers as we might have wished. It is feared that the improvement in customs is partly due to over-importation which again may be in some respects connected with the abnormal condition of the European markets during this very eventful year. We may regret that the increase of the revenue does not yet indicate a corresponding improvement in trade. But the fact that such large quantities of goods have been taken (though at somewhat low prices) is an index of the prosperous condition of the people at this moment, and affords hope for the future progress of the trade.

The £72,600 of increase in excise arises in Northern India and Madras; the harvests having been good or abundant.

The increase of £144,510 in the post office is almost wholly nominal, owing to the fuller exhibition of the charges made against the various departments of the administration for official postage.

The increase of £289,226 in miscellaneous receipts arises from a large item (£93,497) of assets of the Amcens' Fund at Bombay, long held in suspense, being credited to Government; from the current adjustments from the balances of the military and medical funds being larger than was anticipated; and from an arrear adjustment from these balances. The circumstances under which the assets and liabilities of these funds were transferred to the State, and the principle upon which the charges of each year are adjusted, were expounded in my last financial statement.

The increase of £166,775 in army receipts is owing to general augmentation under a variety of heads, such as sale of stores, malt liquor, and the like.

On the other hand, there are some instances of diminution in receipts. One important item of decrease is that of £105,000 under the head of assessed taxes. This means that the $3\frac{1}{2}$ per cent. income tax, together with some arrears of the preceding year, was estimated to yield £2,180,000, and is now estimated to yield £2,075,000. The falling off chiefly arises from the circumstances of several of the tax-paying classes in Bengal, Bombay, and Madras having been less favorable, owing to the state of trade, than was expected. When the losses in trade are remembered—when it is also remembered that the more exact assessments under the new law and under the high rate were sure to be favorable to the tax-payers, and that the enhancement of a direct tax of this sort is sure to be met with a certain degree of passive resistance,—I think that the out-turn of the tax for the year promises to be satisfactory, and to prove creditable to the several local Governments. We have constantly observed all the complaints that have been made regarding the assessment or the realization of the impost, and we have done all we could to prevent any just cause of complaint arising. We cannot venture to hope that no such cause has arisen anywhere, knowing, indeed, that in such a country as this regrettable circumstances may occur without coming to light. But it is noteworthy that on a circular being addressed by us to the several local Governments in India, inquiring whether there were any known cases of oppression or over-exaction, we received replies from all of them (except the Government of Bengal) to the effect that no such cases were known. The Government of Bengal indeed

did transmit a resumé of some thirteen cases; this number is, of course, a matter for much regret, though relatively it is not large.

Salt again shows a decrease of £72,870, which is, however, more than counterbalanced by a decrease in the charges of £82,519. Less salt has been manufactured and sold than was expected, under the special arrangements at the Sambhur Lako in Rajpootana.

Another item of decrease is that of £107,670 in the Mint receipts. Very little bullion has during the year been presented for coinage, owing to the unfavorable state of the exchanges.

A further item of decrease to be noticed is that of £129,280 in the forest receipts. This arises from the consumption of timber by the railways having been less than was expected. The circumstance proceeds really from the State railway works not having been so vigorously prosecuted as was intended. There is, from the same cause, a diminution of outlay (£51,540) under the head of forests.

There are other small differences, some more, others less, which can be seen in the general sheet, but which I need not now stop to explain. The net result is an income of upwards of fifty-one million pounds sterling (£51,048,900), exclusive of net railway traffic receipts, which amount, if compared with corresponding amounts of previous years, transcends them all, and represents the largest revenue ever yet raised in British India.

Turn we now to the ordinary expenditure of the year. That was estimated in the budget at £49,316,145; it is now estimated at £50,051,800, showing a difference against us of £735,655. The causes of this difference also I shall explain.

There is an increase of £31,498 under interest on miscellaneous accounts by reason of the decision to allow interest on deposits of the Indus Flotilla; of £51,890 under opium by reason of the crop of 1870 proving larger than was expected, and of extending cultivation; of £45,917 under post office by reason of arrear payments in England on account of the mail service; of £14,325 under political agencies by reason of the postponement from last year to this year of a payment in England for the embassy to China; of £82,647 under superannuation and retired allowances, corresponding with an increase under miscellaneous receipts which I have already explained, and arising from the payments to the pensioners of the late military and medical funds proving larger than was estimated.

These are all minor items of increase. But there are three major items on which I must bestow a few moments; they occur under the heads of miscellaneous, of army, and of railways.

The heavy increase of £414,908 in the miscellaneous heading arises chiefly from what is technically termed loss by exchange. This is calculated on an assumed, though not an actual, basis of two shillings to the rupee. We are under the obligation of providing annually a large sum in England in pounds sterling for the payments in that country on account of the Government of India. This provision is principally effected by the sale in London of bills drawn by the Secretary of State on the exchequer in India. The amount originally intended to be drawn by the Secretary of State during the year was 9½ millions sterling. The amount actually supplied during the year in England will be 9 millions, although with outstanding bills of past years we shall have to pay 9½ millions (£9,525,000) in India. Judging by the best information at our command, we estimated that the Secretary of State's bills would be sold at an average rate throughout the year of 1s. 11¼d. for the rupee, which would have involved, on 9½ millions sterling, a loss by exchange of a little more than £300,000, which was the sum provided. This of course was only a forecast of a matter on which foreknowledge was impossible. The actual supply of funds to the Secretary of State, including the specie remittances to be presently referred to, has been effected at an average rate of only a little better than 1s. 10½d. for the rupee, involving a loss by exchange of £600,000. In other words, we hoped to pay only 3·16 per cent. on the basis of the assumed par, for providing the money for discharging our obligations; in fact, however, we have had to pay 6·67 per cent. Judging by all past experience, we deemed our estimate moderate. But the great events in Europe have disturbed exchanges and caused this misfortune to us, which could not have been foreseen.

As part of the 9 millions sterling supplied during the year, we had, last August, to ship in specie from India to England about 62 lakhs of rupees (Rs. 62,10,688) or £620,000. We were informed by the Secretary of State that his bills on India were, for the moment, unsaleable in London. It therefore became immediately necessary for us to remit specie wherewith to provide the means of discharging our current obligations in England. This was accordingly done with the requisite despatch. The produce in England of these remittances was £571,812, or only a little above 1s. 10d. (1s. 10·09d.) per rupee; but the indirect effect of the operation upon the exchanges is believed to have been favorable.

A new item will be perceived in the regular estimate which was not entered at all in the budget, namely, that of allotments for provincial services, £200,000. This entry appears for the first time. It relates to the scheme set forth in our resolution of December last, entrusting to local Governments increased financial control in certain departments, the provisions of which scheme I shall presently recapitulate. In order that the local Governments may be able to inaugurate this plan successfully, and to have, as it were, a fair start, it is found most desirable to give them a special allotment of funds to begin with, in addition to the regular allotment they will receive year by year for the next and subsequent years. The regular annual allotments have been made on the basis of the budget grants for 1870-71. In fact, however, there have been savings effected in the current year on these grants, aggregating, for all India, perhaps £200,000, though the precise sum cannot be stated with certainty. Under all the circumstances, inasmuch as the savings have been effected in the current year, we have decided to make the special allotment from the resources of this year; and to fix the amount at £200,000, to be distributed rateably among the local Governments,—an arrangement which will, we hope, prove satisfactory to them.

The increase of £554,659 under the head of army has arisen partly in England and partly in India. The increase in England amounts to £361,859 and in India to £192,800. The increase in England is in overland transport charges, in furlough allowances, and for breech-loading arms. The overland transport system is a new one which is gradually developing itself, and of which it may be difficult in England to estimate accurately the cost beforehand. The increase of furlough allowances arises entirely from officers now drawing pay in England under the new system, who would under the old system have drawn larger allowances on duty in India. For the increased charge on account of the new breech-loading arms, the Government of India willingly takes the responsibility, having made urgent indents therefor.

The increase in India is due to the adjustment this year of a large sum on account of the charges for the overland troop transports defrayed in past years in India, which we had been led to suppose had been included in the home accounts. But for this arrear adjustment, the net charge for the army in India, which is even now only £72,735 more than the estimate, would have been less than was originally estimated by about £300,000. This is specially satisfactory in connection with the fact that the budget estimate for expenditure in India was for a large reduction over the preceding year.

The third item of increase is that of £319,517 under guaranteed interest on railway capital, less net traffic receipts. This arises from the net traffic receipts having fallen off; they were estimated at £2,848,470, they are now estimated at £2,530,700. This diminution, again, does not arise from working expenses having proved greater, but from traffic earnings having proved less than the anticipation.

So much for the increases. On the other hand, there is a long list of diminutions arising partly from estimates having been prudently framed, partly from savings having been effected: these range at amounts from £500 to £100,000, and occur under the heads of interest, refunds, land revenue, forests, excise, assessed taxes, customs, mint, telegraph, administrations, minor departments, law and justice, police, marine, education, ecclesiastical, stationery and printing, and allowances under treaties. If this series of savings shall be sustained by the actual account, the result will be very satisfactory. The normal ordinary expenditure for public works has been kept well within budget limits. To this has been added an assignment of £40,000, to the trustees of the Indian Museum for the completion of the building: it was found necessary to make this grant for this important public structure, in order to fulfil, as nearly as practicable, under the circumstances, the obligation imposed upon us by Act XVII of 1866, to complete the Museum building by the 23rd of the present month of March 1871.

The saving of £141,710 under railways is chiefly due to delay in taking up land for the Oudh and Rohilkhund line.

So much for the ordinary expenditure. Before quitting the current year's account, however, I must just advert to the extraordinary expenditure. For this £3,062,300, or 3 millions, were estimated to be spent, but only £1,146,800, or about 1½ million, has been actually disbursed. The difference is largely accounted for by the unavoidable delay in prosecuting the State railway works, by reason of the pending questions relating to the gauge best suited for adoption. These questions having now been decided, we may hope to see the works more rapidly proceeded with. The extraordinary added to the ordinary expenditure makes up a total of £51,198,600, or 51½ millions.

Such are the figures for the current year 1870-71, so far as they are yet known; the estimate being based on the actual figures of ten months for all, and of eleven months for a few of the main heads of income, of ten months for all branches of civil expenditure, and of nine months for the Army and the Public Works Department. I must, however, remind the Council of what

has been stated in former expositions, to the effect that the figures of the regular estimate are liable to modification by reason of the facts which may come out in the course of the remaining two or three months. These months are in themselves financially very important months, and in March the whole accounts of the year are completed and adjusted. The accounts of the year 1870-71 cannot be even approximately closed for nearly six months to come,—so that, although we have omitted no precaution to obtain the best forecast now possible, we must not be surprised if the final result of the year differs considerably, even from the revised estimate now presented.

The main result now apparent is that as regards income and ordinary expenditure, the budget estimate showed a small surplus of one-sixth of a million, and that the regular estimate shows a considerable surplus of a million. On the one hand, it is observable that this satisfactory surplus is wholly due to the unlooked-for rise in opium; and that without this piece of good fortune on the receipt side, we should, apart from the special assignments for the Museum and for provincial services, have had a little less than the surplus of £163,440 originally estimated. On the other hand, it is equally observable that on the expenditure side there has been a piece of ill-fortune, namely, the heavy loss by exchange, produced by great events beyond the reach of ordinary calculation. Thus, if the argument of fortune be pressed upon us, I should reply that if there has been an extraordinary increment of a million on the receipt side, there has been also an extraordinary increment on the expenditure side; and that if the one point be set against the other, there would still be a surplus in our favor of more than half a million,—that is, a surplus somewhat above that which was originally estimated—in fact, just the amount of surplus which is necessary for safe and sound finance, and no more. This perhaps is the fairest light in which to regard the situation at this moment. And certainly, if these two items be excluded, the general conformity of the regular estimate with the budget is highly satisfactory, both as regards receipts and expenditure, and more especially as regards expenditure, which in India has been kept well within bounds.

But in regard to the (perhaps unfortunately) cardinal importance of the opium revenue to our general finance, let us for a moment consider what would have been the situation had the opium increase of £1,074,519 not accrued. Why the consequence would have been that, apart from the exceptional allotments of £200,000 to the Local Governments wherewith to begin the provincial service scheme, and of £40,000 to the Trustees of the Indian Museum, I should have to-day shown a surplus of £162,581, or almost exactly the sum originally

estimated, *viz.*, £163,440. And this circumstance does, to my mind, prove conclusively the justice and necessity of the financial measures proposed in my last exposition, and subsequently adopted by this Council for the current year.

When I say this, the mind of the Council will revert to the enhancement in the rate of the income tax. I apprehend that in some quarters it will be held that the present anticipation of a considerable surplus proves that the increased rate of income tax was, after all, not necessary; but I cannot, in the least degree, admit such an argument.

I have just explained that by one way of viewing the extraordinary circumstances of the year (which is the more favorable view for such an argument), we should only have had a moderate surplus, nearly the lowest amount compatible with safety and efficiency. By the other way of viewing the case (which is probably the more correct way), we should, without the opium increase, have had just the small surplus originally estimated. Therefore the argument, to my apprehension, turns on this question,—was the opium estimate in the budget a fair and prudent one, according to the knowledge available at the time? Has anything since transpired which may reasonably prove that estimate to have been too low under the circumstances wherein it was made? If that estimate was fair and prudent, then there is no ground whatever for impugning the justice and necessity of the enhanced income tax. When I say this, however, I by no means mean to admit that the justification of the income tax solely or even mainly rests on the opium estimate. For, even without this consideration, there were various and manifold reasons in justification of that measure.

But I consider that if the opium estimate be proved to have been reasonable, then any attack on the *financial* necessity of the enhanced income tax for the year must inevitably fail. I here advert to financial necessity, without at this moment adverting to political or other considerations. Now, what were the circumstances under which the opium estimate was framed? Let me remind the Council of the reasons adduced in my last exposition. It was then shown that there had been a heavy fall in the price of Bengal opium; that, for a whole year, the decline had been almost regular and constant; that the tendency was still downwards; that a mass of information had been received from China, indicating that the Indian drug would be subjected more and more to disadvantageous competition; that every practical authority whom we had been able to consult, both in China and India, considered that nothing but decline could be anticipated. I affirm that when our Bengal estimate was produced, it was considered not at all too low, but quite high: enough in non-official circles, where practical knowledge is in this respect most available. Indeed, the most

sanguine estimate suggested to us by any one was only £122,500 in excess of that which we actually adopted. As regards the Malwa opium, the facts were almost as unfavorable. Our estimate, though realized in the end, had been a constant source of anxiety through the year. The local authorities had been constantly warning us of expected deficiency. The then prospects of the crop were not propitious. On a retrospect of the whole case, I am quite convinced that no higher, indeed, no other, estimate could have been properly framed than that which was framed; and that being so, I have only to reiterate all the arguments adduced in my last exposition, to the effect that without the income tax at the $3\frac{1}{2}$ per cent. rate we must have produced a budget with a large deficit, and that therefore the imposition of that tax was a matter of financial necessity at that time.

As regards the surplus above shown for the current year, we must remember that it is only anticipated as probable, and not yet actually realized. It may even yet fail us more or less; but if it shall be fully sustained by the ultimate event, it will be most gratifying, and will occur, indeed, not at all before it is needed! In my former expositions, I have shown that although, since the establishment of our financial system, the course of our finances has been certainly in many respects, and perhaps on the whole, satisfactory, still deficit has been too frequent, and surplus too rare. Of late years, especially, while curtailing our ordinary expenditure, we have been incurring, and preparing to incur, a liberal and extraordinary outlay in improving our great national estate, for which purpose the national debt is being added to. Now—if ever—then, is the time to secure a surplus of income over ordinary expenditure. Now is the season to prove, if we can, that we possess the determination and the means for keeping our income slightly in excess of our ordinary expenditure. We had scarcely dared to hope, indeed, that so good a result would be obtained within this very year, even after all the exertions that have been made. If it be obtained, however, as now seems probable, then the circumstance will afford cause for nothing save congratulation; and we need never regret the efforts which have been made and the sacrifices which have been undergone.

But the existence of surplus for now two consecutive years, though not at all disturbing the reasons for the strong measures which have been adopted, does yet afford reasons for some relaxation of these measures in the coming year. And this remark appropriately brings me to the third part of my subject, namely, the budget for the year 1871-72 shortly to commence.

Before entering into details, I must, however, draw the attention of this Council and of all others interested in our finance to an important modification

in the form of the statement for the year 1871-72. This modification has been made in order to give effect to the financial resolution by the Government of India of the 14th December last. It will be remembered that by that resolution an increased degree of control financially was accorded to the several local Governments in India, in certain civil branches,—to wit, jails, registration, police, education, medical services, printing, roads other than military, and civil buildings. We hope that this concession will give the local Governments an additional interest in the study and the enforcement of economy in expenditure; will afford them a just inducement to supplement their local receipts from time to time by methods either most acceptable to the people, or least fraught with popular objection; will cause a more complete understanding to arise between the executive authorities and the tax-paying classes respecting the development of fiscal resources; will teach the people to take a practical share in provincial finance, and lead them up gradually towards a degree of local self-government; and will thus conduce to administrative as well as financial improvement. The hopes which I am expressing, however sanguinely or confidently entertained, are, after all, but hopes, and, like all other hopes, may or may not be fairly realized. But let all this eventuate as it may—sure I am, with certainty free from shade of doubt, that the measure is advantageous to the imperial budget of British India. For it will have the direct effect of definitely limiting, for the present, the expenditure from the general exchequer on certain important branches of civil expenditure, the very branches indeed where, from the progressive spirit of the age, the demands for increased outlay have most arisen, and would most arise, and in which, from the nature of the case, the supreme central authority is least able to check the requirements of the local authorities.

We have indeed, at the outset, inaugurated the measure by reducing the aggregate expenditure under these heads by one-third of a million (£331,038)* below the budget grant of 1870-71. This is, *per se*, something appreciable of course. But greater far financially is the advantage of setting some definite bounds to the constant growth and expansion of imperial outlay on these branches, of which the use and importance, though great indeed, are yet local rather than imperial. The more we consider the constant increases of late years in these particular headings,—the difficulty which the Supreme Government has in resisting demands which have so much inherent excellence to recommend them; the desire which we all naturally feel to co-operate, so far as possible, in meeting such reasonable requirements; and yet the impossibility

* The reduction appears, *prima facie*, to be £ 350,000; but the share which would have fallen upon Burma (£ 18,962) has been restored, so that, after rounding the figures, the net retrenchment from all the local Governments aggregates only £ 331,038.

of meeting them unless local income can be legitimately and equitably augmented,—the more do we perceive the importance of the financial principle (irrespective of administrative and general considerations) embodied in the resolution of December last.

And the principle is in this wise. The local Governments are to have a fixed annual allotment from the general exchequer for these particular services, and are to appropriate as local income all receipts connected therewith. They are to regulate (subject to certain general rules) all the expenditure on those services. If the existing income, namely, imperial allotment, *plus* departmental receipts, shall suffice for the requirements of that expenditure, then that is well; if it shall not suffice, then the local Governments are not to apply to the Government of India for increased grants. They must raise what they need by local taxation, or by such like means (subject to our central control) if they fairly can. But if they find that they cannot fairly manage this, then they must necessarily do without the increased expenditure. However much the necessity for doing without the increase may be regretted, there is no help for it. This is the only way of following the good old rule of cutting coat according to cloth. However important progress and improvement may be, financial safety is more important still.

I have seen it stated in some quarters that this new measure, by limiting the aggregate allotment for certain services, tends to deprive the local Governments of any benefit that may arise from increase of the revenue, and to secure all such benefit for the Supreme Government exclusively. I need hardly say that any such allegation is based on misapprehension; as if the Supreme Government had any separate domains or estates or appanages of its own, in which the local Governments had no particular concern! The Supreme Government has no interest separate from the interest of India generally, or from the aggregate of the interests of the several local Governments. The new measure, after all, deals with a part, and that a small part (about one-sixth) of the total civil expenditure. There still remains by far the greater part of this expenditure under the central control, including such branches as law and justice, the fiscal departments and the departments of general administration, as before, for all which expenditure grants are made to the local Governments. If the revenues increase, there will be benefit to these branches, whether it be in the enhancement of pay, in the expansion of departments, or in new outlay, all which benefits will be felt directly by the local Governments. If it be hereafter possible to increase the grant for public works ordinary, to whom will the increase be allotted? Why to the local Governments? If it be found practi-

cable to pay more and more interest on loans for public works extraordinary, in what territories will these works be executed? Why in the territories under the local Governments?

The Council will perceive that the total amount of allotments for provincial services, as just defined, for all the local Governments together, is set down in the expenditure side of the budget for the coming year at £4,799,300, or 4 $\frac{3}{4}$ millions, which amount I shall explain further presently. Meanwhile, I may observe that the total sum allotted for provincial services is thus distributed:—

	Receipts surrendered.	Assigned from Imperial Funds.	TOTAL.
	£	£	£
India ...	9,800	26,700	36,500
Oudh	14,700	211,300	226,000
Central Provinces	24,000	269,600	293,600
Burmah	28,600	276,500	305,100
Bengal ...	264,800	1,197,900	1,462,700
North-Western Provinces	110,000	635,000	745,000
Punjab ...	67,400	528,800	596,200
Madras ...	81,800	752,300	834,100
Bombay	55,300	901,200	956,500
	<hr/>	<hr/>	<hr/>
TOTAL	656,400	4,799,300	5,455,700
	<hr/>	<hr/>	<hr/>

The item opposite to "India" in the above list is for the Calcutta University and for provincial services (not including public works) in Coorg, Ajmír, and other districts of which the administration is immediately under the Supreme Government. The figures differ somewhat from those appended to the resolution of the 14th December, owing to the more complete transfer of the charge for medical services than was then proposed; to the inclusion in provincial services of the expenditure for petty construction and repairs in all departments, excepting opium and salt; to the promised additions to the grants in respect to the more stringent system of official postage; and to certain minor corrections of the figures.

The statement which I have given just now presents the total allotment to each local Government for all the services specified. Within this limit, each local Government may (subject to the general conditions under which the additional control is confided to it) distribute the amount among the several services, making transfers, if necessary, from one to the other.

These allotments have been fixed on the basis of the budget grants for 1870-71 (after the deduction of the £331,038 rateably distributed). The objections which might be urged in detail against this mode of fixing the allotments have not, indeed, been overlooked. But certainly any other method that could be devised would have stirred up controversies and difficulties which might never be determined, and which would have caused an indefinite postponement of the whole measure.

If it were urged, too, that the grants for 1870-71, having been very economically fixed, afford too low a standard for future allotments, we should reply that these grants were really as much as we could possibly afford, and that we are not likely to be able to afford more for some time to come.

In addition to these allotments, the local Governments will have the special assignment of £200,000, already explained, to begin with.

I have stated that the regulation of the expenditure in these branches is to be confided to the local Governments, subject to certain general conditions. The effect of those conditions is briefly this, that, without the previous consent of the Government of India, no new appointment above a salary of Rs. 250 per mensem is to be created, nor old salaries raised beyond that amount; that no class or grade of officers is to be created or abolished, and the pay of no class or grade of offices is to be raised; that no addition or alteration is to be made, as regards pay and allowances, in the provincial departments of any province which might lead to inconvenience in the imperial departments or in other provinces.

The principle of these conditions is that whatever be the degree of control conceded to the local Governments, as regards amount of expenditure and strength of establishments and the like, the regulation of salaries, of rates of pay, even the lowest, of allowances and pecuniary privileges, must remain with the Supreme Government. Strictness in this respect is essential. Connected by the interchange of information as the several provinces of India necessarily are, whatever affects the interests of the public servants and establishments in one province becomes known in all the others. If anything be conceded in one place, applications for similar concessions are sure to be made from other places in a manner difficult to be resisted. If pay be raised in one department, expectations of similar augmentation are apt to be created in other departments. This consideration becomes of special moment when certain departments hitherto imperial become local, while other departments continue imperial,—not, indeed, that uniformity of pay and allowances is necessary for

all departments and all establishments alike; nor even that such uniformity is essential for the same department, for instance, police or education, all over India. There may—indeed must—be variations in the several parts of India as regards system and organization; there will also be differences in prices, in values, and in such like matters; and these circumstances will lead to differences in rates of remuneration; all which the Government of India has always acknowledged and allowed for. Still, the check of the Central Government is indispensable to prevent these differences from becoming excessive and leading to financial embarrassment. It is clear then that in making these concessions to the local Governments, we have not parted with any of those powers which are needed for the preservation of financial order throughout India.

I have stated that we have made over to the local Governments the receipts arising in these particular departments. These consist, in the jail department, of the proceeds of prison manufactures and the like; in the police department, of payments by municipalities and railway companies, sale of old stores, and so on; in education, of school fees, sale of books, &c.; and in registration, of the fee proceeds. These several receipts which have been previously included in our imperial sheet are excluded from the budget I now present, and transferred to the category of local funds: they will hereafter be accounted for in the provincial statements. The aggregate is indeed considerable, and amounts to nearly $\frac{2}{3}$ of a million. They are, however, in their nature local, and are analogous to the funds which have been always held local, and excluded from the imperial account. They are essentially different from the imperial heads of revenue and receipt. When they are assigned to the local Governments, there is no deviation from the principles which have always governed our finances, to the effect that all heads of State revenue are held as imperial. No attempt has been made to assign to those Governments any branch of the revenues, as that would be a matter attended with difficulties into which I need not now enter. It was intended that an abstract of the estimates of the local Governments on account of provincial services should be presented to the Council with the imperial figures: this will be done in future; but it has been found possible to prepare it this year.

Before quitting this topic, however, I would venture to repeat what I stated before this Council in the budget debate of last year, namely, that too much must not, at the outset, be expected from the local Governments in consequence of any measure of this kind. After all, those Governments will have no golden road open to them, which is not already open to them in a considerable degree

at least. To secure financial benefit, either they must reduce expenditure, or improve existing receipts, or impose new taxation. Now, as regards reduction of expenditure and improvement of existing receipts, they doubtless do already make constant efforts in both these directions. It remains to be seen whether they can put forth more efforts. As regards new taxation, they may do more in that way, but great caution will have to be exercised.

How the several local Governments will deal with their respective shares in the retrenchment of £331,038 from the grants of 1871-72, and how they will provide whatever additional sums may be required for the finance of the services now entrusted to them, is more than I can say at present. It is, however, clear that they have to some extent already made up, or are making up, their quotas of the retrenchment by savings and reductions of expenditure,—a method, in my opinion, the most satisfactory of all. It would be premature to state the precise amount of such savings; but, on the figures now before me, I make out, as already said, that the said savings will probably amount in 1870-71 to £200,000, and there seems no reason why the expenditure for 1870-71 should not at least suffice for 1871-72. There will, however, be some fresh local taxation, more or less, in many parts of the country. In the Madras Presidency, as the Council knows, bills for municipal and local taxation were, a few days ago, unanimously passed by the local legislature. In the Bombay Presidency, the matter is still under consideration. In Bengal Proper, the final decision of the Government of India, approved, after full discussion, by the Secretary of State, has been communicated to the Lieutenant Governor, to the effect that land and other property are to be rated for the support of roads and education. The local Government is still in communication with the Government of India as to the best way of carrying out this decision. In the North-West Provinces, the Punjab, and Oudh, the local Governments have matured plans for provincial imposts, and Bills to carry out these plans will be immediately submitted to this Council.

The Government of India has certainly borne in mind—and we believe that the local Governments also remember—the necessity of caution and moderation in the levy of provincial taxes. We have been, and are, most averse to the imposition of any new taxation that can be avoided. It was this consideration that induced us to lower the retrenchment to £331,038. Our demand at first stood much higher; we reduced it in order that the burdens of the people might be abated, and that the local Governments might be spared the necessity of imposing any but the lightest, and most manifestly equitable, provincial taxes.

I now proceed to the figures of the budget for 1871-72.

The receipts are taken at £49,098,900, or 49 millions, as compared with the 51 millions of the year just about to close. The amounts taken for the main heads of receipt, namely, land revenue, excise, customs, salt, stamps, closely follow the regular estimate for the current year. A moderate improvement is anticipated under land revenue, salt, and stamps. Considering the favorable out-turn of the customs for the current year, which is quite as much as, or even more than, we could have expected, we have not ventured to estimate a further increase for the coming year.

As regards the state of the foreign trade of India, generally, I stated in my last exposition that 1869-70 (speaking on returns for eight months) would prove to be a year of retrogression after several years of satisfactory progression. The result has shown a decrease of 5 per cent. in value as compared with the preceding year. This reduction is, however, mainly due to a reduction in the tariff valuation, so that on the whole the real decrease was but slight. The total value of the trade is taken at $100\frac{1}{2}$ millions sterling. For the current year 1870-71, there may be some improvement. The condition of the principal import, *viz.*, piece goods, has been already noticed. Among the exports, jute (fibre) continues to flourish, the yield of the last crop having been abundant. Last year there were 3,361,852 or $3\frac{1}{3}$ millions of cwts. exported; in the current year, the export will be greater. The cotton export of 1869-70 amounted to $1\frac{1}{2}$ millions of bales (equal to 555 millions of lbs.), being less than that of the preceding year. There seems likely to be as yet a further falling off this year 1870-71 of this staple in quantity, though not in value. We bear in mind the consequences, so important to India, likely to arise from the revived and increased production of the article in the United States of America. In 1869-70, there were $12\frac{3}{4}$ millions of lbs. of tea exported from India; this year the quantity will be somewhat less. Last year there were 36 millions of lbs. of coffee exported; this year the quantity will be greater. Last year 98,000 cwts. of indigo were exported; this year the quantity will be about the same. There are now eight months' returns in the current year available. Judging from them, we are led to anticipate that the foreign trade of the country will rise to more than 100 millions sterling in value. As regards goods, indeed there is a clear increase both in exports and imports; but there is a marked falling off in treasure. Last year 14 millions sterling of treasure were imported; this year only 4 millions were imported in the first eight months.

We have not overlooked a subject adverted to in my last exposition, namely, the remission of the export duty on Indian and Burmese rice. But, considering that there has been all through the current year an improvement

in this branch of trade, and an increase in the yield of the duties, we are not prepared, under present financial circumstances, to propose any change.

The opium estimate is taken at a little more than the amount which we are receiving for the current year, or just over 8 millions gross. The current year has indeed, as already seen, been in this respect prosperous beyond expectation. We hope that the circumstances of the time warrant us in anticipating a fair amount of prosperity for the coming year. The advices from China are favorable on the whole. The prices in both the Indian and Chinese markets are, despite fluctuations, fairly satisfactory. For Bengal, we are not able yet to announce the exact number of chests that we expect to sell, but we have 41,042 chests actually secure in our warehouses. The precise number of chests which we shall sell in 1871-72, in addition to the above stock, depends upon the number of chests which we may resolve to offer for sale in the calendar year 1872, which again depends upon the out-turn of the crop now about to be gathered. At the last moment, I regret to say that the weather in the opium-growing districts of the Bengal Presidency is reported to have been of late somewhat unfavorable to the ripening crop. The area under cultivation this year is, however, larger than that cultivated last year, and we entertain hopes that the produce may at any rate not be less than last year's crop (54,072 chests provision opium). For the chests that we may sell in 1871-72, we have assumed an average price of Rs. 1,075, or £107-10s. per chest. The average price per chest in 1870-71 has been Rs. 1,120-8 (£112-1s.) per chest. The latest sale has produced Rs. 1,169 (£116-18s.) per chest. On this very important point, the estimate seems to be prudent, and leaves a margin for fluctuations not now foreseen. For Malwa the duty being fixed (Rs. 600 a chest), the real point for forecast is the number of chests likely to be exported. The number in 1869-70 was 39,371 chests; that in 1870-71 will be probably 38,742 chests. We have estimated for 1871-72 as many as will bring the total number of chests (Bengal and Malwa) to 90,000,—no doubt a full number, quite up to the average of recent years. But the prospects of the present crop in Malwa are reported to us by telegraph to be up to yesterday excellent; we are selling this year a much larger provision of Bengal opium than we sold last year; and if the quantity be taken at a full estimate, still the price assumed for Bengal is apparently a moderate one. As a whole, the estimate will, I hope, be considered moderate.

The increase (£113,900) in the forests estimate allows for increased consumption of timber in the construction of the State Railways, partly counter-balanced by increase of expenditure (£65,100) on the other side of the statement.

The increase (£19,400) in telegraph arises from improved receipts on the Indo-European line *via* Persia and Russia, which has been working with marked efficiency throughout the year. The recent increase in the tariff of both this and the sub-marine line is to be regretted, but I fear that it will be found to have been absolutely necessary to render the continuance of the two alternative lines (so desirable for securing our communications) financially possible. At present the Indo-European line appears to be outstripping its rival in the Red Sea.

The low estimate of mint receipts is owing to the state of exchanges, which may, we fear, not recover sufficiently for much bullion to be presented for coinage. Our mints are unfortunately at present in a condition of enforced inaction.

A diminution is shown in the estimate for miscellaneous receipts, because we do not expect any such arrear adjustments as those whereby this item is swollen in the current year.

The items of decrease under the heads of law and justice, police, and education arise from the transfer of the receipts of jails, registration, police, and education to local funds in the manner I have already described to-day. All the items transferred amount to a total of £656,400.

The Post Office shows a decrease of £29,500, the receipts this year having been unduly swollen owing to some misunderstanding by the civil departments of the Post Office rules. The receipts might have been, by this time, greater perhaps than they are, had it not been for the concession to the public of carrying half a tola in weight, instead of a quarter tola, for half an anna postage. The change, however, has not caused any actual loss of revenue. This result is, of course, owing to increased number of letters. Two years ago I stated the number of covers of all kinds annually received by the Post Office in India at 70 millions. It has now grown to nearly 95 millions.

In respect to the telegraph receipts, I may observe that the reduced rate of one rupee for a message of ten words to any part of India has worked so far successfully as to cause an increase already of more than 50 per cent. in private telegrams; but it has not yet caused such an expansion of telegraphic communication as to bring about a financial success. The total number of messages despatched in India by the Government Telegraph and by the Railway Telegraph for the public does not exceed 700,000 annually, a number which is very small for so large a country as this.

The head of assessed taxes I shall reserve for separate notice hereafter. The Council will perceive that it shows a decrease of £1,475,000.

It will hence be apparent that the budget estimate of receipts compares favorably with the regular estimate of the current year. If the receipts now transferred to the local Governments had remained as before, and if the assessed taxes had been retained at the same rate, then the total for the year, instead of being £49,098,900, would have been £51,230,300, or 51¼ millions,—as high a figure as has ever been presented. The diminution then in the present total does not indicate any diminution whatever in our real resources.

I now come to the ordinary expenditure of the year. This is estimated at £49,005,500, or just 49 millions, showing a reduction of £1,046,300, or one million below the estimated expenditure of the current year. This result is, *primâ facie*, satisfactory. There are several important points in the figures, however, which I must briefly notice. Before doing so, I will clear off some of the lesser points.

In the first place, it will be observed that there are various small increases under headings relating to the collection of the revenue, namely, land revenue (£120,500), forests (£65,100), excise (£21,400), salt (£46,200), opium (£37,900), which do not arise from any permanent accession to establishments or such like expenditure, but from temporary measures leading directly to a pecuniary return, as, in land revenue, for re-assessments; in forests, for bringing additional timber to market; in salt, for expenses at the Sambhur Lake; in opium, for extension of cultivation; and so on.

We do indeed always accede to well considered applications for grants for re-assessment of the land revenue, an operation which generally, though not always, leads to increase of income. Our notice has been attracted to the apparently slow progress, despite considerable outlay, in the re-assessment of the land revenue in the Punjab, a delay which seems prejudicial to the fiscal interests. This is a matter peculiarly within the province of the local Government; the point however has our attention.

The increase (£95,200) shown under stamps and stationery is due to the exhibition of the charge for stationery for the first time under this head. The increase of £74,200 under administration is chiefly owing to the transfer of the charge for the printing establishments of the Supreme Government to this head. It is not thought expedient to maintain a separate head of stationery and printing for this item and for the cost of stationery alone. Provision has

also been made for the contemplated Department in the Government of India for revenue, agriculture, and commerce, the creation of which is not expected to add ultimately more than £2,000 to the cost of the establishments of the Supreme Government.

The decrease shown under the heads of law and justice (£535,300), of police (£2,269,500), of education (£606,200), of medical services (£334,800), of printing (£284,100), of public works ordinary (£1,575,600) arises from the charges for these services being in whole or in part transferred, under the arrangement I have to-day described, from these several heads to the new head of allotments for provincial services, which head appears for the first time in our statement. The services of police and education having been transferred wholly, disappear from our statement. The heading of stationery and printing also disappears; printing becoming henceforward almost wholly a provincial service, and stationery being transferred, as above explained, to stamps. The headings of law and justice, of medical services, and of public works have been only partially transferred. The decrease shown under law and justice relates only to jails and registration; that under medical services to those establishments pertaining to civil stations, to dispensaries, and to sanitation, which are immediately under the local Governments; and that under public works to roads other than military, and civil buildings, with their due proportion of establishments.

The decrease under miscellaneous is due chiefly to our being able, in consideration of peace happily restored in Europe within the last few days, to estimate for a rather more favorable rate of exchange than we have had to meet this year. The rate we have taken is 1s. 10 $\frac{3}{4}$ d. for the rupee, giving, upon a supply of 9 millions sterling, a nominal loss of £494,500.

We have not found it convenient to arrange for proceeding with the general census of India at present.

The increase of £76,200 for interest relates to the loan provisions for the two years, which I shall notice separately hereafter.

The new head of allotments for provincial services (£4,799,300) comprises the imperial assignments made, upon the basis of the grants of 1870-71, to the several local Governments in India for jails, registration, police, education, medical services, printing, roads and civil buildings, and their connected establishments, less the amount of provincial receipts under these heads, which receipts have been surrendered to the local Governments.

The expenditure for the army is set down at £15,984,000, showing a decrease of £316,000. Of this decrease, £270,000 occurs in India and £75,500 in England; in fact it for the most part occurs in India, and mainly for this reason, that no outstanding amounts such as have had to be charged in the current year for the overland transports are expected in the coming year.

In my last financial exposition I stated what had been done regarding military reductions. I added that our recommendations for reductions in the artillery and the Native army were under the consideration of Her Majesty's Government in England. During the current year, progress has been made with both these important questions, which necessarily involve doubtful or controversial points. After discussion we have submitted our final proposals. We now estimate a saving of nearly £70,000 by a reduction of five batteries of horse artillery and three garrison batteries. But in this as in other cases the reductions are so managed as to cause no diminution in effective strength of European soldiers. Under all the circumstances, we have felt justified, moreover, in estimating a reduction of £100,000 in the expenditure on the Native army for the coming year. On the other hand, we have been obliged to allow increases for camps of exercise, for military instruction, and for the manufacture of ammunition. On the whole, the amount estimated in India for 1871-72, namely, £12,410,000, is the lowest amount that has been taken for any year since the war of the mutinies.

Though the military charges in England do not show a further increase in the coming year, their growth of late years has not escaped our notice. It has occurred under the heads of overland transports, of furlough allowances, and of stores. The increase in furlough allowances in England, arising from officers drawing furlough pay more than heretofore in England instead of in India, is mainly apparent, being counter-balanced by decrease in India. The increase in stores is for the new breech-loading arms, and is so far not to be regretted, the importance of the arms being too manifest to require explanation. The only item which causes anxiety is the overland transport service, which, however advantageous, does seem likely to cause a permanent augmentation to our expenditure. Attention is being given to the matter. I may add that the important head of retired allowances does not at present show any increase. Whether it is, or is not, likely to increase in future, is a question on which we have submitted our views to Her Majesty's Government in England.

The expenditure proposed for public works ordinary amounts to £2,365,000, or 2½ millions. In my last financial statement I explained the reasons why the grant for this branch, once so large, had been reduced to 4 millions. It is now

nominally brought down to $2\frac{1}{3}$ millions by the transfer of $1\frac{1}{2}$ million to provincial services, as already explained to-day. There have been also some further retrenchments from the grants. For the laying out of the $1\frac{1}{2}$ million annually, the several local Governments will in future answer. The $2\frac{1}{3}$ millions now remaining under the general control of the Government of India consist of—

	£
Military ...	1,012,500
Civil Buildings ...	150,700
Roads and Communications	115,900
Miscellaneous Public Improvements ...	25,600
Agricultural	454,900
Establishment and Tools and Plant ...	605,400
	<hr/>
TOTAL	2,365,000
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These important grants manifestly stand very low,—lower indeed than they have been for years past, and almost as low as can reasonably be expected. The grant for military buildings includes the completion of those new double-storied barracks which had been commenced. In my statement made in March 1869, I went, at some length, into the subject of these barracks. Since then the execution of the scheme has been somewhat delayed from several reasons. It was found that in some places the existing accommodation for the troops was sufficiently good to allow of the new buildings being postponed at a time of financial exigency. There are plans for placing an increased proportion of the troops at hill stations, to some slight extent reducing the need of accommodation in the plains. In some respects, too, there arose doubts as to the suitability of the designs of the new structures. The expenditure therefore on new barracks has been comparatively small (£401,558) during the current year, and will be only £436,533 during the coming year. I need hardly add, however, that the important subject of providing the best obtainable accommodation for the European troops is one which has our constant attention.

The item of establishment, already reduced, may perhaps alone admit of further reduction.

I gather that it has been supposed by some that public works expenditure has been maintained unduly high of late. But the Council can judge whether any such supposition could be supported by these figures. Surely no one will be found to say that the $1\frac{1}{2}$ million allotted to the local Governments is too much. And as regards the $2\frac{1}{3}$ millions remaining under the Government of

India, surely no one can justly say that the amount is not moderate, considering the several services and the various provinces in which those services occur.

The net amount which the country will have to pay to the Railway Companies on account of guaranteed interest is set down for the coming year at £1,856,900, or upwards of $1\frac{3}{4}$ million; about the same amount as that which is being paid during the current year. These amounts are no doubt formidable and are the heaviest ever yet presented in our statements. The steady accretion year by year of these payments does indeed afford matter for reflection. The main cause is the growth of our gross guaranteed interest. On the one hand, this gross amount grows yearly in England; last year, 1869-70, for instance, it was £4,176,008; next year it will amount to £4,638,600, an increment of nearly half a million within two years. On the 31st March last the total capital outlay stood at $83\frac{1}{2}$ millions (£83,444,147) out of a total capital subscribed of $86\frac{1}{2}$ millions (£86,522,491); on the 31st December it stood at $86\frac{1}{2}$ (£86,525,000), the total amount subscribed being $89\frac{1}{2}$ millions (£89,460,000). We have now nearly 5,000 miles of guaranteed railways open, besides 1,000 miles sanctioned or under construction. On the other hand, the set-off in India, namely, that of the net traffic receipts, does not grow at a corresponding rate; just now indeed it is hardly growing at all. Last year it amounted to £2,628,944; this year we seem likely to receive only £2,530,700, and next year we expect £2,781,700. It seems to be not so much that the working expenses are unreasonable after allowing for new lengths of line opened—though no doubt there is room for economy;—it is rather that the traffic, especially the goods traffic, has not of late been so flourishing as we might have hoped, considering the increased length of open lines. Last year the gross traffic earnings amounted to £6,204,943; this year they amount to £6,551,700. For next year they are set down at seven millions (£7,006,000). In my exposition of 1869 I put down the quantity of goods carried at three millions of tons annually and the number of passenger journeys at 16 millions. At the present time the annual tonnage may be set down at $3\frac{1}{2}$ millions and the passenger journeys at $17\frac{1}{2}$ millions; showing no considerable increase of late, and leaving an immense way for our traffic to make up before it will bear any favorable comparison either with the size and population of India itself, or with the results obtained from railway communication in other countries.

Nor has any great progress been made of late by the guaranteed lines towards providing for the 5 per cent. interest on capital, and towards discharging the debt due by them to the State. According to the figures of the regular estimate, the East Indian Railway is paying, upon the capital actually expended

to the 31st December 1870, 4·8 per cent. per annum, the Eastern Bengal 3·1, the Great Indian Peninsula 2·7, the Bombay, Baroda, and Central India 2·4, the Madras Railway 2·2, the Great Southern of India 1·4, and the Jubbulpore extension only 1·2 per cent. The railways in India as a whole are thus, at present, paying less than 3 per cent. During the last five years the increase of earnings, whether gross or net, has been in the Bengal Presidency rather than in the Madras and Bombay Presidencies. The East Indian Railway and the Eastern Bengal line alone show any large increase. The other lines have remained comparatively stationary in this respect during this period.

So long as the construction of additional lengths of railway is going on, the capital accounts, as a whole, necessarily increase, and with them the gross guaranteed interest charge. For a reduction in the net charge on this account we must look to increased traffic receipts; but, as just explained, these have not of late kept pace with the growth of the gross charge. It is the more essential, therefore, that as the several undertakings are completed, or approach completion,—and many of them are now in this state,—the further expansion of the capital accounts should be strictly watched and controlled. Strenuous endeavours have been made in this direction for long past, and orders have issued quite recently for the making up of the capital accounts of the several Companies. Rules have also been prescribed for a closer review of the objects for which capital outlay shall in future be incurred on open lines, and a money limit has been fixed within which all outlay on individual works shall be charged to revenue. A provision like this will, it may be hoped, result in the necessity of every work being jealously scrutinized by each party to the contract, and the constant accretion of the capital accounts by the frequent admission of small items of charge will thus be checked.

During the year by special arrangements made by the Secretary of State with three of the guaranteed railways (Great Indian Peninsula, Bombay and Baroda, and Madras), their debt to the State has been cancelled, and the right of the State to purchase the lines at the first optional period waived, on the condition that the Government shall, during the remainder of the terms of the contracts, receive half of any net traffic earnings in excess of 5 per cent. The East Indian Railway did not assent to this arrangement, and the offer will not, I believe, be repeated to them or extended to the other lines.

I must here ask leave, in reference to public works generally, to bear testimony (in which testimony your Lordship and this Council will doubtless concur) to the very valuable co-operation afforded to the financial administration

by Colonel Richard Strachey, the Secretary in the Public Works Department, and now a member of this Legislative Council. Of late years the reduction of expenditure has been greater in the Public Works Department than in any other. However much this reduction is to be regretted, it certainly has been financially necessary; and I cannot testify too strongly to the able and the judicious efforts made by Colonel Strachey in this direction, without which efforts these important financial results would have been impossible.

It may be interesting to note the result of the English expenditure (ordinary) shown separately in one of the accompanying statements. In the regular estimate for 1870-71 it is set down at £8,302,900, and in the budget for 1871-72 at £8,124,800, showing a decrease of £178,100, and this notwithstanding an unavoidable increase of £80,200 of interest on money to be borrowed. Thus, although there have been increases during 1870-71, which I have for the most part explained to-day, there is no further increase in the budget for 1871-72.

Before leaving the subject of ordinary expenditure, for the reduction of which we have striven so hard, I shall quote a passage from a despatch received by us from the Secretary of State in August last, which runs thus:—

“Upon a consideration, generally, of your estimates of income and expenditure, I am satisfied that you have laboured earnestly to effect every reduction which can be carried into effect without impairing the efficiency of the several departments of Government.”

So much, then, for the various items of ordinary expenditure.

Besides the ordinary expenditure as above explained, there is proposed an expenditure for public works extraordinary of £3,626,000, or upwards of $3\frac{1}{2}$ millions, to be provided for from borrowed funds, bringing up the total expenditure, ordinary and extraordinary, to £52,631,500, or $52\frac{2}{3}$ millions. Whether the full amount of $3\frac{1}{2}$ millions will be really laid out during the coming year, is more than I can say, considering that it has never yet been found possible in any year to spend the amount proposed for these works. The works in question are irrigation projects in the Punjab, North-Western Provinces, Oudh, Behar, and Orissa, and State Railways in the Punjab and Rajpootana. The careful enquiry needed for these difficult irrigation projects, and the necessity of providing for adequate returns in water-rent, may account for much delay in breaking ground. The gauge question having been at length settled, we may hope to soon see a vigorous commencement with the State Railway works, some of which are urgently needed to cheapen the supply of salt for the people.

The new gauge determined after much consideration by the Government of India is that of 3 feet 3 inches, or 1 metre, which is narrow as compared with the existing gauge in India of 5 feet 6 inches. I cannot here enter into this moot question. I shall only observe that the adoption of the comparatively narrow gauge will, in our belief, cause a large saving both in original outlay and in subsequent working charges. The importance of this consideration will be manifest from the facts I have mentioned to-day, regarding the growth of net interest charges for the existing railways. Doubtless the further extension of the railway system in the continent and peninsula of India is most desirable. But unless the work can be done more cheaply or made more profitable than heretofore, the country cannot afford to pay for such extension. That is the plain fact which renders economy in construction and management of railways so important as to weigh heavily even against considerations of efficiency.

Such, then, are the figures for 1871-72. On a comparison of income with ordinary expenditure, the result is an equilibrium, supported by a small surplus of £93,400,—a margin which is indeed almost too low for the requirements of the public service.

I must now ask the Council to revert to the item of assessed taxes on the receipt side of the budget for 1871-72. This is set down at £600,000, which, as compared with the £2,075,000 of the current year 1870-71, shows a reduction in this taxation of £1,475,000. This is obtained by lowering the rate of assessment from 6 pies in the rupee, or $3\frac{3}{8}$ per cent., to 2 pies in the rupee, or a fraction over 1 per cent., and by raising the minimum income liable to assessment from 500 rupees to 750 rupees; in other words, by exempting incomes below 750 rupees. The one per cent. income tax which we retain is manifestly indispensable, inasmuch as without it we should have to produce a budget with a deficit, which is an alternative not to be adopted so long as any legitimate or reasonable resource may remain to us.

Still it may be remembered that we now propose to reduce the income tax to the lowest rate at which it has ever been levied in India, and indeed the lowest at which it could be levied, if retained at all. The proposed rate is equivalent to $2\frac{1}{2}d.$ in the pound. The rate of the income tax of 1860 was 4 per cent., or $9\frac{1}{2}d.$ in the pound; subsequently reduced to 2 per cent., or $4\frac{3}{4}d.$ in the pound; the rate for the income tax of 1869-70 was, on the whole year, $1\frac{1}{2}$ per cent., or $3\frac{1}{2}d.$ in the pound; that for 1871 was $3\frac{1}{8}$, or $7\frac{1}{2}d.$ in the pound.

It is indeed a source of satisfaction to us to find ourselves able to provide for the requirements of the year with so low a rate of income tax, and to afford

so considerable a measure of relief to the tax-paying classes of all degrees in British India.

More particularly are we gratified at being able to exempt all incomes below Rs. 750; the effect of this will be to altogether relieve about 240,000 persons heretofore taxed. The total number assessed to the existing income tax is about 480,000; under the now proposed tax the number will be reduced to about 240,000, which really forms a very small proportion (1 in 625, or say 1 in 120 heads of families), out of a population of 150 millions. It was in respect to the small incomes below Rs. 750 that complaints of over-assessment or exaction, or other vexation, have mainly arisen. We have been impressed by the statements made regarding the pressure of the tax, and its concomitants, upon these small incomes; troubles which, we fear, in such a country as India are practically difficult of remedy, though of course no effort has been spared for prevention or for cure. While the rate remained low as in 1867-68 and 1868-69, these complaints were not perceptible at all, or were much less rife; and no doubt this year the inherent difficulties of the case were aggravated by the increased rate. Whether they would, or would not, be essentially mitigated by reduction of the rate, may be a question. At all events, by the exemption of the lowest class of incomes altogether, we hope that some at least of the most salient points of objection will be effectually removed, and that the sacrifice of revenue caused by the exemption (some £150,000 at one per cent.) will not be found considerable.

It may be borne in mind that in 1860, and subsequent years, the tax reached down to incomes of Rs. 200; subsequently it was remitted on incomes below Rs. 500. The license tax of 1867 reached down to incomes of Rs. 200. The certificate tax of 1868 reached only to incomes of Rs. 500. These were both virtually rough income taxes. The 500 rupees limit was observed in the income taxes of 1869-70 and 1870-71. Thus it is clear that from time to time the policy has been to extend the exemption more and more among the poorer of the classes liable to assessment. And now we propose a further exemption beyond which it is difficult to go, if the tax be retained at all.

I have, therefore, to propose on behalf of the Government of India an income tax of two pies in the rupee, or a fraction above one per cent., and to request leave to introduce a bill into this Council for that purpose. The bill, if it shall pass into law, will replace the existing Income Tax Act, which expires on the 31st of this month (March). We have endeavoured in the bill to amend such of the provisions of the present law as have appeared to operate with occasional harshness, or to cause particular dissatisfaction. We do not propose to enact it for any particular period or to fix any limit of duration.

From this explanation of the revenue and charges of the year, I pass on to the provision of ways and means and to the cash balance account.

We expected to commence the current year 1870-71 with a cash balance of $13\frac{1}{2}$ millions (£13,644,859) and to close it with a balance of $10\frac{1}{2}$ millions (£10,569,443). On closing the account, however, finally for the previous year, we found an actual cash balance at the commencement of the current year of nearly 14 millions, (£13,910,451), which improvement was due to the actual account of the previous year turning out more favorable than the regular estimate. We expect that the current year after its close will leave us a cash balance of 16 millions, or £16,012,051, being $5\frac{1}{2}$ millions (£5,442,608) better than the first estimate (£10,569,443). Throughout the year, the cash balances all over India have been very high, higher than they have been for some eight years past. (Their lowest point was $10\frac{3}{4}$ millions in October.) This circumstance is to some extent satisfactory, and calculated to raise confidence in our finance. Still there are special, perhaps adventitious, reasons why we stand so well in this respect, and even so much better than we expected at the time of my last exposition. These reasons are, firstly, that the opening balance of the year was actually higher than the estimate by £295,592; secondly, that we have spent $1\frac{1}{7}$ million on public works extraordinary instead of 3 millions, as I have already explained to-day; thirdly, that we have paid in India altogether $\frac{1}{2}$ a million less on Secretary of State's bills than we expected; fourthly, that the amount of capital advanced to the railway companies for the construction of the lines has been less by nearly $1\frac{1}{2}$ million (£1,401,200) than was expected; fifthly, that owing to unexpected accession of opium revenue, the ordinary finance of the year has been bettered by a million, as I have also explained to-day. These reasons, with some few changes in the remittance heads, fully account for the improved condition of the cash balances and for the difference between the original and the present estimate.

As might be expected under all these circumstances, our public credit, as proved by the prices of Government stocks, has, on the whole, been higher during the current year than it has ever stood before. Our four per cent. stocks in India have commanded prices of 96, 97, and even 98, for every hundred rupees. In England the Secretary of State's four per cent. sterling paper has been sold at a small premium. In my last statement I noticed the gradual decline in the value of our 5 and $5\frac{1}{2}$ per cent. stocks by reason of the limited period for which our loans at those rates of interest have currency. The decline has continued during the current year for the same reason. That our stocks bearing the higher rates of interest should decline in value, while those

bearing the lower rates are rising, is manifestly a most satisfactory circumstance. It may be interesting to mention here that the amount of our rupee debt (that is, the securities of the Government of India enfaced for payment of interest in England by bills upon India) held at home, grew during the year from £15,839,832 to £17,797,622, or by nearly two millions sterling. This is no doubt due to the adverse rates of exchange.

I have now to advert to the loan arrangements for 1871-72. There will, as might be expected, be some borrowing, inasmuch as I have already stated that $3\frac{1}{2}$ millions are proposed to be spent on public works extraordinary during the coming year.

In my last statement I explained that at the commencement of the current year we had in hand $1\frac{1}{2}$ million due by the loan department to the public works according to the account as then made up. The Secretary of State then intended to raise, by the end of 1870-71, two millions more; he has actually raised $3\frac{1}{2}$. As the Council knows, we have raised nothing in India, save a quarter of a million lent by Maharaja Holkar for a state railway in His Highness' territories. These several sums make up $5\frac{1}{4}$ millions. Against this we have expended in the year (as already seen) $1\frac{1}{4}$ million on public works extraordinary, which, deducted from the $5\frac{1}{4}$, leaves 4 millions in hand, for which the loan department has to account to the public works department. To that balance, however, there is a set-off of £1,105,247 advances to municipalities and the like, to which I shall immediately refer. The actual estimated balance in hand on this account at the end of 1870-71 is about $2\frac{1}{2}$ millions (£2,591,438). Moreover, although our own transactions will result in the reduction of our debt by a small amount (£139,800), the Secretary of State has intimated his intention of borrowing $2\frac{1}{2}$ millions during the coming year, repaying only £5,000, so that we shall add to our debt during the year altogether £2,355,200. This amount, added to the balance just shown, provides more than enough for the $3\frac{1}{2}$ millions of proposed extraordinary expenditure. There is, therefore, neither need nor justification for the raising of any loan in India at present.

It is from these loan funds that we have been able to advance various sums to municipalities for reproductive works on good security for payment of the interest and repayment of the principal. The amount of advances of this nature made or brought to account since the beginning of 1869-70 is net £1,105,247. It is, of course, practically impossible for municipalities to effect any large improvements without raising funds by borrowing. If they must borrow, it is far better that they should borrow from the Treasury rather than in the open

market, for the plain reason that the Treasury can afford to lend on more favorable terms, and also because our financial control over these transactions is thereby promoted. Legal doubts, however, arose as to the competency of municipalities to contract obligations of this description. Therefore a law has been introduced into this Council to enable them to do this, and to render valid the proceedings they may take towards this end under proper sanction. These remarks are irrespective of the debentures issued by certain municipalities, such as that of Calcutta, under a special law.

If extensive disbursements shall hereafter be made under the law before this Council for facilitating advances of money by Government for permanent works of agricultural improvement, the money will be disbursed from the loan funds also.

I must here draw attention to the fast-growing interest on account of these borrowings. In 1869-70 this system was fairly begun; since then $7\frac{1}{2}$ millions (£7,479,099) have been borrowed and $2\frac{1}{3}$ more (£2,355,700) are now to be borrowed, in all 10 millions (£9,974,099); of which $3\frac{3}{4}$ millions (£3,782,411) have been spent on public works extraordinary, and $3\frac{1}{2}$ (£3,626,000) are now set down to be expended; in all $7\frac{1}{2}$ (£7,408,411) millions; besides which a million (£1,105,247) has been advanced as I have above shown. The annual interest on the total sum thus borrowed amounts to more than £150,000 annually; on the total sum expended, or to be immediately expended, it amounts to £350,000. It is hoped that the yearly increase of the item now separately shown as irrigation income will prove more and more a set-off; and that when the State railways shall be opened, there will be a further set-off in that direction. The more complete exhibition of all the income derived by the State from its canal works has occupied, and is still occupying, the attention of the Government of India, and some important points of legislation connected therewith have been brought under the consideration of this Council.

The entire registered debt of India (exclusive of £6,299,700, East India Stock, for the redemption of which a guarantee fund is accumulating under the provisions of Cap. 85, III and IV William IVth) is expected to amount at the end of 1871-72 to $106\frac{3}{4}$ millions (£106,853,400), of which £67,089,500 will have been borrowed in India and £39,765,700 in England. The interest estimated to be paid in 1871-72, exclusive of the dividends on the East India Stock, is £4,742,000, being 4.44, or less than $4\frac{1}{2}$ per cent. upon the whole registered debt.

We duly bear in mind the amounts of the loans bearing interest at 5 per cent., repayable during the coming year. But I cannot yet state the intentions of the Government of India in regard thereto.

After the loan provisions which I have just explained, it remains to see how the cash balances will stand for the coming year 1871-72. In my last exposition before this Council, I described the improvements made in the form of the estimate of the cash balances. It will be remembered that this great account comprises a variety of important items besides the regular income and expenditure of the Government, inasmuch as the Indian exchequer performs a vast amount of business in addition to the receiving of the Government revenues and the disbursing of the Government expenses. The general nature of this business I have described in previous expositions.

I will first set forth the result of the figures on both sides of the account in India, exclusive of England.

The receipt side then is as follows :—

Commencing the year with an estimated cash balance, as already seen, of 16 millions, and a Government income of 49 millions, we expect, besides, $6\frac{1}{2}$ millions of railway traffic receipts, $17\frac{3}{4}$ millions of advances recovered and deposits repayable, including local funds; and $1\frac{1}{2}$ million on the remittance or suspense account between England and India; making, with some other smaller items and transfer entries in all $91\frac{3}{4}$ millions (£91,871,051). On the payment side, besides the ordinary expenditure of 39 millions and the extraordinary of $3\frac{1}{2}$ millions, we have $3\frac{1}{2}$ millions railway working expenses, $18\frac{1}{3}$ millions of advances recoverable and deposits repaid, 9 millions to be paid on bills of exchange drawn in England by the Secretary of State; and $1\frac{3}{4}$ million to be disbursed for construction of railways in India by the guaranteed Companies, making, with some transfer and account entries, a total of £76,749,800, or $76\frac{3}{4}$ millions. This total, deducted from the $91\frac{3}{4}$ millions shown on the receipt side, leaves us an estimated cash balance of 15 millions (£15,121,251) on the 31st March 1872, being the close of the coming year 1871-72.

There is also the cash account kept by the Secretary of State in London on account of India. For the coming year, 1871-72, the receipt side is in this wise. The opening cash balances will be 2 millions; the amount received on bills of exchange drawn on India will be 9 millions; there will be $4\frac{3}{4}$ millions of railway capital subscribed, and there will be $2\frac{1}{2}$ millions borrowed. These, with some smaller items, make up a total of $18\frac{1}{2}$ millions. On the payment side there will be a regular expenditure, ordinary and extraordinary, in England on account of India, of 13 millions (£13,114,300); there will be $1\frac{1}{2}$ million paid on the remittance account, and there will be 2 millions withdrawals of

railway capital. These items deducted from the 18½ millions on the receipt side leave a closing balance of 2½ millions.

The aggregate of estimated receipts and payments in India and England for the year, as I have shown above, stands at 110½ millions (£110,295,334) on each side of the account. I have not attempted to do more than give a sketch of this really vast account, the complete development of which would weary the Council. But even this outline will convey some idea of the dimensions to which the transactions of the Indian exchequer have grown.

I have said that in the deposit receipts are included the local funds, the expenditure from those funds being shown in deposit payments. A new and interesting character will now attach to these funds. They have heretofore, as the Council knows, included the road fund, ferry fund, pound fund, educational cesses, police cesses, profits of prison labour, hospital funds, port and harbour funds, municipal octroi fees under special Acts, and so on. To these there are now added the £656,400 already described to-day, being the receipts of the departments of jails, registration, education, and police, transferred from the imperial sheet. The total thus made up for 1871-72 amounts to £1,028,473, or 4 millions for all India. There will also be added the proceeds of the new local taxes that may be imposed by the local Governments; so the heading will shortly show an augmentation, and may probably grow year by year. Each local Government will in future exhibit a sheet of its income and its expenditure under this head; and in this statement there will be combined the income and expenditure under the new allotments for provincial services described to-day, amounting to 4¾ millions; so that the local budgets under the new measure will deal with an aggregate income of nearly 9 millions to start with.

Before finally quitting the finances of the year, I must ask leave to notice certain remarks which have been made, and indeed reiterated, regarding the accounts of the Home treasury of the Government of India which are kept in England. It has been said that the expenditure in England on account of India is incurred without sufficient reference to the authorities in India, and that the detailed accounts of it are not made known in India. Now, I showed in my last exposition that by far the greatest part of that expenditure is really incurred either under rules proposed by the Government of India, or upon requisitions made by the Government of India. So far we ourselves must accept a very large share of the responsibility. There are some exceptions to this; but they are not considerable. So much for the

expenditure. No doubt the accounts of that expenditure are kept under the direct orders of the Secretary of State for India. But they are rendered to us, month by month, with the greatest regularity and the fullest detail. We again publish the account annually with all its details in the *Gazette of India*, and have usually done so for years past; the publication taking place in the summer. In short, the information before the public in India regarding the expenditure in England is as full as that regarding any portion of the public expenditure whatever.

I may add one word about the Indian accounts. The entire approximate actual accounts for the year 1869-70, ending 31st March 1870, were published on the 3rd September 1870; that is, in five months after the completion of the year. The regular estimate for the year 1870-71 is produced to-day early in the eleventh month of the year, comprising more than ten months' actual figures for all the revenues and for all the civil expenditure, and nine months for the remainder. Now, considering that we have to deal with accounts from eight local Governments, from twelve imperial departments, and 225 treasuries—all scattered at great distances—I think that these facts show a high degree of promptitude and discipline in the Account Department throughout British India.

After this exposition of the prospects of 1871-72 it remains to notice very briefly several measures which have been adopted in connexion with finance.

In my statements made in March 1869 and April 1870, when noticing the success of the three presidency savings banks, I stated that measures were being devised for the ramification of these institutions throughout the interior of the country. During the current year, these measures, after long discussion, were introduced in the several divisions of the Bengal Presidency. The number of new banks already opened is 49; the total deposits on the latest dates for which we have returns amount to Rs. 1,20,693, or £12,069; and the number of depositors is 925. The deposits will doubtless increase from time to time, the present result being only a commencement. This is of course in addition to the Presidency Savings Bank at Calcutta, which now has £291,640 of deposits and 7,464 depositors. We have not yet opened district savings banks under that name in the Madras and Bombay Presidencies, but practically they do exist in every district under those Governments, as the Government Savings Banks in both Presidencies extend their benefits to all depositors without the restriction which was placed upon such institutions in Bengal, where Government servants only were permitted to open deposit accounts. The Government Savings Banks

in the Presidencies of Madras and Bombay are very freely resorted to. The present number of depositors in the Madras banks is 7,189, and in those of Bombay 15,679; the aggregate amount deposited in the Madras banks is £187,727, and in the Bombay banks £141,137. But the figures in both Presidencies are believed to include the deposits of the native army. The system in these Presidencies may perhaps eventually be assimilated to that now introduced in the rest of India. The total of deposits in the savings banks of all kinds in the three Presidencies now stands at £932,573, and the number of depositors amounts to 31,257. This is exclusive of regimental savings banks in Bengal, the deposits in which amount to £76,000. These figures show an increase of nearly 40 per cent. since I first drew the attention of this Council to the subject two years ago. That the increase may be progressive year by year is much to be wished.

In my last statement I adverted to the measure then before this Council for increasing the proportion of the paper currency reserve to be invested in Government securities, and for raising the limit from four millions to six; adding that the operation, if authorized by law, would in practice be kept cautiously tentative. The bill has since passed into law, but we have not yet, under the circumstances of the currency, seen fit to avail ourselves of the power which has been taken. We rather prefer for the present to keep our specie reserve large and full, in order that we may have the means of facilitating the encashment of the notes, of whatever circle, at all the principal treasuries throughout the country. Arrangements of this kind appear even more than ever desirable, since we have (within the current year) obtained power by law from this Council to issue notes of five rupees, a lower denomination than has ever yet been tried in India. I have so recently explained in detail to this Council the arguments in favor of the five-rupee note; the conditions under which the offices of the interior circles of India are to cash notes of all other circles; the arrangements for cashing notes at the ordinary treasuries in the districts in the interior; and the general state of our paper circulation and our reserves,—that I need not advert further to the subject now, beyond stating that the average weekly circulation of 1869-70 has proved to have exceeded $10\frac{1}{2}$ millions (£10,630,473), a slight increase over any previous year; that the circulation of the current year does not promise to be equally favorable, the estimated average circulation appearing not likely to exceed 10 millions; and that the reserve consists of $6\frac{3}{4}$ millions (£6,816,106) in specie, and $3\frac{1}{4}$ millions (£3,227,200) in Government securities; the specie reserve being manifestly strong.

The money order system in India is successfully making good its ground. During the past year 1869-70, orders were issued to the amount of 116 lakhs of rupees, or a little above a million sterling. It is matter of regret that we have not yet been able to establish a similar system between India and England, but difficulties arising out of the fluctuations of exchange have hitherto prevented this. We still hope that these difficulties may be overcome.

I am still unable to report any marked result from the notification of November 1868, whereby it was announced that the sovereign would be taken at the Government treasuries as an equivalent for ten rupees and four annas instead of ten rupees as before. The value of a sovereign having exceeded Rs. 10-4 throughout the year, no sovereigns have been received at the General Treasury, and scarcely any by the Currency Department. The importation of gold into India during the year 1870-71 is expected to amount to only between 2 and 3 millions against £5,690,400 of the preceding year. Gold has been tendered by the public at our mints for coinage into Indian gold pieces to the value of only £4,775. These operations have been of course much affected by the state of the exchanges so greatly militating against the presentation of bullion for coinage. During the year we have, after much unavoidable delay, obtained from England the requisite mechanical appliances for coining gold pieces of ten and five rupees (in addition to the fifteen-rupee pieces previously coined) under the existing law. A few of these smaller pieces have been coined by the Government, and may be considered to represent the Indian sovereign and half sovereign. I hope that this measure may help to pave the way for the future introduction of a gold currency into India.

Such, then, is the exposition which I have this day to offer. The main points have been—

that for 1869-70, instead of an anticipated deficit of £625,594, there has been an actual surplus of £118,668;

that for 1870-71 the surplus estimated in the budget at £163,440 is now estimated at £997,100, or 1 million;

that this surplus is really due to an unlooked for accession of opium revenue;

that without this accession of opium revenue there would have been little more than an equilibrium between income and ordinary expenditure;

that for 1871-72 there is estimated a small surplus of income over ordinary expenditure of £93,400;

that this estimate is arrived at after a large abatement of the income tax : the lowest incomes assessable, namely, those between Rs. 750 and 500, being exempted altogether, and the rates for all classes being lowered from $3\frac{1}{8}$ to a fraction above 1 per cent. ;

that this change in the income tax causes a reduction of $1\frac{1}{2}$ million of direct taxation ;

that the exemption of incomes between 750 and 500 rupees reduces the total number of persons assessed, 480,000, by fully one-half, and releases 240,000 tax-payers ;

that the ordinary expenditure for the coming year shows a decrease of one million of expenditure as compared with the current year ;

that, subject to certain conditions, an increased financial control has been entrusted to the several local Governments in respect of jails, registration, police, education, medical services, printing, roads other than military, and civil buildings ;

that the grants by the general treasury for these services have been reduced by £331,038, and that a fixed limit is imposed on the imperial expenditure on these departments ;

that for these provincial services throughout India, allotments have been made of $4\frac{3}{4}$ millions distributed among the various local Governments ;

that apart from the allotments made to the local Governments under these provincial services for roads and buildings, the ordinary public works grant in India has been brought down to $2\frac{1}{3}$ millions ;

that $3\frac{1}{2}$ millions have been raised by loan in England since my last statement was made, while only a little above one million has been expended on public works extraordinary ;

that $3\frac{1}{2}$ millions are proposed to be spent on public works extraordinary during the coming year 1871-72 ; $2\frac{1}{3}$ millions being provided for by loan ;

that owing to the improvements in the account of the income and ordinary expenditure of Government, and the temporary diminution of expenditure on public works extraordinary and on construction of the guaranteed railways, the cash balances in India are very high, and that no loan is proposed in this country ;

that during the current year various measures relating to finance have been carried out, such as the coinage of ten-rupee and five-rupee gold pieces, the legalization of a five-rupee note in the paper currency, the introduction of district savings banks in the interior of the country.

I must now conclude my exposition. If it be found (as I fear it will) meagre and imperfect in many respects, still I hope the Council will remember that my subject is really too varied and extensive to be fully treated in all its particulars within the limits of the patience of my hearers. At all events, within these necessary limits, I have striven to compress as many facts and considerations as possible.

In 1869 I spoke of flourishing revenue and growing commerce. In 1870 the burden of my story was diminished income and depressed trade. In 1871, however, I have now once more to tell of national prosperity, of abundant harvests, of rising income, of falling expenditure, of improved public credit. In two successive expositions (1869 and 1870) I have had to lament the existence of deficit. But on this occasion, in my third exposition, the picture is at last relieved by the prospect of surplus. The Council knows what strenuous exertions have been made to obtain equilibrium and even surplus. Those efforts seem at this moment likely to be attended with even more success than we at first ventured to hope for.

In 1869 I affirmed that the Government of India had aimed at a financial policy to be at once safe, sound, and just. Since then, two years of trial and labour have passed; and I affirm once more that the same principles have been strictly observed, notwithstanding that the observance caused much trouble and difficulty.

We have maintained a strict distinction as to what expenditure shall, and what shall not, be considered extraordinary to be provided for by loan. All expenditure, however beneficial, not yielding a direct pecuniary return, has been classed as ordinary expenditure. We have resolved that, so far as may be possible, the whole of the ordinary expenditure of each year shall be defrayed from the revenues of that year. We have jealously guarded against everything that might tend to shift the burden of these just charges from the present to the future. We have steadily refrained from providing by loan for any branch of ordinary expenditure or for any public work not yielding a direct pecuniary return. We have even refused to entertain proposals for temporary or terminable loans for such purposes. In preference to any such course, the alternative of enhancing the existing taxation has been adopted. But that taxation has been so adjusted as to fall rather on the richer than the poorer classes of this

country. Though the revenue has been augmented, yet no fresh burden whatever has been imposed on any branch of trade or of industry ; no new imperial tax has been introduced ; no fiscal innovation has been applied to British India generally. In so far as any fresh tax may be needed in any part of India, the disposition has been to rely on local rather than imperial arrangements.

Retrenchments in both the civil and the military branches of expenditure in India have been made. To afford further relief, the expenditure on ordinary public works has been cut down by more than one-third. Strict economy in details has been enforced by the Government of India and by the local Governments. The better enforcement of economy was one of the reasons for investing the local Governments with increased financial control in several departments. That measure also has been commenced by a further reduction of one-third of a million of expenditure.

On the other hand, liberality has been shown in the provision by loan for public works of an extraordinary and reproductive character. But this operation has been so far guarded financially, in that the interest on the borrowed capital is charged against ordinary revenues.

Though carefully weighing all that can be urged against any part of this policy, we have not been, and are not, persuaded, by any consideration whatever, to depart or deviate from it as a whole. We are still prepared to persevere, and to make any effort that can fairly and reasonably be made to act up to these principles ; though we are glad to be enabled by improved circumstances to propose for the coming year a relaxation of some of the stringent measures which, to our regret, had become indispensably necessary for the current year."

At the request of His Excellency the President, the Hon'ble MR. STEPHEN stated that the Bill would be introduced in Council on the 17th instant, and would on that day be referred to a Select Committee. The Committee would probably present their Report on the 24th, and the Council would then be in a position to take the Report into consideration, and would be able to pass the Bill on the 31st. He might further state that the Bill would be published in the *Gazette of India* on Saturday next.

The Motion was put and agreed to.

The Council adjourned to Friday the 10th March 1871.

CALCUTTA, }
The 9th March 1871.

WHITLEY STOKES,
Secy. to the Govt. of India.
Legislative Department.