"A factory has its engine-house, in which is placed the prime mover, the steam or electric engine that supplies power to all other machines. So in the State also there is an engine-house. It is the Finance Department or the Treasury and in that is placed the financial engine which keeps all the machines of the Government at work, turning revenue into public services, just as steam-engine turns coal into power."

The financial resources and expenditure of a Government obviously affect intimately the rate and direction of economic development as a whole. A sketch must, therefore, be given of the structure and development of the finances in the Punjab and of their relation to general economic development.

1. E. Hiton Young. In a forward to Chand, Gyan - 'Financial System of India.'
income of the Khalsa under Ranjit Singh.

LAND REVENUE.— The most important source of revenue under the Sikhs as under the British rule, however, was the land revenue. The Sikh Government most frequently took its land revenue in the form of a share of the crop, an arrangement which proportioned the assessment very satisfactorily to the quality of the harvest, but was attended by much friction and dishonesty. In the Panjab between the Indus and the Sutlej, except in the territory governed by Diwan Sawan Mal, the State claimed from one-third to two-fifths of the crop, but for land with natural advantages as much as one-half was taken, and the villages had to bribe the appraising officers to take less. The rates in the cis-Sutlej States were lower on the whole. The demand was increased by the levy of numerous cesses. Practically no margin was left for rent, and revenue cultivators of all classes were in a large part of the country treated alike, except a few leading men in each village. Cash assessments were occasionally made, the most famous being the very equitable one introduced by Rup Lal in the two plain districts of Jullundur Doab, which he governed from 1832 till Ranjit Singh’s death in 1839.

The land revenue system under Diwan Sawan Mal requires a special attention. Diwan Sawan Mal who governed the territory embracing the present districts of Multan, Muzaffargarh, and Dera Ghazi Khan, and parts of Montgomery, Jhang, and Dera Ismail Khan, following the example of Mahommedan rulers who

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2. I.G.I.P., 1, 105.
preceded him in Multan, levied a fixed cash assessment on each upland well. For wells and jhalars in the riverain tracts leases for a fixed cash demand were sometimes given, but even then the finest crops, such as cane or indigo, had special rates. A normal well area was fixed according to the circumstances of each locality, and any cultivation in excess of that limit was charged at a fixed money rate per bigha. In some places the demand varied according to the number of oxen employed on the well and was remitted when the well was deserted. For flooded lands a moderate share of the produce was taken in kind or occasionally cash crop rates were charged. The share of the State was pitched especially low in the case of new cultivation. The Diwan's system suited to the country and the British Government followed him at some places.

EXCISE AND CUSTOM UNDER RAJIT SINGH.—For the purpose of excise and custom, the whole country was threaded with a network of preventive lines. These lines were dotted with innumerable posts for the collection of every kind of tax, direct and indirect. At the same set of stations, excise and custom taxes, town duties, transit duties, capitation imposts, artisan fees, were all levied. The principle was to extract taxation from every thing indiscriminately. No distinction was made between domestic and foreign industry, between articles of indigenous and extraneous production, between manufacture at home and abroad. The artisans of Lahore and Amritsar were taxed, together with the goldsmiths and ironmongers of Kabul. The silks of Multan, and the cloths of the Panjab were no less dutiable than

the cotton goods of central Asia. The cotton, indigo and the sugar of the Panjab had to pay an excise about equal in amount to the custom levied on the same produce imported from India. Nor was salt the only necessity of life subject to taxation; ghee, tobacco, all the poor man's luxuries, were placed under contribution. No article, home or foreign, could traverse the kingdom in its length or breadth, nor could it enter any great market without paying duty a dozen times over. Those inequalities in prices, which must always be created by distance, were aggravated by this perpetually recurring taxation. The inhabitants of the Sutlej states, if they wished to procure the products of Kabul, had to bear not only the additional cost of transit, but also the burden of inland duties; in fact the one increased pari passu with the other.

These taxes were of course, quite distinct from the land-tax and its accessories. Yet many agricultural commodities of domestic production were made exciseable after having already paid their full share to the State, in the shape of land-tax.

Sikh Management of the Salt Revenue.- Salt which was one of the forty-eight articles liable to customs, town or transit duties, requires a special notice. There was no systematic management for salt revenue, and no fixed scale of duties. The cis-Indus mines were farmed out to individuals of rank and eminence. The farmer, as long as he paid in the amount of his contract enjoyed a monopoly of the sale. He was under no restriction as regards time, place or price. He might sell,

whole-sale or retail, at the mine or at distant markets. He might regulate his proceedings by the state of prices, and the demand; or if he preferred, he might hoard up the salt in depots and entrepots.

By degrees, considerable laxity crept into this system; the farmers allowed the merchants to carry off immense consignments of salt at a nominal price, after giving bonds for the duty, which amount was to be paid up after the disposal of the commodity. Thus the mercantile community fell heavily into debt with the state contractors, who in their turn, eventually fell into arrears with the Lahore exchequer. Also during the declining years of the Sikh supremacy, it became customary to grant assignments on the salt revenue, and the privilege of taking and disposing of salt, duty free, to court favourites and religious characters; and this practice introduced still further derangement into the fiscal operations.

But the system, thus prescribed, was prejudicial rather to the state revenue than to the interest of the consumer. It certainly had a tendency to keep down prices. The farmers for the sake of their own remuneration, watched the state of the market, the rise and fall of prices; and accommodated the supply to the demand; and the device of special grants, just alluded to, brought quantity of untaxed salt into competition with that which had already contributed to the farmer's revenue.

The Trans-Indus mines were managed differently, or rather

were not managed at all. They were held by the fierce mountaineers of Kohat; no speculator would be rash enough to set up a concern there; and even the Government would have to collect its revenue with the sword; so the matter was compromised by surrendering the mines to some local chieftains, on the payment of a small annual tribute; but the salt when in transit, was liable to town duties at Peshawar and other cities.

Under this system, however, the country was, on the whole, prosperous. Every Jat village sent recruits to the Sikh Army who remitted their savings to their homes, and many a heavily assessed village thus paid half its land revenue from its military sources.

From land revenue Ranjit Singh raised 165 lakhs of rupees, partly in cash and partly or mostly in kind. From excise he realised 2 lakhs.

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REVENUE SYSTEM UNDER THE BRITISH RULE

After the annexation, the British Government changed the entire revenue system of the Panjab. The chief items of receipt, as declared in the first Administration Report, were to be the land-tax and its accessories, such as grazing-tax, proceeds of

gardens, forests, gold washing, and iron mines, etc. The next item was composed of excise on salt, and on drugs and liquors, the stamp duties and canal water rent. The third item of tribute was insignificant, consisting mainly of feudal aid paid by jagirdars. The fourth item was the Post Office revenue. The fifth was entitled miscellaneous, and comprised all sums not included under the categories, such as, judicial fines, fees on the serving of writs, proceeds above from prison labour, from the confiscated property and of present.

All heads, except the "miscellaneous", belonged to the head of ordinary revenue, though they were of course liable to fluctuation. But several sums belonging to the "miscellaneous" heading, especially the confiscation proceeds and the realization of arrears, were extraordinary, and were, moreover, in their nature, only fugitive and precarious.

It is necessary, here, however, to discuss only the most important of the items of receipt.

**LAND REVENUE**

Land revenue had been of outstanding importance in India not only because, in the 19th century, it provided a large proportion of the total revenue, but also because of the part played by it in the general administration of the country, the controversies that had raged around the principle underlying land settlement and assessment, and because it was the chief means by which the agricultural classes contributed towards the expenses of government.

Without entering into the controversy whether land revenue was a tax or rent, we may here accept the view expressed in Land Revenue Act, XVII of 1837, Section 12, that it was "the first charge upon the rent, profit, or produce" of an estate or holding and, until it had been paid, they could not, without the previous consent of the collector, be taken in execution of a decree obtained by any private creditor.

**FIXED CASH ASSESSMENT**... It was to maintain the tradition imported from the North-Western provinces, that the British Government levied the revenue in the form of a fixed cash assessment, payable from year to year independently of the character of the harvest. This form of revenue was, in most parts of the country, a considerable relief to the people after the harassment of the Sikh system, and ever since, it remained the predominant part of assessment in the province. Subsequently, however, it became clear that, in dealing with a people who saved little from one year to another, an assessment of a fixed character caused a good deal of hardship where the harvest varied greatly in character; and it, therefore, became gradually more usual, especially on river-side areas and in rainless tracts of the Western Punjab, to assess the land by a cash acreage rate on the crops of each harvest, so that the revenue could fluctuate with the area actually cropped.

**SHARE OF PRODUCE TAKEN**... The first rough assessments aimed at obtaining the money value of a share of a gross produce approximating to that obtained by the Sikh revenue proper, after
excluding its superfluous cesses. No minute valuation was resorted to; it was first calculated that one-third of the gross produce was a fair share for the Government revenue when prices were low; but this was soon reduced to one-fourth; and as more detailed information became available, it became usual to look upon one-sixth of a gross produce as a fair standard of assessment. This could be calculated without difficulty for the grain crop, and was valued at leniently-calculated average harvest prices. Later on, however, when land became more valuable and letting to tenants more common, as also when rental methods were fully organized and many minutes on North Western settlements had appeared, it became, and then continued to be the rule to assess on the net rather than on the gross assets. Major John Colvin, the Lieutenant Governor of the North Western Provinces reduced the standard there to about one half of the net assets in 1855 and this in Panjab, was, a few years later, accepted as a matter of course. When the Act of 1871 was passed, this idea or principle was still more prominently brought forward. Rules for assessment were first formulated in 1873. There were approved by the Government of India. The standard distinctly declared was not to exceed the "estimated value of half the net produce of an estate, or, in other words one-half of the share of the produce of an estate ordinarily receivable by the landlord either in

16. L.S.B.I., 571.
17. ibid 572-573; I.G.I.P., i, 112; S.M. 25; I.G.I., xx, 345.
18. S.M. 34; L.S.B.I., 573.
money or in kind." The importance of the produce estimate in a country where landowner as a rule divided the crops with their tenants, was emphasized, while at the same time the weight to be given to general consideration was admitted. Assessment instructions under section 49 of the Act of 1887 superseded those which had been in force since 1873. In 1888, an assessment circular was issued, introducing certain changes in the system, but the rate of assessment continued to be the same. It became a rule to assume, as in the United Provinces, that the normal competition rates paid on rented lands were a fair index to the net assets of the proprietors generally. In the rare cases where the competition rents were ordinarily paid in cash, there was little further difficulty; but in the more usual cases of kind-rents the value of the net 'assets' could be arrived at only after a number of elaborate and somewhat uncertain calculations as to prices, yield, etc. Although, therefore, the standard of assessment was represented, as in the United Provinces, by one-half of the net 'assets', this standard was not, as in those provinces, looked on as determining the average assessment, but as fixing a maximum which should not be exceeding.

The Panjab agriculturists, as repeatedly reported by the Panjab Government, were honest and the resort to coercive processes in the realization of the revenue was very rare.

Water-advantage revenue appeared for the first time in the account in 1869-70. Under the first methods of assessment canal-watered villages were mostly assessed with a general rate, of which a fraction was credited to the canal revenue account. But, afterwards, a rule was uniformly adopted which had first been used in Mr. Edward Princep’s Settlements (1862-68). The land was assessed on its ordinary or 'dry' aspect, apart from the well or canal, and then they added what was called a water advantage rate. It was paid by acreage-rates on the area actually irrigated in each year. The Canal Act of 1873 recognized assessment in that form and since then the rule remained in force. This rate was separate from the rate charged for the use of water as a commodity.

Over and above the Imperial Revenue demand were the cesses which were calculated on the land revenue but were separate from it. They were levied either under special Acts, or in virtue of agreements at the time of settlement, or in accordance with long-standing usage, and spent on objects immediately benefiting the district or village from which they were raised.

**EXCISE AND CUSTOMS**

Before the Panjab was annexed to British empire, the British resident, there, had already resolved on remodeling the system of excise and customs in the country. The reformation was planned on the principles that while foreign and imports trade was a

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fair object of taxation; internal trade should be set free; that the produce of the country should be sold in the country without the imposition of duties; that the native-born subjects of the state should pursue their trades and professions without the imposition of imposts; that agricultural produce which had already contributed to the land revenue, should, as much as possible, be exempt from further taxation; that, those articles, which were to remain dutiable, should pay a consolidated tax on one line and no other; that the whole country, instead of being cut up into endless fiscal divisions, should be enriched with a single line; that the salt revenue should be placed on a more certain basis.

DETAILS OF THE CHANGES INTRODUCED.—To enforce the principles into practice, duties were abolished on twenty-seven articles and they were reduced on another nine articles. The portion of duty which was retained fell mainly on importation. The only exportation restricted was that on the Indus Frontier. All the interior lines were swept away; and the town and transit duties were abolished. The three general frontier lines were kept up, one along the Indus, to intercept goods coming from the west; another along the Beas and the Sutlej, for goods chiefly British, coming from the east, and third, running along the base of the Himalayan range, to meet the imports from Kashmir and Jammu.

FINANCIAL EFFECTS OF THE CHANGE.—The province of Multan was exempted from these arrangements, which might otherwise have interfered with existing pledge between Moolraj, the Governor, and the Regency. Thus, remissions and reductions being taken together, taxes amounting to upwards of six lakhs of rupees
had been abandoned. To compensate in parts for this deficit, three plans were adopted, namely the imposition of one new duty and the remodelling of two existing ones. A moderate toll on ferries was to be introduced, and thus an extra lakh of rupees was to be gained. The excise on drugs and spirituous liquors was to be improved by a system of licences, and was thus to produce nearly a lakh in addition to its former yield. The salt revenue was to be reformed. A fixed duty of two rupees on the Panjabi maund was to be demanded from the merchants at the mines. But these duties were to be levied by a new contractor, who was to bear the cost of management and collection, and pay to the state an annual revenue of six lakhs; thus on the former out-turn of four lakhs an increase of two lakhs was obtained. Moreover, punctuality of payment was ensured. No alteration was made in the management of the trans-Indus mines.

In this way, of the original deficit of six lakhs, nearly four lakhs were made good, and the net sacrifice of revenue amounted to a little more than two lakhs. The Lahore Council gladly agreed to sacrifice so slight an amount of revenue and the revised budget accordingly took effect during the year 1847, with the approbation of all parties.

The system, therefore, started with the fairest promise of success, but disturbing forces were in preparation. In 1848, the Multan rebellion broke out. Towards the close of the year, the cis-Indus mines and the great north-west line fell into the hands of insurgents. The salt depots of Bannagar were pillaged by the rebel army.

CUSTOM LINES AS THEY STOOD AT ANNEXATION—Thus in 1849, when the Panjab was annexed, there were six descriptions of duty for
the Board's consideration:-- firstly, the duties on the Indus; secondly, those on the Jummu line; thirdly those on the Beas line; fourthly, the unrepealed duties in the Multan province; fifthly, the duties recently imposed or remodelled on the advice of the Resident viz., the excise on salt and spirits and the ferry tolls; and sixthly there was the British customs line running through the trans and cis-Sutlej states, taxing salt, cotton, and sugar on importation, and also sugar on exportation.

Upon annexation, as according to the recommendation of the Board of Administration, all the existing lines were abolished. The Multan duties were repealed, but the ferry tolls and the spirit excise were to be retained. The British Government at once took over the management of the cis-Indus and Kalabagh mines. An excise duty of Rs.2 per Company's maund was levied at the mines, in lieu of all charges to which the salt was allowed to pass free throughout the British dominion, subject only to the additional duty of 8 annas a maund levied on all salt crossing the branch customs line established for the protection of the Bengal revenue. The duty imposed was considerably higher than the prices charged by the farmers for salt under the Sikh rule, but all articles except salt and liquors were exempted from excise, customs, and transit duties. The Imperial customs line was at the same time extended along the Sutlej and the Panjab to the Indus at Mithankot, and a preventive line was established on the Indus to exclude Kohat salt from the cis-Indus portion of the province. The manufacture of alimentary earth-salt in the cis-Indus Panjab was also prohibited. Salt crossing the

customs line into the cis-Sutlej Panjab from Rajputana was liable to the duty in force in the United Provinces of Rs.2 a maund.

At the same time much was done by the Civil Engineer to improve the excavation, and to facilitate the working of these mines.

SPECIAL RULES REGARDING THE TRANS-INDUS SALT.—Similar changes were to be introduced into the management of the trans-Indus mines. But, on the political and social considerations previously alluded to, it was resolved to impose a light duty of two annas a maund at the Bahadur-Khel mines. Certain perquisites were allowed to Khwaja Mahomed Khan, the local Kutchchieftain, with a view to reconciling the hill chiefs to the new system.

But the line, which ran along the Indus, prevented this lightly taxed salt from under-selling the produce of the cis-Indus mines.

One new tax was recommended, namely, the Stamp duty, to be fixed and realized, but at half rates, in the same manner as in the older British province.

The fiscal changes may be summed up thus: the miscellaneous taxes of the Sikh government, forty-eight in number, yielded an annual revenue of sixteen lakhs (Rs.16,37,114); the revised taxes of the Regency, twenty-three in number, yielded a revenue of thirteen and half lakhs (Rs.13,41,822); the new British taxes, four in number, were expected to yield sixteen and a quarter lakhs (Rs.16,25,000), in the following proportion:—Salt, Rs.12,00,000; drugs and spirits, Rs.2,00,000; Stamps,Rs.1,00,000;

26. Foreign Political, 3 Jany. 1851, 75; Foreign Political, 18 Aug., 1849, 53-60; I.G.I.P., i, 116; I.G.I., xx, 348; A.R.1849-50 to 1850-51, pp.116-117.
and ferry tolls, Rs.125,000.

From 1849 to 1869 the salt mines and quarries in the cis-Indus Panjab and at Kalabagh and the preventive line on the Indus were under the management of the Panjab Government; but in 1869 the Government of India assumed the direct control of the Inland Customs Department, and the administration of the salt revenue in the Panjab was at the same time made over to the Imperial Department; and it is, therefore, unnecessary to specify the enhancement and reduction in the rate of the duty which were since made. In 1878 the customs line was abolished and the Panjab system of levying duty at the mines was extended to the Rajputana salt sources, but the change of policy had no material affect upon the salt supply of the Panjab. Cis-Indus rock-salt continued to be the main source of supply for the trans-Indus districts, and with the extension of the railway to Khevra in 1882 the demand for the salt rapidly grew.

By the annexation to the Panjab of the Delhi territory after the mutiny two additional sources - the Nuh and Sultanpur salt works in Gurgaon and Rohtak districts - were brought within the province. The greater part of the salt produced at those works was however consumed in the United Provinces of Agra and Delhi, and the competition of superior salt at uniform line and the lease of Rajputana salt sources by the British Government soon proved fatal to these works. By 1883-84 the salt from the Nuh works, which were not on the line of railway, had become unstable, and the works were closed. The Sultanpur salt-works, however, went on struggling for existence.

In 1881 the prohibition of the manufacture of alimentary earth salt was extended to the territory west of the Indus and all illicit salt-works were closed.

The preventive line on the Indus was withdrawn in 1896, when the duty on Kohat salt was raised to Rs.2 a maund of 102-17/28 lbs. The transport of that salt to cis-Indus territory was, however, still prohibited.

**EXCISS OPIUM.** The Panjab system of excising opium differed essentially from that of the rest of India, in that the cultivator was allowed to sell the produce of his poppy crop to licensed vendors instead of being compelled to sell it to the State as in other provinces. Hence the State, not being a monopolist of the drug, had to resort to its taxation, and ever since annexation it had levied a twofold tax upon it: firstly, it levied an acreage duty on the poppy crop, and secondly, it taxed its sale by putting up to auction the licences to purchase the produce and resell it when made into opium. Under the system of direct taxation opium was but lightly taxed in the Panjab (only Rs.2 per acre - as in 1875-76 and in the following years-in districts where opium was manufactured in any quantity for sale, and more in districts in which poppy cultivation was hardly carried on except by people who hoped to consume the produce) in order to safeguard the cultivator against failure of the crop or inability to realize it. This involved a low rate of import duty, as a high rate would encourage smuggling.

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On the other hand, the import duty had to be pitched high enough to prevent the home-produce from being undersold.

LIQUORS.— Prior to annexation the only spirit made in the Panjab was an uncoloured rum from sugar, and this remained the chief alcoholic drink of the people throughout the period. To control this production, in 1863 no less than 118 state distilleries were established at district and tahsil headquarters. Each of these was an enclosure in which private distillers were permitted to set up stills, the spirit manufactured being kept in store by the excise officials and issued by them, after realization of duty, to retail vendors. The system, however, was not successful in the long run and was gradually abolished in favour of private licensed distilleries, which were 6 as against 3 Government distilleries, in the Panjab as separated from N.W.F.P., in 1901. A duty of Rs.4 per gallon was levied both at the still head and on all Indian spirit imported into the province, European liquors paying customs at the post of arrival and a tax of one anna a gallon was levied on the beer before it left the brewery. Largest part of the revenue derived from spirits was raised in cantonments and in large towns. The rural population consumed very little spirits or drugs.

32. I.G.I.P., i, 120; I.G.I., xx, 351; also see A.R.1864-65, p.40. The system was introduced as an experiment which seems to be successful in the year being advantageous financially to the State and morally to the people.
34. I.G.I.P., i, 120; I.G.I., xx, 352.
35. R.E.A. 1875-76, p.4.; see also "Food" above (spirits and drugs).
DRUGS.— Although the hemp plant grew abundantly, charas, the drug extracted from its leaves and flowers, could not be made in the province. It was imported from Yarkand and Kashgar, via Leh, to bounded warehouses in the Panjab or the United Provinces. Before it was sold, a duty was levied on it. "Bhang", the dried leaves of the hemp-plant, supplied a medicinal beverage with cooling properties which was drunk chiefly by Sikh ascetics. The plant grew wild in such quantities in the hills and submontane districts that it was impossible to prohibit the gathering of its leaves, but any person found in possession of more than one seer was liable to penalty. Licensed vendors collected bhang without restriction within their own districts, but in districts where hemp did not grow all "bhang" imported was subject to a duty. Thus while duty on "charas" was easily realized by guarding the routes of import, that on "bhang" was very difficult to collect, and where it grew wild, it could not be imposed at all.

STAMPS.— Stamped paper of a primitive kind came into use in the Panjab immediately after annexation. In 1872, a more efficient and reformed system was inaugurated which continued throughout the period of our study. Under this system a Superintendent of Stamps was appointed. Every Government treasury was a local depot for the sale of stamps, judicial and non-judicial, to the public, and of postage stamps to postmasters. Similarly sub-treasuries were branch depots. All treasuries were ex-officio vendors of stamped paper to the public. They were entrusted with stocks of stamps, and were required to meet the detailed demands for stamps made by the public, indenting

36. I.G.I.F., i, 121; I.G.I., xx, 352-353.
upon the main stock of depot when their own ran low.

**INCOME-TAX.** Income-tax was first imposed in 1861 over an income of above Rs.200 per annum, but in 1862, it was abolished on incomes below 500 rupees. On 31st July, 1865, the income-tax expired. Lord Lawrence had made up his mind before he left India in December 1868 to convert the certificate tax into an income-tax, and his successor, Lord Mayo, agreed with him. Accordingly in 1869, income-tax was again imposed. Taxable minimum was raised from Rs.500 to Rs.750 in 1871-72 and to Rs.1,000 in 1872-73; but in 1873 the tax was abolished. Income-tax was revived in 1878, in the form of a licence-tax on traders, which in 1886 was supplemented by a similar tax on all other non-agricultural incomes. The gross receipt from income-tax in 1887-88, was Rs.9,75,784. In 1890-91, when the total income amounted to Rs.11,69,230, the Financial Commissioner believed "that under the present conditions of prosperity and population the sum of 12 lakhs of rupees would represent very fairly the revenue to which the Government is entitled under the Act."

The very next year the total receipt was Rs.12,08,710 and in 1900-1901 it reached the figure Rs.14,72,000. Thus the expectations were more than realized.

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FINANCIAL RELATIONS BETWEEN PANJAB AND THE CENTRE

After having given an account of the different revenue-sources of the Panjab, it would be, interesting to mention in the end that these sources were not much equal to the increasing needs of the provincial government. In fact, the financial difficulties of the Panjab and its constant efforts to get more and more from the centre, to assume and extend its social and economic functions, seems to be a permanent part of almost all the financial depots and records of the period, as it would be clear from the following account.

After the Mutiny, although the provincial Governments carried on the greater part of the administration of the country, the tendency to centralisation began to stiffen. Every thing was rigorously centralised in the Supreme Government, and its sanction was necessary for the grants of funds even for purely local works of improvement, for every local road, and every building, however insignificant. Constant differences of opinion about petty details of expenditure, and constant interference of the Government of India in matters of trivial importance, brought with them, as a necessary consequence, frequent conflicts with the Local Governments. Thus in 1859 the Panjab Government was forced to reduce its budget estimates, and in 1869 again we find the Government of India saying in a resolution that the "subordinate Governments are of course bound, as a primary duty, to use the most honest and rigid economy in the preparation of the estimates of their requirements,"

46. F.P.W.I., 134; Anstey Vera, 367; F.F.I., 85.
47. F.P.W.I., 138.
and the Panjab Government remonstrating against retrenchment from the Local Budget Estimates for 1869-70 and orders thereon. The evils of the system became more and more manifest as time went on. And to Lord Mayo belongs the honour of having actually applied the only effectual remedy for these evils.

Lord Mayo's scheme for partial decentralization of the finances was inaugurated by the Resolution of the Government of India, dated 14th December 1870, and it came into operation in the Panjab on 1st April 1871. Under the scheme the departments and services which remained Imperial were, so far as the Panjab was concerned, the following:

- Interests.
- Refunds and Drawbacks.
- Land Revenue.
- Tributes and contributions from Indian States.
- Forest.
- Excise on Spirits and Drugs.
- Income Tax.
- Customs and Salt.
- Stamps.
- Administration and Public Department.
- Minor Departments.
- Law and Justice.
- Marine.
- Ecclesiastical.
- Medical Services.
- Political Agencies.
- Allowances under Treaty etc.
- Pensions and Gratuities.
- Miscellaneous.

The Government of India divested itself of the immediate financial control of the departments and services noted below:

- Jails.
- Police.
- Education.
- Printing.
- Miscellaneous Public Improvements.
- Registration.
- Medical.
- Roads.
- Civil Buildings.

49. Govt of India: Finance Dept., 1869; August, 133-140, A.
50. A.R. 1871-72, p.94.
To inaugurate this scheme, the Panjab Government received a special grant of Rs.2,35,210, while the annual grant for provincial services was fixed at Rs.53,13,000 - anything required in excess of that sum was left to be made up by provincial taxation.

On the 20th June 1871 an Act (XX of 1871), to enable the Lieutenant-Governor of the Panjab to levy rates on land, not exceeding 6 pies per rupee of its annual value, received the assent of the Governor-General. The funds so raised were to be expended under the general control and supervision of Local District Committees.

Several funds which were at the disposal of the lieutenant-Governor, such as Ferry, Station and Educational Cess Funds, ceased to exist as separate accounts, their cash balance being transferred with the Imperial grant of Rs.2,35,210, as an opening Cash Balance for "Provincial Services". The amounts so withdrawn were expected to be more than replaced by the assignments made to District Committee for local objects under the Panjab Local Rates' Act (mentioned above).

The Panjab Government, however, could not appreciate the financial arrangement thus made. The closing cash balance of the first year (1871-72) of decentralization was ten lakhs in excess of that with which the year opened. It might at first sight be supposed that the levy of the additional rate was unnecessary. But the explanation for this, which the Lieutenant-Governor gave, was that for several years, owing to financial pressure, expenditure on the public works of the province had been reduced to the very lowest point. Such being the case, it was impossible

that in the first year of the decentralization system the Government could economically expend the large increase of revenue which new taxation had placed at its disposal. The system of financial decentralization, for the first year, worked well. The Lieutenant-Governor was, however, strongly of the opinion that it would be more equitable to allow local Governments and Administration a proportionate share of the general revenue raised in the province, rather than to assign fixed grants for certain services made Provincial. Those heads of expenditure which had then been transferred from Imperial to Provincial administration, had one and all a natural and inevitable tendency to increase. That increase was dependent upon circumstances upon which no Local Government could exercise control - upon the growth of population, the eager desire of the people for education, upon increased rates of labour, and upon all those causes which had their origin in improved administration and increasing prosperity.

In 1875-76, the absolute provincial balance was extremely small, and the Lieutenant-Governor found it necessary to direct the reduction of the public works assignments for the current year, by Rs.2,50,000, and notified that the allotment for the next year must be on a further reduced scale. The Lieutenant-Governor asserted once again that the system of fixed assignments was less likely to be successful in the Panjab. The Panjab at the date of decentralization, he said, had been only twenty years annexed, and like all countries suddenly placed under sure and equal laws, after a long period of confusion, and strife,

52. A.R. 18&1-72, pp.7-8 (summary)
had made rapid advance in wealth and prosperity, and cultivation and population had increased at a faster ratio than perhaps in any other part of India. What in older provinces was included under the head of Repairs, came in the Panjab under the head of Construction. It was thus found necessary to supplement the imperial assignments by permission to the Panjab Government to levy rates on land, not exceeding 6 per cent of its annual value. Its expenditure was, however, he added, entrusted to district committees, and was not available to the Government, while their application was so limited by the Act as to only partially relieve the Government of charges which might perhaps in equity be thrown upon local committees. They were, moreover, not sufficient to adequately supplement the Imperial assignments and to meet the numerous and ever increasing wants of a province like the Panjab. The principle of fixed assignments, the Lieutenant-Governor declared again, was thus "to bind a living body to a corpse; or to compel a man to remain in the clothes which only fitted him when a child."

After 1877, the grants were made on quinquennial, instead of on an annual basis, and instead of a fixed grant from the Central Government the provinces were given the receipts from certain defined sources (called the "assigned revenues") with the idea of giving them greater responsibility and hence a motive for greater economy and efficiency.

Thus, the Imperial Government made over to the control of the Panjab Government such heads of charge or revenue as Administration, Stamps, Law and Justice, Excise, taking on those from which an increasing revenue might be expected, an

annually increasing increment and calculating the Imperial assignment on the fixed branches of revenue made over an average of the estimates and actuals of the previous years. The principle adopted by the Government of India, according to the Panjab Government, however, had been to contract, as it were, with Local Governments at fixed sums, for its due performance of certain services; and thus by the vigilant observance of economy forced upon the Local Governments to avoid charging to the Imperial expenditure the large annual increase, which the ever growing complexity of the administration of a country like British India must entail. The principle, according to the Lieutenant-Governor was, "a wise and wholesome one"; but the position of the Panjab he asserted, was exceptional in the fact that in a new province the demands for public works of all kinds were unusually heavy; while, the population being agricultural, the revenue was necessarily inelastic, and political reasons rendered it undesirable to impose on the people fresh burden of taxation. The correctness of these considerations was acknowledged by the Government of India.

Under the first provincial settlement the total receipts rose from 284.44 lakhs (Provincial share 51.39) to 335.01 lakhs in 1882 (Provincial share 80.25), owing to the rapid growth of stamp and excise revenue. In the same period expenditure rose from 179.14 lakhs to 216.06 lakhs (the Provincial share rising from 116.57 lakhs to 133.35 lakhs), owing to the development of the departments transferred to provincial control. The provincial income and expenditure during the quinquennium

54. A.R. 1877-78, pp.33-35 (summary)
averaged 65.13 lakhs and 139.31 lakhs respectively, compared with 49.22 lakhs and 120.11 lakhs estimated in the contract. The provincial balance was 29.63 lakhs in 1882.

Under the second settlement which was introduced in 1882, the provincial Government received 40.73 per cent of the land revenue, and was made liable for the same proportion of the cost of settlement and survey operations and refunds of land revenues. Half the receipts and expenditures under the forest became provincial, and the same division was made of stamps, excise, and registration, formerly wholly provincial, while half the licence tax collections also became provincial. On the other hand, the pay of Civil Surgeon and other charges devolved on the provincial Government.

In a letter to the Government of India dated 2nd August, 1882, the very year the settlement came into force the Panjab Government remarked that the application of the percentage to the actual accounts of the years 1878-1881 appeared to show that if the new system had been in operation during that period, the provincial finances would have been, at its close, worse off than they then were to the extent of nearly four lakhs of rupees. The Lieutenant-Governor, however, fully accepted the principle upon which the new scheme was based, and acknowledged that the responsibility of the Local Government for famine expenditure, under the new scheme, had been diminished and also that concession had been made by including the surplus of upwards of three lakhs on the regular estimates in the figures upon which the provincial percentage

56. ibid.
had been calculated. But he added, if advance in developing
the material resources of the country and in surrendering to
local bodies the control of funds then manipulated in a central
bureau was not so rapid as he would wish to see, such a result,
he continued as a mark of complaint, might be ascribed to the
necessities of other parts of India which might have prevented
the Supreme Government from placing larger funds at his disposal.

In the year 1883, the Lieutenant-Governor again expressed
his apprehensions as to the working of the contract and in 1884
he definitely declared that it "appeared that "in the contract
now current the income of the province was over-estimated,
while an under-estimation was made of the expenditure". But
in reply to a letter for certain financial concessions, the
Government of India wrote to the Government of the Panjab in
1885 that the Government of India were "unable to concede that
the present contract is more unfavourable than the one for
which it has been substituted," and that they were of the
opinion that "the actual position of the finances of the province
is more satisfactory than that shown in the representation".
The Lieutenant-Governor, however, repeated his views in 1886
saying that, he "during the term of his office has with regret
been compelled to abandon several schemes for improving the
administration in the different Departments owing to
deficiency of funds...."

Giving a brief historical sketch of its sacrifices, the

57. Govt of Indian Finance Dept. 1882: Accounts etc, August,999,A.
58. A.R. 1882-83, p.13 (summary)
59. A.R. 1883-84, p.13 (summary)
60. Govt of India Home-1885: Public, June, 44.
61. A.R. 1885-86, p.8 (summary)
Panjab Administration Report of 1887 reported that, in 1873, in view of impending military operations, Local Governments were directed to reduce ordinary expenditure within the narrowest possible limits. The next year, owing to loss by exchange, it was found necessary to repeat these instructions in still stronger and more definite terms. In 1885 again the Local Government were asked for reduction for the purpose of meeting expenditure on military preparations. Both in 1878-79 and 1885, the Panjab Government responded to the best of their ability and made contributions which were, however, repaid to them. As a result of the most close review in 1886, of provincial expenditure and the prospects of revenue, it was admitted that it was impossible to enforce against the Panjab any revision of terms favourable to the Imperial revenues; and thus the old provincial contract was simply continued. The Lieutenant-Governor, however, felt the necessity of some further examination of the financial position; and in the autumn of 1887 a Committee of Heads of Departments was held to consider all possible retrenchments in expenditure and to device means for the improvement of income. As a result of all this it was asserted that there were exceedingly few practicable economies which had not already been effected.

As to the working of the provincial contract of 1882, the province started with a balance of about 30 lakhs and ended, at the close of the period of five years, with a balance of less than 17½ lakhs. And it had been only by vigilance and economy, declared the Lieutenant-Governor, strongly, sometimes,

he feared, even hardly enforced in the whole administration, that he had avoided the absolute starvation of Public Works and in future it would not be possible to keep the minimum balance even at the figure of ten lakhs.

But, although the settlement in 1887 was renewed without any change favourable to the Imperial Government, as referred above, seeing that the Punjab had during the year 1887-88, the closing Provincial balance equal to 17½ lakhs the prescribed minimum being only 10 lakhs, the Government of India once again remarked in a letter to the Punjab Government that in their opinion, the "Punjab Government takes too unfavourable a view of its position."

Under the settlement enforced in 1887 for the third quinquennium, the things actually looked easier for the provincial Government. The Provincial revenue rose from 158.37 lakhs in 1887-88 to 172.97 lakhs in 1891-92, and expenditure for the respective years, from 157.13 lakhs to 173.56 lakhs. The closing balance in 1891-92 was 22.15 lakhs. The Punjab Government reported in 1890-91, as in 1888-89 and again in 1889-90, that the Punjab had recovered from the financial depression. This result was due, in a large measure, to the careful examination and control of all heads of income and expenditure and to the consideration shown to the Punjab by the Government of India in 1887 in continuing the Provincial Contract for a further period of five years upon the old terms.

64. Govt. of India: Rev. and Agri. 1888: Revenue, 23.
In their letter dated 26th August, 1891, the Government of India intimated to the Panjab Government that, the financial position of the Panjab during the contract being prosperous due to their judicious management, it was unnecessary any longer to treat the Panjab differently from other provinces and that the changes and alterations would have been made in 1887 had a new contract been framed, would then be introduced.

The new contract came into force in the Panjab on the 1st April, 1892. According to the fresh distribution of the receipts and charges, the changes made were:-

(1) The provincial share of the Land Revenue and of the Excise Revenue and Expenditure was reduced from 40.7193 and 50 per cent respectively to 25 per cent each;

(2) The provincial share of the Stamp Revenue and Expenditure was increased from 50 to 75 per cent;

(3) The cost of Surveys and Settlements, instead of being shared by the Imperial and Provincial Government in the same proportion as the Land Revenue, was made wholly provincial;

(4) The cost of collecting the Income-Tax, which was formerly nearly wholly Imperial, was, like the Revenue under that head, divided equally between Imperial and provincial;

(5) The office of establishment of the Accountant-General, Panjab, previously partly Imperial, was made wholly Imperial;

(6) Railway Police and Special Police (Border Military Police), formerly Imperial, was provincialized, like the rest of the police expenditure of the province;

(7) The charges, other than salaries and allowances of officers, of the New Civil Veterinary Department were declared provincial, also the expenditure on Gazetteers and Statistical Memoirs, formerly Imperial;

(8) The Amritsar—Pathankot State Railway which was constructed on provincial responsibility was taken over by the Imperial Government.
(9) Inter-Provincial adjustments of receipts and charges realized and incurred respectively by one Local Government on behalf of another were discontinued except in some special cases where a considerable charge of an exceptional nature was borne by one on behalf of another province.69

In the new Provincial arrangement, the expenditure on the Provincial Services was estimated at Rs.1,71,89,000, and the sources of revenue assigned to the Local Government to meet the expenditure were expected to yield not less: the income actually obtained from these, in the very first year of the enforcement of the contract was, however, Rs.1,74,16,000 and the expenditure amounted to Rs.1,84,78,000. This contract could not, therefore, work as favourably to the province as that of 1887.

In 1896, the Lieutenant-Governor of Panjab, in a demi-official letter to the Government of India, complained that he has had to refuse sanction to nearly every proposal involving permanent expenditure which had come up before him since the summer of 1893, and that his hands had been crippled throughout his term of office so far as Public Works expenditure on communication was concerned. The present system, he remarked, "sweeps every penny into Imperial funds".

The severe financial strain upon the provincial exchequer was owing to demands unforeseen and not provided for in the quinquennial contract. The grant of the exchange compensation

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70. A.R. 1892-93, p.9 (summary).
71. Govt. of India Finance and Commerce Dept., 1896: Accounts and Finance, Oct., 1098-1102, A.
72. A.R. 1895-96, p.10 (summary)
allowances at an increased rate and the deficient rainfall in 1896-97 resulting in scarcity amounting in some districts to actual famine, had crippled the financial sources of the Panjab. The Provincial Balance in 1896-97 was reduced to Rs.5,00,000, or half the required minimum balance.

The fifth settlement made in 1897 was afterwards extended to 1904-5. The only differences of distribution made by the new contract were the following:

The Local Government under the new contract was to receive 40 instead of 25 per cent of the increments of the Land Revenue.

The expenditure incurred in the Panjab on account of Upper Burma which had been adjusted in the accounts of the Burma Administration was in the new contract treated as expenditure of the Panjab Government, an addition being made to the revenue assigned to the latter to meet it.

Under the new contract the provincial revenue and expenditure were estimated at Rs.1,87,70,000 and Rs.1,88,91,000 respectively. In this estimate of expenditure (1) the charge for interest payable by the Panjab Government on the Provincial Loan Account was reduced by one-eighth; and (2) the outlay on Provincial Canal Works was put equal to the total revenue derived from these works, the surplus revenue from the works being thus secured to the Local Government for outlay on fresh projects of the kind.

The provincialized expenditure was in excess of provincialized revenue by Rs.1,21,000 and to remove this deficit and, acknowledging in their letter to the Government of Panjab dated 18th March,
1897, that the Provincial Revenue in the Panjab had been for the most part of a non-progressive character, the Government of India decided, as a special case, to assign Rs.2,48,000 from the Land Revenue over and above the fixed provincial share of that revenue. The surplus which the new contract professed to provide was Rs.1,27,000.

Unfortunately, however, due to famine in the province the Local Government were placed in strained circumstances immediately after the enforcement of the contract and the Imperial Government had in 1898, to make a special grant of Rs. 5 lakhs to the province. Owing to the same condition of the provincial finances continuing in to 1899-1900, the entire outlay on famine from the general revenue was borne by the Imperial Postal Department as also in the receipt of the judicial, jail and police departments.

To famine which had continued from the previous year was then added plague and in 1900-1901 the entire expenditure incurred by the Government in the Panjab on famine relief was met from Imperial Funds, the provincial revenues not only being unable to contribute, but having to be supplemented by grants from the Imperial Government to enable them to bear the cost of the ordinary administration of the province.

CONCLUSION.— From the foregoing account, thus, it is clear that during our period of study, the limited and unreliable resources of the Panjab acted as a serious brake on the introduction

77. A.R. 1899-1900.
78. A.R. 1900-1901.
of reforms and the assumption and extension of social and economic functions. The financial problem was undoubtedly an important factor in the arrested economic development of the Panjab.

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### Principal sources of Provincial Revenue up to March 31, 1901

*After decentralization*

*(in thousands of rupees)*

<table>
<thead>
<tr>
<th>Source</th>
<th>Average for ten years ending March 31, 1900</th>
<th>Average for ten years ending March 31, 1901</th>
<th>Year ending March 31, 1901</th>
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<tbody>
<tr>
<td>Total raised and credited in Province</td>
<td>Total raised and credited in Province</td>
<td>Total raised and credited in Province</td>
<td>Total raised and credited in Province</td>
</tr>
<tr>
<td>(Imperial provincial revenues)</td>
<td>(Provincial provincial revenues)</td>
<td>(Imperial provincial revenues)</td>
<td>(Provincial provincial revenues)</td>
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<tr>
<td>and local</td>
<td>and local</td>
<td>and local</td>
<td>and local</td>
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<tr>
<td>Land Revenue</td>
<td>21,273</td>
<td>24,029</td>
<td>11,224</td>
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<td>Stamps</td>
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<td>Excise</td>
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<td>2,133</td>
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<td>Provincial Rates</td>
<td>3,345</td>
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<td>696</td>
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<td>Forests</td>
<td>852</td>
<td>1,068</td>
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<td>Registration</td>
<td>210</td>
<td>329</td>
<td>174</td>
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<tr>
<td>Other sources</td>
<td>4,969</td>
<td>3,880</td>
<td>3,310</td>
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<tr>
<td><strong>Total</strong></td>
<td>36,204</td>
<td>41,120</td>
<td>18,438</td>
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#### Notes
- Year ending March 31, 1900.
- **Average for ten years ending March 31, 1900**
- **Average for ten years ending March 31, 1901**
- **Year ending March 31, 1901**
- Principal sources of Provincial Revenue.
# Provincial Expenditure up to March 31, 1901 (after decentralization)

(in thousands of rupees)

<table>
<thead>
<tr>
<th></th>
<th>Average for ten years ending March 31, 1899 ( before decentralization)</th>
<th>Average for ten years ending March 31, 1901 ( after decentralization)</th>
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<tbody>
<tr>
<td>Opening balance</td>
<td>90</td>
<td>247</td>
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<tr>
<td>Charges in respect of revenue collection</td>
<td>2,370</td>
<td>3,130</td>
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<td>Salaries and expenses of Civil Departments:</td>
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<tr>
<td>(1) General Administration</td>
<td>1,005</td>
<td>1,015</td>
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<tr>
<td>(2) Law and Justice</td>
<td>3,419</td>
<td>4,184</td>
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<tr>
<td>(3) Police</td>
<td>3,017</td>
<td>3,885</td>
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<td>(4) Education</td>
<td>708</td>
<td>761</td>
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<tr>
<td>(5) Medical</td>
<td>485</td>
<td>640</td>
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<tr>
<td>(6) Other heads</td>
<td>83</td>
<td>106</td>
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<tr>
<td>Pension and miscellaneous charges</td>
<td>96</td>
<td>979</td>
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<td>Famine relief</td>
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<td>120</td>
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<td>Irrigation</td>
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<td>Total</td>
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<td>Closing balance</td>
<td>247</td>
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