

I N D E X

R E P O R T

S E L E C T C O M M I T T E E

E A S T I N D I A
R A I L W A Y C O M M U N I C A T I O N

*Ordered, by The House of Commons, to be Printed,
18 July 1884.*

[*Price 1 s 7 d.*]

Under 14 oz
H.-26 6886,

EAST INDIA (RAILWAY COMMUNICATION COMMITTEE).

RETURN to an Order of the Honourable The House of Commons,
dated 12 March 1885,—for,

COPY “ of CORRESPONDENCE between the Secretary of State and the Govern-
ment of *India*, on the Subject of the REPORT of the SELECT COMMITTEE of
1884 on EAST INDIA RAILWAY COMMUNICATION ”

India Office, }
12 March 1885 }

JOHN K CROSS,
Under Secretary of State for India

(*Mr Kynaston Cross*)

Ordered, by The House of Commons, to be Printed,
12 March 1885.

LONDON
PRINTED BY HENRY HANSARD AND SON,
PRINTERS TO THE HOUSE OF COMMONS.

To be purchased either directly or through any Bookseller, from any of the following Agents, viz
Messrs HANSARD 13, Great Queen street, W.C., and 32, Abingdon-street, Westminster,
Messrs LAYE and SPOTTISWOODE, East Harding-street, Fleet-street, and
Sale Office, House of Lords,
Messrs ADAM and CHARLES BLACK, of Edinburgh,
Messrs ALEXANDER THOM and Co, or Messrs HODGES, FIGGIS, and Co, of Dublin.

COPY of CORRESPONDENCE between the Secretary of State and the Government of India, on the Subject of the REPORT of the SELECT COMMITTEE of 1884 ON EAST INDIA RAILWAY COMMUNICATION

— No. 1. —

The Secretary of State for India to the Governor General of India in Council,
14th August 1884, No 89 (Railway).

My Lord Marquis,

Para 1 THE Select Committee of the House of Commons on Railway Communications in India having now reported, I wish, without delay, to place before your Lordship my views of the effect which their recommendations must have on our future railway policy

2 The main features of the Report are as follows :—

The Committee consider that the evidence in favour of a more rapid extension of railways is conclusive (para 20), that the maintenance of the rigid technical distinction between productive and protective lines cannot be maintained (para 28), that the amount proposed to be spent upon railways, from all sources, by the Government of India in the next six years is moderate (para. 30); and that money may, in certain circumstances, be borrowed in England to carry out such schemes as shall have been approved by the Secretary of State in Council (para 31).

But they are of opinion that the bulk of the lines made should be self-supporting (para. 28), that no portion of the Famine Grant should be hypothecated as interest on capital (para 32); and that railway extension should not involve additional taxation (para 34)

They also recommend that the responsibility for deciding what amounts may, with safety to the finances, be borrowed for Public Works, should rest with the Secretary of State in Council (para 33).

3 Your Lordship will notice that the policy advocated in the Report depends upon the financial position of India, and that the responsibility for all decisions as to what is or what is not safe expenditure is thrown upon the Secretary of State in Council.

4 The effect of the Report is to advise the relaxation of the rigid rules of 1879, as applicable only to the financial situation at that time. But the Committee decline to accept in full either of the fundamental proposals contained in your Financial Letters of the 23rd January 1883, No 29, and the 29th January 1884, No 27, respecting the construction of famine lines, and the hypothecation of any portion of the Famine Grant.

5 With the general tenour of the recommendations of the Committee, as above recited, I fully concur, and I am anxious to know, as early as possible, whether the adoption of the recommendations contained in paras. 28 and 32 will necessitate any considerable change in the lines of railway which your Government have included in Schedule A

6 With respect to the funds which will be available for construction, I would point out that, as in the opinion of the Committee the technical distinction between productive and protective lines may be relaxed (though the Committee think that the bulk of the lines should be self-supporting), I shall be prepared to authorize a moderate outlay from borrowed funds on lines which could not be classed as productive, as that term has been hitherto defined

7 Your Government at present allot 500,000 *l.* from the Famine Grant for Protective lines, and also an annual sum from Revenue (under the head of "State Railways not classed as Productive") of about 300,000 *l.* Continuing the former allotment as heretofore, it will now be possible, without departing from the principles laid down in the Report, by a suitable adjustment of your ordinary Public Works Grant, to provide a moderate sum, as a charge against the general revenues, for the payment of interest on capital outlay for railways of the non-productive class, and I shall be ready to sanction an allotment of borrowed capital, not exceeding 400,000 *l.* or 500,000 *l.* yearly, for expenditure on lines of this description, thus providing means for the more rapid construction of famine lines than has been heretofore possible.

8 Having regard to the strong opinion expressed by the Committee against incurring the risk of additional taxation on account of railway extension, I should be glad, before authorizing any specific increase of the expenditure of borrowed funds for railway purposes, to have a careful forecast of the amount which you anticipate may be required in the next six years, and a statement of the manner in which you propose to apply it.

9. I should wish at the same time to receive from your Excellency an expression of your opinion whether your financial position is such as to justify any acceleration of railway construction in the present year, especially in the form of additional grants to works already sanctioned and under construction. If no such immediate increase of outlay is practicable, it will be well for you to consider at once what provision should be made in the Budget Estimates of next year for the enlarged operations which you would propose, and to what extent such operations are likely to affect the estimates of future years.

10. In considering the methods by which railway construction may be more actively proceeded with, it must be borne in mind that I shall be extremely averse to the operations undertaken directly by Government being extended beyond the capacity of the present Public Works staff, against the increase of which the Committee have reported (para. 22). It will be necessary, therefore, to determine which lines may most advantageously be conceded to companies, and upon this important point I await your Lordship's opinion.

11 With reference to the projected railways, respecting which negotiations have already taken place in this country, I shall consider carefully what steps should be taken, and I will, as soon as practicable, communicate my decisions to your Lordship.

12. It is further necessary for me to add that, although I have thought it desirable thus briefly to inform your Excellency, without loss of time, of the general conclusions which I have been able to adopt on some of the chief points which are discussed in the Report, yet the matters which arise in connection with it are so various and of such importance, that they will require my careful consideration in Council before I can pronounce detailed opinions on them, and I shall accordingly again address your Government on the subject as soon as I am able to do so.

I have, &c.
Kimberley

— No. 2. —

(Extract)

The Governor General of India in Council to the Secretary of State for India,
Simla, 22nd September 1884, No 25 (Secret)

THE resumption, under your Lordship's orders, of the construction of the Sind-Pishin Railway, has brought prominently under our notice the subject of railway communications on our North-West frontier generally. Much has been done during the last few years to improve these communications. The Attock Bridge has rendered the line to Peshawar complete, and, when the bridge which is being built over the Indus at Sukkur is finished, we shall have an unbroken line

line of railway from Karachi to Peshawar. But there are still certain other lines of communication required to complete the system of railways and roads which has for many years past been considered desirable, in order to place the North-West frontier of India in a satisfactory condition of defence, and we are of opinion that the time has now arrived when these subsidiary lines should be considered, with a view to determining which of them should be constructed, and the time and order in which they should be undertaken.

The following is a summary of our recommendations, to which we add the Sind-Pishin Railway, in order to bring into one view the whole scheme and outlay contemplated for the military protection of our North-West frontier —

Communications Recommended	Length.	Estimate. Conventional Sterling.
	<i>Miles</i>	<i>£.</i>
(1) Railway, Nari to Shebo, with branch to Quetta - -	175	2,000,000
(2) Railway from Lala Musa, <i>via</i> Darya Khan and Muzaffargarh, to Sher Shah, with branch from Muzaffargarh to Indus opposite Dera Ghazi Khan, including bridge at Pind-Dadan Khan, and ferries over Indus and Chenab.	381	2,150,000
(3) Ferozepore Bridge - - - - -	5	400,000
(4) Road from Dera Ghazi Khan to Pishin plateau - -	250	200,000
(5) Road from Dera Ismail Khan to Khushalgarh, <i>via</i> Kohat and Banu, including Kuram and Gambela Bridges.	195	300,000
TOTAL - - -	986	5,050,000

The total outlay which appears to us desirable, including that for the Sind-Pishin line already sanctioned, is thus five millions in round numbers. An index map,* showing the lines proposed, is appended.

With regard to the order in which the projects now recommended should be taken up, and the rate at which the whole should be proceeded with, we would remark that works of the nature proposed cannot, for the most part, be taken up, one by one, from year to year, or properly executed by dribblets. Individually they occupy too long a time in construction. Once started, economy is best secured by keeping the establishments at their full working power, and by completing successive sections as an aid to the works on the rest, and in order to secure some return for the outlay at the earliest possible date. Funds must obviously be supplied according to the nature of the works, and not in equal annual instalments, still less by uncertain grants, the waste and other evils attendant on which have been fully recognised in the Despatches specified marginally †. The Sind-Pishin Railway is being proceeded with as rapidly as is consistent with economy. As to the other projects, portions of the roads might stand over for a while, but the railway, and especially the large bridges, should be put in hand as soon as preliminary arrangements will allow. The periods occupied in completing them may be taken at from two to three years for the roads, fully three for the railway, and fully four for the Ferozepore Bridge. We consider these periods as the maxima consistent with economy.

We append a forecast, which has been prepared by our Director General of Railways, showing the time and manner of proceeding with the several works so as to combine reasonable progress with economy. Thus we propose for adoption, remarking that, while it is very desirable to ensure a fair start of the new works in 1885-86 by undertaking preliminaries during the current cold season,

* A copy of this map has been placed in the Library of the House of Commons.

season, the actual outlay may be expected, owing to delay in arrival or adjustment of stores, and other causes, to spread rather more largely over the later years, to the corresponding relief of the earlier ones.

We will now proceed to consider the financial aspect of our proposals, premising that we are of opinion that the whole cost of the Sind-Pishin Railway should be provided in whatever manner may be determined on for the rest of the projects.

We must also explain that we adhere to the proposals contained in our Railway Policy Despatches, that certain indispensable railways should be constructed in the definite period of about six years, out of funds to be provided accordingly, which were re-affirmed in our Despatch, No. 121, of the 28th April last. This decision on our part is in no way affected by the admitted necessity for frontier communications. We have to provide against two evils, famine and complications on our North-West frontier. Considering that the accepted famine cycle is near its close, most may well think the former the more likely to supervene; but it should not be forgotten that the best way of deferring the latter is to make timely preparation against them. The protection from both should certainly be provided concurrently, and to the full extent necessary in the case of each. Our subsequent remarks will proceed on this assumption.

There are three ways in which the necessary funds may be provided. We may allot annually in the budget such amount out of revenue as we can afford, a fixed amount if possible, we may provide for them as far as possible in this way, and borrow only so much more in each year as may be necessary in order to bring the total allotment up to such sum as may be deemed necessary in order to carry on the works without undue delay; or, finally, we may borrow the whole amount required for these special works.

The first of these causes we do not advocate, because the annual surplus we could devote would not suffice, as already shown, to complete these works within a reasonably short space of time. Moreover, the system of charging to revenue is peculiarly unsuited to works of the character of those proposed, because it tends to restrict and render uncertain the annual outlay. Railways cannot be economically constructed by grants (a) petty in amount, spread over a long period, (b) equal in amount from year to year, (c) uncertain till the financial conditions of each year can be foreseen.

The second course we deem undesirable, because it interferes unnecessarily, for an exceptional purpose, with the established system under which our ordinary loans for public works are carried on, and also precludes our making special arrangements for such loan as may be required, the nature of which we will presently explain. At present we have a system of spending 2½ millions a year on certain public works, and permission to borrow that amount, minus any sum by which, owing to surplus revenue (which is now usually realized) or other accretions, our cash balances may exceed our working needs.

This system is based on the following recommendation of the Select Committee of the House of Commons in 1879.

“That all expenditure on the construction of Productive Public Works should be treated as borrowed money, so that, if, instead of borrowing to the full extent of such expenditure, a part of the surplus revenue of the year can be devoted to this purpose, the general debt of India be treated as relieved, and the Productive Public Works debt as increased to such extent.” (Report, page xxi.)

Supposing, by way of illustration, this surplus sum to be a million in any year, and the annual loan therefore to be 1½ millions only, instead of the normal 2½ millions, then, if a new annual charge of a million for strategical communications supervenes, the financial result will be exactly the same, whether the million of surplus be taken away to meet the new charge, and the ordinary annual loan be raised to the full 2½-million limit, or whether things be left as they are, and a million be raised separately for the strategical communications. In the one case we can say that we are making strategical railways out of revenue, in the other that we are making them out of capital, but

SELECT COMMITTEE ON EAST INDIA RAILWAYS

but there is not a whit of difference between the two, except in the name of the thing. Call the transaction what we please, but the fact remains that *the new charge causes the additional loan.*

As regards the name of the thing, however, there is no advantage in borrowing to complete the normal 2½ millions, compared with borrowing separately. The surplus is just as liable to reduction by outside pressure or for other administrative claims now, as it would be if appropriated as proposed. A loan would stand behind, to supplement its shortcomings, in the one case as much as in the other; the amount to be borrowed would be the same in both; and neither method would afford any greater check or stimulus to economy than the other. On the other hand, the change of an established system is at all times undesirable, and carries special disadvantages in this case compared with the third course.

To the third course, namely, that of borrowing the whole amount required for these special works, we incline, for the following reasons.—Although the railways and roads which we propose to construct will not be wholly unproductive, we cannot expect that they will be remunerative in the technical sense, that is to say, we cannot look forward to their yielding a net return sufficient to pay 4 per cent on the capital outlay within a prescribed period. On the other hand, they will yield a return which, though not represented by money, will be none the less substantial, in the increased security which they will give to our frontier. These benefits will not be confined to the immediate present, but will be of a permanent character, and it therefore seems to us legitimate that the burden which they entail should be distributed over a lengthened period, and should not be imposed wholly on the taxpayer for the time being. And, if it is legitimate to borrow for this purpose, we think that there are reasons which also make it desirable. The expenditure is exceptional, and will not recur. To the undesirability of altering an established system we have already alluded.

There is, however, a still more important argument in favour of borrowing the whole amount required for the construction of these communications, namely, that the loan then need not be one of the ordinary nature, but may be on a distinct basis, such as to provide for the discharge of the capital obligation within a term of years.

Considering that the outlay in this, as in most instances of communications made for strategical purposes, is likely to be technically unremunerative,* we hold that the loan contemplated to meet it ought not to be, like ordinary loans, a permanent addition to the debt of the country, the reason for such exceptional treatment being that the outlay is, by the hypothesis, not an investment but a burden.

Capital invested in the "indispensable" general railways becomes indirectly productive at once, in the protection it affords against periodically recurring famine, and directly so at no distant date.

But with capital invested in military defences the case is otherwise. The outlay is a burden, entirely so in the case of roads or fortifications, to a greater or less degree so in that of railways, according to the estimate of their net earnings. Its "protective" value is indefinite in the time of taking effect. Such outlay ought not to be left as a permanent burden on the national resources, it should be cleared off. And, because such clearing off is desirable, but ought not justly to fall on, and if large cannot be met by, the taxpayers of a very few years, the best form of ensuring it is to provide this outlay by a loan automatically repayable in a reasonably short time, say 30 years.

We need scarcely say that we have not overlooked the discussions in 1860-68 on the question of providing funds for the construction of barracks in India, and we entirely concur in the principle then adopted by the Government of India and approved by the Secretary of State. The following words used by Mr Massey in his speech of 5th March 1867 may be quoted as a good exposition of that principle.—

"Is all the cost to fall on the taxpayers of the day, and all the benefit to be derived, without any cost other than the annual repairs, by the taxpayers of

“ 1870 and future years? We think we are not warranted in extending taxation for such a purpose, and that we shall fulfil our duty if we provide all that we can out of revenue, and throw a part of the burden on our successors. We shall borrow a million towards the construction of barracks in the ensuing year, and, even after this million has been borrowed, the remaining million will be charged to the revenues of the year. Thus the sum we shall provide out of revenue for this extraordinary charge is nearly equivalent to the whole estimated produce of the new taxation. In fact, had it not been for this change, we could have exactly balanced the estimates for next year.”

Our proposal, no doubt, carries out the principle thus enunciated in a different way from that adopted by Lord Lawrence's Government; but we think our plan is distinctly preferable, inasmuch as it distributes the burden evenly over a prescribed period, instead of dividing it into two portions bearing with unequal pressure upon the present and the future.

Two important precedents for the course we propose are to be found in the manner in which the State debt created by the purchase of the East Indian and Eastern Bengal Railways has been dealt with. In the former case 32½ millions sterling were provided by annuities terminable in 73 years. In the latter about 3½ millions are similarly to be dealt with by annuities, but the details have not yet been supplied to us by your Lordship.

The debt we contemplate will be on exactly the same principle, only we consider that the term of repayment should be much shorter. If 30 years were adopted, the five millions would be discharged by annuities costing 271,855 *l* per annum, taking interest at 3½ per cent. Another method is that of fixed annual payments, comprising interest and sinking fund, which has been followed in India in the case of several loans to municipalities and port trusts, and of the Mysore debt; but, on the whole, we are inclined to prefer that of annuities. In any case, there would be against the charge the set-off of whatever profit the new railway might yield.

For the reasons stated in the preceding five paragraphs, therefore, we hold that the simplest and wisest course is to leave alone, as it is, our existing system of borrowing annually for “Indispensable” General Railways and Irrigation, a fixed sum, *minus* surplus revenue and accretions, and to borrow separately, on an automatically repaying basis, such sum for strategical communications as may from year to year be necessary in order to their completion in due normal course, without either special pressing on the one hand or wasteful delays and uncertainties on the other.

In conclusion, we must explain that we are unanimously of opinion that the construction of the communications recommended above would strengthen our means of defence upon our North-West frontier, and, by increasing the mobility of our army, would add to its defensive power.

Our Honourable Colleagues, Sir Stewart Bayley, Mr Ilbert, and Sir Auckland Colvin, however, do not concur in certain suggestions contained in this Despatch, and their Minutes on the subject are forwarded herewith.

His Excellency the Governor General has embodied in a separate Minute, also-enclosed, his own views.

Enclosure 1, in No 2

FORECAST of Proposed EXPENDITURE on FRONTIER COMMUNICATIONS, in Conventional Sterling

113

2

ITEMS	Total probable Cost	Outlay in 1883-84	Estimated Outlay in				REMARKS
			1884-85	1885-86	1886-87	1887-88	
	£	£	£	£	£	£	
Sind Pishin Railway - - - -	2,000,000	122,700	777,300	850,300	150,000	100,000	The grant for the current year is not yet up to the sum stated, but the amount shown can probably be nearly worked up to.
Railway from Lala Musa <i>via</i> Darya Khan and Muzaffargarh to Sher Shah, with branch and ferries	2,150,000	-	300,000	1,250,000	800,000	100,000	In 1st year,—payments for land, housing staff, brick-making, and preparation of materials generally In 2nd year,—construction pushed on, permanent way provided and partly laid Pind Dadan Khan Bridge foundations and piers In 3rd year,—ferry steamers, rolling stock supply, construction continued In 4th year,—completion of line.
Sutlej Bridge at Ferozapore - - - -	400,000	-	50,000	150,000	150,000	50,000	In 1st year,—brick-making and housing staff In 2nd year,—well-sinking and construction of piers In 3rd year,—girders supplied and erected In 4th year,—completion
Road from Dera Ghazi Khan to Pishin -	200,000	-	1,000	80,000	80,000	39,000	In 1st year,—survey In 2nd year,—road-making and preparation of materials for bridges and culverts In 3rd year,—bridges and culverts carried on In 4th year,—completion
Road from Dera Ismail Khan to Khushalgarh <i>via</i> Kohat and Bannu	300,000	-	1,000	100,000	150,000	49,000	In 1st year,—survey In 2nd year,—road-making and preparation of materials and commencement of large bridges In 3rd year,—bridges and culverts carried on. In 4th year,—completion.
TOTAL - - - £	5,050,000	122,700	1,129,300	2,430,000	1,030,000	338,000	

SELECT COMMITTEE ON EAST INDIA RAILWAYS

Enclosure 2, in No. 2

(Extract)

MINUTE by the Honourable Sir *Auckland Colvin*, K C M G, C I E

1 I FIND myself, to my regret, at variance with the views of his Excellency the Viceroy and the majority of my Colleagues, but I am so wholly opposed to some of the suggestions contained in the Despatch, that I am compelled to enter a strong dissent

2 The frontier communications, which form the subject of the Despatch, are by no means the first works of this kind which the Government of India has had to undertake. Like the frontier railways constructed in 1878-79, and the barracks built a decade earlier, they are designed purely for military objects, and for strategic purposes. They are not likely to be remunerative. They are precisely analogous, financially viewed, to the former works alluded to. The mode of finding funds should therefore, in my judgment, be identical.

3 In the Despatch it is said —

“ There are three ways in which the necessary funds may be provided. “ We may allot annually, in the Budget, such amount out of revenue as we can afford—a fixed amount if possible, we may provide for them as far as possible in this way, and borrow only so much more in each year as may be necessary in order to bring the total allotment up to such sum as may be deemed necessary in order to carry on the works without undue delay, or, finally, we may borrow the whole amount required for these special works ”

The second of the methods above enumerated, it might have been added, is that laid down by the Secretary of State for India in his letter, No 252, dated 8th November 1865, for adoption on previous occasions—namely, to construct this class of works as far as possible out of revenue, and from borrowing only so far as revenue is not available. The reasons specially applicable to India for adopting that course will be found in Lord Lawrence's Minute of the 18th March 1868, in Mr Massey's Budget Statement of 1867-68, in Sir John Strachey's Minute of the 21st March 1868, and in his speech on the Certificate Bill on 20th March 1868, in Sir Richard Temple's Budget Statement for 1869-70, and in Sir John Strachey's Budget Statement for 1880-81. Lord Lawrence held that, if the Government of India could pay its way either altogether or in part without incurring fresh loans, it was its clear duty to do so. In view of the great debt which India already owed, the heavy liabilities already incurred which appertain to the guarantee system, and the peculiar character of British power in India, he believed that the only prudent and wise course was to make good the wants of the day, so far as practicable, out of its income. Mr Massey, while borrowing a million in 1867-68 on account of barrack expenditure, charged another million to revenue, saying, “ I should have preferred to go on as hitherto, defraying this charge, special and temporary as it is, out of the revenues of India, ” and added that the Government of India would fulfil its duty if it provided all that it could out of revenue, and threw part of the burden on its successors. He explained also why he considered the Portsmouth Defences precedent inapplicable to India. Sir John Strachey urged that borrowing should be resorted to only if revenue was incapable of meeting the charge without recourse to new and burdensome taxation. In his Budget Statement of 1880-81, he repeated, in more emphatic terms, this language. Finally, the Secretary of State considered it a matter “ of course ” that “ expenditure of this kind ought to be provided for, if possible, out of the revenues of the current year, but if, at any time, the amount of expenditure which it would be expedient to incur cannot be drawn from the ordinary income of the year, it must be left to the Government of India to determine, in communication with the Home Government, in what manner the requirements of the public service shall be met. ” These considerations have governed the mode of meeting the expenditure on works of this class up to the present time, and, as the Member in charge of the Financial Department,

I consider

I consider it my duty, before having recourse to loans, to find from revenue, so far as may be without unduly starving administration, the sums necessary for frontier communications, as my predecessors found them for the works constructed during their time

4. In the Despatch objection is taken to what has been, as I have shown in my third paragraph, the method of raising funds hitherto prescribed for adoption, on the ground that it interferes unnecessarily for an exceptional purpose, "with the established system under which our ordinary loans for public works are carried on, and also precludes our making special arrangements for such loan as may be required, the nature of which we will presently explain." So far as I am aware, the hitherto practice has not been found, by experience, in the slightest degree to interfere with the customary loans for public works. In 1868, as in later years, the Government of India was borrowing for public works, as it is still borrowing, but no complaint has as yet been made that the system pursued in the case of "extraordinary" works (as they were then called) interfered with the ordinary loans. If, as the Despatch says, and as I quite agree, the change of an established system is at all times undesirable, then I am wholly at a loss to see on what grounds it is sought to recommend the "special arrangements" devised in the Despatch in place of the system now in force. The expediency of special arrangements of the nature contemplated I will discuss presently

5. I do not think it necessary to enter into the question as to whether or no the new charge causes the additional loan, because it has no practical bearing on the matter before us. Whatever, viewed abstractedly, may be the case in point of fact if frontier communications are charged to capital and not to revenue, a surplus of greater or less extent will appear upon our accounts. One of two things will then inevitably happen: either the Departments will press for increased expenditure, and it will practically be impossible to resist proposals which, however objectionable, may, in view of such surplus, be plausibly put forward, or, in order to enforce economy, we shall be obliged to remit taxation. Bearing in mind the great remissions of taxation which have taken place during very recent years, and the peculiar dangers to which the Indian revenues are liable, the time has not yet come when we can with safety make further reductions. Reduction of taxation at the present time would, in my judgment, be a far less evil than profuse and needless expenditure; but, none the less, it would be premature, and, in view of the limited resources open to us in India, and of the unforeseen calls to which we are liable, very dangerous. Apart from these considerations, I apprehend that the precedent of meeting this expenditure solely from loans (should it be admitted) will be fruitful of most pernicious consequences. It will be sought hereafter, on the strength of such a precedent, to charge to loans various other schemes, which might have been properly opposed on the ground that the revenue resources of the Government were incapable of meeting them. There is no more wholesome check upon extravagance, whether it arises from the desire to hasten works of which the utility is doubtful, or which admit of being gradually carried out, or whether it is caused by apprehensions as to danger outside our frontiers, than the necessity of finding funds with which to meet the hobby or the scare of the hour. In India, where the Financial Department cannot appeal from administrative pressure to the support of a representative body, an authoritative self-imposed check of this nature is all the more necessary, and is, to my mind, if we are to be preserved from disorder, imperative. If facilities are to be given for borrowing in order to meet proposals of this kind, our loans will be indefinitely added to, while ordinary expenditure will be wantonly increased. Hence, on every consideration of economy in the present and prudence for the future, I wish emphatically to protest against charging frontier communications to loans, without any attempt to meet them, in whole or in part, from Revenue.

6. The contention that by the "special arrangement" put forward, viz., borrowing separately for frontier communications, and establishing a sinking fund especially for the loan contracted on this account, we are in spirit, if not in the letter, acting on the principle adopted in 1867-68, rests entirely, it appears to me, on a fallacy. We shall be engaged in two operations, the finding

of funds for our general railways, and the finding of funds for our frontier communications. The money required for a sinking fund for the latter would be so much abstracted from the funds necessary for the former, and (unless we adopt the course alluded to in the next paragraph) we should therefore have to borrow on account of our general railways, annually, a sum precisely equivalent to that which we had withdrawn from our resources to provide the sinking fund for frontier communications. At the end of 30 years, or whatever the term might be, the debt incurred on account of the general railways would be increased by a figure equal to that which had been devoted to the extinction of the loan for frontier communications. Posterity, saddled with the interest on increased borrowings equivalent to the sum which had been withdrawn for the sinking fund, would in no way that I can see benefit, while, on the other hand, the taxpayer of the present and intermediate day would have to bear for his part the heavy burden imposed upon him from revenue for a phantom sinking fund. The distribution of pressure would be equalised only in the sense that the immediate present and the remote future would be equally subjected to taxation. Should a famine cycle, it may be added, be approaching us, we should very shortly have to suspend our so-called sinking fund.

7. The arguments, finally, on which the Government of India based their decision in 1868 have even greater force at present. "When these works are finished," wrote Lord Lawrence, "and this will not be accomplished, I am satisfied, in the period generally supposed, we shall have to construct manifold other works, each deemed very important and imperatively necessary, such as fortified posts, places of refuge, drainage works, and many others, which will absorb vast sums of money. Now, none of these will be really productive, though all may be undeniably very important." In other words, each successive generation has its peculiar burdens of this nature, and each, so far as possible, should meet them from its own resources. It is said in the Despatch that the expenditure now contemplated is exceptional and will not recur. This precise class of expenditure may possibly not recur, but nothing could show more conclusively than the situation now before us how circumstances may saddle our successors, as we are saddled, with analogous unforeseen expenditure. Again, all that was urged against loans in 1868 applies with much greater force in 1884, in view of the very serious change which has since taken place in the value of silver, and of the additional burden in the form of exchange which loans entail upon our revenues. The more we borrow, it may be added, the more certainly, in view of the limited resources of the local market, and of the competition of local bodies, such as the Calcutta and Bombay Port Trusts (about to enter the market for considerable sums), must we increase our sterling debt. If, indeed, we are to borrow for all kinds of railways, I think it extremely probable, in view of the above grave considerations, that we shall find ourselves forced to reduction in the expenditure on general railways almost equivalent to what it is desired to borrow for frontier communications. Further, the policy of increased borrowing for works in which we are embarked will for some years not return an adequate profit, and, *pro tanto*, this additional burden must fall on those who come after us. Our position and resources are, finally, stronger now than they were in 1868, or when the frontier railways were commenced in 1878, and what could be accomplished from revenue then is proportionately easier of accomplishment at present.

8. I myself think it exceedingly doubtful whether there is any such urgent need for the rapid construction of frontier communications as to compel us at present to have recourse to borrowing on that account. If, however, I should prove to be wrong in this respect, either owing to the revenues falling short of what may be expected, or to inevitable increase of ordinary expenditure, or to the need of pushing on the works at greater speed than I think necessary, I should have no objection to borrowing the difference between what we can furnish from revenue and what may be required. Assuming, however, that a period of about six years is a sufficient period for the construction of frontier communications, I see at present no reason for doubting that, unforeseen accidents apart, they may be met almost wholly from revenue.

9. So far as I am personally concerned, I can only give my adherence to the paragraph commencing "we must also explain, &c," subject to the result of consideration of the subject after final exchange of views with the Secretary of State on the Report of the Parliamentary Committee. I would also qualify the last section of that paragraph by inserting the words "so far as the finances will admit," immediately before and as the commencement of the passage now beginning "the protection from both "should certainly, &c."

19 September 1884

A. Colvin.

I agree with Sir A Colvin that these frontier communications should be constructed as far as possible out of revenue, and from borrowing only so far as revenue is not available. Exceptional expenditure of this kind is always recurring in various forms and for various reasons. I share Sir A. Colvin's doubts as to whether there is such urgent need for rapid construction as will make borrowing necessary.

C. P. Ilbert

I agree in Sir A Colvin's objections, and consider that the expenditure should be provided for as proposed in the early part of para 3 of Sir A. Colvin's Minute.

S. C. Bayley.

Enclosure 3, in No 2.

(Extract)

MINUTE by His Excellency the Governor General

As I agree with the majority of my Honourable Colleagues in regard to the mode in which the money required for the construction of the proposed frontier railways should be raised, it is not necessary that I should make any lengthened observations upon that subject, although I must express my sincere regret at finding myself at variance upon such a question with my Honourable Colleague Sir A Colvin. There is, however, one portion of his Minute upon which I desire to say a few words. In the 5th paragraph of that Minute Sir Auckland Colvin writes:—

"If frontier communications are charged to capital, and not to revenue, a surplus of greater or less extent will appear upon our accounts. One of two things will then inevitably happen, either the departments will press for increased expenditure, and it will practically be impossible to resist proposals which, however objectionable, may, in view of such surplus, be plausibly put forward, or, in order to enforce economy, we shall be obliged to remit taxation. Bearing in mind the great remissions of taxation which have taken place during very recent years, and the peculiar dangers to which the Indian revenues are liable, the time has not yet come when we can with safety make further reductions. Reduction of taxation at the present time would, in my judgment, be a far less evil than profuse and needless expenditure, but, none the less, it would be premature, and, in view of the limited resources open to us in India, and of the unforeseen calls to which we are liable, very dangerous."

2 I gather from this statement that one of my Honourable Colleague's motives for desiring to meet the expenditure on frontier railways as far as possible out of revenue is, that he fears that, if he does not take that course, the arguments in favour of an immediate reduction of taxation will become irresistible. I am not as yet in a position to express any opinion as to whether the condition of our finances at the time of the preparation of the next Budget may

or may not permit taxation to be to any extent reduced, but I cannot think that it is desirable to make use of the opportunity afforded by the proposals to construct these railways, with a view to avoid a reduction of taxation which it might otherwise be in our power to make. There are still several taxes in existence in India which it would be very desirable to reduce or to abolish. Our present scale of court fees is fixed at a rate to which serious objections have been justly urged. The export duty on rice is contrary to sound economic principles, and has a peculiarly unfortunate operation in a country in which considerations connected with exchange are of great importance. It is my strong opinion that the salt duty ought to be farther reduced as soon as it approaches recovery from the results of the reduction made in 1862. And, lastly, the license tax is small in amount, but irritating in its effect, is altogether inelastic, and indeed diminishes steadily in its returns. At what time and in what manner these various imposts should be dealt with it is not for me now to say, but I do not think that we ought to abstain from adopting a course which has on other grounds much to recommend it, because its adoption might render it difficult to retain without very serious opposition taxation of this description. Of course such calamities as famine or war may at any time lead to vast additional expenditure, but the case of famine is supposed to be provided for by the arrangements connected with what has been called "famine insurance," and the outbreak of war produces a condition of things which is altogether exceptional, and which must be met by exceptional measures. I am therefore of opinion that, if the Government should at any time be possessed of an important surplus, it is undesirable that its freedom of dealing with it should be hampered by expenditure such as that contemplated in the present Despatch, and I hold that, in the event of the existence of such a surplus, reduction of taxation should occupy an important place among the different modes of disposing of it which should come under the consideration of the Government.

22 September 1884.

— No. 3 —

The Governor General of India in Council to the Secretary of State for India,
Simla, 29 September 1884; No. 150 (Railway).

My Lord,

We have had the honour to receive your Lordship's Despatch, No 89 R, dated 14th August 1884, on the subject of the Report of the Select Committee of the House of Commons on Railway Communication in India, and its effect on our future railway policy.

2 We have observed with gratification, in addition to the points mentioned in the first clause of the second paragraph of the Despatch, the opinions of the Committee at paragraph 21 in favour of the broad gauge, at paragraph 33 that the 2½ millions limit of borrowing fixed in 1879 "might safely be enlarged," and at paragraph 29 that a fixed scale of expenditure should be maintained "over a considerable term of years."

The Committee's recommendation in paragraph 33, with reference to the responsibility for deciding what amounts may, with safety to the finances, be borrowed for Public Works, is identical with that of the Committee of 1879, so that our system established thereunder is not altered.

3. The dependence of the policy advocated in the Report upon the financial position of India, which is noticed in your Lordship's 3rd paragraph, is likewise in confirmation of the views of the Select Committee of 1879, who recommended "that the amount to be annually expended upon Productive Works should "mainly depend upon the financial condition of India." The recent Committee have, in their paragraph 33, virtually repeated the recommendation.

4. This

4. This recommendation of 1879 has always been held to refer to the average amount of borrowings as spread over a term of years, and not to the amount to be given during any particular year.

In forwarding to the Government of India the Report of the Parliamentary Committee of 1879, the Secretary of State used these words (No 420, of 23rd October 1879, paragraph 5) : " I desire that the annual expenditure on Productive Public Works from all sources be for the present restricted to the fixed sum of 2,500,000 l " His Lordship, in a further Despatch (No 444, of 13th November 1879, paragraph 13), observed that " it is not desirable to appropriate annually a larger sum than 2,500,000 l to public works for which it is not found possible to provide in your ordinary estimate " This second order was eventually explained in the Secretary of State's, No. 31 R., of 22nd February 1883, as extending the first, so as to allow surplus revenue, whether Provincial or Imperial, to be spent on Productive Public Works, *in addition* to the 2½ millions, which amount had been fixed as a limit of borrowing only.

Moreover, the Secretary of State decided in 1879 (No 485, of 11th December 1879, paragraph 7), and again in 1881 (No 1, of 6th January 1881, paragraph 6), that " the unspent balance of any one year may be re-allotted and added to " the 2½ millions of the succeeding year " The reason for this decision, in apparent antagonism with the ordinary budget system of absolute lapse of annual grants, was the admitted * waste and other evils involved in carrying on large public works with uncertain and fluctuating resources, together with the impossibility of so regulating home indent-, that the payments for them should fall in particular years. It has thus been the established practice for some years past to place a certain fixed *average* sum at the disposal of the Public Works Department, re-allotting unspent balances from year to year. That this policy should be maintained in future is the recommendation of the recent Committee —

* Government of India's No 319, of 2nd October 1879.
Secretary of State's No 485, of 11th December 1879.

" 29 The attention of your Committee has been called to the mischief occasioned by constant fluctuations of policy in the construction of railways, and they are of opinion that, a careful forecast having been made of future requirements for public works over a considerable term of years, such a scale of expenditure upon railways should be adopted as can reasonably be maintained."

5 It has likewise, however, been always recognised that the amount so fixed was liable, on the one hand, to periodic revision according to the general state of the finances, and on the other, to sudden curtailment, like the Provincial Contracts (Resolution of the Government of India, No 3353, Finance and Commerce, dated 30th September 1881), in the event of abnormal disaster. Thus the limit of 2½ millions was fixed by the Secretary of State, " until the " financial prospects of your Government are such as to enable you to calculate " with greater confidence the amount of the charges which may devolve upon " your revenues " (No 444, of 13th November 1879, paragraph 13), but expectations of its increase were more than once held out in subsequent Despatches, and the recent Committee have now advised that it may " safely be enlarged ".

We are prepared to accept the continuance of the existing system thus described, and subject to the distinct reservation above referred to. The forecast required in your Lordship's 8th paragraph, to which we shall presently allude, is put forward on this basis.

6 The remark in the 4th paragraph of the Despatch, as to " famine lines," refers, we presume, to our proposal regarding such protective lines as are technically " unproductive " . That proposal was that, " for the time being at all " events," we should be allowed to apply to them " loan funds in aid of the " Famine Grant " to such extent as " the change may be made with a due regard " to financial prudence " . We held " that some limit must be assigned to capital " expenditure from funds borrowed by the State, on unprofitable lines of rail- " way," and, " with a view to the solution of this question," we classified all railway projects, showing in Schedule A (Indispensable Railways) only 10 millions for railways of the " unproductive " class, along with 18 millions for the " productive " . Our proposals thus may well be deemed to fulfil the condition of paragraph 28 of the Report, that " the bulk of the lines made should " be self-supporting " . Moreover the Committee have in that paragraph sup-
ported

ported our view that "the technical distinction which has hitherto been made between protective and productive lines cannot be maintained," and in paragraph 30 have said that the expenditure we propose "during the next six years is moderate," and that an extension "on the scale" we advocate "will have most beneficial effects." It would therefore seem that the Committee do not consider our proposals to be at variance with their recommendation. The change proposed in paragraph 9 of this Despatch will, however, reduce the proportion of "unproductive" lines to one-fourth of the whole, and will thus remove, we trust, whatever doubt may now be held to exist in the matter

7 We observe that the Committee have viewed unfavourably our proposal as to the hypothecation of the Famine Grant, and should have been glad to have been made acquainted with the grounds of their decisions. This hypothecation was undoubtedly a very important element in our scheme, but it was adopted, as stated in paragraph 47 of our Despatch, No. 29, of 23rd January 1883, by way of extreme caution. In the succeeding paragraphs proof is given that largely increased railway receipts may reasonably be expected, in paragraphs 15 and 16 of our Despatch, No. 27, of 29th January 1884, the same argument is pursued, and in the latter the Famine Insurance Grant is spoken of as a reserve. Finally, the enclosures to our Despatch, No. 121, of 28th April 1884, contain ample proof that the hypothecation of a part of the Famine Grant was by no means essential to the financial security of our scheme, which is perfectly able to stand without it.

8. Our answer to your Lordship's fifth paragraph consequently is that, for the reasons just given, the Committee's recommendations in their paragraphs 28 and 32 necessitate no change at all in the lines of railway included in Schedule A.

9 One change is, however, necessary for an independent reason. In paragraph 4 (f) of our Despatch, No. 9 R, of 22nd January 1884, we informed your Lordship that the Vizagapatam Raipur project did not improve on examination, that its commercial prospects were unfavourable, and its protective value small. This view has been so amply confirmed by the surveys of last cold season, that we think the line (355 miles; estimate 2,900,000 L.) must be struck out of Schedule A.

In substitution for it, the line undoubtedly possessing the best claim to insertion is the lower section of the Benares-Puri project, running from Kontera station, on the Nagpur-Bengal Railway, through Cuttack, to Puri. A reconnaissance of this was made in 1882-83, a more thorough survey in 1883-84, and the location will be completed during the current cold season. Much information regarding it has been published, and separately supplied to your Lordship, and the last year's reports are now under consideration. The length is put at 231 miles, and the cost at 2,523,000 L. This line was classified as "Protective and Productive," but was entered in Schedule B. for the reason explained in paragraph 20 of our Despatch No. 27, of 29th January 1884. The sanction of the Nagpur-Bengal Railway now renders possible the construction of the southern section of the whole project independently of the northern.

Its value as an additional protection to Orissa from famine is unquestioned. The Engineer-in-Chief estimates that it will derive 2 per cent. from the pilgrim traffic from the north alone, to which must be added that which will be brought to it from Western and Southern India by the Nagpur-Bengal Railway, and from the North-West and Punjab by the Bilaspur-Etawah line, as also a certain goods traffic, which ought to increase since the population is reported to have risen 31½ per cent. in the last 10 years. The Patna-Gya line pays from 5 to 6 per cent, chiefly from pilgrim traffic, so that it may safely be assumed that this project will pay 4 per cent. within about five years, and will thus be technically "productive."

The substitution of this Kontera-Puri line for the Vizagapatam-Raipur will reduce the "unproductive" lines in the schedule from 10 millions to about 7½ millions,

millions, which is a material change in the direction desired by the Committee in paragraph 28 that the bulk of the lines shall be self-supporting. After providing for it, there will be a balance of about 380,000 *l* over, which can go for the present towards the Kutni-Umeria section of the "productive" Bilaspur-Etawah Railway, which your Lordship has just sanctioned. Eventually, if

Despatches No. 99 and 109 of 27th June and 4th July 1884 the money be refunded by a company formed to construct the whole Bilaspur-Saugor Railway, it can be applied to some other short "productive" line in Schedule B.

10. We may here remark that, though we use the word "unproductive," the estimates of net receipts for the lines to which it is applied have been made on an extremely cautious basis, and will very probably be much exceeded in some cases. The Rewari-Ferozepore Railway, for instance, last year paid 1½ per cent on the whole outlay incurred, though only 80 miks out of 302 were open, and is now estimated to yield nearly 3 per cent. in the current year, though it will barely be completed.

11 In view of the Committee's opinion "that the technical distinction which has been hitherto made between protective and productive lines cannot be maintained," it is proposed, in paragraphs 6 and 7 of the Despatch under reply, to raise the annual grant for "famine," *i.e.*, "protective, but unproductive," lines by adding annually 500,000 *l* from borrowed funds to the same amount now assigned out of the Famine Grant. We beg to point out that a fixed allotment of this sort is somewhat questionable in principle, since the famine protection necessarily depends on the actual circumstances of the case, and also in practice, because the protective lines are those which we need the most urgently, and which ought therefore to be completed as soon as possible. If, however, about 7½ millions be allowed instead of the six proposed, and equal annual allotments be not insisted on, the necessary protection can be provided in the six years contemplated in the forecast appended to this Despatch, as will be seen from the extract in the margin

	Lakhs of Rupees
1st year	131
2nd "	150
3rd "	165
4th "	128
5th "	79
6th "	61
	726

This amount is distributed between eight railways, of which four are in progress and two more are extensions of the preceding, while six out of the eight are situated in the Madras Presidency. Considering the deficiency of famine protection by railway in that Presidency, and the risk of famine so often arising, we are not prepared to incur the grave responsibility of any reduction or delay in remedial measures. In illustration of this risk, we append a map,* supplied by our Revenue and Agricultural Department, which shows the precarious condition, at the present moment, of the tracts which these railways are designed to protect. We trust that, under this explanation, your Lordship will not object to the necessary amount being expended, and distributed between the several years, as shown in the forecast.

12 In the second part of paragraph 7 of the Despatch a suggestion is made, which we understand to mean that the net interest charge on the extra 500,000 *l*, which is offered for "unproductive" lines, shall be met out of a sum of 300,000 *l* per annum, which is supposed to be annually allotted from revenue (under the head of "State Railways not classed as Productive"), by means of the transfer of a portion of the item to some other head.

As a matter of fact, however, there is no such allotment, and we are not aware from what source the figure of 300,000 *l*. has been derived. The true allotments during the past 10 years have been only those shown marginally, which are the Imperial portion of the amounts given under item 40 at pages 60-61 of the last Financial Statement, and even out of these, about 700,000 *l*. have subsequently been transferred from this head to "Productive." Perhaps the fact has been overlooked that this item is mainly provincial.

After

* A copy of this map has been placed in the Library of the House of Commons.

After consultation with our Accountant General in the Public Works Department, we think there will be no possibility of providing, out of this item, for the interest on the whole extra grant for protective railways which is suggested in paragraph 11. A transfer of the preliminary survey charges of "productive" railways to the Productive Capital Account might yield a small sum, but only for two or three years or so, and to this we have no objection if your Lordship so desires. As, however, we shall presently explain that the annual interest charge for lines of all classes can be borne by the general revenue, a special provision of this sort appears hardly necessary.

13. To the 8th paragraph of the Despatch our broad answer is, that (except for the substitution of the Kontera Puri line, &c, as proposed in paragraph 9) your Lordship has already received, as Schedule A, the forecast required.

As, however, something more minute is probably desired, we have had the forecast now appended to this Despatch very carefully prepared by the Accountant General, Public Works Department, in consultation with the Director General of Railways as regards the distribution of allotments from a construction point of view. In this forecast all arrears of the productive grant up to date have been included, and also (for reasons to be presently stated) a provision for the commencement of the enlarged operations from the current year. The schedule will be exhausted in rather less than six years, as originally anticipated. We need scarcely add that such forecasts cannot be made absolutely reliable, and also that redistribution between one line and another, as usual, must take place according to the progress of each.

We must explain, however, that, in order to avoid new discussions at present, we have placed the provision for additional capital for open State Railways "inside" the annual grant, as hitherto, instead of "outside," as proposed in paragraph 18 of our Despatch, No 27, of 29th January 1884. On this point both the Committee and your Lordship are silent. But the inconveniences of this course, as also the difficulty of making any reliable forecast of outlay under this head, are undoubted, and cannot be better illustrated than by the fact that the recent development of railway traffic has brought on the current year a charge of no less than 100 lakhs, instead of the assumed normal 30 lakhs, which will eat up the whole of the arrears of the Productive Grant.

14. The inquiry in paragraph 9 needs consideration from two points of view.—

(a) Administratively, an increase to our funds in the current year is urgently required, because the heavy open line outlay above alluded to has proportionately diminished our funds for construction. Consequently, at a time when numerous projects are in hand in critical stages, and the expediency of "enlarged operations" is pointed out by the Committee and recognised by your Lordship, we have actually got 70 lakhs less available than would be normally at our disposal under the old system. Upon the economy of keeping our establishments employed up to their full working power, and of securing at the earliest possible date a return for outlay once embarked on, we need not enlarge.

(b) Financially, we have very carefully considered the situation, and also append a note by the Accountant General, Public Works Department, showing the probable additional annual outlay from year to year for interest which the adoption of the forecast will entail, and the views recently laid by Mr. Westland before the Select Committee as to the resources available for meeting it. We are of opinion that, provided your Lordship can arrange for the necessary funds, there is no financial objection to at once allotting additional grants for railway construction during the present year up to the amount of the arrears of the old normal Productive Grant now outstanding (61½ lakhs), together with the new normal increase of ₹50,000 l comprised in our original proposals. But, if this sum, or any portion of it, is granted for expenditure this year, in addition to grants already made, it will be necessary that your Lordship's total estimated

estimated drawings for the year should be reduced by an equal amount. In the forecast, the probable lapse and carrying forward to 1885-86 of 31 lakhs out of the 96½ lakhs has been anticipated, but, if it be held to be financially more convenient not to burden the coming year, the amount could be utilised this year by instalments for materials.

With regard to the future years which are embraced in the forecast, we can only say that, subject to the very distinct reservation already mentioned in paragraph 5, we see no reason to expect that the general revenues will not be fully able to bear the charge which the operations contemplated in the forecast will entail.

15 In reply to the concluding inquiry in paragraph 10, we beg to point out that in our original Despatch, No 29, of 23rd January 1883, we recommended that the lines mentioned marginally should be given to Companies, and that we also said, in paragraph 11 of our Despatch, No. 27, of 29th January 1884, that "it is of course understood that there would be no objection to handing over to 'construction and working' companies any "of the lines entered as to be carried out by State agency." The lines comprised in Group I have already been arranged for with the Oudh and Rohilkhand and the Southern Mahratta Companies, and are virtually removed from our schedule. As to those in Group II, we have learned with much satisfaction that the two first-named are likely to be at once conceded to companies, and that the Jhansi-Manikpur and Etawah-Saugor lines will be comprised in the Bhopal system. We trust that similar concessions in the case of the Bilaspur-Saugor project (including the Kutni-Umeria section now provisionally commenced), and of the Ranaghat-Bhugwangola extension, may be possible at an early date. We have only to add that it does not appear desirable to hand over to companies other lines for which State agency is contemplated, unless a full fair share of the profits can be reserved to the Government.

It is hardly necessary for us to say that we have never contemplated any increase in our present permanent Public Works staff on account of the projects entered for State agency in Schedule A, and that in our Despatch on its reorganisation we acquiesced in the numerical reduction already contemplated.

16. In conclusion, we may state that we have telegraphed to your Lordship the substance of the more important recommendations in this Despatch, and solicit a very early reply, in order that no delay may occur in utilising, during the cold season just commencing, the additional grants proposed.

We have, &c

Ripon
D. M. Stewart
J. Gibbs.
T. F. Wilson
C. P. Ilbert.
S. C. Bayley
T. C. Hope
A. Colvin

Enclosure 1, in No 3

FORECAST OF RAILWAY CONSTRUCTION and OUTLAY, 1884-85 to 1889-90

Designation of Railway	Estimated Cost.	Outlay to end of 1888-84.	Amount needed to complete on 1st April 1884.	Existing Grant for 1884-85	WAYS AND MEANS.			PROPOSED NEW GRANTS IN LAKHS OF RUPEES					REMARKS													
					Normal Annual Grant	Arrears to be added to First Year	Other Assets for Sixth Year	Revised Grant, 1884-85.	1885-86	1886-87	1887-88	1888-89		1889-90												
1	2	3	4	5	6	7.	8.	9	10	11.	12.	13. ⁴	14.	15												
<i>Works in Progress</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>													
Wazirabad-Sialkot - - -	9,50,000	7,50,000	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	Line opened. Further outlay met under open Lines.												
Rewari-Ferozepore	Protective { 1,41,34,000	86,49,787	54,84,000	30,60,000	1,80,00,000 old share of 24 millions 35,00,000 addition proposed. 50,00,000 share of famine Grant.	Allotted. 1,80,00,000 Provincial contributions 35,00,000 old share of Protective Grant. 50,00,000 ditto 3,44,000 Lapse of 1883-84	Nagpur-Chattisgarh Railway recovery 2,24,00,000 share of normal Grant required to complete 2,27,00,000	31	6	-	-	-	-	-	Saving anticipated.											
Jhansi-Manikpur								1,70,00,000	11,78,161	1,68,22,000	13,00,000	40	50	65	13	-	-	-	-							
Bellary-Kistna								1,77,50,000	8,32,027	1,68,18,000	34,21,000	40	50	55	23	-	-	-	-	-						
Cuddapah Nellore								36,84,000	2,78,146	33,91,000	12,78,000	15	19	-	-	-	-	-	-	-						
Amritsar-Pathankot - - -								62,05,000	47,02,350	15,03,000	9,33,000	11	2	-	-	-	-	-	-	-						
Bareilly-Pilibhit - - -	17,50,000	9,65,381	7,85,000	3,26,500	-	-	-	3	-	-	-	-	-	Further outlay met from Provincial balances												
Dacca-Moensingh - - -	60,00,000	28,45,265	31,18,000	26,50,700	-	-	-	26	10	-	-	-	-	Probable excess												
Assam Behar																										
1 Muzaffarpur-Hajipur	22,00,000	18,28,897	9,71,000	3,25,000	-	-	-	-	-	-	-	-	-													
2 Sonapur-Hajipur - - -	14,20,000	5,49,189	2,11,21,000	34,10,000	-	-	-	47	50	40	40	38	-													
3 Jhajarpur-Dumjpur - - -	1,46,50,000																									
4 Munihari Branch - - -	- - -																									
5 Kanna Duabri - - -	66,00,000																									
Rangoon and Sittang - - -	1,17,00,000													90,69,275	26,20,000	22,10,000	-	-	-	24	8	-	-	-	-	Stores balance of Burma Railways kept in the account No real excess anticipated

CORRESPONDENCE RELATING TO THE REPORT OF THE

113	1	and Lines	7,80,000	47,50,000	10,00,000	10,00,000	-	-	-	-	-	-	-	-	10	-	-	-		
		Tanna Bridge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		Koondal Bhawan, Ja	-	2,64,118	-	20,000	-	-	-	-	-	-	-	-	-	-	-	-		
		TOTAL Works in Progress	10,88,02,991	-	7,26,42,000	-	-	-	-	-	-	-	-	-	246	195	150	76	38	
		<i>Not Commenced</i>																		
		Halisagar Extension (Bellary Kistna Railway) <i>Protective</i>	70,00,000	-	70,00,000	-	-	-	-	-	-	-	-	-	-	-	5	20	20	25
		Kadiri Extension (Cuddapah Nellore Railway) <i>Protective</i>	85,00,000	-	85,00,000	-	-	-	-	-	-	-	-	-	5	15	25	30	10	-
		Dauscheva-Villupuram } <i>Protective</i>	84,00,000	-	84,00,000	-	-	-	-	-	-	-	-	-	-	10	25	30	19	-
		Minor Feeder Lines }	90,00,000	-	90,00,000	-	-	-	-	-	-	-	-	-	-	-	-	10	24	56
		Bezwaru to Frontier	25,00,000	-	25,00,000	-	-	-	-	-	-	-	-	-	-	15	11	-	-	-
		Wareru-Chanda	35,00,000	-	35,00,000	-	-	-	-	-	-	-	-	-	-	-	-	-	10	25
		Prome-Ailanmyo	37,50,000	-	37,50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	10	28
		Kontera-Puri	2,62,34,000	-	2,62,34,000	-	-	-	-	-	-	-	-	-	-	-	18	60	84	90
		Kalpi-Umaria Section of Bilaspur- Etawah	31,57,000	-	31,57,000	-	-	-	-	-	-	-	-	-	5	25	1	-	-	-
		Nagpur-Bengal	-	-	-	10,00,000	-	-	-	-	-	-	-	-	20	20	-	-	-	-
		Lawnore-Kalpi	-	-	-	5	-	-	-	-	-	-	-	-	5	5	-	-	-	-
		Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Stores and Working Capital	70,00,000	-	70,00,000	-	-	-	-	-	-	-	-	-	-	8	-	9	20	33
		TOTAL Works not Commenced	7,81,01,000	-	7,81,01,000	-	2,85,00,000	1,46,77,600	2,87,00,000	281	243	236	236	236	281	243	236	236	236	257
		Extra Capital for open Lines	1,80,00,000	-	2,73,00,000	-	30,00,000	-	-	-	100	53	30	30	100	53	30	30	30	30
		Balance carried forward	-	-	-	-	-	-	-	-	31	-	-	-	-	-	-	-	-	-
		GRAND TOTAL - - Rs	20,40,03,991	-	17,74,43,000	-	2,65,00,000	1,46,77,600	2,87,00,000	412	300	266	266	266	412	300	266	266	266	287

This line is in abeyance pending construction by the Bengal Central Company

Some changes in the proportionate distribution is probable.

Advances probably recoverable

SELECT COMMITTEE ON EAST INDIA RAILWAYS.

EXPLANATION.

1 The arrears due to the first year are as under, and should be shown as such in the column for that purpose, as "Arrears and Contribution to be added to First Year." We have actually received the contribution, and must bring it to account —

	<i>Rs</i>
(i) Arrears, Protective Grant - - - - -	38,86,600
(ii) „ Productive Grant - - - - -	21,96,000
(iii) „ „ „ - - - - -	10,85,000
(iv) „ „ „ - - - - -	58,03,000
(v) Lapses, 1883-84 - - - - -	3,44,000
(vi) Provincial Contribution - - - - -	13,63,000
Total - - - <i>Rs.</i>	1,46,77,600

say, 1,47,00,000 rupees in round numbers

- (i) Less Provincial Contribution of 25 lakhs to be refunded, allotted in Budget Orders
- (ii) Allotted in Budget Orders.
- (iii) Allotted in June and September
- (iv) Amount not yet allotted
- (v) Productive lapses, less Protective excess, not yet allotted
- (vi) Amount contributed by North Western Provinces to Productive Public Works, including 40,000 rupees just allotted.

2. If the 61,47,000 rupees of arrears not yet allotted were made available, and if in addition to this the total grant were increased from 1,80,00,000 rupees +50,00,000 = 2,30,00,000 rupees to 265 lakhs of rupees by adding 350,000 l, or 35 lakhs, as recommended in the Programme of the Government of India, the amount available for outlay this year would amount to 265 + 147, or 412 lakhs

3 Out of this the following additional grant to Railways under construction might be made. —

	<i>Lakhs</i>
Jhansi-Manikpur - - - - -	27
Bellary-Kistna - - - - -	5½
Cuddapah-Nellore - - - - -	2½
Amritsar-Pathankot - - - - -	2
Assam-Bihar - - - - -	10
Rangoon-Sittang Valley Railway - - - - -	2
Barrakur-Nagpur - - - - -	10
Kutni-Umeria - - - - -	5
Kadri-Extensaon - - - - -	5
Total - - -	69

This

This would increase the total grant for the year to the figures shown below—

REVISED GRANT, 1884-85

	<i>Lakhs.</i>
Lines under construction - - - - -	281
Open lines - - - - -	100
Total - - -	381
This would leave - - -	31

to be carried forward to 1885-6, and make the amount available for that year 265 + 31 lakhs, or 296 lakhs.

4 Supposing that in 1885-86 we recover the 20 lakhs and 5 lakhs expended this year on the Barrakur-Nagpur and the Cawnpore-Kalpi Railways respectively, then, after reserving 53 lakhs for open lines, which will probably be needed, we shall have 243 lakhs available for railways open for traffic. This sum is allotted in the column for 1885-86.

The grants for this and the following years are allocated as under —

	<i>Lakhs.</i>
1885-86	
Lines under construction - - - - -	260
Open lines - - - - -	53
Stores, increase - - - - -	8
Total - - -	321
Less recovery - - - - -	25
Total - - -	296
1886-87	
Lines under construction - - - - -	235
Open lines - - - - -	30
Total - - -	265
1887-88	
Lines under construction - - - - -	226
Stores, increase - - - - -	9
Open lines - - - - -	30
Total - - -	265
1888-89	
Lines under construction - - - - -	215
Stores, increase - - - - -	20
Open lines - - - - -	30
Total - - -	265

In 1889 we shall want, to complete the schedule.—

	<i>Lakhs.</i>
Lines under construction - - - - -	224
Stores - - - - -	33
Open lines - - - - -	30
Total - - -	287

To meet this 287 lakhs, we shall have the 63,00,000 rupees recovered from the Barrakur-Nagpur Railway, and shall want a normal grant of 224 lakhs.

5. The figures in the second column of this forecast may be reconciled with those in the Despatch, No 27 F & C, of 29th January 1884, in the following manner :—

	<i>Rs.</i>	<i>Rs.</i>
Total, Column 2 - - - -	-	20,49,04,000
<i>Deduct—</i>		
Excess on Amritsar-Pathankot Railway - - - -	2,05,000	
Excess* on Farakhabad Hathras Railway - - - -	1,70,000	
Konera-Puri Railway - - - -	2,52,34,000	
Kutni-Umaria Section, Bilaspur-Etawah Railway - - - -	31,57,000	
Open lines, sixth year - - - -	30,00,000	
		3,17,66,000
		17,31,38,000
<i>Add—</i>		
Vizagapatam-Raipur Railway - - - -	2,90,00,000	
Bansapur-Hamirbar Railway - - - -	30,00,000	
Western Deccan Railway - - - -	1,80,00,000	
Ranaghat-Bhugwangola Railway - - - -	81,00,000	
Bhopal-Gwalior-Cawnpore Railway - - - -	3,50,00,000	
Barrakur-Nagpur Railway - - - -	5,30,00,000	
Bilaspur Etawah Railway - - - -	2,45,00,000	
		17,06,00,000
<i>Deduct—</i>		34,37,38,000
Amount to be spent to end of 1883-84 as at foot of revised Schedule A - - - -		3,91,11,350
	<i>Rs.</i>	30,46,26,650

Amount shown in paragraph 11 of Despatch, No 27, of 29th January 1884 —

	Conventional Sterling
	£
Total of Schedule A - - - - -	28,282,000
Working and surplus stores on projected railway - - - -	700,000
Additional Capital outlay on open State Railways (for 5 years) - - - - -	1,500,000
	£ 30,462,000

The two thus correspond, taking even thousands of pounds.

15 September 1884.

A. J. Filgate

I have examined carefully the distribution of the grants shown in the preceding forecast between the several projects named, and consider that they are appropriate from a "construction" point of view.

17 September 1884

F. S. Stanton.

* This excess is due to the construction of the Bathoor Branch recently sanctioned

Enclosure 2, in No 3

NOTE ON WAYS and MEANS by the ACCOUNTANT GENERAL, PUBLIC WORKS DEPARTMENT.

1. On page 309 of the Evidence given before the recent Parliamentary Committee on Railways in India, Mr. Westland estimates that the surplus revenue may be expected to increase at the rate of 41,40,000 rupees each year, and that, even if the exchange were to fall a farthing each year, the annual gain on the *present financial position* would be 19,40,000 rupees.

He assumes the present financial position at a surplus of 48,00,000 rupees a year.

2. The above figures do not take account of arrangements with the civil funds, which may be expected to have the immediate effect of relieving the Revenue Accounts, for many years to come, of about 20 to 25 lakhs a year, and of arrangements for the payment of non effective charges to the War Office, which will relieve the Revenue Accounts, for a few years at least, of 400,000 l. to 500,000 l. sterling

3 These figures, moreover, include the entire reservation of 1½ crores of rupees for Famine Insurance. Mr. Westland further states that the figures he has laid before the Committee may be taken as a safe estimate of the revenue and expenditure, and a low estimate of opium.

4 On this estimate, Mr. Westland comes to the conclusion, (*vide page 311*) that Government can carry out their programme for railway extension, and still have a surplus as under —

1st year	-	-	-	-	-	-	-	-	-	38 lakhs.
2nd "	-	-	-	-	-	-	-	-	-	39 "
3rd "	-	-	-	-	-	-	-	-	-	41 "
4th "	-	-	-	-	-	-	-	-	-	46 "
5th "	-	-	-	-	-	-	-	-	-	55 "

5 The interest payable on the proposals in the accompanying forecast, in excess of the interest payable on the existing annual grant of 2½ crores of rupees for Productive Public Works, will be as under :—

	Rs	Rs
ADDITIONAL OUTLAY from LOAN proposed in 1884-85		
Arrears under Productive Public Works grant - - -	68,88,000	
Additional productive grant - - - - -	35,00,000	
Total - - -	1,03,88,000	
Less carried forward to 1885-86 - - - - -	31,00,000	
Additional capital outlay, 1884-85 - - - - -	72,88,000	
Interest on one-half of this at 4 per cent. - - - - -	-	1,45,760
<hr/>		
1885-86	Rs	
Arrears - - - - -	31,00,000	
Additional grant - - - - -	35,00,000	
66,00,000		
One-half of this is - - - - -	33,00,000	
Total additional outlay bearing interest at 4 per cent. during 1885-86 - - - - -	1,05,88,000	
Interest thereon - - - - -	-	4,23,520

	Rs.	Rs.
1886-87.		
One-half of additional outlay, 1885-86, which will bear full interest in 1886-87 - - - - -	Rs. 33,00,000	
One-half additional outlay, 1886-87, which will bear full interest in that year - - - - -	17,50,000	
	50,50,000	
Total additional outlay bearing interest at 4 per cent. during 1886-87 - - - - -	1,56,38,000	
Interest thereon - - - - -		6,25,520
1887-88		
Similarly one-half additional outlay, 1886-87, plus one-half additional outlay, 1887-88 - - - - -	65,00,000	
Total additional outlay bearing full interest, 1887-88 - - - - -	1,21,38,000	
Interest thereon - - - - -		7,85,520
1888-89:		
Similarly one-half additional outlay, 1887-88, plus one-half additional outlay, 1888-89 - - - - -	65,00,000	
Total additional outlay bearing full interest, 1888-89 - - - - -	2,26,38,000	
Interest thereon - - - - -		9,06,520
1889-90.		
One-half additional outlay, 1888-89, bearing full interest during 1889-90 - - - - -	17,50,000	
Total additional capital bearing full interest 1889-90 - - - - -	2,43,88,000	
Interest thereon - - - - -		9,75,520

6 The actual additional charge for interest on State loans over that under the present system will be—

	at 2 per cent on	Rs.	Rs.
In 1884-85 - - - - -		35,00,000	or 70,000
" 1885-86 - - - - -	" 4 " "	52,50,000	" 2,10,000
" 1886-87 - - - - -	" 4 " "	87,50,000	" 3,50,000
" 1887-88 - - - - -	" 4 " "	1,22,50,000	" 4,90,000
" 1888-89 - - - - -	" 4 " "	1,57,50,000	" 6,30,000
" 1889-90 - - - - -	" 4 " "	1,75,00,000	" 7,00,000

The difference between the interest shown in this paragraph and that shown in paragraph 5 is due to the interest on the arrears of the Productive Public Works allotment, not assigned in the Budget Estimate of 1884-85, viz., 68,88,000 rupees

7. The net interest charge on the three great projects to be given to Companies may be taken broadly at the figures shown marginally, which are extracted from the full estimate given in paragraph 35 of the Government of India's Despatch, No 29, of 23rd January 1883

1st year - - - - -	85,000
2nd " - - - - -	157,600
3rd " - - - - -	210,000
4th " - - - - -	350,000
5th " - - - - -	254,000
6th " - - - - -	160,000

17 September 1884.

A. J. Filgate

The Secretary of State for India to the Governor General of India in Council,
27 November 1884; No. 148 (Railway)*

My Lord Marquis,

Par 1 I HAVE considered in Council your Excellency's letter, dated the 22nd of September, No 25 (Secret), with a Minute by Sir Auckland Colvin, concurred in by Mr. Ilbert and Sir Stewart Bayley, and the first two paragraphs of your Excellency's Minute of the 22nd of September, dealing with a proposal to construct certain railways and military roads for the purpose of placing the north-west frontier, of India in a satisfactory condition of defence. I have at the same time taken into consideration your letter of the 29th of September, No. 150 (Railway), giving the views of your Government on the general question of railway communication in India, after receiving the Report of the Select Committee of the House of Commons, which examined the subject during the last Session of Parliament

2 In the latter letter your Excellency makes no allusion to the frontier communications, and in the earlier letter you state that your decision on the general question is in no way affected by the admitted necessity for such works, and that, having to contend against the two evils of famine and complications on the north-west frontier, you are of opinion that "the protection from both should certainly be provided concurrently and to the full extent necessary in the case of each"

3 I regret that I am unable to concur with your Government as to the manner of effecting these objects. I am of opinion that it is a prudent and a really economical measure, to plan and to carry into execution, with as little delay as possible, a system of railways and roads designed to strengthen our military position on the north-west frontier, and also that it is desirable to complete a well-devised scheme for preserving the country from the effects of famine, and for increasing the facilities for commerce. But the rapidity with which the works necessary for these purposes shall be constructed must manifestly depend on financial considerations. Whatever be the object with which a great system of railroads is undertaken, whether for the protection of the country from famine or from war, the effect must be the same as regards the money market, the strength of the Public Works Establishment, the demand for labour, and the increase of prices, and hence I have thought it right to treat your Excellency's two letters as forming one comprehensive scheme for the extension of railways in India.

4 Your consideration of the Report of the Select Committee has not led you materially to modify the views that you had previously expressed. You have now removed from the category of railways that you deem indispensable the one from Vizagapatam to Raipur, and you have substituted for it one from Kontera through Cuttack to Puri. With this exception, however, you adhere to Schedule (A), which accompanied your letter of the 29th of January 1884, No 27, as representing the lines that you desire to see constructed by the Government during the next six years, which are thus divided in the forecast accompanying your letter of the 29th of September —

	Estimated Cost	Outlay to End of 1883-84	Amount needed to complete on 1st April 1884
	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>
Works in progress - - -	10,88,02,991	* about 3,67,80,991	7,20,43,000
Not commenced - - -	7,81,01,000	- - - -	7,81,01,000
Extra capital for open lines - -	1,80,00,000	- - - -	2,78,00,000
	20,49,03,991	- - - -	17,74,43,000
[To which must be now added the Frontier communications.]	5,05,00,000	- - - -	5,05,00,000
	25,54,03,991	- - - -	22,79,43,000

These projects do not include the undertakings that it is intended to intrust to private companies working with Government assistance, the cost of which, in your letter of the 28th. January 1883, No 29, was estimated at about 12,23,00,000 rupees.

5 The scheme of frontier communications described in your letter of the 22nd of September, appears to me to be well adapted to the purpose that you have in view, and I desire to express, not merely my general concurrence in its adoption, but my hope that it will be completed within the four years over which your Excellency proposes to spread the expenditure. The line to which your efforts are naturally being first directed is the Sind-Pishin Railway

6. Accepting the estimates for these works, I find that, in the two forecasts which accompany your letters, it is proposed to incur the following expenditure by Government on railways, and on other public works constructed from borrowed money.—

Works.	1884-85	1885-86	1886-87	1887-88	1888-89	1889-90	TOTAL of Six Years
	Lakhs	Lakhs.	Lakhs.	Lakhs	Lakhs	Lakhs.	Lakhs
General Railways	381	598	265	265	266	287	1,769
Frontier Railways	118	225	80	25	-	-	448
TOTAL Railway Expenditure after 31st March 1884	499	823	345	290	266	287	2,202
Of which to be provided from Famine Insurance Grants.	111	50	50	50	50	50	361
Ditto from Provincial Contributions and Lapses.	17	-	-	-	-	-	17
Ditto, recovery from Nagpur-Chhattisgarh Line.	-	-	-	-	-	68	68
	128	50	50	50	50	118	441
Leaving the amount to be borrowed for Railways	366	471	295	240	215	174	1,761
To which add the amount to be borrowed for Irrigation	70	70	70	70	70	70	420
And for Military Roads, and past expenditure on the Sind-Pishin line.	12	18	28	9	-	-	67
Making the Total to be borrowed for Public Works.	448	559	393	319	285	244	2,248

7 From the total of 2,243 lakhs, which in the six years it is proposed to charge against borrowed money, I find it necessary at the outset to make certain deductions. I cannot admit the propriety of so treating the past expenditure on the Sind-Pishin Railway in 1883-84 - - - - - 12½ lakhs.

The special grant made in the Budget of 1884-85 for the Harnai Road (included in the 113 lakhs for this year on frontier railroads) - - - - - 7½ "

Or the outlay on the military roads - - - - - 50 "

69½ "

The whole of these 69½ lakhs must be treated as charges on revenue, thus reducing the aggregate that may possibly have to be obtained by borrowing to 2,174 lakhs.

8. In the 11th paragraph of your letter of the 22nd of September, you say that "funds must obviously be supplied according to the nature of the works, "and

“and not in equal annual instalments” Although this remark is sound when applied to a particular work, it does not apply to a scheme comprising a number of projects, some of which can without difficulty be delayed if the expenditure on others is unusually heavy

9 The amount which, in recent years, it has been considered right to borrow, when necessary, for Productive Public Works, has been 250 lakhs a year, supplemented occasionally by the sums needed for the completion of the East Indian Railway Your Excellency proposes to add to this amount 35 lakhs a year for railways, as well as to borrow in the present year about 69 lakhs on account of arrears of Productive Works, and you also desire to construct the whole of the frontier communications by means of loans On this subject I concur in the opinion of Sir Auckland Colvin, rather than that which has been adopted by the majority of your Council, and I think it most undesirable to show a surplus of revenue over expenditure, by failing to charge each year with whatever portion of the necessary expenditure it can bear, and which is properly chargeable thereto, while I hold that it would be unsound and dangerous to remit taxation on the strength of a nominal surplus so obtained At the same time, really urgent works should not be delayed, by refraining from raising reasonable amounts by loans when requisite for their completion within a specific time. The course that I am of opinion should be pursued is, that the frontier communications should be completed with the utmost speed, consistent with economy of construction, that as far as possible their cost should be provided from revenue; but that, when the revenue available after meeting other essential charges of administration is exhausted, your Government should not allow the proposed works to be retarded, but should prosecute them with borrowed money

10 In my Despatch of the 14th of August, No 89 (Railway), I referred to the Select Committee's recommendation that the technical distinction between productive and protective lines should not be maintained, but that the bulk of the lines undertaken should be self-supporting, and I stated my willingness to authorise an addition to the amount of the annual loan of about 400,000 *l* or 500,000 *l*, especially for famine lines In view of the urgency of the requirements that you have now brought to notice, I sanction, for the present, the extension of the maximum limit of borrowing to 350 lakhs in any one year, which seems to me the extreme limit to which it is prudent to pledge our resources for such purposes, and accordingly this amount must be held to cover all the expenditure of the Public Works Department from borrowed money, whether for ordinary railways and irrigation, open lines, arrears of previous grants, protective works, frontier communications, or any other purpose, while lapses in previous years should only be subsequently made good from the balances if that is practicable without unduly reducing them, and no resort must be had to borrowing unless the amount cannot be provided from revenue

11 I would further remark that there is an important difference between the works now specially referred to and those for which it has heretofore been held to be legitimate to provide funds by borrowing, viz, that the outlay on the latter class may be properly regarded as an investment on which there is reason to anticipate a return which eventually will meet the interest on the borrowed money required for them This character, as you recognise, will not necessarily apply to the railways and other public works designed for the military protection of the frontier, and the necessity for limiting, as far as possible, the permanent charge they will bring on the revenues in future years is obvious.

12 I find that in the five years from 1879-80 to 1883-84 (excluding, on the one hand, the increase of debt caused by the purchase of the East Indian Railway, and, on the other hand, the decrease arising from the operations of the Commission for the Reduction of Debt), the Rupee Debt was increased by 1,526 lakhs, while the Sterling Debt has been reduced by 2,018,000 *l*, equal, at 1 *s* 8 *d* the rupee to 242 lakhs, the amount of borrowed money, therefore, which has been at the disposal of your Government during the last five years has been 1,284 lakhs, or an average of 257 lakhs annually The sanction now conveyed to you will enable you, if you find it really necessary, to add to your funds for public works from borrowed money very nearly a crore of rupees in each year, and the total

total amount of 2,100 lakhs in the six years is very nearly equal to the aggregate of 2,174 lakhs, which I have above shown to be the extreme sum admissible as a charge upon the debt.

13. If, however, as is probable, your Government may not have at your command in the earlier years the amounts that you desire, some reduction must be made, and I am of opinion that it should not fall upon the frontier lines, although I doubt if the whole expenditure contemplated in 1884-85 and 1885-86 will be incurred during those years. Until the funds can be provided, the expenditure on works in Schedule A must be restricted accordingly, and I leave it to your Excellency to decide the best manner of rearranging the expenditure on the lines already sanctioned.

14. In so doing, it will be necessary for you to bear in mind the recommendation of the Select Committee, already cited, that the bulk of the lines under taken should be self-supporting. According to paragraphs 6 and 9 of your Excellency's letter of the 29th of September, your general scheme includes 2,800 lakhs of outlay, of which about 725 are for unproductive lines, with the addition of the frontier railroads, the amounts become 3,250 and 1,175 lakhs respectively.

15. While thus enlarging your powers of borrowing for the works the urgency of which is recognised, I must also impress upon you the necessity for regarding any available surplus of revenue over the ordinary expenditure as being primarily applicable to meeting the exceptional charges which your Government is now called upon to bear, and the consequent importance of using every effort to avoid all expenditure usually classed as ordinary which is not strictly necessary. In ordinary public works, and in all branches of administration, the utmost economy should be practised, and the Provincial Governments, as well as the departments more directly under your own orders, should be enjoined to co-operate in the endeavour to keep their expenditure within the limits of strict economy, so that the unavoidable demands upon your Government for services which cannot be postponed may, when they arise, be met as far as possible from the revenues of the year, and the necessity for adding to the debt may be to the same extent avoided.

16. The question whether the money shall be borrowed in India or in England is one that can only be decided from time to time according to the circumstances. In my Despatch of the 15th of May, No 131 (Financial), I communicated my decision to relieve you of the necessity of borrowing in India this year, by reducing the drawings to the extent of 250 lakhs, and my telegram of the 3rd of September accepted your proposal for a further temporary reduction of 65 lakhs. If your Excellency should be of opinion that you can economically spend the full 350 lakhs from borrowed money this year, I shall be prepared to make a further reduction of 35 lakhs, but, as that will involve a total addition to the sterling debt of nearly 3,000,000 £ in this year, I refrain from any alteration of the amount to be drawn until I learn your opinion on the point.

17. Your Excellency proposes, as a ground for providing the whole outlay on frontier communications from borrowed money, to place the loan on a distinct basis, which may provide for the discharge of the capital obligation within a term of years. The objection to the institution of an ordinary sinking fund for the extinction of a particular loan, at the same time that other loans are continually being raised, is manifest, the payment in reduction of the earlier debt can only be provided by adding to the new debt, and it is much less wasteful to lessen the amount of fresh borrowing. Moreover, the sinking fund in such a case would be sure to be suspended, on the first pressure arising from famine or war. Your Excellency, however, would prefer to raise the money by terminable annuities, on which I need only observe that such a scheme appears to me impracticable on any reasonable terms, considering the total absence of demand for such securities in India, the relatively low price which the Annuities of the East Indian Railway and Eastern Bengal Railway actually command in the London market, and the extent to which that market has been, and may hereafter be, called upon to accept them from time to time as the Guaranteed Railways are purchased by the Government.

18 The charge for interest on the debt to be incurred must, therefore, I fear, be treated as permanent, and, in so far as the amount is borrowed in this country, there will be the great disadvantage that the interest will have to be added to the large sum at present needed for the home disbursements. This is an additional reason why the increase of the debt, and especially the sterling debt, should be kept within the strictest limits. To the interest payable on the sums directly borrowed, moreover, may have to be added a considerable charge for interest as a consequence of the arrangements now under discussion with the promoters of private companies for the construction of railways, and, as the returns from the various lines as they come into operation will be necessarily received in India, the burden created by the increased charge for interest in this country will not be diminished.

I have, &c.

Kimberley.

EAST INDIA (RAILWAY
COMMUNICATION COMMITTEE)

COPY of CORRESPONDENCE between the Secretary of State and the Government of *India*, on the Subject of the REPORT of the SELECT COMMITTEE of 1884 ON EAST INDIA RAILWAY COMMUNICATION.

(*Mr. Kynaston Cross*)

Ordered, by The House of Commons, to be Printed,
12 March 1885.

[*Price 1 d.*]