

C.S.O.

SGD/WHA/1 # 31

898/21

(Formerly)

SUBJECT:

DEPENDENCIES SHARE IN COST OF
ADMINISTRATION.

CONNECTED FILES.

NUMBER AND YEAR.

SEE - INSIDE.

0161.

Financial Relations of Colony and Dependencies.

C.S.

Dependencies	
No.	898. / 21.

1921

Governor.

SUBJECT.

1911

Dependencies, share in
~~the~~ cost of ~~the~~ Administration.

22nd Sept.
Previous Paper.

C.S. 866/21

MINUTES.

P.O. 9/1/22
 file 9/1/22
 13/11/22

H.E.S.
 I have written a separate minute in G.O. 243/20 regarding the Dependencies Research & Development Fund.
 2. Provision was made in G.O. 1920 for the establishment of the Fund by increasing the ^{rate} duty on oil from 3 1/2 to 1/6 a barrel. The duty was later increased to 5/6 a barrel by Ordinance No 59/1920.
 3. In para 3 of my minute in G.O. 243/20 a reference is made from Sir Douglas Young's minute to Council (dated 19th August 1919) accompanying G.O. 1920 for para 6 of my minute an extract is given from the despatch transmitting G.O. 1920 to S.O. Then there is an important bearing on the contribution of Dependencies to cost of Central Administration.
 4. The 1921 G.O. 1921 (Revenue Head I Customs)

Subsequent Paper.

944/23

on export duty on whale + seal oil for 1920
was given as £25,400. Provision was made
under Head XIV of Estimates of Expenditure for a
contribution to the Research Fund of £20,500
this being anticipated amount of yield of export duty
on oil at $1/2\frac{1}{2}$ a barrel. It is not presumed that
Sir D. Young anticipated that the duty at $3\frac{1}{2}$ a
barrel amounted to £5,200 (£25,400 - £20,500)
would accrue to the Revenue of the Colony.

5. I have also referred in G.O. 243/20 to the footnote
to the table in Estimates for 1920 giving "Total of
Estimates 1920".

The estimated Revenue of the Dependencies Excluded
the estimated Expenditure by £4,414 for which
of this is £1,442. It is not presumed that Sir
D. Young anticipated that £1,442 of Dependencies
Revenue in addition to the £5,200 mentioned in
para 4 would accrue to the Revenue of the Colony.

It is not shown what relation, if any, the sum of
£1,442 bore to the "Cost of the Central Administration".

6. It should further be noted that in comparing the
financial position of the Colony + of the Dependencies
in a minute to Council of 29th Dec 1918 Sir D
Young stated

To the expenditure of the Dependencies however a fair
proportion of the cost of the administration of the
Colony should be added + assuming that
proportion to be one third the adjusted figures for the

Average Annual Expenditure aimed to
for the Hillkand Islands £26,100 & for the
Dependencies £3000.

7. S of S despatch No 137 of 23rd Dec 1919 approving
S of M's for 1920 was received after Sir D Young
had left the Colony. In that despatch
the S of S expresses the opinion that

"It is desirable for the Colony to attain such a
position financially as to show an equilibrium
between its own revenue & expenditure after
charging the dependencies with their share of the
cost of the central administration."

The despatch continues — "I do not wish to
insist on full effect being given to the suggestion
immediately set in motion. The estimates of the
Colony should be so framed on the basis
that the contribution of the dependencies (apart
from the share of the cost of the central
administration) shall not in any year
exceed the sum of £2450. Even this
arrangement should be regarded as purely
temporary."

In the same despatch it was also observed
that "the surplus of Revenue over
Expenditure in the case of Dependencies
amounts to £4417 so that deducting
the sum of £1472 which must be charged to

The Dependence for the cost of general
administration the Colony benefits
to the extent of £2945 from the funds of
the Dependence.

354/20

8. A para 5 of the despatch No 118 of the
9th Dec 1920 transmitting returns for
1920¹⁹²¹ Mr Martin draws attention to the
calculation of the share of the cost of general
administration as one third of the
excess of Dependence Revenue over Expenditure
& proposes that the Dependence should
be charged with one third of certain
specific items of expenditure.

A reply (No 34 of 5 April 1921) SgS
observes that returns do not comply
with instructions limiting contribution
from Revenue of Dependence to a maximum
of £2570 in addition to one third of
the cost of the Central Administration &
defers consideration of Mr Martin's computation
pending report on financial position.

9. It is now necessary to enquire what
is a fair contribution from the Dependence
to the cost of the central administration
Sir D. Young approved the proposition to be
"on this" (see para 6) this proposition was
taken for the purpose of ^{making} a
comparison of the financial position of the

shd ---

of the Colony & the Dependencies. It is possible that Sir D. Young in fixing the proportion was in a measure guided by the proportion ^{of the population} ~~of the population~~ resident in the Colony & in South Georgia. The ~~population~~ resident in the Colony is roughly 2000 & in South Georgia 1000. There is no resident population in South Shetlands nor have we a large number of travelling factors & 23 whale catches spread in the dependencies. If population is taken into account members employed in S. Shetlands should not be included.

10. It is a matter for consideration whether

"one third" is a fair proportion for share of Dependencies in cost of central administration, & I should be glad to have advice of Treasurer on this point. The Revenue of the Dependencies for 1921 was estimated at £85,566 & through ^{revenue} this has now been reduced the Revenue of the Dependencies will exceed that of the Colony. From the reduction of the Revenue has increased the accounting work of the Treasury.

The papers in the Govern. & Colonial Secretary's offices which relate to matters affecting the Dependencies only, seem to me to exceed in number those relating to matters affecting the Colony only. During the last few months there has been little if any correspondence about the ship forming indenture in the Colony.

then to then much correspondence about
the whaling & sealing industries in the
Dependencies.

The whaling vessels operating in South
Shetland use Stanley Harbour twice a year
& feed in summer, though perhaps not in
winter, all other vessels which use the
Harbour. The Colony only benefits by the
small quantity of provisions which the vessels
purchase.

The Whaling Industry in South Shetland makes
use of the Post Office & Medical Services. The
Hospital is available for use of those engaged
in the industry.

11. I enclose herewith the Treasury Minute, Cases from the Dependencies
come before the Supreme Court.

prepared for me on 30/1/20, which is attached,
of the Com of the Central Administration.

I am of opinion that the expenditure
should be included & that speaking generally
the Dependencies should contribute a fair
proportion of expenditure under most of
the Heads in the Minutes. I shall be
glad if the Treasury will go into the
matter again & prepare a revised Minute
taking into consideration what I have
written above.

12. With regard to the contribution for the year
1920 it should not be debited there
after the Minutes are approved unless there

Authorized in salary & pension. This shows the necessity for fixing the amount to be contributed in any one year on the ^{basis of the} actual expenditure incurred under the Heads which it may eventually be decided to include in the "Cost of the Central Administration".

M.

21 Sept 1922.

P.S.

Pages 4 & 5 of my minute are enclosed.

2. An examination of statements for 1920 shows that the statement of expenditure on the Dependencies was as follows

Under various Heads

expenditure shown departmentally
(approximately) £1964.

P.W. D. Extraordinary 6000

Head XIV. Research Fund. 20,500.

Ministry of Revenue £32,546 ^{total} £28,464

3. I enclose from Form No. 16 12th "Totals of Statements" (see para 5 of my minute) that it was intended that the contribution of Dependencies to cost of central administration should be limited to £1472. S.G.S. allowed an addition of £2450 making a total of £4222. In my view the total contribution for the year towards cost of central administration is not sufficient especially in view of increase in pensions & salaries. M. 21/9/22

The Hon. C. Treasurer

Refused according

ttttt 22/9/21

Hon:Col:Sec;

Before complying with the instructions contained in pars: 10 and 11 of His Excellency's minute of 21/9/21, might I venture to ask whether I am at liberty to submit a revised estimate of the Dependencies contribution towards the cost of the Central Administration, without my being tied down to "One-third" as the fixed proportion mentioned in Governor Young's Minute to Council, dated 29th October 1918 ?

K. Thompson

Colonial Treasurer

22nd September 1921.

The Hon. Col. Treasurer

Will you please do so

ttttt 24/9/21

The Hon:Col:Sec;

When I submitted Encl:(1), I understood that such estimates should be based upon "One-third" the actual Cost of the various departments (in the Falkland Islands), directly concerned with the Dependencies. That estimate was made shortly after my return to the Colony, after an absence of nearly Two years. The estimate of £1,472, shewn as a footnote to the Table of Estimates 1920, is, and has been already pointed out, One-third of the Estimated Excess of the Dependencies Revenue over Expenditure, (£4,417). In this connection, I venture, with all due respect, to say, that

Departmental No.

say, that I am unable to see how such "Excess of Revenue" can, in any way be regarded as representing "The Cost of Central Administration".

2. I believe I am correct in stating that with the exception of the Stock Department, the attention of Government has been called to the increase of late years in the work of the various Departments. This increase cannot, I think, be attributed to the Industries carried on in the Falkland Islands proper.

3. Previous to the introduction of the Whaling Industry, (in 1906), it was possible for the work of the various departments to be carried on with about one-third the clerical staff at present required. I do not think that the increase in the work, and staff of the various departments, can be attributed to any new development in the Sheep-farming Industry, or to any other industry in the Falkland Islands, apart from the Dependencies.

4. The Sheep-farming Industry has been under the direct supervision of a Chief Inspector of Stock, and for many years, this officer has been a qualified Veterinary Surgeon. So far as I am aware, this officer has not been able to suggest the possibility of this industry being further developed. There are no hinterlands in the Falkland Islands to be opened up or developed, and there would appear to be every indication that the Sheep-farming Industry had been fully developed, some years previous to 1914.

5. While on the subject, might I venture to point out that the Sheep-farming Industry of the Falkland Islands is not only entirely financed by British Capital, but, it is also worked entirely by British Labour. On the other hand, the Whaling Industry of the Dependencies, is, with but one or two exceptions, financed by Foreign Capital, and worked by Aliens.

6. In its

6. In its infancy, the Whaling Industry may be said to have been fostered and developed, and all expenditure then incurred, charged against the Revenue derived from the Falkland Islands (Sheep-farming).

7. In former years, before the Dependencies began to contribute towards the revenue, it was with the greatest difficulty that the Colony was able to maintain a sound financial position, and show an equilibrium between its Revenue and Expenditure. At that time, it was only possible to do so, by exercising the strictest economy, and I think I am correct in saying that in order to do this, certain Works and expenditure, which in another Colony would have been considered essential, could not then be undertaken.

8. With regard to the Inhabitants, I think it may be said that many of the Alien population in the Dependencies derive greater benefit from the Colony, than some of the Britishers living on the outlying islands of the West Falklands, yet, and unless I am very much mistaken, the taxation, per head of the population towards the revenue of the Colony, cannot be compared. I have been told, and I have no reason to disbelieve it, that even the Norwegian Government had derived more direct as well as indirect benefit from the Whaling Industry in this Colony, than the Government and people of the Falkland Islands.

9. During that time of the year when the most important operations are being carried on in the Colony, both as regards Whaling and Sheep-farming, (January to March), the population may be said to be distributed as follows:-

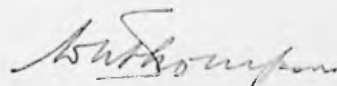
Falkland Islands, (about)	2,200.
South Georgia, I	1,500.
South Shetlands,	<u>1,300.</u>
Total,	<u>5,000.</u>

10. Encl:(2), is an extract taken from the Stock Inspector's Annual Reports for the years 1911 to 1918,

to 1918, and in Governor Young's message to Council dated 19th August, 1919, which accompanied the Estimates for 1920, a comparison is shown between the Whaling and the Sheep-farming Industries of the Colony. From these statements for those years, the indication is that while sheep-farming was declining the whaling industry was improving.

10. From the foregoing, it seems to me that:-

- (a) As a result of the introduction of the Whaling Industry into the Colony, the work, and in consequence the staff of the various departments in the Falkland Islands, have been materially increased.
- (b) That the increase would seem to have more or less commenced as from 1911, with a corresponding increase in expenditure.
- (c) That in consequence it only seems fair that the Revenue now being derived from the Whaling Industry, (the Dependencies) should be charged with a share of this increase in the Expenditure of the Falkland Islands.
- (d) That the share to be borne by the Dependencies should be apportioned in the manner indicated by Encl (3).



Colonial Treasurer,
27th September, 1921.

Y. E.

Submitted.

2. There appears to be much force in the arguments put forward by the Treasurer for increasing the proportion of cost of the Central Administration to be borne by the Dependencies. One third of the estimated excess of revenue over expenditure in the Dependencies bears no relation to the cost of administering the Dependencies.

3. As far as the information contained in these papers shows the original estimate of one third was made by Sir Douglas Young in his minute of the 29th October, 1918 to Legislative Council. Had that been adhered to the contribution borne by the Dependencies in the 1920 Estimates should apparently have been $\frac{1}{3}$ of £31,159 or £10386 instead of £4,417. Sir Douglas Young may however have intended his words to have been construed in some other way.

4. What proportion of the cost of the central Administration should be borne by the Dependencies providing that it is assumed that the latter is to be treated as a separate Government, to which certain services are rendered by the Government of the Falklands which should be paid for, must necessarily be a matter of opinion. The Treasurer has worked out an estimate which may be regarded as just and I beg to support it as against the figures hitherto accepted.

5. It is, I submit, earnestly to be hoped that the Secretary of State will reconsider the policy laid down in paragraphs 7 and 8 of Despatch No. 137 of the 23rd December, 1919, He at that

time/

time considered that "the fact that Port Stanley
"happened to be the administrative headquarters
"of the Dependencies appears to afford us ^{no}
"justification for the continuance of the present
"system under which the Colony itself relies
"to a considerable extent on revenue from the
"Dependencies to balance its Expenditure". He
further expresses the opinion that "it is desirable
"for the Colony to attain such a position
"financially as to shew an equilibrium between
"its own revenue and expenditure &c".

6. The Colony has in the 15 years since the
introduction of the whaling industry embarked on
expenditure and entered into liabilities which
not only would not have been possible without the
additional revenue obtained, but which would not
in many directions have been necessary without
the burden of administering the Dependencies. A
comparison between the Estimates of 1906 and
1921 will shew that the personnel has doubled in
numbers ⁱⁿ ~~between~~ those years. The increase is
from 39 to 78, of the additional ~~staff~~ ^{staff}
~~Government~~ ^{seven} ~~eight~~ only can be said to be
purely for local requirements, namely the
Dentist, Forest Officer, ~~Geologist~~, Chief
Inspector of Stock, Wireless Telegraph Operator
and two telephone Operators. *The remainder are all engaged
directly or indirectly from one time to another on work for the Dependencies.*
7. As the Treasurer points out the alien
population of the Dependencies is in many
respects better served than the inhabitants of
the outlying portions of the Colony. Further
the Norwegian Government will with its tax of
2 kroner on each barrel of oil derive a far
larger revenue from the Dependencies than this
Government. If ¹⁰⁰ 1,000,000 barrels only are
taken/

taken by Norwegian Whalers the proceeds (with the kroner at 1/7) will be ^{nearly £8000} ~~over £20,000~~.

8. I venture to suggest that the Secretary of State be asked to re-consider the position and that, in view of the past history of the Dependencies and the needs of the Falkland Islands they should not be regarded as an entirely independent entity with a merely fortuitous central administration in another country.

9. The urgent requirements of this Colony, whose purely British inhabitants ~~appear to~~ deserve special consideration, appear to be three in number namely, improved education, improved communications and the development of the farming industry. Of the first it need only be said that there is no secondary education and that many adults as well as numbers of the children are quite illiterate, of the second, that the inhabitants of a great part of the group are cut off, not only from the outside world, but from the rest of the community for many months in the year and of the third, that apparently in that direction alone can the Colony escape, when its present surplus balances are consumed, from the hand to mouth conditions that existed in pre-whaling days. Hitherto it does not appear that the Government has been in a position to afford any appreciable expenditure on the farming industry.

10. Finally it may be said that the Dependencies as merely depots for commercial, and for the most part foreign, trading ventures have no ~~claims which~~ ^{ground for claiming} ~~grounds on which it can be claimed~~ that the

rewards/

rewards, if any, shall not go to swell the funds of the Government which has the burden ^{the parks the} and responsibilities of administration.

~~ttttt~~ 5/10/21

H.P.S.

Draft despatch herewith. Sam Dorr
frankly for your assistance + for the great
trouble you have taken in its preparation.

~~ttttt~~
28 Nov. 1921.

Despatch to S of S N^o 1003 of 29 Nov^r.
1921
Emb^d

Y^r. Despatch submitted

~~ttttt~~ 30 Nov.
30 Nov. 1921

H.P.S.

Will you please let the Treasurer
see this despatch as amended: he will
give instructions to SR type the despatch
draft for me. 2 Dec 1921.

Hon:Col:Sec;

Thanks. Papers returned. I greatly appreciated the enclosed despatch which I have read with great interest.

W. A. R. Thompson

Colonial Treasurer.

5th December 1921.

S of S. Despatch No 23 of 1st March 1922 - Encl (5)

Y.E.

Submitted

2. The reply from the Secretary of State after deducing in paragraph 3 a corollary from Y.E.'s proposals, which the proposals do not imply, proceeds to ~~propose~~ suggest the subversion of a fait accompli, and then to contrast Y.E.'s figures. Following upon that is a comparison with the expenditure of Fiji in its administration of the Western Pacific, which is not a Dependency of that Colony. The comparison does not hold water for a moment and it can very easily be shown that no comparison can in fact be made.

3. May the members of Ex. Co. see this despatch? In case Y.E. wishes to have the despatch for reference while it is being circulated, I enclose the original.

~~sent~~ 7/2/22

To Ex. Co: W.P. circulated.

M.

7 April 1922

Thank you, Sir.

The Hon W. A. Thompson
" " D. Deane
" " W. A. Harding }

Circulated accordingly and for
return please

Handwritten initials 10/4/22

Hon: Col: Surgeon,

Passed to you accordingly.

Handwritten signature
Colonial Treasurer.
11th April 1922.

Hon W. A. Harding

Passed to you please.

Handwritten signature
Colonial Surgeon

12/4/22

Seen

Handwritten signature
12 April

Handwritten signature

2 As a first step may the Treasurer
be asked to analyse the figures in
the statement called Finances of Falkland Is.
and Dependencies. It would not appear
~~necessary~~ to make an exact analysis I
have only looked up one instance where
The Dep. Revenue for 1913 is stated at £14,000
The total receipts for whale oil and licences and ports
were under £12,000 (about £1,700) and part of this
came I presume from New Island.

3. The Treasurer might also be asked to draw attention to any other financial miscalculations or apparently misleading propositions?
4. A record of the shipping for the past 10 years might be furnished distinguishing shipping for the Dependencies and the Colonies.

ttttt 27/4/22

A.C.S.

Will you please request Treasurer to report as proposed in paras 2, 3 & 4.

RM.

28 April 1922

The Treas.

Accordingly for favour of report

ttttt 29 April 1922

Hon:Col:Sec;

Herewith. Spoken. Statements herewith

Ruthompson

Colonial Treasurer.

12th May 1922.

Y.S.
 J. Subramanian
 Y.S. is writing a despatch.
 I enclose a note on the details
 of the completed days

ttttt 15/5/22

H.P.S.

Draft despatch is being prepared: which
you please have ^{copy of} enclosure which are
to go with it: I am not a S.P. despatch
which I am preparing with form
Enclosure I. Mr. Harding Memoranda
will be enclosure II + III.

Yr.

20 May 1922

~~Despatch to S. of S. No. 75 of 22nd
May, 1922. Encl. (6)~~

Memo by W. A. Harding on the Division of
Expenditure — Encl (6)

Letter from Hon W. A. Harding d. 10th April 1922 Encl (7)

Notes on Despatch — Encl (7a)

Memorandum by Hon. W. A. Harding Encl (7b)

Table of Dependencies Revenue — Encl (8)

Table of Dependencies Expenditure — Encl (8a)

Surplus & Deficit Account — Encl (8b)

Surplus & Deficits at end of each year Encl (8c)

Table of Vessels entered & cleared — Encl (9)

Despatch to S. of S. No 95 of 22nd May 1922 — Encl (10)

In Treasuries

For information

W.H.H. 29/5/22
5/6/22

Hon. Col. Secy

Thanks.

K. H. Thompson

Yr: 8/6/22

S of S. Despatch No 101 of 29th August 1922
encl (11)

Yr.
Submitta

2. This may be circulated to members of Executive Council for their information.

3. Subject to Yr's instructions the Estimates only connection between the Estimate of the Colony and Dependencies in 1922 and future years will that they will be bound in the same volume.

Agree
Mr.

ttttt/ 4/10/22

H.P.S.

Will you please circulate to members of Ex. Co. for their information.

Mr.

5021412

Mr. Col. Treasurer

Surgeon

Mr. Harding

Circulated accordingly

ttttt/ 5/10/22

Hon: Col: Surgeon,

Read & passed to you accordingly

K. Thompson
6th Oct: 1922.

Jan 26. A. Hurdine

Passed to you please.

6/10/22

H. L. Deane
Colonial Surgeon

Secu

Oct 7th 1922

Willard *Wif*

Extracted from Governor's minute of the 13th of April, 1923, M.P. 37/23.

.
5. Adjustment Voucher 13 should be amended accordingly and a Special Warrant issued for £8,000 instead of £9,222.

Adjustment Voucher Amended

(12)

V.P.

Paragraph 9 of Encl 5 deals with question of cost of maintenance of patrol vessel during experimental stage as a charge against Surplus Balances.

W.L.D.
Disc
26 Nov 1923

P.H.
27/6/29

(1)

ESTIMATED COST OF CENTRAL ADMINISTRATION

Par: 8 of S. of S Despatch No. 137 of 23rd December 1919.

The following Departments would appear to be directly concerned with the Dependencies:-

<i>Revenue</i>			
II. GOVERNOR.	1. Governor.	£1300.	
	3. Duty allowance	500.	
	5. Clerk & P.S.	265.	
		-----	£2,065. ✓ <i>2694</i>
III. COLONIAL SECRETARY.			
	1. Colonial Secretary.	£ 675.	
	2. Chief Clerk.	375.	
	3. Record Clerk.	200.	
	4. Messenger	66.	
	5. Head Printer	180.	
	6. First Asst: -do-	165.	
	7. Second - do -	150.	
	9. Overtime printing.	15.	
	10. Telegrams.	220.	
	11. Type &c	50.	
	12. Contingencies.	30.	
		-----	£2,126. ✓
IV. TREASURY & CUSTOMS.			
	1. Treasurer & Collector.	500.	
	2. First Clerk.	250.	
	3. Second Clerk.	200.	
	4. Customs Officer.	175.	
	5. Asst: - do -	175.	
	17. Stationery.	50.	
		-----	£1,350. ✓
V. AUDIT.			
	1. Imperial audit.	40.	40. ✓
VII. LEGAL. (1 to 3.)			
	5. Clerk.	30.	
	9. Court & Coroners exes:	15.	
		-----	45. ✓
VIII. POLICE & PRISONS.			
	1. Chf: Constable.	160.	
	2. Sgt: Police.	130.	
	3. Matron.	33.	
	9. Subsistence.	50.	
		-----	373. ✓
	Forward.		£5,999. ✓

Revenue
Contingencies 25
Imperial audit 20
Contingencies 24

Police & Prisons
K1291

Transport
Police & Prisons
well shaw.

028.
240
Electrical.
Transport
228

Forward

£5,999.

XIII. MISCELLANEOUS.

3. Crown Agents excess:	£30.
4. Fire Insurance	250.
5. Salutes & Flags	10.
6. Imperial Institute.	75.
7. Stationery.	150.
8. Periodicals. &c (?)	15.
139. Impl: Resource Bureau.	10.
14. Impl: War Excess:	1440.
	<hr/>

Library Museum - £125

Various items of etc. £25

*1,980
~~1,680~~ 14.1.21*

XV. SCIENTIFIC DEPARTMENT.

2. Geologist	4600.
3. Naturalist.	75.
5. Geologist's instmnts:	200.
6. Naturalist's -do-	50.
	<hr/>

925. ✓

Expense £505

XVII. POST OFFICE.

1. Postmaster.	400.
1a. Personal.	75.
5. Clerk.	120.
6. Messenger	50.
7. Assistance in P.O.	41.
8. Bureau.	15.
9. Stamps.	50.
10. Postal Stores.	40.
	<hr/>

791. ✓

Mail colony £2500.

XXII. COLONIAL ENGINEER.

1. Col: Engineer	500.
2. Clerk.	250.
	<hr/>

750. ✓

Total. £10,445. ✓

One Third of £10,445 equals £3,481.6* say £3,482.

*Revenue expenditure
Repairs & building
Fuel & Heating
56.96*

£6565

H. W. Thompson
Colonial Treasurer
14th January 1921.

DEPENDENCIES CONTRIBUTION TOWARDS THE COST OF CENTRAL ADMINISTRATION

Paragraph 10 of Treasurer's minute of 27th September 1921.

Head.	Department.	Rate.	Amount.	Total.	
I.	<u>PENSIONS.</u>	£1200.	5%	-	£60. 0. 0.
II.	<u>GOVERNOR.</u>				
	Personal	£2344.	25%	£586. 0. 0.	621. 0. 0.
	Other	350	10%	35. 0. 0.	
III.	<u>COLONIAL SECRETARY.</u>				
	Personal	£1811	50%	£905.10. 0.	984. 5. 0.
	Other	315	25%	78.15. 0.	
IV.	<u>TREASURY & CUSTOMS.</u>				
	Personal	£1545	50%	£772.10. 0.	844.10. 0.
	Other	288	25%	72. 0. 0.	
V.	<u>AUDIT.</u>	£40.	50%	-	20. 0. 0.
VI.	<u>PORT & MARINE.</u>				
	Personal	£ 580	33%	£193. 6. 8.	228.17. 8.
	Other	711	5%	35.11. 0.	
VII.	<u>LEGAL.</u>				
	Personal	£355	75%	£266. 5. 0.	308.15. 0.
	Other	85	5%	42.10. 0.	
VIII.	<u>POLICE & PRISONS.</u>				
	Personal	£923	50%	£461.10. 0.	518. 0. 0.
	Other	226	25%	56.10. 0.	
IX.	<u>MEDICAL.</u>				
	Personal	£2028	33%	£676. 0. 0.	719.10. 0.
	Other	870	5%	43.10. 0.	
XIII.	<u>MISCELLANEOUS.</u>	£2245	50%	-	1122.10. 0.
	<u>GEOLOGIST.</u>				
	Personal	£600	50%	£300. 0. 0.	375. 0. 0.
	Other	300	25%	75. 0. 0.	
	Carried Forward	...			£5802. 7. 8.

Head.	Department.		Rate.	Amouht.	Total.
				Brought Forward	£5802. 7. 8.
XVC.	<u>NATURALIST.</u>				
	Personal	£75	50%	£37.10. 0.	
	Other	50	25%	12.10. 0.	50. 0. 0.
XVII.	<u>POST OFFICE.</u>				
	Personal	£645	33%	£215. 0. 0.	
	Other	3616	5%	180.16. 0.	395.16. 0.
XXII.	<u>COLONIAL ENGINEER.</u>				
	Personal	£2781	5%	£139. 1. 0.	
	Other	364	3%	10.18. 4.	149.19. 4.
XXIII.	<u>PUBLIC WORKS RECURRENT.</u>				
		£3545.	5%	-	177. 5. 0.
				TOTAL ...	£6575. 8. 0.

Summary of the undermentioned Heads

Date	Aggregate Total	Summary of the undermentioned Heads					Total	Nett Total	Remarks
		Education	Ecclesiastical	Savings Bank	Stock Department	Works Extraordy			
1905	£ 15275	£ 1015	£ 420	£ 1196	£ 450	£ 974	£ 4055	£ 11220	
1906	16258	1036	420	1220	566	1417	4659	11599	
1907	17134	823	348	1305	1080	805	4361	12773	
1908	20444	838	220	1475	602	4082	7217	13227	
1909	19913	872	216	1538	703	2824	6153	13760	
1910	18200	895	222	1510	795	1371	4793	13407	
1911	23408	993	220	1654	947	4810	8624	14784	
1912	33507	990	167	1693	981	11655	15486	18021	
1913	25238	955	270	1680	627	3965	7497	17741	
1914	36047	924	220	1821	547	3957	7469	28578	
1915	33600	909	220	2057	599	1866	5651	27949	
1916	25460	909	217	2265	516	2624	6431	19029	
1917	29687	939	220	2608	301	907	4975	24712	
1918	26269	946	223	2749	328	971	5217	21052	
1919	26911	1216	220	4369	329	577	6711	20200	
1920	33320	1434	224	4240	596	829	7323	25997	

FALKLAND ISLANDS.No. 113.GOVERNMENT HOUSE,
STANLEY,

29th November, 1921.

Sir,

I have the honour to refer to the correspondence noted in the margin on the subject of the share of the Dependencies in the cost of the Administration of the Colony and its Dependencies, and to submit the following observations on the financial situation as affected by the historical and political aspects of the question.

2. The population of the Colony numbers 2100, of whom 712 are children under 15 years of age. Of the total population of the Colony, 1698 are resident in East Falkland and adjacent islands, of whom 897 are resident in Stanley, and 396 are resident in West Falkland and adjacent islands. The resident population of the Dependencies is composed of 3 officials, the small staff of a meteorological station, which is maintained by the Argentine Government, and about 80 persons who are employed in the whaling industry. During the whaling season, from September to the following May, about 2850 men, who are almost entirely of alien nationality are employed temporarily in the whaling industry. Of this number 1250 are employed

THE RIGHT HONOURABLE

in/

W. L. S. CHURCHILL, M.P.,

SECRETARY OF STATE

FOR THE COLONIES.

in South Georgia and 1800 in the South Shetlands.

5. The people of the Falkland Islands, a hard working and thrifty community, are of British descent. They enjoy none of the ordinary amenities of life, and, unless they are landholders, have neither the opportunity nor the prospect of advancement. For the last twenty years, the population has remained practically stationary. There has been no development of the sheep-farming industry, on which the Colony has been entirely dependant. No expenditure from public funds has been incurred on experimental work in connection with this industry or with agriculture. There have been little or no facilities for education. Many of the adults are stated to be illiterate. One primary school is maintained by the Government. There is no secondary education in any form. The children of parents who are employed on the sheep farms receive, for a few days in the year at the most, instruction from a travelling Teacher, who has no training in educational methods. There are no railways, roads or bridges in the Colony and travelling is difficult and at times dangerous. The Capital has no water supply and no drainage or lighting system, and the housing is inadequate and unsatisfactory. I recite these patent facts, showing how little has been done for the people of these islands, not as a reflection on past Administrations, whose resources have been strained to the utmost to render the Colony self supporting, but in order to indicate the pressing need/

need for a determined and sustained endeavour to improve the conditions in which the inhabitants live; and for the application to that object of such amounts as the funds that may be available permit.

4. There is no reason to suppose that any material progress would have been possible had it not been for the initiation and development of the whaling industry in the Dependencies from 1905 onwards.

5. In the year 1900 notification was made in the Gazette that the Government of the Falkland Islands would be prepared to grant a lease of South Georgia, and in 1905 a lease of the Island was granted to the South Georgia Exploration Company which was composed mainly of Falkland Islands shepherds. Within a brief period a lease of a land site for whaling purposes was granted to a Company formed in Argentina, the Government of which Country has laid claim to sovereignty over the Falkland and other Islands in the South Atlantic. Development in the whaling industry was rapid, and in 1908 Letters Patent were issued appointing the Governor of the Falkland Islands to be Governor of South Georgia, the South Orkneys, the South Shetlands, the Sandwich Islands, and Grahams Land, and providing for the Government thereof as Dependencies of the Colony.

6. The Government of the Dependencies is administered by the Governor of the Colony assisted by an Executive and a Legislative Council. The Unofficial Members of these bodies are unpaid and the assistance which they render in the administration

of the Colony and its Dependencies cannot be measured by any monetary standard. The jurisdiction of the Supreme Court of the Colony has been extended to the Dependencies and their general administration is subordinate to and under the control of the Departmental Staff of the Colony.

7. Under the Administration of the Colony of the Falkland Islands, the whaling field of the Dependencies has become more productive than all those in the rest of the world combined. At a time of grave national emergency during the late War when the Ministry of Munitions was faced with the probability of a most serious shortage of nitro-glycerine the supply of whale oil became of paramount importance to the Empire and the products of the Colony's vast whaling field were available for the manufacture of propellant explosives for the use of His Majesty's Forces. The average quantity of whale oil now exported amounts to over 300,000 barrels a year.

8. The Colony has derived revenue from the Dependencies since 1905, from import duties, rents of land sites for whaling purposes and whaling licences, in addition to comparatively small sums from the usual minor heads of revenue such as fees, fines and port dues. In 1912 an export duty on whale oil of 3d a barrel was imposed and was increased to 3½d a barrel in 1915. The receipts from the first mentioned sources of revenue, which have been little altered since 1908, amounted in 1920 to £9524.

9. There can be no doubt that, in view of the urgent and obvious need of the Colony for the expenditure of large sums on development, the export duty on whale oil would, in the ordinary course, have been considerably increased towards the end of the War in the interests of the Government concerned. That at least was, I think I am right in saying, the action taken in all other Colonies, where similar circumstances arose, and in this Colony the direct taxation on the sheep-farming industry was, in fact, increased by over 100%.

10. Early in the year 1918, however, an Inter-departmental Committee was appointed by Mr. Secretary Long to consider what could be done in regard to the preservation of the whaling industry and to the development of other industries in the Dependencies of the Auckland Islands; and to consider what purely scientific investigations were most required in connexion with these regions. The Committee, whose work met with the most cordial support from practical whalers as well as from the Admiralty and from scientific bodies, recommended, inter alia, that a research expedition should be fitted out at a first cost of £105,000, with maintenance charges of from £28,000 to £38,000 per annum. There can be no doubt of the vast scientific importance of the work proposed. The Admiralty observed in 1917, when the project of a research vessel was first mooted, that the Commonwealth of Australia and the Dominion of New Zealand would be even more interested than the Government of India and the Union of South Africa.

Admiralty Letter
of 9th Nov: 1917.

Letter from British
Museum, 31st Dec. 1917

The Trustees of the British Museum regarded the work as one of national importance.

11. The difficulty of obtaining funds for the investigations has proved a serious obstacle, and it is apparent that the present policy is that the whole cost shall be provided by this Government from the revenues of the Dependencies. It is not unreasonable to point out, in this connection, that the prospect that scientific results of great value to the world will be achieved by the expedition is of a less speculative nature than the benefits that can be expected to accrue to the whaling industry in these waters.

12. In pursuance of the policy referred to, the duty on whale oil exported from the Dependencies has been successively increased in the past two years to 1/6 and then to 5/- a barrel, with the understanding that the additional revenue so obtained should be carried to the Research Fund. The duty received on whale and seal oil in 1920 was nearly £20,000, the estimate for 1921 was £77,600 and for the year 1922 it is set down at £55,000.

13. I need hardly assure ^{you} that I am desirous of supporting by all means in my power the project of the research investigations and the policy of carrying the special tax on the products of the Dependencies to the Research Fund, but the demands on the Revenues of the Colony have been carried further. Colonel Amery's despatch No. 137 of the 23rd of December, 1919 approved generally of the Estimates for the year 1920 and directed that, in

future/

Future, the Estimates of the Colony should be framed on the basis that the contribution of the Dependencies (apart from the share of the cost of the Central Administration) should not in any year exceed the sum of £2,750, and that savings on the Dependencies Estimates should not accrue to the surplus balances of the Colony but should be paid to the credit of the Research Fund. I submit that the last mentioned direction might lead to wasteful expenditure of public funds.

To Secretary of State
No. 123 of 24th Nov. 1919

14. The cost of the Dependencies to the Administration has not yet been determined. Sir Douglas Young, in a minute to the Legislative Council introducing the Estimates for 1919, indicated that he considered that a fair proportion of the cost of the administration of the Colony to be borne by the Dependencies might be placed at £2,140. A footnote to the table, "Totals of Estimates, 1920", which appears in the Estimates for 1920, states that the "Expenditure of the Falkland Islands may be credited, and the Dependencies debited, with £1,472, being one-third of the estimated cost of the Central Administration directly concerned". It is not shown how the estimate of the cost of the Central Administration was arrived at, but the sum of £1,472 is equivalent to one-third of the amount of £4,427 by which the Revenue of the Dependencies was expected to exceed the Expenditure of the Dependencies, as shown in the table referred to and also in the summary of the Revenue and Expenditure of the Dependencies on page 30 of the Estimates.

15. A comparatively brief experience of administering the Colony is sufficient to prove that the cost of administering the Dependencies has been considerably underestimated in the past. It would not appear that any close examination has been made of the effect of the change which the addition of the Dependencies to the Government has brought about. Not only is the greater part of my own time and of that of the principal officials of the Administration taken up by the consideration of the Dependencies' affairs, but almost every phase of the Administration has been affected. An erroneous impression exists that the Colony would, for its own requirements, have some difficulty in maintaining in its accounts an equilibrium between expenditure and revenue without financial assistance from the Dependencies. I see no such difficulty. If it were possible for the Dependencies to be now constituted a separate Government it would, for the reasons given, take some little time for the necessary reductions in the establishment to be made, but the costs of administration are now out of all proportion to the requirements of the Colony alone in consideration of the work that is being performed.

16. I submit that in justice to the Colony no part of the revenues which are raised in the Dependencies, and which are expended on administrative services, should be regarded as,

in/

in any sense, a subsidy to the Colony, and that the principle should be admitted that the first claim on such revenues, after defraying purely local expenditure, is for the payment of the cost of administering the Dependencies, and that thereafter only, should the surplus of revenue be carried to the Research Fund. It is proper that I should bring to your notice that the residents of the Colony feel strongly that the interests and claims of the Colony have received insufficient consideration in this matter. It is unfortunate that repeated efforts of inhabitants of the Colony to be allowed to participate in the whaling industry, by obtaining a licence to take whales, have failed, while the nationality of the large majority of the firms and practically all the personnel engaged in the industry remain alien.

17. I submit, further, that the cost of administering the Dependencies should be assessed on the actual expenditure incurred in each year and that the special contribution authorized by Colonel Amery's despatch, No. 157 of the 23rd of December, 1919, should be discontinued. The determination of the cost of administration presents difficulty; the question is and must remain to some extent a matter of opinion. In South Georgia the local administrative work is carried out by the staff resident in that Dependency under the control and direction of the staff at Headquarters. All administrative work in connection with the Dependencies of the South Shetlands and Graham Land

is carried out by the staff at Headquarters. Moreover, the work of the principal departments of the Administration is concerned, for the most part, with matters directly affecting the Dependencies and the disparity between the amount of work in connection with the whaling industry of the Dependencies and the sheep-farming industry of the Colony is likely to increase in the future.

18. I suggest that the only method by which a reliable estimate of the cost of Administration can be arrived at is by comparing the expenditure in 1905, before whaling was carried on in the Dependencies, with that for the Colony only for 1920. After allowing for normal increases, on account of higher salaries and prices, in the cost of establishments and in recurrent expenditure, the difference between the figures will show approximately what the Dependencies cost the Colony. It is, however, necessary for the purposes of the comparison that the departments which have no connection with and perform no duties for the Dependencies, as well as expenditure on Public Works Extraordinary, should be omitted from the computation. I refer to the following Heads of Service: Education, Ecclesiastical, Savings Bank, Stock Department, Geological Survey and Forestry. Lest it may be thought that there has been some natural expansion of the trade of the Colony which has been reflected in the expenditure on the included services, it is important to state that the total receipts from Customs Duties were £4762 in 1905 and stationary at £4847 in 1920.

19. A comparative statement is annexed showing the expenditure of the Colony in 1905 and the expenditure of the Colony in 1920, but excluding the purely local services in the Colony and in the Dependencies. It will be observed that the cost of the Administration, based on the computation suggested in the preceding paragraph, has risen from £11,125 to £25,825 or an increase of over 132%. Of this increase, for the reasons already stated, 70%, though even a higher percentage would not be inequitable, may fairly be attributed to the cost to the Colony of the Administration of the Dependencies leaving 62% to be borne by the Colony itself on account of higher salaries, the post-war increases on which varied from 25% to 37%, and on account of the general rise in prices. The difference between the figures for 1905 and 1920 as shown in the statement is £14,700 and 70% of this sum amounts to £10,290, which bears to the expenditure of £25,825 in 1920, a proportion of approximately 40%. I therefore recommend, for your favourable consideration, that 40% of the annual cost, computed as suggested in the preceding paragraph, of the Administration directly concerned, should be taken as a fair minimum share to be borne by the Dependencies from the 1st of January, 1921. By such an adjustment of the fiscal relations between the Colony and the Dependencies there will remain available each year, from Dependencies sources, for the purposes of scientific research

an amount largely in excess of the total revenue
of the Colony.

I have the honour to be,

Sir,

Your most obedient,

humble servant,

J. Middleton.

EXPOSURE TO FAULKLAND ISLANDS DESPATCH

No. 115 of 20th November, 1921.

Comparative table of the Actual Expenditure in 1905 and 1920
showing the numbers on the Establishment, Personal Emoluments
and Other Charges separately.

Department.	1905.				1920.			
	Staff.	P. E.	O. C.	Total	Staff.	P. E.	O. C.	Total
Pensions	-	388	---	388	-	1032	--	1032
Governor	3 2	1405	31	1436	4	1828	274	2102
Colonial Secretary	3 2	610	66	756	7	1732	475	2257
Treasurer	3 3	563	33	601	5	1365	253	1618
Audit	- 1	---	25	25	-	-	42	42
Port and Marine	- -	---	66	66	3	621	541	1162
Legal	1 -	160	44	204	1	374	1	375
Police and Prisons	5 6	502	316	818	8	1923	228	1151
Medical	2 73	531	136	667	9	1503	493	1996
Transport	- -	---	94	94	-	--	2642	2642
Miscellaneous	- -	---	427	427	-	--	916	916
Military	1	100	107	207	1	30	2500	2530
Post Office	2 2	161	3021	3182	4	644	308	952
Currency	-	---	36	36	-	--	134	134
Drawbacks and Refunds	-	---	165	165	-	--	24	24
Colonial Engineer	10 10	776	125	901	17	2392	308	2598
Public Works (Recurrent)	-	---	1101	1101	-	--	4194	4194
Total	32	5278	5849	11125	59	12494	13351	25825

NOTE.

Staff increased from 32 to 59 = 84%
 Personal Emoluments increased from £ 5278 to £12494 = 137%
 Other Charges " " £ 5849 " £13351 = 126%
 Total Expenditure " " £11125 " £25825 = 132%

RETURN OF TOTAL STOCK - FALKLAND ISLANDS.

Year.	Total No. of Sheep.	Lambing Percentage.	Horses.	Cattle.
1911	706,170		2,846	7,859
1912	711,367	60.54%	2,996	7,529
1913	702,859	61.87%	2,792	8,491
1914	698,072	60.39%	2,942	7,821
1915	701,268	52.70%	2,930	7,828
1916	689,904	56.80%	2,972	7,561
1917	696,975	58.67%	2,653	6,844
1918	699,368	65.79%	2,556	7,268
1919	669,996	51.70%	2,611	6,794

DUPLICATE

FALKLAND ISLANDS

NO. 23

Downing Street,

/ March, 1922.

Sir,

4 I have the honour to acknowledge the receipt of your despatch No. 113 of the 29th November on the subject of the financial relations of the Colony of the Falkland Islands and its Dependencies.

Memorandum
Note.

2. I am generally in agreement with the proposal laid down in paragraph 10 of your despatch, namely, that the first claim on the revenues of the Dependencies after defraying purely local expenditure, is for the payment of the cost of their Administration; and (b) that hereafter only should the surplus of revenue be carried to the Research Fund. I also agree that the cost of administering the Dependencies should as far as may be possible be assessed on the actual expenditure in each year.

3. You suggest that these principles should be admitted in justice to the Colony and refer to the fact that there is a strong feeling locally that the interests and claims of the Colony have received insufficient consideration in this matter; but, while I am in general agreement with your propositions, I think it desirable in the circumstances to emphasize the point, which is of course implicit in your proposal, that the strict observance of the principles in question would

GOVERNOR

J. MIDDLETON, ESQ., C.M.G.

etc., etc., etc.

would involve recognition of the corresponding principle that the Colony has no interest in the revenues of the Dependencies beyond an amount representing a fair share of the cost of the Central Administration, and that in determining the details of the future financial relations between the Colony and Dependencies on this basis it is necessary to take into consideration surpluses of the Dependencies' revenues which have been included in the accounts of the Colony in past years. Applying this principle, then provided that the interests both of the Colony and of the Dependencies are properly safeguarded in the manner suggested, I am unable to recognize any further claim on the part of the Colony in the matter, though, for reasons which will appear later I am not disposed at any rate at the moment to insist on a strict adherence to the principles enunciated in your despatch.

4. As to the local feeling that the interests of the Colony have hitherto receive insufficient consideration can, in my opinion, only be due to a misapprehension of the position, I am glad that you have afforded us an opportunity of dealing with impressions which it is clearly desirable to remove, but in order to curtail the length of this despatch I have thought it desirable to embody my views in a memorandum (Enclosure 1) which deals with both the financial and whaling aspects of the matter.

5. I now come to your substantive proposal as regards the Dependencies' share of the cost of the central administration, namely that it should be fixed annually as from the 1st January 1921 at 40% of the ordinary expenditure of the Colony after deducting the cost of certain services which have no

connection

proposed in your proposal which appears to me to involve
certain material factors particularly as regards the
connection with the Dependencies. On the figures for
1922 the Dependencies' share as computed would amount to
£10,330; or about £11,000 on the estimated expenditure
for 1922. I may say at once that such an amount is not
only far in excess of any sum hitherto contemplated but
also of what, in my opinion, would be required if the
headquarters administration of the Dependencies were
constituted a separate Government, in which case I
gather that in order to provide merely for the Colony's
own requirements you would anticipate no difficulty in
securing such economies as would result in an equilibrium
between expenditure and revenue without financial
assistance from the Dependencies. In this connection I
may point out that the cost of the headquarters
administration in Fiji of the whole area comprised
within the jurisdiction of the High Commissioner for the
Western Pacific was estimated for 1921-22 at about
£4500 only and this amount may be reduced in future. I
find it difficult to believe that the Dependencies of the
Falkland Islands could not be administered on similar
lines at a substantially smaller headquarters cost. If
therefore the present system involves a sum of over
£11,000 as a fair minimum cost to the Dependencies it
appears to be a matter for serious consideration
whether the time has not arrived for making a drastic
change in order to secure a more economical
administration in the interests of the Colony as well
as of the Dependencies.

6. For this reason I have given serious
consideration to the details of the computation

proposed

proposed in your despatch which appears to me to ignore certain material factors particularly as regards the revenue aspects of the problem. I enclose for your consideration a note (Enclosure II) on the subject which has been prepared in the Department. It points to the conclusion that on the estimated results of 1922 about £4000 would be a generous estimate of the charge to be borne by the Dependencies. Further if the principles which you advocate are applied retrospectively on strictly speaking they should be, the amount actually to be transferred annually should be reduced by the amount of the interest value of the total Dependencies' surpluses included in the ordinary surplus balances of the Colony. In this connection I note that the accumulated savings rose from £2801 at the beginning of 1915 to £28000 at the end of 1919; and there is reason to believe that these assets have in effect been largely if not wholly derived from the Dependencies, even when due allowance is made for local expenditure and the cost of central administration. Also there were similar Dependencies surpluses of a substantial amount prior to 1915.

7. On the basis adopted in the memorandum and ignoring the interest value of past Dependencies' surpluses the following position is disclosed as regards 1922:-

Expenditure of the Colony	£40,000.
Revenue of the Colony	35,992
Leaving a deficit of	4,008
Taking the Dependencies' share	
at	4,000
This deficit is reduced to	8,008.

8. I have already stated however that I do not propose to insist on any strict adherence to the principles

principles that you put forward since in all the circumstances I desire to avoid any arrangement which would necessitate curtailing necessary services for the Colony or involve additional local taxation to meet them; also, I am anxious to assist as far as may be possible in meeting the pressing need (to which you refer in paragraph 3 of your despatch) for a determined and sustained effort to improve the local condition in the Falkland Islands. This can, in my opinion be achieved by allowing the Colony to benefit from the Dependencies surpluses prior to 1913 either by way of capital expenditure on a programme of improvements (some of which are already in contemplation) or by retaining in the accounts of the Colony the whole of the interest revenue on such surpluses as it accrues. I would point out however that these surpluses are, to a large extent, though not entirely, the result of the additional taxation imposed in the Dependencies in 1913 and intended to be devoted to a programme of public works, including a Wireless Station, for the benefit of the Dependencies. For unavoidable reasons it has not been possible to carry out any such works to any great extent and in consequence the revenues derived have either been devoted to Colony expenditure or have lapsed to the surplus funds of the Colony. In these circumstances the allocation of past Dependencies surpluses for the benefit of the Colony must be regarded as subject.

(1) to any necessary claim on the amount in respect of (a) a contribution towards the cost of the arrears of public works e.g. the wireless station at South

Georgia

Georgia, for which however £5000 has already accrued to the Research and Development Fund, or (b) any special arrears of Dependencies expenditure not yet brought to account, e.g. the item referred to in my despatch No. 114 of the 20th November last and

(2) to the understanding that, apart from such items and the Dependencies' share of the War contribution if capitalised as proposed by you in a separate despatch the whole of the Dependencies surpluses should be regarded either, in the form of capital expenditure or interest revenue, as a permanent contribution to the Colony in addition to the cost of the central administration, a contribution which would have to be taken into account if, in years to come, the failure of the whaling industry should involve the Dependencies in financial difficulties.

3. The estimates for 1922 include provision for the maintenance of a patrol boat at a cost of £4,818 against which a total revenue of £1,900 is anticipated from the sale of seal skins and the carriage of mails and passengers, leaving a net cost of £2418. It is true that the successful development of the sealing industry would be a substantial asset to the Colony, but in addition to its commercial aspects the matter is one of scientific interest from the point of view of the preservation of the animals, and you are no doubt aware that it was laid down by one of my predecessors that it would be incumbent on the Colonial Government after the War, to undertake the protection of the fur seals even at considerable cost. In all the circumstances, I am of opinion that the liability of the net cost of the maintenance of the patrol boat during the experimental period

period may reasonably be charged to a large extent if not wholly, to the Dependencies surpluses already referred to. If the whole of the estimated net cost £2418 in the current year is met from these surpluses the amount would suffice to meet the net deficit of £2252 mentioned in paragraph 7 above. In your despatch No. 302 of the 18th November you propose to defer for the present making any definite proposals for meeting the cost of maintaining the patrol boat; but, subject to any suggestions you may otherwise have to make, I should be prepared to consider a proposal that the surpluses should bear at least a substantial portion of the net cost of the patrol boat in 1922, and also to consider, in each year in future, pending the result of the experiment of farming the fur seal, proposals for financing this liability from accumulated balances, though not necessarily to the full extent of the net cost, since I assume that the Colony will derive substantial advantages from the vessel apart from the revenue expected to be immediately realised.

10. I recognise that under the present system the computation of a fair share of the cost of administering the Dependencies cannot be calculated with any certainty, especially having regard to the conditions resulting from the War. In these circumstances I think it desirable to give you an opportunity of criticising the suggestions put forward in this despatch, since I recognise that they are to some extent founded on figures which are approximate only, though probably on the whole more favourable to the Colony than the

Dependencies

DEPENDENCIES (continued)

Dependencies. I shall be glad therefore to receive at your early convenience any further suggestions you may have to make with a view to a final decision being taken in the matter. I trust that my suggestions will be regarded as a serious effort to meet as far as possible the considerations urged in your despatch, including the services rendered by the Unofficial Members of the Executive and Legislative Councils the value of which I fully recognise.

One of the Dependencies, the Islands and Licensee will have the honour to be, the response received in London by His Majesty's Government, which would of course be

Your most obedient,

humble servant,

(Signed) WINSTON S. CHURCHILL.

The fact that it was decided, as a matter of convenience, to administer the Dependencies of the Falkland Islands did not of itself confer on the inhabitants of the Colony any preferential claim in regard to the revenue and resources of the Dependencies beyond the same required to ensure that this decision did not place additional financial burdens on the taxpayers of the Colony.

In deciding the form of administration to be set up, two alternatives were possible - (1) to establish under the control of the Governor of the Falkland Islands a separate office for the Dependencies analogous on the lines of the Office in Fiji of the High Commissioner for the Western Pacific, or (2) to annex the Dependencies to the Colony for administrative purposes. The latter alternative was adopted as the most suitable in the circumstances, but the volume of the correspondence which has since been sent from the Dependencies regarding taxation in the Dependencies, and the policy laid down 18 years ago when the regulations were first issued were, and are, still in force.

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MEMORANDUM (Enclosure 1)

Prior to the establishment of the whaling industry the Dependencies were entirely uninhabited except for the small meteorological station at the South Orkneys, the existence of which does not affect the issue. If the general policy in regard to concessions in respect of uninhabited islands not already attached to a settled Administration had been followed in the case of the Dependencies, the leases and licences would have been issued and the revenue received in London by His Majesty's Government, which would of course in that case have accepted the responsibility for the cost of Administration. The fact that it was decided, as a matter of convenience, to administer the Dependencies from the Colony of the Falkland Islands did not of itself confer on the inhabitants of the Colony any preferential claim in regard to the revenue and resources of the Dependencies beyond the sums required to ensure that this decision did not place additional financial burdens on the taxpayers of the Colony.

2. In deciding the form of administration to be set up, two alternatives were possible:-(1) to establish under the control of the Governor of the Falkland Islands a separate office for the Dependencies somewhat on the lines of the Office in Fiji of the High Commissioner for the Western Pacific, or (2) to annex the Dependencies to the Colony for administrative purposes. The latter alternative was adopted as the most suitable in the circumstances; but the whole trend of the correspondence which has taken place from time to time regarding taxation in the Dependencies, and ⁱⁿ particular the policy laid down 10 years ago when export duties were first levied there, show that the raising of

substantial

substantial additional revenue was in general considered justifiable only for the benefit of the whaling industry or for further developments in the Dependencies. Therefore having regard to the fact that, including the proceeds of the duties imposed at the end of the previous year, the revenue of the Dependencies in 1913 amounted to not less than £14,000 an amount far in excess of local expenditure plus the cost of central administration at the time it is not possible to accept the view expressed in paragraph 9 of the Governor's despatch that the export duty on whale oil would, in the ordinary course, have been considerably increased to provide funds for the development of the Colony.

3. As regards the researches recommended by the Inter-Departmental Committee, it is true that the present policy is that the whole cost shall, if possible, be provided from the revenues of the Dependencies; and, in all the circumstances, it can reasonably be contended that the surplus of such revenues can properly be devoted to matters of general Imperial interest, as well as to matters of purely local benefit. It is true that the Committee contemplated that the research vessels and survey equipment should be provided by the Admiralty, and that the cost of maintenance and pay of the naval staff should be borne by Naval funds, but the Lords Commissioners of the Admiralty have been unable to give any undertaking to accept such liabilities; and, in view of the burden imposed on the Imperial tax-payers by the war and the urgent need for economy in this country, it is quite impossible to recommend His Majesty's Government to assume any financial liability in respect of the proposed researches, at any rate until some material alteration takes place in the financial position of this country. It is not proposed that the revenues of the Colony itself should bear any portion of the charges in question, and it seems not unlikely

that the imposition of additional expense on the Imperial Exchequer in order to free Dependencies revenue for purely local purposes in the Falkland Islands would in any case be desired by the inhabitants of the Colony which during the war experienced in such a signal manner the benefits of the naval burdens borne by the taxpayer in this country.

4. Apart from these general considerations, there is the question whether the financial results of previous years afford any ground for a contention that the interests of the tax-payers in the Falkland Islands have not been fully safeguarded in the past. For this purpose a Table (enclosure I) has been drawn up showing (a) the total ordinary revenue and expenditure of the Colony and the Dependencies and (b) the Dependencies' revenue. In 1905 and each succeeding year up to and including 1919 when the first substantial increase was made on the export duties on whale oil. The figures relating to the Dependencies' revenue are to some extent approximations although probably under-stated. The Table shows that the total revenue from the Dependencies during the 14 years 1906-1919 substantially exceeded the total increase in the whole of the ordinary expenditure of the Colony on the basis of the year 1905, and this in spite of the fact that included in this ordinary expenditure, is the special defence expenditure incurred during the war year 1914 to 1918 which amounted to no less than £27,103. The deduction from this excess of the amounts actually spent during the period on Public Works Extraordinary in the Dependencies would not materially affect the argument; and it is therefore clear that there is no foundation for any suggestion that the financial interests of the Colony have been adversely affected in any way by the annexation of the Dependencies. On the contrary

contrary the Colony has up to the present derived very substantial financial advantages from Dependencies' surpluses which have hitherto either been expended for the benefit of the Colony or have accrued to the surplusbalances of the Colony,

5. For the years 1920 and 1921 the Dependencies share of the cost of the Central Administration was put at £1,472 and £3,000 respectively, though it transpired later that the basis of computation of certainly the former figure was purely arbitrary and irrational. The Secretary of State had also agreed to a further contribution from Dependencies funds, not exceeding a maximum of £2,750 in each year; but as it was not intended that any part of this further contribution should be paid except to meet a deficit in Colony expenditure; and, as a surplus was actually realised in 1920, the Secretary of State directed in a recent despatch that the sum of £2,750 which had been paid to the surplus balances of the Colony in respect of the year 1920, should be regarded as available for meeting the anticipated deficit in 1921. The revised estimates for 1921 show a deficit on Colony account (including Public Works Extraordinary) of £5,853, which, after deducting the £3,000 allotted for the Dependencies share of the cost of administration for the year, leaves a sum of £2,853 to be made up out of the additional contributions not exceeding £5,500 in all allowable in respect of the two years 1920 and 1921. If these figures are realised the total Dependencies contribution in the 2 years would amount to £1,472 + ^{£3,000 +} £2,853 or a total of £7,325. It is not however necessary to pursue the point whether this amount is adequate since there is no suggestion of any detailed adjustment of the accounts prior to 1922.

6. There remains the reference to the failure of the repeated efforts of the inhabitants of the Colony to secure participation in the whaling industry, while the industry

remains

remains largely alien. The circumstances in which whaling operations began in Dependencies waters are fully set out in the report (and appendices) of the Inter-Departmental Committee and apart from the observation that the people of the Colony have no preferential claim to exploit the resources of the Dependencies, it is sufficient to point out that when the industry was established as a result of Norwegian enterprise skilled whaling population and its highly qualified leaders, had disappeared from this country; that in any case this population was not generally skilled in the pursuit of the larger whales which requires the use of the harpoon gun brought to a practical stage by a Norwegian; and that consequently practically all the skill available to develop such an industry was Norwegian.

7. In the circumstances, the predominance of Norwegian interests, however regrettable, was inevitable, and the only alternative would have been to allow the whaling field to remain largely undeveloped. Full consideration was invariably given to applications from persons of British nationality; but it was necessary to criticise such applications very closely in order to ensure that facilities should be limited to persons who could command the special knowledge and financial resources required for an undertaking which demands large capital expenditure and is, in many respects, of a highly technical character. As a matter of fact by the time when, at a comparatively early stage, it was considered necessary in the interests of the whale and the whaling industry to adopt a policy of refusing further facilities except the renewal of existing licenses the British firms who were found to comply at all adequately with these conditions were only two in number and even these two firms have been largely dependent on Norway for labour and supplies.

8. Some relaxation of policy was necessary during the war and it is obvious that the only practical method of ensuring
the

the immediate increase required in the supplies of oil was to allow further facilities to the firms already engaged in the industry. The facilities so granted to the foreign firms were purely temporary and the only promises of permanent additional facilities were those made to the 2 British firms in consideration of their efforts to meet the urgent demand for further supplies of oil during the war.

It is true that since the war a lease has been granted to a foreign firm at the South Orkneys, but the exceptional circumstances of the case have already been fully explained in the Secretary of State's despatch No.81 of the 12th July 1920.

9. While the Secretary of State is anxious to foster local interests in every way possible, he has no evidence that even if, as is improbable a lease or licence became available the capital and technical experience necessary for the successful prosecution of a whaling enterprise would be likely to be forthcoming locally. In the absence of such evidence in the case of any particular application there would be no option but to refuse to entertain it for the same reason which led to the refusal of many similar applications on the part of persons in this country.

Finances of Falkland Islands and Dependencies

<u>Year</u>	<u>Actual Ordinary Revenue</u>	<u>Actual Ordinary Expenditure</u>	<u>Dependencies' Revenue (a)</u>
	£	£	£
1905	15,229	14,825	-
1906	15,882	14,275 + 1417	-
1907	17,430	15,248 + 806	389
1908	17,775	15,760 + 4082	2,408
1909	17,608	16,385 + 2224	3,210
1910	18,534	16,034 + 1271	3,150
1911	24,206	17,650 + 4810	4,500
1912	22,155	20,871 + 11652	5,500
1913	32,285	20,646 + 3965	14,000
1914	33,760	31,543 + 1957	14,000
1915	34,347	31,135 + 1866	14,000
1916	39,106	22,320 + 2624	15,000
1917	36,491	28,479 + 997	13,000
1918	37,471	24,970 + 971	10,000
1919	48,496	26,333 + 577	12,000
		<u>301,649 + 41,872</u>	<u>111,157</u>

(a) The figures in the last column are approximations - but taking various factors into account it seems probable that they are under estimated rather than over estimated.

NOTE ENCLOSURE 11

It is proposed that the share of the cost of the Central Administration to be paid by the Dependencies should be computed at 40% of the actual ordinary expenditure of the Colony, after deducting certain services which have no connection with the Dependencies. But expenditure is not the only factor in the problem, and in any strict inquiry into the figures it would be necessary to consider also the following points:-

(A) The "Available Assets" (i.e. excluding the Land Sales Fund and Stock Funds) amounted to £69,280 on the 31st December 1920, the latest figure available and in the Estimates for 1922 the revenue head "Interest" includes an item "Land Deposit, etc., etc." £4,500. It is possible that some portion of this £69,280 may represent sums awaiting transfer to the Research Fund; but by the end of 1919 the accumulated savings had risen to over £58,000 from less than £3,000 at the end of 1914. The total surplus revenue derived from the Dependencies since the introduction of the Whaling Industry, even after allowing for local expenditure and a fair cost of the Central Administration must represent a very large sum, and the Dependencies should apparently be credited with at least a substantial portion of the interest revenue.

(B) The 40% charge is applied to certain revenue-producing services, but the Dependencies are not credited with a corresponding proportion of such revenue. Also it is possible that the Colony obtains revenue indirectly derived from the Whaling Industry.

(C)

(C) The same proportion of charges is not necessarily justified in the case of each Head to which it is applied, and under certainly some of them there are a number of items to which it is clearly not applicable at all.

(D) The proportion hitherto contemplated and first proposed by the late Governor was only 1/3, but it is of course obvious that an exact proportion cannot be calculated with any certainty.

(E) The fairness of any proportion can be roughly tested by the total it would produce in comparison with the known cost of Central Administration in somewhat similar circumstances elsewhere. The cost of the Office in Fiji of the High Commissioner for the Western Pacific appears to afford the closest parallel. The estimated cost of that Office for the financial year 1921-22 was about £4500 and the Dependencies should certainly not involve any greater expense.

A note on the various heads of the estimates is appended. Taking all the factors into account a fair computation would seem to be arrived at by applying whatever percentage is decided upon to the whole of the following items:- Head (2), Governor: Head (3) Colonial Secretary: Head (4) Treasury and Customs: Head (6) Port and Marine (excluding the Patrol Boat): Head (7) Legal: Head (8) Police and Prison: Head (12) Scientific Department: Sub-head (B) Naturalist only; Head (13) Military; any items in the other heads to which the percentage might strictly be applied being regarded as set off by the various considerations mentioned in this note and the annexure.

The

The total of the items enumerated above is about £10,000 and one third of this amount is £3,333, while 40% would be £4,000. The latter figure is somewhat less than the cost of the Office of the High Commissioner for the Western Pacific; and the higher amount, plus a contribution in respect of the Patrol Boat, and the interest value of the Dependencies' surpluses would bring the total contribution within measurable distance of that suggested by the Governor on the basis of the 1920 figures.

NOTE ON THE HEADS OF THE ESTIMATES
OF THE EXPENDITURE OF THE FALKLAND ISLANDS
AND DEPENDENCIES FOR THE YEAR 1922.

Head I. Pensions.

The total under this head is £1,300. Having regard to the fact that a great part of this amount was earned before the officials concerned could have rendered any effective service to the Dependencies this head might properly be omitted from the computation. In future, however, the Dependencies might fairly be called upon to bear the recognised proportion of pensions of officers whose salary is borne under Heads in respect of which the Dependencies are charged to that proportion.

Head II. Governor.

Head III. Colonial Secretary

Head IV. Treasury and Customs

There are substantial reasons for including the whole of these heads in the computation without enquiring too closely into the applicability of any of the items.

Head V. Post Office.

The total under this head is £4,044 including a provision of £1,500 to ensure a regular interinsular service, which would appear to have no connection with the Dependencies. Excluding this latter amount, the revenue under the Post Office (£2,500) is practically the same as the expenditure, which includes wireless station and telephone service. Although it is proposed to charge the Dependencies with the proportion of the

whole

whole expenditure of £4,044 the only Post Office revenue credited to the Dependencies is £200 for the sale of stamps. There is no mail service to the Dependencies and no wireless station there: but the purely Dependencies expenditure includes provision of £200 for telegrams. Having regard to all the circumstances there seems no good reason for including any portion of this head in the computation. It does not appear that, even if the Dependencies were separated, the expenditure under Post Office would be materially reduced.

Head VI Port and Marine

It is doubtful whether the whole of the balance of £1,558, after deducting the cost of the Patrol Boat, can fairly be included, but it might be allowed and regarded to some extent as a set off against other doubtful items ruled out.

Head VII. Legal.

The full amount of this head might be included for the same reason.

HEAD VIII. Police
HEAD XIII. Military

As the Central Government is at any rate technically responsible for law and order in the Dependencies, the whole of these two items might be included, but if a substantial increase in military expenditure should occur in the future the question should be reconsidered.

Head IX. Medical.

40% of the total of £2,996 would be approximately £1,200. This would seem to be altogether out of proportion to

to any services that the Department renders to the inhabitants of the Dependencies, and it is difficult to believe that the Dependencies have been a factor in the increases that have occurred under this head since 1905. On the whole, therefore, it would appear proper to omit it, otherwise a small lump sum contribution would meet the case.

Head XII Scientific Department.

The full proportion of the Sub-head B. Naturalist, £170, may properly be charged.

Head XV Miscellaneous

The main item under this head is £1,000 for transport but having regard to the provision of £300 for passages under the local expenditure for the Dependencies it is not clear what portion of this £1,000 is properly chargeable to the Dependencies. The next largest item £300 for telegrams should apparently be omitted in view of the facts already brought out under the head "Post Office". Further, of the total contribution of £500 to the Imperial Institute £400 is already charged to the Dependencies and only £100 to the Colony. In all the circumstances, this head might properly be excluded.

Heads XVII & XVIII. Public Works Department and Recurrent.

The total of these two heads is £7,364. There are clearly numerous items which have no connection with the Dependencies and as the expenditure under these two heads is of a nature which circulates money in the Colony itself, on balance it would seem better to omit them both, and to regard them as entirely set off by the various other factors mentioned.

7

April 10th, 1922.

Dear Governor,

I return herewith the C.O despatch and enclosures and am grateful to you for giving me the opportunity of remarking on them.

I have enclosed notes on the despatch itself, and a separate memorandum dealing with the C.O Memorandum. I do not suppose that the British Museum officials will welcome the suggestion as to researches being entrusted to the yacht Carnegie for this would do some of their nominees out of a job.

I had thought of adding to notes on the despatch an appreciation of the S/State's reference to the unofficial members of the Ex and Legislative Councils, with a remark that the accompanying criticisms were offered as an effort to be of further service !!

Yours sincerely,



His Excellency

The Governor.

Para. 2 would have been better put if the Colonial Office had worded it "is for the payment of (a) the cost of their Administration, that is, salaries and expenses incurred in the Dependencies, (b) share of the cost of Central Administration assessed as far as possible on the actual expenditure in each year; and that thereafter only should the surplus of revenue be carried to the Research Fund".

Para. 3. I do not think that it necessarily follows that observance of the principle in question would involve recognition of the corresponding principles" etc. etc.

All throughout the attitude of the Colonial Office appears to be that the Falkland Islands had no share whatever in the discovery that whaling is very remunerative, and that the connection of the Colony with whaling is merely accidental on account of ^{its} propinquity; consequently the Falkland Islands should be left out of the reckoning, except to be made use of as much as possible and for the least possible recompense. The contention in the first paragraph of the enclosure (Memorandum) which attempts to show that the Dependencies might have been administered from London will scarcely hold water. This course was practically impossible, and it is to my mind mere "eyewash" to say that the "alternative was adopted as the most suitable in the circumstances". Administration from here was inevitable.

But for the Falkland Islands the discovery of the value of whaling would not have been known at the Colonial Office until it was too late, and if there are any advantages to be reaped from the discovery the Falkland Islands should have some share. We do not claim all - far from it - we ask merely that the Dependencies should bear a ^{generous} share of the common burden.

It is not as though the Falkland Islands would reap any benefit from the results of the Research Fund; it is admitted that other Colonies and countries will do

so, but they are paying nothing towards it - hence it would be unfair to cut the Falkland Islands out altogether, more especially if the contribution to our out of pocket expenses is being assessed ^(by the C.O.) on so niggardly a scale.

Para. 5. It is true that a contribution of so much as £ 11,000 has not been previously contemplated. Why? Because, if I may be allowed to say so, no Governor has hitherto had the initiative to represent to the Colonial Office and the British Museum officials the standpoint of the Falkland Islanders and to urge fair treatment for them as taxpayers.

The concluding sentence of this paragraph certainly deserves careful consideration. It is undoubtedly very true that when one considers the total population of the Colony and Dependencies, the cost of Administration is very high per head. Of course the cost of Government per head must be in a sort of adverse ratio - the lower the population the higher the cost per head. Since I have been on the Executive Council I realise how much work is imposed upon officials here by the demands of Government Departments at home who require statistics and information of all kinds. But for these it is quite likely that the cost of administration might be lowered by reduction of the number of officials etc, but if the Colonial Office are desirous that a staff should be maintained here capable of carrying out all that the Imperial Government requires they should support rather than whittle down a demand like the present one which is perfectly legitimate. If we were very prosperous it would be a different matter, but for the last two years the sheepfarming industry has made no profit but has had to live upon its capital.

Para. 6. Of course I have no figures to enable me to criticize the statement that the surplus balance rose during 1915 - 1919 from £ 2,961 to £ 58,690, and that the increase has been largely if not wholly derived from the Dependen-

cies. Has the latter contributed its fair share from the start of whaling? - very doubtful I think.

Para. 8. For the above reason I think that the Colonial Office should admit that "the allocation of past Dependenc-
"cies' surplusses for the benefit of the Colony should be
"subject" first, to an adjustment of what they ought to
have paid in the past towards central administration, then
to the other two considerations as detailed.

Para. 9. This is certainly a concession which will appease
many critics as to the cost of running the "Afterglow".

W. H. Murray

Stanley, Falkland Islands,

10th April, 1922.

7B

The first three paragraphs set forth what are termed (in para. 4.) "general considerations" and these may be dealt with under four headings:-

(A) The administration of the Dependencies by the Falkland Islands Government instead of by H.M. Government in London.

(B) The question of the provision of the research vessel by the Admiralty, and subsequent decision that this could not be done.

(C) The absence of any proposition that the revenue of the Colony should bear any proportion of the charge.

(D) The benefits derived by the Colony from naval burdens borne by the British taxpayer.

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A The Memorandum suggests that the general policy in regard to concessions in respect of uninhabited Islands not already attached to a ^{separate} separate administration is to issue licenses and leases by H.M. Government, presumably in London, and it is stated in paragraph 2 that it was decided to annex the Dependencies to the Colony as the more suitable alternative. South Georgia was already attached to the Falklands and the South Orkneys, South Shetlands etc are absolutely uninhabitable during the winter months. I contend that the administration of these from the Falkland Islands was inevitable and doubt whether administration from London was ever seriously contemplated at all. But for the Falkland Islands Government the value of the South Orkneys and South Shetlands would not have been known at the Colonial Office until it was too late. A separate administrative staff living there - one may add even in South Georgia - is not practicable, and it is certain that when the cost of buildings, mail communication, passages etc is taken into consideration the cost would have exceeded £ 11,000 per annum.

(I would repeat here some of the remarks in my memorandum of 5th November last, sheets 1 and 2, commencing "it will

"not be denied").

B It is admitted that the inter-departmental Committee framed some of their recommendations upon the assumption that the Admiralty would provide the research vessel and equipment. The Admiralty cannot do so, however, from lack of funds; but the Admiralty is by no means the only body so suffering - almost the whole world is, the Falkland Islands especially on account of the price of wool having fallen so considerably before that of other commodities. The Falkland Islands therefore for two years has been faced with the problem of having to pay heavily for their wants whilst receiving considerably less in proportion for their products.

It is well known that the urgent need for economy renders it impossible for H.M. Government to assume any financial liability in respect of the proposed researches. Seeing that this need for economy applies everywhere without any exception it would appear to be a rational course to postpone these researches until all ~~matters~~ interested are able to share the burden.

It is perhaps beyond my province to venture a suggestion; it does, however, occur to me that to prevent overlapping, the authorities concerned might cooperate with the Carnegie Institution of New York which possesses in the yacht "Carnegie" a vessel fully equipped for all kinds of scientific researches. This Institution has I believe a very large annual income, and with some additional financial assistance might be disposed to carry out concurrently with other scientific work the researches recommended by the Inter-departmental Committee. If so, the very heavy initial expense of providing and equipping a vessel for the ad hoc purpose of whaling research would be obviated.

C The Memorandum states correctly that "it is not proposed that the revenues of the Colony itself should bear any portion of the charges in question". Technically not, but unless the Dependencies bear their full share of the cost of the

administration of the Colony, then the ultimate effect is that the Colony is being made to contribute towards the Research Fund (see concluding paragraph my memorandum of 5th November).

D The Memorandum goes on to say "and it is unlikely that "the imposition of additional expense on the Imperial Exchequer in order to free Dependencies' revenue for purely local "purposes in the Falkland Islands would in any case be desired "by the inhabitants of the Colony which during the War exper- "ienced in such a signal manner the benefits of the Naval "burdens borne by the taxpayer in this country".

I cannot refrain from saying that instead of giving utterance to this somewhat thinly veiled aspersion upon the Falkland Islanders it would have been more becoming upon the part of the Colonial Office to have admitted and recognized the share of the burden which this small community has actually shouldered. There are four limited companies who have contributed very largely by way of income tax and Excess Profits Duty to the Imperial Exchequer during the War. To my certain knowledge the Falkland Islands Company Ltd alone paid annually for some three years or more over £ 70,000 per annum, and the other Companies and private owners living in England contributed in a similar proportion. Furthermore I assert confidently that the voluntary contributions of the Colonists to war relief funds and other charitable objects both for the United Kingdom and Allied countries were much larger per head than any other Colony can show.

It is quite pertinent to enquire how much the whaling Companies contributed either to the Imperial Exchequer or to war relief funds.

This Colony is the last that should be singled out for such an innuendo - it is a unit of the Empire, albeit a small one - but it has invariably responded to its obligations in a way more than proportionate to its size.

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Para 4. These general considerations are really beside the mark, for the question at issue is solely, what is the fair share that the Dependencies should pay towards the general cost of administration? First of all due recognition should be accorded to the advantage which whaling has derived from the regulation of the industry by the Government of the Falkland Islands. But for that, the industry would possibly now have become extinct owing to indiscriminate slaughter and waste, and I submit that the contribution of the Dependencies should be not merely a fair one but a generous one.

As soon as whaling promised to become remunerative the Falkland Islands Government undertook various projects in view of the prospect of increased revenue, notably the Twon Hall, now Government Offices, costing over £ 14,000, and the staffs of the different officials were necessarily increased. Unless the whaling industry pays a very fair share of the administrative expenses it is not too much to say that the taxpayers in the Colony will ~~resent~~ regret that whaling was ever started.

Without actual figures I am not in a position to deal with the precise amounts paid in the past, nor to discuss how much of the Colony's surplus balance has accrued from Dependencies. But it is obvious that if the Dependencies have not in the past contributed their fair proportion of the expenses it is not correct to claim that all this surplus balance should belong to the Dependencies.

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Paras. 6,7,8,9, relating to the failure of the inhabitants of the Colony to secure any participation in the whaling industry, represent a very fair statement of the case. I would say that in view of the capital involved and the risks taken the whaling companies deserve the profits of their enterprise, but whilst no one here in any way grudges them their success it is inevitable that a feeling should exist that Colonists here should, from lack of technical knowledge and necessary capital, have

been debarred from sharing in that success. But when you add to that the undoubted fact that Government expenses have been largely increased both on account of the whaling industry and on account of a legitimate prospect of some increase of revenue which led the Government to commitments which they otherwise would not have contemplated, it cannot be denied that the Falkland Islands have a strong claim that the contribution of the Dependencies to the general exchequer should be in every respect adequate. Otherwise the Falkland Islander feels that he is helping to pay towards an industry, from the fruits of which he is barred owing to circumstances outside his control, namely, the impossibility of raising the necessary capital, and finding technical experience locally.

Detailed figures are dealt with in the final portion of the memorandum.

Notes on the Heads of the Estimates.

I offer the following criticisms:-

Post Office. I agree that the cost of the interinsular service has no connection with the Dependencies. ~~But~~ I would point out that the whaling steamers which call here all utilise the service of the Post Office, and that the Dependencies should contribute towards the ocean mail service which is vital to communication between the Home Government and the Governor for the negotiation and regulation of whaling matters. It is true that of late years no subsidy has been paid; we have, however, had a mail service which has been provided solely by the trade of the sheepfarming industry. The products of whaling have contributed absolutely nothing in kind towards this, but has reaped its share of the benefits.

Port and Marine. A detailed statement showing the vessels boarded by the Harbour Master would I believe show that more than one half are whaling vessels. After deducting the cost of the Patrol boat this Head of Service should be included in the contribution without the concluding reservation.

Medical. Includes the heavy cost of the maintenance of the Hospital, the benefits of which cannot be appraised in pounds, shillings and pence. It is in the nature of insurance and might at any time prove of incalculable value to the Dependencies. I may say here that it is most unlikely that the Hospital would have been constructed upon its present scale but for the prospect of some increased revenue from the whaling industry, which in case of need would naturally be entitled to the service of the Hospital and staff.

Transport. The transport of officials is equally with their salaries a charge that the Colony has to bear, and the Dependencies should consequently pay the same proportion of this as the actual salary.

Telegrams. In all probability quite one half, if not more, of the Government telegrams sent appertain to whaling matters.

Public Works. A proportion of most of these items should certainly be borne by the Dependencies - I refer especially to buildings, furniture, jetties, peat supply, Town Hall (really Government Offices). Like transport, all these items are as much a part of the cost of the various officials as their actual salaries. A study of the Estimates shows that most are provided with peat, and to this item, amounting to £ 540 should be added a proportion of the cost of carts, horses and carters, which are employed for some months carting and stacking the peat.

The items which should contribute are:-

XVII	No. 4.	£ 196
	5.	335
	6.	50
	10.	260
XVIII	No. 2.	1200
	4.	50
	5.	480
	9.	50

forward 2621

7.

forward,	£ 2621
No. 11.	540
12.	150
	<hr/>
	£ 3311
	<hr/> <hr/>

Seeing that all questions relating to public works in the Dependencies are passed through this Department it would be legitimate to charge for services of Colonial Engineer and his clerical staff, but this may be excluded as a set off against some of the items detailed above.

W. H. Hardy

Stanley,
Falkland Islands,
10th April, 1922.

On page 7 of the Estimates for 1921 a statement is given showing the allocation of expenditure between the Falkland Islands proper and the Dependencies, the totals, exclusive of Research Fund, being £39,560 and £2,194.

The latest published Customs Returns (Governor Young's Minute to the Legislative Council of 19th August, 1919) show that the values of exports of sheepfarming products of 1918 from the F.I. proper and of whaling products from the Dependencies were £340,600 and £1,711,600 respectively.

On the basis of the gross values of the actual productions of the two industries, therefore, sheepfarming products are paying towards the cost of administration £39,560 out of £340,600 and whaling products £2,914 out of £1,711,600, or in other words for every £100 worth of produce sheepfarming pays £11.12. 3, and whaling 12s 7d only.

The whole of the products of sheepfarming are shipped to the United Kingdom in British bottoms, and I believe that the bulk of that of whaling goes to foreign countries in foreign bottoms.

Of the imports into the Falkland Islands exclusive of Dependencies, 80% is purchased in the United Kingdom, whereas the bulk of the imports into the Dependencies, exclusive of coal, comes from foreign countries.

It will not be denied that but for the fact that the Dependencies were attached to the F.I. and whaling thus made subject to regulation under a settled Government, whaling operations would have been open to all comers. This must unquestionably have resulted in indiscriminate slaughter of whales and the waste of everything but the most remunerative part of the carcasses, ending in all probability in the extinction of the industry in the course of a few years. With the prospect of increased revenue from whaling several projects were undertaken during Governor Allardyce's term of office, notably the Town Hall, now Government Offices costing about £14,000. If the bulk of the revenue from whaling is now with-

drawn, or is reduced to the proportion indicated in the printed statement above quoted, it is not too much to say that the taxpayers will regret that the whaling industry was ever started.

Seeing that the industry has been regulated and no doubt preserved by such regulation through the medium of the machinery of Government of the Falkland Islands, the contribution from the industry to the cost of central administration should, irrespective of the large profits actually derived, be on a most generous scale. And the fact that British Trade derives no benefit, directly or indirectly, from the whaling operations, whereas the whole business resulting from sheepfarming is done with the United Kingdom, adds to the injustice of making the latter bear such an undue proportion of the local taxation.

So far from the contribution from whaling being on a generous scale it is not levied on a fair one even, for it is not paying out of pocket expenses incurred. The cost of stationery and telegrams is all borne by the Colony, whereas I would venture to prophecy that fully two-thirds of the telegrams despatched refer exclusively to whaling. And if all Government officials were able to say how much of their time is occupied on whaling questions and how much on sheepfarming questions, the proportion would probably be two to one. An abstract of the telegrams sent might afford some guide.

If the Dependencies are regarded as a separate entity, let them have their own Staff - Governor and officials and all machinery of Government, but if this is not practicable they should surely pay their full proportion of the cost of administration.

The attempt to keep separate accounts and at the same time to include all in one set of estimates and in the same statement of revenue and expenditure, appears to me to result in much confusion, or, at any rate, a lack of clearness. This would be obviated by having separate estimates for the F.I. proper and the Dependencies.

Taking the items of expenditure on page 7 of the Estimates serialia:-

1. Pensions. Dependencies pensions should of course be borne

by the Dependencies.

2 & 3. Governor and Colonial Secretary. The whole of this expenditure is charged to the Colony although it includes stationery, telegrams and printing, of which probably two-thirds or three-fourths appertain to whaling.

4 & 5. Treasury Customs and Audit. Under this head the only charge borne by the Dependencies is the salaries of the officials there, but do not the Treasurer and the Collector and his clerks have to deal with the revenue received from the Dependencies and incorporate with their accounts? Of course it must be so, and the Dependencies should bear their share.

6. Port and Marine. It would be useful to have a statement of the total vessels boarded in Stanley by the Harbourmaster and Health Officer, discriminating between whaling vessels attended to and others. A division of the cost of the Department in that proportion would be a fair one, whereas it is at present all charged to the Colony. Probably the boarding of whaling vessels entails most of the overtime incurred.

7. Legal. The West Falkland Magistrate spends a large proportion of his time in the whaling regions, and it is safe to say that his magisterial work on the West Falkland is nil.

8 & 16. Police Prisons. Military. These may be taken together as being departments which are not productive of remunerative work, but are of a preventive nature and necessary. In the event of any serious trouble in the Dependencies the services of these departments would be requisitioned (one occasion did, I believe, arise a year or two ago), and the Dependencies should bear their share in the maintenance of the forces to which they might at any time find it necessary to appeal.

9. Medical. Includes heavy cost of maintenance of Hospital, the benefits of which cannot be appraised in pounds shillings and pence. It is in the nature of insurance and might at any moment prove of incalculable value to the Dependencies or the Colony, and the former should bear its share of the cost of upkeep.

10. & 11. Education. Ecclesiastical. Are almost exclusively for

the F.I. proper, but are "welfare" services which are desirable in most communities. If the Dependencies are treated as a part of the community here they would naturally make some contribution.

12. Transport. Each naturally pays for its own items.

13. Miscellaneous. Represents sundry items of necessary or useful public expenditure of which the Dependencies should pay a share.

15. 18. Savings Bank. Scientific. Are so far proper to the F.I. only, but may at some time include services to the Dependencies.

17. Post Office. Deals with all letters whether from Dependencies or Falklands. The whaling steamers which call at Stanley are dependent upon the services of the officials. A society of the cost of ocean mail service should certainly be borne by the Dependencies for a regular mail service between the Home and the Colonial Government is vital for the negotiation and regulation of whaling. It is true that of late years no subsidy has been paid; we have, however, had a mail service which has been provided by the trade of the sheepfarming industry, the products of whaling contributing nothing in kind towards it, but reaping a share of the benefit.

19. Currency Note Expenses. F.I. notes are now used in the Dependencies.

22. 23. Public Works. All questions relating to public works in the Dependencies are passed through this department, and some proportion of the cost of personnel should be borne by the Dependencies.

Research Fund. Very little seems to be known generally about the research fund, and information on the following points would be of interest.

(1). What revenue has actually been credited to this "Fund"?

There is a discrepancy in the published Minutes to the Legislative Council of Sir Douglas Young, dated 19th August, 1919 and Mr Martin, Administrator, dated 1st November, 1920.

The first Minute runs:- "To finance this fund (Research Fund)

"it is proposed to increase from 1st October, 1919 the
"Export Duty on Whale-oil and Seal-oil from 3½d a barrel
"to 1s 6d a barrel and to pay into the fund the increased
"duty at the rate of 1s 2½d on every barrel of oil exported."

The latter reads:- "This sum of \$5000 representing
"approximately 3½d per barrel of the export duty expected
"from oil in 1921 might with propriety be transferred to
"the Revenue of the Colony proper."

Does this mean that the 3½d has been credited to the
Research Fund? If so it is a distinct violation of Sir Douglas
Young's implied undertaking to the Legislative Council a year
before that the 3½d would continue to be credited to
general revenue. This matter is important as concerning the
sanctity of a Governor's promise to the Legislature.

(2) If this 3½d per barrel has been credited to the Fund
some doubts are excusable as to what other items may not also
have gone to it, and it would be interesting to know the total
amount and details as to how it is made up.

(3) Where is the Fund, and who controls it?

(4) If the bulk of the revenue from the Dependencies is re-
tained for the Research Fund and an inadequate contribution
made towards the total expenditure of the F.I. and its Depen-
dencies, the result will be that the sheepfarming industry
becomes in ^{effect} a large contributor to the Research Fund. That is
to say that sheepfarming, a British industry, would be paying
for research work and development of an industry conducted by
aliens and contributing nothing towards the revenue or trade
of the British Empire.

W. Maudslayi

Stanley, Falkland Islands,

5th November, 1921.

Vessels entered & cleared at Stanley

Vessels entered & cleared at Stanley from & to the Dependencies, excluding South Georgia.

<u>1912</u>	No of Vessels. - Tons	No of Vessels	-	Tons
Entered.	53 - 154,728	30	-	19,728
Cleared.	46 - 150,979	9	-	15,100

<u>1913</u>				
Entered.	48 - 148,492	18	-	14,000
Cleared.	42 - 126,973	26	-	16,000

<u>1914</u>				
Entered.	65 - 179,429	30	-	31,000
Cleared.	57 - 168,961	16	-	16,000

<u>1915</u>				
Entered	50 - 180,514	33	-	28,200
Cleared	55 - 183,367	30	-	29,190

<u>1916</u>				
Entered	45 - 153,531	8	-	
Cleared	46 - 157,296	32	-	

Vessels entered & cleared at Stanley.

Vessels entered & cleared at Stanley to & from the Dependencies except South Georgia.

<u>1917</u>	No. of Vessels - Tons		No. of Vessels		Tons.
Entered	19	- 69,840	7	-	64,544
Cleared	18	- 69,986	13	-	87,866

<u>1918</u>	No. of Vessels - Tons		No. of Vessels		Tons.
Entered	21	- 34,653	23	-	14,280
Cleared	11	- 29,402	14	-	8,879

<u>1919</u>	No. of Vessels - Tons		No. of Vessels		Tons.
Entered	10	- 24,905	21	-	14,189
Cleared	9	- 24,747	23	-	14,280

<u>1920</u>	No. of Vessels - Tons		No. of Vessels		Tons.
Entered	18	- 42,964	30	-	21,280
Cleared	18	- 42,964	21	-	14,189

<u>1921</u>	No. of Vessels - Tons		No. of Vessels		Tons.
Entered	15	- 53,903	33	-	21,600
Cleared	12	- 41,872	30	-	21,280

DEPENDENCIES REVENUE.

Head of Service.	1907.	1908.	1909.	1910.	1911.	1912.	1913.	1914.	1915.	1916.	1917.	1918.	1919.
Customs Duties.	-	-	-	-	-	-	7062.	5796.	5798.	10214.	9650.	8205.	7975.
Port Dues.	-	-	-	-	-	-	425.	189.	258.	336.	421.	295.	241.
Licences &c.	389.	1833.	1000.	1650.	3600.	3450.	3650.	4250.	4750.	2450.	2353.	2058.	2150.
Fees, Fines &c.	-	-	-	-	-	-	220.	285.	183.	286.	378.	352.	283.
Post Office.	-	-	-	-	-	-	-	-	-	139.	216.	83.	134.
Rents.	500.	1575.	2090.	1350.	2301.	2100.	2600.	2350.	2250.	2450.	1750.	2350.	2600.
Miscellaneous.	-	-	-	-	-	-	-	-	-	83.	54.	55.	76.
Total.	889.	2408.	3090.	3000.	5901.	5550.	13957.	12870.	13239.	15958.	14822.	13398.	13459.
600													
C.O.D.23 of 1/3/22.	389.	2408.	3210.	3150.	4500.	5500.	14000.	14000.	14000.	15000.	13000.	10000.	12000.

Note:- The figures given in the enclosure to Despatch No.23 of 1st March 1922 are stated to be approximate, but in some instances they are very close to the actual amounts.

(Sgd) W. A. Thompson.
Colonial Treasurer.
3rd May 1922.

Comparison.	
389.	889.
2408.	2408.
3210.	3090.
3150.	3000.
4500.	5901.
5500.	5550.
14000.	13957.
14000.	12870.
14000.	13239.
15000.	15958.
13000.	14822.
10000.	13398.
12000.	13459.
<u>11157.</u>	<u>118547</u>
<u>11157</u>	<u>111157</u>
	<u>7384.</u>

DEPENDENCIES EXPENDITURE.

Head of Service.	1910.	1911.	1912.	1913.	1914.	1915.	1916.	1917.	1918.	1919.
			£	£	£	£	£	£	£	£
Treasury & Customs.	-	-	282.	556.	357.	497.	394.	357.	505.	658.
Legal.	279.	257.	348.	389.	373.	503.	373.	362.	337.	319.
Police & Prisons.	65.	84.	85.	77.	76.	22.	-	6.	3.	-
Transport.	-	-	-	-	222.	-	3.	-	208.	-
Miscellaneous.	-	-	-	-	-	368.	-	-	34.	-
Refunds.	-	-	-	160	-	100.	-	-	-	300.
Public Works.	-	-	-	-	-	-	-	7.	-	41.
Public Works Extry:	-	-	781.	391.	257.	250.	-	-	-	-
	344.	341.	1,496.	1,513.	1,285.	1,740.	770.	732.	1,087.	1,318.

DEPENDENCIES EXCESS REVENUE.

	1907.	1908.	1909.	1910.	1911.	1912.	1913.	1914.	1915.	1916.	1917.	1918.	1919.
	£	£	£	£	£	£	£	£	£	£	£	£	£
REVENUE.	889.	2408.	3090.	3000.	5901.	5550.	13957.	12870.	13259.	15958.	14822.	13398.	13459.
EXPENDITURE.	-	-	-	344.	341.	1496.	1513.	1285.	1740.	770.	732.	1087.	1318.
EXCESS.	889.	2408.	3090.	2656	5560.	4054.	12444.	11585.	11499.	15188.	14090.	12311.	12141.

Note:- Most of Dependencies excess revenue was expended under Public Works Extraordinary of the Colony.

SURPLUS AND DEFICIT ACCOUNT.

	1907.	1908.	1909.	1910.	1911.	1912.	1913.	1914.	1915.	1916.	1917.	1918.	1919.
Gross Revenue.	17430.	17775.	17608.	18534.	24206.	22155.	32285.	33760.	34347.	39106.	36491.	37471.	48496.
Ordinary Expenditure	15248.	15760.	16385.	16034.	17650.	20871.	20645.	31543.	31135.	22320.	28479.	24970.	26333.
Excess.	2182.	2015.	1223.	2500.	6556.	1284.	11630.	1217.	3212.	16786.	8012.	12501.	22163.
Extry: Expenditure	806.	4082.	2824.	1371.	4810.	11655.	3965.	3957.	1866.	2624.	907.	971.	577.
Surplus.	1376	-	-	1129.	1746.	-	7675.	-	1346.	14162.	7105.	11530.	21586.
Deficit.	-	2067.	1601.	-	-	10371	-	1740.	-	-	-	-	-
Dependencies Sur: Revenue	889.	2408.	3090.	2656.	5560.	4050.	12444.	11585.	11499.	15188.	14090.	12311.	12141. (surplus rev:)
Surplus	487.	-	-	-	996	-	-	-	-	1597	-	190	9445.
Deficit.	-	4475.	4691	1527.	3826.	14421.	4769.	13325.	10153.	1026.	6885.	781.	-

SURPLUS REVENUE AT END OF EACH YEAR.

	1907.	1908.	1909.	1910.	1911.	1912.	1913.	1914.	1915.	1916.	1917.	1918.	1919.
General A/C.	3794.	1728.	127.	1256.	3003.	...	4701.	2961.	4307.	18469.	25573.	37104.	58690.
						Deficit. 7369.							

Note:- "Gross Revenue" means "Falklands" & "Dependencies" Ordinary Revenue.

"Ordinary Expenditure", includes "Dependencies" expenditure with "Falklands".

SURPLUS AND DEFICITS AT END OF EACH YEAR.

FALKLAND ISLANDS: Exclusive of Dependencies Revenue & Expenditure and excluding Works Extry.

	1907. £	1908. £	1909. £	1910. £	1911. £	1912. £	1913. £	1914. £	1915. £	1916. £	1917. £	1918. £	1919. £
SURPLUS.	1293.	-	-	-	996.	-	-	-	-	1598.	-	190.	10022.
DEFICIT.	-	393.	1867.	156.	-	2766.	814.	10368.	8287.	-	5078.	-	-

FALKLAND ISLANDS: Exclusive of Dependencies Revenue & Expenditure, but including Works Extry:

SURPLUS.	487.	-	-	-	-	-	-	-	-	-	-	-	9445.
DEFICIT.	-	4475.	4691.	1527.	3826.	14421.	4769.	13325.	10153.	1026.	6885.	781.	-

DEPENDENCIES: Excluding "Falklands" revenue and expenditure.

SURPLUS.	889.	2408.	3090.	2656.	5560.	4054.	12444.	11585.	11499.	15188.	14090.	12311.	12141.
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GENERAL ACCOUNT: Including Falklands and Dependencies revenue & Expenditure.

SURPLUS.	3794.	1728.	127.	1256.	3003.	-	4701.	2961.	4307.	18469.	25573.	37104.	58690.
DEFICIT.	=	-	-	-	-	7369.	-	-	-	-	-	-	-



FALELAND ISLANDS.

No. 75.

GOVERNMENT HOUSE,

STANLEY,

22nd May, 1922.

Sir,

I have the honour to acknowledge the receipt of your despatch No. 25 of the 1st of March on the subject of the financial relations between this Colony and its Dependencies.

2. The considered opinion of this Government on the question diverges so widely from the views held by your advisers that I gladly avail myself, in the annexed note, of the permission which you have granted to me to criticize the suggestions put forward in your despatch. I take the opportunity, at the same time, to transmit two memoranda on the subject from Mr. W. A. Harding, member of the Executive Council, which will at least show the view taken by an experienced local man of business.

3. In the sixth paragraph of your despatch you refer to the note, which formed the second enclosure, criticizing, in detail, the computation, upon which I based my estimate of the cost of Central Administration, and you suggest that £4,000 would be a generous estimate of the charge to be borne by the Dependencies. Were the criticisms contained in the note justified I would have been guilty of misleading

you/

THE RIGHT HONOURABLE

W. L. S. CHURCHILL, M.P.,

SECRETARY OF STATE FOR THE COLONIES.

Enclosure I.

Enclosure II
and III.

you grossly and it is a matter of deep regret to me that such criticisms should have been made. An examination of them is attached.

Enclosure IV.

4. I beg to re-emphasize the salient facts that the number of civil servants on the establishment of the Colony has been increased from 32 to 59 and the expenditure on the services affected from £11,125 to £25,823 since the active administration of the Dependencies has been assumed.

5. I trust that I may be able to convince you, as I have apparently failed to do in my despatch of the 29th of November, that this Government has had no wish to appropriate for other purposes revenue allocated under the instructions of your predecessor to a specific object.

6. The reference in paragraph 16 of my despatch of the 29th of November, to local feeling on the question of the allocation of Dependencies' revenues applied and was intended to apply solely to the effect of the instructions issued restricting the amount receivable by the Colony to an inadequate remuneration for services rendered plus a temporary contribution of a sum not exceeding £2,750 in any one year. It was not my intention to suggest that prior to 1919 the Colony had not benefitted by the connexion with the Dependencies; evidence of this is certainly not lacking.

7. It is illustrative of your undoubted wish to treat the considerations put forward in my despatch
of/

of the 29th of November in a generous spirit that you have in your reply indicated your willingness to allow the net cost of the maintenance of the patrol boat during the experimental period to be charged to a large extent, if not wholly, to the surpluses of Dependencies revenue already brought to account.

8. In the concluding paragraph of your despatch it is recognised that under the present system the computation of a fair share of the cost of administering the Dependencies cannot be calculated with any certainty. In order to give effect to the views expressed by your predecessor it has been my earnest and diligent endeavour to overcome the difficulties which recent correspondence has shown to exist.

I am forced to the conclusion that the allocation between the Colony and its Dependencies of expenditure incurred on particular services is likely, in a degree which would be a hindrance to good government, to give rise to constant difficulties in the adjustment of accounts and further to lead to unnecessary and undesirable discussions in the Legislative Council whose authority is required for the expenditure of all monies whether derived from the Colony or its Dependencies. I am convinced that there is one policy only which can secure, through goodwill, the successful development of His Majesty's possessions in these waters and that is that they should be regarded as a single unit for all purposes. I anxiously seek your concurrence in

this/

this view.

9. If the funds of the Colony and of its Dependencies, with the exception of revenue raised for a specific purpose, to which I shall presently refer, were regarded as available for carrying out, in the interests of the Administration as a whole, a comprehensive policy for the development alike of the Colony and its Dependencies the admitted difficulties would be avoided and the active cooperation of the Legislative Council and the people of the Colony assured.

10. Last it be considered that the Dependencies are likely to suffer by being so closely bound up with the Colony I desire to point out that, in the absence of unofficial representation in the Legislative Council, their interests are safeguarded by the official majority and I have the following suggestion to make for an immediate service of great moment which can be rendered to them.

11. It was considered of urgent importance in 1919 that scientific investigations should be undertaken in the Dependencies. Additional taxation has been imposed for the purpose of meeting the expenses of the expedition but has not yet yielded revenue sufficient to permit of the project being proceeded with. I am of opinion that it is in the interests of the administration as a whole that the investigations should be undertaken with as little delay as possible and that, if necessary, funds of the Colony

which/

which are lying idle and even its credit should be made use of for immediately carrying out these investigations.

12. The ties which bind the Colony to its Dependencies are closer than may have hitherto appeared and they can, in my opinion, be strengthened with mutual advantage. Whaling operations have been carried on in the past in both territories conjointly and from recent applications, which have been made, there is reason to suppose that they may be renewed. The large herds of hair seal which are found in both territories offer an opening for development in that direction. The proposal for the construction of a slipway at Port Stanley is now being pressed forward. If, as is hoped, it proceeds to completion all the catchers from the South Shetlands and a few from South Georgia would winter here for their annual repairs instead of, as at present, at Monte Video. The establishment of direct communication with South Georgia is, I consider, of primary importance. No opportunity for accomplishing this object should be foregone. The people of the Colony unable to participate directly in whale fishing would to a far greater extent, than in the past, invest their surplus savings in Dependencies undertakings. The fact that the deposits in the Government Savings Bank amount to a sum of over £120,000, on which the rate of interest earned is only $2\frac{1}{2}\%$, is sufficient indication of the need for such an outlet.

13. I cannot urge too strongly that you will take into favourable consideration the broader view of the subject under discussion which I now put forward in the belief that it is just, economically sound and in the best interests of the Colony and of its Dependencies.

I have the honour to be,

Sir,

Your most obedient,

humble servant,

J. Middleton.

THE 22nd May, 1922.

NOTE ON THE SUGGESTIONS CONTAINED IN THE SECRETARY OF
STATE'S DESPATCH No. 25 OF THE 1ST MARCH, 1922.

The principle that the payment of the cost of the Administration of the Dependencies should be the first charge on their revenue, after defraying purely local expenditure, appears to be a self-contained and self-evident proposition which does not admit of the deductions which are held, in the third paragraph of the Secretary of State's Despatch, to be implied. It is there suggested, in effect, that acceptance of that principle implies (1) an undertaking that this Government shall repudiate, for all time, any claim to revenues raised in the Dependencies in excess of the cost of Administration and (2) that the surpluses of the Dependencies revenue which have been included in the accounts of the Colony in past years may justly be regarded as a debt owing by the Colony to the Dependencies and that the interest upon that debt should be taken into account.

2. It is clear that, subject to such directions as the Secretary of State may be pleased to give in the matter, the Governor is not in a position to bind the Government to the undertaking which is sought for in the first of these implications and it is submitted that when the research investigations, which are contemplated, have been completed the allocation of monies derived from the Dependencies must necessarily be a matter for fresh consideration. The second corollary would, if accepted, involve the subversion of an accomplished fact. X Successive Secretaries of State have year after year approved of the inclusion in the accounts of the Colony of the Dependencies' surplus revenues. The

estimates

estimates have been based, the establishment has been determined and public works have been carried out on the assumption that the monies at the disposal of the Government were as shown in the published accounts of the Colony. Whether the policy whereby a surplus of revenue in one of two territories under a single Administration stands to the credit of the combined Government is a sound one may be a matter of opinion. That policy has at least precedents in other parts of the Empire. A close analogy is afforded in the system of accounts as between Colonies and their Protectorates in Africa. A future adjustment of accounts whereby the expenses of Administration only were to be credited to an African Colony would, it is suggested, hardly justify a claim for repayment by such Colony of all monies received in the past in excess of expenditure upon its Protectorate.

3. It is stated in the Memorandum attached to the Secretary of State's despatch that "in deciding the form of Administration to be set up" after the establishment of the whaling industry, "two alternatives were possible :- (1) to establish under the control of the Governor of the Falkland Islands a separate office for the Dependencies somewhat on the lines of the Office in Fiji of the High Commissioner for the Western Pacific, or (2) to annex the Dependencies to the Colony for Administrative purposes. The latter alternative was adopted as the most suitable in the circumstances." It is also observed "that it was decided, as a matter of convenience, to administer the Dependencies from the Colony of the Falkland Islands" instead of following "the general policy in respect of uninhabited islands not already attached to a settled Administration".

4. The exact time at which it was decided, as a matter of convenience, to adopt the alternative of annexation is not known but the original Charter of the 23rd of June, 1843, which made provision for the Government of the "Settlements in the Falkland Islands" included "their Dependencies" in the administration of the Government. Letters Patent were subsequently issued on the 25th of February, 1892, which declared that the "Settlements in the Falkland Islands and their Dependencies" should, until otherwise provided, be "called the Colony of the Falkland Islands" and made provision for its Government. X It has been stated in every edition of the Colonial Office List from 1862 to the present day that the Falkland Islands were taken possession of by the British Government for the protection of the whale fishery in these waters. The lists from 1862 to 1874 add the words "and from that time to the present have so continued". From 1887 onwards South Georgia has been specifically described as a Dependency of the Falkland Islands. The Governors of the Colony between 1890 and 1900 endeavoured to persuade His Majesty's Government to establish British sovereignty over South Georgia. Governor Goldsworthy in his despatch No. 98 of the 16th of August, 1892, asked that he might be granted a passage to South Georgia in one of His Majesty's ships as eight people, anxious to ascertain the capabilities for farming there, had applied for information as to the terms on which the Island would be leased. There were at that time, as the correspondence shews, possibilities of a fishing concession from the Argentine Republic leading to an occupation of the Island by nationals of that country. The Lords Commissioners of the Admiralty considered however that South Georgia was not worth retaining "as its position has not even the merit

"of being on a frequented trade route or one ever likely
 "to be frequented" and that it was "useless as a port of
 "call for His Majesty's ships."

5. In 1900 Governor Grey-Wilson in transmitting an application from a Chilean for a lease of South Georgia said that "subject to any objections of an Imperial nature as to "thus raising the question of sovereignty" he considered that it would be of "advantage to the Colony to grant a mining "and general lease of South Georgia to any responsible "individual or company." He was in reply authorised to publish the intention of this Government to lease the island and to invite tenders. In pursuance of this authority a lease was granted in 1905 to the South Georgia Exploration Company. The members of this Company found a Whaling depot of an Argentine Company established in South Georgia without any authority from the British Government. Governor Allardyce in reporting the return of the members of the Exploration Company (Messrs Swinhoe and Kelway) in November 1905, said "I would particularly call your attention to the "statement of Mr Swinhoe that had it not been for the "appearance at South Georgia of the South Georgia Exploratⁿ "Company and the flying of our flag during the three month "the party was there the Argentine flag would have been "hoisted in our dependency with proportionate complications." In the meantime the action of the Governor in granting the lease without the previous sanction of the Secretary of State had been criticized.

6. The divergent views which are taken upon the claims of the Colony and upon the indebtedness of the Dependencies for the cost of their administration appear to have their origin in a misapprehension which has arisen over the mutual relations of the Colony and its Dependencies. Enough has

been/

To Secretary
 of State No.
 28 of 21st
 March, 1900.

From Secretary
 of State No. 59
 of 2.8.1900.

been said to show the fallacy of the assumption first put forward in the Secretary's of State's despatch No. 137 of the 23rd of December, 1919, and renewed in that of the 1st of March, that the Dependencies can be regarded as an independent entity with, by accident, administrative headquarters at Port Stanley, as though, apparently, their connection with the Colony dated back only to 1908 when provision was made, by Letters Patent for the Government of South Georgia the South Orkney, the South Shetland and Sandwich Islands and Graham's Land as Dependencies of the Colony of the Falkland Islands. These Letters Patent, moreover, expressly declared (a) that it shall be deemed always to have been competent for the Governor by and with the advice and consent of the Legislative Council of the Colony of the Falkland Islands to make laws for the peace, order and good government of the Dependencies named and (b) that the Governor shall be deemed always to have been authorized and empowered to make grants of land within those Dependencies. The essential fact is that had it not been for the settled Administration of the Falkland Islands and for the action of successive Governors of the Colony the whaling industry in the Southern Atlantic and the "uninhabited islands" would have never come under the British flag.

7. As His Majesty's Government decided that the Dependencies should be annexed to the Colony for Administrative purposes and should not merely be placed under the control of the Governor on the lines on which the Western Pacific Islands are administered, it is not possible to treat the financial relations between the respective territories in the same manner as if the latter alternative had been adopted. It is, apparently, in an endeavour to do this that the misapprehension has arisen. It is presumed that there is

no essential difference in the relations between Fiji and the Western Pacific and those between the Falkland Islands and their Dependencies.

8. The cost of Central Administration as estimated in the despatch of the 29th of November, is stated in the Secretary of State's reply to be excessive. It is, in fact, little more than $\frac{1}{2}$ per cent of the value of the trade of the Dependencies taking the average production of oil at 68,000 tons and the value of the oil at £28 a ton. However, the basis, on which it is said that the cost is excessive, is by a comparison with the cost of the headquarters Administration in Fiji of the area comprised within the jurisdiction of the High Commissioner for the Western Pacific. This comparison is maintained in the enclosures to the despatch. A memorandum is attached dealing with the analogy, and it is submitted that no comparison can in fact be made. Attention is invited particularly to the estimate in the memorandum, that if the Dependencies of the Falkland Islands were administered on similar lines with the Western Pacific Islands, and if the same services were rendered, the cost of the central administration should not be more than £1,500 a year.

Enclosure V.

9. There remains consideration of the proposition that when export duties were first levied on whale oil the raising of substantial additional revenue was in general considered justifiable only for the benefit of the whaling industry or for further developments in the Dependencies. On the 29th of January, 1912, a circular was issued to the Whaling Companies informing them of the proposed export duties and detailing a number of works which it was proposed to undertake from the revenues obtained. Governor Allardyce in a Minute on the subject said "We ought not to

commit/

No. 6 of 9th
January, 1912.

"commit ourselves to spend all the revenue obtained in
"measures for the benefit of the Dependencies." Within a
brief period after it had been decided to impose an export
duty the Secretary of State in a despatch suggesting that
the salary of the Governor should be increased, reviewed,
at length, the whole position of the Colony and directed
that his despatch should be laid before the Legislative
Council. From that time it has been the policy to treat
the surpluses in some measure as available for the develop-
ment of the Colony and this policy received the approval of
successive Secretaries of State until the inauguration of
the Research Fund. There are, as has been said, numerous
precedents for the policy.

OF THE 22nd May, 1922.

no. 75

FALKLAND ISLANDS AND DEPENDENCIES - Division of Expenditure.

On page 7 of the Estimates for 1921 a statement is given showing the allocation of the expenditure between the Falkland Islands proper and the Dependencies, the totals, exclusive of Research Fund, being £39,560 and ~~28,194~~ £2,094

The latest published Customs Returns (Governor Young's Minute to the Legislative Council of the 19th August, 1919) show that the values of exports of sheepfarming products of 1918 from the F.I. proper and of whaling products from the Dependencies were £340,600 and £1,711,600 respectively.

On the basis of the gross values of the actual productions of the two industries, therefore, sheepfarming products are paying towards the cost of administration £39,560 out of £340,600 and whaling products ~~28,194~~ ^{2,094} out of £1,711,600, or in other words for every £100 worth of produce sheepfarming pays £11. 12. 5, and whaling 12s 7d only.

The whole of the products of sheepfarming are shipped to the United Kingdom in British bottoms, and I believe that the bulk of that of whaling goes to foreign countries in foreign bottoms.

Of the imports into the Falkland Islands exclusive of Dependencies, 80% is purchased in the United Kingdom, whereas the bulk of the imports into the Dependencies, exclusive of coal, comes from foreign countries.

It will not be denied that but for the fact that the Dependencies were attached to the F.I. and whaling thus made subject to regulation under a settled Government, whaling operations would have been open to all comers. This must unquestionably have resulted in indiscriminate

slaughter/

slaughter of whales and the waste of everything but the most remunerative part of the carcasses, ending in all probability in the extinction of the industry in the course of a few years. With the prospect of increased revenue from whaling several projects were undertaken during Governor Allardyce's term of office, notably the Town Hall, now Government Offices costing about £14,000. If the bulk of the revenue of whaling is now withdrawn, or is reduced to the proportion indicated in the printed statement above quoted, it is not too much to say that the taxpayers will regret that the whaling industry was ever started.

Seeing that the industry has been regulated and no doubt preserved by such regulation through the medium of the machinery of Government of the Falkland Islands, the contribution from the industry to the cost of central administration should, irrespective of the large profits actually derived, be on a most generous scale. And the fact that British Trade derives no benefit directly or indirectly, from the whaling operations, whereas the whole business resulting from sheepfarming is done with the United Kingdom, adds to the injustice of making the latter bear such an undue proportion of the local taxation.

So far from the contribution from whaling being on a generous scale it is not levied on a fair one even, for it is not paying out of pocket expenses incurred. The cost of stationery and telegrams is all borne by the Colony, whereas I would venture to prophesy that fully two-thirds of the telegrams despatched refer exclusively to whaling. And if all Government Officials were able to say how much of their time is occupied on whaling questions and how much on sheepfarming questions, the proportion would probably be two to one. An abstract of the telegrams

sent/

sent might afford some guide.

If the Dependencies are regarded as a separate entity, let them have their own staff - Governor and officials and all machinery of Government, but if this is not practicable they should surely pay their full proportion of the cost of administration.

The attempt to keep separate accounts and at the same time to include all in one set of estimates and in the same statement of revenue and expenditure, appears to me to result in much confusion, or, at any rate, a lack of clearness. This would be obviated by having separate estimates for the F.I. proper and the Dependencies.

Taking the items of expenditure on page 7 of the estimates seriatim:-

1. Pensions. Dependencies pensions should of course be borne by the Dependencies.
2. & 3. Governor and Colonial Secretary. The whole of this expenditure is charged to the Colony although it includes stationery, telegrams and printing, of which probably two-thirds or three-fourths appertain to whaling.
4. & 5. Treasury Customs and Audit. Under this head the only charge borne by the Dependencied is the salaries of the Officials there, but do not the Treasurer and Collector and his clerks have to deal with the revenue received from the Dependencies and incorporate with their accounts? Of course it must be so and the Dependencies should bear their share.
6. Port and Marine. It would be useful to have a statement of the total vessels boarded in Stanley by the Harbour-master and Health Officer, discriminating between whaling vessels attended to and others. A division of the cost of the Department in that proportion would be a fair one, whereas it is at present all charged to the Colony. Probably the boarding of whaling vessels entails most of the overtime incurred.

7. Legal. The West Falkland Magistrate spends a large proportion of his time in the whaling regions, and it is safe to say that his magisterial work on the West Falkland is nil.

8. & 16. Police Prisons. Military. These may be taken together as being departments which are not productive of remunerative work, but are of a preventive nature and necessary. In the event of any serious trouble in the Dependencies the services of these departments would be requisitioned (one occasion did, I believe, arise a year or two ago), and the Dependencies should bear their share in the maintenance of the forces to which they might at any time find it necessary to appeal.

9. Medical. Includes heavy cost of maintenance of Hospital, the benefits of which cannot be appraised in pounds shillings and pence. It is in the nature of insurance and might at any moment prove ^{of} incalculable value to the Dependencies or the Colony, and the former should bear its share of the cost of upkeep.

10. & 11. Education. Ecclesiastical. Are almost exclusively for the F.I. proper, but are "welfare" services which are desirable in most communities. If the Dependencies are treated as a part of the community here they would naturally make some contribution.

12. Transport. Each naturally pays for its own items.

13. Miscellaneous. Represents sundry items of necessary or useful public expenditure of which the Dependencies should pay a share.

15. 18. Savings Bank. Scientific. Are so far proper to the F.I. only, but may at some time include services to the Dependencies.

17. Post Office. Deals with all letters whether from Dependencies or Falklands. The whaling steamers which call at Stanley are dependant upon the services of the

officials/

officials. A moiety of the cost of ocean mail service should certainly be borne by the Dependencies for a regular mail service between the Home and the Colonial Government is vital for the negotiation and regulation of whaling. It is true that of late years no subsidy has been paid; we have, however, had a mail service which has been provided by the trade of the sheepfarming industry, the products of whaling contributing nothing in kind towards it, but reaping a share of the benefits.

19. Currency Note Expenses. F.I. notes are now used in the Dependencies.

22. 23. Public Works. All questions relating to public works in the Dependencies are passed through this department, and some proportion of the cost of personnel should be borne by the Dependencies.

Research Fund. Very little seems to be known generally about the research fund, and information on the following points would be of interest.

(1) What revenue has actually been credited to this "Fund" ?

There is a discrepancy in the published Minutes to the Legislative Council of Sir Douglas Young, dated 19th August, 1919 and Mr Martin, Administrator, dated 1st November, 1920.

The first Minute runs :- "To finance this fund (research fund) it^{is} proposed to increase from 1st October, 1919 the Export Duty on Whale-oil and Seal-oil from 3¹/₂d a barrel to 1/6d a barrel and to pay into the fund the increased duty at the rate of 1s/2¹/₂d on every barrel of oil exported."

The latter reads:- "This sum of £5000 representing approximately 3¹/₂d per barrel of the export duty expected from oil in 1921 might with propriety be transferred to the Revenue of the Colony proper."

Does this mean that the 3¹/₂d has been credited to the Research Fund? If so it is a distinct violation of Sir

Douglas Young's implied undertaking to the Legislative Council a year before that the 3½d would continue to be credited to the general revenue. This matter is important as concerning the sanctity of a Governor's promise to the Legislature.

(2) If this 3½d per barrel has been credited to the Fund some doubts are excusable as to what other items may not also have gone to it, and it would be interesting to know the total amount and details as to how it is made up.

(3) Where is the Fund, and who controls it ?

(4) If the bulk of the revenue from the Dependencies is retained for the Research Fund and an inadequate contribution made towards the total expenditure of the F.I. and its Dependencies, the result will be that the sheep-farming industry becomes in effect a large contributor to the Research Fund. That is to say that sheepfarming, a British industry, would be paying for research work and development of an industry conducted by aliens and contributing nothing towards the revenue or trade of the British Empire.

(Sgd.) W. A. Harding.

Stanley, Falkland Islands,

5th November, 1921.

ENCLOSURE No. III TO FALKLAND ISLANDS DESPATCH No. 75.
OF THE 22nd May, 1922.

ENCLOSURES (Memorandum).

The first three paragraphs set forth what are termed (in para. 4) "general considerations" and these may be dealt with under four headings :-

(A) The administration of the Dependencies by the Falkland Islands Government instead of by H.M. Government in London.

(B) The question of the provision of the research vessel by the Admiralty, and subsequent decision that this could not be done.

(C) The absence of any proposition that the revenue of the Colony should bear any proportion of the charge.

(D) The benefits derived by the Colony from naval burdens borne by the British taxpayer.

A. The Memorandum suggests that the general policy in regard to concessions in respect of uninhabited Islands not already attached to a settled administration is to issue licences and leases by H.M. Government, presumably in London, and it is stated in paragraph 2 that it was decided to annex the Dependencies to the Colony as the more suitable alternative. South Georgia was already attached to the Falklands and the South Orkneys, South Shetlands etc are absolutely uninhabitable during the winter months. I contend that the administration of these from the Falkland Islands was inevitable and doubt whether administration from London was ever seriously contemplated at all. But for the Falkland Islands Government the value of the South Orkneys and South Shetlands would not have been known at the Colonial Office until it was too late.

A separate administrative staff living there - one may add even in South Georgia - is not practicable, and it is certain that when the cost of buildings, mail communication, passages etc is taken into consideration the cost would have exceeded £11,000 per annum.

(I would repeat here some of the remarks in my memorandum of 5th November last, sheets 1 and 2, commencing "it will not be denied.....").

B. It is admitted that the inter-departmental Committee framed some of their recommendations upon the assumption that the Admiralty would provide the research vessel and equipment. The Admiralty cannot do so, however, from lack of funds; but the Admiralty is by no means the only body so suffering - almost the whole world is, the Falkland Islands especially on account of the price of wool having fallen so considerably before that of other commodities. The Falkland Islands therefore for two years has been faced with the problem of having to pay heavily for their wants whilst receiving considerably less in proportion for their products.

It is well known that the urgent need for economy renders it impossible for H.M. Government to assume any financial liability in respect of the proposed researches. Seeing that this need for economy applies everywhere without any exception it would appear to be a rational course to postpone these researches until all interested are able to share the burden.

It is perhaps beyond my province, to venture a suggestion; it does, however, occur to me that to prevent overlapping, the authorities concerned might cooperate with the Carnegie Institution of New York which possesses in the yacht "Carnegie" a vessel fully equipped for all kinds of scientific researches. This Institution has I believe a very large annual income, and with some additional financial assistance/

assistance might be disposed to carry out concurrently with other scientific work the researches recommended by the Inter-departmental Committee. If so, the very heavy initial expense of providing and equipping a vessel for the ad hoc purpose of whaling research would be obviated.

C. The Memorandum states correctly that "it is not proposed that the revenues of the Colony itself should bear any portion of the charges in question. Technically not, but unless the Dependencies bear their full share of the cost of the administration of the Colony, then the ultimate effect is that the Colony is being made to contribute towards the Research Fund (see concluding paragraph my memorandum of 5th November).

D. The Memorandum goes on to say "and it is unlikely that the imposition of additional expense on the Imperial Exchequer in order to free Dependencies' revenue for purely local purposes in the Falkland Islands would in any case be desired by the inhabitants of the Colony which during the War experienced in such a signal manner the benefits of the Naval burdens borne by the taxpayer in this country."

I cannot refrain from saying that instead of giving utterance to this somewhat thinly veiled aspersion upon the Falkland Islanders it would have been more becoming upon the part of the Colonial Office to have admitted and recognized the share of the burden which this small community has actually shouldered. There are four limited companies who have contributed very largely by way of income tax and Excess Profits Duty to the Imperial Exchequer during the War. To my certain knowledge the Falkland Islands Company Ltd alone paid annually for some three years or

more/

more over £70,000 per annum, and the other Companies and private owners living in England contributed in a similar proportion. Furthermore I assert confidently that the voluntary contributions of the Colonists to war relief funds and other charitable objects both for the United Kingdom and Allied countries were much larger per head than any other Colony can show.

It is quite pertinent to enquire how much the whaling Companies contributed either to the Imperial Exchequer or to war relief funds.

This Colony is the last that should be singled out for such an innuendo - it is a unit of the Empire, albeit a small one - but it has invariably responded to its obligations in a way more than proportionate to its size.

Para 4. These general considerations are really beside the mark, for the question at issue is solely, what is the fair share that the Dependencies should pay towards the general cost of administration? First of all due recognition should be accorded to the advantage which whaling has derived from the regulation of the industry by the Government of the Falkland Islands. But for that, the industry would possibly now have become extinct owing to indiscriminate slaughter and waste, and I submit that the contribution of the Dependencies should be not merely a fair one but a generous one.

As soon as whaling promised to become remunerative the Falkland Islands Government undertook various projects in view of the prospect of increased revenue, notably the Town Hall, now Government Offices, costing over £14,000, and the staffs of the different officials were necessarily

increased/

increased. Unless the whaling industry pays a very fair share of the administrative expenses it is not too much to say that the taxpayers in the colony will regret that whaling was ever started.

Without actual figures I am not in a position to deal with the precise amounts paid in the past, nor to discuss how much of the Colony's surplus balance has accrued from Dependencies. But it is obvious that if the Dependencies have not in the past contributed their fair proportion of the expenses it is not correct to claim that all this surplus balance should belong to the Dependencies.

Paras. 6,7,8,9, relating to the failure of the inhabitants of the Colony to secure any participation in the whaling industry, represent a very fair statement of the case. I would say that in view of the capital involved and the risks taken the whaling companies deserve the profits of their enterprise, but whilst no one here in any way grudges them their success it is inevitable that a feeling should exist that Colonists here should, from lack of technical knowledge and necessary capital, have been debarred from sharing in that success. But when you add to that the undoubted fact that Government expenses have been largely increased both on account of the whaling industry and on account of a legitimate prospect of some increase of revenue which led the Government to commitments which they otherwise would not have contemplated, it cannot be denied that the Falkland Islands have a strong claim that the contribution of the Dependencies to the general exchequer should be in every respect adequate. Otherwise the Falkland Islander feels that he is helping to pay towards an industry, from the fruits of which he is barred owing to circumstances outside his control, namely, the impossibility of raising the necessary capital, and finding
 technical/

technical experience locally.

Detailed figures are dealt with in the final portion of the memorandum.

Notes on the Heads of the Estimates.

I offer the following criticisms :-

Post Office. I agree that the cost of the interinsular service has no connection with the Dependencies. But I would point out that the whaling steamers which call here all utilise the service of the Post Office, and that the Dependencies should contribute towards the ocean mail service which is vital to communication between the Home Government and the Governor for the negotiation and regulation of whaling matters. It is true that of late years no subsidy has been paid; we have, however, had a mail service which has been provided solely by the trade of the sheepfarming industry. The products of whaling have contributed absolutely nothing in kind towards this, but has reaped its share of the benefits.

Port and Marine. A detailed statement showing the vessels boarded by the Harbour Master would I believe show that more than one half are whaling vessels. After deducting the cost of the Patrol boat this Head of Service should be included in the contribution without the concluding reservation.

Medical. Includes the heavy cost of the maintenance of the Hospital, the benefits of which cannot be appraised in pounds, shillings and pence. It is in the nature of insurance and might at any time prove of incalculable value to the Dependencies. I may say here that it is most

unlikely/

unlikely that the Hospital would have been constructed upon its present scale but for the prospect of some increased revenue from the whaling industry, which in case of need would naturally be entitled to the service of the Hospital and staff.

Transport. The transport of officials is equally with their salaries a charge that the Colony has to bear, and the Dependencies should consequently pay the same proportion of this as the actual salary.

Telegrams. In all probability quite one half, if not more, of the Government telegrams sent appertain to whaling matters.

Public Works. A proportion of most of these items should certainly be borne by the Dependencies - I refer especially to buildings, furniture, jetties, peat supply, Town Hall (really Government Offices). Like transport, all these items are as much a part of the cost of the various officials as their actual salaries. A study of the Estimates shows that most are provided with peat, and to this item, amounting to £540 should be added a proportion of the cost of the carts, horses and carters, which are employed for some months carting and stacking the peat.

The items which should contribute are :-

XVII	No. 4	£196
	5	335
	6	50
	10	260
XVIII	No. 2	1200
	4	50
	5	480
	9	50

	forward,	£2621

forward,	£ 2621
No. 11	540
12	150

	£3311
	=====

Seeing that all questions relating to public works in the Dependencies are passed through this Department it would be legitimate to charge for services of Colonial Engineer and his clerical staff, but this may be excluded as a set off against some of the items detailed above.

(Sgd.) W. A. Harding.

Stanley,
 Falkland Islands,
 10th April, 1922.

THE COLONIAL ENGINEER
THE FALKLAND ISLANDS
THE FALKLAND ISLANDS

It is noted that the amount of the bill for the services of the Colonial Engineer and his clerical staff for the year 1921-22 is £3311. It is suggested that this amount should be set off against some of the items detailed above.

W. A. Harding

ENCLOSURE No. IV TO FALKLAND ISLANDS DESPATCH No. 757
OF THE 22nd May, 1922.

EXAMINATION OF NOTE ON THE HEADS OF THE ESTIMATES
OF THE EXPENDITURE OF THE FALKLAND ISLANDS AND
DEPENDENCIES FOR THE YEAR 1922. (Enclosure to Despatch
No. 23 of 1st of March from the Secretary of State).

Head I. Pensions. £1,300.

A territory, newly allowed to derive the full benefits of a settled administrative service, should pay its share of a burden, common to all settled services. It benefits by furnished offices, buildings and quarters for which no charge is made in respect of the capital value. In the case of pensions payable by the Falkland Islands it is further the fact that with the exception of two pensions amounting to £11. 15s. 0d out of £1,300, all the pensions are paid to persons who retired after whaling operations commenced. It is not too much to ask that 17 years from that date the Dependencies should pay their share of the expenditure. Thirdly it should be remembered that in the event of the whaling industry failing the Colony would have to bear the sole burden of the pension list. The possibility of surplus revenues having been received to a sufficient amount to defray this last charge cannot be taken into account in this connection as they are dealt with separately.

Head II. Governor.

Head III. Colonial Secretary.

Head IV. Treasury & Customs.

All allowed. It may be remarked that the greater part of the time of these departments (i.e. more than 40 per cent) is taken up over Dependencies matters.

Head V.

Head V. Post Office. £4,044.

The provision of £1,500 is not solely for an inter-insular service and the note in the Estimates has misled the writer of the Notes. The amount charged against inter-insular service for the use of the Patrol Boat will probably be not more than £360. The balance of £1,140 was set down to meet the Colony's share on ocean freight on foreign mails.

The wireless station would not have been erected had it not been for the Dependencies. The majority of the factories have wireless installations and communication is fairly frequent. The Revenue Estimate of £1,200 was a considerable over-estimate, based on the revenue reported to have been received by the Admiralty ⁱⁿ 1919-1920, the total will probably not exceed £500, as it was decided after the Estimates were framed that the gross amount received should be placed on deposit pending clearance. An appreciable part of the £500 is in respect of inter-insular receipts to which the Dependencies have no claim.

Practically no Postal revenue is received from the Dependencies from other sources than the sale of Postage Stamps.

Telephones are necessary for ordinary Government work much of which is on dependencies business but the whole revenue is received from the local public.

The Post Office deals with a very large accumulation of mail matter for the Dependencies during the whaling season, and handles the homeward mail.

Head VI. Port and Marine.

The number of vessels entering the port for the Dependencies, all of which have to be boarded and, if
required/

required, piloted by the Port Department, is considerably greater than the number for all other places. In 1921 the numbers were 66 and 37 respectively. If it were not for Dependencies work the post of Harbour Master created in 1910 would be abolished - therefore the Dependencies should bear more than 40 per cent of this charge.

Head VII. Legal.

Allowed.

Head VIII. Police.

Head IX. Military.

Allowed.

Head X. Medical.

The Hospital when built was regarded as part of the services rendered to the Dependencies. The Medical Department has great reserve value for the men occupied in the dangerous service of whaling. Men from the whalers are treated every year in the Hospital and they also receive the medical services of the Port Health Officer. It is quite certain that no man whose capital is invested in the whaling industry would object to the charge on it of £1,200 (viz. 40% of £3,000).

Head XII. Scientific.

Allowed. By far the greater part of the services of the Government Naturalist are in respect of Dependencies work.

Head XV. Miscellaneous.

Exception is taken to the item for transport £1,000.

The/

The Dependencies must bear their full share of the cost of passages to and from the United Kingdom of officers engaged in the Central Administration. The £300 on the Dependencies estimate is for purely local transport including passages to and from the Falklands of officers stationed in the Dependencies.

The £300 should remain as it is in respect of telegrams sent by the Government to the Secretary of State and the Crown Agents on Dependencies affairs. The £100 contribution to the Imperial Institute should be omitted but the other items are a set off against this.

Heads XVII and XVIII. Public Works Department and Recurrent.

There are very few items on these heads which have no connection with the Dependencies. The Public Offices and quarters must be kept up and supplied with fuel. Streets must be kept up and street lamps lighted in Stanley the Administrative Headquarters of the Dependencies.

MEMORANDUM.

It is suggested in the despatch from the Secretary of State that the cost of the Central Administration of the Dependencies is excessive because the cost of the office of the High Commission in Fiji is only about £4,500 per annum and "the Dependencies should certainly not involve any greater expense".

2. Some years ago a project was under consideration for transferring the office of the High Commission from Fiji to Sydney. There was much to be said for the proposal but it was not a matter of local interest.

3. In the jurisdiction of the High Commissioner are included a Colony and a Protectorate which frame their own estimates and have their own administrative services at a cost of about £30,000 a year each.

4. These services perform many of the functions carried out by the Falkland Islands Government for the Dependencies. The measure of control exercised by the High Commissioner is in many respects analogous to the control exercised by the Secretary of State over a Crown Colony.

5. If the central administration of the Western Pacific provided in Fiji, Treasury, Police, Postal, Marine, Medical, Scientific and Public Works services to the area or a part of the population under its charge it is not too much to say that £30,000 would be insufficient to cover the expense, after providing for purely local services in the Western Pacific Islands.

6. If on the other hand an office was established in the Falkland Islands or elsewhere for the control of the Dependencies on the lines of the High Commissioners Office £1,500 a year would probably meet all charges. This would be about the same as it would cost the High Commission to

administer/

administer the Solomon Islands Protectorate.

7. If a comparison for the cost of the Administration of the Dependencies is sought it can be found in the cost to the Gambia of administering its Protectorate. An estimate might be obtained from the Gambia Government. A similar increase in establishment and in expenditure resulted from the bringing of the Protectorate under the Government of the Colony. The staff appointed for local service in the Protectorate numbered until a year ago the same as in the Dependencies. No Public Works were carried out there. The trade, which as in the Dependencies, lasts for a short period in the year only, was mainly in the hands of foreigners with trading factories. The revenue was derived from a small export duty on the products of the protectorate. This duty was trebled in 1920 to provide for development in the Colony and Protectorate. It had in the meanwhile sufficed to bring the surplus balances of the Colony from a negligible amount to a sum approximately equivalent to the surplus balances of the Falkland Islands.

8. A scheme of re-organization by which the Administration of the Dependencies would be reduced to an office in Stanley would take some time to bring into effect. The Colony could not afford to pay the present scale of salaries to the higher officials and a certain number of posts such as those of Harbour Master, Government Naturalist and Forest Officer would require to be abolished. There would remain the liabilities incurred by the assumption that the revenue of the joint Administration was that of the territories under its control. This could however no doubt be met from the surpluses which have accrued from the revenue of the Dependencies.

9. The excess of Dependencies Revenue over actual

ordinary/

ordinary expenditure is approximately as shewn in the enclosure to the Secretary of State's despatch. The total ordinary expenditure of the Falkland Islands Government between 1907 and 1919, in excess of the revenue obtained, was £24,603. No allowance is made in this calculation for the cost of Central Administration of the Dependencies during those years. If Public Works Extraordinary, a number of which were, however, for the joint benefit of the Colony and Dependencies, are included the total excess of Expenditure was £55,947.



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FALKLAND ISLANDS.

No. 101

DOWNING STREET,

29 August, 1922.

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I have the honour to acknowledge the receipt of our despatch No. 75 of the 22nd May, regarding the financial relations of the Colony of the Falkland Islands and its Dependencies.

2. I note that in the first enclosure to your despatch it is suggested that the divergence of view in this matter may be due to a misapprehension of the mutual relations of the Colony and its Dependencies and to an assumption which you regard as fallacious, that the Dependencies can be regarded as a separate entity with, accident, administrative headquarters at Port Stanley.

3. I have given full consideration to your argument on these points; but while I should be unable to accept without qualification the assumption to which you refer, I am unable to admit that there has been any misapprehension of the facts. As regards the constitutional as well as the financial principles involved, the views expressed in the memorandum which formed the first enclosure to my despatch No. 23 of the 1st May are in accordance with those held by my predecessors, and are based on facts on record in the Colonial Office.

4. I do not think that it would serve any useful purpose

GOVERNOR

J. MIDDLETON, ESQ., C.M.G.,

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purpose to discuss these facts in detail, but I would point out

(a) that the terms in the Letters Patent of the 21st July, 1908, clearly show that it was not contemplated that the Dependencies to which they refer should form an integral portion of the Colony, and

(b) that although the Legislative Council of the Colony was given power to legislate for the Dependencies, the Ordinances of the Colony do not apply to the Dependencies unless expressly so applied.

5. As regards the financial question, it is true that when, originally, the sole revenue from the Dependencies was derived from leases and licences, such receipts were regarded after meeting the cost of the control of the Whaling Industry as a return for providing the machinery of Government; but there is ample corroboration of the view that when later on additional taxation was imposed, it was intended to be used for Dependencies purposes. Thus, in 1911, the Secretary of State deliberately refrained from approving the proposal to impose such additional taxation until he was in receipt, inter alia, of a statement showing how far this revenue could be expended on measures of direct benefit to the Whaling Industry. Again, in 1913, the Secretary of State pointed out that the taxation in question was imposed with the intention, publicly avowed, of spending the proceeds upon the Dependencies, and that it could not be regarded as satisfactory that so large a proportion of these proceeds should merely serve to swell the revenue of the Colony.

6. It is true that many of the immediate proposals for expenditure in the Dependencies proved impracticable, and that subsequently the outbreak of war prevented consideration of further schemes; but with the emergence of objects to which the revenue of the Dependencies could properly and usefully be ^{de}voted, there was no justification for continuing to acquiesce in a system to which the Secretary of State took exception in 1913. I am, therefore, unable to recede from the attitude which I have taken up with regard to the principles which should govern the financial relationships of the Colony and the Dependencies; and I adhere generally to the decisions conveyed to you in my despatch of the 1st of May. In these circumstances the only material point remaining for decision is the amount to be fixed as a contribution to be paid by the Dependencies as their share of the cost of central administration.

7. In my despatch it was suggested that on the anticipated results of 1922, a sum of about £4,000 would be a generous estimate of the charge to be borne by the Dependencies; but I purposely refrained from giving any definite decision on this point pending the receipt of your views on the note (Enclosure II) which accompanied ^{my} despatch.

8. In view of your expressions of regret that the criticisms in that note should have been made, I should explain that some analysis of the financial position was necessary in order to enable me to consider your proposals. As already stated, I desired, before coming to any final decision

decision, to afford you an opportunity of further consideration, and the most convenient course appeared to be to forward the note to you for your observations. I regret that you should have regarded the note as reflecting on you in any way. No such reflection was, of course, intended; and I trust that you will accept this explanation as an assurance that there has not, at any time, been a suggestion that you have given me misleading advice.

9. It is common ground that the Dependencies should bear a proper and adequate share of the cost of the Central Administration, although the actual amount must necessarily be to some extent arbitrary. I have carefully considered the criticisms of the calculations in the note enclosed in my despatch of the 1st of May, with every desire to treat the Colony fairly in the matter; and I am of opinion that, in the case of some of the items questioned, a case has been made out for charging the Dependencies with a proportion of the expenditure under those items. With other criticisms I am, however, unable to agree, and I could not possibly accept any theory of computation involving such an extreme view as that in the fourth enclosure to your despatch, that the Dependencies should properly be charged with a proportion of the cost of the streets and lighting of Port Stanley.

10. Having given full consideration to all the circumstances, including the services rendered in earlier years to the Dependencies by the Governors and Administration of the Colony, which I have certainly no desire to minimise, I have come to the conclusion that the Dependencies' share

of the Central cost of Administration should be fixed at the sum of 25,000 a year for a period of five years from the 1st January, 1922, at the end of which time the matter should be reconsidered. I also think that it would be convenient to adopt the suggestion made in the second enclosure to your despatch, that the estimates of the Colony and the Dependencies should be separated in future. In that case the contribution of the Dependencies should of course be shown as Revenue in the Colony estimates and as Expenditure in the estimates of the Dependencies; but there is no reason why the two sets of estimates should not continue to be printed in the same volume.

11. It is a matter of much regret to me that I have been unable to accept your strong recommendation that the Colony and the Dependencies should be regarded as a single unit for all purposes; but in making the proposals in paragraphs 8 and 9 in my despatch of the 1st of May, I had already endeavoured, as you indeed recognise, to assist you in your desire, with which I fully sympathise, to improve local conditions and to pursue a policy of development. In this connection I would, however, point out in the Land Sales Fund and the Surplus Balances already *accrued* the Colony has accumulated funds more than sufficient for all feasible schemes of development, and I need hardly assure you that any schemes that you may feel able to put forward will receive full and sympathetic consideration.

12. While it is not practicable to discuss in detail the many controversial points arising out of your despatch

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and its enclosures, there are some matters on which it would seem desirable for me to comment briefly.

13. You have furnished me with memoranda from Mr. W.A. Harding as showing the view taken by an experienced local man of business; but it seems improbable that his views would, in general, be shared by the British business interests in the Whaling Industry, which unlike the Sheep-farming Industry, are, as a matter of fact, not represented either on the Executive Council of the Dependencies or on the Legislative Council of the Colony.

14. In view of the substantial British interests concerned, not only in the Whaling Industry but in its products, I entirely dissent from the view that British trade derives no benefit directly or indirectly from the industry, or that the industry contributes nothing to the revenue and trade of the British Empire. Also, the statement that it is conducted by aliens is only partially true, - this last point was, however, dealt with fully in the enclosures to my earlier despatch.

15. I need hardly say that the remark to which exception is taken in paragraph (d) of enclosure III of your despatch, involved no reflection on the people of the Colony, whose loyalty and patriotism have never been open to question but the Falkland Islands is by no means the only Colony on which it has been necessary to impress the need for economy by His Majesty's Government, in view of the burdens imposed on the Mother Country during the war, and I felt it desirable to deal with this aspect of the matter fully and frankly, in view of the unfortunate impression reported to exist

exist locally that the interests and claims of the Colony had received insufficient consideration. I trust that any such impressions will now be finally removed.

16. As regards the concluding paragraph of Enclosure II to your despatch, I would point out that full information as to the financial position of the Research Fund is available locally. Although it has not yet been possible to give effect to the recommendations of the Committee which reported in August 1919, the matter has been actively pursued, and I hope that it will be possible before long to report some definite and substantial progress.

I have the honour to be,

Sir,

Your most obedient,
humble servant,

(Signed) WINSTON S. CHURCHILL