

GOVERNMENT OF INDIA

MINISTRY OF STATES



सत्यमेव जयते

REPORT
OF THE
INDIAN STATES FINANCES
ENQUIRY COMMITTEE

1948-49

PART II

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PART II

CHAPTER I

INTRODUCTORY

In Part I of our Report we explained the scope of 'federal' financial integration of States*, conceived as a necessary consequence of the basic conception underlying the new constitution of the Union of India,—that of Provinces and States as equal partners. For facility of reference, we briefly recapitulate below the main principles to be kept in view in considering the integration schemes for individual States (Chapters IV *et seq* of this Part of our Report). Further, certain matters to which we made only brief references in Part I of our Report are now elaborated; and others, which, being matters more of detail than of basic issues, were not previously touched upon by us, are also dealt with here.

Scope of Part II of Report.

2. Federal Financial Integration must be based upon complete equality between Provinces and States in the following respects :—

Basic conceptions; and main principles of federal financial integration.

- (1) The Central Government should perform the same functions and exercise the same powers in States as in Provinces;
- (2) The Central Government should function through its own executive organisations in States as in Provinces;
- (3) There should be uniformity and equality in the basis of contributions to Central resources from Provinces and States;
- (4) There should be equality of treatment as between Provinces and States in the matter of common services rendered by the Central Government, and as regards the sharing of divisible federal taxes, grants-in-aid, "subsidies" and all other forms of financial and technical assistance.

Consequently :—

- (a) All present and future revenues from "federal" sources and all expenditure on functions and services of a "federal" character, together with all Assets and Liabilities connected therewith, must be transferred from the States to the Centre; so, too, the administration of all these Departments. And all internal trade barriers must be abolished.

*In this as in Part I of our report, the word "State" should be understood as including "Unions of States" also, except where the context otherwise requires.

(b) Subject to a measure of gradualness in certain directions as regards the full effect of its impact, federal financial integration should be complete in all respects from the outset.

(c) The principle of gradualness need be invoked only in respect of the following matters :—

(i) the abolition of internal customs duties in one or two States may be spread over three to five years ; in all other States these duties should be abolished as soon as financial integration becomes effective ;

(ii) the rates of Income-tax in States should be raised to the level of Indian rates in two or three stages ;

(iii) the *administrative* transfer of certain " federal " functions and services to the Centre may be effected gradually ;

(iv) the transfer of the net " burden " of financial integration to the States (or the Centre) must be gradual ; it should take the form of appropriate financial adjustments between the Centre and the States, extending over such transitional period,—ten years, or fifteen,—as may be provided in Article 258 of the new Constitution ; and these adjustments should be so devised as to cause no sudden dislocation of the finances of States or of Centre at the commencement of financial or during (or at close of) the transition period.

(d) Apart from the transitional financial adjustments referred to above, no " compensation " as such would be payable to the States for any assets or revenues passing to the Centre upon federal financial integration ; but there would, of course, be an equitable apportionment of the liabilities of the States between them and the Centre.

Date of federal financial integration.

3. The date of federal financial integration should be the 1st April 1950, except in regard to Travancore and Cochin where it would be advantageous to the States if it were made effective from the 17th August 1949—the date of commencement of their next financial year.

(The expression " prescribed date " wherever it occurs in this Report denotes the date from which federal financial integration takes effect for the particular State under reference).

"Basic Period" for Financial Adjustments.

4. It is necessary to adopt a " basic period " extending over one or more financial years for each State with reference to which the net revenue result of the integration of its federal finances can be worked out ; all financial adjustments on revenue account during the

transitional period would then be related to the actual (or average of the actual) figures of the period so determined.

On this point, in explaining the basis upon which we have drawn up integration schemes for individual States, we stated in Part I of our Report (Paragraph 32) as follows :—

“ the initial over-all *net* loss of revenue to the State resulting from financial integration is calculated. This represents the loss from the abolition of internal customs duties, together with the “ federal ” revenues which would accrue to the Centre, *minus* the “ federal ” expenditure to be borne by the Centre, as a result of the integration.

[For revenues, averages of the three completed financial years of the State—in the case of *Unions*, actuals of one completed year only—immediately preceding integration are taken ; and for expenditure, the figures of the last completed year.]”

The choice of the financial years referred to in the above passage, by reference to which the net revenue result of financial integration is computed for each State, requires some explanation. We consider that this ‘ basic period ’ should be fixed as follows :—

(a) In regard to Revenue, the three completed financial years of the State immediately preceding the prescribed date.

(In the case of Unions of States, however, it is obviously impossible to adopt a three-year period ; accordingly, only the last complete financial year before the prescribed date can be taken as the “ basic period ”, except in regard to Railway revenue for which a three year period may be taken, as audited figures are likely to be available for all those years).

(b) In regard to expenditure, only the last completed financial year of the State immediately preceding financial integration.

Individual items of revenue are liable to fluctuate in either direction ; and a three-year average for revenues, wherever reliable accounts are available, is thus fully justified.

In the case of expenditure, however, having regard to the trend in recent years, the level is hardly likely to go below that reached in the latest year ; we have accordingly adopted that year as the basis for our purposes.

The fixation of the basic period in the case of Rajasthan Union presents certain special difficulties ; these are dealt with in the separate Chapter for that Union (Chapter VIII).

**Plan of Part II
of Report.**

5. Certain administrative, legal and other matters of general importance will arise in most States in connection with the taking over by the Centre of all "federal" revenues and expenditure, and of the administration of the Departments concerned therewith. These—with the exception of those relating to Income-tax—are dealt with in Chapter II; matters connected with Income-tax have been dealt with in the Annexure appended to Part I of our Report.

The basic principles governing the allocation and apportionment of assets and liabilities between the States and the Centre, as set out in Part I of our Report (Paragraph 25) are further elaborated in Chapter III by reference to a more detailed classification of assets and liabilities into appropriate categories.

Then follow, in separate Chapters (IV to IX), the integration schemes for individual States. Each of these (hereinafter referred to as "Scheme-Reports") is in two Sections—A and B. The plan of these Sections is explained below.

**Plan of "Scheme-
Reports"; Section
A —**

6. Section A of each Scheme-Report is concerned with:—

- (a) computing the net revenue effect upon the State, of federal financial integration as a result of—
 - (i) the transfer of "federal" revenues and expenditure to the Centre;
 - (ii) the termination of all "immunities";
 - (iii) the abolition of internal customs duties;
- (b) evolving a scheme of transitional financial (revenue) adjustments between the Centre and the State, consistent with the main principles (summarised in paragraph 2 above) and in accordance with the general plan recommended in Part I of our Report (paragraph 32);
- (c) dealing with certain specific matters relating to "federal" revenues or expenditure, "federal" Service Departments, internal customs, etc. which arise only in the particular State with which the Scheme-Report is concerned.

For purposes of (a) above, Section A of each Scheme-Report is accompanied by two computational "Statements"—described as Statements I and II. The first shows the [revenues (or the revenue value of certain "immunities") which will be lost to the State as a result of federal financial integration; it thus includes (i) "federal" revenues which will pass to the Centre, (ii) the value of certain "immunities" which will be extinguished, thereby resulting in a corresponding "gain" to the Centre, and (iii) revenues which will be lost

to the State without any corresponding gain to the Centre, e.g., revenue from internal customs duties. The second statement shows the expenditure which will be saved to the State as a result of federal financial integration ; it thus includes (i) the cost of collection of federal revenues, (ii) the expenditure hitherto incurred by the State on " federal " Service Departments, and (iii) expenditure connected with departments (such as that of " internal " customs) to be abolished.

The figures embodied in these two Statements are purely illustrative, and are subject to the following limitations :—

- (1) even from the purely computational point of view, many of the figures in these Statements will require further scrutiny and correction in the light of the remarks embodied in the " Notes " appended to them ;
- (2) furthermore, when decisions are taken concerning some of the matters referred to in Part I of our Report and in Chapters II and III of this Part, or on some of the specific issues raised or recommendations made in particular Scheme-Reports, further modifications of these figures may be necessary ;
- (3) finally—and most importantly the Scheme-Reports for the States, are based upon the " actuals " of only that (latest) financial year for which figures were readily available, and those for Unions are based only upon the budget (or revised) estimates of their latest financial year.

Accordingly, when these Statements are prepared afresh in final form for each State, the figures to be inserted will be the actuals of the " basic " period recommended in paragraph 4 above, computed in accordance with the principles followed in preparing the present Statements, having due regard to what is stated in sub-para. (1) and (2) above.

Nevertheless, the figures upon which we have worked in preparing the integration schemes for individual States, are, we believe, of a sufficient order of accuracy to constitute a basis for drawing valid conclusions both as regards the magnitude of the *net* revenue-result of federal financial integration in each case and the nature of the corresponding transitional financial adjustments required to avoid sudden dislocation of the States' financial structure.

Though conforming to a general plan, the details of each scheme of transitional (revenue) adjustments between the Centre and the State must necessarily vary from State to State, if fundamental differences in basic facts are not to be ignored.

And Section B. 7. *Section B* of each Scheme-Report contains a detailed working of the allocation and apportionment of assets and liabilities of the State, consequent upon federal financial integration, in accordance with the detailed exposition of principles set out in Chapter III of this Part.

These workings are also merely illustrative, based as they are upon the figures (actual or estimated) at dates different from the prescribed date; they will, therefore, have to be computed afresh on the lines there indicated.

Legal Basis,
"Agreements"
Under Article
258(1).

8. The legal basis for these schemes will be as "Agreements" entered into between the Centre and the States under Article 258 (1) of the Draft Constitution. It is important that these Agreements should embody all the principal points concerning which we have made recommendations, either in the Scheme-Reports themselves or in Part I of our Report read with Chapters II and III of this Part.

CHAPTER II

SPECIFIC MATTERS CONCERNING "FEDERAL" REVENUES AND "FEDERAL" SERVICE DEPARTMENTS

9. With effect from the prescribed date, the Centre will take over all "federal" sources of Revenue and all "federal" items of expenditure in States, together with the administration of the Departments concerned. The Centre must also take over all current outstandings (including pending assessments, refunds and arrears), liabilities, claims, etc., and all productive and unproductive Capital Assets connected with these Departments. (The question of consequential financial adjustments, if any, required on capital account between the Centre and the States is dealt with in Chapter III below).

"Federal" Revenues and Expenditure, and the administration of federal departments to go to the Centre.

Even if, for administrative or other reasons, the actual taking over of some of the Service Departments is postponed for some time, the *financial* responsibility for those Departments and, therefore, *financial* control over them, must be assumed by the Centre as from the prescribed date.

10. Matters of general importance arising in most States in connection with the taking over by the Centre of "federal" subjects,—with the exception of those relating to taxes on income—are dealt with below; problems connected with taxes on income have been dealt with in the Annexure appended to Part I of our Report. Matters affecting particular States only are referred to in the respective Scheme-Reports.

Scope of this Chapter.

11. Our recommendations concerning the general issues which will arise in connection with all "federal" subjects in most States are as follows:—

Matters affecting all "federal" subjects.

- (1) The permanent staff wholly (or substantially) engaged on work connected with "federal," subjects in States on the prescribed date should be taken over by the Centre in appropriate grades and upon terms not less advantageous than in the service of the States. Temporary staff so engaged should also be similarly absorbed so far as possible, having due regard to their suitability. The States attach considerable importance to this point, and would be glad to release all such staff consistent, of course, with their own requirements in those departments (such as Excise) where the subjects dealt with are both "federal" and "provincial".

Staff:

One safeguard is however necessary in order to avoid any embarrassment to the Centre in absorbing the State staffs in the manner suggested. Simultaneously with the publication of this Report, the State Governments should be requested to issue orders to the effect that no confirmations, promotions or new appointments (permanent or temporary) should ordinarily be made in any department dealing wholly or substantially with "federal" subjects; and that any promotions or new appointments which may be absolutely essential and unavoidable should be expressly on strictly temporary terms and subject to reversal, cancellation or termination after the prescribed date. Also, no revision of pay scales in "federal" departments, whether generally or in particular cases, should be undertaken, except in so far as it may form part of a general revision of pay scales in the State Services as a whole.

States' rights to "federal" revenues to cease.

(2) With effect from the prescribed date, all "rights and immunities" enjoyed or claimed by the States, whether expressly or by usage, and whether relating to "federal" revenues and taxes generally (present or future), or to specific matters such as Railways, Customs, Posts and Telegraphs, Opium, Salt, etc. will terminate and must be extinguished. Thereafter, their constitutional position in respect of these matters should be the same as that of Provinces under the new Constitution of India.

All existing arrangements with individual States for pooling, sharing, division or apportionment of "federal" revenues, taxes and receipts—*e.g.*; Customs, Central Excises, Railway revenues of "worked lines", interest on Railway "loans" (whether with or without a share of profits), Salt Duty "compensations", Opium "royalties", Telegraph receipts—and all existing forms of *ad hoc* payments and subsidies in respect of "federal" matters should terminate on the prescribed date.

There will then remain outstanding, at the prescribed date, the division and apportionment between the Centre and the States (under existing arrangements) of "federal" revenues, taxes and receipts—such as those referred to above—collected up to that date. The amounts involved will, in the aggregate, be considerable. These "outstandings" should be dealt with in accordance with the proposals made in paragraph 21 below.

Application of Indian rates of taxes, duties, fees, charges, etc.

(3) Except as regards Income-tax (*vide* Annexure to Part I of our Report), we see no difficulty in the way of the Centre's imposing its full range of "federal" taxes, excises, duties, fees, charges, Post and Telegraph rates etc., in States, save where the administration of any particular "federal" Service (*e.g.*, the "Anchal" post in the Travancore-Cochin Union) is continued through the agency of the States.

(4) In most States, the Rulers, subordinate chiefs drawing "political pensions", certain other individuals and corporations, and most State-operated commercial or industrial undertakings enjoy various taxation immunities and privileges—of which the most important relate to taxes on income. Our recommendations as regards the future treatment of the privileges and immunities connected with taxes on income are contained in the Annexure appended to Part I of our Report; all other taxation privileges should be dealt with along similar lines. The broad principles which, we recommend, should be observed in this connection, are as follows:—

"Immunities from 'federal' taxation."

- (i) The special privileges and immunities of the Rulers in the matter of federal taxation are largely of a political nature and should be dealt with on that basis; their financial value is comparatively small.
- (ii) Any special financial privileges and immunities (affecting "federal" revenues) conferred by the States upon other individuals and corporations should ordinarily be continued on the same terms by the Centre, subject to a maximum period of ten (or fifteen) years, and subject also to limiting in other ways any such concessions as may be extravagant or against the public interest. It goes without saying that any general concessions which the Centre itself may accord to persons and corporations in the Provinces should of course be available also on similar terms to persons and corporations in States, if they should be more favourable than those (if any) already accorded by the States themselves.
- (iii) The special privileges and immunities of existing State-operated undertakings should be continued if possible;—failing which, they should be terminated upon terms to be mutually agreed.

(5) Apart from the *Constitutional* requirements in connection with the integration of federal finances in States—*vide* paragraphs 37 and 40 of Part I of our Report—certain important issues of a legal nature will arise in connection with the actual taking over of "federal" subjects in the States by the Centre.

Legal requirements for transfer of "federal" subjects.

This is a difficult subject upon which we are not qualified to offer competent advice. We have endeavoured, however, to indicate below the main features of what we conceive will be required in order to establish "continuity of proceedings" in regard to all "federal" subjects—whether relating to revenues, expenditure or Service Departments—at the point of their transition (from the States to the Centre; the special technical requirements of the departments concerned

with taxes on income are set out separately in the Annexure appended to Part I of our Report.

- (a) Almost every "federal" subject is dealt with in the States, as in the rest of India, under powers conferred by appropriate legislation consisting of relevant Codes, Acts, Ordinances and Statutory Rules and Regulations. Subject to the limitations indicated below,—which are designed to secure legal "continuity" of pending proceedings and "finality and validity" of completed proceedings under the pre-existing State legislation—we think the whole body of State legislation relating to "federal" subjects should be repealed and the corresponding body of Central legislation extended *proprio vigore* to the States, with effect from the prescribed date, or as and when the administration of particular "federal" subjects is assumed by the Centre.
- (b) For the above purpose, as well as for future "federal" administration in States, it may be necessary specifically to extend not merely the legislative, but also the executive and administrative competence of the Centre, its officers and "authorities", and the judicial authority of its Courts to the territories of the States.
- (c) Such State Courts (except Courts of *final* appeal from orders of the State High Courts) as may in fact correspond to particular grades and classes of "British Indian" Courts (Civil and Criminal) may have to be statutorily "recognised" as "corresponding judicial authorities" for purpose of dealing with cases arising in the States under the "federal" laws of the Union of India, and the Supreme Court in India will have to be made the Court of final appeal from decisions of the State High Courts to the same extent as in the case of Provincial High Courts.
- (d) Those sections of the various Indian Acts and Ordinances which set out their territorial "extent of application" will require amending so as to include State territories with effect from the prescribed date.
- (e) It will be necessary to provide that all matters and proceedings pending under, or arising out of, the pre-existing State Acts shall be disposed of under *those* Acts, by, so far as may be, the "corresponding authorities", (nominated by the Chief Executive Authority), under the corresponding Indian Acts.

12. We now deal with certain matters arising in connection with particular "federal" subjects, other than taxes on income. Specific matter affecting particular "federal" subjects.

(1) **Customs.**—The administration of customs at all ports and land-customs frontiers, where it is not already centrally administered, should be taken over by the Centre on the prescribed date.

(2) **Opium.**—Opium is cultivated in some of the Covenantee States in Rajasthan and Madhya Bharat. The cultivation and manufacture of opium being a federal subject, the Centre should take it over from the prescribed date, whereafter the issue of opium for sale in these States will be done in the same way and on the same terms as in Provinces.

The opium revenue of these States is derived from—

- (i) internal consumption in the States ;
- (ii) export to other States in India ; and
- (iii) sale to the Government of India.

So much of the total opium-revenue as is attributable to cultivation and manufacture must be treated as "federal"; as this is not separately accounted for, it has been computed (for the purpose of our Scheme-Reports) on the total production at Rs. 3/- per seer which is the standard margin of "Royalty" or profit allowed by the Government of India on its purchases of opium from the States.

The establishments, if any, exclusively engaged in the States on the cultivation and manufacture of opium must be transferred to the Government of India and their cost to the States in the "basic period" treated, for computational purposes, as expenditure which will be saved to the States on federal financial integration.

(3) **Central Excise Duties.**—(i) In some of the covenantee States of the Rajasthan Union a system of "Royalties" is in force in connection with certain industrial enterprises; similar arrangements may exist in other States also. These should be dealt with as follows :

- (a) "Royalties" on the exploitation of minerals,—whether based on the tonnage of ore lifted or on the tonnage of ore dispatched or consumed for manufacturing processes, —must be regarded as "provincial" revenue which the State is entitled to retain.
- (b) "Royalties" based on the *value* of sales—whether of minerals, ores or manufactured products—are similarly "provincial" revenues (of the nature of Sales Tax) which the State is entitled to retain either in that form or as part of the general Sales Tax.

(c) "Royalties" based on production (other than mining of ores), or on the *quantity* of production sold (other than ores or minerals sold as such), must however be regarded as an Excise Duty of a "federal" nature. Such duties cannot be imposed by, or for the benefit of the States after the prescribed date; they must therefore be terminated with effect from that date, and replaced by such Central Excise Duties (if any) as may be levied by the Centre throughout India on such articles.

(ii) Reference may be made here to the difficulty experienced by us in computing the "Central Excise" revenue of the States in cases where, under existing arrangements, the collections are pooled with those of the Government of India and shared according to an agreed formula. The appropriate shares of the States have not yet been determined for the last three years in respect of certain commodities and the matter is stated to be still under consideration. We suggest that the Government of India should take special steps to expedite a final settlement in these cases. The computations in connection with the federal financial integration scheme cannot be completed until the exact amounts to be allocated to the different States as their share of "Central Excise" are settled in respect of the "basic period" adopted in our calculations.

(iii) Certain States are deriving revenue in the form of miscellaneous licence fees in connection with the sale of tobacco. We have treated such receipts as 'provincial', and have accordingly left them out of account in our computations of revenue that would be lost on federal financial integration.

(4) **Taxes (other than Stamp Duties) upon transactions in Stock Exchanges and "Futures" markets.**—In Indore and Gwalior States transactions in Stock Exchanges and in certain 'futures' markets are subjected to tax, other than stamp duties, in accordance with the pre-existing law of the States. Since this is a "federal" tax under the Draft constitution, its imposition must terminate with effect from the date of federal financial integration, all pending cases being disposed of in accordance with the pre-existing law. It will perhaps be best to entrust this to the Madhya Bharat Government itself as agents of the Central Government.

In Saurashtra also, some revenue is derived by way of taxation of transactions in gold, not of the nature of sales tax or turnover tax, but of the nature of "taxes other than stamp duties" on gold contracts.

We are not aware of any other States which similarly collect taxes in the 'federal' list other than those at present levied by the Central Government itself. If any such taxes exist, they must be discontinued upon federal financial integration and pending cases disposed of under the pre-existing State law.

(5) **Salt.**—There is no salt duty in any of the States covered by our Report ; and any expenditure which may be incurred in connection with the arrangements for procurement, manufacture or distribution of salt has been ignored in our computations.

In most cases, the payments formerly made by the Government of India to various States in Northern India in connection with salt-manufacture and distribution have been continued under the Standstill agreements ; it is understood, however that the original agreements in this respect are at present under review by the Government of India in view of the abolition of the salt duty within "British India".

The various 'Salt' payments and concessions made by the Government of India to the States may be classified under the following heads :—

- (a) Payments in lieu of duty on salt required for consumption in the States ; supply or salt duty-free of at concessional rates. (There are also some small payments of compensation on account of loss of salt revenue to Chiefs and Jagirdars these payments will also fall under this category).
- (b) Compensation for prohibition of salt manufacture within the States by any agency other than the Government of India, *i.e.*, for surrender of rights of manufacture.
- (c) Payments for services rendered (prevention of illicit manufacture, import and export etc.).
- (d) Payments relating to lease amounts and Royalty in respect of salt sources in Rajasthan.

Item (a) represents compensation for refraining from levying salt duty and is bound to disappear in any case, irrespective of federal financial integration, as this is a "federal" subject and the Centre will not itself levy any salt duty ; on the other hand, it is possible to regard such compensation as revenue that will be 'lost' to the State somewhat in the same way as "internal customs" inasmuch as the State will be precluded from levying any duty on salt to make up for the loss. The amount involved has therefore been taken into account in our computation of the effects of federal financial integration in such cases.

Payments falling in categories (b), (c) and (d) have been left out of account in our integration calculations, as any revision of such

payments will be matters for separate negotiation and settlement between the Government of India and the States, in the light of the policy of the Government of India in regard to the manufacture and distribution of salt by Union and non-Union agencies.

(6) **Railways.**—In cases where Railways owned by Indian States are worked as part of the Indian State Railway system, no *administrative* problem will arise in connection with federal financial integration. In all other cases the Central Government must take over the entire railway system including any “worked” lines together with all the staff, assets, liabilities and Funds. The balances under all the the Railway Funds and connected Deposit and Suspense heads should be computed as on the prescribed date and brought on to the books of the Government of India. (Railway Board). The treatment of these balances under the scheme of allocation and apportionment of Assets and Liabilities is explained in Chapter III.

(7) **States Postal Systems : Telecommunication Departments in States**
These Departments should be taken over on the same lines as recommended above in the case of Railways. In the case of Travancore and Cochin, however, we have recommended a sympathetic examination of the State Governments’ request that their “Anchal” (postal) service should be continued under agency arrangements with them even after federal financial integration. We have dealt with the question in some detail in our Second Interim Report.

In regard to agreements with private companies which operate telephone services in some States, the rights and obligations of the respective State Governments under the agreements must be transferred to the Government of India.

(8) **Postal Immunities.**—Certain States have been enjoying postal “immunities” or concessions in the form of either a free supply of service postage stamps up to a prescribed annual limit and/or the free conveyance of the official correspondence of the State within State limits. These *will cease* from the prescribed date ; for that reason, the annual value of these concessions has been taken into account in our Scheme-Reports as “revenue” which will be lost to the State.

(9) **Currency.**—Apart from Hyderabad, the only State which has a substantial circulation of local currency is Travancore, concerning which we have already reported in detail in our Second Interim Report. Briefly, our proposals are that the State Mint should be taken over by the Centre, together with all the assets, outstandings and liabilities connected therewith (including stocks on hand in the form of

bullion, base metal and unissued coins) ; further issue of local currency should be discontinued ; and Indian Rupees and subsidiary coins made legal tender, at a fixed rate of exchange with the local Currency, without immediately demonetising the State coins now in circulation. When, as a result of free convertibility into Indian coins, a substantial part of the local coinage has been withdrawn, the question of demonetising it may be taken up in consultation with the Reserve Bank.

The loss involved by the gradual withdrawal of the local coinage and its ultimate demonetisation should be borne by the Government of India as a " capital " loss of a " federal " character, resulting from federal financial integration.

Jaipur and Jodhpur are minting gold mohurs ; but these are not legal tender coins. In certain other States there is some circulation of local coins of small denomination but the volume in circulation is not substantial and fresh minting has been discontinued. In the circumstances, no special action is necessary in such cases ; the existing coins in circulation may be gradually withdrawn and ultimately demonetised.

(10) **Defence.**—It has been explained in paragraph 23 of Part 1 of our Report that the Military expenditure to be taken over by the Central Government upon integration of federal finances would be that relating to regular or I.S.F. Units only. This implies that the State Governments may deal with any irregulars or non-I.S.F. units in such manner as they think fit, whether in the matter of reorganisation or reduction in size of these units and/or their replacement in whole or in part by such non-military forces as the State Governments may think proper.

(11) **Civil Aviation.**—Along with this Department, the Centre must assume responsibility for the future development maintenance of aerodromes. The construction and maintenance of any but small and unimportant aerodromes will be beyond the resources of the States, as modern aerodromes of normal size are expensive to construct and maintain, having regard to the fact that they have to be equipped with technical and residential buildings, operational equipment, flying control, etc. in accordance with the standards prescribed by the International Civil Aviation Organisation.

The Government of India's scheme of financial assistance to flying clubs must of course, be extended to the flying clubs in the States.

(12) **Broadcasting.**—In planning the development of an all-India net work of broadcasting stations, the Centre must include the requirements in State territories on the same basis as in Provinces.

(13) **Audit and Accounts.**—In our separate Report relating to Travancore and Cochin and in our Scheme-Report for Mysor, we

have assumed that the audit and accounts departments will continue to be administered by the States. This is in accordance with their own wishes in the matter. The expenditure on audit and accounts in these States has therefore been treated as a "provincial" charge with the exception of an estimated portion relating to "federal" transactions which must be borne by the Centre. If, at a future date, the Centre should take over the entire responsibility for audit and accounts in these States, our computations in the Scheme-Reports concerning them should be so revised as to include the entire cost of the Department as expenditure transferred to the Centre.

In all other cases, we have assumed that the States would prefer to have their audit and accounts arrangements taken over by the Centre, and organised as an integral part of the Indian Audit and Accounts Department directly under the Auditor-General of India; our Scheme-Report computations are accordingly based on the transfer of the entire expenditure on Audit and Accounts to the Centre.

(14) **Interest.**—The net amount of income under the head "interest" which will accrue to the Centre, and which will be lost to the States, after federal financial integration will be—

- (a) the amount of interest receivable on liquid investments actually allotted to the Centre under the plan for the allocation of assets and liabilities (*vide* Chapter III), *minus*
- (b) the amount of interest payable annually on interest-bearing liabilities and funded obligations assigned to the Centre under that plan.

The *net* amount (which may be a minus figure) will have to be taken into account in the final computations to be made in accordance with our Scheme-Report, as revenue lost to the States upon federal financial integration.

(15) **Pensions.**—The pensionary liability in respect of personnel belonging to the I.S.F. or to "federal" Civil Departments who have retired before the date of federal financial integration, will devolve on the Centre as the "successor" Government in all "federal" matters. From a practical point of view, however, it will serve no useful purpose to disturb the existing arrangements in the States for such payments. We therefore recommend that these payments (a complete list of which should be compiled as on the prescribed date), should continue to be made by the respective States on the Central Government's account. Pensions in respect of personnel who retire on or after the date of financial integration will however be payable in the ordinary way by the Centre.

CHAPTER III

ALLOCATION OF ASSETS AND LIABILITIES (GENERAL)

13. The basic principles to be followed in the matter of allocation and apportionment of assets and liabilities between the States and the Centre have already been outlined in Part I of our Report (paragraphs 25 and 30).

We now explain in detail the application of those principles to the various categories of Assets and Liabilities.

14. Assets and Liabilities have to be considered under the following categories :

Classification
of Assets and
Liabilities

Assets :

(a) *Specific Capital Assets, i.e.*, Specific assets of a more or less durable character, consisting of:—

(i) “Unproductive” Assets *i.e.*, assets not capable of yielding any revenue ; and

(ii) “Productive” Assets *i.e.*, assets yielding (or capable of yielding) revenue.

Any “specific debt” connected with these assets will go with them.

(b) *Current Assets, i.e.*, liquid assets, such as Cash and Bank Balances, Investments, Securities, Current loans and advances, etc.

Liabilities :

(a) *Current or Banking Liabilities* which are of the nature of current obligations, essentially of a ‘banking’ character, payable to “outsiders” (*e.g.*, Bank overdrafts, Savings Bank Deposits, Provident Fund Deposits, Insurance Funds Sinking Funds, Trustee Liabilities, etc.) ;

(b) Liabilities in respect of various *Funds and Reserves* ;

(c) *Permanent debt* (Public Debt), excluding “specific debt” in connection with capital assets already referred to above.

15. For the reasons explained in Part I of our Report, “productive” and “unproductive” specific capital assets, together with the

Allocation
Capital Assets.

“specific debt” (if any) associated with them, must be allocated to the Centre or the State concerned on a ‘functional’ basis ; no “compensation”,—in the form of payment of market value or cost according to books—will be payable.

No “account” can be prepared of unproductive capital assets to be so allocated, nor is it necessary to do so. They will consist mostly of lands and buildings, aerodromes, laboratory equipment, furniture etc., actually in use by the various Departments. The Central Government should take over, by inventory on the prescribed date such of these assets as are connected with “federal” functions and services or with “federal” revenues ; the State will retain the rest.

Similarly, the Central Government should take over all specific productive capital Assets connected with “federal” functions or services or with “federal” revenues, *e.g.*, Railways, Communications, Broadcasting, Mint, etc., together with any “specific debt” associated with them. The book values of these assets are known and must be transferred as such to the books of the Central Government.

The Funds and Reserves (*e.g.*, Railway Depreciation Funds and Reserves), and other balances (Deposits, Advances, Cash Balances etc.) connected with the Capital Assets allocable to the Centre as above should also be taken over by the Centre as from the prescribed date ; the treatment of these Funds and balances for the purpose of financial (capital adjustments between the Central Government and the State is dealt with in paragraph 16 below.

Some of the States (*e.g.*, two Covenantee States of the Madhya Bharat Union) have been allowed to contribute towards the cost of parts of the Indian Railway System lying within State territory. In some cases, this took the form of an outright capital contribution on a profit-sharing basis ; while in others the States’ contribution was treated as “Permanent Debt” of the Government of India, at a guaranteed rate of interest, with or without a share of surplus profits. All such contributions constitute the “capital at charge” of these Railways. The entire amount so contributed was clearly intended to be, and must be regarded as, an investment in a permanent capital asset of a “federal” nature. Moreover, the terms of the Agreements under which these arrangements were made require that the States should not part with their interest in these investments to any outside party. In the circumstances, these assets must clearly be allocated to the Centre as specific Capital Assets of a “federal” character which cannot remain with the State upon federal financial integration.

All other productive capital assets, namely those associated with “provincial” functions will remain with the States concerned.

16. We now consider the allocation of the liquid or 'banking' assets and current liabilities, Funds and Reserves.

Allocation of
Liquid Assets
Current Liabilities
Reserves and
Funds:

- (a) The proper procedure here is first to allocate the "current" and funded liabilities of the State between the two "successor" Governments—i.e., the Centre and the State—on a "functional" basis. All current liabilities and deposits connected with or arising out of "federal" functions and Service Departments, or related to "federal" revenues or capital Assets must be taken over by the Centre. The only exception would be where a contrary procedure would be justified on grounds of public convenience. For example, the liability for Postal "Savings Bank Deposits" would have to be taken over by the Centre, unless (for special reasons) the State postal department is not taken over by the Indian Posts and Telegraphs Department immediately upon federal financial integration; in the excepted case, as also where the Savings Bank Deposits are in the *State Treasuries*, the liability may well be allowed to remain with the State on grounds of public convenience.

All funded liabilities should be similarly allocated to the Centre or to the State on a "functional" basis; e.g., "Village Uplift Fund", "Famine Relief Fund", "Irrigation Fund" etc., being "provincial" should remain with the State, while "Railway Development Fund", "Telephone Fund" etc., being "federal" must go to the Centre.

"Non-specific" Funds and Reserves present some difficulty because their objectives are not always clearly classifiable as either wholly "provincial" or "federal". Where such is the case,—as for example, in regard to "Post-War Development Funds"—we recommend that these funds should be *apportioned* between the Centre and the State on some equitable basis, e.g., with reference to future 'needs' and/or the anticipated liability in respect of development schemes in progress.

- (b) Following these principles, we have included in the Scheme-Report for each State an analysis of the liabilities of the State arranged in their "order of priority" under the following categories, beginning with liabilities to "outsiders" and ending with non-specific Funds and General Reserves:

- (A) 'Banking' or Current Liabilities,
e.g., Savings Bank Deposits,
 Insurance Funds,
 Provident Funds,
 Departmental Deposits, etc.
- (B) Specific "Functional" Funds and Reserves
e.g., Famine Relief Fund,
 Police, Jail and Military Funds etc.
- (C) Specific Capital Reserve Funds etc.
e.g., Railway Capital Reserve Fund,
 Electric Schemes Reserve Fund etc.
- (D) Non-Specific Funds and General Reserves,
e.g., Revenue Reserve Fund,
 Post-war Reconstruction Fund.

The above classification does not cover Public Debt which stands in a category by itself.

- (c) The next step is to consider how the current or liquid *assets* of each State should be allocated and apportioned. These include mainly cash and bullion, bank deposits, shares held in companies, investments in Government Securities, current loans and advances; an analysis of such assets for each State is included in the respective Scheme-Reports.

The *primary* rule should be that the Centre and the State should each be given sufficient liquid assets to meet the liabilities or Funds allocated to it on the lines indicated above; and within this over-all limit, each Government must, so far as possible, take up those specific items of liquid assets or investments which are appropriate to the liabilities allocated to it and/or to its functions.

In this connection, we make the specific recommendation that the allocation of any Reserve or Fund (in whole or in part) to the Centre must be regarded as entailing a special obligation on the Centre to ensure that the liquid assets so transferred to it with such Fund or Reserve are expended *within the State* concerned on those objectives for which the Fund or Reserve was intended. The States naturally attach a great deal of importance to this principle.

- (d) The treatment of Depreciation Funds requires special mention. Where such funds are specifically invested, they must be

allocated as such between the Centre and the State on a "functional" basis, together with the liquid assets in which they are so invested. For the rest, we consider that the amounts at the credit of such funds should be taken in reduction of the book values of the assets concerned, except to the extent that investments (in the shape of "current" or liquid assets) are actually available, *after* providing for *all* current liabilities and funded obligations.

17. The allocation of items of liability or funds to the Centre or to the State in accordance with the foregoing principles will not confer any financial advantage or disability upon either, so long as an equivalent allocation of current or liquid assets can be made to meet such liabilities. It is therefore necessary at this stage to consider the *modus operandi* in the event of there being—

- (a) a surplus of current or liquid assets, after providing for all liabilities including Funds; or
- (b) an excess of current liabilities, Funds or Reserves over liquid assets;

on the date of federal financial integration. This is dealt with below.

18. Any surplus of liquid assets or investments after providing for all liabilities, Funds and Reserves, must first provide for uninvested Depreciation Funds in full [Para. 16(d) above]; and against the balance must be set off the Public Debt, if any. If there should still be a net surplus at this stage, it should be apportioned between the two "successor" Governments on some equitable basis, *after* making adequate provision for the depreciation in value of commercial investments such as shares, debentures, etc.

Apportionment
of over all
"surplus" of
liquid assets

After a careful search for a proper basis for such apportionment, we are satisfied that the answer lies in the relative "needs" for expenditure in the "federal" and "provincial" fields respectively. While the surplus would mostly be required for expenditure in the "provincial" field on schemes of reconstruction and development, the "federal" needs in the States concerned cannot be wholly ignored. We accordingly recommend that the share to be apportioned to the "Centre" should be fixed at 10 per cent. of the residual net surplus. This amount must, of course, be ear-marked for expenditure by the Centre upon schemes of "federal" character such as would be of direct benefit to the people of the State concerned; and in the choice of schemes, the State Government should be consulted.

If many States, there are already "sanctioned" schemes in progress or about to be started in the near future both in the "federal" and in the "provincial" fields; in such cases, we suggest that the over-all net residual surplus of current assets should first be regarded as ear-marked against sanctioned schemes, to the extent of the estimated future liability in respect of those schemes, before arriving at the figure for "surplus" liquid assets available for apportionment on the *ad hoc* basis proposed by us.

Apportionment
of "uncovered"
liabilities.

19. We indicate below the procedure to be adopted in the event of there being an excess of liabilities over available liquid assets.

(i) *Depreciation Funds* (not specifically invested)—There can, in such circumstances, be no question of providing any liquid assets against Depreciation Funds; such Funds should therefore be taken in reduction of the book values of the assets concerned.

(ii) *Other Funds and Reserves*.—As regards the remaining liabilities, it is clear that uncovered liability in respect of "Funds and Reserves" must be distinguished from liabilities owing to "outsiders" in respect of moneys or benefits "had or received". The former is not a debt due to anyone; the latter is. The true nature of the liability in respect of Funds of this type is a *liability to incur expenditure*, (a) for the purposes for which the Funds were created, and (b) to the extent to which liquid assets are in fact available. When assets are *not* available, the Funds must be regarded as exhausted or extinguished to that extent.

But even if this last point were ignored, on the ground that assets *must* have existed when the Funds were created and that, to the extent of the shortage, those assets must have been *properly* spent (*e.g.*, by being spent on unproductive assets, both "central" and "provincial") though not accounted for as such, then clearly the matter is merely one of accounting procedure, which can now be rectified by tracing back the expenditure so incurred and writing it off against the "uncovered" balance of the Funds. There will then be no "uncovered" balance of this type of liability to be "allocated"; and nothing more will remain to be done since, on the principles already stated, there can be no question of the Centre having to *pay* anything for any unproductive "federal" assets allocable to it on a functional basis.

There is, therefore, no "allocation" to be made in respect of such uncovered "liability"; and no financial adjustments need accordingly be made between the Centre and any State on this account. All that is required is a procedure for extinguishing these "unrequitable" Funds, in the reverse order of priority.

It will be seen from the order of priority in which the liabilities have been grouped in paragraph 16 (b), that those falling under Sections (A) and (B) are either "outsider" or "earmarked" liabilities which *must* be met, whereas those under Sections (C) and (D) are in the nature of Funds or Reserves. It follows that any excess of liabilities (as thus grouped) over current assets must *first* be treated as extinguishing the Funds grouped under Section (D) and next those under Section (C). In so extinguishing these Funds and Reserves, the 'federal' portion if any, of each such Fund or Reserve may, as a matter of justifiable concession, be treated as extinguished before the 'provincial' portion.

(iii) *Public Debt and Liabilities to "outsiders"*.—The only remaining items to be considered are the *net* amount of "uncovered" liabilities to *outsiders*, together with the *net* public debt (other than specific debt relatable to particular Capital Assets), after deducting any sinking fund provision already made. The Centre must accept a share of this liability; and we recommend that in all such cases the Centre's share should be worked out in proportion to the *net* book values (after deducting "specific" debt and the "uncovered" Depreciation Funds, if any), of the specific "productive" Capital Assets allotted to the Centre and to the State, respectively.

20. We recommend that all running, or "continuing" liabilities and outstandings in each "federal" Department (whether on Capital or Revenue account) should be taken over by the Centre. They will consist of all outstanding claims for and against Government, including refund claims, pending bills for supplies, stores, contracts, services and contingencies etc., and all uncollected "federal" revenues, whether assessed or not. In view of the "cash basis" of accounting followed by all Governments, there will ordinarily be no "account" balances to be brought on to the books of the Centre in respect of these items; but an inventory, so far as possible, should be prepared by each Department at the time of taking over.

Outstanding
obligation and
Revenues not
shown in
account.

We must point out here that Capital expenditure on specific "productive" assets which may have accrued (but not been paid on the date of federal financial integration, and which would be paid *after* that date by the Central or State Governments as the case may be) in accordance with the foregoing recommendation, should be taken into account in determining the book value of these assets for the purpose of apportionment of any uncovered "public debt" and obligations to "outsiders", in pursuance of the recommendations made in sub-para (iii) of the preceding paragraph.

Inter-Governmental outstandings accrued, but not settled, by the prescribed date.

21. The list of accounted assets and liabilities will not ordinarily include certain important items of *current* inter-governmental outstandings. Thus, it is possible that Central Excise collections would have been taken to the credit of State Revenues, pending payment of the amount due to the Government of India under the pooling arrangements. Similarly, a State's share of Customs Revenue, of *net* receipts from Railways, ("worked lines"), accrued upto the date of federal financial integration but not actually paid by the Centre, would not normally be included in the State's statement of assets. There are likely to be several items of this kind which, though not important individually, may amount in the aggregate to a substantial sum. Outstanding items of this nature clearly fall in a different category from the "unaccounted" arrears of revenue and pending obligations to outsiders, referred to in the preceding paragraph and they cannot obviously be merely "written off". We recommend that all inter-governmental claims of this description between the Centre and the States, in respect of transactions up to the prescribed date (whether accounted for or not), should be settled in due course, by cash payment on either side, notwithstanding the coming into force of federal financial integration.

E.P.T. Deposits
Advance Payments of Tax,
etc.

22. The liability for refundable Deposits, if any, (and for the refundable portion of E.P.T.) received by the States in connection with E.P.T. assessment (whether provisional or final) should be taken over by the Centre as a current or banking liability of a "federal" character, paragraph 16 (a) above], except where, as in some States, only Deposits were received but no assessments were made; in the excepted cases it would be more convenient to the public if such deposits were repaid or dealt with by the States themselves in accordance with the arrangements under which such deposits were first received.

Amounts collected in States under "provisional" assessments or under "Pay-as-you-Earn" Schemes,—whether credited

revenue or not—should be treated not as an outstanding liability (for inter-governmental adjustments) but as “revenue” creditable to the States prior to the prescribed date. The Centre will, however, be under obligation to give credit to the assesseees in respect of such payments in the assessments concerned.

23. Some States have raised the question of the payments now being demanded by the Central Government in respect of building and other capital Assets in “retroceded” areas such as the Mysore Assigned Tract and the various “Residency areas”. While the claims for such payments were doubtless in order in the circumstances in which these retrocessions occurred, we are of opinion that in the context of federal financial integration, the issue must necessarily be approached on the “functional” basis, founded upon the concept of Provinces and States as equal partners in the future Union of India to which we have already referred. So considered, there can, we think, arise no claim for “compensation” in favour of the Centre in respect of assets previously used (by the Centre) in the areas concerned for functions which were “provincial” according to the Constitution.

Buildings and other Capital assets in “Retroceded” areas.

24. Certain points of detail which arise in connection with particular items of Assets and Liabilities in certain States are dealt with in the respective Scheme-Reports. Reference must, however, be made here to Savings Bank Schemes, Life Assurance Schemes and Accident Insurance Funds, administered by some States. We assume that *constitutionally* there would be no objection to the States continuing to administer these schemes, after federal financial integration, if they should prefer to do so, except in the case of State Postal Saving Banks which must of course be taken over by the Centre along with the State Postal Systems.

Certain Specific matters relating to particular items of Assets and Liabilities.

We consider, however, that the interest rates on State Savings Bank Deposits and on future issues of State Savings Certificates (if such separate issues be permitted) should be assimilated to the Government of India rates. Existing “tax-free” rights, if any, attached to interest on Savings Bank Deposits may also be continued in respect of accounts and deposits existing on the date of federal financial integration.

The Central Government should also recognise and allow the continuance of “tax-free rights” attached to any Public Loans of the States outstanding on the prescribed date.

25. The question was raised by certain States as to whether federal financial integration would affect their powers to borrow in the open market. In our opinion, there should be no difference in this respect between State Governments and Provincial Governments.

Borrowing Powers.

The States must, however, accept all such 'working limitations' upon unrestricted borrowing as the Central Government and the Provinces generally (including the States) may mutually agree upon in order to eliminate uncoordinated or competitive Governmental borrowing.

Banking and
Treasury ar-
rangements.

26. With the taking over by the Centre of the responsibility for direct administration of Departments connected with Central Revenues and Central Services, it will be necessary to extend the States the Rules and Regulations connected with Banking and Treasury procedure of the Central Government in so far as transactions of "Central" Departments are concerned. It will also be desirable that the Banking and Treasury arrangements of the States themselves in respect of "Provincial" transactions should be similar to those prevailing in Provinces. We have not examined this aspect of the matter in detail; some of the State Governments represented that their existing arrangements were adequate and were working smoothly; but we desire especially to draw the attention of the Government of India to the fact that the existing arrangements appear to be far from satisfactory in some of the Unions. We recommend that consideration of the question should be taken up by the Government of India separately, as soon as possible, in consultation with the Reserve Bank.

Ways and
means.

27. There is one other matter which may be conveniently referred to here, namely, the effect on the 'ways and means' position of the individual States of the various changes introduced as a result of federal financial integration. All collections of 'federal' revenues would be credited direct to the Government of India after the prescribed date, while the State Governments themselves would have to finance, in addition to their own current expenditure, all expenditure on 'federal' subjects entrusted to them for administration on an "agency" basis. Further, most States would also have heavy commitments in respect of foodgrain purchases. It will therefore be necessary to provide for regular quarterly 'on-account' payments being made by the Government of India to the States based on the best estimates of (i) the guaranteed annual payments referred to in our Scheme-Reports for the individual States (ii) any food subsidies in respect of imported foodgrains and (iii) the amount to be reimbursed in respect of expenditure on 'federal' subjects entrusted to them for administration on an "agency" basis. The 'on-account' payments thus made will be subject to final adjustment in due course, after the accounts for each year are closed and figures of the actual amounts payable become available.

CHAPTER IV.

MYSORE

A. "REVENUE—GAP" ARISING OUT OF FEDERAL FINANCIAL INTEGRATION

28. Statements I and II appended hereto are designed to bring out the net revenue effect on the finances of Mysore of complete integration of its 'federal' finances with those of the Central Government. The figures in the statements relate to the 'actuals' of the State financial year 1946-47 and are subject to certain limitations, as explained in paragraph 6 of Chapter I. These figures have been referred to in the following paragraphs to illustrate the scheme of financial (Revenue) adjustments required for Mysore; the final computations must be made in due course, on the same basis and following the same principles, when the actuals for the 'basic period' are known.

29. The *net* dependence of Mysore on "federal" revenues during 1946-47 was as follows:—

	<i>Rs. in lakhs</i>
(i) 'Federal' revenues collected in the State (Statement I)	321.59
(ii) 'Federal' expenditure in the State (Statement II)	51.64
<i>Net "Revenue-gap", resulting from federal financial integration</i>	269.95

Financial adjustments required.

30. We recommend the following scheme of financial adjustments on revenue account as appropriate to the circumstances of the case; the scheme has been evolved after full discussion with the Mysore Government and with their general concurrence.

(1) There should be a guaranteed reimbursement by the Government of India to the Mysore Government of the net 'federal' revenue-gap of the State (amounting to Rs. 270 lakhs in round figures, *cf.* para. 29 above), for the first *five* years after federal financial integration. Thereafter, the guaranteed amount should be gradually reduced under a tapering arrangement to 60 per cent. of the net 'revenue-gap', in the 10th year.

Thus, if 'R' represents the net 'revenue-gap' as ultimately computed with reference to the actuals of the "basic period", the guaranteed amount will be :

- Rs. R per annum for the first five years
- Rs. $\frac{23}{25}$ R per annum for the 6th year
- Rs. $\frac{21}{25}$ R per annum for the 7th year
- Rs. $\frac{19}{25}$ R per annum for the 8th year
- Rs. $\frac{17}{25}$ R per annum for the 9th year
- Rs. $\frac{15}{25}$ R (or 60 per cent of R) per annum for the 10th year

(2) The above guarantee of reimbursement should be implemented by the Central Government as follows :-

(a) By paying to the Mysore Government its share of divisible Income-tax (and of all other divisible federal taxes, such as they may be from time to time) computed in the same manner, on the same basis and in accordance with the same principles as applicable to the Provinces of India; *and*

(b) to the extent that the amount payable under (a) should fall short of the guaranteed amount, in any year, by paying to the Mysore Government an amount equal to the shortfall, as a special *ad hoc* grant-in-aid in that year;

(c) on the other hand in any year in which the amount payable under (a) does *not* fall short of the guaranteed amount, the Mysore Government will receive the amount due under (a) and the guarantee will be inoperative for that year.

(3) If the Constituent Assembly should ultimately accept the amendment already tabled by the Drafting Committee for an extension of the transition period prescribed in Article 258 of the Draft Constitution to 15 years, the guaranteed amount, as it would be in the 10th year under the above scheme, *i.e.*, 60 per cent. of R, should be continued for a further period of 5 years.

(4) With effect from the prescribed date, the Mysore Government should, as a direct consequence of federal financial integration, be entitled to receive food subsidies, at the enhanced rate of 75 per cent. of the loss on the sale of imported foodgrains, as in the case of Provinces. These subsidies, and all grants-in-aid, 'bonuses' and other forms of financial and technical assistance from the Centre, whether in cash or kind, whether on revenue or capital account, and whether by way of loans or outright grants, should be payable to the Mysore Government by the Government of India quite independently of the above scheme of transitional adjustments, *i.e.*, *in addition* to the

amounts guaranteed under sub-paras (1) to (3) above, and *computed on the same basis and principles as applicable to Provinces.*

(5) Privy Purse

It has been assumed in the foregoing computations and in our proposals for revenue adjustments that no portion of His Highness the Maharajah's Civil List will be treated as a 'federal' charge after the prescribed date. A reference is invited in this connection to the remarks in paragraph 24 of Part I of our Report on the subject of Privy Purses of Rulers. In the case of Mysore, there is no question of fixing a 'Privy Purse' for the Ruler; but if it is ultimately decided, in the case of *Unions* of States, that the Central Government should assume financial responsibility for 'Privy Purse', it would follow that in regard to Mysore also, there should be a classification of the existing Civil List payments under two heads, one corresponding to allowances payable to the Rajpramukhs of Unions or to Governors of Provinces, and the other corresponding to "Privy Purse" of Rulers of covenanted States; the former will be a charge on the revenues of the State, while the latter must be taken up by the Central Government.

The computations relating to the *net* revenue-gap of Mysore would then require a corresponding revision, with reference to the figure for the 'Privy Purse' of the Ruler to be taken over by the Centre. Assuming a figure of Rs. 'P' for this purpose, the *net* revenue-gap of Mysore would be reduced to Rs. (R-P) lakhs; and this would be the figure to be adopted in sub-paragraph (1) above for purposes of computing the transitional financial adjustments. No other change in the scheme of transitional financial adjustments will be called for.

31. Gradualness in taking up the burden

The foregoing scheme, in effect, requires the Mysore Government to take up *gradually* from the 6th to the 10th year of federal financial integration a portion of the *net* revenue-gap working up to 40 per cent. thereof. By the 10th or the 11th year, if not earlier, we expect that Mysore's share of divisible federal taxes will exceed the guaranteed amount.

As already indicated, if in any year during the transitional period, the Mysore Government's share of divisible federal taxes should *exceed* the reimbursement guaranteed for that year, it would be the larger sum that they would receive.

For the rest, our proposals are designed to secure for the Mysore Government an immediate financial parity of treatment with the Provinces of India, in *all* respects, by the Central Government.

On the termination of the transitional period under Article 258, there would be no guaranteed reimbursements; in other words, there would thereafter be no distinction at all between the financial rights of the Mysore Government and those of any Province *vis-a-vis* the Central Government.

32. Scope for development of 'Provincial' Revenues in Mysore

We are satisfied that a scheme of federal financial integration on the above lines will not cause any sudden dislocation of the finances of the Mysore Government, nor will it necessitate reversal of any well established and desirable administrative and social policies in this State. The present dependence of Mysore on "federal" sources of revenue is indeed considerable and the immediate scope for the development of 'provincial' taxes is rather limited. Having regard to these factors, we are satisfied that a maximum period of five years during which the entire *net* 'revenue-gap' would be guaranteed in full is justified. The possible directions in which the Mysore Governments 'provincial sources of revenue' might be developed are indicated below; it can be confidently expected that Mysore will take up its share of the burden from the 6th year onwards without difficulty and also be able to improve its financial position generally.

(i) The question of introducing Agricultural Income-tax requires examination. It should be possible to devise a scheme which will not press harshly on the poorer sections of the people. To begin with, the rates need not be higher than those at present in force in Cochin.

(ii) We understand that Resettlement of Land Revenue is long overdue in as many as 33 out of 82 Talukas, and that the Mysore Government have themselves set up a Committee to enquire into the matter.

(iii) Sales Tax is already levied in Mysore; the general rates structure is similar to that in Madras. The list of exemptions is however more liberal, and a careful review of this list might be undertaken. Judging by past experience in the Provinces, the revenue from Sales Tax is bound to show a progressive increase; and there is every reason to expect that in a few years' time, the yield of Sales Tax in Mysore would substantially go up.

(iv) The rates of registration fees and stamp duties in Mysore, are, generally speaking, appreciably lower than those prevailing in Madras Province. The question of the gradual enhancement of the rates should be examined.

(v) There is some scope for an increase in the revenue under the head "Motor Vehicles Tax" by gradually raising the level of taxation to that in Madras Province.

B. ASSETS AND LIABILITIES

33. The practical application to Mysore of the general principles relating to allocation of assets and liabilities, discussed in paragraphs 25 and 30 of Part I of our Report and further elaborated in Chapter II of this Part is illustrated below, with reference to the position at the close of the State financial year 1947-48. The final allocation and apportionment should be made on the same lines, on the basis of a complete statement of assets and liabilities to be compiled as at the date of federal financial integration.

(1) "Unproductive" Capital Assets

The Central Government will take over by inventory all 'unproductive' capital assets connected with 'federal' revenues and 'federal' functions and services. The Mysore Government will retain the rest.

(2) Specific "Productive" Capital Assets

(a) The Central Government will take over all specific productive Capital assets connected with "Federal" functions as at the date of federal financial integration. The book value of these assets as at the close of the State financial year 1947-48 was as follows :

<i>Particulars</i>	<i>Rs. in lakhs</i>
Mysore State Railway, including Kolar Gold Field Railway and Nanjangud-Chamrajanagar Railway and excluding Tramways	733·07
Telephones	16·19
	749·26
<i>Less</i> amount at credit of Depreciation Funds :	
Railways 70·38	
Telephones 3·82	74·20
	675·06

Note.—The figure of Rs. 70·38 lakhs for the Railway Depreciation Fund has been arrived at after deducting "Special" contribution ; the latter have been separated from the Depreciation Fund and treated as a Special Railway Capital Reserve, *vide* paragraph 34 (2) below.

(b) The Mysore Government will retain all productive Capital assets connected with 'Provincial' functions. The book value of these assets at the end of 1947-48 was as follows :

<i>Particulars</i>	<i>Rs. in lakhs</i>
Krishnaraja Sagar Irrigation Works	507·40
Irrigation Works not charged to Revenue	24·94
Hydro-Electric Works	1055·47
Industrial and other Works	200·87
Iron and Steel Works and Cement Plant	235·25
	2023·93

Less amount at credit of Depreciation Funds .

	<i>Rs. in lakhs</i>	
Electrical Works Depreciation Fund .	165.13	
Sandal Oil Factory	8.05	
K. G. F. Water Works	10.61	
Chamraj Sagar Water Works	19.61	
Soap Factory	2.67	
Mysore Iron & Steel Works and Cement Plant Depreciaton Fund .	198.89	
Other Industrial Concerns Deprecia- tion Fund	15.95	420.91
		420.91

1603.02

(3) Current Assets, Liabilities, Reserves and Funds

The proper procedure here will be to allocate first the current and funded *liabilities* of the State, as between the Centre and Mysore and to place at the disposal of each equivalent "current" assets, so far as may be available. The allocation of the *liabilities* themselves should be upon the functional basis, subject to any modifications necessary on grounds of public convenience.

These liabilities, Funds and Reserves, enumerated in their order of 'priority', stood as follows at the end of 1947-48. (A more detailed analysis is given in Statement III) :

	<i>Central</i>	<i>Others</i>	<i>Total</i>
(1) Current and banking liabilities, Trust Funds, sinking funds etc.	?	2232.16	2232.16
(2) Specific Functional Funds . . . . .	..	69.41	69.41
(3) Reserve Funds for Assets	146.39	0.95	147.34
(4) Non-Specific General Funds & Reserves . . . . .	..	830.91	830.91
	146.39	3133.43	3279.82

The total liquid assets and investments which were available on the 1st July 1948 amounted to Rs. 3382.55 lakhs as detailed in Statement IV. There was thus a surplus of current assets over current liabilities, Funds and Reserves, to the extent of Rs. 102.73 lakhs. The corresponding surplus, if any, on the date of federal financial integration must be earmarked *pro-rata* against each of the Depreciation Funds mentioned in sub-para (2) above. The balance of the amounts at the

credit of the Depreciation Funds, that is to say, the amounts not covered by "current" assets, will alone be taken in reduction of the book value of the assets.

If, however, there should actually be an over-all shortage of "current" assets on the date of federal financial integration, as compared with the *total* of "current" liabilities, Funds and Reserve, the available "current" assets should be utilised to make provision for

- (i) "current" liabilities,
- (ii) Specific Functional Funds,
- (iii) Reserve Funds for Assets, and
- (iv) Non-Specific General Funds and Reserves,

in that order of priority. Sufficient 'current' assets are in any case likely to be available to cover the first three categories in full and the last in part. The shortage of "current" assets will thus have to be treated as extinguishing a corresponding amount of the 'non-specific General Funds and Reserves' of which there is only one in Mysore, namely, the "Special Reserve Fund".

(4) There will then remain for apportionment the Public Debt. This amounted at the end of 1947-48 to Rs. 1620.97 lakhs *less* Sinking Fund Rs. 356.05 lakhs, *i.e.*, Rs. 1264.92 lakhs *net*. This Debt must be shared by the Central Government and the Mysore Government in the ratio of the net book value of Specific Productive Capital Assets allocated to each Government.

34. Specific matters concerning assets and liabilities

(1) Exclusion of certain Capital Works from the list of productive assets (Provincial)

The Mysore Government have requested that in computing the ratio of productive capital assets, 'federal' and 'provincial', for the purpose of apportionment of Public Debt,

- (a) the Krishnarajasagar Irrigation Works, the yield from which has not covered the interest on capital so far, should be excluded from the list of 'provincial' productive assets; and
- (b) that "productive" works which are in the course of construction and are likely to become remunerative only after a period of several years should also be excluded.

With regard to (a) above, we notice that the normal *net* return from the works in question is of the order of Rs. 4 to 5 lakhs a year. The capital cost according to the books amounted to Rs. 507.40 lakhs at the end of 1947-48. We agree that the works are over-capitalised

and in our opinion it would not be reasonable to take a figure of more than Rs. 150 lakhs as the "productive" capital expenditure in respect of this asset.

With regard to (b) above, we regret we are unable to agree to the exclusion of important productive capital assets, merely on the ground that they have not yet reached the full revenue earning stage. Such assets can properly be financed from loan funds and there is no justification for ignoring them in considering the apportionment of Public Debt.

(2) Railway Depreciation Fund

The Mysore Government have pointed out that the balance at the credit of this Fund includes a sum of Rs. 146.39 lakhs representing special contributions made to the Fund during the period 1941-42 to 1947-48. They desire that this special contribution should be distinguished from the normal contributions to the Fund, as calculated with reference to the formula adopted by the Government of India (Railway Board). We see no objection to this course and have accordingly included the total amount of the special contributions (Rs. 146.39 lakhs) as a Special Railway Reserve in Statement III. This Reserve being of a "federal" nature will be taken over by the Central Government upon financial integration, with the specific obligation that it will be applied to special Railway expenditure of a Capital nature within the Mysore State.

An alternative suggestion was also made by the Mysore Government that they should be allowed to withdraw the special contribution altogether from the Fund and utilise it for their general ("Provincial") purposes. We consider it altogether wrong in principle that any such withdrawal should be authorised at this juncture.

(3) Mysore State Insurance Fund : Mysore State Savings Bank

The Mysore Government desire to continue under their own management their State Insurance and Savings Bank Schemes. We see no objection to this course *vide* our remarks in this connection in paragraph 24 of Chapter III.

(4) Loans and Advances

The Mysore Government desire to make some allowance for irrecoverable advances in the amount of "loans and advances" (Rs. 297.94 lakhs) included as item 7 in the list of current assets (Statement IV). We consider that this may be permitted, (when the final statement of Assets and Liabilities is drawn up as at the date of federal financial integration), up to the same percentage

the amount actually written off during 1948-49 may bear to the total amount of "loans and advances" made during the year.

(5) While accepting the principle of non-payment of compensation for 'federal' capital assets transferred to the Centre upon federal financial integration, the Mysore Government represented that certain Residency Buildings, for which (upon retrocession) they had already made payment to the Central Government, should have come to them free; and that the amount already paid by them to the Central Government on this account should be refunded. It was contended that the matter should be reviewed in the context of the impending federal financial integration.

We recommend that the Mysore Government's contention should be dealt with on the lines indicated in paragraph 23 of Chapter III.

MYSORE
STATEMENT I
Particulars of Revenues which will be lost to the State as a result
of federal financial integration

Serial No.	Particulars	Amount (Rs. in laks) State Fin- ancial year 1946-47 (ending 30-6-47)	Reference to footnotes
<i>A. " Central " revenues which will merge with the revenues of the Government of India.</i>			
1	Customs duties on foreign trade . . . . .	..
2	Corporation Tax	25·18	(1)
3	Income Tax (other than agricultural in- come tax and Corporation Tax)	144·90	(1)
4	Central Excise	60·26	(2)
5	Railways (<i>Net Receipts</i>)	66·71	..
6	Posts and Telegraphs	21·38	(3)
7	Telephones (<i>Net Receipts</i>)	3·16	..
8	Currency and Mint . . . . .	..	..
9	Interest on Federal Investments . . . . .	..	(4)
	Total of Section A	321·59	
<i>B. Taxes which will be abolished on financial integration.</i>			
10	Salt . . . . .	..	..
11	Import-Export duties on Indian (Internal) trade . . . . .	..	..
	Total of Section B . . . . .	..	..
	GRAND TOTAL	321·59	

MYSORE

Notes relating to Statement I

(1) Corporation Tax and Income Tax.

The distribution of the total income tax and super tax receipts as between "Corporation Tax" and "Income Tax" on the Indian model has been worked out on an approximate basis in consultation with Departmental Officers. The figures include revenue collected in the Mysore "Assigned Tract" during 1946-47 (Corporation Tax, Rs. 8.37 lakhs, and Income Tax, Rs. 45.29 lakhs). The actual income tax collections in that area were Rs. 46.19 lakhs, but a slight adjustment has been made to allow for the reduction which would have occurred if the Mysore rates and not the Government of India rates had been in force in the "Assigned Tract" during that year.

The figures will require modification in two respects when the final computation is made.

- (i) As revenue from Excess Profits Tax (which has since been abolished) has been ignored for the purpose of this Statement, it has been agreed that the Corporation Tax and Income Tax revenue should be increased by an amount representing the additional revenue which would have been collected if Excess Profits Tax had not been allowed as a deduction from taxable income.
- (ii) It has also been agreed with the Mysore Government that the figures for Corporation Tax and Income Tax should be revised to represent the amounts which would have been collected if the revised agreement recently entered into by the Mysore Government with certain Gold-mining Companies had been in force during the "basic period".

(2) Central Excise.

This figure includes the following amounts in respect of various commodities on which Central Excise Duties are levied in Mysore :

	<i>Rs. in lakhs</i>
Matches	8.58
Sugar	9.95
Tobacco	30.29
Vegetable Products	2.17
Coffee	6.00
Tea	1.76
Steel ingots	1.29
Power Alcohol	0.05
	<hr/>
	60.00
Add Assigned Tract Revenue	0.26
	<hr/>
	60.26
	<hr/>

As regards matches and sugar, the amounts represent the final "appropriate" figures for 1946-47 accruing to the State under the existing arrangements with the Government of India. The figures for tobacco, vegetable products, coffee and tea will however have to be revised when the "appropriate" amounts representing Mysore Government's share for the year are settled in consultation with the Government of India.

There is no Central Excise "pool" in respect of excise duty on power alcohol and steel ingots; the figures do not accordingly require any modification.

There are no "Provincial" measures of taxation on tobacco in force in the Mysore State.

(3) Posts and Telegraphs

Mysore has no postal system of its own but is in enjoyment of an immunity in the shape of free conveyance of their official correspondence within the State limits. The value of this immunity (which will cease on federal financial integration) has been taken as Rs. 21-38 lakhs (the figure adopted by the Expert Committee on the Financial Provisions of the Union Constitution).

(4) Interest on 'federal' investments

The figure to be taken against this entry should be computed on the lines indicated in paragraph 12 (14) of Chapter II.

MYSORE
STATEMENT II

**Particulars of Expenditure which will be saved to the State, as a result
of federal financial integration**

Serial No.	Particulars	Amount (Rs. in lakhs) State Financial year 1946-47 (ending 30-6-47)	Reference to footnotes
<i>A. Expenditure to be taken over by the Government of India.</i>			
1	Cost of collection of taxes :		
	(1) Customs duties on foreign trade . . . . .	..
	(2) Central Excise duties	1.47	
	(3) Income tax	1.86	
2	National Highways	9.90	(1)
3	Defence (I. S. F. only)	37.17	(2)
4	Aviation	?	(3)
5	Broadcasting	0.33	(4)
6	Meteorology	0.18	
7	Archaeology	0.31	
8	Geology (Survey)	0.40	(5)
9	Patents, Copyrights, Trade Marks, Joint Stock Companies etc. . . . .	..	(6)
10	"Federal" Civil Works . . . . .	..	(7)
11	Pensions of Military and other "federal" personnel . . . . .	..
12	Accounts and Audit in respect of 'federal' transactions	0.02	(9)
	Total of Section A	51.64	
<i>B. Expenditure which will cease to be in- curred on federal financial integration</i>			
13	Cost of collection of Internal Cus- toms . . . . .	..
	Total of Section B . . . . .	..
	GRAND TOTAL	51.64	

MYSORE

Notes relating to Statement II

(1) National Highways

It is understood that 330 miles of roadway in Mysore State are eligible for classification as "National Highways". The annual expenditure chargeable to revenue for this length of roadway has been estimated at Rs. 9.90 lakhs at Rs. 3,000 a mile (the all-India average furnished by the Ministry of Transport).

(2) Defence

The figure excludes the cost of "Palace" troops (non-I. S. F. Units) but includes Rs. 1.70 lakhs representing expenditure on military pensions and gratuities.

(3) Aviation

The expenditure on aviation during 1946-47 was not booked separately. The exact figure has to be ascertained and entered in the Statement.

(4) Broadcasting

The figure given in the Statement represents *net* expenditure after deducting receipts

(5) Geology

An amount of Rs. 0.40 lakhs has been taken as covering "Central" functions which would be taken over by the Geological Survey of India after federal financial integration. The Mysore Government are still considering whether this would be a fair estimate.

(6) Patents, Copyrights, Trade Marks, Joint Stock Companies, etc.

The *net* expenditure under these heads after deducting receipts was negligible during 1946-47.

(7) Central Civil Works.

The expenditure during 1946-47 was negligible.

(8) Pensions of Military and other "federal" personnel

As stated in note (2) above, a figure of Rs. 1.70 lakhs for military pensions has been included under Defence. The pensions of other "federal" personnel are difficult to estimate but the amount is likely to be very small and may be set off against the reduction to be made from military pensions on account of non-I. S. F. personnel.

(9) Audit and Accounts

Estimated cost of audit and accounts in respect of "federal" transactions alone has been included here, as the Mysore Government desire to continue their existing arrangements in respect of "Provincial" transactions.

(The cost of Railway Audit and Accounts has been separately taken into account, in arriving at the figure for *net* receipts from Railways, entered in Statement I).

(10). General

During 1946-47 dearness allowance in respect of all departments was booked under a separate head. A proportionate addition on this account has therefore been made to the cost of the various departments included in this Statement.

MYSORE

STATEMENT III

Analysis of Liabilities as at 1st July 1948.

Serial No.	Particulars	"Federal"	"Provincial"	"Total"	Reference to foot-notes
<i>(Rs. in lakhs)</i>					
<i>A. Banking or Current Liabilities</i>					
1.	Insurance Fund . . . . .	..	443·37	443·37	
2.	Provident Funds	(?)	115·09	115·09	
3.	Savings Bank Current Deposits . . . . .	..	263·36	263·36	
4.	Savings Bank Fixed Deposits and Savings Certificates . . . . .	..	195·49	195·49	
5.	Endowment and other Accounts . . . . .	..	83·80	83·80	
6.	Sinking Fund for Loans . . . . .	..	356·05	356·05	
7.	Local and other Funds . . . . .	..	430·27	430·27	(1)
8.	Deposits	(?)	224·45	224·45	
9.	Miscellaneous . . . . .	..	120·28	120·28	
TOTAL OF SECTION A		(?)	2232·16	2232·16	
<i>B. Specific Functional Funds</i>					
10.	Famine Insurance Reserve . . . . .	..	69·41	69·41	
TOTAL OF SECTION B . . . . .		..	69·41	69·41	
<i>C. Reserve Funds for Assets</i>					
11.	General Reserve of Industrial concerns. . . . .	..	0·95	0·95	
12.	Special Capital Reserve for Railways	146·39	..	146·39	
TOTAL OF SECTION C		146·39	0·95	147·34	

Serial No.	Particulars	"Federal"	"Provincial"	"Total"	Reference to foot-notes
<i>(Rs. in lakhs)</i>					
<i>D. Non-specific General Funds and Reserves</i>					
13.	Special Reserve Fund	.	..	830·91	830·91
TOTAL OF SECTION D		.	..	830·91	830·91
<i>E. Public Debt</i>					
14.	Public Debt (Permanent Debt)			1620·97	lakhs
	Less sinking fund	.	.	356·05	..
				1264·92	..
			..	1264·92	1264·92
TOTAL OF SECTION E		.		1264·92	1264·92
GRAND TOTAL		.		146·39	4398·35 4544·74

NOTE (1) A few functional funds (e.g., Road Fund) have been included in the total given for 'Local and other Funds'.

MYSORE

STATEMENT IV

Analysis of Current Assets as at 1st July 1948.

Serial No.	Particulars	Amount (Rs. in lakhs)	Reference to foot-notes
<i>Current Assets (Cash and Investments)</i>			
1.	Cash Balance	379.29	
2.	Treasury Bills and Temporary Deposits in Banks.	245.40	
3.	General Investment Account	1654.48	
4.	Loan Sinking Fund Investment Account .	356.05	
5.	Famine Insurance Fund Investment Account.	60.50	
6.	Depreciation Fund Investment Account .	309.34	
7.	Loans and Advances	297.94	
8.	Departmental Balances	4.17	
9.	Food Supply Department Transactions not met from Revenue	75.38	(1)
		3382.55	

NOTE (1) *Food Supply Department Transactions not met from Revenue*

The amount will include :

- (a) cost of foodgrains stock on hand ;
- (b) accumulated losses, if any.

Before the final statement of liabilities is prepared, as on the date of federal financial integration, the amount of the loss (excluding amounts recoverable from the Government of India towards their share of the loss on sale of foodgrains) should be written off against the revenues of the State.

CHAPTER V
SAURASHTRA

A. "REVENUE-GAP" ARISING OUT OF FEDERAL FINANCIAL INTEGRATION

35. Statements I and II appended to this Chapter bring out the net revenue effect upon the finances of Saurashtra of

- (i) the transfer of "federal" revenues and "federal" expenditure to the Centre, and
- (ii) the abolition of internal customs duties as a result of federal financial integration.

The figures in Statements I and II are based upon the Budget Estimates for the financial year 1949-50 and have been utilised here merely to illustrate the scheme of financial (revenue) adjustments discussed in the following paragraphs. Moreover, these figures are subject to the general limitations indicated in paragraph 6 of Chapter I. The correct final computations must therefore be made, in due course, on the same basis as in Statements I and II and following the same principles, when the actuals for the year are known.

As pointed out in paragraph 4 of Chapter I, the basic period in the case of Saurashtra, both for revenue and expenditure computations, will be their financial year ending 31st March 1950, except in regard to the railway revenue for which the average of the three complete financial years immediately preceding federal financial integration should be taken.

36. The net dependence of Saurashtra on "federal" revenues and internal customs duties may be analysed as follows (in round figures) :—

	Internal customs	"Federal" Revenues	Total
(Rs. in lakhs)			
Loss of Revenue	85	295	380
Saving in Expenditure	5	63	68
	80	232	312

The total net revenue-gap resulting from federal financial integration is thus Rs. 312 lakhs.

Financial adjustments required

37. (1) *Internal Customs* :—It became clear during our discussions with the Saurashtra Government representatives, that the total abolition of internal customs in the State would be most desirable and we recommend that this should be done with effect from the prescribed date.

The main alternative source of revenue, namely Sales Tax, would bring in a substantial yield, but only from the second year onwards ; in the first year it might not be sufficient to recoup the loss in full. This is therefore clearly a case where the Central Government can reasonably be expected to offer *some* direct financial assistance in the first year, in order that the Saurashtra Government may be enabled to abolish their internal customs at one step, instead of over a period of years.

In estimating the amount of assistance required, however, we cannot overlook the fact that the Saurashtra Government would receive an indirect benefit from the Central Government, when food subsidies are enhanced, as from the prescribed date, from the present rate of 50% of the total loss on imported foodgrains to 75 % as in the case of Provinces ; but the additional amount thus receivable will, on present expectations, be relatively small in the case of Saurashtra.

We therefore recommend a measure of direct financial assistance from the Central Government only in the first year of federal financial integration in the shape of an *ad hoc* grant-in-aid equal to Rs. $\frac{C-F}{2}$

where 'C' represents the net internal customs revenue during the basic period (1949-50), and 'F' represents the *additional* amount receivable by the State in the *first* year of federal financial integration, on account of food subsidies (in respect of loss on the sale of imported foodgrains) on the 75 % basis as compared with the amount receivable on the 50 % basis.

We realise that the proposal for the grant of Central assistance constitutes a departure from our main recommendation in respect of internal customs contained in paragraph 22 of Part I of our Report ; but having regard to the relatively small amount involved and the advantages to be derived from the immediate and outright abolition of the internal duties, we consider that there is ample justification for our proposal.

In order that the Saurashtra Government may be encouraged to abolish all internal customs duties even earlier, *i.e.*, during the financial year 1949-50 itself, we recommend that in the event of such abolition, the basic period for the purpose of computing the net loss of revenue from this source should be a period of 12 complete months preceding that in which the abolition is actually given effect to. We also recommend that direct financial assistance from the Centre should be given in that connection in the first year of federal financial integration in the same way as if internal customs duties were abolished on the prescribed date.

(2) We have now to consider the further financial adjustments necessary in regard to the balance of the *net* revenue-gap namely that relating solely to the transfer of ' federal ' revenues and expenditure to the Centre. This has been estimated at Rs. 232 lakhs. We recommend the following scheme :

If ' R ' represents the total *net* revenue-gap, *inclusive of a loss of ' C ' on internal customs*, then

- (i) if C exceeds 40 % of R, the Central Government must guarantee to re-imburse to the Saurashtra Government, *throughout the transitional period*, Rs. (R—C) per annum :
- (ii) if C should fall short of 40% of R by an amount X, the Central Government must guarantee to re-imburse to the Saurashtra Government.

Rs. (R—C) per annum for the first 5 years ;

Rs. (R—C—X/5) in the 6th year ;

Rs. (R—C—2/5X) in the 7th year ;

Rs. (R—C—3/5X) in the 8th year ;

Rs. (R—C—4/5X) in the 9th year ;

Rs. (R—C—X)* in the 10th year.

(3) The guarantee of reimbursement should be implemented by the Central Government as follows :—

(a) By paying to the Saurashtra Government its share of divisible Income-tax (and of all other divisible federal taxes, such as they may be from time to time) computed in the same manner, on the same basis and in accordance with the same principles as applicable to the Provinces of India ; and

(b) to the extent that the amount payable under (a) should fall short of the guaranteed amount in any year, by further paying to the Saurashtra Government an amount equal to the short-fall, as a special *ad hoc* grant-in-aid in that year ;

(c) in any year in which the amount payable under (a) does *not* fall short of the guaranteed amount, the Saurashtra Government will receive the amount due under (a), and the guarantee will be inoperative for that year.

(4) If the Constituent Assembly should ultimately accept the amendment already tabled by the Drafting Committee for extension of the transition period prescribed in Article 258 of the Draft Consti-

(*This is equal to 60 % of R).

tution to 15 years, the guaranteed amount, as it would be in the 10th year under the above scheme, should be continued for a further period of 5 years.

(5) With effect from the prescribed date, the Saurashtra Government should as a direct consequence of federal financial integration, be entitled to receive food subsidies, at the enhanced rate of 75 % of the loss on the sale of imported foodgrains, as in the case of Provinces. These subsidies, and all grants-in-aid, ' bonuses ' and other forms of financial and technical assistance from the Centre, whether in cash or kind, whether on revenue or capital account, and whether by way of loans or outright grants, should be payable to the Saurashtra Government by the Government of India quite independently of the above scheme of transitional adjustments, *i.e., in addition to the amounts guaranteed under sub-paras. (2) to (4) above, and computed on the same basis and principles as applicable to Provinces.*

(6) *Privy Purse.*—It has been assumed in the foregoing proposals that the Privy Purse (approximately Rs. 69 lakhs) will be a charge on the revenues of the State. If, however, a decision is ultimately taken that the Privy Purse should be a " federal " liability the computations of the *net* revenue-gap should be modified accordingly. In other respects no change in the scheme of transitional financial adjustments will be necessary.

If ' P ' represents the amount of the ' Privy Purse ', the total net revenue-gap will be reduced to (R—P), and this figure would have to be substituted for ' R ' in the illustration given in sub-para. (2) above for the purpose of computing the financial adjustments. No other modification in the scheme of transitional adjustments will be called for.

33. Sea Customs (foreign trade)

It is necessary to refer here to the taking over by the Government of India in July 1948 of the Customs rights and administration at Saurashtra Ports. At that time our Committee had not been appointed; indeed the question of federal financial integration in States was not then under consideration at all.

During our discussions with the Saurashtra Government representatives, they referred to the circumstances, in which the Customs administration and rights of the Saurashtra Union were surrendered to the Government of India, and added that the amount of the " compensation " to be paid in consideration thereof, as also the factors to be taken into account in assessing the compensation, were matters

still under discussion with the Government of India. It was also pointed out that the whole question might even have to be referred to arbitration as provided in the Agreement under which the surrender took place. In the circumstances they desired that for purposes of financial integration calculations, the figure for Customs revenue in Statement I should be computed only after the whole question had first been decided in the manner provided under the Agreement.

We have explained to the Saurashtra Government that for the purposes of financial integration, we could not treat Saurashtra differently from any other maritime State and that the figure to be taken into account for the purpose of financial adjustments could under no circumstances exceed the *actual* net Customs revenue collected at Saurashtra Ports. The Committee as such was not concerned with any question of "compensation" for "surrender of rights", as no such question could, in our view, arise so far as federal financial integration was concerned. On the other hand, it would be open to the Government of India (or the Arbitrators) in dealing with the question of "compensation" as it arose in July 1948, to take note of the fact that for the purposes of financial integration under the new Constitution, it would not be possible to take into account anything more than the net actual collections at Saurashtra Ports during the 'basic period' and also that no question of 'compensation' as such could arise or be raised in that connection (*vide* paragraph 31 of Part I of our Report).

It was pointed out to us that the settlement of the question of "compensation" with reference to the circumstances which prevailed in July 1948, might even be reached on the assumption that the customs rights of Saurashtra were completely extinguished as from that date, and that Saurashtra should for purposes of customs duties on foreign trade be considered a non-maritime State thereafter. If such a settlement involving the outright payment of a capital sum to Saurashtra should be reached, we wish to make it clear that for purposes of computations relating to federal financial integration, the annual customs revenue of Saurashtra during 1949-50 should be taken in Statement I as *nil*. It would be beyond our terms of reference to go into the merits of the question as to whether a settlement in such terms could at all arise from the conditions on which the customs administration was taken over by the Government of India in 1948.

Gradualness in taking up the burden

39. The foregoing scheme in effect requires the Saurashtra Government to take up the entire loss arising from abolition of internal customs duties with some financial assistance from the Centre in the first year of integration; and, to the extent to which the loss on internal

customs does not come up to 40 % of the total *net* revenue-gap, the Saurashtra Government is required to take up a further small portion of the loss gradually, between the 6th year and 10th year after integration. But, if the net loss on internal customs should equal or exceed 40 % of the total *net* revenue-gap, the entire gap *less* the loss on internal customs, is wholly to be guaranteed by the Centre throughout the transitional period."

By the 10th or 11th year, if not earlier, we expect that Saurashtra's share of divisible federal taxes will exceed the guaranteed amount. In that event the guarantee will merge into such share.

For the rest, our proposals are designed to secure for Saurashtra immediate financial parity of treatment with the Provinces of India, in all respects, by the Central Government.

On the termination of the transitional period under Article 258, there would be no guaranteed reimbursement; in other words, there would thereafter be no distinction at all between the financial rights of the Saurashtra Government and those of any Province *vis-a-vis* the Central Government.

Scope for development of 'Provincial' Revenues in Saurashtra

40. As in the case of Mysore, we are satisfied that the scheme of federal financial integration proposed by us will not cause any sudden dislocation of the finances of Saurashtra nor will it necessitate reversal of any well-established and desirable administrative and social policies in the State. We have taken into account the State's immediate financial difficulties in proposing, as in the case of Mysore, that the net revenue-gap (excluding internal customs) should be fully guaranteed during the first five years. From the sixth year onwards, the normal development of "Provincial" revenues will enable Saurashtra to bear its share of the burden of financial integration and to improve its overall financial position.

Meanwhile, as indicated in paragraph 37 (1) above, the State will have to depend upon the immediate introduction of Sales Tax to obtain sufficient revenue to cover fully the loss arising from the abolition of internal customs. Other Provincial taxes for which there is appreciable scope for development in Saurashtra, by a gradual increase in rates, in due course, to the level prevailing in Bombay Province, are Entertainment tax, Electricity duty, Stamp duties and Court fees and Sales Tax on petrol.

B. ASSETS AND LIABILITIES

41. The practical application to Saurashtra of the general principles relating to allocation of assets and liabilities (cf. Paragraphs 25 and 30 of Part I of our Report and also Chapter III of this Part) is illustrated below with reference to the position as at 31st March 1949. The final allocation and apportionment should be made on the same lines, on the basis of a complete Statement of assets and liabilities to be compiled as at the date of federal financial integration.

(1) "Unproductive" Capital Assets

The Central Government will take over all unproductive capital assets connected with "federal" functions, Services and revenues; the Saurashtra Government will retain the rest.

(2) "Productive" Capital Assets

(a) The Central Government will take over all productive capital assets connected with "federal" functions. Their book value as at 31st March 1949 was as follows :—

Particulars	Rs. (Lakhs)
Railways	1025.57
Telephones	12.70
Posts and Telegraphs	1.00 (Estimated)
Total	1039.27

There is no "specific" debt connected with these assets.

(b) The Saurashtra Government will retain all other productive capital assets. Their book value on 31st March 1949 was as follows :—

Particulars	Rs. (Lakhs)
Electricity Schemes	75.00
State Transport	4.75
Ports	389.45
Productive Irrigation Works	?
Total	469.20 plus ₹

There is no "specific" debt connecteds with these assets.

(3) Current Assets, Liabilities, Reserves and Funds

(a) It is necessary to deal with liabilities, Funds, Reserves etc. first. The Central Government must take over such of these as are functionally theirs ; the rest will remain with, or be discharged by, the Saurashtra Government. These liabilities etc. arranged in thier order of "priority" stood as follows on the 31st March 1949. (A detailed analysis is given in Statement III appended to this Chapter).

	"Federal"	Others	Total
	(Rs. in Lakhs)		
A. Banking or current Liabilities, Trust Funds, Sinking Fund etc.	?	125.79	125.79
B. Specific "Functional Funds" . . . . .	..	212.30	212.30
C. Reserve Funds for Assets . . . . .	..	..	..
D. Depreciation Funds	188.27	205.03	393.30
E. Reserve for contingencies (un-traced liabilities and Funds) . . . . .	..	50.00	50.00
F. Public Debt less Sinking Fund . . . . .	..	47.00	47.00
Total	188.27	640.12	828.39

(b) The total liquid assets available amounted to Rs. 1472.57 lakhs, as follows : (A detailed analysis is given in Statement IV appended to this Chapter).

	Rs.
	(Lakhs)
Cash and Bank balances	210.85
Bank Deposits	73.04
Shares	271.34
Investments (Earmarked)	615.00
Investments (Not earmarked)	302.34
Total	1472.57

Clearly, there are sufficient investments (earmarked and non-earmarked) to meet all the liabilities and Funds in full. They should, therefore, be first allocated between the two Governments to the extent equivalent to the liabilities, Reserves and Funds allotted to 'each on a functional' basis.

(c) There will remain a surplus of liquid assets over liabilities amounting to Rs. (1472·57—828·39) lakhs equal to Rs. 644·18 lakhs. Of this, approximately Rs. 90 lakhs may have to be written off from the book value of shares in commercial concerns, which have depreciated considerably since they were acquired. The balance of the surplus, approximately Rs. 554 lakhs, will have to be divided between the Centre and the Saurashtra Government in some equitable manner. We recommend that ten per cent of this surplus should be allocated to the Centre for *Capital expenditure* on “federal” objectives in Saurashtra; and in the choice of schemes upon which this sum may be expended, the Saurashtra Government should be consulted.

SAURASHTRA

STATEMENT—I

Particulars of revenues which will be lost to the State as a result of federal financial integration.

(Figures based on the budget estimates for the year ending 31st March 1950).

Section & S. No.	Particulars	Amount (Rs. in lakhs)	Remarks or reference to Foot- notes
<i>A. " Federal " Revenues which will merge with the revenues of the Government of India.</i>			
1	Customs duties on foreign trade	90.00	(1)
2	Corporation tax	16.52	(2)
3	Income-tax (other than Agricultural income-tax and Corporation tax)	73.48	(2)
4	Taxes on stock exchange transactions other than Stamp duties	0.75	(3)
5	Central Excise	37.34	(4)
6	Railways	78.40	(5)
7	Post and Telegraphs	} (—) 1.67	(6)
8	Telephones		
9	Currency and Mint . . . . .	..
10	Interest on federal investments . . . . .	..	(7)
Total of Section A		294.82	
<i>B. Taxes which will be abolished on financial integration</i>			
11	Salt	0.06	(8)
12	Import-export duties on	22.39	} 84.76 (9)
	Internal trade	34.40	
		27.97	
Total of Section B		84.82	
Grand Total		379.64	

SAURASHTRA

Notes Relating to Statement I

(1) Customs duties

The amount of Rs. 90·0 lakhs represents the latest estimate of *net* Customs Revenue at Saurashtra ports (derived from foreign trade) during 1949-50.

(2) Corporation Tax and Income-tax

The amount represents the Saurashtra Government's estimate of collections during 1949-50 on the assumption that the Income-tax Bill of the Saurashtra Government and the rates as now proposed will ultimately be enacted.

(3) Taxes on Stock Exchange transactions

The amount of Rs. 0·75 lakhs shown against item 4 represents the estimate of receipts from transactions in gold, not of the nature of sales tax or turnover tax, but of the nature of taxes (other than stamp duties) on gold contracts.

(4) Central Excise

The amount represents estimated net collections from various Central Excise duties which are *not subject* to any pooling arrangement with the Government of India. Most of the Excise duties are at the same rates as those levied by the Government of India but some are different.

(5) Railways

The amount represents estimated net railway contribution to general revenues after making adequate provision for renewals but without charging interest upon capital at charge. Railway Depreciation Fund and Reserve Funds are not specifically invested separately but there are enough liquid resources and investments to cover such funds as actually exist. Interest upon such investments is credited direct to revenue and not to the Funds themselves.

In the final computation, the average net revenue for the three-years ending 31st March 1950 should be entered against this item.

(6) Posts and Telegraphs and Telephones.

There is an estimated loss of Rs. 1·67 lakhs on Posts and Telegraphs and Telephones systems. The Saurashtra Government enjoys no immunities in the matter of Posts and Telegraphs other than the running of postal department in certain States. There are no Telephones or P. & T. Depreciation or Reserve Funds of any kind.

(7) Interest

Interest on investments which may be ultimately taken over by the Central Government *less* interest on liabilities which may be ultimately taken over by the Central Government will have to be entered against this item. It is not possible to compute this figure at this stage [*vide* Para. 12 (14), Chapter II].

(8) Salt

The revenue of Rs. 0·06 lakhs from salt represents revenue from excise duty and import duty on salt which will be lost upon federal financial integration.

(9) Import-Export duties on Internal trade

The three amounts separately shown against this item represent the following revenues :

Rs. 22·39 lakhs—from import-export duties on Indian (internal) trade by sea ;

Rs. 34·40 lakhs— from import-export duties upon Indian (internal) trade by land ;

Rs. 27·97 lakhs—estimated export duty upon export of ground-nuts to India by land and sea.

If internal customs are totally abolished in Saurashtra during 1949-50, the figure to be entered in the final computation against this item will be the "actuals" for the 12 months immediately preceding that in which internal customs are abolished.

SAURASHTRA
STATEMENT II

**Particulars of Expenditure which will be saved to the State as a
result of Federal Financial Integration**

Figures based on the budget estimate for the year ending 31st March 1950-

Serial No.	Particulars.	Amount (Rs. in lakhs).	Reference to foot- notes.
<i>A.—Expenditure to be taken over by the Government of India.</i>			
1	Cost of collection of taxes :		
	(1) Customs duties on foreign trade	0.15	(1)
	(2) Central Excise duties :		
	Tea and Coffee	} 4.64	
	Matches		
	(3) Income-tax	2.90	
2	National Highways	2.61	(2)
3	Defence (I.S.F. only)	38.74	(3)
4	Aviation	0.49	
5	Lighthouses	0.18	
6	Broadcasting	(—)0.41	
7	Meteorology . . . . .	..
8	Archaeology	0.45	
9	Geology (Survey)	0.18	
10	Patents, Copyrights, Trade Marks, Joint Stock Companies	0.07	
11	“Federal” Civil Works	—	
12	Pensions of Military and other “federal” personnel	8.70	(4)
13	Accounts and Audit	4.61	(5)
	Total of Section A	63.31	
<i>B.—Expenditure which will cease to be incurred on federal financial integration.</i>			
14	Salt . . . . .	..
15	Internal Customs	4.83	(6)
	Total of Section B	4.83	
	Grand Total	68.14	

SAURASHTRA

Notes relating to Statement II

(1) Cost of collection of Customs duties

The expenditure shown here is merely the residual expenditure incurred by the Saurashtra Government on foreign customs. The actual expenditure which is much more than that shown here is now incurred indirectly by the Government of India who administer the foreign customs of the Saurashtra Government since July 1948.

(2) National Highways

No stretch of road has yet been declared as a National Highway, but it is understood from the Ministry of Transport (Roads Organisation) that a road mileage of 87 in Saurashtra will qualify for such declaration.

(3) Defence

The expenditure shown in respect of Defence forces relates to I.S.F. units only; moreover, it excludes the charge for military pensions. In the final computation, any contributions paid by the Government of India should be deducted from the actual booked expenditure.

(4) Pensions

The figure for pensions in respect of military and civil "federal" personnel is not readily available and has been estimated at 15% of the total expenditure (other than pensions) shown in Statement II.

(5) Accounts and Audit

The expenditure in respect of accounts and audit is shown in this Statement for the reason that the Saurashtra Government desire upon federal financial integration that the Accounts and Audit Department should be a Central department exactly as in the case of Provinces.

(6) Internal Customs

The expenditure in respect of internal customs which is shown here is not expenditure which the Central Government will have to incur, but represents expenditure which will be saved to the Saurashtra Government as a result of abolition of duties upon trade with India consequent upon federal financial integration.

SAURASHTRA

STATEMENT III

Analysis of Liabilities as at 31st March 1949.

Section & Serial No.	Particulars	Federal	Pro- vincial	Total	Reference to footnotes
(Rs. in lakhs).					
A. Banking or Current Liabilities					
1	Ways and Means Advance (overdraft Treasury Bill, etc.)	..	..	..
2	Sinking Funds . . . .	..	2.00	2.00	
3	Savings Bank Deposits . .	..	..	..
4	Life Insurance Fund . . .	..	?	..
5	Other Insurance Funds . .	..	..	..
6	State Provident Fund . . .	?	50.00	50.00	(1)
				(Estimated).	
7	Departmental and other Deposits	?	?	..	(2)
8	Endowment Funds . . . .	..	45.98	45.98	
9	Memorial Funds (Smarak Funds) . . . . .	..	21.31	21.31	
10	Gandhi Memorial Fund . . .	..	5.00	5.00	
11	Relief Fund for families of deceased officials . . . .	..	1.50	1.50	
12	Remittances and Suspense .	..	..	..
Total, Section A.		?	125.79	125.79	plus ?
B. Specific Functional Funds					
1	Village Uplift Fund . . . .	..	110.08	110.08	
2	Road Development Fund . .	..	..	..
3	Distress Relief (Public Health distress and Culti- vators' amelioration) . . .	..	46.74	46.74	
4	Famine Relief . . . . .	..	24.15	24.15	..
5	Technical Institution and Education and Village In- dustries . . . . .	..	29.84	29.84	
6	Foreign Education . . . . .	..	1.49	1.49	
Total, Section B . . . . .		..	212.30	212.30	
C. Reserve Funds for Assets.					
		

SAURASHTRA
STATEMENT III—contd.

Analysis of Liabilities as at 31st March 1949

Section & Serial No.	Particulars	Federal	Pro- vincial	Total	Reference to footnotes.
(Rs. in lakhs).					
<i>D. Depreciation Funds</i>					
<i>(Separately invested).</i>					
	Port Depreciation Fund . . . . .	..	205.03	205.03	
	Railway Depreciation Fund	188.27	..	188.27	
	Total, Section D	188.27	205.03	393.30	
<i>E. Non-specific General Funds and Reserves</i>					
Reserve for untraced Funds,					
	Liabilities, etc. . . . .	..	50.00	50.00	(3)
				(Estima- ted.)	
	Total, Section E. . . . .	..	50.00	50.00	
<i>F. Public Debt.</i>					
	Porbandar Water Works	35.00			
	Bhavnagar State Bonds (General)	14.00			
			49.00		
	Less Sinking Fund	2.00	..	47.00	47.00
	Total, Section F . . . . .	..	..	47.00	47.00
	Grand Total . . . . .	. . . . .	188.27	640.12	828.39

Notes relating to Statement III

(1) State Provident Fund

So much of this as relates to personnel who may be transferred to the Central Government will have to be taken over by that Government.

(2) Departmental and other Deposits

Deposits of, or in connection with, "federal" departments and "provincial" departments should be shown here in their respective columns.

(3) Reserve for untraced Funds, liabilities etc.

This may be treated as "provincial" in the first instance; but when complete information becomes available regarding "untraced funds and liabilities" the allocation must be made on a 'functional basis, in respect of each Fund or liability.

CHAPTER VI

PATIALA AND EAST PUNJAB STATES UNION

A. "REVENUE-GAP" ARISING OUT OF FEDERAL FINANCIAL INTEGRATION.

42. Statements I and II appended to this Chapter are designed to bring out the net revenue effect, on the finances of the Patiala and East Punjab States Union of complete integration of its federal finances with those of the Central Government. The computations are based on the budget estimates of the State for its financial year 1949-50 which ends on the 12th April 1950 and are subject to the general limitations indicated in paragraph 6 of Chapter I. The figures have been used for illustrative purposes in the following paragraphs but the final computations must be based on the 'actuals' for 1949-50 except in the case of railway revenue for which the average of the three complete financial years immediately preceding federal financial integration should be taken.

43. The position, as it would emerge upon integration of the 'federal' finances of the Patiala and East Punjab States Union with those of the Central Government in India may be summarised (in round figures) as follows:—

	Rs. in lakhs
Loss of 'federal' revenues	112
Saving of 'federal' expenditure	148
<i>Net gain</i> to Patiala and East Punjab States Union resulting from federal financial integration	36

In arriving at the above figures, allowance has been made for a sum of Rs. 44 lakhs representing the additional expenditure on the Union's Defence forces which the Government of India have already been requested to bear. After making this allowance and deducting the expenditure on non-I.S.F. Units, the *net* defence expenditure of the State has been taken as Rs. 133 lakhs. The Patiala and East Punjab States Union Government however contend that their "normal" military expenditure should be taken as only Rs. 80 lakhs. We are unable to accept this; indeed we cannot adopt any definite figure in the sense proposed until a decision is reached in consultation with the Government of India as to the exact amount to be contributed by the Central Government as its legitimate share of the cost of the Patiala and East Punjab States Union Defence forces during 1949-50. In any event, the proper "normal" expenditure would have to be computed by reference to the normal strength of I.S.F. Unit for the Union as a whole at present scales of cost. However, if the final decision is that the normal expenditure of the State on Defence Forces should be taken as no more than Rs. 80 lakhs, the net gain of Rs. 36

lakhs indicated above as the result of federal financial integration would be converted into a *loss* to the State of Rs. 17 lakhs.

Financial adjustments required

44. (1) A recurring gain to the Patiala and East Punjab States Union as a result of integrating its federal finances with those of the Government of India will mean that a corresponding burden is thrown upon the Centre. We have considered whether any transitional financial adjustments *in favour of the Centre* would be justified in that event, so that the burden may be taken up gradually over a period of years. After discussion with the representatives of the Patiala and East Punjab States Union Government, we have come to the conclusion that the Central Government should waive any claims for such transitional adjustments.

The result will be that there will be no transitional financial adjustments either way in this case; and the Patiala and East Punjab States Union Government would be entitled, upon federal financial integration, to their appropriate share of the divisible pool of income tax (and other divisible federal taxes such as they may be from time to time); the State should also receive grants-in-aid (whether on Capital or Revenue account) and all other forms of financial and technical assistance, exactly in the same manner and on the same basis and principles as applicable to the Provinces of India.

(2) If, however, in consequence of the financial settlement which may be reached on the question of the contribution to be made by the Government of India towards the cost of the Patiala and East Punjab States Union Defence Forces during 1949-50, the result of federal financial integration should be a net loss to the State, it would be necessary for the Centre to guarantee to re-imburse to the Union, the entire *net* revenue-gap (Rs. 17 lakhs according to the figures now before us) for an initial period of 5 years; thereafter, the guaranteed re-imbursement should be gradually reduced under 2 tapering-down arrangement to 60% of the *net* revenue-gap, in the 10th year.

(3) In the event of the Constituent Assembly accepting the amendment to Article 258 of the Draft Constitution, extending the transitional period to 15 years, the amount to be guaranteed in the 10th year under (2) should continue to be so guaranteed for a further period of 5 years.

(4) The guarantee should be operated in the same manner as recommended in the case of other States (*e.g.*, Mysore). Thus, if R be the amount of the net revenue-gap, the Central Government's re-imbursement guarantee will be—

Rs. R per annum for the first 5 years;

Rs. 23/25 R in the sixth year;

- Rs. 21/25 R in the seventh year;
- Rs. 19/25 R in the eighth year;
- Rs. 17/25 R in the ninth year;
- Rs. 15/25 R in the tenth year.

The Centre should implement the guarantee:—

- (a) By paying to the Patiala and East Punjab States Union Government its share of divisible Income-tax (and of all other divisible federal taxes, such as they may be from time to time) computed in the same manner, on the same basis and in accordance with the same principles as applicable to the Provinces of India; *and*
- (b) to the extent that the amount payable under (a) should fall short of the guaranteed amount in any year, by paying to the Patiala and East Punjab States Union Government an amount equal to the short-fall, as a special *ad hoc* grant-in-aid in that year;
- (c) on the other hand, in any year in which the amount payable under (a) does *not* fall short of the guaranteed amount, the Patiala and East Punjab States Union Government will receive the amount due under (a) and the guarantee will be inoperative for that year.

The size of the net revenue-gap is likely to be so small in the case of the Patiala and East Punjab States Union that its share of the divisible pool of Income-tax will exceed the gap, possibly even from the first year of financial integration.

- (5) The foregoing calculations are based on the assumption that 'Privy Purse' will continue to be a charge on the revenues of the State as hitherto. If, however, it should be decided that the 'Privy Purse' (amounting to about Rs. 32 lakhs) should be a charge upon Central revenues, the *net* recurring gain to the Union will be increased to that extent; the Central Government cannot however be expected to take up this wholly new burden all at once. We therefore consider it necessary to recommend transitional financial adjustments for this purpose. They should take the form of the Patiala and East Punjab States Union being required to reimburse to the Central Government the full amount of the 'Privy Purse' in the first year of financial integration, 90% thereof in the second year, 80% in the third year and so on, so that the entire burden would be passed on to the Centre in the 11th year.

B. ASSETS AND LIABILITIES

45. The practical application to the Patiala and East Punjab States Union of the general principles relating to the allocation of the assets and liabilities discussed in paragraphs 25 and 30 of Part I of our Report and further elaborated in Chapter III of this Part is illustrated below. The final allocation and apportionment should be made on the same lines, on the basis of a complete Statement of assets and liabilities to be compiled as at the date of federal financial integration.

(i) Unproductive Capital assets

The Central Government will take over by inventory all unproductive capital assets connected with 'federal' revenues and 'federal' services. The State will retain the rest.

(ii) Specific productive capital assets

(a) The Central Government will take over all productive capital assets connected with 'federal' functions. These are :

	Rs. (lakhs)
Railways (Book value)	183·93 (on 31-3-47)
Telephones "	? "
Posts and Telegraphs "	? "
TOTAL	183·93 + ?

There is no "specific" debt connected with these assets.

(b) The Patiala and East Punjab State Union Government will retain all other productive capital assets. They are :—

	Rs. (lakhs).
*Electricity schemes	?
*State Transport (other than Railways)	?
*Industrial and Commercial concerns	?
Productive Irrigation works	?
TOTAL	?

*Departmentally operated

There is no "specific" debt connected with these assets.

(iii) Current assets, liabilities, Reserves and Funds.

(a) As in the case of other States, we must deal first with current liabilities, Funds, Reserves etc. Such of these liabilities and Funds as are functionally of a "Central" character will be allocated to the Central Government; the rest will remain with, or be discharged by, the Patiala and East Punjab States Union Government. All non-

specific Funds will have to be apportioned between the two Governments.

These liabilities, Funds, etc., so far as known, may be grouped as follows:—

<i>Particulars</i>	<i>(Rs. in lakhs)</i>		<i>Total</i>
	<i>"Central"</i>	<i>"Provincial"</i>	
A. <i>Banking or current liabilities</i>	?	?	?
B. <i>Specific Funds:</i>			
Civil List Reserve Fund . . . . .	..	20.57	20.57
Village Improvement Fund . . . . .	..	25.00	25.00*
Relief Fund . . . . .	..	30.00	30.00
Backward Classes Fund . . . . .	..	10.00	10.00
Hospital Fund . . . . .	..	15.22	15.22
C. <i>Non-specific Funds :</i>			
Development Fund	?	?	60.00*†
D. <i>Depreciation Reserve Funds</i>	0.30	2.00	2.30

Notes.—*For facility of illustrating the principles involved, the expenditure proposed from these Funds in 1949-50 has been ignored.

†This will have to be apportioned between the Central Government and the Government of the Patiala and East Punjab States Union in accordance with the *needs* for development expenditure on "Central" and "Provincial" purposes respectively in the State.

(b) The total liquid assets and investments likely to be available at the end of 1949-50 have been estimated as follows:—

<i>Particulars</i>	<i>(Rs. in lakhs)</i>
1. Cash and Bank balances	184.81
2. Govt. and other authorised securities	381.30
3. Debentures }	33.37
4. Shares }	
5. Properties (movable only)	?
6. Loans (Mortgages)	?
Loans (Banking)	?
7. Other Loans and advances etc.	?

Advances for purchase of Foodgrains, will be included under item 7.

The amount of such advances will be represented actually by

(i) cost of stocks of foodgrains on hand; and

(ii) accumulated losses which should however be written off to Revenue before the date of federal financial integration

Clearly, there will be sufficient investments and cash resources to meet all the liabilities and Funds in full. They should, therefore, be first allocated between the two Governments to the extent of the liabilities and Funds allocable to each. In this connection, we recommend that 10% of the general Development Fund, which now stands at Rs. 60 lakhs, should be allocated to the Centre for capital expenditure on "federal" purposes within the State; and in the choice of schemes the State Government should be consulted.

(c) There will then remain a surplus of liquid or Current Assets over liabilities. This will have to be allocated between the Centre and the State on some equitable basis with reference to the relative needs for Capital and developmental expenditure upon "federal" and "provincial" objectives respectively in the State. This is considered in the following paragraph.

46. In the course of our discussions with the Patiala and East Punjab States Union Government, they stated that in their view it would not be fair to their people if no payments should be made for the transfer of 'federal' assets to the Centre. They were however prepared to fall in line with other States in accepting the principle of 'no compensation' for such assets, if the Committee would accept their proposals for two concessions which they considered justified in view of the special needs of their State. The first was that the Central Government should not be allotted any share out of the *net Surplus* of liquid assets and the second that the Central Government should guarantee for a period of five years the net revenue-gap of about Rs. 17 lakhs which would arise upon federal financial integration, on the assumption that the normal military expenditure of the State should be Rs. 80 lakhs only.

We have already dealt with the second request in Section A of this Scheme-Report and have recommended that the Central Government should guarantee the *net revenue-gap*, if any, in full for a period of five years, and thereafter on a gradually diminishing scale for the next five or ten years, as the case may be. As we have pointed out in that connection, however, the question as to what should be the normal military expenditure for the Union is one which should be settled by the Patiala and East Punjab States Union Government in direct consultation with the Government of India.

With regard to the request relating to the apportionment of the net surplus of the liquid assets, we are satisfied that there is urgent need for the rapid development of roads in this area which is of special strategic importance; this would, in our opinion, justify the

allocation to the State of a larger share of the net surplus than in the case of other States. We accordingly recommend :—

- (a) that the Centre should be allotted only five per cent of the *net* surplus of liquid assets, for capital expenditure on schemes of a 'federal' character within the State; and that in the choice of schemes, the Patiala and East Punjab States Union Government should be consulted; and
- (b) that a further five per cent of the *net* surplus should be earmarked for expenditure by the State on roads of strategic importance; and that in this matter the Patiala and East Punjab States Union Government should act in consultation with the Central Government of India in the choice of particular Road development schemes.

General

47. While the Scheme-Report for this State has been drawn up after full discussion with the Patiala and East Punjab States Union Government and after a consideration of the detailed comments and suggestions offered by them, we must add that the Patiala and East Punjab States Union Government have made a specific reservation that they should not be regarded as committed to the acceptance of the principle of federal financial integration from a *political* point of view, pending further discussion with the Government of India.

PATIALA AND EAST PUNJAB STATES UNION

STATEMENT I

Particulars of revenues which will be lost to the State as a result
of federal financial integration.

(Figures based on the budget estimates for the year ending 12th
April 1950)

Serial No.	Particulars	Amount (Rs. in lakhs)	Reference to foot notes.
<i>A.—“Federal” revenues which will merge with the revenues of the Government of India.</i>			
1	Customs duties on foreign trade . . . . .	..
2	Corporation Tax	4.93	(1)
3	Income-tax (other than agricultural income-tax and Corporation Tax)	55.07	(1)
4	Central Excise	15.00	(2)
5	Railways (Net receipts)	34.50	(3)
6	Posts and Telegraphs	} 2.27	(4)
7	Telephones (Net receipts)		
8	Currency and Mint . . . . .	..	(5)
9	Interest on federal investments	?	(6)
Total of Section A		111.77	
<i>B.—Taxes which will be abolished on financial integration.</i>			
	Salt . . . . .	..
11	Import-Export duties on Indian (Internal) trade . . . . .	..
Total of Section B		..	
GRAND TOTAL		111.77	

PATIALA AND EAST PUNJAB STATES UNION

Notes relating to Statement I

(1) Corporation tax and Income-tax

Income-tax is now imposed throughout the territories of the Union. Estimates of collections under 'Provisional' assessments are included under revenue (Rs. 14 lakhs).

(2) Central Excise

This is analysed as follows :—

	Rs. in lakhs.	
Sugar . . .	3.00	} Estimated share under "pooling" arrangements with the Government of India.
Matches . . .	4.00	
Tobacco . . .	8.00*	
	15.00	

*The tobacco revenue estimates are Rs. 12.50 lakhs but this represents a consolidated income from "Tobacco Contracts" which are of the nature of Excise Duty *cum* vend-fee licences. It is estimated that "vend-fees" properly so called would not yield more than Rs. 4.50 lakhs; excluding this amount as "Provincial" revenue, the balance is treated as "Central Excise".

(3) Railways

The amount shown against this item represents net revenue from State lines worked by the Indian Government Railways. The Patiala and East Punjab States Union does not itself operate any Railways.

As audited figures are likely to be available for the three years ending 1949-50, the average net receipts for these three years must be taken against this item in the final computation.

Posts and Telegraphs and Telephones

The amount represents *net* revenue from Posts and Telegraphs (share from Government of India), Telephones and Radio licences. The value of Postal "immunities" enjoyed by the Covenanted States has also been included (Faridkot Rs. 1,000, Kalsia Rs. 450, and Malerkotla Rs. 900, representing annual value of Service Postage Stamps supplied free to these states by the Government of India).

(5) Currency and Mint

The "Tank-sala" in the Patiala and East Punjab States Union is *not* a mint for coining legal tender.

(6) Interest on federal investments

Against this item must be entered interest *receivable* (in future) upon any liquid investments which may be allocated to the Government of India *less* interest payable by them upon any liabilities or Funds allocable to them. The amount to be thus entered cannot be filled up now [*vide* paragraph 12 (14) Chapter II].

PATIALA AND EAST PUNJAB STATES UNION

STATEMENT II

Particulars of Expenditure which will be saved to the State as a result of federal financial integration.

(Figures based on the budget estimates for the year ending 12th April 1950).

Serial No.	Particulars	Amount (Rs. in lakhs)	Reference to footnotes
<i>A.—Expenditure to be taken over by the Government of India</i>			
1	Cost of collection of taxes:		
	(1) Customs duties on foreign trade . . . . .	..
	(2) Central Excise duties	2·00	(1)
	(3) Income-tax	2·25	
2	National Highways . . . . .	..	(2)
3	Defence (I.S.F. only)	133·00	(3)
4	Aviation . . . . .	..
5	Broadcasting . . . . .	..
6	Meteorology	0·15	
7	Archaeology . . . . .	..
8	Geology (Survey) . . . . .	..
9	Patents, Copyrights, Trade Marks, Joint Stock Companies	Negligible	
10	“Federal” Civil Works . . . . .	..
11	Pensions of Military and other “federal” personnel.	8·40 1·00	(4)
12	Accounts and Audit	1·00	(5)
	Total of Section A	147·80	
<i>B.—Expenditure which will cease to be incurred on federal financial integration.</i>			
13	Cost of collection of internal customs . . . . .	..
	Total of Section B . . . . .	..
	GRAND TOTAL	147·80	

PATIALA AND EAST PUNJAB STATES UNION

Notes relating to Statement II

(1) Central Excise Duties

The amount against this item is estimated on a pro-rata basis in proportion to revenue.

(2) National Highways

Under the existing arrangements, the entire mileage of National Highways in the Union is already maintained at the cost of the Central Government. There is therefore no expenditure to be taken into account for the purposes of this Statement.

	Rs. (in lakhs)
(3) Defence (I.S. Forces)	
Budget figure (gross)	198
Deduct Home Guards, etc.,	12
„ Other Non-I.S.F. Units (A.H.Q., and Narendra Guards)	9
„ Contribution expected from Govt. of India	44
	<hr/>
Net expenditure (as in Statement II)	65
	<hr/>
	133

The Patiala and East Punjab States Union Government, however, contend that their "normal" military expenditure should be taken at only Rs. 80 lakhs; we cannot however adopt this figure until a decision is reached in consultation with the Government of India as to the exact amount to be contributed by the Centre as its share of the cost of the Patiala and East Punjab States Union Defence forces during 1949-50.

(4) Pensions of military and other "federal" personnel

The non-effective military expenditure including pensions has been taken at Rs. 8.40 lakhs; the civil pensions expenditure has been estimated at 1/9th of the civil expenditure shown in Statement II.

(5) Accounts and Audit

The figure represents expenditure on accounting and audit not only of "federal" transactions but also of the "Provincial" transactions, on the assumption that the entire Accounts and Audit Department will be "centralised" after integration of federal finances.

CHAPTER VII

VINDHYA PRADESH

A. "REVENUE-GAP" ARISING OUT OF FEDERAL FINANCIAL INTEGRATION

48. According to the Budget Estimates for the State financial year commencing from the 1st October 1948, the average annual revenue expected to be realised in Vindhya Pradesh from "federal" taxes and other sources of revenue of a "federal" character, amounts to Rs. 5.61 lakhs (gross); *vide* Statement I appended.

It will be further noticed from Statement I that the State expects to realise during 1948-49 a revenue of Rs. 47.00 lakhs (gross) from import-export duties on 'internal' trade with the rest of India.

Statement II shows particulars of expenditure which will be saved to the Vindhya Pradesh Union after federal financial integration. The amount of expenditure that will be taken over by the Central Government will be Rs. 22 lakhs and the amount that will be saved by the abolition of internal customs will be Rs. 8.26 lakhs; these figures are also based on the Budget Estimates for 1948-49 and are, for the present, useful only for illustrative purposes.

The final computations in respect of Statements I and II must be made in due course when the actuals for the 'basic period' are known. This period in the case of Vindhya Pradesh will be the State's financial year, 1948-49 (*vide* paragraph 4, Chapter I).

49. The position as it would emerge upon integration of 'federal' finances of Vindhya Pradesh may be summarised, in round figures as follows :—

	(Rs. in lakhs)		
	Internal customs	"Central" Revenues	Total
Loss of Revenue	47	6	53
Saving of Expenditure	8	22	30
	39	(—)16	23

There is thus a "profit" of Rs. 16 lakhs on the integration of "federal" revenues and expenditure proper; nevertheless, the net over-all result is a revenue-gap of Rs. 23 lakhs, contributed wholly by the loss of revenue from internal customs duties.

Financial adjustments required

50. We now proceed to consider the scheme of financial adjustments which would be required on the basis of the above figures during the transitional period:

(1) *Internal Customs*.—The (net) loss of revenue which would result from the total abolition of internal customs duties (Rs. 39 lakhs) is not strictly the consequence of federal financial integration as such, but arises from the operation of Articles 16 and 244 of the Draft Constitution. The loss must therefore ordinarily be made good wholly by the Vindhya Pradesh Government itself. As it happens, however, the State will gain to the extent of Rs. 16 lakhs by the transfer of 'federal' revenues and 'federal' expenditure to the Government of India. This gain will at once be available to meet a substantial part of the loss resulting from the abolition of internal customs duties; for the rest, the State will have to develop other sources of revenue, mainly Sales Tax, to cover the balance of the loss (Rs. 23 lakhs).

The revenue from Sales Tax is not however likely to develop rapidly enough to cover this loss fully for about two years. The alternatives open to the State are therefore, either to spread the abolition of internal customs over a period of 2 or 3 years, or to abolish the internal customs *in toto* from the prescribed date and look to the Centre for an *ad hoc* grant-in-aid to supplement the revenue from Sales Tax for the first two years. We unhesitatingly recommend the latter alternative, as the amount of assistance required is not considerable and there are obvious advantages to be secured by a total abolition of internal customs immediately upon federal financial integration.

We suggest that the scale of financial assistance from the Centre for this purpose should be Rs. 16 lakhs in the first year and Rs. 8 lakhs in the second year, as an *ad hoc* grant-in-aid. By that time, Sales Tax and other 'provincial' sources of revenue should have developed sufficiently to make up the entire loss.

(2) From the Central Government's point of view there will be a net burden of Rs. 16 lakhs, immediately upon federal financial integration; to this figure must be added the grants-in-aid for the abolition of internal customs referred to above.

(3) There will be a further burden on the Centre, if it is decided that the responsibility for the "Privy Purse" of about Rs. 23 lakhs must be assumed by the Central Government as their liability. In that event, we recommend that there should be a transitional arrangement of a "tapering down" nature for a ten-year period, during which the Vindhya Pradesh Government would reimburse to the Central Govern-

ment the entire amount of 'Privy Purse' in the first year, 90% thereof in the second year, 80% in the third year, and so on; from the 11th year onwards there would be no reimbursement and the expenditure would be wholly borne by the Central Government.

The grant-in-aid referred to in sub-para. (1) above will be set off against the amount to be reimbursed on account of Privy Purse in the first two years.

(4) The Vindhya Pradesh Union will be entitled to receive its appropriate share of income-tax (and other divisible 'federal' taxes if any) as from the date of federal financial integration. The Union will also be eligible for all grant-in-aid on Capital or Revenue account and all other forms of financial and technical assistance from the Central Government, on the same principles and on the same basis as applicable to Provinces.

(5) *General Remarks.*—The foregoing scheme (which has been drawn up after discussion with the Council of Ministers, Vindhya Pradesh) throws a somewhat heavy burden on the Centre which is perhaps inevitable in the special circumstances of the case. On the other hand, apart from the necessity to replace 'internal customs' revenue by Sales Tax, no financial dislocation of any kind will be caused to the State as a result of federal financial integration.

Specific matters concerning "federal" revenues and "federal" Service Departments

51. (1) **Corporation Tax and Income Tax.**—No taxes on income are levied in the State; the introduction of these taxes will be in accordance with the general plan described in the Annexure to Part I of our Report.

(2) **Central Excise.**—The administration of Central Excise duties in Vindhya Pradesh has not been satisfactory in the past; indeed collection of Tobacco Excise was completely stopped soon after the ex-Ministry took office in 1948. The most satisfactory arrangement for Vindhya Pradesh would be to hand over to the Central Government straight away the collection of Central Excise duties in that area. The amount collected up to the prescribed date less cost of collection may be paid over to the Vindhya Pradesh Government, subject to any adjustments necessary under the pooling arrangements with the Government of India; thereafter, the revenues will accrue wholly to the Central Government.

(3) Administration of "federal" Departments.—We consider it desirable that the Central Government should assume *direct* administration not only of "federal" taxation but also of *all* other "federal" functions in Vindhya Pradesh as from the date of federal financial integration.

(4) Audit and Accounts.—As the existing arrangements in the Vindhya Pradesh Union for 'audit and accounts' are not at all satisfactory and as a great deal of organisational work has still to be done, it is particularly desirable that the Auditor-General of India should assume responsibility for 'audit and accounts' in Vindhya Pradesh as from the prescribed date.

B. ASSETS AND LIABILITIES

52. No consolidated accounts showing the transactions and balances under Capital, Remittance, Debt and Deposits heads have been prepared or published so far, for the Vindhya Pradesh Union as a whole. The replies furnished by the Union to the Committee's Questionnaire show that :—

(a) there are no specific *productive* capital assets 'federal' or 'provincial';

(b) current assets (cash balance and investments), current loans and advances etc. totalled Rs. 304.64 lakhs, taking into account the balances of Rewa State at the end of September 1948 and those of the other Covenanting States at the time of handing over. The position at the end of March 1949 was as follows:—

	Rs. in lakhs
Cash and Bank Balances	106.16
Investments	87.11

(c) a figure of Rs. 77.96 lakhs has been given in the answer to the Questionnaire as representing current liabilities, but full information is lacking as to the exact amounts at the credit of particular deposit heads or Funds.

It has been further ascertained that—

(i) a sum of Rs. 3.5 lakhs at the credit of the Coal Mines Labour Welfare Fund has been kept out of the Government accounts altogether;

(ii) the amount creditable to the Coal Mines Stowing Cess Fund has been merged in the General Revenues and separate accounts have not been kept;

(iii) Central Road Fund allotments have not also been accounted for separately;

(iv) Investments to the extents of Rs. 15 lakhs are held on account of a Civil List Investment Fund.

53. The allocation of assets and liabilities will be made on the following lines.

Any "unproductive" assets actually in use by the Department concerned with "federal" subjects will be taken over by the Central Government by inventory. No valuation is necessary or need be attempted.

There are apparently no "productive" capital assets of a "federal" character to be similarly transferred.

The "current" liabilities relating to "federal" matters (such as Provident Funds of personnel taken over by the Government of India in connection with the administration of "federal" subjects) and funded liabilities of a "federal" character such as Coal Mines Labour Welfare Fund, Coal Mines Stowing Cess Fund, will have to be taken over by the Centre, together with a corresponding amount of "liquid" assets.

For the rest, the *net* surplus of cash and liquid investments, after providing for all current and funded liabilities is likely to be very small, and we recommend that the Centre may, as a matter of concession, refrain from claiming any share of such assets on federal financial integration.

VINDHYA PRADESH UNION

STATEMENT I

**Particulars of Revenues which will be lost to the Vindhya Pradesh Union
as a result of Financial Integration with the Central Government.**

(Figures based on Budget Estimates for the Financial Year—1st
October 1948 to 30th September 1949).

Serial No.	Particulars	Amount (Rs. in lakhs)	Remarks or reference to footnotes
<i>A. "Federal" Revenues which will merge with the revenues of the Government of India.</i>			
1.	Corporation tax and Income-tax	..	(1)
2.	Opium . . . . .	..	(2)
3.	"Central" Excise		
	(i) Matches	3.30	(3)
	(ii) Tobacco	1.00	(3)
4.	Salt . . . . .	..
5.	Railways . . . . .	..
6.	Posts & Telegraphs	1.31	(4)
7.	Miscellaneous . . . . .	..
	Total, Section A.	5.61	
<i>B. Taxes which will be abolished on financial integration.—</i>			
8.	Import-Export duties on inter- nal trade	47.00	
	GRAND TOTAL	52.61	

VINDHYA PRADESH UNION

Notes Relating to Statement I

(1) Corporation tax and Income-tax

No Income-tax or Corporation Tax is levied in Vindhya Pradesh.

(2) Opium

Opium is not cultivated in Vindhya Pradesh.

(3) Central Excise

(i) *Matches*.—The figures of Rs. 3·30 lakhs is based upon past actuals for Rewa State (Rs. 2·15 lakhs pertaining to the year 1946-47 but received in 1947-48) and for Bundelkhand States (Rs. 0·56 lakhs for 20 States in respect of 1946-47). Figures for other States in Bundelkhand are not available. The figure of Rs. 3·30 lakhs has been adopted by the Vindhya Pradesh Government in their Budget Estimates for the year 1948-49. There is only one match factory in the whole of the Union yielding about Rs. 4,000 as duty, but this is not relevant for the purpose of this Statement.

(ii) *Tobacco*.—Tobacco Excise is not at present collected in the Union except in Datia where the earlier arrangements are being continued. The Government of India are however pressing the State Government to collect duty on tobacco at the same rate as in the rest of India, and it is likely that necessary arrangements will soon be made. A figure of Rs. 1·00 lakhs is the estimated revenue for a year for the whole Union.

(4) Posts and Telegraphs

The figure of Rs. 1·31 lakhs is made up of

	Rs. (lakhs)
(i) Surplus revenue from the telegraph office at Rewa	0·23
(ii) Broadcasting licence fees	0·02
(iii) Value of free service stamps supplied to Datia and Panna	0·06
(iv) Free carriage of official dak within Rewa State limits valued at	1·00
	1·31

With regard to item (iv), a monthly subsidy of Rs. 430 is paid to the Indian P & T Department in connection with this arrangement. It is noticed from the earlier records that the concession of free carriage of official mails within the State limits was granted in return for a monthly contribution of Rs. 180. This figure was subsequently increased to Rs. 430 at a later date. On a strict view of the matter, the arrangement cannot be regarded as an "immunity", but the Davidson Committee considered that the cost of the service (then estimated at Rs. 54,400) less Rs. 5,160, the contribution made by the State, should be treated as an "immunity". More recently, the Expert Committee on the financial provisions of the Draft Constitution have estimated the value of the immunity at Rs. 1.72 lakhs, but the State authorities agree with us that this estimate is too high and that it would be more appropriate to take a figure of Rs. 1.00 lakh for the purpose.

In addition to the above-mentioned items, an expenditure of Rs. 1.00 lakh is incurred on the State Postal Service. We have ignored this item as there is no postal service in the State in the proper sense of the term for the benefit of the public but only local arrangements for the carriage of official dak to places not served by the Indian Post Office.

We understand that there were postal systems for the use of the public in one or two of the Covenanted States in Bundelkhand but those services have since been discontinued.

There is also a small amount of Rs. 5,000 which is paid by the Indian P & T Department for the carriage of mails of the Panna Post Office from Satna. As this constitutes a payment for services rendered, it has not been treated as an immunity.

VINDHYA PRADESH UNION

STATEMENT II

Particulars of Expenditure which will be saved to the Union
Government after Federal Financial Integration(Figures based on Budget Estimates for the Financial year—1st
October 1948 to 30th September 1949).

Serial No.	Particulars	Amount (Rs. in lakhs)	Remarks or reference to foot- notes
<i>A. Expenditure that will be taken over by the Central Government.</i>			
1.	Cost of collection of Central Excise duties	0.25	(1)
2.	National Highways (120 miles at Rs. 3,000 per mile)	3.60	(2)
3.	Defence (excluding cost of non-I. S. F. Units)	15.00	(3)
4.	Aviation . . . . .	..
5.	Broadcasting . . . . .	..
6.	Meteorology . . . . .	..
7.	Archaeology	0.19	
8.	Geology (Survey) . . . . .	..
9.	Patents, Copyrights, Joint Stock Com- panies, etc. . . . .	..
10.	Pensions—of military and “federal” personnel	0.37	(4)
11.	Audit in respect of ‘federal’ transac- tions	3.00	(5)
	Total, Section A.	22.41	
<i>B. Expenditure that will cease to be incurred on federal financial inte- gration.—</i>			
1.	Internal Customs	8.26	
	GRAND TOTAL	30.67	

VINDHYA PRADESH UNION**Notes relating to Statement II****(1) Cost of Collection**

The cost of collection has been estimated with reference to the actuals of Rewa State for 1947-48.

(2) National Highways

The total "National Highways" mileage in Vindhya Pradesh as furnished by the Ministry of Transport is 168 ; of this the responsibility for the maintenance of 48 miles is already borne by the Central Government under the existing arrangements. The cost of maintenance of the balance of 120 miles has been estimated at Rs. 3,000 per mile, the all-India average figure furnished by the Ministry of Transport.

(3) Defence (excluding non-I.S.F. Units)

A lump sum of Rs. 16·20 lakhs has been provided in the budget ; this will cover the cost of non-ISF units, the responsibility for which will *not* be taken over by the Central Government upon federal financial integration. Allowing for this factor, the figure for expenditure on I.S.F. units may be taken as Rs. 15·00 lakhs.

(4) Pensions

The amount shown against Pensions has been estimated with reference to the actuals for Rewa State for 1947-48, which amounted to Rs. 0·27 lakhs inclusive of pensions for non-ISF units. There are also Indian States Forces stationed in Datia and Panna. The size of these forces is about one-fourth of those in Rewa.

(5) Audit and Accounts

The entire cost of audit and accounts (roughly estimated at Rs. 3·00 lakhs) has been taken into account on the assumption that the Government of India will have to take over the responsibility for audit and accounts of *all* transactions of the Union, as in the case of Provinces.

CHAPTER VIII

RAJASTHAN

A. "REVENUE-GAP" ARISING OUT OF FEDERAL FINANCIAL INTEGRATION

54. Statements I and II appended to this Chapter bring out the net revenue effect upon the finances of Greater Rajasthan of—

- (i) the transfer of "federal" revenues and "federal" expenditure to the Centre ; and
- (ii) the abolition of land customs duties as a result of federal financial integration.

The figures in Statements I and II are based mainly upon the Budget or Revised Estimates of the various covenanting States of Rajasthan for their respective financial years 1948-49 and are subject to the general limitations indicated in paragraph 6 of Chapter I. They have been utilised here merely to illustrate the scheme of financial (revenue) adjustments discussed in the following paragraphs. The final computations must be made, in due course, on the same basis as in Statements I and II and following the same principles with reference to the actuals of the prescribed "basic period".

55. The choice of particular accounting periods to make up the "basic period" for the Rajasthan Union as a whole presents considerable difficulty. We have stated in paragraph 4 of Chapter I that in the case of Unions generally it will be necessary to take only one year—namely, the last completed financial year before federal financial integration—as the basic period, except in the case of Railways for which audited figures are likely to be available for a three year period. The present United State of Rajasthan will not however complete its first financial year before the 1st April, 1950. Consequently, it is necessary to prepare the computations with reference to the last completed financial year (before the prescribed date) of each *unit* within the Union namely,

- (i) Former Rajasthan Union,
- (ii) Jaipur,
- (iii) Jodhpur,
- (iv) Bikaner,
- (v) Jaisalmer,
- (vi) Matsya.

Allowance must be made, however, for one important factor, namely Internal Customs, the revenue and expenditure relating to which would be affected by the abolition of inter-statal customs barriers, consequent on the merger of these units to constitute the present Rajasthan Union. Accordingly, the figures in the illustrative

Statements I and II attached have been compiled with reference to the following accounting periods after making an allowance for inter-State customs duties :

Former Rajasthan Union	1-10-1948 to 30-9-1949
Jaipur	1-9-1948 to 31-8-1949
Jodhpur	1-10-1948 to 30-9-1949
Bikaner	1-4-1948 to 31-3-1949
Jaisalmer	1-11-1948 to 31-10-1949
Matsya	1-4-1948 to 31-3-1949

NOTE.—(i) Although Bikaner and Matsya are following the same financial year as the Government of India and would therefore complete their financial year 1949-50 on the 31st March 1950, it is not possible to adopt that year as the basic period for these two Units, as separate accounts are not likely to be maintained for them for the whole year 1949-50 in view of their merger into Greater Rajasthan. The financial year 1948-49 has accordingly to be adopted as the basic period for all covenanting Units.

(ii) For Railway revenue, in respect of which audited figures for earlier years are likely to be available, the average net receipts for the three completed financial years of the Railways concerned immediately preceding the prescribed date should be adopted for purposes of Statement I.

56. The effect of federal financial integration on the Revenues and Expenditure of Greater Rajasthan, as brought out by Statements I and II, may be summarised as follows :

	Abolition of internal cus- toms and Salt duty compensations	Transfer of “federal” Revenues & Expenditure to the Govt. of India	Total
	Rs. (in lakhs)	Rs. (in lakhs)	Rs. (in lakhs)
Loss of Revenue	332	225	557
Saving of Expenditure	30	248	278
Net loss.	302	(—) 23	279

Although complete information in regard to a few items was not available to the Committee, it is not likely that the figures given

here will require any considerable modification, so as to affect the general plan of adjustments discussed in this Chapter.

It would seem that there will be a net 'gain' of Rs. 23 lakhs to the United State of Rajasthan upon the integration of their 'federal' revenues and 'federal' expenditure with those of the Central Government ; the State will, however, be faced with a very serious problem as a result of the abolition of internal customs which at present yields nearly three crores of rupees per annum.

Financial adjustments required

Land Customs

57. (1) As already explained (paragraph 22 of Part I), the loss of revenue resulting from the abolition of internal customs duties arises from the operation of Articles 16 and 244 of the Draft Constitution and must be made good by the State itself by recourse to alternative forms of taxation. Similarly, the loss on account of the discontinuance of the Salt Duty Compensations (Rs. 15 lakhs included in the figures of Rs. 302 lakhs shown in paragraph 56) must also be borne by the State, as no "federal" revenue by way of duty is being actually raised from salt.

After discussion with the Rajasthan Government, we are convinced that, in view of the very large amount involved, it will not be possible to secure the immediate abolition of internal customs in this Union. Steps must, however, be taken to ensure that the abolition will be achieved in stages, over a period not exceeding five years. The abolition of duties on some items, the scaling down of duties on others and the introduction of a carefully devised system of Sales Tax must therefore be taken in hand at once. If the revenue from Sales Tax should reach the level of Rs. 3 crores earlier than in the fifth year, the complete abolition of the internal customs duties must be correspondingly accelerated.

As an immediate step, the Rajasthan Government should (especially with effect from the date from which federal financial integration may become effective) observe the principles laid down by the Expert Committee on the financial provisions of the Union Constitution (*vide* paragraph 22 of Part I of our Report).

"Federal" Revenues and Expenditure

(2) As indicated above, our computations show that so far as 'federal' revenues and 'federal' items of expenditure are concerned, there is likely to be a net gain of the order of Rs. 23 lakhs to the Rajasthan Union. We do not consider it necessary to suggest any transitional financial adjustments in respect of this relatively small burden which would be thrown on the Centre.

The Rajasthan Government will therefore *with effect from the date of federal financial integration*, be entitled to their appropriate share of Income-tax (and other divisible 'federal' revenues such as they may be from time to time) and also be eligible for all grants-in-aid, on Capital or Revenue account, food subsidies at the enhanced rate of 75% of the loss on the sale of imported foodgrains as in the case of Provinces and all other forms of financial and technical assistance from the Centre, on the same basis and on the same principles as applicable to Provinces.

(3) If, however, when the final computations are made, with reference to the actuals of the prescribed 'basic period', it should be found that the Rajasthan Union has incurred a net loss instead of a gain as a result of federal financial integration, it will be necessary to provide for a measure of gradualness in regard to the taking up of that burden by the Union.

The following will be the scheme of financial adjustments in that event :

(i) The Central Government must guarantee the reimbursement to the State of the entire amount of the *net* revenue-gap of federal revenues, resulting from federal financial integration, for the whole transitional period of 10 years. The guarantee must be continued for a further period of five years if Article 258 of the Draft Constitution is amended so as to extend the transitional period to 15 years.

NOTE.—The loss from the abolition of land customs duties itself accounts for more than 40 per cent of the initial over-all *net* loss ; there is consequently no reduction of the amount of the guarantee from the fifth year onwards—*vide* note below paragraph 32 of Part I of our Report.

(ii) The Centre should implement the guarantee :

(a) by paying to the Rajasthan Government its appropriate share of divisible Income-tax (and of all other divisible federal taxes, such as they may be from time to time) computed in the same manner, on the same basis and in accordance with the same principles as applicable to the Provinces of India ; *and*

(b) to the extent that the amount payable under (a) should fall short of the guaranteed amount in any year, by paying to the Rajasthan Government an amount equal to the short-fall, as a special *ad hoc* grant-in-aid in that year ;

(c) on the other hand, in any year in which the amount payable under (a) does *not* fall short of the guaranteed amount

the Rajasthan Government will receive the amount due under (a) and the guarantee will be inoperative for that year.

(iii) Apart from the share of divisible 'federal' taxes referred in (ii), the Rajasthan Government will, in addition be entitled to all other forms of financial and technical assistance from the Centre mentioned in sub-para. (2) above.

Privy Purse

(4) The estimate [in sub-para. (2) above] of the 'net' gain of Rs. 23 lakhs to Rajasthan upon federal financial integration is based on the assumption that 'privy purse' would continue, as at present, to be a charge on the revenues of the Union. If however, it should be decided that 'privy purse' should be made a charge on 'Central' revenues, there would be an additional burden on the Centre to the extent of nearly a crore of rupees. In that event we recommend that the Rajasthan Union should reimburse the Central Government the amount of the "privy purse" *in full* for the first year, 90% in the second year, 80% in the third year, and so on, on a tapering down sale until the tenth year. From the 11th year, there would not be any reimbursement and the Centre must then take up the entire burden.

The Rajasthan representatives appreciated the above proposal and strongly urged before us that there could be no justification whatever for leaving the 'privy purse' as a purely 'Provincial' charge *after* financial integration. The general question, as we have already indicated, must be decided on political and constitutional considerations.

Comments on certain specific matters relating to Revenue and Expenditure

58. (1) Land Customs on foreign trade

It is understood that Jodhpur is at present levying its own customs duties, in addition to those imposed by the Government of India, on exports to and imports from Pakistan. It is essential that any such additional duties levied on goods crossing the Indo-Pakistan frontier should be completely discontinued as from the prescribed date. Similar action will be necessary in Bikaner, and Jaisalmer, if they are also levying any duties on Indo-Pakistan trade on their own account.

(2) Royalties

Reference is invited to our general remarks in paragraph 11 (7) of the Annexure to Part I of our Report and in paragraph 12 (3) of

Chapter II relating to various types of 'Royalties' collected in certain States. Such portion of the income as will, according to the principles set out in those paragraphs, be classifiable as 'federal', must be computed separately and included in Statement I under the appropriate heading ("Income-tax" or "Central Excise").

(3) Salt

The general position in regard to the various salt agreements with States is explained in paragraph 12 (5) of Chapter II. It has not been possible for us to work out with any accuracy the duty element involved in the different payments made to the States. Rough estimates have been made for purposes of inclusion in Statement I against the entry "Salt."

(4) Defence

It has been represented to us that a provision of Rs. 18 lakhs included in the Jodhpur budget under defence is really a liability of the Central Government even under existing arrangements. We are not aware if this liability has been accepted by the Government of India. If it is finally settled that the amount involved should be regarded as an already existing "federal" liability, the figure to be taken into account in Statement II will be only the net amount of Rajasthan's own expenditure on defence, after deducting the contribution from the Government of India in respect of the liability in question during the basic period.

B. ASSETS AND LIABILITIES

59. The practical application to Rajasthan of the general principles relating to allocation of assets and liabilities (cf. Paragraphs 25 and 30 of Part I of our Report and also Chapter III of this Part) is illustrated below with reference to the position as at the end of the financial year 1947-48 for each of the units comprising the Union. The final allocation and apportionment should be made on the same lines, on the basis of a complete Statement of assets and liabilities to be compiled as at the date of federal financial integration.

(1) "Unproductive" Capital Assets

The Central Government will take over all unproductive capital assets connected with "federal" functions, Services and revenues; the Rajasthan Government will retain the rest.

(2) "Productive" Capital Assets

(a) All productive capital assets connected with "federal" functions will *pass* to the Central Government upon federal financial integration. There is no "specific debt" connected with those assets.

The book value of these assets in the different units comprised in the Rajasthan Union was as follows on the dates specified against each.—

	(Rs. in lakhs)		
	As at	Railways	Telephones
Former Rajasthan Union	1-10-'48	147.89 ?	? }
Jaipur	1-9-'48	186.00 85.00	1.78 }
Jodhpur	1-10-'48	512.11	5.90
Bikaner	1-4-'48	437.25	?
Jaisalmer	1-11-'48	..	..
Matsya	1-4-'48	19.00	3.22

NOTE.—(i) The capital cost of the Chabra-Baran Section of the G. I. P. Railway System must be added to the figures shown against "Former Rajasthan Union". The line was owned by the former Kotah State.

(ii) The Capital contribution made by the Jaipur Durbar towards the cost of the Nagda-Mathura Railway (Rs. 85 lakhs) has been included in the above statement, for the reasons explained in paragraph 15 of Chapter III. The amount represents the cost of the Jaipur Section of the Nagda-Mathura Railway; the investment made by the Durbar is,

according to the terms agreed between the Government of India and the Durbar, to be regarded as permanent.

(b) The Rajasthan Government will retain all other "productive" capital assets, that is to say, those connected with "Provincial" functions. Here also there is no "specific debt" connected with the assets.

The book value of these assets was as follows :

Name of Unit	As at	Electricity schemes	Productive Irrigation Works	Others	Total
Former Rajashtan Union	1-10-48	?	100.00 (Approx.)	?	100.00
Jaipur . . .	1-9-48	58.42	..	36.40	94.82
Jodhpur . . .	1-10-48	44.38	91.59	23.61	159.58
Bikaner . . .	1-4-48	48.00	312.23	17.02	377.25
Jaisalmer . . .	1-11-48	?	?	?	?
Matsya . . .	1-4-48	10.94	175.00	?	185.94

(3) Current Assets, Liabilities, Reserves, and Funds.

The proper procedure here will be to allocate first the current and funded liabilities of the State between the Government of India and the Rajasthan Government on a "functional" basis, and to place, at the disposal of each, equivalent current assets to meet such liabilities. The principles involved and the detailed procedure to be followed have already been indicated in paragraph 16 of Chapter III.

An analysis of the liabilities, Reserves and Funds in Greater Rajasthan, so far as can be readily ascertained, is given in Statement III. There is no "Public Debt." An analysis of the "current" liquid assets available with the States in Rajasthan for meeting these liabilities is given in Statement IV.

As the figures in Statements III and IV represent the position on different dates for the different units comprised in Rajasthan, it is not possible to give here a complete picture of the position in regard to the assets and liabilities of the Union as a whole with reference to any

rticular date. A very rough idea of the general position as revealed
r the available details embodied in Statements III and IV is given
elow :—

Group	(Rs. in lakhs)
A. Current or Banking Liabilities, Trust Funds, etc.	About 1,100
B. Specific "functional" funds	" 500
C. Depreciation Funds	" 50
D. Capital Reserve Fund (pertaining to Railways)	" 90
E. Non-specific Funds	" 60
Total	<hr/> 1,800 <hr/>

As against the above liabilities the total liquid assets and invest-
ments available were of the order of Rs. 3,200 lakhs as follows :—

	(Rs. in lakhs)
Bank Balances and Cash	250
Investments	1,650
Bank Deposits and Bullion	50
Shares	40
Current loans, advances etc.	1,200
Total	<hr/> 3,190 <hr/>

(4) Clearly, there will be sufficient investments and other liquid
assets on the date of federal financial integration to meet all the lia-
bilities and Funds in full. The investments should therefore be first
allocated to the Government of India and to the Government of
Rajasthan upto an amount equivalent to the liabilities, Reserves and
Funds allotted to each on a "functional" basis.

(5) There will then remain a surplus of liquid assets over liabilities.
The exact amount of this surplus must be carefully computed as on 1st
April 1950 (the proposed date of federal financial integration), *after*
writing off altogether all irrecoverable amounts and losses, particularly
capital losses on foodgrains purchases remaining unadjusted under
"Advances". Appropriate amounts must also be ear-marked in
respect of *sanctioned* schemes in progress (or about to be started in the
near future) both in the "federal" and in the "provincial" fields.
It is understood, for example, that in Jaipur there are several capital

works already sanctioned or actually in progress relating to University buildings, Irrigation works, Railways, Telephones etc. These Commitments should be treated as "Funds" for specific purposes. After ear-marking sufficient amounts to cover the estimated future liabilities in respect of such schemes, the net surplus left over, if any, should be apportioned between the Government of India and the Government of Rajasthan. We recommend that the share to be allotted to the Centre should be fixed at 10 per cent of the surplus, to be expended in Rajasthan on schemes involving capital expenditure in the "federal" field ; in the choice of such schemes, the State Government should be consulted.

RAJASTHAN
STATEMENT I

Particulars of Revenues that will be lost to Greater Rajasthan on Federal Financial Integration (in lakhs of rupees)

S. No.	Particulars	Former Rajasthan (Budget for year ending 30-9-49)	Jaipur (Budget for year end- ing 31-8-49)	Jodhpur (Revised Estimates for year ending 30-9-49)	Bikaner (Prelimi- nary ac- tuals for year end- ing 31-3-49)	Jaisalmer (Budget for year ending 31-10-49)	Matsya (Budget for year ending 31-3-49)	Total
<i>A.—Revenues which will accrue to the Government of India after federal financial integration.</i>								
1.	Customs Duties on foreign trade	..	..	..	..	..	..	..
2.	Corporation Tax	0-58	..	..	..	..	..	0-58
3.	Opium	3-00	..	..	..	..	..	3-00
4.	Income Tax (other than Agricultural Income Tax) excluding Corporation Tax.	2-92	..	..	0-17	..	..	3-09
5.	Central Excise	15-80	10-50	7-50	3-56	0-10	6-91	44-37
6.	Railways (net receipts)	18-33	25-77 17-00	50-00	59-06	..	1-00	154-16 17-00
7.	Posts and Telegraphs (net receipts)	0-17	(—) 0-22	0-59	0-37	..	0-47	1-38
8.	Telephones (net receipts)	?	0-95	0-56	0-55	..	(—) 0-32	1-74
9.	Currency and Mint	..	..	..	..	..	..	..
10.	Interest on 'federal' investments	..	..	..	..	..	..	..
Total Section A.		40-80	54-00	58-65	63-71	0-10	8-06	225-32
<i>B.—Revenues which will cease to accrue to the State or to the Govt. of India after federal financial integrations.</i>								
11.	Salt	2-60	4-50	4-70	0-60	0-08	2-90	15-38
12.	Import-export duties on Indian (Internal) trade	100-00	68-00	63-00	35-00	2-70	48-00	316-70
Total Section B		102-60	72-50	67-70	35-60	2-78	50-90	332-08
GRAND TOTAL		143-40	126-50	126-35	99-31	2-88	58-96	557-40

NOTES RELATING TO STATEMENT I

FORMER RAJASTHAN

(1) Corporation Tax

Only one of the Covenantee States (Bundi) of the former Rajasthan Union levies taxes on income. The rates are the same as in British India. The Budget estimates for 1948-49 provide for a receipt of Rs. 0.65 lakhs on account of "super-tax"; out of this amount the "Corporation Tax" element has been estimated at Rs. 0.58 lakhs.

(2) Opium

The revenue of the States from the cultivation, manufacture and sale of opium is in respect of

(i) internal consumption in the Union	400 maunds.
(ii) export to other States (mostly in Rajasthan)	1000 maunds at Rs. 100 per seer.
(iii) sale to Government of India	1000 maunds at a profit (royalty) of Rs. 3 per seer.

The loss to Rajasthan upon financial integration on (i), (ii) and (iii) above has been computed at Rs. 3 a seer (*vide* paragraph 12 (2) of Chapter II) included in Statement I ; in the final computation, the annual *expenditure* incurred by the State on the supervision of cultivation and on the manufacture of opium (which will be saved to the States after financial integration) must be deducted from this figure.

(3) Income-tax

The Budget Estimates for 1948-49 provide for a revenue of Rs. 3.50 lakhs but this includes Corporation Tax estimated at Rs. 0.58 lakhs *Vide* (1) above. A figure of Rs. 2.92 lakhs has, therefore, been shown against "Income-tax".

(4) Central Excise

The Union levies duties on matches, tobacco and sugar but has joined the Central Excise pool for matches and tobacco only.

(i) *Matches*:—According to the Revised Estimates for 1948-49 the net Revenue of the Central Governments from duty on matches will amount to Rs. 5.60 crores. The share of Rajasthan on a population basis may be estimated at Rs. 10.00 lakhs.

(ii) *Tobacco*:—The receipts according to the Budget Estimates for 1948-49 are Rs. 3.80 lakhs. It has been assumed that the entire, revenue will be retained by the State.

(iii) *Sugar*:—The Union gets a “royalty” of Rs. 1-8-0 per cwt. of sugar produced and the receipts are estimated to be Rs. 2·00 lakhs for 1948-49.

The total revenue from Central Excise thus amounts to :

Matches	Rs. 10·00 lakhs
Tobacco	Rs. 3·80 lakhs
Sugar	Rs. 2·00 lakhs
TOTAL	Rs. 15·80 lakhs

(5) Railways

The Budget Estimates for 1948-49 provide for *net* receipts to the extent of Rs. 17·25 lakhs. This amount does not include Rs. 1·08 lakhs on account of the share of Kotah State in the earnings of the Chabra-Baran section worked by the G.I.P. Railway ; adding this, we get a figure of Rs. 18·33 lakhs to be entered in the Statement.

(6) Posts and Telegraphs

The value of Service Postage stamps received free from the Government of India annually is Rs. 0·17 lakhs. This figure has been shown in Statement I.

Details of State Post Offices and their working are not available, but the figure to be shown in Statement I on this account will probably be negligible.

(7) Telephones

There are a few local telephone systems in some of the Covenanted States but the Budget for 1948-49 shows only some expenditure and no receipts. When full information becomes available, the amount of the *net* receipts will have to be entered in the Statement.

(8) Currency and Mint

No local mints are working since the formation of Rajasthan. There is, therefore, no profit or loss to be taken into account.

(9) Interest on “federal” Investments

This must be computed on the lines indicated in paragraph 12(14) of Chapter II.

(10) Import-export Duties on Indian (Internal) Trade

The Budget Estimates provide for a receipt of Rs. 111·31 lakhs. A deduction of 10% has been made for the probable drop in collection as a result of the abolition of *inter-statal* barriers within Greater Rajasthan, and a round figure of Rs. 100·00 lakhs has been entered in the Statement.

JAIPUR**(1) Central Excise**

(a) *Matches*.—There are no match factories in the State, but the State receives a share of Match Excise duty from the Central Excise Pool. Jaipur's share for 1948-49 on a population basis is estimated at Rs. 7·00 lakhs.

(b) *Tobacco*.—The State expects to realise and retain Rs. 3·50 lakhs for the whole year.

(The Central Excise Act of the Government of India has been adapted for application in Jaipur *in toto*. The State has joined the Government of India pool).

(2) Railways

The estimated net receipts for 1948-49 are Rs. 25·77 lakhs. The actuals are expected to be somewhat higher but for illustrative purposes the budget figures may be adhered to.

The State's share of interest and profits of the Nagda-Mathura Railway are credited to the head "Interest" and not to "Railways". The budget for 1948-49 includes an amount of Rs. 17 lakhs on this account and this figures must be treated as Railway revenue.

(3) Posts and Telegraphs

The net receipts in 1948-49 are estimated at Rs. 0·39 lakhs. But this figure does not take into account dearness allowance estimated at Rs. 0·61 lakhs ; there will thus be a *minus* receipt of Rs. 0·22 lakhs. No free supply of Service Postage Stamps is received by Jaipur Government from the Government of India.

(4) Telephones

The net receipts in 1948-49 are estimated at Rs. 1·04 lakhs but this does not take into account the expenditure on dearness allowance which is estimated at Rs. 0·09 lakhs. The *net* receipts will thus be Rs. 0·95 lakhs.

(5) Mint

The Budget Estimates for 1948-49 show a *net* revenue of only Rs. 0·04 lakhs, but after allowing for dearness allowance, the *net* income is *nil*.

The minting of silver coins, including the Jharshahi rupee has been discontinued, except for ceremonial and other Government purposes in very small quantities. The minting of gold mohurs is, however, being continued but they are not legal tender coins and are mainly

intended for use by the public for ornamental purposes. There is therefore, no profit on "currency and mint" to be taken into account for the purposes of this Statement.

The income under 'Mint' as booked in the accounts includes a portion on account of Royalty charges on weights and measures, but this has also to be ignored as it is not a "federal" item of revenue.

(6) Interest on "federal" investments

This must be computed on the lines indicated in para. 12 (14) of Chapter II.

(7) Import-export Duties on Indian (Internal) Trade

The Budget Estimates for 1948-49 provide for a total receipt of Rs. 75.44 lakhs. After allowing a reduction of 10% for loss of Revenue by abolition of *inter-statal* customs barriers within Greater Rajasthan, a round figure of Rs. 68.00 lakhs has been entered in the Statement.

JODHPUR

(1) Customs Duties on Foreign Trade

With effect from 16th July 1948, the Jodhpur Government have taken up the work of collection of customs duties on goods coming from and going to Pakistan (Sind), on behalf of the Government of India at Indian tariff rates. All the receipts after deduction of the cost of collection are paid to the Government of India. In addition to this, the State is levying customs duties at its own rates on trade with Pakistan and is retaining the whole of the collections. The exact amount retained is not known but is included under Section B—import-export duties on Indian (Internal) trade.

(2) Corporation Tax and Income-tax

The Marwar Income-tax Act which came into force from the 1st October 1948 was subsequently repealed in view of the impending merger of the State with Rajasthan. There is therefore no amount to be taken into account.

(3) Central Excise

(i) *Match Excise*.—Jodhpur has joined the Central Excise pool in respect of Match Excise. Based on the revised estimates of the Government of India for 1948-49, the share of Match Excise Duty of Jodhpur on a population basis has been estimated at Rs. 7.00 lakhs.

(ii) *Tobacco Excise*.—The State has joined the tobacco pool. The actual collections during the first 6 months of 1948-49 were Rs. 0.25 lakhs. A figure of Rs. 0.50 lakhs has therefore been taken as the annual revenue.

(4) Railways

The revised estimates of *net* receipts during 1948-49 are Rs. 15·00 lakhs while the net receipts during 1946-47 and 1947-48 were Rs. 72·61 lakhs and Rs. 42·97 lakhs respectively. The substantial decrease in 1948-49 has been attributed mainly to

- (i) abnormal expenditure on replacements and renewals during the year and
- (ii) gratuities and special contribution to Provident fund to retrenched staff on account of separation of the Sind Section.

As however it has been recommended that in respect of railway revenue the average of the three completed years immediately preceding federal financial integration should be taken into account no special allowance need be made for the abnormal items of expenditure in 1948-49.

An estimated lump sum figure of Rs. 50·00 lakhs has been taken against this item for illustrative purposes.

(5) Posts and Telegraphs

Annexure IV to the Expert Committee's Report on the Financial Provisions of the Union Constitution shows the value of Service Postage Stamps received free by Jodhpur as Rs. 0·39 lakhs. This figure together with a figure of Rs. 0·20 lakhs on account of radio licence fees booked under "Police" has been entered in Statement I.

(6) Telephones

Receipts under this item have been booked in the State accounts under 'Electrical Department'. The *net* receipts according to the Revised Estimates for 1948-49 are Rs. 0·56 lakhs and this figure has been shown in Statement I.

(7) Currency and Mint

The State does not receive any revenue from coinage, although it is minting gold mohurs which are not legal tender but are used on ceremonial occasions. For local circulation, there are one pice copper coins. There is a very small loss on mint which may be ignored.

(8) Interest on "federals" investments

This must be computed on the lines indicated in paragraph 12 (14) of Chapter II.

(9) Import Export Duties on Indian (Internal) Trade

The revised Budget Estimates for 1948-49 provide for a total receipt of Rs. 70·00 lakhs. This has been reduced by 10% for loss by abolition of *inter-statal* barriers in Greater Rajasthan and a figure of Rs. 63·00 lakhs has been taken as the Revenue that will be lost after federal financial integration.

BIKANER**(1) Customs duties on Foreign Trade**

The amount realised in respect of these duties at the Pakistan border is collected on behalf of and credited to the Government of India. The State does not receive any share of the collections.

(2) Income-tax

The Bikaner State Income-tax Act (I of 1941) was passed in 1941 but was repealed in 1943. Under Notification No. 4 dated the 20th March 1943 publishing Rules for the Licensing of Minor Factories, however, Income-tax is being levied at 12½% on the *net* profits of every Company, pending the coming into force of an Income-tax Act in the State.

The figure of Rs. 0.17 lakhs shown in the Statement represents the amount actually realised in 1948-49.

(3) Central Excise

The State has joined the Central Excise Pool for matches and its share of receipts on a population basis is estimated at Rs. 3.00 lakhs. As regards sugar, the State levies duty at Government of India rates. The receipts during 1948-49 amounted to Rs. 0.56 lakhs.

Production of Tobacco is very small and no duty is levied.

(4) Railways

The net receipts (59.06 lakhs) are exclusive of the share paid to the Nabha State in respect of their share of the profits.

(5) Posts and Telegraphs

The State receives Rs. 0.37 lakhs worth of stamps free from the Government of India. (In addition the State receives a small postal subsidy for the maintenance of Dak runners on behalf of the Indian Posts and Telegraphs Department. As this is a payment for actual services rendered, it need not be included as a loss of Revenue on financial integration).

(6) Interest on "federal" investments

This must be computed on the lines indicated in paragraph 12 (14) of Chapter II.

(7) Import-export Duties on Indian (Internal) Trade

The preliminary actuals for 1948-49 amounted to Rs. 38.96 lakhs.

Allowing for a reduction of 10% by the abolition of *inter-statal* barriers within Greater Rajasthan, a round figure of Rs. 35.00 lakhs has been adopted as the revenue which will be lost on federal financial integration.

JAISALMER STATE**(1) Customs Duties on Foreign Trade**

The customs duties realised at the Pakistan border are collected on behalf of and credited to the Government of India. It is not known if any additional duties are collected and retained by Jaisalmer.

(2) Central Excise

A lump sum figure of Rs. 0·10 lakhs has been adopted ; no details are available except for matches (Rs. 8,000).

(3) Import-export Duties on Indian (Internal) Trade

There is a receipt of Rs. 3·00 lakhs under Customs. The entire revenue will be lost after federal financial integration, and has accordingly been included in Section B, after a deduction of 10% to allow for the loss on account of abolition of *inter-statal* barriers within Greater Rajasthan.

(4) General

It is not known from the particulars so far made available whether there are any other "federal" sources of Revenue. If any come to notice, the corresponding amounts must be included in this Statement.

MATSYA UNION**(1) Income-tax**

Only one of the Covenantee States used to levy Income-tax. This has since been discontinued. A revenue of Rs. 0·69 lakhs collected in 1948-49 on incomes relating to the period prior to the 31st December, 1947, has been ignored.

(2) Central Excise

All the Covenantee States in Matsya Union have joined the Central Excise pool for matches and tobacco.

There are no match factories in the Union but the Union receives a share annually from the Match Excise pool, which is estimated at Rs. 4·4 lakhs for 1948-49 on a population basis.

The collections of tobacco duty in the Union are estimated at Rs. 2·51 lakhs in 1948-49 and the whole amount is expected to be retained by it.

A figure of Rs. 6·91 lakhs, has, therefore, been shown against 'Central Excise'.

(3) Railways

The contribution to the general revenues of the Union from Dholpur State Railway earnings has been fixed at Rs. 1·00 lakhs per annum. This figure has been shown in Statement I.

(4) Posts and Telegraphs

The value of Service Postage Stamps (0·42 lakhs) received free by the Union from the Government of India has been shown against this item. The amount of Radio licence fees (0·05 lakhs) has also been taken into account.

(5) Telephones

Each of the four Covenantee States has an internal telephone system. The estimated net loss of Rs. 0·32 lakhs has been entered in the Statement.

(6) Interest on "federal" investments

This must be computed on the lines indicated in paragraph 12 (14) of Chapter II.

(7) Import-export Duties on Indian (Internal) Trade

The Budget Estimates for 1948-49 provide for a revenue of Rs. 52·99 lakhs under this item. Making some allowance for the increase in tariff rates on oil seeds from the 1st October, 1948, and allowing for a drop in customs revenue to the extent of 10% on account of the abolition of the *inter-statal* customs barriers within Greater Rajasthan, a figure of Rs. 48·00 lakhs has been shown in Statement I.

RAJASTHAN

STATEMENT II

Particulars of Expenditure which will be saved to Rajasthan on federal financial integration. (In lakhs of Rupees)

Serial No.	Particulars	Former Rajasthan (Budget for year ending 30-9-49)	Jaipur (Budget for year ending 31-8-49)	Jodhpur (Revised Estimates for year ending 30-9-49)	Bikaner (Preliminary estimates for year ending 31-3-49)	Jaisalmer (Budget for year ending 31-10-49)	Matsya (Budget for year ending 31-3-49)	Total
<i>A.—Expenditure to be taken over by the Government of India.</i>								
1.	Cost of collection of Customs duties on foreign trade	..	..	..	..	..	..	..
2.	Cost of collection of Central Excise duties	0·27	1·20	0·55	0·20	..	0·35	2·39
3.	Cost of collection of Income-tax	0·10	..	..	0·05	..	..	0·15
4.	National Highways	4·43	3·24	4·05	..	..	1·17	13·43
5.	Defence (I.S.F. units only)	42·12	35·66	60·90	36·80	..	28·00	203·48
6.	Aviation	0·15	0·24	0·10	1·35	..	0·15	1·99
7.	Broadcasting	..	0·25	1·51	..	..	..	1·76
8.	Meteorology	0·50	0·04	..	..	..	..	0·54
9.	Archaeology	0·14	0·10	0·80	..	..	..	1·04
10.	Geology (Survey)	..	..	..	..	..	..	..
11.	Patents, Copyrights, Trade Marks, Joint Stock Companies	(—) 0·06	(—) 0·24	(—) 0·31	..	..	(—) 0·03	(—) 0·64
12.	Pensions of Military and other "federal" personnel (unless already included under preceding items)	..	3·42	3·25	1·10	..	2·50	10·27
13.	Audit and Accounts	3·52	2·39	3·66	1·94	..	2·07	13·58
	Total, Section 'A'	51·17	46·30	74·51	41·26	..	34·75	247·99
<i>B.—Expenditure which will cease to be incurred.</i>								
14.	Internal Customs	9·00	7·24	6·30	3·69	0·04	3·92	30·19
	Total, Section 'B'	9·00	7·24	6·30	3·69	0·04	3·92	30·19
	GRAND TOTAL	60·17	53·54	80·81	44·95	0·04	38·67	278·18

NOTES RELATING TO STATEMENT II
FORMER RAJASTHAN

(1) Cost of collection of Central Excise and Income-tax.

The figures have been taken from the Budget Estimates for 1948-49.

(2) National Highways

The total length of National Highways passing at present through the Union is 165 out of which 17½ miles is already maintained by the Government of India. The cost of maintenance of 147½ miles which have to be taken over by the Central Government after federal financial integration has been estimated at Rs. 4.43 lakhs at Rs. 3,000 a mile. If (as is likely to be the case) the National Highways mileage should be revised before the date of Federal Financial Integration, the total cost of maintenance will require to be revised.

(3) Defence (I.S.F. only)

The Budget Estimates for 1948-49 provide for an expenditure of Rs. 42.12 lakhs excluding irregulars.

(4) Aviation

The cost of maintenance of the aerodromes in Rajasthan is estimated at Rs. 0.15 lakhs.

(5) Meteorology

No separate figures are available in the Budget against this item but the expenditure has been estimated at Rs. 0.50 lakhs.

(6) Archæology

The Budget provides for an expenditure of Rs. 0.14 lakhs.

(7) Geology

There is a combined Department for Geology and Mines and an expenditure of about Rs. 1.60 lakhs has been provided in the Budget for the Department. It is gathered, however, that no part of this expenditure will, after federal financial integration, be taken over by Central Government as representing "Geological Survey".

(8) Patents, Copyrights, etc.

There is a small receipt under this head and this has been shown as *minus expenditure* in Statement II:

(9) Audit and accounts

The whole of the expenditure on Audit and Accounts has been shown against this item, on the assumption that the Union will require the Central Government to assume the entire responsibility for Audit and Accounts, as is the case in Provinces at present.

(10) Customs

Out of the combined expenditure on Customs and Excise, the cost of customs staff alone has been estimated at Rs. 10·00 lakhs. Allowing for a 10% drop in the expenditure, consequent on the abolition of *inter-statal* Customs barriers in Greater Rajasthan, a figure of Rs. 9·00 lakhs has been shown in Statement II.

JAIPUR**(1) Cost of Collection of Central Excise**

There is a budget provision of Rs. 0·64 lakhs for tobacco Excise staff during 1948-49. To this has to be added (i) proportionate cost of supervisory staff included under the head "Customs and Excise", (Rs. 0·16 lakhs approximately) (ii) Dearness Allowance, (Rs. 0·40 lakhs approximately) thus making a total of Rs. 1·20 lakhs.

(2) National Highways

According to the Ministry of Transport, 108 miles of "National Highways" pass through Jaipur. The annual expenditure on these roads to be taken over by the Government of India on federal financial integration has been estimated at Rs. 3·24 lakhs at Rs. 3,000 per mile.

(3) Defence (I.S.F. only)

The expenditure provided for in the budget for 1948-49 is Rs. 37·19 lakhs. Deducting (i) Rs. 1·10 lakhs on account of expenditure on irregulars and (ii) Rs. 0·43 lakhs on account of miscellaneous receipts, a figure of Rs. 35·66 lakhs has been taken as the expenditure on I.S.F. Units.

(4) Aviation

There are various items of expenditure shown under this head, *e.g.*, maintenance of aeroplane, salary of State pilots, etc. Only the cost of maintenance of aerodromes and landing grounds (about Rs. 0·14 lakhs shown under P.W.D.) has been included in Statement I on the assumption that the State will require the aeroplane and maintain it at its own cost after federal financial integration. There is also a provision of Rs. 0·10 lakhs for providing certain facilities to Air Services at the aerodrome at Jaipur.

5) Broadcasting

The Budget Estimates for 1948-49 provide for a Capital Expenditure of Rs. 1 lakh and a Revenue expenditure of Rs. 0·25 lakhs under this head. Only the latter has been shown in Statement II. (A receipt of Rs. 0·26 lakhs on account of radio licence fees has been included under Posts and Telegraphs in Statement I).

(6) Joint Stock Companies

There is a net *receipt* of Rs. 0·24 lakhs under this head and this amount has been shown in Statement II as a *minus expenditure*.

(7) Pensions of Military Personnel

The expenditure on existing military pensioners (I.S.F.) is Rs. 2·42 lakhs. The Budget separately provides for an addition of Rs. 1 lakh for new pensioners and one-third of this has been taken as pertaining to "military" personnel. A further addition of Rs. 0·65 lakhs has been made in respect of dearness allowance, thus amounting to a total of Rs. 3·42 lakhs under the head Military pensions. Pensions in respect of other "federal" personnel will be negligible.

(8) Audit and Accounts

On the assumption, that the State will hand over the entire responsibility for "Audit and Accounts" to the Government of India upon federal financial integration the expenditure to be taken over will be Rs. 1·90 lakhs plus Rs. 0·49 lakhs (Dearness Allowance).

(9) Land Customs

The Budget provision under the combined head "Customs and Excise" is Rs. 6·58 lakhs. The cost of the customs staff alone has been estimated at Rs. 5·26 lakhs. To this has been added Rs. 2·79 lakhs for dearness allowance (estimated) making a total of Rs. 8·05 lakhs. Deducting 10% on account of abolition of *inter-statal* Customs barriers within Greater Rajasthan, a figure of Rs. 7·24 lakhs has been entered in Statement II. Certain Jagirdars who enjoyed customs rights are paid a compensation of Rs. 1·98 lakhs per annum for the surrender of those rights. If land customs are abolished, the continuance of the payment of compensation to the Jagirdars will not perhaps arise; the amount of compensation paid is not therefore shown in Statement II.

(10) General

Dearness allowance is booked under a separate sub-head under "Miscellaneous". The expenditure on account of dearness allowance in the various "federal" Departments of the State has been *estimated* and included in the figures shown against the items concerned in Statement II.

JODHPUR**(1) Cost of collection of Customs duties on foreign trade**

As stated in Note (1) to Statement I, Jodhpur derives some revenue from Customs on trade with Pakistan. The cost of collection of such Customs revenue is included in the cost of collection of internal Customs shown in Section B of Statement II.

(2) Cost of collection of Central Excise Duties

Only tobacco duties are collected and the cost has been estimated at Rs. 0·55 lakhs.

(3) National Highways

The cost of maintenance of 135 mile of National Highways passing through Jodhpur which will be taken over by the Central Government on federal financial integration has been estimated at Rs. 3,000 per mile.

(4) Defence

The Revised Estimates for 1948-49 provide for an expenditure of Rs. 60·90 lakhs on regular I.S.F. Units in Jodhpur and this figure has been shown in Statement II.

(5) Aviation

The figure shown in Statement II represents only the cost of maintenance of aerodromes and landing grounds which are at present maintained at the expense of the Jodhpur Government.

(6) Broadcasting

A new broadcasting station has been opened at Jodhpur in March 1949. The Budget provides for a Capital Expenditure of Rs. 50,000 and a net revenue expenditure of Rs. 1·51 lakhs. The latter figure has been shown in Statement II.

(7) Archæology

The Revised Estimates for 1948-49 provide for an expenditure of Rs. 0·81 lakhs and a receipt of Rs. 0·01 lakhs. The net expenditure has been shown in Statement II.

(8) Geology

There is an expenditure of Rs. 0·99 lakhs provided for in the Revised Estimates for 1948-49 under the head "Geology and Mines". This has been omitted altogether for the reasons given in Note (7) under Former Rajasthan.

(9) Patents, Copyright etc.

There is a net receipt of Rs. 0·31 lakhs and this figure has been shown as a *minus expenditure* in Statement II.

(10) Pensions of Military and other "Federal" Personnel

The Revised Estimates for 1948-49 provide for an expenditure of Rs. 3·25 lakhs on account of military pensions and gratuities. The expenditure on other "federal" personnel will be negligible and may be set off against the pensions for "irregulars" included in the figure of Rs. 3·25 lakhs.

(11) Audit and Accounts

On the assumption that the State will hand over its "Audit and Accounts" functions to the Government of India, the whole of the expenditure under "Audit and Accounts" (Rs. 3.66 lakhs at the existing rates of pay and allowances) has been entered against this item.

(12) Cost of collection of Land Customs

There is a combined establishment for Customs and Excise. The expenditure on Customs staff alone has been estimated at Rs. 7.00 lakhs. Allowing for a 10% drop in expenditure on account of abolition of *inter-statal* barriers within Greater Rajasthan, a figure of Rs. 6.30 lakhs has been shown in Statement II.

BIKANER**(1) Cost of collection of Central Excise Duties**

There are no match factories in the State; collection of sugar excise costs Rs. 0.02 lakhs only, inclusive of dearness allowance.

(2) Cost of collection of Income-tax

The expenditure on collection of Income-tax from factories amounts to Rs. 0.05 lakhs inclusive of dearness allowance.

(3) Defence (I.S.F. Units only)

The preliminary actuals for the year are Rs. 37.00 lakhs including dearness allowance. Deducting receipts (0.20 lakhs), a figure of Rs. 36.80 lakhs has been shown in Statement II. The expenditure on irregular units has been excluded.

(4) Aviation Department (Aerodromes)

The expenditure on staff etc. relating to maintenance of aerodromes has been taken into account. Capital Expenditure (Rs. 3.16 lakhs) has been excluded.

(5) Pensions in respect of Military Personnel

The actual expenditure comes to Rs. 1.10 lakhs for military pensioners. Pensions in respect of other "federal" personnel will be negligible.

(6) Audit and Accounts

The entire cost of "Audit and Accounts" has been taken into account as expenditure that will be taken over by the Centre.

(7) Cost of collection of Land Customs

The cost of Customs establishment for the year 1948-49 has been estimated at Rs. 2.92 lakhs. Adding dearness allowance (1.26 lakhs) and making deductions for the cost of "Foreign Customs" staff (0.08 lakhs) and for the reduction in expenditure consequent on abolition of *inter-statal* customs, a figure of Rs. 3.69 lakhs has been shown in Statement II.

(8) Dearness Allowance

Expenditure on dearness allowance is booked under a separate head. A proportionate addition on this account has been made to the cost of various Central Departments included in Statement II.

MATSYA UNION**General**

The pay and allowances of the Union Government servants have been revised with effect from 1st September 1948. The Budget Estimates of 1948-49 do not therefore give a correct picture of the expenditure to be taken over by the Central Government after federal financial integration. The *actuals* for the year when ascertained in due course, will include the additional expenditure for six months at the revised rates of pay and allowances.

(1) Cost of collection of Central Excise Duties

No details are available in the budget but the expenditure on this item is estimated at Rs. 0·35 lakhs per annum.

(2) National Highways

The cost of maintenance of 57 miles of "National Highways" passing through the Matsya Union has been estimated at Rs. 1·71 lakhs at Rs. 3,000 a mile

(3) Defence (I.S.F. Units)

The Budget Estimates for 1948-49 provide for an expenditure of Rs. 25·63 lakhs on "Regulars" and Rs. 2·64 lakhs on "Irregulars". The pay scales have been increased from 1st September 1948 and allowing for some increase on this account, a figure of Rs. 28·00 lakhs has been shown against "Defence" in Statement II.

(4) Aviation

The estimated cost of maintenance of aerodromes (exclusive of the cost of maintenance of aeroplanes) has been taken against this item.

(5) Patents, Joint Stock Companies etc.

There is a net receipt of Rs. 0·30 lakhs against this item.

(6) Pensions of Military Personnel

A figure of Rs. 2·50 lakhs has been shown in Statement II (as estimated by the Matsya Government).

(7) Audit and Accounts

The actuals for 1948-49 are available and the entire cost of the Department has been taken into account.

(8) Land Customs

The actuals for 1948-49 are available and have been taken into account less a deduction of 10% to allow for the abolition of *inter-statal* customs within Greater Rajasthan.

RAJASTHAN
STATEMENT III

Analysis of Liabilities Reserves and Funds

(In lakhs of Rupees)

S. No.	Particulars	Former Rajasthan	Jaipur	Jodhpur	Bikaner	Jaisalmer	Matsya
1	2	As at— 1-10-48	1-9-48	1-10-48	1-4-48	..	1-4-48
1	2	3	4	5	6	7	8
<i>A.—Banking or Current Liabilities including Trust Funds and Statutory Sinking Funds.</i>							
1.	Savings Bank Deposits Postal	..	9.73	..	85.90		..
2.	State Provident Fund	0.53	1.06	151.08	20.13		1.11
3.	Life Insurance Fund	..	6.79	(includg. Rlys.)	(only Rly. P.F.)		(G.P.F.)
4.	Departmental and Other Deposits	168.81	302.90	51.40	63.35		96.23
5.	Endowment Funds	..	..	..	2.29		..
6.	Negative balance on Remittance account	..	51.00	2.19	2.00		0.30
7.	Suspense	..	4.00	..	..		5.78
8.	Defence Provident Fund	..	..	0.66	..		..
9.	Smarak Funds	..	..	26.96	0.50		..
10.	Ways and Means advances, overdraft, treasury bills, etc.	..	..	..	56.12		..
11.	Miscellaneous	0.33	..	..	3.56		0.23
	TOTAL	169.67	375.48	232.29	233.85		103.65

No information available

RAJASTHAN—STATEMENT III.—(Contd.)

(In lakhs of Rupees)

S. No.	Particulars	Former Rajasthan	Jaipur	Jodhpur	Bikaner	Jaisalmer	Matsya
<i>B. Specific "functional" Funds and Reserves.</i>							
1.	Village Uplift	0·55	..	..	23·10		..
2.	Agr. improvement and irrigation	3·32	..	..	22·70		..
3.	Temple Funds . . . . .	..	..	..	1·89		..
4.	Famine Relief Funds	62·85	7·10	..	50·00		..
5.	Chambal Hydro-electric project	200·64	..	..	..		..
6.	Roads, buildings, town improvements, water-works and other public projects	42·78	..	..	..		..
7.	Other specific purpose funds	5·13	8·81	..	47·28		..
	TOTAL	315·27	15·91	..	144·97		..
<i>C.—Depreciation Funds and Reserves.</i>							
1.	Railway Funds . . . . .	..	26·54	..	..		..
2.	Telephones . . . . .	..	0·41	..	..		..
3.	Electricity . . . . .	..	17·80	0·80	..		..
	TOTAL . . . . .	..	44·75	0·80	..		..
<i>D.—Specific Reserves for Capital Assets.</i>							
1.	Railway Capital Reserve fund . . . . .	..	..	..	17·66		..
2.	Railway Reconstruction Fund . . . . .	..	..	..	75·74		..
	TOTAL . . . . .	..	..	..	93·40		..
<i>E.—Open or General Reserves.</i>							
1.	Post-war Reconstruction Fund	16·91	..	45·00	..		..
2.	Special Reserve Fund . . . . .	..	..	..	3·41		..
	TOTAL	16·91	..	45·00	3·41		..
	GRAND TOTAL	501·85	436·14	278·09	475·63		103·65

No information available

Note.— Details in regard to the liabilities, Funds and Reserves of Tonk, one of the covenanting States of former Rajasthan, are not readily available and have, therefore not been included in the above Statement

**RAJASTHAN
STATEMENT IV**

Analysis of Current or Liquid Assets as at the end of 1947-48 (In lakhs of Rupees)

S. No.	Particulars	Former	Jaipur	Jodhpur	Bikaner	Jaisalmer	Matsya
		Rajasthan	1-9-48	1-10-48	1-4-48	..	1-4-48
	As at—	1-10-48	1-9-48	1-10-48	1-4-48	..	1-4-48
1.	Cash Balance, Bank Balance etc..	135.24	(—)0.09	74.97	12.54	..	38.89
2.	Investments in gilt-edged securities	203.14	445.01	145.07	334.19	..	100.39
		*—2.97	5.00				9.40
3.	Bullion Account	7.89	..	..	..	..	0.20
4.	Shares	10.00	20.36†	..	12.63	..	2.46
5.	Deposits in Banks	9.19	10.00	..	2.54	..	17.50
6.	Investments relating to Provident and Insurance Funds	‡	..	..	22.68 (Ry. P. F.)	..	..
7.	Cash and Investments "earmarked" against Trust Funds and Functional Funds	‡	15.70	299.58	109.89	..	..
			0.21		7.35		
8.	Current loans and advances	270.89	453.78	113.50	293.25	..	53.22
					2.82		
9.	Suspense	25.53	13.13	..	0.47 (described as other funds in Dholpur.)
	TOTAL	633.38	949.97	658.65	811.02	..	222.53

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* Represents amount spent against Rly. Depreciation Fund which has been overdrawn to this extent.

† Excludes contribution towards Capital cost of Nagda-Muttre Railway represents investment in fixed Capital Assets.

‡ Included against items (1) and (2)

CHAPTER IX

MADHYA BHARAT

60. In this Chapter, besides the usual Sections A and B containing the Scheme-Report for this State, we have added a further Section C to deal with certain important modifications thereto which the Madhya Bharat Government insist upon, apparently as a necessary condition of their acceptance of federal financial integration. We regret that in spite of every endeavour made by us to explain to them the basic concepts and principles upon which alone the integration of federal finances in States can, in our opinion, be properly grounded, the Madhya Bharat Government have found it impossible to modify their own particular basis of approach.

We have therefore considered it necessary first to set out, in the usual way the financial integration Scheme which in our opinion would suit the facts and circumstances of Madhya Bharat and then to indicate the main modification insisted upon by them together with our comments on the issues involved.

A. "REVENUE-GAP" ARISING OUT OF FEDERAL FINANCIAL INTEGRATION

61. Statements I and II appended to this Chapter, bring out the net revenue effect upon the finances of Madhya Bharat of

- (i) the transfer of "federal" revenues and "federal" expenditure to the Centre ; and
- (ii) the abolition of internal customs duties as a result of federal financial integration.

The figures in Statements I and II are based upon the Budget Estimates of the State for the financial year 1949-50 and are subject to the general limitations indicated in paragraph 6 of Chapter I. They have been utilised here merely to illustrate the scheme of financial (revenue) adjustments discussed in the following paragraphs. The final computations must be made, in due course, on the same basis as in Statements I and II and following the same principles, when the actuals for the year are known.

As pointed out in paragraph 4 of Chapter , the " basic period " in the case of Madhya Bharat, both for revenue and expenditure computations will be its financial year ending 31st March 1950, except in regard to railway revenue for which the average of the three completed financial years immediately preceding federal financial integration should be taken.

62. The net dependence of Madhya Bharat on "federal" revenues and internal customs duties may be analysed as follows (in round figures) :

	Internal Customs and Salt	"Federal" Revenues	Total
	(Rs. in lakhs)		
Loss of Revenue	{ 160 +4	103 (<i>plus</i> 30)	267 (<i>plus</i> 30)
Saving of Expenditure	13	148 (<i>plus</i> 3)	162* (<i>plus</i> 3)
Net loss	{ 147 +4	(-) 45 (<i>less</i> 27)	105* (<i>plus</i> 27)

NOTE : The figures in brackets represent the expected revenue (and cost of collection) in respect of Income-tax if the legislation now pending before the Dhara Sabha should be pursued.

*Difference in total due to rounding off.

Financial adjustments required

Internal Customs

63. (1) As pointed out in paragraph 22 of Part I of our Report, the loss of revenue resulting from the abolition of internal customs duties is not really a consequence of federal financial integration as such but arises from the operation of Articles 16 and 244 of the Draft Constitution and must therefore be made good by the State itself by recourse to alternative forms of taxation. It has been represented to us by the Madhya Bharat Government that while they are already contemplating the introduction of Sales Tax for the purpose, the yield therefrom may not be sufficient to enable them to abolish internal customs altogether for some years. We share these apprehensions though not quite to the extent that the Madhya Bharat Government entertains them.

However, we are compelled to accept the position that the abolition of internal customs can only be achieved in stages over a period of 2 to 3 years, depending upon the amounts realised from Sales Tax. It is essential however that the abolition of Internal customs duties upon selected items, the scaling down of the duties upon others, and the introduction of Sales Tax should be undertaken immediately; and the complete abolition of Internal customs should not in any case be deferred beyond the fourth year, or the year in which the yield from the Sales Tax is of the order of Rs. 150 lakhs, whichever is earlier.

The loss of revenue from salt will be immediate ; but the amount involved is comparatively small.

(2) Apart from the loss of internal customs, the transfer of 'federal' revenues and 'federal' expenditure to the Centre as a result of federal financial integration will result in a *net* gain of Rs. 45 lakhs to the State, and a corresponding net loss to the Centre. This figure will be reduced to Rs. 18 lakhs if income-tax is introduced in the State during 1949-50.

The foregoing calculations are however based on the assumption that 'Privy Purse' will continue to be a charge on the revenues of the State as hitherto. If, however, it should be decided that 'Privy Purse' should be made a charge on the resources of the Central Government, the *net* gain to the State (and the corresponding burden on the Central Government) will be increased by about Rs. 60 lakhs.

(3) It is clear that there is no need for any transitional financial adjustments in favour of the Madhya Bharat Government, as there will be no financial dislocation (but a positive gain to the State) as a result of federal financial integration. On the other hand, we have to consider the heavy immediate loss which the Central Government will have to incur in this case. During our discussions with the Madhya Bharat Government, they expressed the view that there should be no transitional adjustments to provide for *gradualness* in the transfer of the *net* burden to the Central Government. Similarly they also urged that the acceptance of the Privy Purse as a "federal" burden should be absolute, *i.e.*, unaccompanied by transitional adjustments in favour of the Centre.

On a careful consideration of the position, and the need to assist the Madhya Bharat Government, directly or indirectly, in abolishing internal customs duties as early as possible, we agree that transitional adjustments in favour of the Centre may be waived, *provided "Privy Purse" is to be borne by the State*. If, however, it should be decided that the liability for "Privy Purse" must be taken up by the Centre (*cf.*, Paragraph 24 of Part I of our Report), we are unable to recommend that the burden should be passed on to the Centre, in full, immediately upon federal financial integration. In our opinion, to the extent that the sudden shifting of the incidence of "Privy Purse" would create an immediate financial disturbance in Central finances, transitional arrangements designed to make the process gradual are necessary and justified.

We recommend, therefore, that

- (i) so long as Privy Purse remains a liability of the State, no financial adjustments should be made in favour of the Central Government in respect of the loss which they will incur upon federal financial integration ;

(ii) if it should be decided that Privy Purse should be a "federal" liability, the Madhya Bharat Government should reimburse to the Centre the amount of the "Privy Purse" in full in the first year of integration, 90% thereof in the second year, 80% in the third year and so on, until the tenth year. From the 11th year onwards the burden would be entirely taken up by the Centre.

(4) The Madhya Bharat Government will be eligible for its appropriate share of Income-tax and other divisible "federal" revenues (such as they may be from time to time), grants-in-aid on Capital or Revenue account, "subsidies" and all other forms of financial and technical assistance from the Centre, exactly in the same way as Provinces *with effect from the date of federal financial integration.*

In particular, if the Madhya Bharat Government should desire to make out a case for a special subvention under Article 255 of the Draft Constitution, we recommend that their request should receive the same consideration from the Government of India as any such request from Provinces similarl^r circumstanced.

B. ASSETS AND LIABILITIES

64. The practical application to Madhya Bharat of the general principles relating to allocation of assets and liabilities (*cf.*, paragraphs 25 and 30 of Part I of our Report and also Chapter III of this Part) is illustrated below with reference to the readily available data. The final allocation and apportionment should be made on the same lines, on the basis of a complete Statement of assets and liabilities to be compiled as at the date of federal financial integration.

(1) "Unproductive" Capital Assets :

The Central Government will take over all unproductive capital assets connected with "federal" functions, services or revenues; the Madhya Bharat Government will retain the rest.

(2) "Productive" Capital Assets :

(a) The Central Government will take over all productive capital assets connected with "federal" functions. These are —

(Rs. in lakhs.)

Railways (Book value) :

(i) Owned and worked by the Madhya Bharat Government	124·19 (30-6-1946)
(ii) Owned by the Madhya Bharat Government and worked by the Government of India	167·73 "
(iii) Contribution to Government of India (as a permanent non-transferable investment) towards construction of railways lying within State territory	220·00
Telephone (Book Value)	?
Posts and Telegraphs (Book Value).	?
Total	511·92 plus ?

Item (iii) above under Railways comprises a loan of Rs. 70 lakh advanced by the Maharajah Holkar of Indore and a loan of Rs. 15 lakhs advanced by the Maharajah Scindia of Gwalior towards th

construction of stretches of the G. I. P. and B. B. & C. I. Railway systems lying within their respective territories. These loans are at present borne in the Government of India's books as specific railway debt and are included in the capital at charge of the Indian Government Railways. From the point of view of the Madhya Bharat Union there would not be any question, in the normal course, of the amounts thus invested being withdrawn and utilised for 'provincial' or other purposes. We are of the considered opinion that these investments must be regarded as permanent investments in productive capital assets of a "federal" nature which should pass to the Central Government upon federal financial integration (*vide* paragraph 30 of Part I and paragraph 15 of Chapter III). From the revenue point of view the income from these investments has been included in Statement I and, as pointed out in paragraph 63 (2) above, there will be a *net* gain to the State by the transfer of all 'federal' revenues and 'federal' expenditure to the Central Government.

There is *no* 'specific' debt connected with any of the above-mentioned assets.

(b) The Madhya Bharat Government will retain all other productive capital assets.

They are :

	(Rs. in lakhs.)
Electricity Schemes*	?
State Transport* (other than Railways)	?
Industrial & Commercial Concerns*	?
Productive Irrigation Works	?
Total	?

*departmentally operated.

There is *no* 'specific' debt connected with these assets.

(3) Current Assets, Liabilities, Reserves and Funds.

(a) Here it is best to deal first with current liabilities, Funds, Reserves, etc. A list of these, classified in convenient categories will be found in Statement III attached hereto. Such of these liabilities and Funds as are functionally of a "federal" character will be allocated to the Central Government; the rest will remain with, or be discharged by the

Madhya Bharat Government. These liabilities etc., may be summarised as follows :—

Group	Particulars	"Central"	"Provincial"	Total
		(Rs. in lakhs.)		
A	Current or "banking" liabilities, Trust Funds, Sinking Funds etc.		100.30 (plus ?)	100.30 (plus ?)
B	(i) Specific "functional" Funds	7.77	1121.62	1129.39
	(ii) Non-specific Funds and Reserves with ear-marked investments		271.01*	271.01*
C	(i) Depreciation Funds	71.70	..	71.70
	(ii) Capital Reserve Funds	80.00	..	80.00
D	Non-specific Funds and Reserves (without ear-marked investments)		?	?
		<u>159.47</u> (plus ?)	<u>1492.93</u> (plus ?)	<u>1652.40</u> (plus ?)

*These are non-specific Development Funds. The available information goes to show that these Funds were intended for purposes which would be "Provincial" after federal financial integration. We accordingly recommend that no portion of these Funds should be allocated to the Central Government.

(b) The total liquid assets and investments likely to be available on the 31st March 1950 have been estimated as follows :—

	(Rs. in lakhs.)
1. Cash & Bank Balances	99.38
2. Government and other authorised securities	1337.84
3. Debentures	91.53
4. Shares	300.39
5. Properties	5.01
6. Loans (Mortgages) }	251.24
" (Banking) }	
7. Fixed Deposits and Current Accounts	38.90
8. Other Loans and Advances	?
	<u>2124.29</u>

NOTE.—(1) The above statement excludes

(i) Capital contributions to the Government of India as permanent loans for railway construction. These have been included in sub-paragraph (2) above.

- (ii) Certain capitalised payments which were made to the Government of India by the Indore Durbar (Rs. 23·82 lakhs in 1865 and subsequent years), and by the Dhar Durbar (Rs. 3 lakhs in 1880) for the maintenance of the Malwa Bhil Corps. These amounts represent an outright capital contribution made in the past, from the income of which certain military expenditure (a 'federal' subject) was met by the Government of India ; they must clearly continue to vest in the Government of India after integration of federal finances.

NOTE.—(2) *Advances for purchase of foodgrains* will be included under item 8 above. The amount of such advances will be represented *actually* by

- (i) cost of stocks of foodgrains on hand ; and
- (ii) accumulated losses :
 - (a) State's share
 - (b) Government of India's share (subsidy), if any.

The figures for such "Advances" should be substituted, when preparing the Statement of Assets on the date of federal financial integration by (i) and (ii) (b) above ; and (ii) (a) should be written off against the revenues of the State up to that date.

It will be seen that there are sufficient investments to meet all the liabilities and Funds in full. They should therefore be first allocated between the two Governments to the extent equivalent to the liabilities, Reserves and Funds allotted to each.

(c) There will then remain for apportionment the surplus of liquid assets over liabilities. We gather that out of this surplus, a substantial sum (say Rs. 60 lakhs) may have to be treated as written off from the book value of shares in commercial concerns, which are likely to have depreciated considerably since they were acquired. The balance of the surplus, approximately Rs. 500 lakhs (in round figures) must be divided between the Central Government and the State Government in some equitable manner. Following the general principle laid down in paragraph 18 of Chapter III, we recommend that the Central Government may take over 10% of this with the express condition that it shall be earmarked for Developmental expenditure on "federal" objectives in Madhya Bharat. The Madhya Bharat Government should be consulted in regard to the choice of schemes on which the amount is to be expended.

C. CERTAIN IMPORTANT MODIFICATIONS INSISTED UPON BY THE MADHYA BHARAT GOVERNMENT

65. We deal below with the more important modifications insisted upon by the Madhya Bharat Government to the integration scheme set out in the preceding sections. When discussing these modifications with them, we explained that in our opinion they constituted fundamental departures from the basic concepts underlying federal financial integration; and that we would not be justified in recommending, even as "concessions" in a particular case, any requests having the effect of abrogating the main principles applied to all other cases. As, however, the Madhya Bharat Government have declined to consider federal financial integration on any other terms, we give below their main proposals with brief comments on each.

66. (1) *Postponement of Financial Integration*: The Madhya Bharat Government accept federal financial integration in principle. But while they would agree to complete *administrative* integration in the 'federal' field from any date to be prescribed next year, they insist that the plan of *financial* adjustments should be worked out only after the expiry of five years from the date of administrative integration; moreover, they suggest that during this five-year period, both 'federal' revenues and 'federal' expenditure, though administered by the Central Government, should be wholly on Madhya Bharat Government's account.

If this is conceded, the Madhya Bharat Government would not ask for any share of divisible 'federal' taxes (such as income-tax) but they claim that they should nevertheless be given their "due share" of grants-in-aid (including "specific purpose" allotments from proceeds of particular taxes such as those on petrol) and all other forms of financial or technical assistance extended at present by the Centre to the Provinces. Furthermore, in view of their difficult financial position, the Madhya Bharat Government also feel that they would have strong claims for subventions from the Government of India.

(2) *'Productive' Capital Assets*: With regard to 'productive' capital assets to be taken over by the Central Government upon federal financial integration, such as the Scindia State Railways, Telephones and Posts, it is claimed that the value of the assets should be treated as interest-bearing debts owing to the Madhya Bharat Government by the Centre.

Next, in respect of some of their lines which are worked by the G. I. P. and B. B. & C. I. Railway administrations it is urged that Madhya Bharat should be entitled to a share of railway earnings, as at present.

Further, the loans of Rs. 150 lakhs and Rs. 70 lakhs respectively which were advanced by Gwalior and Indore towards the construction of certain sections of the Indian Railway System lying in their territory should, it is claimed, continue to be treated as assets of the Madhya Bharat Government. The amounts should be repaid by the Government of India or be continued as loans on existing terms.

(3) *Administration of "Federal" Funds* : The Madhya Bharat Government propose that all specific Funds created in connection with 'federal' purposes such as Railway Depreciation Fund, Railway Reserve Fund, should be transferred to the "Central" Government only for *administrative* purposes *i.e.*, that the "property" in the investments constituting the Funds should continue to vest in the Madhya Bharat Government. They also suggest that it should be obligatory for the Centre not only to administer the Funds (on the terms and conditions attached thereto) for the benefit of the Madhya Bharat State, but also to consult and obtain the concurrence of the Madhya Bharat Government in any scheme of expenditure from the Funds. The Madhya Bharat Government further claim that they must have the right to invest the corpus of the Funds or to utilise it for their ways and means operations, exactly as heretofore.

(4) *Privy Purse* : The Madhya Bharat Government originally informed us that they did not propose to ask the Central Government to take over the liability for expenditure on 'Privy Purse' payable to Covenanted Rulers and for the allowances payable to members of their families, as it would involve reimbursement from the revenues of Madhya Bharat. In their latest communication to us, however, they have urged that 'Privy Purse' payments to Rulers and allowances to their relatives sanctioned under the orders of the Government of India (Ministry of State) should be taken over by the Central Government without claiming any 'compensation'.

(5) *Allocation of Surplus Liquid Assets* : The Madhya Bharat Government do not agree to any part of the surplus liquid assets of the State being allotted to the Government of India for expenditure on 'federal' objectives in Madhya Bharat after federal financial integration ; they claim that the entire surplus is required for their own development schemes and "ways and means" purposes.

67. It is hardly necessary to comment in detail upon the proposals made by the Madhya Bharat Government in view of the exposition in Part I of our Report, and in Chapters I to III of this Part, of the

fundamental principles underlying the scheme of federal financial integration. We would however offer the following brief remarks in this connection :—

(1) We have no doubt that the Madhya Bharat Union itself would suffer considerably if the financial isolation which it seeks for a period of five years were conceded ; for, in that case, there could be no question of according to it the full financial privileges of “provincial status” *vis-a-vis* the Centre. In any event, for the various reasons—constitutional, financial and administrative—explained in Part I of our Report, we are unable altogether to recommend any postponement of the *effective* date of *financial* integration.

As for the “basic period” with reference to which the effect of financial integration should be worked out in each case, it must be remembered that the only purpose for which this is necessary is to ascertain the extent of the *present* or immediate dislocation likely to be caused by federal financial integration. It follows that no period *subsequent* to the date of financial itegration can be adopted as the “basic period” for this purpose or for working out the temporary financial adjustments required over a transitional period to avoid any sudden dislocation.

(2) On the general question of payments to States by the Central Government in respect of “federal” capital assets to be transferred to the Centre upon financial integration, we have nothing to add to paragraph 30 of Part I of our Report.

We are quite clear that federal financial integration would be meaningless unless it also embraced Railway revenues ; and revenues cannot obviously be divorced from the assets from which they are derived. We are equally clear that apart from necessary financial adjustments in respect of liabilities and for the purpose of avoiding financial dislocation, no question of compensation as such can arise or be raised in any form.

With particular reference to the Railway loans advanced by two of the Covenantee States of Madhya Bharat, we have after careful consideration come to the conclusion that they can only be regarded as “federal” capital assets, which should constitutionally vest in the new ‘federal’ Government of the Union of India *vide* our remarks on this point in paragraph 15 of Chapter III and paragraph 64(2) of Section B above.

We may add that in this particular case Statement I and I I show that from the revenue point of view, the vesting of all ‘federal’ assets (including Railways) in the Centre, as an integral part of our

Scheme, causes no loss to Madhya Bharat or any dislocation of its finances.

(3) The proposals made by the Madhya Bharat Government concerning the administration of "federal" Funds assume that even after financial integration, the ultimate responsibility for the administration of 'federal' subjects would continue to vest in the State Government. This view is based on a complete misconception of the constitutional implications of such integration.

As regards the terms and conditions on which the Funds should be expended, we have ourselves made a specific recommendation in paragraph 16, Chapter III, that the Central Government should be under an obligation to ensure that the liquid assets transferred to it along with any 'federal' Funds or Reserves should be expended within the State on those objectives for which the Funds or Reserves were created.

(4) With regard to the incidence of "Privy Purse" we have pointed out in paragraph 24 of Part I of our Report, that the matter is one to be decided on political and constitutional grounds.

In the event of "Privy Purse" being ultimately taken over by the Central Government as a "federal" responsibility, we cannot agree that the entire burden should be immediately transferred to them without any transitional adjustments. The reason is that, even without the 'Privy Purse', the Centre will incur a net loss upon federal financial integration in Madhya Bharat; it cannot therefore be expected to take up in full a further loss of about Rs. 60 lakhs without serious financial dislocation.

In this connection, we must make it clear that our proposals relate to "Privy Purse" properly so called, and not to allowances to families and relatives of Rulers which must continue to be a 'provincial' charge.

(5) The reasons for our suggestion that the Central Government should be entitled upon federal financial integration to an allocation of 10 per cent. of the surplus liquid assets after providing for all liabilities, Funds and Reserves, are explained in paragraph 18 of Chapter III; we are unable to accept the contention that the Madhya Bharat Government would not, in the normal course, have expended any portion of their capital resources upon 'federal' objectives within their State.

MADHYA BHARAT

STATEMENT I

Particulars of revenues which will be lost to the State as a result of federal financial integration

(Figures based on the Budget estimates for the State financial year
ending 31st March 1950)

Serial No.	Particulars	Amount (Rs. in lakhs)	Reference to footnotes
<i>A.—“Federal” revenues which will merge with the revenues of the Government of India :</i>			
1	Customs duties on foreign trade . . . . .	..	(1)
2	Corporation Tax	(plus 10·00)	(2)
3	Income Tax (Other than agricultural In- come Tax and Corporation Tax).	8·00 (plus 20·00)	(2)
4	Opium (Receipts from cultivation, manu- facture or sale for export).	4·20	(3)
5	Taxes (other than Stamp Duties) on trans- actions in Stock Exchanges :	4·02	(4)
6	Central Excise	53·50	(5)
7	Railways (Net Receipts)		
	S. S. Rly	0·57	
	Interest	3·87	
	Worked lines	30·00	
		34·44	(6)
8	Posts and Telegraphs (Net receipts) }	(--)2·53	
9	Telephones (Net receipts) }		

Serial No.	Particulars	Amount (Rs. in lakhs)	Reference to footnotes
10	Currency and Mint	..	(8)
11	Defence (I.S.F.)	1.44	
12	Interest on 'federal' investments	..	(9)
	Total of Section A.	103.07 (plus 30.00)	
	<i>B.—Taxes which will be abolished on financial integration :</i>		(10)
13	Salt	3.99	
14	Import-export duties on Indian (internal) trade	160.00	(11)
	Total of Section B	163.99	
	GRAND TOTAL	267.06 (plus 30.00)	

MADHYA BHARAT

NOTES RELATING TO STATEMENT I

(1) Customs duties on foreign trade

Not being a maritime State, there is no revenue in Madhya Bharat under this head.

(2) Corporation Tax and Income-tax

An Income-tax Bill is now before a Select Committee of the Dhara Sabha. If passed, the revenue under "Corporation Tax" (item 2) is likely to be Rs. 10 lakhs ; and the revenue under Income-tax (item 3) is likely to be Rs. 20 lakhs. These estimates have been shown against items 2 and 3 respectively in brackets.

The Industrial Profits-Tax in Indore is of the nature of Income-Tax on industrial concerns. Its estimated yield is Rs. 8 lakhs ; this has been shown against item 3.

(3) Opium

Opium is cultivated and manufactured in the Madhya Bharat Union. The cost of opium paid to the cultivators is account d

through an "advance" account and so does not enter into the Opium Revenue account at all. The Opium Revenue account includes :—

- (i) Royalty from the Government of India upon opium supplied to them at Rs. 3 per seer, and
- (ii) "Provincial" Opium duty, etc.

The former being "federal" income which, after federal financial integration, will be lost to Madhya Bharat, is shown against item 4.

(4) Taxes on transactions in Stock Exchanges

In the Indore and Gwalior States there are taxes (apart from Stamps Duties) upon Stock Exchange transactions and "futures" contracts in certain commodities. This is a "federal" item of revenue.

(5) Central Excise Duties

The amount of Rs. 53.50 lakhs against item 6 represents :

	(Rs. in lakhs)
Madhya Bharat's share of duties on matches	7.00
Madhya Bharat's share of duties on sugar	8.00
Madhya Bharat's share of duties on tobacco	4.50
Excise duties on cloth	31.00
	53.50

(6) Railways

The revenue shown against this item is made up as follows :—

	(Rs. in lakhs)
<i>Net surplus on lines operated by the Madhya Bharat Union (after charging interest, and providing for replacement and renewals)</i>	0.57*
Interest on capital at charge	3.87
Income from Madhya Bharat railways worked by "foreign" railways	30.00
	34.44

(7) Posts & Telegraphs & Telephones

The figures entered against this item represents

- (i) the *net* financial result of working of Posts, Telegraphs

and Telephones. There is an operating loss of Rs. 2.91 lakhs *plus

(ii) the value of postal immunities at present enjoyed by some of the covenanting States.

	(Rs. in lakhs.)
Dhar	0.03
Gwalior	negligible
Indore	0.35
	0.38

(8) Currency and Mint

The minting of one pice and two pice coins which used to be done in Gwalior State has been stopped.

(9) Interest on 'federal' investments

The figures to be taken against this item should be computed on the lines indicated in paragraph 12(14) of Chapter II.

(10) Salt

The 'federal' revenue from salt shown against this item is made up of

	(Rs. in lakhs.)
Government of India Salt compensation	3.79
Salt (Excise) Duty	0.20 (estimated)
	3.99

(11) Import-export duties on Indian (internal) Trade

There is a very substantial revenue from internal customs duties, shown at Rs. 160 lakhs against this item.

*This figure does not provide for the flat 25% cut in the expenditure which has been ordered by the Madhya Bharat Government as a measure of economy.

MADHYA BHARAT

STATEMENT II

Particulars of expenditure, which will be saved to the State, as a result of federal financial integration

(Figures based on the Budget estimates for the State Financial year ending 31st March 1950)

Serial No.	Particulars	Amount (Rs. in lakhs)	Referen- to foot- notes
A.—Expenditure to be taken over by the Government of India.			
1.	Cost of collection of taxes :		
	(1) Customs duties on foreign trade . . . . .	..
	(2) Central Excise duties	3.78	(1)
	(3) Income-tax	0.22	(3)
		<i>(plus 3.00)</i>	
	(4) Opium—cost of cultivation and manu- facture	2.60	(2)
	(5) Taxes on Stock exchange transactions	0.82	(4)
2.	National Highways	9.30	(5)
3.	Defence (I.S.F. only)	104.43	(6)
4.	Aviation	2.45	
5.	Broadcasting . . . . .	..
6.	Meteorology . . . . .	..
7.	Archæology	0.57	
8.	Geology (Survey) . . . . .	..
9.	Patents, Copyrights, Trade marks, Joint Stock Companies	(—)0.03	
10.	“Federal” Civil Works	2.00	
11.	Pensions of Military and other “Federal” personnel	9.00	
12.	Accounts and Audit	13.18	(7)
	Total of Section A.	<u>148.32</u> <i>(plus 3.00)</i>	
B.—Expenditure which will cease to be incurred on federal financial integration.			
13.	Salt . . . . .	..	(8)
14.	Cost of collection of internal customs	13.33	(9)
	Total of Section B.	<u>13.33</u>	
	GRAND TOTAL	<u>161.65</u> <i>(plus 3.00)</i>	

MADHYA BHARAT

Notes relating to Statement II

(1) Central Excise

The expenditure shown as cost of collection of Central Excise duties against this item represents the total of the following :—

(Rs. in lakhs)

For cloth duties	. 0.58	} As per allocation furnished by the Commissioner of Excise, Madhya Bharat.
For tobacco duties	. 0.70	
For other duties	. 2.50	

(2) Opium

The entire expenditure in the Opium Department (Rs. 2.60 lakhs) concerned with the cost of operation, management and control of cultivation and manufacture of opium. This is, therefore, shown against item 1(4).

(3) Income-tax

The cost of collection of the Industrial Profits Tax in Indore is Rs. 0.22 lakhs; the cost of collection of the new Income-tax proposed to be imposed is Rs. 3.0 lakhs. Both these are shown against item 1 (3), the latter in brackets:

(4) Taxes of Stock exchange transactions.

The expenditure shown against item (5) is booked in the Union's accounts under "Registration"

(5) National Highways

According to the information furnished by the Govt. of India (Ministry of Transport (Roads Organisation), the total mileage of roads eligible for declaration as National Highways in Madhya Bharat is 495 of which a mileage of 185 is already maintained by the Govt. of India under existing treaty arrangements. Accordingly, for the purposes of this Statement the cost of maintenance of only (495—185) or 310 miles has to be taken; this has been computed at Rs. 3,000 a mile—the average all-India rate furnished by the Government of India, Ministry of Transport.

(6) Defence

The expenditure shown against item 3 excludes expenditure for non-I.S.F. units and establishments on a *very rough* estimate.

(7) Audit and Accounts

The Madhya Bharat Government desire that the Central Government should take over all Audit and Accounts functions in Madhya

Bharat just as in any "Province". The entire cost of their present Audit and Accounts organisation is shown against item 12.

(8) Salt

The cost of collection of salt revenue is negligible.

(9) Internal Customs

The cost of collection of internal customs duties shown against item 14 represents 44% of the over-all expenditure on the combined Customs and Excise Department; the amount so computed has then been reduced by Rs. 0.70 lakhs, representing cost of collection of tobacco duties accounted for separately.

(10) General

The over-all "economy" cut of 25% ordered by the Madhya Bharat Government has been ignored in computing the expenditure figures in Statement II.

MADHYA BHARAT

STATEMENT III.

Analysis of Liabilities and Funds as at 31st March 1949.

Serial No.	Particulars	"Central"	Provincial	Total
		(Rs. in lakhs)		
<i>A.—Current Liabilities and Trust Funds</i>				
1.	Loans for food purchase . . . . .	..	?	?
2.	Insurance Funds . . . . .	..	?	?
3.	Provident Funds	?	?	?
4.	Departmental and other Deposits	?	?	?
5.	Uncleared balance on Remittance account . . . . .	..	?	?
6.	Suspense Items . . . . .	..	?	?
7.	Trust Funds :—			
	<i>Gwalior</i> —E.D. Board Fund (?)	..	35.00	
	Jayajirao Parmarthik Fund . . . . .	..	15.04	50.04
	<i>Indore</i> —Baitulmal Fund (?)	..	1.67	
	Manorama Raje Fund	..	4.17	
	Industrial Development (Returnable Fund)	..	44.32	50.26
	Women's Service Fund	..	0.10	
	<i>Other Covenanted States</i> . . . . .	..	?	?
	TOTAL	?	100.30 (plus?)	100.30 (plus?)

Serial No.	Particulars	"Central"	Provincial (Rs. in lakhs)	Total
<i>B.—(i) Specific Functional Funds</i>				
1.	Agricultural Fund . . . . .	..	128.00(G)	128.00
2.	Famine Fund . . . . .	..	203.84(G)	203.84
3.	Village Improvement Fund . . . . .	..	45.00(G)	45.60
4.	Rural Uplift Fund . . . . .	..	100.00(G) 5.60(H)	105.60
5.	Forest Fund . . . . .	..	14.10(G)	14.10
6.	Industrial Development Fund . . . . .	..	5.00(G)	5.00
7.	Pension Fund	?	92.00(G)	92.00
8.	Educational, Medical and other Social Services Funds . . . . .	..	200.00(G) 50.00(G) 49.52(G)	} 299.52
		..	0.98(H) 0.09(H) 1.71(H) 31.23(H) 0.14(H)		} 34.15
9.	Roads & Communications Deve- lopment Funds	?	100.00(G)	100.00
		?	0.58(H) 4.09(H)	} 4.67
		..		
10.	Irrigation Funds . . . . .	..	67.10(G) 10.71(H)	77.81
11.	Buildings, City Improvement, etc. Funds . . . . .	..	5.88(H) 6.05(H)	11.9
12.	Military Funds	5.00(G) 2.77(H)	.. ..	7.77
TOTAL		7.77	1121.62	1129.39

Serial No.	Particulars	"Central"	Provincial	Total
		(Rs. in lakhs)		
<i>(ii) Non-specific Funds and Reserves, with earmarked assets</i>				
13.	General Development Funds .	?	69.52(G)	69.52
		?	35.69(H)	} 75.93
		?	40.24(H)	
14.	General Reserves	?	92.11(H)	92.11
		?	15.50(G)	} 33.45
		?	17.95(G)	
	TOTAL	?	271.01	271.01
<i>C.—Depreciation and Reserve Funds</i>				
1.	Railway Depreciation Fund .	71.70(G)	..	71.70
2.	Railway Reserve Fund	80.00(G)	..	80.00
	TOTAL	151.70	..	151.70
<i>D.—Non-specific Funds and Reserves (without earmarked Investments)</i>				
	Gwalior . . . . .	..	..	..
	Indore . . . . .	..	..	..
	Other Covenanting States . . . . .	...	..	?
	TOTAL . . . . .	..	?	?
	GRAND TOTAL	159.47 (plus ?)	1492.93 (plus ?)	1652.40 (plus ?)

NOTE.—The symbol G is used above to indicate the Funds pertaining to the former Gwalior State and the symbol H to indicate those pertaining to the former Holkar State (Indore).

CHAPTER X

CONCLUSION

68. It will be observed that the Scheme-Reports contained in the preceding Chapters and in our two Interim Reports follow certain uniform principles not only as regards the basic conceptions and processes involved in effecting the integration of "federal" finances in States, but also as regards the transitional adjustments necessary to avoid any sudden financial dislocation. Due account has however been taken of local situations and of the special problems confronting particular States, in relation to their present net dependence upon "federal" resources; in the result, *the emphasis has been more upon the avoidance of dislocation of the finances of States than of the Centre.*

69. In some cases, there is likely to be a net "gain" to the States as a result of the integration of "federal" revenues and expenditure properly so called; but except in the Patiala and E.P. States Union, the gain is in every case more than offset by the loss of revenue from internal customs duties. It is also likely that the gain may be less, — or may even turn out to be a loss in one or two cases—when final figures of "federal" revenues and expenditure of the "basic period" become available. For these reasons, we have not thought it necessary to provide for any transitional adjustments in favour of the Centre in respect of these "gains". As regards Privy Purses, however, we have no doubt whatever that any *future decision* to make them a "federal" liability would clearly justify a measure of gradualness in shifting the burden to the Centre, as the sums involved are very considerable in the aggregate. No difficulty arises in this respect in regard to those States—such as Mysore—, where the result of federal financial integration is to create a net "revenue-gap"; the effect of making Privy Purse a "federal" charge would merely reduce the revenue-gap and so make *easier* the problem of transitional adjustments in such cases. But where federal financial integration results in a "negative revenue-gap"—*i.e.*, a profit to the State—clearly the Centre cannot be expected suddenly to undertake a further additional burden in the shape of Privy Purse; and in these cases, therefore, transitional adjustments designed to shift the additional burden gradually to the Centre are, we think fully justified.

70. We shall now indicate briefly the procedure which we think may usefully be followed in giving effect to our proposals. The recommendations which we have made in each Scheme-Report, read with our general recommendations in Part I and Chapters I to III of this Part, will form the basis for "agreements" to be entered into with individual States. The final figures for the "basic period" relevant to each case will not, however, be available until about the end of 1950. These considerations clearly require that the whole matter must be dealt with in three stages:—

- (1) The first stage may be some time in September 1949, when decisions should be taken on all the general recommendations—including those relating to Income-tax—made by us in Part I of our Report and in Chapters I to III of this Part. At the same time, decisions should also be taken in *principle* upon all matters arising out of each individual Scheme-Report. In reaching decisions the Governments of the States concerned must, of course, be consulted; and the most fruitful method of doing so would, in our opinion, be to arrange separate meetings with the representatives of each State. The issues involved are so complex, and the problems and situations in the different States so varying, that quick and decisive results are unlikely to be reached at a general conference of all States,—except, perhaps as regards the broad issues which are common to all of them.
- (2) The next stage would consist in drawing up "Agreements" and, if necessary, revised Instruments of Accession, for execution by individual States in conformity with the decisions reached at the first stage and in accordance with the relevant provisions in the Constitution of the Union of India. Except in the case of the Travancore-Cochin Union, this must await the final passing of the Constitution by the Constituent Assembly, but should be completed before that Constitution comes into effect.
- (3) The final stage will consist in the preparation of the various "Statements"—(*vide* Chapters IV to IX) upon which the precise financial integration scheme and the necessary transitional adjustments for each individual State will ultimately depend. This work may be taken in hand immediately after the completion of Stage (2), beginning with those States for which the 'basic period' extends over three years.

In view of the importance and complexity of the issues involved and of the volume of detailed work still to be done in preparing precise financial integration computations for individual States, we recommend the early appointment of a suitable officer, of the necessary status and experience, to be placed on Special Duty in connection with all stages of the work.

V. T. KRISHNAMACHARI

Chairman

S. K. PATIL

Member

G. SWAMINATHAN

Secretary

Hyderabad House

N. DANDEKAR

Member

New Delhi, the 22nd July 1949.