GOVERNMENT OF INDIA
Ministry of Finance
(Department of Economic Affairs)

Explanatory Memorandum on the action taken on the Recommendations of the Third Finance Commission in its Report dated the 14th December, 1961.

The Report of the Third Finance Commission is being laid on the Table of Parliament. The recommendations of the Commission are summarised in Section VIII of the Report. All the unanimous recommendations of the Commission have been accepted.

2. The Report is not unanimous and there are two recommendations on which there is a minute of dissent from one Member. These are:—

(a) that a special purpose grant be made to certain States for improvement of communications; and

(b) that 75 per cent of the revenue component of the State Plans be included in the scheme of devolution recommended by the Commission.

3. The majority recommendation regarding the special purpose grant for improvement of communications has been accepted, but Government do not consider it either necessary or desirable to accept the other recommendation. The scheme for financing the Plans of States as set out in the Third Five-Year Plan provides reasonable assurance to State Governments that, given the necessary effort to mobilise resources and subject to an assessment of the overall financial and economic situation, the necessary Central assistance will be available to State Governments through annual plans. There will be no real advantage in the States receiving assistance for their Plans partly by way of a statutory grant-in-aid as recommended by the Commission and partly on the basis of annual reviews made by the Planning Commission at the time of the framing of the annual plans. It is desirable to take an integrated view of the entire financial picture of each State, both on revenue and capital accounts, in relation to the State Plan as a whole. The total amount of Central assistance which the States may expect to receive for their Plans is not likely to be affected either way by the decision taken on this recommendation of the Finance Commission. On the other hand, there are considerable advantages in continuing to work on the basis of annual Plans and yearly assessments of the financial resources of the Centre and the States, so that adjustments, if necessary, can be made from year to year. In view of its large size and the wide range of activities embodied in the Third Plan, annual plans and reviews are an essential means of improving performance in all sectors, ensuring the fullest effort to raise resources, maintaining a satisfactory balance between different types of projects, particularly those which are of high priority and in one way or another inter-dependent. These purposes will be better served through suitable changes, where appropriate, in the existing procedures, rather than by converting any portion of Central assistance for State Plans into statutory grants, which must by their very nature lack flexibility. At the same time, to enable State Governments to make any day-to-day adjustments that may become necessary within the framework of their annual plans, procedures relating to the administration of Central assistance towards Plan expenditure have been already simplified and it is proposed to make them more flexible after consultation with the States.

4. The Commission's recommendations fall into three categories, those to be implemented by an Order of the President, those to be implemented by law by Parliament and those to be implemented by executive orders. The recommendations under Articles 270 and 275(1) of the Constitution fall in the first category and the necessary Order will be submitted to the President for approval. The recommendations relating to the distribution of Union Duties of Excise, including Additional Duties and Estate Duty on property other than agricultural land fall in the second category. Necessary legislation is being promoted in the current session of Parliament to implement them. The recommendation regarding the distribution of the ad hoc grant to the States in lieu of their share of tax on Railway fares will be implemented by executive orders.

5. The Commission has also made certain general observations in Chapter VII of its Report. These do not require any immediate decision and will be considered in due course in consultation with the State Governments, where necessary.

L. K. Jha

(L. K. Jha)
Secretary to the Government of India

New Delhi,
Dated the 12th March, 1962.

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I. CONSTITUTION OF THE COMMISSION AND ITS TERMS OF REFERENCE

MINISTRY OF FINANCE

(Department of Economic Affairs)

NOTIFICATION

New Delhi, the 2nd December, 1960.

S.O. 2913.—The following order made by the President is published for general information:—

ORDER

In pursuance of the provisions of article 280 of the Constitution of India and of the Finance Commission (Miscellaneous Provisions) Act, 1951 (XXXIII of 1951), the President is pleased to constitute a Finance Commission consisting of Shri Ashok Kumar Chanda as the Chairman and the following four members, *viz.*,

(1) Shri P. Govinda Menon, former Chief Minister of Kerala State.

(2) Shri Dwijendra Nath Roy, Retired High Court Judge, Allahabad.

(3) Prof. M. V. Mathur, Head of the Department of Economics and Public Administration, University of Rajasthan, Jaipur.

(4) Shri G. R. Kamat—*Member-Secretary.*

2. The members of the Commission shall hold office for a period of twelve months from the date on which they respectively assume office.

3. The Chairman of the Commission, Shri Ashok Kumar Chanda, shall be part-time Chairman, whereas the members shall render whole-time service to the Commission.

4. In addition to the matters on which under the provisions of sub-clauses (a) and (b) of clause (3) of article 280 of the Constitution, the Commission is required to make recommendations, the Commission should also make recommendations in regard to—

(a) the States which are in need of assistance by way of grants-in-aid of their revenues under article 275, and the sums to be paid to those States other than the sums specified in the

provisos to clause (1) of that article, having regard, among other considerations, to—

(i) the requirements of the third Five-Year Plan, and

(ii) the efforts to be made by those States to raise additional revenue from the sources available to them;

(b) the changes, if any, to be made in the principles governing the distribution amongst the States under article 269 of the net proceeds in any financial year of estate duty in respect of property other than agricultural land;

(c) the changes, if any, to be made in the principles governing the distribution among the States under article 269 of the net proceeds in any financial year of taxes on railway fares; and

(d) the changes, if any, to be made in the principles governing the distribution of the net proceeds in any financial year of the additional excise duties levied on each of the following commodities, namely:—

(i) cotton fabrics,

(ii) rayon or artificial silk fabrics,

(iii) woollen fabrics,

(iv) sugar, and

(v) tobacco, including manufactured tobacco, in replacement of the States sales taxes formerly levied by the State Governments:

Provided that the share accruing to each State shall not be less than the revenue realised from the levy of sales tax in the financial year 1956-57 in that State.

5. The recommendations of the Commission shall, in each of the above cases, cover the period of four years commencing from the 1st April, 1962.

RAJENDRA PRASAD,
President.

[No. FC. 5(1)-A/60]

K. P. MATHRANI,
Additional Secretary.

No. F. 4(14)-B/60

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Economic Affairs)

New Delhi, the 28th February, 1961.

From

Shri K. P. Mathrani, I.C.S.,
Additional Secretary to the Government of India.

To

The Secretary to the Finance Commission,
New Delhi.

Sir,

I am directed to invite a reference to paragraph 4(c) of the Order issued by the President on the 2nd December, 1960, regarding the constitution and terms of reference of the third Finance Commission and to state that subsequent to the issue of this Order, it has been decided, in pursuance of the recommendations made by the Railway Convention Committee, 1960, to merge the tax on Railway fares with the passenger fares from the 1st April, 1961. Accordingly, it is proposed to repeal the Railway Passenger Fares Act, 1957 with effect from that date. With the repeal of this Act, the question of the distribution amongst the States under article 269 of its net proceeds will not arise. The Railways, however, have agreed to pay to the General Revenues a fixed sum of Rs. 12·5 crores per year during the quinquennium 1961—66 representing the average of the actual collections during the two years 1958-59 and 1959-60. This amount is proposed to be distributed amongst the States as a grant under article 282 of the Constitution.

2. The President has been pleased to decide that the Commission may be requested to make its recommendations as to the manner in which the said sum of Rs. 12·5 crores should be distributed amongst the States. It is proposed to give effect to these recommendations from the year commencing on the 1st April, 1961.

3. I am to request that this reference may be placed before the Commission for necessary action. Accordingly, no recommendation of the Commission will be necessary in regard to paragraph 4(c) of the Order.

Yours faithfully,

K. P. MATHRANI,
Additional Secretary to the Government of India.

No. F. 13(4)-B/61

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Economic Affairs)

New Delhi, the 21st April, 1961.

From

Shri K. P. Mathrani, I.C.S.,
Additional Secretary to the Government of India.

To

The Member-Secretary,
Finance Commission,
New Delhi.

SUBJECT: *Levy of Additional Excise Duty on mill-made silk fabrics.*

Sir,

I am directed to state that under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, additional excise duties are being levied on sugar, tobacco, cotton fabrics, rayon or artificial silk fabrics and woollen fabrics in replacement of sales tax formerly levied by the State Governments. The net proceeds from those duties are distributed amongst the States in accordance with the provisions of section 4 of this Act read with the Second Schedule thereto. When the scheme was implemented in 1957, no additional excise duty was levied on pure silk fabrics which were not subject to any basic excise duty. Consequently, the States continued to levy sales tax on pure silk fabrics. With the imposition of basic excise duty on pure silk fabrics from the 1st March, 1960, it has been decided after consultation with the State Governments, to levy an additional excise duty on such fabrics other than those manufactured on hand-looms with effect from the 1st March, 1961. Necessary provision for this purpose has been made in the Finance Bill, 1961. The States would, on their part, abolish the sales tax on pure silk fabrics. As the amount to be distributed amongst the States will also include the net proceeds of the

additional excise duty on silk fabrics, it is necessary to amplify paragraph 4(d) of the terms of reference of the Commission by adding the item 'silk fabrics'. I am, accordingly to state that this paragraph will stand amended as follows:—

"4(d) the changes, if any, to be made in the principles governing the distribution of the net proceeds in any financial year of the additional excise duties levied on each of the following commodities, namely:—

(i) cotton fabrics,

(ii) rayon or artificial silk fabrics,

(iii) silk fabrics,

(iv) woollen fabrics,

(v) sugar, and

(vi) tobacco, including manufactured tobacco, in replacement of the States sales taxes formerly levied by the State Governments."

Yours faithfully,

K. P. MATHRANI,
Additional Secretary to the Government of India.

II. PROCEDURE ADOPTED

We met in inaugural session on December 15, 1960, and completed our work within the period prescribed and signed our report on this day of December 14, 1961.

2. As a prelude to the constitution of the Commission, the Government of India had taken preliminary steps for the collection of material required for the work of the Commission. Shri G. R. Kamat was placed on special duty in the Ministry of Finance in September 1960 for this purpose. Later, he was appointed Member-Secretary of the Commission. In addition to assembling the staff of the Commission and making other necessary arrangements for its work, he requested the Union and State Governments to prepare for our consideration forecasts of their revenue and expenditure for each of the five years of the third Plan period. The States were requested also to furnish memoranda incorporating their views on the various issues which were likely to be in our terms of reference. Similarly, material was called for on a number of other important points relevant to a study of their cases (Appendix V). Information was also called for from the State Governments on the action taken by them on the various suggestions made by the second Commission as also on the recommendations of the Taxation Enquiry Commission.

3. After assuming office, we decided to adopt the rules of business framed by the second Finance Commission with one or two minor changes to regulate our work. We also decided to conform to the procedure followed by our predecessors in the matter of discussions and consultation with the State Governments and others.

4. To obtain the views of all those interested in the questions before us, we issued a press note on December 15, 1960 (Appendix IV). We received a number of memoranda in response.

5. We considered that, in addition to material already called for, we should obtain the views of the State Governments on the dual allocation of grants, under article 275 of the Constitution on the recommendations of the Finance Commission and under article 282 by the Union Government. Similarly, we requested the State Governments to furnish details of their respective schemes of democratic

decentralization (Panchayati Raj) so that we could study their impact on the revenue estimates of the States (Appendix V).

6. We also requested the Comptroller and Auditor General of India to instruct his principal civil accounts officers to supply such statistical material as we might call for and also to meet us for discussions when we visited their headquarters. We obtained from these officers useful material and information, including the actuals of revenue and expenditure of each State for the year 1960-61. We should like to take this opportunity of thanking the Comptroller and Auditor General of India for the co-operation he extended to us. Similarly, we requested the Central Board of Revenue to instruct the Commissioners of Income Tax and Collectors of Central Excise to meet us and give us such information as we called for. We had useful discussions with these officers at the time of our visits to the States. We should like to thank the Central Board of Revenue and these officers for the assistance they gave us.

7. Though the period to be covered by our recommendations was made co-terminus with the period of the third Plan, the necessity of obtaining a fresh forecast of revenue and expenditure from each State could not be dispensed with. Estimates had been submitted earlier to the Planning Commission but these had been prepared even before the constitution of our Commission. Though these had been taken into account in the formulation of the Plan, we considered it necessary to ascertain the latest position on the basis of trend of actuals and other relevant data which had become available in the intervening period. These involved two separate and independent assessments of needs of the States; but, in the present situation, this appears to be inescapable. Our assessment, to the extent it differs from that of the Planning Commission, has an impact on the resources of the Plan and we suggest that this be taken note of.

8. Though we are required to make recommendations for the four years commencing with 1962-63, we have considered it necessary to examine, as a connected whole, the estimates of the five years covering the period of the current Plan and make our recommendations accordingly.

9. We had expected that the State Government would adhere to the date indicated, namely, December 30, 1960, for the submission of the forecasts, but, we regret to say that these were not made available till much later and mostly during March and April 1961. The State

Governments explained that apart from their pre-occupation with the preparation of the budget estimates for 1961-62, they were anxious to incorporate in their forecasts the latest available information, based on the progress of actuals and other proposals having financial implications embodied in the budget estimates. Unfortunately, this delayed our programme of discussions with the State Governments. We utilised this period in studying material already available and in visiting a convenient few of the major developmental projects in some of the States. We also held discussions during this interregnum with the senior officials of several Union Ministries to ascertain the pattern of assistance afforded by them to the States, the measure of control and co-ordination effected and the extent of their collaboration with the Planning Commission. Similarly, we had general discussions with the two Members of the Central Board of Revenue in charge of income-tax and excise respectively.

10. We were able to commence our round of discussions and consultations with the State Governments only from April 1961. This we concluded in October 1961. These discussions were conducted at the headquarters of State Governments and commenced and concluded with meetings with the Chief Minister, Finance Minister and other Ministers. We had detailed discussions with the senior officials in the intervening period for elucidation and clarification of estimates and for examination of other relevant material. All these discussions, held in private sessions, were frank and informative and gave us a clear picture of their plans and programmes and of their problems and difficulties. We wish to place on record our appreciation of the assistance, co-operation and hospitality we received from the State Governments in an ample measure.

11. In most places, we had occasion to meet the representatives of a number of Chambers of Commerce and Industry and other private bodies and individuals. These included Members of Parliament and State Legislatures, eminent economists and persons conversant with administration of public finance (Appendix VI). These talks were useful in the consideration of alternative solutions to the issues covered by our terms of reference.

12. A delegation of the Inter-University Board of India met us in March 1961 and apprised us of the difficulties of the State Universities arising out of the additional financial liability which had devolved on them as a result of the decision of the University Grants Commission to discontinue after a specified period assistance towards

schemes adopted by them with the encouragement and financial assistance of that Commission. At the suggestion of the delegation, we met, during our stay in the States and in the presence of the States' Education and Finance Secretaries, the Vice-Chancellors of State Universities. We explained to them that while the State Universities being the responsibility of the State Governments, were not eligible for direct assistance from us, we would be prepared to consider in our assessment of assistance, their requirements to the extent they were accepted by the State Governments and incorporated in the forecasts presented to us.

13. Following the practice adopted by the second Commission, we met representatives of the Press on the conclusion of our discussions with each State Govrenment to keep them informed of the progress of our work. These press conferences provided also a medium for eliciting public reactions to the various alternative principles placed before us. We should express our appreciation of the interest shown by the Press in our work and their forebearance in not raising questions which might have proved embarrassing.

14. Towards the conclusion of our labours, we held discussions with the senior officials of the Union Finance Ministry to obtain their assessment of the requirements of the Union Government in the Plan period. The purpose was to enable us to take a view of the resources which must necessarily be left with the Union Government to fulfil its responsibilities and functions adequately. This assisted us in our endeavour to establish a balance between the needs of the Union and the States in the proposals we make in the following chapters on the devolution of taxes and grants-in-aid. We had also a discussion with the Planning Commission.

15. The two earlier Commissions had dealt extensively with the constitutional aspects of our functions, the trends of Federal-State relations and other allied matters We feel that there is hardly any scope for us to add to the material already presented. We proceed, therefore, to give in the following chapters our recommendations on the terms of reference. In doing so, we propose to follow the sequence of the articles of the Constitution having a bearing on each of them. We have added, however, a chapter embodying our general observations on issues germane to a correct determination of Union-State financial relations in terms of our Constitution.

16. The first task that engaged our attention was the determination of the budgetary needs of the States. This involved a detailed

analysis of the forecasts of revenue and expenditure of each of the States as presented to us, its reconciliation with the forecasts settled with the Planning Commission and an examination of the trends of growth of revenue and expenditure on the basis of past actuals, also of additional demands subsequently placed before us. We undertook this overall review independently, but, obtained full and complete explanations of the State Governments on points of doubt during our visits to the States. Before we completed our work, the actuals of revenue and expenditure for each State for the year 1960-61 were made available to us by the Accountants-General. This facilitated our work of recasting the forecasts on a more reliable basis.

17. In determining the budgetary gap of each State—

(a) We have maintained the procedure adopted by the second Commission in regard to assistance towards unforeseen expenditure on natural calamities, such as famine, droughts and floods. We have accordingly included in the expenditure estimates of the States the same provision for each year as was made by the second Commission as given below:

State	(Rupees in lakhs)
Andhra Pradesh	75
Assam	25
Bihar	100
Gujarat	40
Jammu and Kashmir	10
Kerala	10
Madhya Pradesh	15
Madras	50
Maharashtra	40
Mysore	30
Orissa	50
Punjab	40
Rajasthan	40
Uttar Pradesh	50
West Bengal	80
TOTAL	655

(b) We have not included in our assessment the probable loss to the States arising out of introduction or extension of prohibition, as no firm decision on this question was made available to us. We have naturally taken full account of the impact of prohibition on the revenues of the States where this has already been introduced.

(c) We have excluded from the forecasts the provision for redemption of debt as we consider that there is no purpose in allowing this where the States are in revenue deficit. In the case of Maharashtra, however, which has a revenue surplus, we have allowed a provision for this purpose.

(d) We have included in our revenue estimates the grants from the Central Road Fund, but have excluded the grants made under the proviso to article 275(1) of the Constitution.

(e) In computing the budgetary gaps of the States, we have taken into consideration the liability arising out of the changed pattern of central assistance for post-stage II community development blocks, etc., grants to Universities to meet the committed expenditure on development schemes sponsored by the University Grants Commission and the special requirements of the States as given in their supplementary memoranda and subsequent communications. These include revision of pay-scales in several States, reorganisation of Police and district administration, introduction and extension of Panchayati Raj, continuance of subsidised sale of food grains, special relief measures, etc.

18. We should add that in our scheme of affording assistance, we have adhered to the principle that the budgetary needs of the States, as assessed, should be met as far as possible by the devolution of taxes, and grants-in-aid should be made to provide residuary fiscal aid.

III. DISTRIBUTION OF ASSIGNED TAXES

(i) *Estate Duty*

19. Article 269 gives a list of duties and taxes which are to be levied and collected by the Government of India, but are assigned to the States. Of the permissible levies mentioned, only two, namely, 'estate duty in respect of property other than agricultural land' and 'tax on railway passenger fares' had hitherto been imposed. The Act imposing a tax on railway passenger fares was, however, repealed in April 1961. The only levy under this article now in force is estate duty on property other than agricultural land.

20. Article 269 also provides that the net proceeds of this duty after excluding those attributable to Union territories are to be distributed amongst the States in accordance with the principles formulated by Parliament by law. We are required to recommend the changes, if any, in the principles on which this distribution is made.

21. We agree with the second Finance Commission that these taxes have been placed under the Union Government to ensure uniformity of taxation and convenience of collection and further that each State should receive broadly the amounts which it would have raised if it had the power to levy and collect them.

22. Some of the States were content with the principles laid down by the second Commission, but, some others suggested a revision on the lines submitted for the consideration of the second Commission. After discussion with us, all the States agreed that the principles enunciated by the second Commission might be left undisturbed. We recommend the continuance of these principles which are reproduced below:

(1) that out of the net proceeds of the duty in each financial year, a sum equal to 1 (one) per cent be retained by the Union as proceeds attributable to Union territories;

(2) the balance be apportioned between immovable property and other property in the ratio of the gross value of all such properties brought into assessment in that year;

(3) the sum thus apportioned to immovable property be distributed among the States in proportion to the gross value of the immovable property located in each State; and

(4) the sum apportioned to property other than immovable property be distributed among the States in proportion to their population.

23. The percentages laid down by the second Commission need, however, revision on the basis of 1961 census. The revised percentages will be:

State	Percentage
Andhra Pradesh	8·34
Assam	2·75
Bihar	10·78
Gujarat	4·78
Jammu and Kashmir	0·83
Kerala	3·92
Madhya Pradesh	7·51
Madras	7·80
Maharashtra	9·16
Mysore	5·46
Orissa	4·08
Punjab	4·71
Rajasthan	4·67
Uttar Pradesh	17·10
West Bengal	8·11

(ii) *Ad hoc grant of Rs. 12·5 crores in lieu of tax on railway passenger fares.*

24. The Act imposing a tax on railway passenger fares was repealed by Act No. VIII of 1961 after the Commission had been constituted. The Union Government has decided, however, to make to the States an *ad hoc* grant for the quinquennium 1961—66 of Rs. 12·5 crores per year representing the average of the actual collections during the two years 1958-59 and 1959-60. Our terms of reference were accordingly modified and we were asked to recommend instead the principles on which this *ad hoc* grant should be distributed.

25. The estimates of revenue and expenditure submitted to the Planning Commission by the States had taken account of the receipts

from this levy. It was presumably on this score that the *ad hoc* grant has been provided. We consider, therefore, that the distribution should be on the principle of compensation to place the States broadly on the same footing as before. This would accord also with the purpose of the grant. We accordingly recommended that the distribution of the sum of Rs. 12·5 crores per year amongst the States be as follows:

State	(Rupees in crores)
Andhra Pradesh	1·11
Assam	0·34
Bihar	1·17
Gujarat	0·68
Kerala	0·23
Madhya Pradesh	1·04
Madras	0·81
Maharashtra	1·35
Mysore	0·56
Orissa	0·22
Punjab	1·01
Rajasthan	0·85
Uttar Pradesh	2·34
West Bengal	0·79

IV. DEVOLUTION OF UNION TAXES/DUTIES

(i) *Income-tax*

26. Article 270(1) of the Constitution provides for the obligatory participation of the Union and the States in the proceeds of taxes on income other than agricultural income. Corporation tax, the proceeds attributable to Union territories and taxes payable in respect of Union emoluments are specifically excluded from distribution.

27. Under article 270, we have to make recommendations in regard to three matters, namely,

(a) the percentage of the net proceeds of income-tax to be assigned to the States;

(b) the distribution among them of the States' share; and

(c) the percentage of the net proceeds which shall represent proceeds attributable to Union territories.

28. Before we deal with them, we should like to summarise briefly the views placed before us by the State Governments. All the States have pointed out that, as a result of a change brought about in the Income-tax Act by the Finance Act of 1959, the income-tax paid by companies is now classified as corporation tax and is thus excluded from the pool of income-tax hitherto available for distribution. This, they represent, has deprived them of an expanding source of revenue to which they had hitherto a constitutional entitlement. The submission has, therefore, been made to us that we should take into account at least such part of the corporation tax as is attributable to this yield, if not the entire tax.

29. Suggestion has also been made that the surcharge on income-tax levied under article 271, which has been in force for about the last 15 years, should now be merged in the basic rates. It was urged that this would abate partly the impact of the loss sustained, as this would indirectly bring within the pool of distribution an excluded amount.

30. We, however, made it clear to the State Governments that the recommendations that we would make should necessarily be

in accordance with the provisions of the Constitution and our terms of reference. We also pointed out that other measures were available to take account of the shrinkage of the distributable pool. While appreciating this position, all the States claimed that the percentage of the tax to be assigned to them should be substantially increased; some even suggested that the entire net proceeds should be assigned to the States. We suggested that, in the case of a divisible tax in which there was obligatory participation between the Union and the States, a sound maxim to adopt would be that all participating Governments, more particularly the one responsible for levy and collection, should have a significant continuing interest in the yield of the tax. The States generally appreciated this point of view, but, variously suggested that a devolution of the order of 70 to 90 per cent would be appropriate. On the considerations mentioned above, we feel, however, that it should be adequate if 66-2/3 per cent of the net proceeds of this tax be assigned for distribution to the States.

31. The question of distribution of the share assigned to the States is not only a complicated issue but a controversial one. Widely divergent views have been expressed, ranging from distribution entirely on the basis of collection to distribution wholly on the basis of population. In between, there are suggestions that population should be weighed to take account of the proportion of scheduled castes and tribes and backward classes in the population, that the area of the State should be a relevant consideration, and that its backwardness should not be ignored. There are also suggestions that distribution should be based on considerations of population as also collection in various proportions.

32. We are in general agreement with our predecessors that the relevant considerations are population and collection. We did not find it feasible to introduce other factors in the distribution of this tax. In all previous schemes of distribution, there has been a blending of these two principles, but in different proportions. While the first Finance Commission recommended that distribution of the States' share should be on the basis of 20 per cent for collection and 80 per cent for population, the second Commission reduced the element of collection to 10 per cent and expressed the view that in due course the factor of collection should be eliminated altogether and distribution be made entirely on the basis of population.

33. We have considered the matter *de novo*. The second Commission itself recognised that "there may be a case for weightage

being given to collection in the restricted field of personal income-tax". The first Commission had gone further and stated: 'It is pertinent to bear in mind the fact that there is all over the country a core of incomes—particularly in the range of personal and small business incomes—which could be treated as of local origin'. We consider that these statements have a force. In our view, while population should remain the main factor for the distribution of the net proceeds of income-tax amongst the States, the factor of contribution should receive adequate recognition. It has been urged before us by the industrial and urban States, in whose territory large amounts are collected by way of income-tax, that they should have an incentive and the wherewithal to maintain the environments which would preserve and promote industrial and trade activities.

34. Since the second Finance Commission made its recommendations, the taxes on income paid by companies have been excluded from the divisible pool. Bulk of this tax paid by companies would have accrued from income of all-India origin. With the exclusion of this element from the divisible pool, a higher percentage than before of the total yield of income-tax now represents tax derived from incomes of local origin.

35. We consider, therefore, that a higher weightage should be given to the factor of contribution in the distribution of income-tax than that recommended by the second Commission. We have also been impressed with the submission that the industrial States having larger collections have problems of their own. Large concentration of population, more particularly of industrial labour, creates problems of law and order and gives rise to an increased demand for the administrative and social services. Further, the unit cost of providing these services is larger in such areas than elsewhere, more particularly in the non-urbanised parts.

36. Taking all these considerations into account, we feel that it would be fair and equitable to restore the formula of the first Commission for the distribution of income-tax, namely, 80 per cent on the basis of population and 20 per cent on the basis of collection.

37. As regards the actual manner of distribution of the States' share in each year, we agree with the earlier Commissions that it will be convenient both to the States and to the Union if the shares are expressed as fixed percentages. We recommend that two-thirds, that is to say 66-2/3 per cent of the net proceeds in any financial

year of taxes on income other than agricultural income, except in so far as those proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, be assigned to the States and distributed among them in the following manner:

State	Percentage
Andhra Pradesh	7·71
Assam	2·44
Bihar	9·33
Gujarat	4·78
Jammu and Kashmir	0·70
Kerala	3·55
Madhya Pradesh	6·41
Madras	8·13
Maharashtra	13·41
Mysore	5·13
Orissa	3·44
Punjab	4·49
Rajasthan	3·97
Uttar Pradesh	14·42
West Bengal	12·09

38. We further recommend that 2·5 per cent of the net proceeds of the income-tax be prescribed as the net proceeds attributable to Union territories.

(ii) *Union Excise Duties*

39. Article 272 of the Constitution empowers Parliament to provide by legislation the distribution to the States of the whole or a part of the net proceeds of the Union duties of excise on specified commodities, prescribing, at the same time, the principles on which the distribution should be made. This permissive provision was embodied in our Constitution to provide for additional financial assistance to the States, should the necessity arise to augment sums which could be made available under other provisions of the Constitution.

40. Till April 1952, the proceeds of this duty were not brought into distribution and were retained wholly by the Union. The first Finance Commission broke new ground by recommending the sharing of the proceeds of duties on three commodities between the Union and the States. It was presumably influenced in this conclusion by the growing financial needs of the States in fulfilling a complementary role in the development of the national economy and the provision of a higher level of social services. The second Commission expanded the list of duties to eight commodities as in their view the taxes on income were ceasing to be an expanding source of revenue and increasing dependence should be placed for purposes of devolution on the growing source of excise revenue. The impact of planning on the States also called for a larger measure of devolution which could be suitably provided by using the permissive provisions of article 272 more extensively.

41. The yield of the duty in the financial year 1951-52 was only Rs. 86 crores, but, it has yielded Rs. 383 crores in the year 1960-61. The range and depth of this duty was further enhanced in the year 1961-62. It is becoming evident that further expansion of this source of revenue is inescapable to meet the growing fiscal needs of our developing economy.

42. We consider that a more extensive use of article 272 for affording assistance to the States is not only justified but is even necessary. For one thing, the shrinkage in the divisible pool of income-tax has to be taken into account; for another, the larger revenue gaps caused by the impact of the committed expenditure of two successive plans have to be filled.

43. Three alternatives have been canvassed before us, namely, the distribution should cover the proceeds of Union excise duties on (i) articles of common consumption, (ii) consumer goods, and (iii) all the commodities on the present list. The majority of States have demanded that the entire net proceeds of Union excises should be made divisible. The arguments they adduce in support are two-fold:

(a) the expansion of the range of commodities subjected to Union excises from time to time and the increasing incidence of the duty have an impact on the levy and collection of sales tax. This in itself is a justification enough to give recognition to the interdependence of the two

levies by making the entire proceeds of Union excise duties divisible. Additionally, sales tax constitutes the only significant flexible source of revenue available to them and this flexibility is subjected to restraint by the excise policy of the Union Government; and

(b) the rate of duty on certain articles of common consumption, like cotton textiles, is variable and has, in fact, been varied from time to time depending on the stock position and market conditions. Similar considerations may arise in the case of sugar also. If a broader base is adopted for distribution, the buoyancy on certain articles will make good the shortfall on others, maintaining a steady flow of assistance.

44. We have been impressed by the logic of this approach. We consider that the inadequacy of resources that has developed in the States is attributable mainly to the planning process and this inadequacy may become more pronounced with the completion of each successive Plan for some years to come. The viability of the States could best be secured by a larger devolution of the Union excise duties and this should be effected by providing for the participation of the States, by convention, in the proceeds of all Union excises. It would give a great deal of psychological satisfaction to the States and dissipate any suspicion that the Union is pursuing a policy of excessive centralisation of resources. We consider that 20 per cent of the net proceeds of Union duties of excise on all commodities on which such duties are collected, would be appropriate for the purpose we have in view. For purposes of our distribution, we have included all the commodities on which duties were collected in 1960-61 being the last year preceding the third five year Plan, excluding (except silk fabrics) those on which the yield was below Rs. 50 lakhs a year. We exclude, however, from this computation the duty on motor spirit, as we propose elsewhere that a sum of Rs. 36 crores being about 20 per cent of its yield should be utilised for maintenance and improvement of communications and distributed as a special purpose grant.

45. We have considered the other two alternatives also, but have felt that there is no particular virtue or advantage in their adoption. Selection of a list of consumer goods might well be questioned; nor would it provide a more satisfactory basis of distribution. Similarly, limiting devolution to articles in common use, such as cotton textiles,

sugar, etc., would not, in the present situation, assure the States of a stable yield.

46. We now turn to the distribution of the States' share of the divisible excises. The first Commission had suggested that consumption of taxed commodities could provide a suitable basis for distribution, but, in the absence of reliable data, they adopted population as the basis. Confronted with the same situation of non-availability of reliable statistics, the second Commission felt that population was the best basis to adopt, more particularly, as distribution on consumption, even if the relevant data were available, would benefit the more urbanised and, in their view, therefore, the financially stronger States. Both the Commissions were considering a limited range of commodities which could be classified as consumer goods; but, we propose to include, in devolution, producer goods and intermediaries also. Consumption would not, in our view, be the correct criterion to apply for distribution.

47. We consider that while population should continue to be the major factor of distribution, the relative financial weaknesses of the States, the disparity in the levels of development reached, the percentage of scheduled castes and tribes and backward classes in their population, etc. should also be taken into account in determining the share to be allocated to each State individually. In other words, we feel that in this permissive participation, an attempt should be made to bring all the States, as far as possible, to a comparable level of financial balance. We recommend, therefore, that under article 272 of the Constitution, a sum equal to 20 per cent of the net proceeds of the Union duties of excise on all articles scheduled below be paid out of the Consolidated Fund of India to the States and distributed among them as given below:

Schedule of articles

1. Sugar.
2. Coffee.
3. Tea.
4. Tobacco.
5. Kerosene.
6. Refined diesel oils and vaporizing oils.

7. Diesel oil, not otherwise specified.
8. Furnace oil.
9. Asphalt and Bitumen.
10. Vegetable non-essential oils.
11. Vegetable products.
12. Pigments, colours, paints, enamels, varnishes, blacks and cellulose lacquers.
13. Soap.
14. Tyres and tubes.
15. Paper.
16. Rayon and synthetic fibres and yarn.
17. Cotton fabrics.
18. Silk fabrics.
19. Woollen fabrics.
20. Rayon or artificial silk fabrics.
21. Cement.
22. Pig Iron.
23. Steel ingots.
24. Aluminium.
25. Tin plate and tin sheets including tin taggers and cuttings of such plate, sheets or taggers.
26. Internal combustion engines.
27. Electric motors and parts thereof.
28. Electric Batteries and parts thereof.
29. Electric lighting bulbs and fluorescent lighting bulbs.
30. Electric fans.
31. Motor vehicles.
32. Cycles, parts of cycles other than motor cycles.
33. Footwear.

34. Cinematograph films exposed.

35. Matches.

Schedule of distribution

State	Percentage
Andhra Pradesh	8·23
Assam	4·73
Bihar	11·56
Gujarat	6.45
Jammu and Kashmir	2·02
Kerala	5·46
Madhya Pradesh	8·46
Madras	6·08
Maharashtra	5·73
Mysore	5·82
Orissa	7·07
Punjab	6·71
Rajasthan	5·93
Uttar Pradesh	10·68
West Bengal	5·07

V. DISTRIBUTION OF ADDITIONAL DUTIES OF EXCISE

48. We next deal with the additional duties of excise. We are required to make recommendations in regard to the changes, if any, to be made in the principles governing the distribution of the net proceeds in any financial year of the additional excise duties levied on cotton fabrics, rayon or artificial silk fabrics, woollen fabrics, sugar, tobacco including manufactured tobacco, provided that the share accruing to each State shall not be less than the revenue realised from the levy of sales tax in the financial year 1956-57 in that State.

49. In May 1957, the Government of India, in consultation with State Governments, decided that an additional duty of excise should be levied on mill-made textiles, sugar and tobacco including manufactured tobacco, in replacement of sales tax levied by the State Governments, and that the net proceeds should be distributed among the States, subject to the then income derived by each State being assured to it.

50. The second Finance Commission was required to recommend the principles which should govern the distribution of the net proceeds. It was required to determine also for each State the amount which should be assured to it as being the income derived to it from the levy of sales tax. As the additional duties were to replace sales tax which was tax on consumption, it explored the possibility of adopting consumption as the basis of distribution. It prepared its own estimates of consumption of each of the three commodities on the basis of estimates prepared by the associated official agencies and the estimates furnished by the State Government and applied population as a corrective. It came to the conclusion that the estimates so compiled provided the best index for determining the incomes of the States individually from sales tax on these three commodities.

51. Some of the States have questioned the correctness of the amounts guaranteed in pursuance of the second Commission's recommendation, but, they have been unable to produce material any more reliable than that submitted to that Commission. We consider

that, at this distance of time, it is neither possible nor proper of us to undertake a re-examination of the question. A re-opening of the matter would only complicate a settled issue and create problems which are best avoided.

52. The States urged that the guaranteed amounts should be revised to take account of increases in rates of sales tax effected by them after the amounts guaranteed had been determined. They also complained that as a result of the surrender of sales tax, they lost over a period of years and that they should be insulated against further future losses. The second Commission had rejected the suggestion that not only the revenues currently derived but prospective revenues should also be taken into account in determining the guaranteed amounts. So must we also dismiss the suggestion that we should make an estimate of possible losses sustained and refix the amounts of guarantees. For one thing, such an examination would be outside the terms of our reference; and, for another, such a determination would be impractical on statistical material now available.

53. An additional excise duty having been introduced in lieu of sales tax on silk fabrics as well, we have been asked to provide for its distribution as in the case of the other commodities. The yield from this duty is small, being estimated at Rs. 4 lakhs a year. In our view, the amounts of guarantee prescribed by the second Commission should be adopted with a small addition to take account of the yield from silk fabrics.

54. We consider that a sum equal to 1 per cent of the net proceeds of these additional duties of excise should be retained by the Union as being attributable to Union territories.

55. Further, we recommend that the 1¼ per cent of the net proceeds paid to the State of Jammu and Kashmir be appropriately increased to 1½ per cent a year. In respect of other States, we recommend that the annual guaranteed amounts with the addition of additional excise duty on silk fabrics should be as shown below:

State	(Rupees in lakhs)
Andhra Pradesh	235·24
Assam	85·08
Bihar	130·16
Gujarat	323·45

Kerala	95·08
Madhya Pradesh	155·17
Madras	285·34
Maharashtra	637·77
Mysore	100·10
Orissa	85·10
Punjab	175·19
Rajasthan	90·10
Uttar Pradesh	575·81
West Bengal	280·41
	3254·00

56. We have, however, to recommend on what principles any balance of net collections remaining after meeting the guaranteed amounts should be distributed. We consider that, in view of the fact that this additional levy is in lieu of sales tax, it would be equitable to distribute the excess collections partly on the basis of the percentage increase in the collection of sales tax in each State since the year 1957-58 when the additional excise duties were imposed and partly on the basis of population. We recommend that in addition to the amounts guaranteed, the States should participate in the distribution of collections in excess of amounts so provided in the ratio given below:—

State	Percentage
Andhra Pradesh	7·75
Assam	2·50
Bihar	10·00
Gujarat	5·40
Kerala	4·25
Madhya Pradesh	7·00
Madras	9·00
Maharashtra	10·60
Mysore	5·25
Orissa	4·50
Punjab	5·25
Rajasthan	4·00
Uttar Pradesh	15·50
West Bengal	9·00

VI. GRANTS-IN-AID

57. We now turn to the question of determining the States which are in need of assistance and the amounts of the grants-in-aid to be recommended for them under the substantive portion of article 275 (1) of the Constitution.

58. Article 280 (3) (b) requires us to make recommendations to the President as to the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.

59. Grants-in-aid should obviously be made to meet the residuary fiscal needs of the States, after offsetting the estimated amounts made available by the devolution of taxes. Two questions arise: first, how these needs should be reasonably determined; and secondly, how fiscal needs should be defined. Should it be done in a comprehensive sense, including the requirements of the Plan, or should it be in a limited sense, merely to cover the budgetary gaps of the period of the Plan?

60. The first Commission formulated certain principles which should regulate the assessment of fiscal needs and, in doing so, it defined also their scope. It considered that the budgetary needs of the States should first be estimated by a detailed examination of the forecasts of revenue and expenditure submitted and then these should be reduced to a comparable basis by the exclusion of abnormal, unusual and non-recurring items of expenditure. Adjustments in this analysis should be made to take account of the extent of tax effort made by each State individually; and also the measure of economy it had effected in administration. This would help a broad judgement on the quantum of assistance that would be justified. That Commission, however, felt that this analysis should not, by itself, limit grants-in-aid, but that the level of social services reached in a State and any special disabilities arising out of its constitution should entitle it to a further moiety of assistance. It added that grants should also be made for broad purposes of national importance to bring up deficient States to an acceptable minimum level.

61. These principles are unexceptionable in themselves, but, difficulties as appreciated by the first Commission arise in their

application. The comparative determination of the tax efforts of the States cannot be in absolute terms. It has to be related to their tax potential, and this calls for a special study. Similarly, the assessment of the measure of economy effected or the degree of efficiency reached in a State's administration is a complicated exercise which, in any event, we could hardly undertake with the organisation and time at our disposal. Yet, without reliable and comparable information on these two essential ingredients of grants-in-aid, it is difficult to determine the quantum of assistance that would be necessary and justified. This and other considerations lead us to the suggestion, which we make elsewhere, that an independent Commission should be constituted to review, amongst other things, the financial relations which, in the new situation of planned development, should subsist between the Union and the States.

62. The other principles mentioned by the first Commission are now taken care of in the formulation of the national plan; but, the question remains whether we should not take note of their financial implication in our scheme of devolution and grants-in-aid.

63. In the enumeration of principles, the first Commission acknowledged that it was not sufficient to cover the amount of budgetary needs but also the fiscal needs arising out of development programmes undertaken. The second Commission re-affirmed that fiscal needs should be considered in a comprehensive sense and that grants-in-aid should subserve the requirements of planned development. It added that the priorities and provisions in the Plan itself should determine the fiscal needs for development for the period of the Plan.

64. Consistent with this concept of assistance to which we fully subscribe, which accords also, in our view, with the spirit and provisions of the Constitution, we should not leave out of consideration the fiscal needs of the Plan. Our terms of reference also give recognition to this principle by directing us specifically to take note of the requirements of the third five year Plan. We have, however, to consider whether we should give full coverage to the estimated revenue component of the Plan or should limit it on practical or other considerations.

65. Two points of view have been expressed before us on this question. The first is that the Plan itself is flexible and is subject to adjustments at the annual reviews undertaken and there is the

need to ensure that the States conform to the priorities and provisions laid down. If full financial allocation is made by us, these reviews would be rendered difficult. The other point of view is that the Plan having been endorsed by the National Development Council and approved by Parliament, it is only logical to guarantee the necessary resources to the States to enable them to forge ahead. It is suggested that devolution and grants-in-aid by the Finance Commission would be more in tune with the provisions of the Constitution and that it would inculcate a greater sense of responsibility in the States as the grants-in-aid would then become an integral part of their resources. It has further been urged that it is inconceivable that the scope and targets of the Plan, except in an emergency, could possibly be revised downwards. Further, that, in an emergency, the provisions we make would in any case come to be suspended; and that there should, thus, be no impediment or practical difficulties in the way of our providing for the fiscal needs of the Plan even in full.

66. The considerations on which a judgement can be made are, therefore, somewhat conflicting. While we appreciate that in a planned economy a measure of centralisation and even regimentation is inescapable, it is no less necessary that States should not feel that their autonomy is being unduly frustrated. There seems to be a strong feeling in the States that the restrictions and conditions, which are attached to the grants which they receive for Plan purposes, tie their hands unduly and deprive them of necessary flexibility and room for adjustments.

67. It seems to us that to draw a line necessarily arbitrary on the basis of Plan and non-Plan expenditure in their treatment is not really sound. We see little merit in inducing a State to continue to incur expenditure on objects however desirable, when the rest of its resources are insufficient to meet the basic requirements of its administration and the more pressing needs of other programmes which fall outside the Plan. It has to be remembered that a high proportion of what is classified as non-Plan expenditure is itself due to projects launched in previous Plan periods for which maintenance and upkeep becomes a non-Plan liability of the State. There is yet another reason why we are inclined to regard the entire revenue budget of a State—whether Plan or non-Plan—as an integral whole. Some of the States will, as a result of the devolution, which we are proposing, have a surplus position in the non-Plan sector of their

revenue budget. It is but legitimate that this surplus should be earmarked for the purposes of the Plan. On all these considerations, we see considerable advantage in devising a machinery for taking an integrated view of Plan and non-Plan expenditure of the State as a whole. This issue, which requires a more detailed examination and fuller consideration of many important inter-related questions of Union-State financial relations, should also, in our view, be remitted to the high-powered independent Commission, the constitution of which we suggest elsewhere.

68. In order to ensure that, on the one hand, national priorities are not distorted by the States and, on the other, that through conditional grants and the financial inducements which they provide, States are not made to embark on schemes which they themselves might consider relatively unimportant to their economy and even unsuitable to their environment, it seems advisable to examine whether the assistance made available by the Union to the States towards their Plan expenditure should not be on the following basis:

(a) assistance which is meant to fulfil what can rightly be described as national purposes, such as power, flood control, major irrigation works, agriculture, family planning, etc. should continue to be governed by strict conditions regarding their utilisation; and

(b) grants, which are meant to strengthen the State sector in matters which must necessarily be decided with fullest regard to local rather than national needs, such as, education, health, minor irrigation projects, etc., should be such that the States have the freedom to reappropriate from one head of such allocation to another while adhering to the broad objectives of the Plan.

69. We content ourselves with making these suggestions which the Commission we propose would undoubtedly consider.

70. We consider also that, with a view to have a well co-ordinated approach to Plan and non-Plan programmes, current as well as long-term, the State Governments should develop a compact, efficient machinery for the formulation, execution and evaluation of these programmes.

71. On the considerations placed before us, we recommend that the total amount of grants-in-aid should be of an order which would

enable the States, along with any surplus out of the devolution, to cover 75 per cent of the revenue component of their Plans. In determining the revenue component, we have deducted in full the amount of additional tax to be raised by each State as incorporated in the Plan itself. In making this recommendation, we have been influenced, amongst other things, by the fact that the Plan contains repetitive schemes of continuing character. The expenditure on these is unavoidable and is of the nature of committed expenditure. One State has produced statistics to show that this absorbs 64 per cent of the revenue component of its Plan. A similar position, though possibly in differing degrees, subsists in the Plans of the other States also.

72. The assistance to each State towards the fulfilment of the broad purposes of the Plan, as provided by us, is given in the table appended. The safeguard in the utilisation of this assistance for the purpose intended is, in our view, provided by article 275 of the Constitution. This being a grant-in-aid for a specific purpose, namely, the Plan, it may be reviewed from year to year, should the necessity arise, by Parliament under article 275(1) or by the President under article 275(2) as the case may be.

73. Our purpose in making these suggestions and recommendations is twofold; first, to secure the observance of the priorities of the Plan in regard to programmes of national importance, and secondly, to encourage and enable the State Governments to plan their affairs on a sounder and more realistic financial base and to discourage demoralisation which dependence inevitably breeds.

74. We had not intended to make any special-purpose grant, but, in the course of our visits to the States and the discussions we had with their Cabinets, we became convinced that impetus should be given to the development of communications more extensively. There is the pressing need to open up backward areas, to break down barriers of isolation and stagnation, to develop social services and social sense, to mobilise economic resources, and above all, to bring about a feeling of oneness in the minds of the people of these regions with the rest of the community. Due to financial stringency, the State Governments had, we noticed, made inadequate provision for the proper maintenance of existing roads and for new construction. We feel that, in the special circumstances, an earmarked grant should be made for improvement of communications in the interests of national economy and national integration. We consider, therefore, that it would be appropriate if a total sum of Rs. 36 crores being

approximately 20 per cent of the proceeds of the duty on motor spirits were to be distributed for this purpose. Keeping in view the relative needs of the different States and the resources available to them, we recommend the special grant of Rs. 36 crores be distributed as indicated below:

(Rupees in lakhs)

State	Per year	Total for four years 1962-66
Andhra Pradesh	50	200
Assam	75	300
Bihar	75	300
Gujarat	100	400
Jammu and Kashmir	50	200
Kerala	75	300
Madhya Pradesh	175	700
Mysore	50	200
Orissa	175	700
Rajasthan	75	300

75. In addition, we recommend the following grants-in-aid in each of the four years 1962—66 to cover budgetary gaps where needed and 75 per cent of the revenue component of the Plan. The assistance towards the Plan made available in our scheme of devolution and grants-in-aid in each of these years is indicated separately.

(Rupees in lakhs)

State	Grant-in-aid	Assistance towards Plan included in devolution and grants-in-aid in column 2.
1	2	3
Andhra Pradesh	1200	300
Assam	900	375
Bihar	800	800
Gujarat	950	525
Jammu and Kashmir	325	175
Kerala	850	300
Madhya Pradesh	625	500
Madras	800	500
Maharashtra	..	675
Mysore	775	150
Orissa	1600	450
Punjab	275	275
Rajasthan	875	425
Uttar Pradesh	200	800
West Bengal	850	850

76. We have every expectation that the provision we make would further the national purpose to consolidate, to unite and to construct.

VII. GENERAL OBSERVATIONS

77. In all federal constitutions, it has been found difficult to provide for allocation of resources to correspond to allocation of functions. There is a measure of inter-dependence between the national and State Governments, which becomes more pronounced in a developing economy. Our Constitution takes cognizance of this position in its financial provisions. The division of resources between the Union and the States, embodied in our Constitution, might not, it was considered, make the States viable, and provision had, therefore, been made for the yield of certain taxes being made divisible between the Union and the States. There is provision both for obligatory and permissive participation. Accordingly, the Constitution has made the proceeds of income-tax divisible compulsorily, its yield being (a) substantial and (b) historically it had been a divisible tax earlier. It was recognised also that even with a share in the proceeds of income-tax, a few of the States, which had been formed earlier on political, linguistic and other considerations, might still be in need of additional financial assistance. Accordingly, provision has been made for grants-in-aid of revenue in article 275 of the Constitution. The Constitution provides also for permissive participation in the yield of excise duties either on the whole range of, or of specified, commodities on which the duties have been imposed.

78. The scope and magnitude, which the successive five year Plans will assume for the development of our national economy and the level of social services, could not be fully appreciated when the Constitution was drafted. It became necessary, therefore, from the very beginning, to operate on the permissive provision of participation in the excise duties, and the first Finance Commission made recommendations for division of the yield of excise duties on three commodities in addition to other provisions of devolution and grants-in-aid. The second Commission considered it necessary to expand the list to eight commodities, along with some other adjustments.

79. A general weakness of federal-State financial relations, more particularly in the field of devolution, is that federal assistance tends to be discretionary in character, not necessarily on principles of uniform application. To safeguard the position of the States, our

Constitution provides, therefore, that the assessment of the needs of the States as well as the measure of assistance to be afforded and the form in which this should be given, are determined by an independent Commission to be constituted at intervals of not more than five years. (But this role and function of the Finance Commission, as provided in the Constitution, can no longer be realised fully due to the emergence of the Planning Commission as an apparatus for national planning.)

80. As a prelude to the formulation of each five year Plan, the Planning Commission has to make an assessment of resources required in their totality, including those to be raised by the Union and the States, both by way of loan and by additional taxation and adjustment of existing levels of taxes, foreign assistance and deficit financing. Based on this assessment, the size of the national plan is determined and is divided into components of industrial and social development, individually for the Union and each State Government, and priorities are also arranged. This overall planning embraces an examination and acceptance of the revenue and expenditure forecasts of the Union and the State Governments; additional tax efforts to be made are similarly pre-determined as requisites of the fulfilment of the Plan. Against this background, the role of the Finance Commission comes to be, at best, that of an agency to review the forecasts of revenue and expenditure submitted by the States and the acceptance of the revenue element of the Plan as indicated by the Planning Commission for determining the quantum of devolution and grants-in-aid to be made; and, at worst, its function is merely to undertake an arithmetical exercise of devolution, based on amounts of assistance for each State already settled by the Planning Commission, to be made under different heads on the basis of certain principles to be prescribed.

81. The second Commission had referred to the overlap of functions of the Planning and Finance Commissions and had urged that there was 'a real need for effectively co-ordinating' the work of the two Commissions. It had also stressed the desirability of eliminating the necessity of making two separate assessments of the needs of the States. Being of the same view, we consider that the acceptance of one of two alternatives we suggest would alone remove the anomalous position.

82. The first is to enlarge the functions of the Finance Commission to embrace total financial assistance to be afforded to the

States, whether by way of loans or devolution of revenues, to enable them both to balance their normal budgets and to fulfil the prescribed targets of the Plans. This would, we consider, be in harmony with the spirit and even express provisions of our Constitution. This would also make the Commission's recommendations more realistic as they would take account of the inter-dependence of capital and revenue expenditure in a planned programme.

83. The second is to transform the Planning Commission into Finance Commission at the appropriate time.

84. Most of the States have complained that there is a perceptible trend of centralisation of resources, in addition to centralisation of certain State functions. In evidence, they point out that the recent amendment of Income-tax Act has removed from the definition of income-tax the tax paid by companies and has thereby caused an appreciable shrinkage in the divisible pool to which they are constitutionally entitled. Though the amendment was made to simplify levy and collection, the indirect effect has, in fact, been a diminution in the amount hitherto available for distribution. Similarly, they cite the recent repeal of the Act imposing a tax on railway passenger fares. This, they claim, was an expanding source of revenue to which they were legally entitled in terms of article 269. Though provision has been made for an *ad hoc* grant of Rs. 12·5 crores a year for five years, representing the average yield of the tax in the past two years, they fear that even this amount may not be separately earmarked hereafter to compensate them for loss of entitlement. In any event, it can only be a discretionary grant *in lieu* of a legal right now extinguished. They have also complained that the Union Government had not adjusted the rates of additional excise duties levied on certain commodities *in lieu* of sales-tax, though the basic rates of excise duty on these very commodities had been recently revised upwards. Their grievance is that the benefits of all these measures accrue to the Union at the expense of the States.

85. We mention this as there is a general feeling that the contents of the autonomy of the States are being diluted not only by the prescription of detailed directions on subjects within the State list, but also by unilateral financial decisions taken.

86. A more important and even disturbing feature is that the States are becoming dependent on Central assistance on an ever-increasing scale. This arises partly out of the impact of committed

expenditure of the completed plan projects and partly for other reasons. This increasing dependence is diluting, on the one hand, the accountability of the State Cabinets to their Legislatures; on the other, it is coming in the way of the development of a greater sense of responsibility in their administration.

87. If it were possible to establish a proper balance between the productive and non-productive components of a State's Plan, the productive projects, it might be expected, would generate, though after a time-lag, enough resources to finance the maintenance cost of the non-productive schemes. But due to the uneven development of the social services and their inadequacy generally, these have to be given an important place in planning. As a result, the States are unable even to balance their normal budgets with the tax resources available to them. This is rendered more difficult, as additional taxation measures are earmarked and absorbed for financing the revenue component of the current Plan. It has, therefore, to be considered whether, in the present situation, the treatment now accorded to completed Plan schemes should be continued. The cost of maintaining the schemes, whether viable or not, now becomes automatically a charge on the revenues of the State. Such of these schemes (and many of them fall into this category) as do not produce revenues sufficient to meet their maintenance charges add to the financial liabilities of the States. Instead of creating assets, these schemes create additional financial liabilities in most cases. The question, therefore, arises whether the schemes which have yet to become viable should not appropriately be a first charge on the resources of the immediately succeeding Plan. This arrangement will provide, on the one hand, for a review of the working of the schemes, whether they are being efficiently and economically administered and whether they are fulfilling the purposes for which they were designed, and on the other hand, make it possible to assess the extent to which the different States are endeavouring to balance their 'normal' budgets. We feel that the issue we pose merits examination in all its implications and should appropriately be remitted to the Commission we propose later. The increased need of assistance is not entirely a concomitant of planning; in many cases it is additionally attributable to ineffective expenditure control and laxity in fuller mobilisation of available resources.

88. The earlier Commissions had rightly stressed the importance of efficiency and economy in administration and the tax efforts of

the States. But they were unable to assess the relative efficiency and performance due to inadequacy and often unreliability of statistical and other material. We have also been confronted with the same difficulty. With the limited time and organisation at our disposal, we would have been, even otherwise, unable to undertake either of those reviews, and give recognition in our scheme of devolution to those States which had made the maximum effort in effecting economy in expenditure and raising resources. We have, therefore, been compelled, like our predecessors, to cover the annual budgetary gaps of all the States, whether caused by normal growth of expenditure, the maintenance cost of completed schemes and mounting interest charges or even by a measure of improvidence.

89. Secure in the knowledge that the annual budgetary gap would be fully covered by devolution of Union resources and grants-in-aid, the States are tending to develop, as we have noticed, an allergy to tap resources in the rural sector on many considerations and also a disinclination to make up the leeway in others. They do not also attach the same importance to a proper and adequate control on expenditure in the matter of services and supplies as before. Cadres expand, pay-scales get revised upwards, negligence develops in the procurement of supplies and execution of projects in the absence of proper cost control. While there is a close scrutiny of, and consultation on, the contents of the Plan, there is hardly any on the contents of the annual estimates; there is no counterpart at the national level in regard to non-Plan expenditure which is progressively increasing as a result of planning itself.

90. A disturbing feature is not only the effect of unsound financial policies of a State on its own development, but its impact on neighbouring States also. We have noticed that in one State the pay-scales of one of the services were being substantially increased, backed by the recommendations of a high-powered commission, even when the scales were one of the highest in India. Sufficient thought does not seem to have been given to the effect of this pay revision on other departments of the State itself, much less on its impact on the neighbouring States.

91. A similar situation obtains in the field of taxation and considerable disparities exist in the fields of land revenue, sales-tax, motor vehicles tax, etc. Though it is generally accepted that the rural sector could make a greater contribution to national economy, there is an understandable reluctance to revise even the rates of

land revenue in operation, even when they have not been reviewed in the last 30 to 60 years. In one State, when a limited operation indicated that the rates could be raised considerably on old accepted and established principles of assessment, the Government considered it inadvisable to continue the settlement operations. In another State, in real need of resources, the collection of betterment levy already introduced had to be suspended just because the neighbouring State had done so in a more prosperous contiguous area. All these induce a chain reaction of enforced under-taxation on the one hand, and avoidable increase in public expenditure on the other.

92. It is becoming increasingly evident that there should be arrangements for national or, at least, zonal economic co-ordination, both of tax levies and expenditure programmes, to introduce a measure of uniformity. It should ensure optimum mobilisation of resources and re-introduce a greater sense of responsibility in expenditure control. It is not our intention to suggest that absolute uniformity in various tax levies could be effected even on a zonal basis. The tax potential of even contiguous states is not always the same and their tax structure may need differing degrees of adjustments.

93. We consider that a comprehensive examination should now be undertaken to assess the tax potential of each State, to review its tax structure and to recommend rates under different heads of levies in the State list. This examination should appropriately be entrusted to an independent Commission which would naturally take note of the widening gap between resources and functions of the States brought about mainly by the planning process and consider what adjustments, if any, should be made in Union-State financial relations which would add strength both to the Union and the States.

94. We should, at this stage, stress, as our predecessors did, the importance and necessity of arranging for the compilation of reliable statistics relevant for the determination of needs of the States, their taxable capacity and the efficiency of their administration. This would prove invaluable not only to the enquiry we suggest, but also to the agency which will advise on devolution of taxes to be made and other forms of assistance to be afforded to the States.

95. The acceptance of the rates recommended by this Commission and efficiency in effecting recoveries would provide a suitable yardstick for assessment of comparative efficiency and give a better and

more acceptable guide for assessing the assistance justified from the Centre. This will, in our opinion, bring about the optimum mobilisation of resources by all the States. Equally, it will put a stop to the present undesirable system of affording assistance by covering the revenue gaps, howsoever they have arisen or been caused. Under the present dispensation, it is likely that the States, which have done the least, may receive more than they would have otherwise deserved.

96. To complete the picture of financial assistance afforded by the Union to the States, we should refer to the present system of dual allocation of grants, grants-in-aid of revenue made on the recommendations of the Finance Commission under article 275 and grants for specific purposes made at the discretion of the Union Government under article 282. Though the assistance given under article 282 was 48·7 per cent of the total in the year 1952-53, it has now assumed the proportions of 80.2 per cent in the budget for 1961-62. In other words, discretionary grants account for a substantial part of total assistance.

97. We invited the views of the State Governments on the system of dual allocations. Some of the States advocated that the grants in their totality should be covered by the recommendations of the Finance Commission as being in accordance with the basic principles of the Constitution and that grants should not be left to be made at the discretion of the Union Government. Some other States suggested that the bulk of the grants should be covered by the recommendations of the Finance Commission leaving the residue to be made by the Union Government. This, they suggest, is necessary as the Plan itself is flexible and a margin should, therefore, be left for effecting adjustments should they become necessary. It is claimed, however, by the proponents of full devolution that having regard to the needs of our economy there is no scope for curtailment of the Plan except in an emergency. In evidence, they drew attention to the fact that the Plan itself lays down a physical target higher than the present financial target.

98. It has also been urged that article 282 is outside the provisions of the Constitution governing 'Distribution of Revenues between the Union and the States', and is one of the several 'Miscellaneous Financial Provisions'; that it is only a permissible provision to meet a possible contingency and is not intended to be used in the manner it is now being used.

99. Another important matter, which deserves a mention, is the need for overhauling the administrative, technical and executing agencies to make them more efficient, quick in movement and effective in execution. We have noticed that in their natural anxiety to obtain larger State plans, there is a tendency to overstate resources, current and additional, and promise economies which are not susceptible of realisation. We should like to stress the importance of 'non-Plan' expenditure pertaining, more particularly, to administration, even in a planned economy. Unless a balance is struck between Plan and non-Plan outlays and the need is recognised of refashioning the machinery of government, we fear that the Plan itself will be in jeopardy. In any event, it will be difficult to secure completion of projects to schedule or to obtain value for money expended. In this connection, we have mentioned earlier that we consider that it would be useful if the States were to set up a machinery to draw up their own development plans and also to undertake a review, at suitable intervals, of the progress of execution of projects and also other non-Plan programmes. In other words, it should be a planning apparatus with added functions of audit of performance.

100. Article 280(3) (c) empowers the President to call upon the Commission to make recommendations on any matter which he considers to be in the interests of sound finance. Under this provision three questions have been referred to us which we have dealt with elsewhere. There is one other important point, which, though not specifically referred to the Commission, has been stressed before us by the States and we feel that we should make some observations on it. It is in regard to the mounting interest liability which is devolving on the States both on loans raised by themselves and loans granted by the Union Government. The importance of this question lies in the fact that in most cases this liability alone absorbs a substantial portion of their current revenues. The position will worsen in the foreseeable future. As our devolution must take account of the revenue gaps, partly attributable to interest charges, we consider that it would not be out of place if we were to give our appreciation of the position.

101. A general complaint, more particularly of the States which have large multi-purpose river valley projects with considerable financial outlays, (in some cases several times their total annual revenues) is that the loans made to them bear interest charges from the dates on which they are drawn. This liability has, of necessity,

to be met out of additional interest-bearing loans. This not only leads to the over-capitalisation of the projects but also makes these additional loans attract compound interest levies. It has to be considered whether it would not be advisable to have a period of moratorium depending on the character and scope of each productive project, with a weighted rate of interest to compensate the Union Government for the interest foregone over the period of moratorium. This is the principle, we understand, on which World Bank loans are made for projects. It has also to be appreciated that the interest recovered from the States at present is, in the main, met out of the assistance given by the Union Government itself. The position is far from satisfactory and requires, in our opinion, analysis and review.

102. As our observations above relate mainly to multi-purpose river valley and other major irrigation projects, we made a detailed examination of their financial working. We were disappointed to find that in a number of cases the returns are insufficient to meet even the working expenses and in the majority of cases insufficient to cover the additional incidence of interest liability. The power components of the multi-purpose projects are generally remunerative, though marginally because of the statutory ceiling of 5 per cent return. They are not so where agreements were made for supplies at concessional rates either to attract industries to the States concerned, or to find an outlet at the time for power generated or both. But the irrigation components of these projects and also other major irrigation projects are unproductive in most cases. The reasons are two-fold: (a) the reluctance of the agriculturists to avail themselves of irrigation facilities and (b) the unwillingness of States to levy suitable water rates. There is also a marked hesitation to impose and collect betterment levies as an offset to capital expended. The question, therefore, is whether States, which have failed to make their agriculturists irrigation-conscious and/or to levy appropriate taxes, should be encouraged or even allowed to undertake additional irrigation projects.

103. We have felt impelled to raise these issues of a general character, though these are not directly related to our terms of reference. Nevertheless, we consider that they are relevant in the context of the recommendations we make and important enough to merit consideration in the interests of our national economic growth and the introduction of a minimum acceptable standard of social services in all the States.

VIII. SUMMARY OF RECOMMENDATIONS

104. Our recommendations to the President are set out below:

I. Estate Duty:

For a period of four years with effect from April 1, 1962:

(a) Out of the net proceeds in each financial year of estate duty in respect of property other than agricultural land, a sum equal to 1 (one) per cent be retained by the Union as proceeds attributable to Union territories;

(b) the balance of the net proceeds be apportioned between immovable property and other property in the ratio of the gross value of all such properties brought into assessment in that year;

(c) the sum thus apportioned to immovable property be distributed among the States in proportion to the gross value of the immovable property located in each State; and

(d) the sum apportioned to property other than immovable property be distributed among the States as follows:

State	Percentage
Andhra Pradesh	8·34
Assam	2·75
Bihar	10·78
Gujarat	4·78
Jammu and Kashmir	0·83
Kerala	3·92
Madhya Pradesh	7·51
Madras	7·80
Maharashtra	9·16
Mysore	5·46
Orissa	4·08
Punjab	4·71
Rajasthan	4·67
Uttar Pradesh	17·10
West Bengal	8·11

II. Grant of Rs. 12·5 crores in lieu of the tax on railway passenger fares:

With effect from April 1, 1961 a sum of Rs. 12·5 crores be distributed each year during the quinquennium 1961—66 among the States as follows:

State	(Rupees in Crores)
Andhra Pradesh	1·11
Assam	0·34
Bihar	1·17
Gujarat	0·68
Kerala	0·23
Madhya Pradesh	1·04
Madras	0·81
Maharashtra	1·35
Mysore	0·56
Orissa	0·22
Punjab	1.01
Rajasthan	0·85
Uttar Pradesh	2·34
West Bengal	0·79

III. Income Tax:

For a period of four years with effect from April 1, 1962:

(a) the percentage of the net proceeds in any financial year of taxes on income other than agricultural income, except in so far as those proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, to be assigned to the States be 66-2/3 (sixty-six and two-thirds);

(b) the percentage of the net proceeds of taxes on income which shall be deemed to represent proceeds attributable to Union territories be 2½ (two and a half);

(c) the percentage of the net proceeds assigned to the States be distributed as follows:

State	Percentage
Andhra Pradesh	7·71
Assam	2·44
Bihar	9·33
Gujarat	4·78
Jammu and Kashmir	0·70
Kerala	3·55
Madhya Pradesh	6·41
Madras	8·13
Maharashtra	13·41
Mysore	5·13
Orissa	3·44
Punjab	4·49
Rajasthan	3·97
Uttar Pradesh	14·42
West Bengal	12·09

IV. Union Excise Duties:

For a period of four years with effect from April 1, 1962 a sum equal to 20 (twenty) per cent of the net proceeds of the Union duties of excise on the articles scheduled below be paid out of the Consolidated Fund of India to the States and distributed among them as follows:

Schedule of articles

1. Sugar.
2. Coffee.
3. Tea.
4. Tobacco.
5. Kerosene.
6. Refined diesel oils and vaporizing oils.
7. Diesel oil, not otherwise specified.
8. Furnace oil.
9. Asphalt and Bitumen.
10. Vegetable non-essential oils.
11. Vegetable products.
12. Pigments, colours, paints, enamels, varnishes, blacks and cellulose lacquers.
13. Soap.
14. Tyres and Tubes.
15. Paper.

16. Rayon and synthetic fibres and yarn.
17. Cotton fabrics.
18. Silk fabrics.
19. Woollen fabrics.
20. Rayon or artificial silk fabrics.
21. Cement.
22. Pig Iron.
23. Steel Ingots.
24. Aluminium.
25. Tin plate and tin sheets including tin taggers and cuttings of such plate, sheets or taggers.
26. Internal combustion engines.
27. Electric motors and parts thereof.
28. Electric batteries and parts thereof.
29. Electric lighting bulbs and fluorescent lighting bulbs.
30. Electric fans.
31. Motor vehicles.
32. Cycles, parts of cycles other than motor cycles.
33. Footwear.
34. Cinematograph films exposed.
35. Matches.

Schedule of distribution

State	Percentage
Andhra Pradesh	8·23
Assam	4·73
Bihar	11·56
Gujarat	6·45
Jammu and Kashmir	2·02
Kerala	5·46
Madhya Pradesh	8·46
Madras	6·08
Maharashtra	5·73
Mysore	5·82
Orissa	7·07
Punjab	6·71
Rajasthan	5·93
Uttar Pradesh	10·68
West Bengal	5·07

V. Additional Duties of Excise:

For a period of four years with effect from April 1, 1962, out of the total net proceeds of the additional duties of excise levied in replacement of sales tax on cotton fabrics, rayon or artificial silk fabrics, silk fabrics, woollen fabrics, sugar and tobacco (including manufactured tobacco):

(a) a sum equal to 1 (one) per cent of the net proceeds be retained by the Union as attributable to Union territories;

(b) a sum equal to 1½ (one and a half) per cent of the net proceeds be paid to the State of Jammu and Kashmir; and

(c) a sum equal to the balance of the net proceeds of the duties, *i.e.* after the deduction of the amounts mentioned in sub-paragraphs (a) and (b) above, be distributed as follows:

(i) the sums mentioned below, representing the income of the States in 1956-57 on account of sales taxes by whatever name called, on the six commodities, be first paid to them:

State	(Rupees in lakhs)
Andhra Pradesh	235·24
Assam	85·08
Bihar	130·16
Gujarat	323·45
Kerala	95·08
Madhya Pradesh	155·17
Madras	285·34
Maharashtra	637·77
Mysore	100·10
Orissa	85.10
Punjab	175·19
Rajasthan	90·10
Uttar Pradesh	575·81
West Bengal	280·41
	3254·00

(ii) The remaining sum, if any, be distributed as follows:

State	Percentage
Andhra Pradesh	7·75
Assam	2·50
Bihar	10·00
Gujarat	5·40
Kerala	4·25
Madhya Pradesh	7·00
Madras	9·00
Maharashtra	10·60
Mysore	5·25
Orissa	4·50
Punjab	5·25
Rajasthan	4·00
Uttar Pradesh	15·50
West Bengal	9·00

VI. Grants-in-aid:

(i) Under the substantive portion of article 275(1) of the Constitution, in each of the four financial years beginning on April 1, 1962, the sums shown in the table below be charged on the Consolidated Fund of India as grants-in-aid of the revenues of the States mentioned against them:

State	(Rupees in lakhs)
Andhra Pradesh	1200
Assam	900
Bihar	800
Gujarat	950
Jammu and Kashmir	325
Kerala	850
Madhya Pradesh	625
Madras	800
Mysore	775
Orissa	1600
Punjab	275
Rajasthan	875
Uttar Pradesh	200
West Bengal	850

(ii) Under the substantive portion of article 275(1) of the Constitution in each of the four financial years beginning on April 1, 1962, the following further sums be charged on the Consolidated Fund of India as grants-in-aid of the revenues of the States mentioned against them for improvement of communications:

State	(Rupees in lakhs)
Andhra Pradesh . . .	50
Assam	75
Bihar	75
Gujarat	100
Jammu and Kashmir . .	50
Kerala	75
Madhya Pradesh . . .	175
Mysore	50
Orissa	175
Rajasthan	75

IX. ACKNOWLEDGEMENTS

105. We should like to express our thanks to Shri G. R. Kamat, Member-Secretary, for the assistance he gave us. We also place on record our appreciation of the work of Shri R. Saran, Deputy Secretary, who brought to bear upon the problems before us his experience with the last Commission. Our thanks are due to Shri S. K. Bose, Deputy Secretary (Research), who produced statistical and other information, very often at short notice. We should also express our appreciation of the hard work cheerfully put in by Shri A. J. A. Tauro, Secretary to the Chairman. Shri B. R. Agnihotri, our Superintendent, the office staff under him, the staff of the Research Division and our personal staff did excellent work. We are grateful to all of them.

A. K. CHANDA
Chairman.

P. GOVINDA MENON
Member.

D. N. ROY
Member.

M. V. MATHUR
Member.

G. R. KAMAT*
Member-Secretary.

NEW DELHI,
December 14, 1961.

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*Subject to the appended minute of dissent.

MINUTE OF DISSENT BY SHRI G. R. KAMAT

1. I regret to have to append this minute of dissent to the main report of the Commission.

2. Although I have differed from my colleagues on some other points which are reflected in the scheme of devolution recommended in the main report, in the interests of unanimity, I have not thought fit to express my disagreement on those points. On two points, however, I am constrained to write this minute of dissent.

3. First, I wish to dissociate myself from the recommendation made in paragraph 71 of the report, that we include in our scheme of devolution and grants-in-aid, 75 per cent of the revenue component of the States' Plan. I consider that the measure so recommended is open to serious objections and that it has serious impact on the concept and mechanism of national planning. Any grants that we so recommend, even if accompanied by the indication of the broad purpose for which they are made, are in effect untied and, therefore, virtually unconditional.

4. It has been recommended in paragraph 93 of the main report that certain suggestions as to the manner in which Plan assistance should be made to the States, be examined by a high-powered Commission, which we propose, for making a comprehensive review of the Union-State financial relationship and other connected matters. One would have thought that the more logical course would have, therefore, been to suggest no change in the existing procedures of Plan grants pending such a review. My colleagues, however, think otherwise on this matter.

5. At present, grants for the revenue component of the Plan are made to the States by the Central Government on an yearly appraisal of the requirements of the States and the Centre's ability to meet these requirements. These grants are made under article 282 of the Constitution and they are tied to particular programmes with a view to promoting and supporting planned development in the States in specific directions. Important examples of the programmes to which grants have been tied in recent years are a series of measures for increased agricultural production, community development pro-

grammes, technical education schemes, programmes for village and small-scale industries and a number of health measures. This system of tied grants ensures effective co-ordination of the State Plans as these grants are determined after annual Plan discussions and after taking into account the performance of the States, both in respect of efforts to raise resources, as well as the efficiency with which the schemes are executed. The disbursement of these sanctioned grants is made proportionate to the expenditure incurred by the States on the schemes concerned.

6. This procedure, like most procedures involving Central co-ordination, might be found to be irksome at times by the State Governments and that is why some State Governments have expressed themselves to be in favour of having statutory grants under article 275 of the Constitution in lieu of this system. It is stated that the present system results in undue interference by Central Ministries in the affairs of the State Government and that it involves irksome and needless discussions between the Centre and the States; it has also been stated that grants given in a lump sum instead of scheme-wise may well result in more efficient utilisation of the funds than at present.

7. If there are these defects in the present system, they are capable of being remedied. In fact, during the last three years, there has already been considerable progress towards greater flexibility in the making of these grants and in their re-appropriation from one scheme to another. Within the same group of schemes the States have been free to divert funds from one scheme to another. It is only when the State Governments wish to transfer funds from one group to another that a prior reference to the Central Ministry is now required. Adjustments between different heads have also been fairly frequent after consultation with the Planning Commission.

8. Measures to impart a greater flexibility to the present system have been recently devised by the Planning Commission and the Ministry of Finance of the Union Government and have been communicated to the States. In my view, such defects of the present system as exist are capable of being removed by adjusting procedural details after a joint consultation between the Union and the State Governments. But, to displace that system by a system of statutory grants, is like throwing the baby out with the bath-water.

9. The proposition to make devolution of taxes and statutory grants for the revenue component of the Plan is evidently supported on the following grounds. First, it is pointed out that the second Finance Commission also made grants towards the revenue component of the second Five Year Plan. Secondly, the grants recommended by the Finance Commission, being statutory, would give an assurance to the States that necessary funds would be forthcoming for the revenue component of the Plan. Thirdly, it has been mentioned that this change in the system of grants would give greater autonomy to the States in their administration. Lastly, it has been pointed out that our terms of reference require us to take into account the third Plan requirements of the States.

10. There seems to be some misunderstanding as to what precisely the second Finance Commission recommended when it included in its devolution a part of the revenue component of the second Plan. When that Plan was formulated, the Centre had not undertaken to underwrite the State Plans. Central grants were to be made according to a specified pattern of assistance; but grants, which were to be thus made to the States, were inadequate to enable them to fulfil the targets of the Plan, even after they had fulfilled their own targets of additional taxation. In other words, there was an estimated gap in the revenue plan of the States which was not covered either by its own resources or by the grants proposed by the Centre under article 282. It is this gap that the second Finance Commission took into account in making its recommendations. What the second Finance Commission gave, was not *in lieu* of grants for the revenue component of the Plan but what was needed by the States *over and above* the article 282 grants as then estimated. The coordinating machinery for making the Plan grants, tied to particular projects and after annual Plan discussions, was not impaired by the second Finance Commission's recommendations.

11. The position now is different. In the third Five Year Plan, it has been clearly indicated that for financing State Plans which are estimated to cost Rs. 3847 crores, there would be the States' resources of Rs. 1462 crores and the Central assistance of Rs. 2375 crores (see page 102, paragraph 27 of the Third Five Year Plan). The figures include both revenue and capital. This statement made in the third Five Year Plan is as clear an assurance as the Centre can possibly give to the States to show that the Centre is prepared to support the States' Plans almost fully provided the States did

their part in finding resources as indicated in the Plan and provided the Centre had the resources as foreseen in the Plan. The question as to what part of this amount of Rs. 2375 crores was to be in the shape of grants and what in loans was left over for later discussions.

12. As to the question of autonomy of the States, I suggest that the measure suggested in paragraph 71 of the main report does not make the States any more autonomous than what they are at present. We are precluded from looking into the capital requirements which form the greater part of the State Plans. For these, as well as for that part of the Plan grants which is not covered by our devolution, the system of annual Plan review and annual Plan discussions would have to continue and the States would have to depend on the Centre for assistance. A certain limitation on the States' autonomy is, in any case, inherent in any process of centralised national planning and so long as we pursue the concept of a national plan, such limitations have to be accepted. It may be stated that in other federations, and notably in the United States of America, where the constituent States jealously guard any encroachment on their autonomy even more than the States in India, the federation makes a variety of tied and conditional grants to the States and thereby promotes a number of development measures in the social field. In my view, the correct way to look at our planning process is not that it involves central encroachment on the State autonomy, but, that there is a close and continuous cooperation between the Union and the States at various levels to evolve and execute development programmes which would be of benefit to the country as a whole.

13. In the result, I do not see that the States derive any major advantage from this proposal; it certainly does not add to their resources, nor does it put them in a greater position of autonomy than at present. If, as I consider it to be the case, the poposal to convert the Plan grants into rigid statutory grants is harmful to the planning process and to the execution of the Plan, the mere fact that our terms of reference permit us to recommend such a measure has no significance. These terms can also be so interpreted that we desist from making such a recommendation. Thus we should certainly have had 'regard, among other considerations, to the requirements of the third Five Year Plan', if we take into account the fact that these requirements, insofar as they are not met from States' own resources including additional taxation, will eventually be met from grants that the Central Government makes under article 282 after the annual Plan discussions.

14. Apart from these principal arguments, two other arguments have been stated in the main report in support of this recommendation: first, that some of the States will, as a result of devolution of taxes, as proposed in the report, have a surplus position in the non-Plan sector of their revenue budgets; secondly, that one of the States has represented to us that the Plan contains repetitive schemes of a continuing character.

15. In my view, both these arguments are tenuous. It was within the competence of the Commission to devise a scheme of devolution of taxes in a manner by which no State is left with a significant revenue surplus in its non-Plan budget. In regard to the plea that the Plan contains repetitive schemes, the Commission has not examined the position in regard to the States, other than the one which made this plea. We cannot, therefore, base our conclusions on this argument.

16. In paragraph 63 of the main report, the second Finance Commission has been quoted as recommending that fiscal needs should be considered in a comprehensive sense and that grants-in-aid should subserve the requirements of the planned development. Paragraph 66 of the second Commission's report, from which this view has been quoted, also specifies the following principle as part of its recommendation:

"Grants for broad purposes may also be given..... Where those purposes are provided for in a comprehensive plan, there will be no scope for such grants."

What my colleagues have suggested is precisely a broad purpose grant of this type.

17. Let me now state my objections to the course suggested. As stated in the third Five Year Plan, the Plan itself is flexible. It is translated into actual programmes of work from year to year and by means of annual Plan discussions. At these discussions, are examined each State's performance in the preceding and current year, its programme for the future year and its ability to undertake and carry out that programme, its requirements of finance, its proposals for additional taxation, the amount of finance that the Centre could make available to the States and any other circumstances which would determine the optimum size of the programme for the Centre and the States individually as well as collectively. In this manner, there is an effective co-ordination of the State and the Central Plans. After the annual review, this coordinated annual

Plan is discussed by the National Development Council and receives its approval.

18. Having formulated the annual Plans in this way, it is important that both the Centre and the States implement them in accordance with the accepted priorities and objectives. Under the Constitution, 'Economic and Social Planning' is a concurrent subject. But, many functions undertaken in furtherance of the Plan are entirely in the State field, in respect of which the Centre has no constitutional authority to require the States to execute the programme in any particular manner. The only way it can do so is by providing that at least for that part of the programme which is considered to be of national importance, the States are given a financial inducement in the shape of tied grants to undertake and implement these schemes. It is in this way that it has been possible in the past to introduce under high priority, schemes like 'grow more food', community development, technical education, etc. If a large part of the finances required by the State is automatically assured to them under the law, the Centre would not have the power to ensure that the States did actually utilise the funds for those purposes. I am not suggesting that the State Governments cannot be trusted. But, we cannot overlook the fact that in this large and diverse country of ours, there could be differences as to the most important lines of development, from the national as distinct from the State or regional point of view. Increased food production is a national objective. It is important that the States, that are currently surplus in foodgrains, do not slacken their efforts towards further increases in their agricultural output and that they do not divert funds from 'grow more food' schemes to programmes which, from a strictly regional point of view, may be more important. My main objection to the untied and unconditional grants for Plan purposes is that they will weaken the machinery which now enables the Centre and the States to effectively coordinate the formulation and implementation of their Plans. A system of unconditional lump sum grants from the Centre to the States for Plan purposes will, at its best, reduce this coordination to a little more than making a Central catalogue of States' projects in several fields of development.

19. Let me take an instance. Increase of agricultural production is a programme given national priority both by the Centre and the States. Part of the finance required for this purpose is given as grants by the Centre to the States. If, in lieu of these grants, a lump sum annual grant is given to the States for the Plan as a whole, it

is possible for a State to divert funds which should have been utilised for this nationally important programme to some other schemes of lesser priority, if desired by the local population. As matters stand, there is an unlimited field for social development in the State sector and it cannot be denied that the States may feel compelled to switch over to local schemes of low priority by some local pressures and influence. The overall resources being limited, the programmes, which are considered to be of national importance, may thereby suffer. It is not suggested that this may happen in every State; but even if it happens in a small number of States, there would be difficulties in achieving the nationally accepted targets in the more important fields of development.

20. Another important objection is that finance for making these grants for the revenue component of the Plan is available almost wholly from the yield of additional taxation proposed by the Centre. The non-Plan needs of the States and the Centre, the availability of finance with the Centre and its own Plan requirements are such that if we seek to make grants or devolution for the revenue component of the Plan, it can be done only by drawing upon the yield of additional taxation by the Centre. Only a part of this additional taxation has been imposed; the greater part is yet to be raised. That we should seek to commit the Centre to make these grants in advance of the Centre assuring itself of being able to finance such grants is, to my mind, wholly inappropriate; and, to say the least, unfair to the Union Government.

21. The Plan is not a rigid one; it is wrong to look upon it as a mere list of the financial targets for expenditure; it enjoins the Centre and the States to raise certain resources. Then, certain resources are postulated as coming from abroad as foreign aid and certain margins are left for being spent in excess of the resources in the shape of 'deficit financing'. So far as the States are concerned, provided they make the resources available as promised by them, the Plan itself contains a clear assurance that the Centre would make available to them the remaining amounts to achieve the financial targets of the Plan. These targets again are not rigid. The resources position itself would require a continuous review and such review may, at times, require a review and curtailment of the Plan targets both at the Centre and in the States in circumstances not amounting to an emergency. Our own assessment of the non-Plan needs of the States, as covered by our scheme of devolution for non-Plan requirements, is significantly higher than that which was jointly

worked out last year by the Planning Commission and the State Governments. We have also been told that the Centre's non-Plan liabilities would now appear to be higher than those assumed in formulating the third Five Year Plan. These circumstances may themselves compel an imminent review by the Centre and the State Govenments of the resources available for the Plan and to consider what adjustments, if any, need be made in the Plan targets of expenditure of both the Centre and the States. Further, it is possible from time to time for a State to demonstrate additional needs and, provided there is a saving of resources on some other project in the same State or in other States or at the Centre, adjustments can be made from year to year. Thus, when all other components of the Plan, which are closely connected, are subject to review and variation from time to time, it would seem unwise to introduce statutory rigidity in respect of that component which represents the transfer of revenue resources from the Centre to the States for the Plan schemes.

22. We have reasons to believe that last year, in the hope of getting a substantially large size of the Plan, some States at least had overstated their resources and had given promises of fresh taxation which might be difficult of fulfilment by them without a great deal of effort on their part. Annual Plan discussions, at which the resources, the size of annual Plans and of Central assistance therefor are discussed, indirectly exert a measure of compulsion on the States to make a sustained effort to keep to this taxation programme. Most States will be unable to fulfil these tax targets without getting into the more unpopular field of rural taxation. If the States have an assured amount of Central grant for the Plan, there is a very serious risk that some States will slacken in their tax effort, or just postpone it, and in the latter event, it may become more difficult for them to fulfil their respective tax targets. As the entire Plan is based on the stipulation that the Centre and the States would do their respective parts in raising additional resources and closely controlling their non-Plan expenditure, the entire planning process would, in that event, meet with very great difficulties.

23. My observations, as above, are made on the assumption that these grants, being under article 275, will be untied and unconditional. Devolution of taxes under articles 270 and 272 of the Constitution is, in any case, untied and unconditional. Hitherto, even the grants-in-aid made under article 275 on the recommendation of a Finance Commission have been looked upon both by the Central

and the State Governments as untied and unconditional. Paragraph 72 of the main report, however, states: 'The safeguard in the utilisation of this assistance for the purpose intended is, in our view, provided by article 275 of the Constitution. This being a grant-in-aid for a specific purpose, namely, the Plan, it may be reviewed from year to year, should the necessity arise, by Parliament under article 275(1) or by the President under article 275(2), as the case may be'.

24. If, by these observations, my colleagues wish to imply that their intention is that these grants should be subject to annual review and subject to such conditions as may be stipulated by Parliamentary legislation or Presidential Order, to secure the observance by the States of the priorities of the Plan, it may be pointed out that the procedure suggested would be more onerous and rigid than what it is at present. In effect, this may mean the continuation of present procedures, with the difference that the amounts of grants to be made to each State each year will require to be approved by a special Presidential Order, which may have to be subsequently placed before the Parliament, or by annual Parliamentary legislation, as distinct from a mere vote for the grants. It is not at all certain that any State Government would welcome such a procedure, as it derives no particular advantage from it. Indeed, a review by a legislative process at the Centre may well turn out to be more embarrassing and inconvenient to the States than the more informal annual Plan reviews that are now made jointly by the executive agencies of the Central and State Governments.

25. The second point on which I wish to express my disagreement is the recommendation made in paragraph 74 of the main report that an earmarked and special-purpose grant be made to the States for 'the improvement of communications'. I do not question the importance of a rapid development of road communication all over the country and especially in backward regions; but, I do not consider that this special-purpose grant is necessary for that purpose in the context of overall planning which includes programmes for improvement and development of road communication.

26. The third Five Year Plan has considerably stepped up the financial provision for road development. The total allocation for road development in the third Plan is Rs. 324 crores as against Rs. 224 crores estimated to have been spent during the second Plan period for this purpose. A large part of this road programme is to

be executed by the State Governments, their allocation for this programme being Rs. 218 crores (other than for Union territories) as against Rs. 143 crores estimated to have been spent by them during the second Plan period. The States will also benefit from the Central sector programmes which relate mainly to construction and improvement of National Highways and which are executed through the agency of the State Governments. Paragraphs 33 to 40 of Chapter XXVIII of The Third Five Year Plan show that the special needs of the backward and less developed areas have not been overlooked and that 'a substantial part of the provision for road programmes in the State Plans is intended for improvement of the existing roads' and it 'includes widening the roads and upgrading their surfaces and providing missing links and bridges etc.'.

27. I do not, therefore, see the need for this additional grant for road development; the Plan allocation covers both special maintenance and improvements, besides new construction. As for the ordinary maintenance of existing roads, the devolution of taxes and the grants-in-aid, that we recommend for covering the budgetary gaps, contains, in my opinion, sufficient margin to enable the State Governments adequately to finance the needs of ordinary maintenance.

28. Lastly, I am doubtful if it is right on our part to recommend revenue grants for financing expenditure, which, when it is incurred on special maintenance and improvements, besides new construction, is classified, under the present accounting practice, as capital expenditure.

NEW DELHI,
December 14, 1961.

G. R. KAMAT
Member-Secretary.

OBSERVATIONS ON THE MINUTE OF DISSENT

We are unable to accept the negative interpretation which the Member-Secretary of the Commission has placed on our terms of reference which require us specifically to make recommendations for grants-in-aid under article 275(1), "having regard, among other considerations, to the requirements of the third Five Year Plan". We do not also appreciate the suggestion that we have misunderstood the basis on which the second Commission had included in its scheme of assistance a part of the revenue component of the Plan. Similarly, we consider the vague reference in the dissenting note to disagreements on aspects of devolution to be rather unfortunate.

2. The answer to the points raised by the Member-Secretary is provided in the report itself and does not need any restatement. We need hardly add that we are as anxious as any one else to secure effective implementation of the Plan. We do not consider that our recommendations in any way detract from this purpose.

3. We regret to add that the Member-Secretary does not seem to have appreciated our basic approach to Union-State relations which has been of mutual understanding, trust and confidence, to secure the fuller realisation of the objectives of our welfare State.

A. K. CHANDA
Chairman.

P. GOVINDA MENON
Member.

D. N. ROY
Member.

M. V. MATHUR
Member.

NEW DELHI,
December 14, 1961.

APPENDICES

APPENDIX I

PROVISIONS OF THE CONSTITUTION BEARING ON WORK OF THE FINANCE COMMISSION

Distribution of Revenues between the Union and the States.

Article 269—

(1) The following duties and taxes shall be levied and collected by the Government of India but shall be assigned to the States in the manner provided in clause (2), namely:—

(a) duties in respect of succession to property other than agricultural land;

(b) estate duty in respect of property other than agricultural land;

(c) terminal taxes on goods or passengers carried by railway, sea or air;

(d) taxes on railway fares and freights;

(e) taxes other than stamp duties on transactions in stock-exchanges and future markets;

(f) taxes on the sale or purchase of newspapers and on advertisements published therein;

(g) taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce.

(2) The net proceeds in any financial year of any such duty or tax, except in so far as those proceeds represent proceeds attributable to Union territories, shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that duty or tax is leviable in that year, and shall be distributed among these States in accordance with such principles of distribution as may be formulated by Parliament by law.

(3) Parliament may by law formulate principles for determining when a sale or purchase of goods takes place in the course of inter-State trade or commerce.

Article 270—

(1) Taxes on income other than agricultural income shall be levied and collected by the Government of India and distributed between the Union and the States in the manner provided in clause (2).

(2) Such percentage, as may be prescribed, of the net proceeds in any financial year of any such tax, except in so far as those proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that tax is leviable in that year, and shall be distributed among those States in such manner and from such time as may be prescribed.

(3) For the purposes of clause (2), in each financial year such percentage as may be prescribed of so much of the net proceeds of taxes on income as does not represent the net proceeds of taxes payable in respect of Union emoluments shall be deemed to represent proceeds attributable to Union territories.

) In this article—

(a) "taxes on income" does not include a corporation tax;

(b) "prescribed" means—

(i) until a Finance Commission has been constituted, prescribed by the President by order, and

(ii) after a Finance Commission has been constituted, prescribed by the President by order after considering the recommendations of the Finance Commission;

(c) "Union emoluments" includes all emoluments and pensions payable out of the Consolidated Fund of India in respect of which income tax is chargeable.

Article 272—

Union duties of excise other than such duties of excise on medicinal and toilet preparations as are mentioned in the Union List shall be levied and collected by the Government of India, but, if Parliament by law so provides, there shall be paid out of the Consolidated Fund of India to the States to which the law imposing the duty extends sums equivalent to the whole or any part of the net proceeds of that duty, and those sums shall be distributed among those States in accordance with such principles of distribution as may be formulated by such law.

Article 275—

(1) Such sums as Parliament may by law provide shall be charged on the Consolidated Fund of India in each year as grants-in-aid of the revenues of such States as Parliament may determine to be in need of assistance, and different sums may be fixed for different States:

Provided that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of a State such capital and recurring sums as may be necessary to enable that State to meet the costs of such schemes of development as may be undertaken by the State with the approval of the Government of India for the purpose of promoting the welfare of the Scheduled Tribes in that State or raising the level of administration of the Scheduled Areas therein to that of the administration of the rest of the areas of that State:

Provided further that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of the State of Assam sums, capital and recurring, equivalent to—

(a) the average excess of expenditure over the revenues during the two years immediately preceding the commencement of this Constitution in respect of the administration of the tribal areas specified in Part A of the table appended to paragraph 20 of the Sixth Schedule; and

(b) the costs of such schemes of development as may be undertaken by that State with the approval of the Government of India for the purpose of raising the level of administration of the said areas to that of the administration of the rest of the areas of that State.

(2) Until provision is made by Parliament under clause (1), the powers conferred on Parliament under that clause shall be exercisable by the President by order and any order made by the President under this clause shall have effect subject to any provision so made by Parliament:

Provided that after a Finance Commission has been constituted no order shall be made under this clause by the President except after considering the recommendations of the Finance Commission.

Article 280—

(1) The President shall, within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by

order constitute a Finance Commission which shall consist of a Chairman and four other members to be appointed by the President.

(2) Parliament may by law determine the qualifications which shall be requisite for appointment as members of the Commission and the manner in which they shall be selected.

(3) It shall be the duty of the Commission to make recommendations to the President as to—

(a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds;

(b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;

(c) any other matter referred to the Commission by the President in the interests of sound finance.

(4) The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them.

Article 281—

The President shall cause every recommendation made by the Finance Commission under the provisions of this Constitution together with an explanatory memorandum as to the action taken thereon to be laid before each House of Parliament.

Miscellaneous Financial Provisions

Article 282—

The Union or a State may make any grants for any public purpose, notwithstanding that the purpose is not one with respect to which Parliament or the Legislature of the State, as the case may be, may make laws.

APPENDIX II

THE FINANCE COMMISSION (MISCELLANEOUS PROVISIONS) ACT, 1951, AS AMENDED BY THE FINANCE COMMISSION (MISCELLANEOUS PROVISIONS) AMENDMENT ACT No. XIII OF 1955.

AN ACT

to determine the qualifications requisite for appointment as members of the Finance Commission and the manner in which they shall be selected, and to prescribe their powers.

Be it enacted by Parliament as follows:—

1. *Short title.*—This Act may be called the Finance Commission (Miscellaneous Provisions) Act, 1951 (Act XXXIII of 1951).

2. *Definition.*—In this Act, "the Commission" means the Finance Commission constituted by the President pursuant to clause (1) of article 280 of the Constitution.

3. *Qualifications for appointment as, and the manner of selection of, members of the Commission.*—The Chairman of the Commission shall be selected from among persons who have had experience in public affairs, and the four other members shall be selected from among persons who

(a) are, or have been, or are qualified to be appointed as Judges of a High Court; or

(b) have special knowledge of the Finances and accounts of the Government; or

(c) have had wide experience in financial matters and in administration; or

(d) have special knowledge of economics.

4. *Personal interest to disqualify members.*—Before appointing a person to be a member of the Commission, the President shall satisfy himself that that person will have no such financial or other interest as is likely to affect prejudicially his functions as a member of the Commission; and the President shall also satisfy himself from time to time with respect to every member of the Commission that he has no such interest and any person who is, or whom the President proposes

to appoint to be a member of the Commission shall, whenever required by the President so to do, furnish to him such information as the President considers necessary for the performance by him of his duties under this section.

5. *Disqualifications for being a member of the Commission.*—A person shall be disqualified for being appointed as, or for being a member of the Commission—

(a) if he is of unsound mind;

(b) if he is an undischarged insolvent;

(c) if he has been convicted of an offence involving moral turpitude; and

(d) if he has such financial or other interest as is likely to affect prejudicially his functions as a member of the Commission.

6. *Terms of office of members and eligibility for re-appointment.*—Every member of the Commission shall hold office for such period as may be provided for in the order of the President appointing him, but shall be eligible for re-appointment:

Provided that he may, by letter addressed to the President, resign his office.

7. *Conditions of service and salaries and allowances of members.*—The members of the Commission shall render whole time or part time service to the Commission as the President may in each case specify and there shall be paid to the members of the Commission such fees or salaries and such allowances as the Central Government may, by rules made in this behalf, determine.

8. *Procedure and powers of the Commission.*—(1) The Commission shall determine their procedure and in the performance of their functions shall have all the powers of a civil court under the Code of Civil Procedure, 1908 (Act V of 1908) while trying a suit in respect of the following matters, namely:—

(a) summoning and enforcing the attendance of witnesses;

(b) requiring the production of any document; and

(c) requisitioning any public record from any court or office.

(2) The Commission shall have power to require any person to furnish information on such points or matters as in the opinion of the Commission may be useful for, or relevant to, any matter under

the consideration of the Commission and any person so required shall, notwithstanding anything contained in sub-section (2) of section 54 of the Indian Income-tax Act, 1922, or in any other law for the time being in force be deemed to be legally bound to furnish such information within the meaning of section 176 of the Indian Penal Code.

(3) The Commission shall be deemed to be a civil court for the purposes of sections 480 and 482 of the Code of Criminal Procedure, 1898 (Act V of 1898).

Explanation.—For the purposes of enforcing the attendance of witnesses, the local limits of the Commission's jurisdiction shall be the limits of the territory of India.

APPENDIX III

Rules of Procedure of the Finance Commission

1. Formal meetings of the Commission shall be held as and when necessary for hearing evidence or for meeting representatives of the Central and State Governments and other public bodies. The time and place of such meetings shall be fixed by the Chairman after ascertaining the convenience of the other members.

2. Internal meetings of the Commission shall be informal.

3. All meetings of the Commission shall be held in private session.

4. Meetings shall ordinarily be so arranged that all the members are present. But if for any unavoidable reason any member is unable to be present, a formal meeting may still be held if at least four members, including the Chairman, are present and an informal meeting if three members, including the Chairman, are present.

5. Such officers of the Commission as the Chairman may, after consulting the members, direct shall be present at the meetings of the Commission.

6. No record shall be kept of the proceedings of the informal meetings of the Commission. But if any decision is taken at such a meeting, a record of the decision shall be prepared by the Member-Secretary and circulated to the members of the Commission after approval by the Chairman.

7. No verbatim record of the proceedings of the formal meetings of the Commission shall ordinarily be kept, but the Commission may direct that such a record be kept of the proceedings of any particular meeting or meetings. When no verbatim record is kept a summary of the proceedings of the meeting shall be prepared by or under the direction of the Member-Secretary as soon as possible and, after verification as provided in the succeeding rule, it shall be circulated to other members of the Commission including any member who may have been absent from such meeting.

8. Summaries of proceedings of meetings with representatives of Central and State Governments shall be agreed by the Member-Secretary with a senior officer nominated by that Government and

attending the meeting. When a verbatim record is kept the portion relating to each witness or member shall be agreed with him.

9. No information relating to the meetings or the work of the Commission shall be furnished to the press by any member of the staff except under the direction of the Chairman or Member-Secretary.

10. The Member-Secretary of the Commission, under the general direction of the Chairman, shall be in overall charge of the office of the Commission and shall be responsible to the Commission for its proper working.

11. All communications from the Commission, other than a formal report, shall be signed by the Member-Secretary or by an officer authorised by the Commission to sign on his behalf; but no communication purporting to express the views of the Commission shall be issued except with the prior approval of the Commission obtained at a meeting of the Commission or, if so directed by the Chairman, by circulation among the members.

12. The Member-Secretary shall submit to the Commission all communications or proposals relating to the terms and conditions of service of the members of the Commission or in any way personally concerning a member and shall take no action on such matters except with the approval of the Commission or the member concerned.

13. The Member-Secretary shall keep the Commission informed from time to time of all important matters affecting the office of the Commission.

14. The Chairman or any member of the Commission may direct the office to obtain for him any publication, reports, statistics or other material required in connection with the work of the Commission. All such material shall be obtained by the office as quickly as possible and shall be circulated to all the members of the Commission for their information.

15. All appointments to gazetted posts of the Commission shall be made with the approval of the Chairman, including appointments made by transfer from other Governments or Government departments.

16. All appointments of ministerial staff, including staff obtained on transfer from other Governments or Government departments shall be made by the Member-Secretary.

17. All appointments of Class IV officers shall be made by the Member-Secretary.

18. The provisions of rules 15, 16 and 17 shall be subject to the condition that in respect of appointments of the personal staff of the members of the Commission, the member concerned shall be consulted.

19. The Member-Secretary may grant leave, whether regular or casual, to any member of the staff of the Commission, but, he shall take the orders of the Chairman before granting any regular leave to a gazetted officer. In the case of the personal staff of the Chairman and members of the Commission, he shall consult them before granting any leave.

20. The budget and the revised estimates of the Commission shall be submitted to the Commission for approval before they are communicated by the Member-Secretary to the Finance Ministry.

21. All communications received by the Commission dealing with the matters on which they have to submit a report to the President shall be treated as confidential and no part of such communications shall be communicated to any outside authority except with the approval of the Chairman.

APPENDIX IV

PRESS NOTE

(Issued on December 15, 1960)

The Third Finance Commission held its first meeting today in New Delhi and has begun its work.

2. The questions on which the Finance Commission has to make recommendations are:—

(1) the distribution of the net proceeds of income-tax between the Union and the States and the allocation of the States' share among the States [*vide* articles 270 and 280 (3) (a) of the Constitution];

(2) the allocation of other divisible central taxes, like Union excise duties on specific commodities; and the distribution of the net proceeds of additional excise duties on certain commodities levied in lieu of sales tax;

(3) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India [*vide* article 280 (3) (b) read with article 275 of the Constitution]; and

(4) the principles which should govern the distribution of:

(a) the net proceeds of estate duty in respect of property other than agricultural land (*vide* article 269 of the Constitution); and

(b) the net proceeds of the tax on railway passenger fares.

3. Having considered various alternatives, the two earlier Commissions had adopted mainly population and collection as the bases for their recommendations for the allocation of Central levies. The present scheme of devolution of revenue from the Centre to the States, which is based on the recommendations of the second Finance Commission, is as follows:—

(a) 60 per cent. of the divisible net proceeds of income-tax (other than Corporation Tax) are assigned to the States and distributed amongst them on the basis of population (90 per cent.) and collection (10 per cent.).

(b) 25 per cent. of the net proceeds of the Union duties of excise on certain specified commodities are distributed amongst the States on the basis of population (90 per cent.) and other adjusting factors (10 per cent.);

(c) the entire tax on railway fares is distributed to the States on the basis of passenger earnings in respective States for the three year period ending March 1956;

(d) the net proceeds of the estate duty are distributed between the States in proportion to their populations, except that the amounts collected in respect of immovable properties are distributed on the basis of location of those properties;

(e) the net proceeds of the additional duties of excise on textiles, sugar and tobacco, levied in lieu of sales tax, are distributed among the States at specified percentages determined on the Statewise consumption of these commodities and the relative population of each State; and

(f) grants-in-aid of the revenues of specified amounts are made to the States on an assessment of their needs based on a review of their budgetary position, the size of their development expenditure out of revenues, Central assistance afforded towards the execution of their plans and an estimate of additional resources they are expected to find by increased taxation.

4. The third Finance Commission will review all these arrangements. It will consider what modifications or adjustments, if any, are called for in the principles hitherto followed either in the determination of the percentages to be distributed and/or the basis of their distribution among the States. In making its recommendations, the third Finance Commission will also take into account the budgetary position of the Central and State Governments, the larger magnitude of the third Five Year Plan involving increased expenditure on revenue account under development heads, and changes in taxation structure such as the conversion of income-tax on companies into Corporation tax.

In regard to the excise duties the Commission will consider whether any alteration should be made in the list of commodities, the duties on which are at present distributed, the proportion of the collections that should be so distributed and the basis on which this should be done.

After examining the budgetary position of States and taking into account such considerations as may be urged for the assessment of their needs, the Commission will determine the States which require grants-in-aid of the revenues, the amounts of such grants to be given and their nature, whether they should be fixed or progressive, general or specific, conditional or unconditional.

5. The Commission would welcome the views of those interested in these questions. Suggestions to the Commission should be sent in the form of a self-contained memorandum, addressed to the Member-Secretary, Finance Commission, New Delhi, on or before February 28, 1961.

APPENDIX V

CORRESPONDENCE WITH UNION AND STATE GOVERNMENTS.

(1) *Letter No. 22-OSD/60, dated the 26th September 1960 from Shri G. R. Kamat, Officer on Special Duty, Ministry of Finance, to the Finance Secretaries of all States.*

The third Finance Commission is likely to be appointed very shortly. As on the last two occasions, it will be an advantage if, in anticipation of the appointment of the Commission, the State Governments prepare financial and other data which will be required by the Commission. This letter, which I am writing after consultation with the Chairman designate, indicates the detailed information that will be needed by the Commission for its work. It will be noticed that the information asked for is generally similar to that which was made available by the State Governments to the first and second Finance Commissions.

2. This letter may be regarded as the first request for information on behalf of the Commission. When the Commission is constituted and its terms of reference defined, this letter will be placed before it. The Commission may then wish to call for such additional information as may be needed for its work. I shall indicate these further requirements to you at a later date.

3. The Commission will have in any case to make recommendations to the President as to—

(a) the allocations of income-tax and other divisible taxes under articles 270 and 272 of the Constitution; and

(b) the States which are in need of assistance by way of grants-in-aid from Central revenues and the sums to be paid to them under the substantive part of article 275(1) of the Constitution.

If the President requires the Commission to make recommendations on other matters, the State Governments will be addressed in due course for such additional material as may be needed by the Commission in respect of those matters.

4. As regards the allocation and distribution of income-tax, the Commission will have before them the various considerations which have influenced the past settlements. It is, therefore, not necessary in such representations as the State Governments may wish to make, to go into the past history in any great detail. But it would assist the Commission if each State Government sends up a self-contained Memorandum expressing its views on the existing basis of the division of proceeds of income-tax and putting forth its case for modifications, if any.

5. As regards the allocation of the Central excise duties, the Commission will welcome any comments the State Governments may have on the existing division and any suggestions in regard to the future allocation of the duties of Central excise.

6. For determining the States in need of assistance and grants-in-aid to be paid to them under the substantive part of article 275(1), the Commission will require from all States a forecast, year by year, of the estimated revenue and expenditure for the years upto 1965-66. This forecast may be prepared in the form appended as Annexure I to this letter. Appended to the form are a number of notes indicating the basis on which the forecast should be prepared and the additional details which the Commission is likely to require.

7. The second Finance Commission had also asked for detailed notes on several subsidiary points relating to financial and economic matters. The points on which similar detailed notes are likely to be required by the third Finance Commission are listed in Annexure II. I shall be glad if you kindly arrange to send a detailed note on each of these points.

8. I shall be grateful if the memorandum and the statements asked for in this letter are sent to the Secretary to the Commission by the 15th December 1960 with 10 spare copies.

9. If there is any point on which you require clarification or further instructions, would you kindly write to me?

ANNEXURE I

Forecast of Revenue and Expenditure

————State

(Rupees in lakhs)

Heads	1959-60 (Actuals)	1960-61 (Revised Estimates)	1961-62	1962-63	1963-64	1964-65	1965-66
Revenue							
————							
————							
————							
————							
Total Revenue							
Expenditure met from Revenue							
————							
————							
————							
————							
Total Expenditure							
Net Surplus							
Deficit							

Notes

1. Figures should be given by major heads of account. Where the forecasts under any of the Major heads of Revenue or Expenditure are not based on the actuals for the past years, suitable annotations should be added to explain the variations and the basis of the forecasts.

2. If the figures given in the above forecasts differ from those arrived at after the recent discussions between the State Governments and the Planning Commission, such differences should be indicated and briefly explained.

3. In the Revenue Estimates—

(*a*) the State's share of income-tax and divisible excises and any grant received under the substantive provision of article 275 of the Constitution should be shown as *nil* ; receipts on account of tax on railway fares, estate duties and the additional duties of excise collected by the Centre in lieu of sales tax should be excluded from the estimates but shown separately in brackets under the respective heads of account and the basis of the forecasts explained ;

(*b*) full details should be given of any other grants from the Centre included in the estimates, indicating the major heads of account under which they are shown ;

(*c*) any amount included for anticipated improvements in revenue or any allowance made for the abandonment of any existing sources of State Revenue or the reduction in the yield should be explained in supplementary notes, indicating the amounts involved in each year ;

(*d*) credit should be taken for additional incomes or receipts accruing from completed, continuing or fresh projects of development ; and

(*e*) any amounts included in the forecasts, on account of additional receipts attributable exclusively to measures of fresh taxation proposed to be undertaken in connection with the third Five Year Plan should be shown separately for each year and explained in a separate note.

4. Figures of 'gross receipts' and 'working expenses' included in the forecast in respect of each commercial and industrial undertaking, such as road transport and electricity schemes for which commercial accounts are kept, should be shown year by year in a separate statement.

5. In the expenditure estimates—

(*a*) no allowance should be made for fresh expenditure on development but details of such expenditure should be given in brackets under each major head for each year. For this purpose, all expenditure on the Third Plan to be met from the revenue budget may be treated as fresh expenditure on development ;

(*b*) if the estimates include any special item of expenditure, this should be indicated in explanatory notes; in particular, any major increase in non-plan expenditure due to reasons such as administrative reorganisation, general revision of emoluments, included in the estimates, should be specified, in the explanatory notes, giving full details of the increase in expenditure attributable to each such measure;

(*c*) provision should be included for maintenance expenditure on capital schemes of development as well as recurring expenditure on those schemes of the first and second Five Year Plans, financed from revenue budget, which will not form part of the third Five Year Plan ; a separate statement should be appended giving amounts so provided for each year;

(*d*) provision should be included for the normal growth of expenditure.

6. Provision for debt services should be confined to interest *charges. It should not include any provision for depreciation, amortisation or repayment of loans but should include provision for any obligatory sinking fund or depreciation charges in respect of public loans. The amounts so included in each year should be separately indicated. Provision for debt services for loans outstanding at the end of second Five Year Plan should be shown separately from that made for fresh net borrowings expected to be received during the third Five Year Plan.

7. A separate statement should be appended showing the amounts included in these forecasts by way of transfers to and from any reserve funds with explanations as to the nature of those funds.

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*In respect of Central loans sanctioned up to the end of 1957-58, the rates of interest should be those as revised in the Ministry of Finance letter No. 15 (11)-B/57, dated the 24th February, 1958.

8. The following additional statements should also be furnished along with this forecast.

(*a*) A statement showing the recommendations of the Taxation Enquiry Commission which have been implemented, the resulting increase in revenue and the estimated additional revenue if the remaining recommendations are implemented should be attached.

(*b*) Another statement should be attached giving the details of additional taxation which the State Government had proposed at the time of formulation of the second Five Year Plan and the taxation measures actually implemented with their yeilds during the period of that Plan and their expected proceeds during future years.

(*c*) The position of arrears in the collection of land revenue and of sales tax, during the years 1957-58 to 1959-60, with a detailed statement showing for each year, and in respect of each of these two sources of revenue (*i*) the arrears outstanding at the beginning of the year ; (*ii*) the demand for the year, (*iii*) the amounts collected, (*iv*) the amounts remitted or written off and, (*v*) the balance carried forward to the subsequent year.

(*d*) Matching or *ad hoc* grants received or expected to be received from the Central Government and other statutory or non-statutory bodies, *e.g.*, the National Cooperative Development and Warehousing Board, the Indian Council of Agricultural Research, the Indian Central Cotton Committee, the Indian Central Jute Committee, the Handloom Board, etc. during the years 1956-57 to 1960-61 showing separately;

(*i*) the gross expenditure on account of plan and non-plan schemes financed by such grants ;

(*ii*) the pattern and duration of the grants; and

(*iii*) additional expenditure likely to be thrown on the State revenues on the discontinuance of such grants.

(*e*) Receipts, payments and balances in the State Road fund, and the famine and natural calamities fund, if established (*vide* para. 184 of the second Finance Commission's report), for each of the years 1956-57 to 1960-61.

(*f*) Total expenditure in connection with famine and natural calamities in each of the last 10 years and the amount of assistance received from the Centre towards such expenditure, by way of supply of foodgrains at concessional prices or otherwise.

ANNEXURE II

List of Subsidiary Points

(i) *For the States of Gujarat and Maharashtra, the information in respect of past years should relate to the respective areas of the former Bombay State, now included in these two States. The information should cover such periods for which it is readily available.*

(ii) *For the incomplete year* 1960-61, *figures of revised estimates based on six-monthly actuals may be given.*

1. Rates of the principal taxes (agricultural income-tax, stamps, motor vehicles, entertainment tax, electricity duty, general sales tax and other taxes and duties) in 1956-57 and the changes therein during the period upto 1960-61.

2. Basis and rates of land revenue assessment (including surcharge, special rates, etc.) in 1956-57 and changes during the period upto 1960-61.

3. Excise revenue in 1956-57, the changes therein and the future plans of the State Governments in regard to prohibition.

4. Particulars of the cesses levied by the State, their purposes, the total proceeds of each cess, the amounts, if any, thereof transferred to local bodies or spent directly by the State Governments during 1957-58, 1958-59 and 1959-60.

5. The nature of economy measures, if any, carried out by the State Government in the years 1956-57 to 1960-61 inclusive and their results.

6. Revisions of pay and allowances of (i) State employees and (ii) of employees of local authorities and other quasi-Government bodies financed by the State Government in each of the last five years and the consequent increase in expenditure.

7. Important measures of administrative reorganisations, if any, carried out during the years 1957-58 to 1960-61, the purpose of these reorganisations and their impact on the revenue budget of the State Government.

8. Financial results of the working of State commercial and industrial undertakings like road transport, electricity schemes, industries etc., for which commercial accounts are maintained, during each of the years 1956-57 to 1960-61.

9. New State enterprises established, or addition to and expansion of existing enterprises during 1957-58 to 1960-61 and those proposed to be established during 1961-62 to 1965-66 (only schemes costing Rs. 10 lakhs and over need be given).

10. Debt position of the State showing separately the total outstanding debt to the public, to the Central Government and to any other institution on 1st April 1952, 1st April 1957 and 1st April 1961 and the interest yielding assets held against such debt (see for illustration the statement at pages 83 and 84 of the Explanatory Memorandum on the Central Budget for 1960-61).

11. Position of taccavi and land improvement loans—advances, recoveries and remissions and write-offs during each of the five years upto and inclusive of 1960-61 and total outstandings and overdue arrears at the end of each of these years.

12. Revenue (indicating separately grants from State Government) of local bodies and expenditure incurred by them on roads, education, medical and health services in the last three years for which actuals are available.

13. Mileage of national highways and A, B and C class roads on 1st April 1948, 1st April 1952, 1st April 1956 and 1st April 1960.

14. Strength of establishment under Police (with separate figures for border police where such police is maintained separately), General Administration, Justice and Jails on 1st April 1948, 1st April 1952, 1st April 1956 and 1st April 1960.

15. Number of primary schools, pupils and teachers therein on 1st April 1948, 1st April 1952, 1st April 1956 and 1st April 1960.

16. Number of hospitals and dispensaries, total number of beds, nurses, doctors and midwives, rural and urban separately, on 1st April 1948, 1st April 1952, 1st April 1956 and 1st April 1960.

17. Programme of agrarian reforms in the State, their effect on revenue and expenditure during 1959-60 and their probable effects during the year 1960-61 to 1965-66.

18. Grow More Food Schemes, 1956-57 to 1960-61. Give for each year particulars of (i) gross expenditure, (ii) loans and (iii) grants received from the Centre. Also give increase in food production over this period.

19. Details of the programme of community development, giving especially the progress so far of opening of Community Development and National Extension Service blocks in each of the five years 1956-57 to 1960-61, as well as the programme for the extension of the scheme during the third Five Year Plan period.

20. Kilowatts of energy generated in 1948, 1952, 1956 and 1960 by (i) state undertakings (excluding purchases from the Damodar Valley Corporation in the case of West Bengal and Bihar) and (ii) private undertakings.

21. Financial and other details of each of the major irrigation and hydro-electric projects, relating to the period 1956-57 to 1960-61, indicating the capital outlay, running costs and the revenue derived each year and other tangible benefits of the project.

(2) *Note dated the 27th September, 1960, from Shri G. R. Kamat, Officer on Special Duty, to the Government of India, Ministry of Finance (Budget Division).*

Will the Budget Division kindly arrange to collect the following material for the information and use of the Finance Commission?

(a) A forecast, in the attached form, of the revenue and expenditure of the Central Government by major heads of account for the years upto 1965-66.

(b) A statement showing for each of the five years ending 1960-61 the grants made to the States from revenue with brief notes regarding the basis on which the grant was calculated and the purpose of the grant. (For the purpose of this statement the payment of the States' share of income-tax and Union excises, and the allocations to the States of estate duty, taxes on railway fares and additional duties of excise in lieu of sales tax, should not be treated as a grant.)

(c) A statement showing the capital grants (but not loans) if any, made to the States in the last five years and provided for in the budget for the current year with explanations as in (b) above.

2. Ten copies of the material assembled may be kept ready and sent to me by 1st of December 1960.

Forecast of Revenue and Expendtiure

(Rupees in lakhs)

Heads	1959-60 (Actuals)	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
Revenue							
_____							
_____							
_____							
_____							
Total Revenue							

(Rupees in lakhs)

Heads	1959-60 (Actuals)	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
Expenditure met from Revenue							
Total Expenditure							
Net Surplus							
Net Deficit							

NOTES

Figures should be given by major heads of account.

In the section dealing with revenue, no deductions should be made on account of the States' share of income-tax, estate duty or taxes on railway fares ; but a separate statement should be furnished giving an estimate for each year of the divisible pool of income-tax , the total of the distributable amount of estate duty, and the net receipts from taxes on railway fares.

A statement giving a breakdown, by articles, of the provision made under Union Excise duties and another statement for the additional duties of Union Excise on sugar, tobacco and mill-made textiles should be attached.

Brief explanations should be given of any large variations in the revenue estimates from year to year.

In the expenditure estimates details of the provision included in each year for grants to States should be given.

The share of the divisible excises (including additional duties of excise) payable to the States and included in the expenditure estimates should be given separately.

As on the revenue side variations in the estimates of expenditure from year to year should be briefly explained.

Both the revenue and expenditure estimates should be on the existing level of taxation and the present scales of expenditure; they should take into account the normal growth of revenue and expenditure. Provision should also be made for any foreseeable measures of important non-developmental expenditure, showing the amounts separately with suitable explanations to indicate obligatory character of such measures. No provision should be included in the estimates for fresh development expenditure but an indication should be given in a separate statement of magnitude of such expenditure in each of these five years.

A statement should be added showing the recommendations of the Taxation Enquiry Commission which have been implemented and the total annual yield from such taxes included in the revenue estimates. An indication should also be given of the annual increase in revenue that may be expected if the remaining recommendations are implemented.

(3) *Letter No. FC. 3(15)-B/60, dated the 6th January 1961, from Shri G. R. Kamat, Member-Secretary, Finance Commission, to the Finance Secretaries of all States.*

I am directed to invite a reference to the Ministry of Finance, Department of Economic Affairs, circular letter No. 22-OSD/60, dated the 26th September 1960, regarding the material required for the Finance Commission and to state that, in addition to the information asked for in paragraph 7 thereof on subsidiary points mentioned in annexure II of their letter, the Finance Commission would like to have information relating to the system of decentralised administration, popularly known as 'Panchayati Raj' which has been in operation for some time past in part or whole of various States. Detailed points on which the information is required are set out in the attached note.

2. In addition, the Finance Commission desires to have your views on the present system of allocation of resources to the State Governments by way of share of taxes and duties and statutory grants-in-aid on the one hand and by way of grants under article 282 of the Constitution on the other. A note on the subject is enclosed.

I shall be grateful if your reply is sent so as to reach here by the 10th February, 1961.

PANCHAYATI RAJ

A system of decentralised administration known as 'Panchayati Raj' has been in operation in part or whole of various States. The Commission would like to have a descriptive note from the Governments of States on the constitution, authority and working of the system and its effects on the revenue budget of the State Government. The note should broadly cover the following points:

(a) functions allotted to the Panchayati institutions, showing particularly those hitherto performed by the State administration with the estimated savings in expenditure by State Government consequent on the transfer of those functions;

(b) shares of specific revenues of the State Governments allotted to Panchayati administrations and the aggregate amounts actually paid to them each year;

(c) powers of taxation delegated and the extent to which they have been exercised;

(d) grants, if any, made to Panchayati administrations by the State Governments, the basis on which such grants are

determined, the authority determining the amounts of grants and the amounts to be paid each year;

(e) measures, if any, taken to encourage Panchayati administrations to tap additional resources;

(f) savings, if any, in the administrative cost of the State Government arising out of decentralisation;

(g) the nature of supervision exercised by the State Administration on the accounts and the financial administration of the Panchayati units and additional cost, if any, involved;

(h) arrangements, if any, made for evaluation of the system of Panchayats; and

(i) a brief appreciation of the results so far achieved from the introduction of the system and likely developments in the Third Plan period.

Allocation of Resources

In addition to taxes and duties assigned to the States or shared between the Union and the States in accordance with the provisions of articles 269, 270, 272 and grants-in-aid of the revenues of the States in accordance with article 275 of the Constitution, financial assistance is also afforded to the States for development projects included in the Five Year Plans and for other purposes. This assistance has been made under the purview of article 282.

The growing tempo of developmental activities has called for a larger allocation of resources to the States in recent years. Of the provision of Rs. 382 crores of allocation in the Union estimates for 1960-61, Rs. 169 crores or 44·24 per cent. are in the shape of special assistance.

While the amounts covered by articles 269, 270, 272 and 275 (other than its proviso) are determined on the basis of principles formulated by an independent statutory Commission, the nature and quantum of special assistance are determined each year by the Union Government for each State separately after a review of its developmental expenditure. This assistance is discretionary in character.

While the allocations based on the recommendations of the Commission have hitherto been unconditional, special grants are for specific projects or groups of projects and are adjusted from time to time on the basis of the actual expenditure incurred on the projects concerned.

The third Finance Commission proposes to consider the economic, financial and administrative aspects of the present bases of allocations and make such recommendations as may be appropriate in the interest of sound finance.

The Commission would, therefore, welcome the views of the Union and State Governments on the system of dual allocations and, in particular, on the following points:

(i) do they regard the channeling of resources in the two ways mentioned as satisfactory; if not, in what respects are improvements necessary and how best should they be brought about?

(ii) are dual independent allocations conducive to efficient and effective use of resources and ensure maximum beneficial results to the community as a whole?

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(4) *Letter No. FC.5(2)-A/60, dated the 10th March 1961, from Shri R. Saran, Deputy Secretary, Finance Commission, to the Finance Secretaries of all States.*

I am directed to invite a reference to the terms of reference of the third Finance Commission mentioned in paragraph 4 of the President's Order of the 2nd December 1960, constituting this Commission. Paragraph 4(c) of this order required the Commission to make recommendation as regards the changes, if any, to be made in the principles governing the distribution among the States under article 269 of the net proceeds in any financial year of taxes on railway fares.

In their letter No. F.4(14)-B/60, dated the 28th February 1961, the Government of India, Ministry of Finance, Department of Economic Affairs, have informed this Commission that, in pursuance of the recommendation made by the Railway Convention Committee, it has been decided to merge the tax on railway fares with the passenger fares from 1st April 1961 and that the Railway Passenger Fares Act, 1957, is accordingly proposed to be repealed with effect from that date. The Government of India have, however, agreed that, in lieu of the net proceeds of this tax which used to go to the State Governments, a sum of Rs. 12·5 crores representing the average of the actual collections of this tax during the two years 1958-59 and 1959-60 would be distributed among the States per year during the quinquennium 1961-66 as a grant under article 282 of the Constitution.

This Commission has now been requested to make its recommendation as to the manner in which the fixed sum of Rs. 12·5 crores should be distributed among the States and to this extent the terms of reference of the Commission referred to above stand modified. This matter is brought to the notice of the State Government so that they may, if necessary, take this change into account in offering their views on this subject, as requested in the Government of India, Ministry of Finance letter No. FC. 1-B/60, dated the 18th November, 1960.

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(5) *Letter No. FC. 8(1)-B/60, dated the 30th June, 1961, from Shri S. K. Bose, Deputy Secretary (Research), Finance Commission, to the Finance Secretaries of all States.*

I am directed to enclose, for the information of the State Government, a copy of a letter from the Government of India to the Finance Commission intimating an amplification of paragraph 4(d) of the terms of reference of the Commission (copy supplied to you earlier) so as to include the item 'Silk Fabrics' on which additional excise duty is now levied with effect from the 1st March, 1961 in lieu of sales tax hitherto imposed by the State Governments.

2. As the amount to be distributed amongst the States will now include the net proceeds of the additional excise duty on mill-made silk fabrics also, the Commission wishes to ascertain the amounts that were collected by the State Government from the proceeds of sales tax on mill-made silk fabrics. For this purpose, the Commission would like to have the following information:

(a) The rate(s) at which sales tax was levied on mill-made pure silk fabrics in the State under the State's Sales Tax Act or other similar law;

(b) the sums (actuals or estimated) realised by the State Government in each of the last three financial years from such tax on mill-made silk fabrics and the basis on which these estimates are worked out.

3. It is requested that the suggestions of the State Government, if any, in regard to the principles of distribution of the net proceeds of this additional excise duty be communicated to the Commission for its consideration.

4. It is requested that the material asked for in this letter may kindly be sent to reach the Commission's Office by the 31st July 1961, at the latest.

APPENDIX VI

ORGANISATIONS, UNIVERSITSES AND INDIVIDUALS WHO SUBMITTED MEMORANDA AND WHO APPEARED BEFORE THE COMMISSION AND GAVE ORAL EVIDENCE

(a) *ORGANISATIONS WHICH SUBMITTED MEMORANDA TO THE COMMISSION*

1. Junagadh Chamber of Commerce, Junagadh (Gujarat).
2. Sorath Chamber of Commerce, Veraval (Gujarat).
3. Morvi Chamber of Commerce, Morvi (Gujarat).
4. U.P. Chamber of Commerce, Kanpur.
5. Madhya Pradesh Chamber of Commerce and Industry, Gwalior.
6. Bharat Chamber of Commerce, Calcutta.
7. Gujarat Vepari Mahamandal, Ahmedabad.
8. Assam Chamber of Commerce, Shillong.
9. Federation of Andhra Pradesh Chambers of Commerce and Industry, Hyderabad.
10. Indian Chamber of Commerce, Calcutta.
11. Bihar Chamber of Commerce, Patna.
12. Southern Indian Chamber of Commerce, Madras.
13. Bengal National Chamber of Commerce and Industry, Calcutta.
14. Berhampur Chamber of Commerce, Berhampur (Orissa).
15. Rajasthan Chamber of Commerce and Industry, Jaipur.
16. Rajasthan Vyapar Udyog Mandal, Jaipur.
17. Mysore Chamber of Commerce, Bangalore.
18. Alembic Chemical Works Company Limited, Baroda.
19. Garo Hills District Council, Tura (Assam).
20. Eastern India Economic Society, Silchar.
21. District Bar Association, Silchar.
22. Gokhale Institute of Public Affairs, Bangalore.
23. Coal and Coke Traders' Association, Shillong.

24. United Planters' Association of Southern India, Coonoor.
25. All India Coffee Manufacturers' Association, Madras.
26. Mikir Hills District Council, Assam.
27. Communist Party of India, Karnataka Provincial Council, Bangalore.
28. Bihar Pradesh Congress Committee, Patna.
29. Indian Merchants' Chamber, Bombay.
30. Mahratta Chamber of Commerce and Industries, Poona.
31. Maharashtra Chamber of Commerce, Bombay.
32. The Millowners' Association, Bombay.
33. Poona Municipal Corporation, Poona.
34. Peoples' Privilege Forum, Socialist Party Office, Koottickal (Kerala).
35. Gujarat State Road Transport Corporation, Ahmedabad.

(b) *UNIVERSITIES WHICH SUBMITTED MEMORANDA TO THE COMMISSION*

1. Maharaja Sayajirao University of Baroda, Baroda.
2. Karnatak University, Dharwar.
3. Sri Venkateswara University, Tirupati.
4. Gauhati University, Gauhati.
5. Osmania University, Hyderabad.
6. Jadavpur University, Calcutta.
7. University of Rajasthan, Jaipur.
8. University of Punjab, Chandigarh.
9. Gujarat University, Ahmedabad.
10. Andhra University, Waltair.
11. University of Bombay, Bombay.
12. University of Nagpur, Nagpur.
13. University of Poona, Poona.
14. University of Marathwada, Aurangabad.
15. Shreemati Nathibai Damodar Thackersey Women's University, Bombay.

16. Sardar Vallabhbhai Vidyapeeth, Vallabh Vidyanagar.
17. University of Kerala, Trivandrum.

(c) *INDIVIDUALS -WHO SUBMITTED MEMORANDA TO THE COMMISSION.*

1. Prof. R. N. Bhargava, Head of the Department of Post-Graduate Studies and Research in Economics, University of Jabalpur, Jabalpur.
2. Shri D. Natarajan, Research Scholar, Department of Economics (Ford Unit), University of Madras, Madras.
3. Prof. C. Narayanan, Guruvayarappan College, Pokunnu—Kozhikode (Kerala).
4. Shri K. V. R. Hanumantha Rao, Khamman (Andhra Pradesh).
5. Shri Chakrapani Rao, Khamman (Andhra Pradesh).
6. Shri Arun Chandra Guha, Member, Lok Sabha.
7. Mrs. Ursula K. Hicks, Lecturer in Economics, Nuffield College, Oxford University, Oxford (U.K.).
8. Shri V. L. D'souza, Ex-Vice Chancellor, University of Mysore, Bangalore.
9. Shri P. C. Bhattacharyya, Chairman, State Bank of India, Bombay.
10. Shri R. K. Amin, Head of the Department of Economics, Sardar Vallabhbhai Vidyapeeth, Vallabh Vidyanagar, Gujarat.
11. Shri Vavilala Gopalakrishnayya, M.L.A. (Andhra Pradesh).
12. Shri R. K. Dutta, Calcutta.
13. Shri H. C. Mathur, Member, Lok Sabha.
14. Shri Kishori Lal, Senior Lecturer in Economics, College of Education, Kurukshetra University, Kurukshetra (Punjab).
15. Shri J. K. Mehta, Professor of Economics, University of Allahabad, Allahabad.
16. Shri I. S. Gulati, Head of the Department of Economics, The Maharaja Sayajirao University of Baroda, Baroda.
17. Shri K. N. Dutt, Principal, Government College, Ludhiana.

18. Shri M. Gopalakrishna Reddi, Department of Economics and Sociology, Andhra University, Waltair.

19. Dr. T. M. Joshi, Head of the Department of Economics, Fergusson College, Poona, and Professor-in-charge, Department of Economics, University of Poona.

20. Prof. S. V. Ayyar, Director, Indian Institute of Economics, Hyderabad.

21. Prof. D. G. Karve, Ex-Vice Chancellor, University of Poona, Poona.

22. Shri K. P. Choube, Assistant Professor of Economic Administration, Indian School of Public Administration, New Delhi.

23. Shri Santosh K. Bhattacharyya, Reader in the Department of Economics, Calcutta University, Calcutta.

24. Dr. D. B. Kerur, Professor and Head of the Department of Economics and Chairman, Planning Forum, Sir Parashurambhau College, Poona.

25. Shri D. S. Subrahmanyam, Principal, C. R. Reddy College, Eluru, M.L.A., Andhra Pradesh and President, Affiliated Colleges Teachers' Association (Andhra).

26. Prof. D. R. Gadgil, Director, Gokhale Institute of Politics and Economics, Poona.

27. Legislators from Rayalaseema, Andhra Pradesh:
    (i) Shri N. Venkata Subbayya, M.L.C., Kurnool.
    (ii) Shri I. Sadasivan, M.L.C., Anantapur.
    (iii) Shri D. V. Subba Sastry, M.L.C., Kurnool.
    (iv) Shri Y. Eswara Reddy, M.L.C., Cuddapah.
    (v) Shri R. Seetharamayya, M.L.C., Cuddapah.
    (vi) Shri M. Lakshmi Narayana Reddy, M.L.A., Kurnool.
    (vii) Shri Kallur Subba Rao, M.L.A., Anantapur.
    (viii) Shri Ram Reddy, M.L.C., Anantapur.
    (ix) Shri K. Adikesavalu Naidu, M.L.C., Chittoor.
    (x) Shri Challa Subbarayudu, M.L.A., Anantapur.

28. Shri A. B. Bardan, M.L.A. (Maharashtra), Bombay.

29. Shri Vadilal Lallubhai, Ahmedabad.

30. Shri V. R. Pillai, Professor of Economics, University of Kerala, Trivandrum.
31. Shri S. Chandra Sekhar, Research Section, Department of Economics and Sociology, Andhra University, Waltair.
32. Shri Chandromoni Patnaik, Ex-Manager, Jarada Estate, Hillpatna, Berhampur (Orissa).

(d) *ORGANISATIONS WHOSE REPRESENTATIVES APPEARED BEFORE THE COMMISSION AND GAVE ORAL EVIDENCE*

1. Inter-University Board of India.
2. Assam Chamber of Commerce, Shillong.
3. Mizo Hill District Council (Assam).
4. United Khasi-Jaintia Hills Council (Assam).
5. Garo Hills District Council (Assam).
6. Eastern India Economic Society, Silchar.
7. West Bengal Chamber of Commerce, Calcutta.
8. Bengal National Chamber of Commerce, Calcutta.
9. Indian Chamber of Commerce, Calcutta.
10. Bharat Chamber of Commerce, Calcutta.
11. Oriental Chamber of Commerce, Calcutta.
12. Mysore Chamber of Commerce, Bangalore.
13. Communist Party of India, Karnataka Provincial Council, Bangalore.
14. Bangalore Trades Association, Bangalore.
15. Bihar Pradesh Congress Committee, Patna.
16. Bihar Chamber of Commerce, Patna.
17. Federation of the Andhra Pradesh Chambers of Commerce and Industry, Hyderabad.
18. Indian Merchants' Chamber, Bombay.
19. Bombay Chamber of Commerce and Industry, Bombay.
20. Maharashtra Chamber of Commerce, Bombay.
21. Mahratta Chamber of Commerce and Industries, Poona.
22. The Millowners' Association, Bombay.
23. Gujarat Vepari Mahamandal, Ahmedabad.
24. Planning and Development Department of the Gujarat Pradesh Congress Samiti, Ahmedabad.

25. Rajasthan Chamber of Commerce and Industry, Jaipur.
26. Panchayat Samities and Local Bodies in Rajasthan.
27. Rajasthan Vyapar Udyog Mandal, Jaipur.
28. Kerala Granthashala Sanghom, Trivandrum.

(e) *INDIVIDUALS WHO APPEARED BEFORE THE COMMISSION AND GAVE ORAL EVIDENCE*

1. M. S. Ramayyar (retired Deputy Comptroller and Auditor General), Deputy Director of the Indian Institute of Public Administration.
2. Shri M. V. Rangachari, Deputy Governor, Reserve Bank of India.
3. Shri Williamson Saugma, former Minister for Tribal Areas (Assam).
4. Dr. P. S. Lokanathan, Director General of National Council of Applied Economic Research.
5. Shri Vishnu Sahay, Cabinet Secretary, Government of India.
6. Shri H. F. Kattimani, M.L.C. (Mysore).
7. Shri T. K. Kambli, M.L.A. (Mysore).
8. Shri Ramaswami Reddy, M.L.A. (Mysore).
9. Shri T. R. Neswi, M.P., Bangalore.
10. Smt. Lakshamma, M.L.C. (Mysore).
11. Prof. S. V. Ayyar, Director, the Indian Institute of Economics, Hyderabad.
12. Shri Vavilala Gopalakrishnayya, M.L.A. (Andhra Pradesh), Hyderabad.
13. Prof. D. R. Gadgil, Director, Gokhale Institute of Politics and Economics, Poona.
14. Dr. V. L. D'souza, Ex-Vice Chancellor, University of Mysore, Bangalore.
15. Shri N. Dandekar, Bombay.
16. Shri V. D. Mazumdar, Ex-Commissioner of Income-tax, Bombay
17. Shri B. V. Potdar, Chairman, Executive Committee, Mahratta Chamber of Commerce and Industry, Poona.
18. Shri S. G. Barve, Chairman, Maharashtra Irrigation Commission and Chairman, Co-ordination Committee for Poona Flood Relief, Bombay.
19. Shri V. B. Worlikar, Mayor of Bombay, Bombay.

20. Prof. C. N. Vakil, Ex-Director, Department of Economics, University of Bombay, Bombay.
21. Prof. T. M. Joshi, Head of the Department of Economics, Ferguson College, Poona.
22. Prof. T. D. Lakadawala, Department of Economics, University of Bombay, Bombay.
23. Shri S. M. Joshi, M.L.A. (Maharashtra), Bombay.
24. Shri R. D. Bhadare, M.L.A. (Maharashtra), Bombay.
25. Shri Datta Deshmukh, M.L.A. (Maharashtra), Bombay.
26. Shri A. B. Bardan, M.L.A. (Maharashtra), Bombay.
27. Shri V. D. Deshpande, M.L.A. (Maharashtra), Bombay.
28. Shri Devji Rattansy, M.L.C. (Maharashtra), Bombay.
29. Shri Ishwar Lal Parekh, M.L.A. (Maharashtra), Bombay.
30. Dr. V. K. R. V. Rao. Director of the Institute of Economic Growth, Delhi University, Delhi.
31. Shri E. P. W. da Costa, Editor of Eastern Economist, New Delhi.
32. Shri Vadilal Lallubhai Mehta, Ahmedabad.
33. Shri Sridharan, Secretary, Praja Socialist Party, Trivandrum.
34. Dr. K. B. Menon, M.P., Trivandrum.
35. Shri E. M. S. Namboodiripad, M.L.A. (Kerala), Trivandrum.
36. Shri Salamon, M.P., Trivandrum.
37. Shri T. C. Narayanan, M.P., Trivandrum.
38. Shri C. I. Abraham, Retired Finance Secretary, Travancore-Cochin Government, Trivandrum.
39. Prof. V. R. Pillai, Professor of Economics, University College, Trivandrum.
40. Prof. K. J. Mathew Tharakan, Professor of Economics, Shri Narayana College, Trivandrum.
41. Shri Srikantan Nair, M.L.A. (Kerala), Trivandrum.
42. Dr. A. Lakshmanaswami Mudaliar, Madras.
43. Prof. D. D. Narula, Department of Economics and Public Administration, University of Rajasthan, Jaipur.
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46. Shri Balwant Rai Mehta, Ahmedabad.
47. Shri Indulal Yajnik, Ahmedabad.
48. Shri Bhavanji A. Khimji, Ahmedabad.
49. Shri M. L. Parikh, Ahmedabad.
50. Shri B. K. Bhatt, M.L.A., Ahmedabad.
51. Shri H. M. Patel, Ahmedabad.
52. Legislators from Rayalaseema, Andhra Pradesh:
    (i) Shri N. Venkata Subbayya, M.L.C., Kurnool.
    (ii) Shri I. Sadasivan, M.L.C., Anantapur.
    (iii) Shri D. V. Subba Sastry, M.L.C., Kurnool.
    (iv) Shri Y. Eswara Reddy, M.L.C., Cuddapah.
    (v) Shri R. Seetharamayya, M.L.C., Cuddapah.
    (vi) Shri M. Lakshmi Narayana Reddy, M.L.A., Kurnool.
    (vii) Shri Kallur Subba Rao, M.L.A., Anantapur.
    (viii) Shri Ram Reddy, M.L.C., Anantapur.
    (ix) Shri K. Adikesavulu Naidu, M.L.C., Chittoor.
    (x) Shri Challa Subbarayudu, M.L.A., Anantapur.
53. Shri V. V. Chari, Member, Central Board of Revenue.
54. Shri B. N. Banerji, Member, Central Board of Revenue.
55. Dr. J. J. Anjaria, Chief Economic Adviser, Government of India, Ministry of Finance and Planning Commission.
56. Shri L. K. Jha, Secretary, Ministry of Finance.
57. Shri S. Bhoothalingam, Secretary, Ministry of Finance.
58. Shri P. N. Kripal, Secretary, Ministry of Education.
59. Shri B. R. Tandon, Secretary, Ministry of Health.
60. Prof. M. S. Thacker, Secretary, Ministry of Scientific Research and Cultural Affairs.
61. Shri P. V. R. Rao, Additional Secretary, Ministry of Community Development and Co-operation.
62. Shri G. D. Goswami, Co-operation Commissioner, Ministry of Community Development and Co-operation.
63. Shri V. Viswanathan, Secretary, Ministry of Home Affairs.
64. Shri Shankar Prasad, Secretary (Kashmir Affairs), Ministry of Home Affairs.

APPENDIX VII

(STATISTICAL TABLES)

1. *Population of States*

1961 Census

State	Population 1961	Percentage Distribution
Andhra Pradesh	35,977,999	*8·34*
Assam	11,860,059	*2·75*
Bihar	46,457,042	*10·78*
Gujarat	20,621,283	*4·78*
Jammu and Kashmir	3,583,585	*0·83*
Kerala	16,875,199	*3·92*
Madhya Pradesh	32,394,375	*7·51*
Madras	33,650,917	*7·80*
Maharashtra	39,504,294	*9·16*
Mysore	23,547,081	*5·46*
Orissa	17,565,645	*4·08*
Punjab	20,298,151	*4·71*
Rajasthan	20,146,173	*4·67*
Uttar Pradesh	73,752,914	*17·10*
West Bengal	34,967,634	*8·11*
TOTAL	431,202,351	*100·00*

Source : 1961 Census.

(provisional population totals)

2. (a) *Yield of Divisible Taxes and Duties and Transfers* to States therefrom*

(Rupees in lakhs)

Taxes	1957-58	1958-59	1959-60	1960-61 Revised
1. Income Tax				
Total Collections	16370	17201	14885	12750
States' share	7343	7580	7932	8698
	(44·86)	*(44·07)*	*(53·29)*	*(68·22)*
Grants to States in lieu of loss in Income tax share	..	..	301	2415
2. Union Excise Duties				
(*i*) Total Collections (Basic Duties)	27101	29682	33233	35429
(*ii*) Transfers to States	2871	3349	3579	3675
	(10·59)	*(11·28)*	*(10·77)*	*(10·37)*
(*iii*) Total Collections (Additional Excise Duties)	261	1612	2832	4069
(*iv*) Transfers to States	1151	3950	3891	3835
Total of (*ii*) and (*iv*)	4022	7299	7470	7510
3. Estate Duty				
Total Collections	230	270	291	300
Transfers to States	240	238	276	291
4. Taxes on Railway Passenger Fares				
Total Collections	368	1224	1281	1367
Transfers to States	481	1089	1307	1379
Total Collections of divisible Taxes	44330	49989	52522	53915
Total transfers to States including grants in lieu of reduction in income-tax share and States' revenue from additional excise duties	12086	16206	17286	20293

*Transfers to States are actuals after making necessary adjustments.

(Figures in brackets indicate percentage to total collections).

Source : Central Government Budgets.

2. (b) *Grants-in-aid and Grants to States*

(Rupees in lakhs)

	1957-58	1958-59	1959-60	1960-61
. Statutory Grants-in-aid and Grants				
(*i*) Grants-in-aid under article 273	315	315	315	..
(*ii*) Grants-in-aid under article 275 (1) substantive provision . .	3509	3625	3638	3950
(*iii*) Grants-in-aid under the provisos to article 275 (1)	665	531	788	931
(*iv*) Grants under Section 74 (2) of the States Reorganisation Act .	135	120	102	..
TOTAL .	4624	4591	4843	4881
Other grants including grants under article 282	5367	7687	10971	11378
Total grants-in-aid and grants to States	9991	12278	15814	16259

Source: 1957-58 to 1959-60—State Budgets
1960-61—Accountants-General.

3. *Revenue Resources of the States*
1957-58

(Rupees in lakhs)

States	Tax Revenue	Non Tax Revenue	Devolution of Central Taxes	Grants-in-aid	Total Revenue
Andhra Pradesh	3159	1246	1007	821	6233
	(50·7)	(20·0)	(16·1)	(13·2)	(100·0)
Assam	1274	501	325	842	2942
	(43·3)	(17·0)	(11·1)	(28·6)	(100·0)
Bihar	1987	808	1167	1012	4974
	(40·0)	(16·2)	(23·5)	(20·3)	(100·0)
Bombay	7364	2960	1938	573	12835
	(57·4)	(23·0)	(15·1)	(4·5)	(100·0)
Jammu and Kashmir	102	302	145	347	896
	(11·1)	(33·7)	(16·2)	(39·0)	(100·0)
Kerala	1324	663	436	402	2825
	(46·8)	(23·5)	(15·4)	(14·3)	(100·0)
Madhya Pradesh	2121	1495	821	790	5227
	(40·6)	(28·6)	(15·7)	(15·1)	(100·0)
Madras	3181	1462	990	623	6256
	(50·8)	(23·4)	(15·8)	(10·0)	(100·0)
Mysore	1748	2518	641	908	5815
	(30·1)	(43·3)	(11·0)	(15·6)	(100·0)
Orissa	646	482	447	628	2203
	(29·3)	(21·9)	(20·3)	(28·5)	(100·0)
Punjab	1937	1527	554	369	4387
	(44·2)	(34·8)	(12·6)	(8·4)	(100·0)
Rajasthan	1463	533	514	560	3070
	(47·6)	(17·4)	(16·7)	(18·3)	(100·0)
Uttar Pradesh	5005	2486	1975	1028	10494
	(47·7)	(23·7)	(18·8)	(9·8)	(100·0)
West Bengal	3621	1007	1112	1088	6828
	(53·0)	(14·8)	(16·3)	(15·9)	(100·0)
TOTAL	34932	17990	12072	9991	74985
	(46·6)	(24·0)	(16·1)	(13·3)	(100·0)

Source : State Budgets.

3. *Revenue Resources of the States*—contd.
1958-59

(Rupees in lakhs)

States	Tax Revenue	Non Tax Revenue	Devolution of Central Taxes	Grants-in-aid	Total Revenue
Andhra Pradesh	3274	1122	1328	1028	6752
	(48·5)	(16·6)	(19·7)	(15·2)	(100·0)
Assam	1414	369	437	977	3197
	(44·2)	(11·5)	(13·7)	(30·6)	(100·0)
Bihar	2538	939	1414	1203	6094
	(41·6)	(15·4)	(23·2)	(19·8)	(100·0)
Bombay	7165	2947	2925	1079	14116
	(50·8)	(20·9)	(20·7)	(7·6)	(100·0)
Jammu and Kâshmir	137	380	196	416	1129
	(12·1)	(33·7)	(17·3)	(36·9)	(100·0)
Kerala	1498	984	548	491	3521
	(42·5)	(28·0)	(15·5)	(14·0)	(100·0)
Madhya Pradesh	2114	1980	1066	902	6062
	(34·9)	(32·6)	(17·6)	(14·9)	(100·0)
Madras	3229	1606	1320	840	6995
	(46·2)	(22·9)	(18·9)	(12·0)	(100·0)
Mysore	2218	2843	802	1026	6889
	(32·2)	(41·2)	(11·7)	(14·9)	(100·0)
Orissa	709	745	563	732	2749
	(25·8)	(27·1)	(20·5)	(26·6)	(100·0)
Punjab	2137	1478	789	618	5022
	(42·6)	(29·4)	(15·7)	(12·3)	(100·0)
Rajasthan	1591	569	670	567	3397
	(46·8)	(16·8)	(19·7)	(16·7)	(100·0)
Uttar Pradesh	5010	3010	2690	1013	11723
	(42·7)	(25·7)	(22·9)	(8·7)	(100·0)
West Bengal	4248	947	1458	1386	8039
	(52·8)	(11·8)	(18·1)	(17·3)	(100·0)
TOTAL	37282	19919	16206	12278	85685
	(43·5)	(23·3)	(18·9)	(14·3)	(100·0)

Source : State Budgets.

3. *Revenue Resources of the States*—contd.
1959-60

(Rupees in lakhs)

States	Tax Revenue	Non Tax Revenue	Devolution of Central Taxes*	Grants-in-aid	Total Revenue
Andhra Pradesh	3932 (48·0)	1582 (19·3)	1425 (17·4)	1255 (15·3)	8194 (100·0)
Assam	1332 (36·2)	646 (17·5)	466 (12·6)	1240 (33·7)	3684 (100·0)
Bihar	2855 (41·6)	1016 (14·8)	1490 (21·7)	1500 (21·9)	6861 (100·0)
Bombay	7390 (49·3)	3235 (21·6)	3044 (20·3)	1325 (8·8)	14994 (100·0)
Jammu and Kashmir	150 (11·4)	453 (34·4)	206 (15·6)	509 (38·6)	1318 (100·0)
Kerala	1701 (44·5)	876 (22·9)	587 (15·3)	655 (17·3)	3819 (100·0)
Madhya Pradesh	2477 (38·5)	1678 (26·1)	1146 (17·8)	1132 (17·6)	6433 (100·0)
Madras	3696 (45·6)	1891 (23·3)	1412 (17·4)	1112 (13·7)	8111 (100·0)
Mysore	2300 (31·2)	3098 (42·0)	855 (11·6)	1121 (15·2)	7374 (100·0)
Orissa	754 (26·4)	628 (22·0)	602 (21·1)	872 (30·5)	2856 (100·0)
Punjab	2369 (40·6)	1993 (34·1)	832 (14·3)	643 (11·0)	837 (100·0)
Rajasthan	1772 (44·9)	647 (16·4)	722 (18·3)	805 (20·4)	3946 (100·0)
Uttar Pradesh	5233 (40·4)	3288 (25·4)	2876 (22·2)	1558 (12·0)	12955 (100·0)
West Bengal	4452 (48·6)	1100 (12·0)	1525 (16·6)	2087 (22·8)	9164 (100·0)
TOTAL	40413 (42·3)	22131 (23·2)	17188 (18·0)	15814 (16·5)	95546 (100·0)

*Including compensatory grants for loss in share of income tax due to change in classification.

Source : State Budgets.

3. *Revenue Resources of the States—concld.*
1960-61

(Rupees in lakhs)

States	Tax Revenue	Non Tax Revenue	Devolution of Central Taxes*	Grants-in-aid	Total Revenue
Andhra Pradesh	4016	911	1670	1505	8102
	(49·6)	(11·2)	(20·6)	(18·6)	(100·0)
Assam	1217	528	543	1237	3525
	(34·5)	(15·0)	(15·4)	(35·1)	(100·0)
Bihar	3072	1516	1640	1652	7880
	(39·0)	(19·2)	(20·8)	(21·0)	(100·0)
Gujarat	2372	1004	1710	458	5544
	(42·8)	(18·1)	(30·8)	(8·3)	(100·0)
Jammu and Kashmir	170	538	212	533	1453
	(11·7)	(37·0)	(14·6)	(36·7)	(100·0)
Kerala	2017	1073	695	739	4524
	(44·6)	(23·7)	(15·4)	(16·3)	(100·0)
Madhya Pradesh	2720	1922	1352	1222	7216
	(37·7)	(26·6)	(18·8)	(16·9)	(100·0)
Madras	4179	1970	2003	1148	9300
	(44·9)	(21·2)	(21·5)	(12·4)	(100·0)
Maharashtra	6141	2787	1496	790	11214
	(54·8)	(24·8)	(13·4)	(7·0)	(100·0)
Mysore	2369	3351	1091	1369	8180
	(29·0)	(41·0)	(13·3)	(16·7)	(100·0)
Orissa	856	1016	719	1071	3662
	(23·4)	(27·7)	(19·6)	(29·3)	(100·0)
Punjab	2541	1934	973	686	6134
	(41·4)	(31·5)	(15·9)	(11·2)	(100·0)
Rajasthan	1808	928	851	809	4396
	(41·1)	(21·1)	(19·4)	(18·4)	(100·0)
Uttar Pradesh	5650	3537	3456	1909	14552
	(38·8)	(24·3)	(23·8)	(13·1)	(100·0)
West Bengal	4823	1427	2158	1131	9539
	(50·5)	(15·0)	(22·6)	(11·9)	(100·0)
TOTAL	43951	24442	20569	16259	105221
	(41·8)	(23·2)	(19·5)	(15·5)	(100·0)

*Including compensatory grants for loss in share of income tax due to change in classification.

Source : Accountants-General.

4. *Yield of Income Tax and Corporation Tax*

(Rupees in lakhs)

	1957-58	1958-59	1959-60	1960-61 Revised	1961-62 Budget
Income Tax . .	16370	17201	14885	12750	13300
1. Ordinary Collections .	15554	16232	13540	11735	12085
2. Surcharge (Central) .	694	833	818	750	950*
3. Surcharge (Special) .	24	94	183	250	250
4. Excess Profits Tax .	86	39	340	10	10
5. Business Profits Tax .	12	3	4	5	5
Corporation Tax .	5613	5433	10656	13750	14100
1. Ordinary Collections .	5621	5340	10668	13685	14035**
2. Surcharge	7	14	..	..	..
3. Excess Profits Tax . .	—15	71	—6	60	60
4. Business Profits Tax .	..	8	—6	5	5

*Includes effect of budget proposals (+2,00)

**Includes effect of budget proposals (+1,00)

Source : Explanatory Memoranda on the budgets of the Central Government for the years 1959-60, 1960-61 and 1961-62.

5. *Statewise Collection of Income Tax*

(Rupees in lakhs)

States	1957-58	1958-59	1959-60 (Provisional)	1960-61 (Provisional)
Andhra Pradesh	455	410	453	699
Assam	196	173	157	184
Bihar	281	375	227	487
Gujarat	662	907	1075	859
Jammu and Kashmir	21	16	20	25
Kerala	251	234	283	309
Madhya Pradesh	164	193	245	297
Madras	1074	1017	1103	1333
Maharashtra	4619	5100	6099	5263
Mysore	322	313	472	563
Orissa	50	58	68	132
Punjab	207	233	265	549
Rajasthan	96	132	131	175
Uttar Pradesh	516	476	504	660
West Bengal	3664	5414	4000	4961
TOTAL	12578	15051	15102	16496

NOTE.—Figures exclude central surcharge, tax on Union emoluments, advance payments under Section 18-A and miscellaneous items.

Source : Accountants-General.

6. *Commoditywise Collection of Union Duties of Excise*

(Rupees in lakhs)

	1957-58	1958-59	1959-60	1960-61 Revised
I. Basic Duties—				
Motor Spirit	3085	3252	3540	3875
Kerosene	306	415	681	765
Sugar	4275	5227	5000	4540
Matches	1508	1921	1796	1780
Steel Ingots	625	729	1034	1220
Tyres and Tubes	387	716	1044	1250
Tobacco	4549	4909	5089	4810
Vegetable Products	392	386	549	500
Coffee	132	134	146	135
Tea	386	471	774	765
Cotton Cloth	6460	5740	4675	3785
Artificial Silk	169	196	207	189
Cement	1117	1391	1676	1750
Footwear	97	105	116	150
Soap	176	223	210	205
Woollen Fabrics	61	86	75	62
Electric Fans	46	53	72	110
Electric Bulbs	30	33	40	70
Electric Batteries	80	98	116	170
Paper	539	678	797	825
Paints and Varnishes	120	127	137	140
Vegetable non-essential Oils	980	1002	1335	1225
Refined Diesel Oils and Vaporising Oils	701	960	2450	3800
Industrial Fuel Oils	324	477	1191	950
Rayon and synthetic Fibre and Yarn	29	86	202	270
Motor Vehicles	32	20	63	950

6. *Commoditywise Collection of Union Duties of Excise*—concld.

	1957-58	1958-59	1959-60	1960-61 Revised
Asphalt and Bitumen	..	..	..	300
Aluminium	..	..	9	110
Tin Plate	..	..	..	120
Pig Iron	..	..	8	100
Silk Fabrics	..	..	6	5
Cycles and parts thereof	..	..	6	125
Internal Combustion Engines	..	..	4	135
Electric Motors	..	..	4	75
Cinematograph Films	..	..	3	75
Salt Cess	..	..	..	82
Coal Cess	268	325	316	375
Cess on Copra	12	13	10	10
Cess on Oils and Oilseeds	91	41	54	25
Miscellaneous	474	173	472	51
TOTAL Gross Revenue	27451	29987	33907	35879
Deduct—Refunds and drawbacks.	—350	—305	—674	—450
TOTAL—NET REVENUE	27101	29682	33233	35429
II. Additional Duties—				
Sugar	..	679	825	1290
Textiles	..	522	1489	1996
Tobacco	..	411	518	783
TOTAL	261*	1612	2832	4069
GRAND TOTAL—UNION DUTIES OF EXCISE	27362	31294	36065	39498

*Distribution not available.

Source : Explanatory Memoranda on the budgets of the Central Government for the years 1959-60, 1960-61 and 1961-62.

7. *Sales Tax Collections**

(Rupees in lakhs)

States	1957-58	1958-59	1959-60	1960-61
Andhra Pradesh	962	921	1166	1282
Assam	239	273	227	277
Bihar	546	849	925	1054
Bombay — Gujarat	3769	3486	3640	1137
Bombay — Maharashtra				3131
Jammu and Kashmir	10	15	13	22
Kerala	492	617	744	902
Madhya Pradesh	503	438	605	720
Madras	1382	1476	1675	1912
Mysore	497	706	719	813
Orissa	199	213	242	314
Punjab	503	547	668	746
Rajasthan	322	297	309	370
Uttar Pradesh	1046	884	1039	1170
West Bengal	1253	1665	1711	1973
TOTAL	11723	12387	13683	15823

*Figures are inclusive of receipts under inter-State sales tax, sales tax on motor spirit and general sales tax.

Source : 1957-58 to 1959-60—State budgets.
1960-61—Accountants-General.

8(a). *Financial Results of Irrigation (Commercial) Works*

(Rupees in lakhs)

State	1957-58			1958-59			1959-60			1960-61 (Revised)			1957-58 to 1960-61
	Net Receipts	Interest	Profit/ Loss	Net Receipts	Interest	Profit/ Loss	Net Receipts	Interest	Profit/ Loss	Net Receipts	Interest	Profit/ Loss	Profit/ Loss
Andhra Pradesh	88	203	—115	—94	260	—354	—149	304	—453	65	334	—269	—1191
Assam	..	..	..	...	..	..	..	..	..	..	..	..	..
Bihar	5	99	—94	9	35	—26	4	36	—32	17	37	—20	—172
Bombay Gujarat										—12	152	—164	
Bombay Maharashtra	75	247	—172	106	304	—198	69	340	—271	81	194	—113	—918
Jammu and Kashmir	..	..	..	..	..	..	..	..	..	..	..	..	..
Kerala	—4	36	—40	—8	37	—45	—4	56	—60	—7	62	—69	—214
Madhya Pradesh	..	..	..	..	..	..	..	..	..	..	..	..	..
Madras	66	184	—118	71	199	—128	61	216	—155	65	244	—179	—580
Mysore	—13	11	—24	—17	108	—125	—1	198	—199	8	210	—202	—550
Orissa	—12	11	—23	—13	11	—24	—7	12	—19	—14	16	—30	—96
Punjab	227	96	131	114	118	—4	280	134	146	150	152	—2	271
Rajasthan	35	23	12	26	23	3	38	23	15	32	23	9	39
Uttar Pradesh	156	376	—220	191	418	—227	120	448	—328	153	482	—329	—1104
West Bengal	—19	19	—38	—10	20	—30	—14	22	—36	—7	23	—30	—134

NOTE.—(1) No irrigation (commercial) schemes are reported to be in existence in Assam, Jammu and Kashmir and Madhya Pradesh.

(2) Figures pertaining to Gujarat for the year 1960-61 are for 11 months.

Profit +

Loss —

Source : State Budgets.

8(b). *Area irrigated by Major Irrigation Schemes*

(Thousand Acres)

States	1957-58	1958-59	1959-60	1960-61
Andhra Pradesh	55	134	104	313
Assam	..	..	..	..
Bihar	1058	1058	1086	1219
Gujarat	32	25	31	72
Jammu and Kashmir				
Kerala	126	150	152	155
Madhya Pradesh				
Madras	376	414	455	405
Maharashtra	NA	NA	55	NA
Mysore	NA	NA	NA	239
Orissa	..	5	17	267
Punjab	1486	1712	2091	2250
Rajasthan	179	267	344	190*
Uttar Pradesh	7862	7312	8952	NA
West Bengal				

*Upto October, 1960.

NA—Not available.

NOTE :— (*i*) No major irrigation projects are reported in Assam.

(*ii*) No information from the States of Jammu and Kashmir, Madhya Pradesh and West Bengal.

Source : State Governments.

8(c). *Financial Results of Electricity Schemes*

(Rupees in lakhs)

States	Profit/Loss			1959-60			1960-61			Net result	
	1957-58	1958-59	1957-59	Net Receipts	Interest	Profit/ Loss	Net Receipts	Interest	Profit/ Loss	1959-61	1957-61
Andhra Pradesh .	—88	—265	—353	163	341	—178	193	358	—165	—343	—696
Assam . . .	5	—1	4	..	..	..	..	..	..	..	4
Bihar . . .	—60	..	—60	..	..	..	..	..	..	..	—60
Bombay . . .	—1	—9	—10	—8	..	—8	—24(M)	..	—24	—32*	—42
Jammu and Kashmir	8	13	21	7	..	7	15	..	15	22	43
Kerala . . .	..	..	..	..	..	..	..	..	..	..	..
Madhya Pradesh .	4	..	4	..	..	..	..	..	..	..	4
Madras . . .	—50	..	—50	..	..	..	..	..	..	..	—50
Mysore . . .	31	..	31	..	..	..	..	..	..	..	31
Orissa . . .	—3	67	64	24	39	—15	103	45	58	43	107
Punjab . . .	59	29	88	..	..	..	..	..	..	..	88
Rajasthan . .	2	..	2	..	..	..	..	..	..	..	2
Uttar Pradesh .	—21	—8	—29	..	96	—96	..	127	—127	—223	—252
West Bengal .	..	..	..	..	..	..	..	..	..	..	..

(M) Maharashtra.

*8 for composite Bombay and 24 for Maharashtra

Profit +

Loss —

Source : State Budgets.

9. *Financial Results of State Transport Undertakings*

(Rupees in lakhs)

States	Transport Undertaking	1958-59						1959-60					
		Gross Revenue	Operating Cost				Net Revenue	Gross Revenue	Operating Cost				Net Revenue
			Cost of Material, Personnel and Overheads	Depreciation	Interest on capital	Total			Cost of Material, Personnel and Overheads	Depreciation	Interest on capital	Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Andhra Pradesh	Andhra Pradesh State Transport Corporation, Hyderabad	270	194	27	12	233	37	373	280	46	15	341	32
Assam	State Transport, Assam, Shillong	145	91	19	6	116	29	156	109	21	6	136	20
Bihar	Bihar State Road Transport Corporation, Patna	106	87	23	9	119	—13	127	96	21	9	126	1
Bombay	(*i*) Bombay Electric Supply and Transport Undertaking, Bombay	485	378	83	*	461	24	555	456	92	*	548	7
	(*ii*) Saurashtra State Road Transport Corporation, Rajkot	106	57	15	4	76	30	113	67	16	4	87	26
	(*iii*) Kutch State Road Transport Corporation, Bhuj	24	21	2	1	24	..	26	22	3	1	26	..

9. *Financial Results of State Transport Undertakings*—contd.

(Rupees in lakhs)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	(*iv*) Provincial Transport Service, Nagpur	80	60	7	1	68	12	89	67	8	2	77	12
	(*v*) State Transport Marathwada, Aurangabad	91	49	9	4	62	29	127	69	7	5	81	46
	(*vi*) Bombay State Road Transport Corporation, Bombay	1200	922	148	76	1146	54	1384	1116	159	73	1348	36
	(*vii*) Ahmedabad Municipal Transport Service, Ahmedabad (*a*)	91	69	17	4	90	1	105	82	17	5	104	1
Jammu and Kashmir.	Jammu and Kashmir State Transport (*b*).	116	78	11	..	89	27	117	80	11	..	91	26
Kerala	State Transport Department, Trivandrum (*c*)	227	167	25	10	202	25	240	187	25	11	223	17
Madhya Pradesh.	(*i*) Madhya Bharat Roadways, Gwalior (*d*)	90	62	8	3	73	17	90	62	8	3	73	17
	(*ii*) Central Provinces Transport Services, Jabalpur(*e*)	52	32	5	NA	37	15	68	51	8	1	60	8
Madras	State Transport Department, Madras	182	136	30	11	177	5	198	138	30	10	178	20
Mysore	Mysore Government Transport Department, Bangalore	470	343	61	29	433	37	553	408	76	33	517	36

9. *Financial Results of State Transport Undertakings*—concld.

(Rupees in lakhs)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Orissa	State Transport Services, Cuttack	87	47	18	3	68	19	101	54	21	3	78	23
Punjab	(*i*) PEPSU State Road Transport Corporation, Patiala	33	18	4	1	23	10	41	23	5	1	29	12
	(*ii*) Punjab Transport Service, Chandigarh	167	87	18	5	110	57	200	106	20	7	133	67
Rajasthan	(*i*) Directorate of Transport, Jaipur (Abu) (*f*)	5	3	1	(0·48)	4	1	9	5	1	1	7	2
	(*ii*) Sirohi Motor Service	3	2	(0·46)	(0·15)	2	1	..	..	..	..	..	..
Uttar Pradesh.	U. P. Roadways, Lucknow	670	410	84	26	520	150	879	508	125	35	668	211
West Bengal	Directorate of Transport, Calcutta	267	199	39	17	255	12	324	245	36	18	299	25

*Included in Depreciation.
NA—Not available.

1958-59

(*b*) On the basis of figures for the quarter ended June 1958.
(*d*) Figures relate to 1956.
(*e*) Figures relate to 1955-56.

1959-60

(*a*) Figures estimated on the basis of quarters ended June and December, 1959.
(*b*) Figures estimated on the basis of quarters ended June and December, 1958.
(*c*) Figures relate to the year 1958-59.
(*d*) Figures relate to 1956.
(*e*) Figures estimated on the basis of quarters ended June and September, 1959.
(*f*) Figures relate to the year 1959.

Source : Ministry of Transport and Communications (Statistical Bulletin of Road Transport Undertakings in India).

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