CHAPTER X
FINANCIAL RELATIONS

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1. *INTRODUCTION*

10.1.01 Mobilisation, sharing and utilisation of financial resources play a very crucial role in all systems of multi-tier government and can give rise to difficult problems of inter-governmental relations unless handled in a spirit of mutual understanding and accommodation.

10.1.02 In some of these systems, the national and lower tiers of government have concurrent powers in regard to certain taxes, borrowings and outlays. This concurrency of jurisdiction often results in serious economic and administrative problems which have to be sorted out through difficult negotiations, compacts or resort to courts.

10.1.03 In other bifurcated systems, there is clearcut division of the powers of taxation and borrowings between the national and lower levels of government which, by its very nature, can rarely match their resources and needs. It requires a mechanism for adjusting the surpluses and deficits, and reducing unavoidable vertical or horizontal imbalances of different constituent units, through resource transfers.

10.1.04 India falls in the latter category. The constitution allots separate legislative heads of taxation to the Union and the States. There are no taxes in the sphere of their concurrent jurisdiction. Borrowing and foreign exchange entitlements are controlled by the Union.

10.1.05 The Constitution envisages an institution of a quasi-judicial character, the Finance Commission, which is set up periodically, for advising the President, among other things, on the division of certain taxrevenues raised by the Union, between the Union and the States. The recommendations of the Finance Commission are based on certain norms evolved by it in respect of growth rates of taxes, levels of expenditure, returns on investment, etc. Since the Finance Commission is constituted only periodically, the assumptions made by it remain broadly 'static' during the period covered.

10.1.06 There is a second institution, the Planning Commission, set up by an executive order of the Union Government, which advises the Union Government regarding the desirable transfer of resources to the States over and above those recommended by the Finance Commission. Its recommendations cover, among other things, feasible changes in tax rates and efforts by both, quantum and allocation of borrowings between the Union and the States. Since the Planning Commission is a continuing body, its recommendations are based on 'dynamic' assumptions which take into account the changes in the economic structure.

10.1.07 Bulk of the transfer of revenue and capital resources from the Union to the States is determined largely on the advice of these two Commissions. During the Sixth Five-Year Plan (1980-85), about 41 per cent of total resources transferred from the Union to the States was done on the advice of the Finance Commission and over 43 per cent was done on the advice of the Planning Commission.

10.1.08 Apart from the above, the Union Government also makes certain other transfers to the States. These comprised 15 to 16 per cent of the total resources transferred from the Union to the States during the Sixth Plan period. Of the total revenue and capital resources raised by the Union and the States, the share of the two was roughly equal after these transfers.

10.1.09 A number of issues have been raised before us, some of which belong appropriately to the domain of the Finance Commission. It has to be recognised that, given our terms of reference, we have to examine basically the Constitutional arrangements between the Union and the States and their working. In the realm of financial relations, therefore, it is not expected of us to determine to what extent the sharing of revenues should be altered and in what manner the *inter se* allocations among the States made.

10.1.10 This Chapter has been divided into ten Sections, including the Introduction (Section 1). Section 2 of this Chapter gives a broad account of the historical evolution of Union-State financial relations and an outline of Union-State financial arrangements provided in the Constitution. Section 3 enumerates the various issues and problems raised in the Union-State financial relations. Section 4 contains a factual review of the trends in respect of growth in revenues and sharing of resources between the Union and the States. Section 5 deals with the suggestions for enlargement of States' resources by transferring more taxation powers to them. Section 6 deals with the issues in the enlargement of the shareable or divisible pool. In Section 7, the complaints regarding the pattern of devolution have been considered. Section 8 examines the various issues relating to the working of the Finance Commission mechanism. Sections 9 and 10 are devoted to the examination of the remainng issues, e.g., allegations regarding Union Government's decisions adversely affecting States' finances, indebtedness of States, overdrafts, sharing of capital resources and some operational irritants.

2. *HISTORICAL BACKGROUND*

10.2.01 A highly centralised system came into being with the take-over by the British Crown from the East India Company in 1858. The Governor-General-in-Council retained complete control over Provincial resources as well as expenditure. The Provincial Governments remained entirely dependent on annual allotments by the Central Government for the maintenance of their administration. It was soon realised that decentralisation was necessary for governing country of sub-continental dimensions like India and the first step in this direction was taken in 1870. The fiscal history of the next sixty years is very largely a process of gradual devolution of powers to the Provinces from the Central Government.

Montagu-Chelmsford Reforms

10.2.02 The Montagu-Chelmsford Report, which led to the passing of the Government of India Act, 1919, recognised the necessity of separating the resources of the Central and Provincial Governments to support Provincial enfranchisement. Under the Devolution Rules framed under the Act, customs, non-alcoholic excises including salt, general stampduties, income tax and receipts from railways and posts and telegraphs, were assigned to the Government of India. Land revenue, irrigation charges, alcoholic excises, forest receipts, court fees, stamp duties, registration fee and certain minor sources of revenue were allotted to the Provinces.

10.2.03 Even then, this devolution of resources was criticised on the ground that the resources assigned to the Provinces did not have adequate growth potential and were insufficient for their rapidly increasing needs, whereas the Central revenues were capable of substantial expansion although its needs were relatively stationary. The working of the financial relations was, therefore, reviewed by a number of expert committees, particularly in early 1930's. The provisions incorporated in the Government of India Act, 1935 were based on these expert studies.

The Government of India Act, 1935

10.2.04 The Government of India Act, 1935 constitutes the next land-mark. It divided the revenue sources into three categories

(i) Exclusively Federal.

(ii) Eclusively Provincial.

(iii) (a) Taxes levied by the Federal Government, but shared with the Provinces or assigned to them.

(b) Taxes levied by the Federal Government but collected and retained by the Provinces.

The scheme also envisaged grants-in-aid from the Centre to the Provinces in need of assistance as approved by the former. The Government of India Act, 1935 laid foundations for a system of elaborate but flexible financial arrangements between the Centre and the Provinces.

Basic Maxims

10.2.05 The long history of evolution of public finance in India shows very complex factors at work. However, one clearly discernible trend is that while it is wholly possible to divide the taxation powers and allocate resources, it is extremely difficult to establish a balance between needs and resources. The various stages of evolution helped confirm the basic maxims (i) that no decentralised government can be established without allocating to it sufficient financial powers, and (ii) that the Central Government is the appropriate authority to levy a tax where uniformity of rates was important and locale is not a guide to its true incidence.

Framing of the Constitutional Provisions

10.2.06 The period of Second World War was one of great strain on the Central finances. This was followed by the partition of the country. The Constituent Assembly commenced its work against a background of surpluses with the Provinces and financial stringency at the Centre. However, it was realised that once developmental activities were resorted to, the Provinces would not have adequate resources at their disposal.

10.2.07 Financial Relations between the Union and the States were considered by the Constituent Assembly in depth. The Union Powers Committee of the Assembly evolved a scheme which followed by and large the provisions of the Government of India Act, 1935. Fields of taxation were enumerated distinctly and placed in either the Union List or the State List. There was to be no concurrent field of taxation. Residuary powers of taxation were left with the Union. Recognising that most major sources of tax revenues were in the Union List, it recommended sharing of certain taxes with the States and assignment of certain taxes to them. After consideration in a joint sitting of the Union Powers Committee and the Union Constitution Committee, the scheme was incorporated in the report of the Union Constitution Committee.

10.2.08 During the consideration of this reprot in this Constituent Assembly, it was suggested that the matter be referred to an Expert Committee on the Financial Provisions of the Union Constitution to go into the various issues relating to the distribution of available resources between the Union and State Governments. This Committee (Chairman : Nalini Ranjan Sarkar) was required to examine the existing provisions in the Government of India Act, 1935 relating to taxation and borrowing powers and their working during the preceding 10 years and to make recommendations. The Committee came to the conclusion that it was necessary to provide adequate resources to the States which, while not placing too great a strain on the Union, would enable them to take up useful schemes of welfare and development. The Committee recommended that total resources available should be distributed in adequate relation to the functions of the Union and the States so that the arrangements were not only equitable and in the general interest of the country, but also administratively feasible. The Committee felf that there should be no violent departure from the *status quo* and that while providing for as much uniformity as possible, the weaker units should be helped to maintain certain minimum services.

10.2.09 A major recommendation of the Expert Committee was to provide for the appointment of a Finance Commission, an independent expert body, to recommend allocation of proceeds of shareable taxes between the Union and the States and among the States and to consider and make recommen-dations on other matters referred to it.

10.2.10 The Expert Committee's recommendation regard to the Finance Commission was accepted, in substance, by the Drafting Committee.

10.2.11 The Drafting Committee's proposals, revised in the light of the conclusions arrived at in the Premiers' Conference, were discussed by the Constituent Assembly in October, 1949.

Constitutional Provisions in outline

10.2.12 Chapters I and II of Part XII of the Consittution contain the main provisions governing the Union-State financial arrangements. Of these, articles 268 to 270 and 272 deal with taxes levied by the Union, the proceeds of which are either assignable to the States, or compulsorily or optinally sharable with the States. Article 275 provides for grants-in-aid of revenue made under a law by Parliament to States in need of assistance. Article 282 contains a provision for grants by the Union or a State for any public purpose. Articles 276 and 285 to 288 put certain limitations on the taxation powers of the States. Article 274 requires prior recommendations of the President to Bill affecting taxation in which the States are interested. Article 289 exempts the property and income of the state from Union taxation. Article 280 requires the constitution of a Finance Commission every five years or earlier. Clause (3) of this Article sets out the duties of the Finance Commission. Article 281 requires the recommendations of the Finance Commission together with an explanatory memorandum about the action taken thereon, to be placed before Parliament. Articles 292 and 293 define the borrowing powers of the Union and the States.

10.2.13 Financial arrangements under the Constitution have two main aspects. One relates to distribution of taxation heads, and the other to distribution of revenues and sharing of resources between the Union and the States. Articles 246, 248 and 265, read with the Legislative Lists I and II, constitute the core of the first aspect, while the main provisions relating to the second aspect are contained in Chapters I and II of Part XII of the Constitution.

Distribution of taxation powers

10.2.14 Legislative Lists I and II of the Seventh Schedule to the Constitution enumerate the general subjects of legislation separately from the heads of taxation. The distinction construed in the light of Articles 246 and 265 implies that no tax can be levied unless it is related to a specific head of taxation in List I or List II. The Constitution provides in Lists I and II, separate heads of taxation for the Union and the States. There is no head of taxation in the Concurrent List. This means, the Union and the States have no concurrent power of taxation. The residuary power of taxation vests in the Union. There are thirteen taxation heads comprised in Entries 82 to 92B in the Union List and nineteen taxation items comprised in Entries 45 to 63 of the State List. The detailed particulars of these Entries in List I and List II are given in Annexure X.1.

10.2.15 Aallocation of the heads of taxation between the Union and the States is based on the broad principle that taxes which are location-specific and relate to subjects of local consumption have been assigned to the States. Those taxes which are of inter-State significance and where the tax-payer can gain or evade tax by shifting his habitat, or where the place of residence is not a correct guide to the true incidence of tax, have been vested in the Union. This clear-cut division of heads of taxation between the Union and the States has minimised the scope for conflict and litigation between them.

Distribution of Revenues

10.2.16 The taxation powers allocated to the Union and the States are mutually exclusive. But the scheme of accrual of revenues envisages total assignment to the States of the net proceeds of specified taxes and sharing of some other by them. This scheme contemplates:

(a) Certain stamp duties and duties of excise on medical and toliet preparations mentioned in the Union List are to be levied by the Union but collected by the States and the proceeds shall not form part of the Consolidated Fund of India but assigned to the States in which collected. (Article 268).

(b) Taxes mentioned in Article 269(1)[1] shall be levied and collected by the Union but assigned to the States, within which they are levied, as laid down in Article 269.[2]

(c) Taxes levied and collected by the Union but shared with the States, viz., on non-agricultural income.[2] (Article 270).[2]

(d) Taxes which are levied and collected by the Union but may be shared with the States, if Parliament by law so provides, viz., Union Excise Duties.[3] (Article 272).

(e) Taxes in the Union levied, collected and retained by the Union subject to teh exceptions mentioned above.

(f) Taxes in the State List, levied, collected and retained by the States.

Grants

10.2.17 The Constitution provides for payment by the Union of such sums as Parliament may by law provide each year as grants-in-aid of the revenues of scuh States as Parliament may determine to be in need of assistance. Besides, the Union Government is required to give grants-in-aid to the States for the welfare of the Scheduled Tribes and for raising the level of administration in the Scheduled Areas and separately for Assam (Article 275).

10.2.18 Apart from the above provisions, under the heading 'Miscellaneous Financial Provisions' Article 282 provides that the Union or a State *may* make any grants for any public purpose notwhithstanding that it is not one with respect to which Parliament or a State Legislature may makes laws. Thus, a distinction has been made in the Constitution between grants under Article 275 and those under Article 282. The former (except those covered by the proviso to Article 275) are made in accordance with the recommendations of the Finance Commission. However, under Article 282 the Union as well as the States may make grants for any public purpose. The use of the word 'may' in this article has been taken to signify the discretionary nature of these grants.

Finance Commission

10.2.19 Article 280 provides for the constitution of Finance Commission by the President. The role and functioning of this Commission, which is a key institution, is discussed at length in Section 8. A duty has been cast on the President to cause every recommendation made by the Finance Commission together with an explanatory memorandum as to the action taken thereon to be laid before each House of Parliament.

Borrowing Powers

10.2.20 The executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed. Similary, the executive power of a State extends to borrowing upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be so fixed. However, the executive power of the States extends to borrowing within the territory of India only. Further, the Government of India *may*, subejct to such conditions as may be laid down by or under any law made by Parliament, make loans to any State or, so long as any limits fixed under Article 292 are not exceeded, give guarantees in respect of loans raised by any State, and any sums required for the purpose of making such loans shall be charged on the Consolidated Fund of India. But a State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predcessor Government, or in respect of which a guarantee has been given by the Government of India or by its predecessor Government. A consent under Article 293(4) may be granted by the Government of India subject to such conditions, if any, as the Government of India may think fit to impose.

10.2.21 Flexibility and objectivity in revenue-sharing between the Union and the States are important features of the Constitutional scheme. Sources of revenue with the Union are not entirely meant for its exclusive use but are to be shared with the States, mandatorily in the case of Income Tax other than on agricultural income, and optionally, with the approval of Parliament, in the case of Union Excise Duties. Proceeds of duties and taxes levied by the Union under Articles 268 and 269 are wholly assignable to the States.

10.2.22 In all the federations of the world the revenues of the federal governments have grown enormously during the past half a century. Concurrent taxation powers, as in the case of United States of America, had led to much litigation and difficulties which are inherent in any overlapping tax system. Similary, as in Australia and Canada, negotiations, and agreements played in important role in determining the shares in the proceeds of taxes. Even in West Germany, the evolution of tax sharing arrangements took many years after the introduction of the Basic Law. Yet, when political expediency holds sway conventions have the uncanny habit of going underground.

10.2.23 In our country, the determination of shares of the States in the aforesaid taxes and duties and thier *inter se* allocation as also of grants-in-aid of revenues, follows the recommendations of the Finance Commission. Unlike the Commonwealth Grants Commission of Australia, the Indian Finance Commission is a Constitutional body and the objectivity in its role has been facilitated by keeping it outside the Union executive. Compared with its Australian counterpart, the Indian Finance Commission has greater scope inasmuch as it recommends sharing of tax proceeds also, besides the grants-in-aid, and advises on other matters referred to it in the interests of sound finance. The absence of clear Constitutional provisions for revenue sharing created many problems in other federations and they had to evolve a variety of arrangements to overcome them. For example in Canada, tax-rental arrangements were resorted to. In Australia, the Australian Commonwealth Grants Commission was set up to consider allocation of grants among the claimant States. Specific-purpose grants, with strict enforcement conditions, came into existence in country like U.S.A.

3. *THE COMPLAINTS AND ISSUES*

Needs and Resources

10.3.01 In the evidence of the State Government some political parties and serveral experts before us a common thread is seen, *viz*., the resources allocated to the States are not adequate to enable them to discharge their responsibilities. The State Governments, as well as some all-India political parties have claimed that not only the States' resources are relatively inelastic but also that their tax-base is narrow. Of the various taxes levied by them, Sales Taxes alone and, to a lesser extent, the State Excise Duties, have exhibited a significant degree of elasticity. However, some of the other resources like Land Revenue have today lost importance. The yield from Land Revenue including cesses, etc.

for all States in 1951-52 was about Rs. 49 crore comprising 21.3 per cent of their own tax revenue and in 1984-85 it was about Rs. 318 crores constituting only 2.6 per cent of their own tax revenue.[4]

10.3.02 The States have pointed out that the Constitution has assigned to them the responsibility for building up vital social and industrial infrastructure, which is an essential pre-requisite for rapid socio-economic development. They are responsible for rural development, education, medical and public health facilities, welfare of Scheduled Castes and Scheduled Tribes, etc. Further, they have to spend large sums on the development of roads, generation and distribution of power, etc. which are essential for industrial development. These responsibilities, particularly the creation of social infrastructure, involve large investments which do not yield immediate or direct returns. The maintenance cost of the social and economic infrastructure has also increased by leaps and bounds. Apart from the above, the expenditure on non-developmental activities like maintenance of law and order, has also shown large increases, particularly in the wake of emergence of fissiparous tendencies and divisive forces. Over the years, the general administrative costs have risen steadily and today they form a large part of the States' expenditure. Inflation has made the situation worse. Faced with high cost of administration and inflation, the States complain of ever-widening gap (often referred to as the vertical fiscal gap) between their own resources and needs. Some studies in the field of federal finance have compared the levels of expenditure of the States with their 'own' resources and pointed out the existence of significant gaps between them. It has been argued that these gaps are a measure of the large dependence of the States on the Union for resources and indicate a weakness in the existing arrangements.

10.3.03 States argue that in order to enable them to discharge their responsibilities properly, there is need for ensuring correspondence between their obligations and resources. It has been suggested that for this purpose, more rational system of savings and credit allocation should be evolved and the powers and scope of various institutions—Finance Commission, Planning Commission and the National Development Council—should be suitably redefined.

10.3.04 It has been pointed out by a State Government that the heavy dependence of the States on the Union for financial resources has resulted in progressive erosion of the jurisdiction, authority and initiative of the States in their own constitutionally defined spheres. Further, it has manifested in a gradual decline in the relative share of States' Plan outlay in the total, growing outlay of the Union on State subjects, proliferation of Centrally Sponsored Schemes and Union's tight control over planning in the States.

10.3.05 Some political parties have also emphasised that the States' resources should be commensurate with their expenditure needs. Indeed, an all-India political party has observed : "If States suffer from inadequacy of financial resources and powers, the autonomy of States faces severe constraints and the federal character of the Constitution is also jeopardised".

10.3.06 On the other hand, the Union Ministry of Finance has argued that the Union also is facing a widening gap between resources and needs. It has also pointed out that its own resources are no more elastic than those of the States. Further, defence, interest payments and subsidies take away the bulk of Union revenues. It has argued that there is need for the States to make greater efforts to increase resources within their existing powers before seeking more powers or large Central assistance. It has pointed out : "Though agriculture contributes nearly 40 per cent of the GDP, States have made no attempts to tap this source. Another disturbing feature is that the power and irrigation projects which are executed at enormous costs are not providing, sufficient returns to the State Governments."

10.3.07 An all-India political party has argued along the same lines and concluded : ".......the complaint of the States regarding an inadequate and inelastic tax-base appears to be unfounded. The potential tax base available for the States is quite large and relatively more elastic. If effectively managed, the tax-base of the States can yield much larger revenues and this alone would solve the present problems. In a situation of over-all resource constraint, maximum effort at mobilisation of resources is required on all fronts and mere transfer of additional resources from the Centre can only be a temporary measure at the cost of wider national interests.’’

The Basic Schemes

10.3.08 The criticism of the existing arrangements of allocation of resources should be considered in the light of the Constitutional scheme and the manner in which it has worked over the years. Most of the States are of the view that the existing Constitutional arrangements are basically sound and no radical changes are called for. A few States have, however, observed that the existing arrangements have not worked well and substantial changes are necessary. Some State Governments have pointed out that the scheme of the Constitution is marked by a trend towards over-centralisation in regard to both policy and administration. Further, the States should be able to command means of meeting their wants in the same way as the Union Government possess the means in respect of its wants.

10.3.09 We have already noted that the Constitution envisages clearly demarcated areas of taxation for the Union and the States. These have been enumerated in List I and List II of the Seventh Schedule. Generally, the States have stated that there is no need to make any changes in the division of the areas of taxation envisaged in the Constitution. In fact, one State has pointed out that any transfer of taxation fields now with the Union to the States would make the rich States richer and the poor States poorer. The Union Ministry of Finance also holds that the "Present system has a sound rational basis and may not require any alteration."

10.3.10 On the other hand, some State Governments are of the view that their fiscal powers should be enlarged. Some specific suggestions have been made to empower the States to levy taxes and duties including those enumerated in Articles 268 and 269 as well as to remove some of the restrictions on States' taxation powers. It has also been suggested that States may be enabled to levy any taxes not mentioned in List I and List II of the Seventh Schedule. It has been further suggested that the Union Government should voluntarily withdraw from excise duties on certain commodities and give up additional excise duties now imposed on certain commodities in lieu of Sales Tax. It has also been suggested by a State Government that the Union should voluntarily abstain from levying Excise Duties on certain commodities leaving the State Governments free to levy Additional Sales-Tax on these commodities to an equivalent extent. Another State Government has suggested that the States should be given the powers to levy excise duty on medicinal and toilet preparations containing alcohol, tax on futures markets, etc. Yet another State Government has proposed that the proceeds of Income Tax and Union Excise Duties should be made mandatorily assignable to the States in full although, for the sake of uniformity, they may continue to be collected by the Union.

10.3.11 A State Government has suggested that the States may also be permitted to levy Corporation Tax on companies whose factories are situated in the respective States, which would imply concurrent taxation in the field.

Issues in operation of the Scheme—Corporation tax

10.3.12 State Governments have criticised the policy of the Union Government to keep out of the divisible pool certain resources which, accordingly to them, should have been shared with them. An important instance of this, the States allege, is the exclusion of Corporation Tax from the divisible pool by an amendment of Income Tax Act in 1959. A number of State Governments and some political parties have suggested that the proceeds of Corporation Tax should be made sharable with the States.

Surcharge on Income Tax

10.3.13 The States have complained that the long continu-ance of Surcharge on Income Tax (given up only in 1985-86) deprived them of considerable revenue which would have been sharable with the States if only Government of India had, instead, adjusted the basic rates of Income Tax. Some States, an all-India political party and several others have suggested that the proceeds from Surcharge on Income Tax should be made sharable with the States.

Other Basic Excise Duties

10.3.14 Revenues from Union Excise Duties (Basic duties), levied under Article 272, are being shared on the recommen-dations of the Finance Commission. It is alleged that the Union Government has levied separate excise duties on commodities (e.g., special, regulatory and auxiliary excise duties on some commodities) thus keeping these revenues outside the purview of sharing.

Concessions/Rebates on Income Tax

10.3.15 Some of the States have alleged that the Union Government has not been showing sufficient interest in raising revenues from Income Tax, 85 per cent of which is now sharable with the States. On the other hand, through the Special Bearer Bonds Scheme, the Union Government mobilised resources for its exclusive use which would have been otherwise shared by the States, if better compliance of Income Tax Act had been enforced.

Administered Prices

10.3.16 Many States have complained against the increases in administered prices, e.g., of petroleum and coal, unilaterally made by the Union instead of increasing excise duties, which would have been sharable with them.

Curbs on States' Sales Tax

10.3.17 Several State Governments have drawn attention to the changes introduced by the Constitution (Sixth Amendment) Act, 1956 in Articles 269 and 286 and by the enactment of the Central Sales Tax Act, 1956. They allege that these amendments have adversely affected the yield from States' Sales Tax which is the most important source of revenue to them. The modified Article 269 read with the new Entry 92A, empowers Parliament to levy tax on sale or purchase of goods in the course of inter-State trade but makes its proceeds assignable to the States. Article 286 as modified by the Sixth and Forty-Sixth Amendment Acts takes away the power of the States to levy tax on essential goods by authorising Parliament to impose restrictions by law on the States to impose tax on sale or purchase of goods declared by Parliament to be of special importance in inter-State trade and commerce.

10.3.18 One political party has asked for deletion of Entries 92A and 92B from List I and their transfer to the State List. It has also suggested modification of clauses (3)(a) and (b) of Article 286 and removal of limitations imposed on the power of the States to levy tax on the sale or purchase of goods imposed under Article 286 read with Article 269 and Entry 92A of List I.

Property Taxation

10.3.19 Some of the States have pointed out that in view of the provisions of Article 285(2), read along with Section 154 of the Government of India Act, 1935, the municipal bodies in the States cannot levy tax on properties of the Union Government which came into being after 1-4-1937, nor are the States' local bodies allowed to enhance the old rates. Similarly, the Railway properties are protected by Section 135 of the Indian Railways Act, 1890 read with Section 4 of the Railways (Local Authorities Taxation) Act, 1941, which permit only such taxation as is allowed by the Government of India. Because of these provisions the local bodies of the States are losing revenue whereas they are required to provide services to the Union Government and Railway establishments.

Scheme or Additional Excise duty

10.3.20 Some of the States have complained that replacement of Sale Tax by Additional Duties of Excise (Goods of Special Importance) Act, 1957 which covered sugar, tobacco and textiles, resulted in loss of revenue to them. Altough the yield from the Additional Excise Duties is assigned to the States, the revenue raised from them is allegedly not as high as what could have been realised had the Sales Tax on them continued. A few State Governments have suggested withdrawal of this scheme to enable the States to levy Sales Tax on these commodities.

Grant in lieu of Railway Passenger Fares Tax

10.3.21 Most of the State Governments have drawn attention to the fact that the grant in lieu of the Tax on Railway Passenger Fares, which was abolished in 1961, has been far less than what they would have realised had the tax measure been continued, owing to the growth in revenue from Railway Fares. A few States and an all-India political party have demanded re-imposition of the tax on the Railway Passenger Fares.

Royalty Rates

10.3.22 Two States which have resources of petroleum and natural gas, have demanded revision of royalty corresponding to the increase in the prices of these items. Similar demands have been made in respect of minerals by other States.

Pay/D.A. Revisions

10.3.23 Union Government's decisions on pay revision, terminal benefits, granting instalments of dearness allowance, etc., are said to cast a corresponding burden on the States. This is cited as an instance where actions of the Union result in additional expenditure to the States. A few State Governments have stated that this additional burden should be shared by the Union.

Articles 268 and 269

10.3.24 Some States have pointed out that the failure of the Union Government to mobilise sufficient revenue under Articles 268 and 269 has adversely affected their interests. A few States have suggested that the powers to levy some taxes and duties included in these Articles may be transferred to the States. An all-India political party has suggested that through a Constitutional amendment levying of taxes and duties included in Article 269 should be made compulsory.

Transfers under Finance Commission vis-a-vis other Transfers

10.3.25 Closely related to the issue of vertical imbalances is the alleged inadequacy of the mechanisms provided in the Constitution to rectify the same. Almost all the State Governments have pointed out that resource transfers outside the channel of the Finance Commission, have increased year after year and now overshadow the statutory transfers.

Finance Commission

10.3.26 Another complaint is that in determining the composition of the Finance Commission and laying down its terms of reference, the States are not taken into confidence. Further, by listing certain considerations which the Finance Commission might, *inter alia,* keep in view in recommending grants-in-aid of revenue to the States, the Finance Commission has been 'shackled'.

10.3.27 Some State Governments are of the view that the recommendations of the Finance Commission should be implemented *in toto.* The non-implementation of the final recommendations of the Eighth Finance Commission in full, has added yet another dimension to the problems in financial relations between the Union and the States.

10.3.28 Several State Governments have criticised the so-called 'gap-filling' approach of the Finance Commission in determining the quantum of Central transfers.

Capital Transfers and Market Borrowings

10.3.29 Several States have pointed out that their capital receipts are meagre in relation to their large and growing requirements of capital funds for investment in development activities. They are, it is argued, very heavily dependent on the discretion of the Union for their capital receipts. A suggestion has been made by some that the States should have access to the capital resources "as a matter of right".

10.3.30 Among the important sources of funds for development are market borrowings and capital transfers from the Union. Of the total market borrowings of the Union and the States, the share of the States has declined over the years. Further, as a proportion of the total capital receipts of the Union, loans to the States have also gone down.

10.3.31 The limitations imposed on the States in this regard under Article 293 are also objected to by many State Governments as restricting their freedom to borrow.

Bond Floatation by Central undertakings

10.3.32 Bond floatation allowed to some of the undertakings of the Union Government (e.g., National Thermal Power Corporation, National Hydro-Electric Power Corporation and Indian Telephone Industries) has been cited as placing substantial additional resources at the disposal of these undertakings, whereas similar facilities are not available to the State Public Sector Enterprises.

Small Savings and Special Deposits Scheme

10.3.33 Several States have pointed out that the States' share of two-thirds (since raised to three-fourth from April, 1987) in the additional small savings collection should be enhanced and that such loans should be treated as 'loans in perpetuity'. A specific suggestion made by a State Government is that the repayment period and moratorium allowed on small savings loans should be doubled. It has also been alleged that through the Special Deposits Scheme the Union Government has acquired access to substantial investible funds of the Provident Fund Organisations and has thus reinforced its budgetary position at the expense of the States.

Indebtedness

10.3.34 Some States have complained that the present pattern of Union transfers, with preponderance of loans, is completely out of line with their pattern of expenditure and repayment capacity and have demanded a review.

Channelling of External Assistance

10.3.35 Another grievance of the States is that the Union Government obtains external assistance on concessional terms, but the benefit of the same is not correspondingly passed on to the States.

Overdrafts and Deficit Financing

10.3.36 Some of the States have argued that persistent large overdrafts reflect a fundamental disequilibrium in their finances. Further, more often than not, large overdrafts result from situations beyond their control, including delays in releasing of Central transfers and genuine unforeseen expenditures. They point out that while the Union Government has an easy and regular access to deficit financing, the overdrafts of the State Governments need not be grudged. The significant difference in the rates of the interest between the two is often cited as an instance of discrimination.

Natural Calamities

10.3.37 There are complaints of delay, inadequacy and even discrimination in providing relief for major calamities which need to be dealt with as a matter of national concern.

Union Expenditure on States' Subjects

10.3.38 It has been pointed out by some of the States that the Union Government incurs substantial expenditure on several subjects, belonging to the sphere of the States (e.g., agriculture, rural development, cooperation, health and irrigation) through the Centrally Sponsored Schemes and by maintaining large establishments. These have, on the one hand, allegedly deprived the States of substantial transferable revenues and, on the other, distorted their priorities by requiring them to find matching funds for the schemes sponsored by the Union Government.

Expenditure Control

10.3.39 Most of the State Governments feel that the functioning of the existing institutions—Comptroller and Auditor General and the Public Accounts Committees of the Parliament and State Legislatures—should be strengthened for improving expenditure control. A State Government has, however, complained that the present centralisation of audit result in procedural delays. It is pointed out that accounts are finalised with gaps of three to four years. In this connection, it has drawn attention to Section 167 of the Government of India Act, 1935 which empowered a Provincial Legislature to create the office of an Auditor-General. Another State Government has stated that considering the desirability of evaluation audit, it should be entrusted to an agency constituted by the State Government itself.

Expenditure Commission

10.3.40 Many States have emphasised that there is need for a through examination of the Union Government's expenditure since this has implications for resources available for transfer to the States. Some have suggested that this should be done by an Expenditure Commission as the existing mechanisms are inadequate for this purpose.

Institutional Finance

10.3.41 Union Government's exclusive control over the policies and resources of the Banks and the Public Sector financial institutions is also one of the irritants in Union-State financial relations, although these are Union subjects. The fact that more than half of the loans from the public sector financial institutions have gone only to two States, has been adversely commented upon. In this connection, some suggestions have been made for setting up a National Credit Council having representatives of the State Government on its panel.

Financial Indiscipline

10.3.42 The Union Government has, on the other hand, drawn attention to the considerable increase in transfer of resources to the States over the years, particularly during the last three Plan periods. The demand of the States for financial assistance to deal with natural calamities has expanded 3 to 4 times in recent years, showing inadequate financial control and discipline.

10.3.43 The issues in Union-State financial relations revolve round the States' case for having access to more resources in a situation of overall resource shortage. Interlinked are the problems regarding the patterns and modes of Central transfers, relative revenue mobilisation efforts, prudence in incurring expenditure, sharing of the community's savings, deficit financing, etc. There is a demand for greater objectivity and automaticity in resource transfers and allocations.

4. *FACTUAL REVIEW*

10.4.01 We have in the preceding Section noted the criticism and the main issues. In order to examine them, it is necessary to look into the broad trends in respect of the major areas of resource mobilisation and transfers. This has been attempted in this Section.

Growth in Resources

10.4.02 The basic data in regard to growth of revenues of the Union and the States and trends in actual sharing or resources by them is set out in Annexure X.2. The trend rates of growth[5] in revenues of the Union and State Governments covering the period 1951-52 to 1984-85 are given in the following table :

Annual percentage trend rates of growth in the combined resources of the Union and the States, 1951-52 *to* 1984-85

Item	Revenue Account	Capital Account	Total
I. *Resources :*			
Combined Union	13.43	11.49	12.80
(i) Before transfers to the States	13.76	11.51	12.89
(ii) After transfers to the States	13.05	12.03	12.58
States			
(i) 'Own' revenues	12.86	11.76	12.67
(ii) Total revenues (including transfers)	13.74	10.77	13.04
II. *Transfers to States*	15.60	10.30	13.67

10.4.03 During the 34 years, 1951-52 to 1984-85, the resources of the Union and State Governments registered a very significant increase. It is seen from the above table that the resources of the States are not less elastic than those of the Union.

10.4.04 The Union Government has been raising bulk of the financial resources. Of the combined aggregate resources during the period 1951-85, Union Government raised 71.5 per cent and States 28.5 per cent resources. Before transfers, during the First Plan period, the resources raised by the Union were Rs. 4,495 crores. They increased to Rs. 1,74,756 crores in the Sixth Plan period. Correspondingly, the aggregate resources of the State, before transfers from the Union, were Rs. 2,241 crores in the First Five Year-Plan period and they increased to Rs. 69,640 crores during the Sixth Plan period. The resources raised by the States as a percentage of the combined resources has shown a decline from 33.3 per cent in the First Plan period to 28.5 per cent in the Sixth Plan period (Annexure X.2)

10.4.05 Yields from individual taxes of both the Union and the States, have shown large variations in growth during the period 1951-85. Their relative importance in some cases has also changed significantly as would be evident from the following table:

	1951-52		1984-85	
	Rs. in Crores	Percentage share in total tax revenue of Union/ States	Rs. in Crores	Percentage share in total tax revenue of Union/ States
1	2	3	4	5
I. *Union Taxes:*				
1. Income tax* . .	145.99	28.5	1,927.66	8.2
2. Corporation Tax .	41.41	8.1	2,555.90	10.9
3. Union Excise Duties*	85.78	16.7	11,150.84	47.5
4. Customs Duty . .	231.69	45.2	7,040.52	30.0
All Union Taxes	**512.65**	**100.0**	**23,470.59**	**100.00**
1	2	3	4	5
II. *State Taxes:*				
1. Land Revenue, etc.	48.87	21.3	318.41	2.6
2. Sales Taxes . . .	59.04	25.8	7,028.94	56.9
3. State Excise Duties	50.14	21.9	1,857.36	15.0
4. Motor Vehicles, Tax	9.89	4.3	704.55	5.7
5. Entertainment Tax	8.94	3.9	360.07	2.9
All States' Taxes . .	**229.05**	**100.0**	**12,342.81**	**100.0**

*Before transfer of States' share.

SOURCE : Ministry of Finance : *Indian Economic Statistic—Public Finance*, 1959 and 1986.

10.4.06 It is pertinent to note that at the time of framing of the Constitution, when Income Tax was made compulsorily sharable, it was, apart from Customs Duty, the most important source of revenue to the Union. Its share in the aggregate tax revenue of Government of India stood at 28.5 per cent in 1951-52 but has come down to 8.2 per cent in 1984-85. Excise and Customs Duties, having 47.5 per cent share and 30 per cent share respectively in 1984-85, are now the most important taxes of the Union.

10.4.07 The structure of tax receipts of the States has also undergone significant changes during this period. Land Revenue (21.3 per cent share in 1951-52 in States’ own tax revenues) has now become insignificant (2.6 per cent share) as compared to the receipts from Sales Tax and State Excise Duties (56.9 per cent and 15.0 per cent shares, respectively).

10.4.08 States taxes have shown widely different growth rates. Some, like Land Revenue, have hardly grown. But the important taxes like Sales Tax, State Excise Duties and Entertainment Tax, have shown considerable buoyancy. The growth rate in States' own tax revenue has been significant and, indeed, somewhat higher than that of the Union. This discounts the general impression that the sources of revenue allotted to them are less elastic compared to those of the Union. This is also in conformity with the findings of some studies which have observed that the States' resources have grown in tandem with those of the Union[6]. This is evident from the following table giving compound annual growth rates in all-tax revenues and in those of selected taxes of the Union and the States, before any transfers from the Union to the States, for the period 1974-75 to 1984-85.

Union Taxes	Percentage compound annual growth rate,	States' Taxes	Percentage compound annual growth rate,

	1974-75 to 1984-85		1974-75 to 1984-85
All Taxes..........................	14.0	*All Taxes*........................	15.5
Income Tax......................	8.2	Land Revenue, etc.........	7.9
Corporation Tax	13.7	Sales Taxes....................	16.6
Customs Duty.................	18.1	Motor Vehicles Tax	14.8
Union Excise Duties........	13.2	State Excise Duties	16.8
		Entertainment Tax	**12.2**

10.4.09 It is noteworthy that a State Government has also highlighted the fact that the States' aggregate tax revenue is fairly elastic to prices and incomes. According to it any disadvantage that the States might have, relatively to the Union, in this respect, is of only minor and not crucial significance.

Transfers from the Union and their growth

10.4.10 An analysis of data relating to resource transfers to the States from the Union reveals certain interesting facts. On revenue account, perior to transfers to States, the Union Government's share has been stable around two-thirds of the combined revenue resources of the Union and the States. On capital account, its share was 85.4 per cent during the period 1951-85 and that of States 'own' resources 14.6 per cent[7] (Annexure X.2).

10.4.11 Transfer of total resources during the period 1951-85 from the Union to the States has been substantial, being 22.6 per cent of the combined aggregate resources. As a percentage of the total resources raised by the Union, the transfers to the States accounted for 31.6 per cent. As a result of these transfers the resources of the States became a little over half of the combined resources of the Union and the States. Transfers to the States during the period 1951-85 have increased from Rs. 1,307 crores during the First Plan period (1951-56) to Rs. 56,031 crores during Sixth Plan period (1980-85) showing an annual trend growth rate of 13.67 per cent. This brings out the significant role of the resource transfers to the States (Annexure X.2).

Revenue and Capital Transfers

10.4.12 Further break-up of the transfers in terms of revenue and capital shows that on revenue account, the transfers to the States have been approximately three-fourths of the total transfers (Annexure X.2). In the initial years (1951-56) the transfers on revenue account were about 46 per cent. Thus, the revenue account transfers have not only shown volume growth but also as a percentage of the total transfers they have risen steadily from 46 per cent to 73 per cent. The trend growth rate of transfers on revenue account works out to 15.60 per cent per annum (Annexure X.3).

States' share in Combined Resources of the Union and the States

10.4.13 After taking into account the transfer of resources from the Union to the States, the percentage share of the States in combined aggregate resources has remained around 50 per cent. Their shares since the First Five Year Plan in the combined aggregate resources and separately on revenue and capital accounts, have been as under:

(Percentages)

	Revenue	Capital	Total
1951-56	54.0	50.0	52.7
1956-61	57.3	31.2	46.3
1961-66	49.3	38.8	45.7
1966-69	54.2	37.1	48.7
1969-74	56.1	46.2	53.8
1974-78	54.0	35.9	50.0
1978-80	58.2	41.2	53.9
1980-85	59.3	32.7	51.4
1951-85	**57.2**	**35.9**	**51.2**

This is in so far as the direct sharing of resources is concerned. In addition, the Union Government incurs considerable expenditure through subsidies, Central plan investment and on other items which benefit the States and indirectly reduce pressure on their expenditure.

Pattern of Transfers

10.4.14 It will also be pertinent to consider the pattern of transfers. Resources are transferred partly on the recommendations of the Finance Commission, partly through the Planning Commission and also directly from the various Ministries of the Union Government. We have considered in detail the pattern of devolution in Section 7 and the salient features are noted below.

10.4.15 The transfers on account of the Finance Commission have gone up from 31.2 per cent in the First Five-Year Plan period to 41.3 per cent in the Sixth Plan period (Annexure X.4). Transfers on the recommendations of the Planning Commission show considerable fluctuations during this period. During the last two Five-Year Plan periods, they were around 42 to 43 per cent. These transfers include those on account of Central and Centrally Sponsored Schemes. These were only 2.8 per cent during the period 1966-69 (i.e., after the Third Plan) and have gone up to over 11 per cent in the Sixth Plan Period. During the last two plans, 'other transfers' were 15.0 and 15.3 per cent respectively.

10.4.16 Another interesting aspect of these transfers is seen in the split between Revenue and Capital components. Transfers through the Finance Commission have been almost wholly on revenue account. Out of these revenue transfers, 85.1 per cent were by way of tax-sharing and the remaining 14.9 per cent were in the nature of grants or sharing of other resources for the period 1952-84 (see Annexure X.5). On the other hand Plan transfers carry a large loan component.

Trends in Union Finances

10.4.17 Looking at the pattern of non-plan expenditure of the Union, it is seen that a large part of it is on defence, interest payments and subsidies. These three items which constituted 65.1 per cent of the total non-plan expenditure in 1970-71 have risen steadily to 73.3 per cent in 1987-88 (B.E.).
10.4.18 Since 1979-80 the Budgets of the Union Government have persistently shown deficits on the revenue account. The Balance from Current Revenues became negative for the first time in 1985-86. We have dealt with these matters in greater detail in Section 7 subsequently.

Need for improving resource mobilisation and management

10.4.19 There is still considerable scope for both the Union and the States to step up revenue mobilisation. The Long Term Fiscal Policy document of the Union Government clearly recognises the need to increase the Balance from Current Revenues so as to reduce the depedence on substantial internal borrowing for financing the Plan. Internal borrowings have of late gone up sharply, resulting in large interest payments. Further, as many as 90 non-departmental undertakings of the Union Government incurred a loss of Rs. 1,656.34 crores in 1985-86.[8] The funding of the Seventh Five-Year (Central Sector) Plan crucially depends on the generation of sufficient surpluses by the Union Public Sector Undertakings.

10.4.20 Similarly, over the years most of the States have given exemptions on Land Revenue, etc., whereas the gross value and volume of agricultural production have increased manifold during this period. Only a few States are at present levying Agricultural Income Tax and that too, to an insignificant extent (total receipts Rs. 91.33 crores in 1984-85). Wide Statewise variation in the effective rates of taxation in relation to the relevant bases is also indicative of the considerable potential yet to be tapped for revenue mobilisation.[9] Agricultural income taxation is not easy to administer and not amenable to easy solution in respect of its assessment and collection. Further, large commercial losses are reported to have been incurred by States' public sector enterprises–State Electricity Boards (Rs. 1,123 crores in 1984-85), State Road Transport Corporations (Rs. 150-200 crores in each year of the Sixth Plan period) and commercial irrigation systems (Rs. 592 crores in 1984-85).[10] With these losses in the Centre and in the States, the regimen laid down by the Finance Commission for the Public Sector has been frequently voilated and the hopes expressed by the Planning Commission in the Five Year Plan have been belied, notwithstanding the approval of the National Development Council. It has been observed by one State Government that "policies and measures to improve the financial performance of States' departmental and non-departmental undertakings must be an important element of the required many-sided efforts towards establishing more even financial balance between the Centre and the States. The resulting improvement in the return on investment and enterprise secured by the States would make a sizeable contribution to reducing the gap between their revenue expenditure and own tax and non-tax revenues". We are in full agreement with this observation.

10.4.21 One State government has complained that the Union-State financial relations "grievously violate the basic principle of federal finance that each level of government must be substantially, if not wholly, self-reliant with regard to financial resources required for the due discharge of its responsibilities." On an analysis and comparison of the aggregate figures of expenditure and the revenues of all the States relating to the financial years 1983-84, 1984-85 and 1985-86, it maintains that the States' dependence on resource transfers from the Union for financing their revenue expenditure is now close to 40%, and for financing their capital expenditure is much greater than this percentage.

10.4.22 On the basis of a study of the growth in the respective revenues of the Union and the States over the period 1975-76 to 1985-86, it holds that the indirect taxes of the States in comparison with those of the Union, are equally, if not more, elastic, to prices and income. It rejects the oft-trotted argument that this dependence of the States on the Union for financing their revenue expenditure, is due to the overall inelasticity of the States' own taxes. After further dicussion, it propounds the thesis that the "crucial factor for States' financial dependence on the Centre is their very narrow tax base in relation to their revenue expenditure as well as the Centre's tax base". This State Government has also noted 'that the States' non-tax revenue contributed by their departmental and non-departmental undertakings has deteriorated over the years'.

10.4.23 The difference between States' own revenues and their revenue expenditures over a period of years, is not an infallible measure of the extent of their dependence on the resource transfers from the Union. The main snag is that the quantum of the revenue expenditure of a State carries a substantial component relatable to revenue received by transfer from the Union. This component is a variable factor which has an incremental effect on the level of the States' revenue expenditure. The alleged 'narrow tax-base of the States', therefore, cannot be related quantitatively to the level of their revenue expenditure as the latter itself depends upon their total revenue resources including revenue transfers from the Union. Nor can it be appropriately related to the Union. Government's tax-base as the Union expenditure obligations as well as transfer of revenues to the States, are on a different footing. For analysing the issues in question, it will be pertinent to distinguish between States' indirect and direct taxes. The State Government mentioned above, has candidly conceded after a quantitative analysis, that the States' indirect taxes (Sales Tax, State Excise Duties, Taxes on Motor Vehicles, Entertainment Tax, Taxes on Passengers and Goods, Electricity Duty and Stamp duties and Registration Fees) are fairly elastic to prices and income, but their direct taxes, such as Land Revenue and Profession tax, are highly inelastic.

10.4.24 The indirect tax structure of the States is quite board-based. The States' financial performance in respect of direct taxes relating to the agricultural sector *viz*., Land Revenue, Agricultural Income Tax, returns on commercial irrigation, etc., however, is poor. Most of the States have partially given up land Revenue. The Agricultural Income Tax, as discussed subsequently in paragraphs 10.5.67 to 10.5.72 is beset with complicated problems.

10.4.25 In line with this analysis, it would be advantageous at this stage to take note of the broad trends in other federations. Due to great diversity of political systems and lack of full information, it is not possible to make accurate internatioal comparisons of revenue centralisation and expenditure decentralisation. Nonetheless, it can be said without fear of contradiction that generally all over the world the federal governments have a large and increasing control over revenues. This is particularly true of Australia and to a large extent of United States of America. A more balanced situation exists in Canada and West Germany. A comparative study held under the auspices of National Institute of Public Finance and Policy has observed:

> "We may conclude that there is slightly higher degree of centralisation of revenues in India than is generally found in the economically developed federations. But the expenditure decentralisation in India is greater than in those federations. As a result, the degree of dependence on the Centre, in terms of the share of federal transfers in States' revenue, is higher. However, in so far as the transfers take place in the form of constitutionally assigned taxes, the high share of federal transfers cannot be said to be an indicator of dependence."[11]

Our studies show that the increasing quantum of the Constitutionally assured revenue transfers to the States substantially reduces their initial dependence on the Union for revenue expenditure.

10.4.26 The factual review carried out in the preceding paragraphs brings out three important conclusions. They are:

(1) The Union has been raising the major part of the combined resources;

(2) The growth-rate in States' own revenues, given the initial small base, has kept pace with that of the Union; and

(3) Transfers to the States have grown significantly over the years.

10.4.27 At this stage it would be advantageous to deal with the general issue noticed in para 10.3.02 that the large dependence of the States on the Union is indicative of a weakness in the existing arrangements. We have earlier noted that the division of the heads of taxation between the Union and the States envisaged in the Constitution follows certain basic principles according to which those taxes which require a uniform treatment and/or have inter-State significance are with the Union. As a result, the major and expending sources of revenue are with the Union. In recognition of this situation, the Constitutional scheme has provided for sharing of revenues raised by the Union and mechanisms for thier transfer from the Union to the States. Therefore the mere fact that a considerable gap exists between the requirements and 'own' resources of the States need not *per se* be regarded as a short-coming in the present system. The real issues for consideration are:

(i) whether it is possible to enlarge the 'own' resources of the States by transferring more powers of taxation to them;

(ii) should the size of the sharable pool be increased; and

(iii) whether the existing mechanisms for transfer of resources from the Union to the States are adequate.

We have considered these issues in the ensuing Sections.

10.4.28 Before concluding, it is necessary to take note that a part from the above, on the methodological plane, a difference between expenditure incurred by the States and their 'own' resources is not an infallible indicator of a genuine gap between them. The problem is not so simple and bristles with serveral complications. It involves an objective assessment of the fiscal needs, tax efforts, tax potential of the States and efficiency of fiscal management. Quantification of all these factors is extremely difficult, if not impossible. Further, the level of exependiture of the States is itself determined by transfers from the Union, besides their own resources. It cannot, therefore, be taken as a sure measure of their needs. The determination of gaps in resources *vis-a-vis* the fiscal needs of the States is thus not amenable to any simple analysis.

5. *ENLARGEMENT OF STATES' RESOURCES*

Alternatives

10.5.01 In our Questionnaire, we had invited suggestions on how the States' resources could be augmented. The possible alternatives put forth to elicit replies comprised any one or a combination of the following:

(a) Complete separation of the fiscal relations of the Union and the States, abolition of the scheme of transfer of resources and instead, transferring more taxing heads to List II, Seventh Schedule.

(b) Transfer of a few more elastic taxation heads to List II.

(c) All the taxing heads/taxing powers be transferred to the Union List to form a shareable pool, the respective shares of the Union and the States as a whole being specified in the Constitution itself, the amounts and the principles on which the States' share would be distributed amongst the various States, be determined by the Finance Commission.

(d) More Central taxes such as Corporation Tax, Customs Duty, Surcharge on Income Tax, etc., be brought into the shareable pool.

(e) Financial resources, other than tax-revenues of the Union, be also distributed between the Centre and the States.

10.5.02 None of the State Government or experts has favoured alternatives (a) and (c). As regards transfer of a few more elastic taxation heads to the States, most State Governments have not suggested any change in the division of taxation subjects as enumerated in the Seventh Schedule of the Constitution. As stated in Section 3, some of the States have suggested enlargement of States' tax-base by transferring more taxation powers to them, if necessary, by amending the Constitution. Even they do not suggest transfer of any of the more important heads of taxation, like Union Excise Duties and Customs Duties, from the Union List to the State List.

10.5.03 However, one State Government has suggested that with a view to widening substantially the States' tax-base, the Union should abstain from levying Excise Duty on certain products (present yield roughly 40 per cent of the total Union Excise revenue) and allow the State to levy Additional Sales Tax for an equivalent amount on them in lieu thereof. Further, States may also be allowed to levy Surcharge on the Additional Sales Tax, if needed. It has been suggested that such selected commodities should be the industrial products on which Sales Tax cannot be easily avoided. viz. petroleum products, tyres, processed vegetable oils, vanaspati, cement, iron and steel and products thereof, sheet glass, T.V. sets and motor vehicles and tractors.

10.5.04 At the outset, we will consider the suggestion regarding levy of Additional Sales Tax in lieu of Union Excise Duty on certain commodities. At present, 40 per cent of the net proceeds from Union Excise Duty is already being transferred to all the States and another five per cent to the revenue-deficit States as per recommendations of the Eighth Finance Commission. The above-mentioned proposal will put the poorer States with low levels of consumption and corresponding lower capacity to raise revenue in this manner, to serious disadvantage. Further, the implications of the proposal involve a very substantial revenue loss to the Union in addition to the present scale of transfers, and will thus drastically cut into Union's resources. Moreover, inasmuch as some of the products mentioned in the proposal are either essential commodities and/or important industrial inputs, significant inter-State differentials in their prices may create serious problems.

In view of the above consideration, we are unable to agree to this proposal.

Enlargement of States' Taxation Powers

10.5.05 These suggestions fall broadly into three groups. Firstly, those relating to the taxes and duties included in Article 268 and 269; secondly, those relating to transfer of residuary powers of taxation to the States, and thirdly, those which aim at removing or relaxing the limitations on the powers of the States to raise resources including transfer of powers of taxation in regard to certain commodities to them.

10.5.06 We have considered the above-mentioned sugges-tions in the Chapter on Legislative Relations mainly from the view-point of Constitutional implications. Here, the focus would be on the functional implications of these suggestions.

Duties Under Article 268

10.5.07 Article 268 lays down that such stamp duties and such duties of excise on medicinal and toilet preparations as are mentioned in the Union List shall be levied by the Union but collected and appropriated by the States. These duties are referable to Entries 84[12] and 91[13] of the Union List with corresponding qualification of Entry 51[14] of State List. The Medicinal and Toilet Preparations (Excise Duties) Act, 1899 governs the levy of these duties.

10.5.08 It has been suggested by a State Government that the power to levy the duties mentioned in Article 268 may be transferred to the States and for that purpose, Entries 84 and 91 may be transposed to the State List and corresponding changes made in the provisions of Article 268. It is argued that these duties do not form part of inter-State transactions 'to any large extent'. Further, the differential rates which might arise if States are given power to levy these duties will not affect the opitmum utilisation of resources in any way. A general principle enunciated by this State Government in support of its suggestion is that the efficiency in taxation is highest when the tax is administered and collected by the same authority which has the power to appropriate it. The thrust of the argument is that for augmenting the inadequate resources of the States, it would be desirable to empower them to levy these duties.

10.5.09 Entry 84 comprehends, among other things, a range of medicinal items which are important from the view-point of public health policy. In the Government of India Act, 1935, the subject was, however, included in the Provincial List (item 40). The framers of the Constitution, while transferring this head to the Union List, noted that it was not then being significantly exploited for raising revenue by the Provinces. Moreover, they felt the necessity of an all-India Drugs Policy.[15]

10.5.10 In furtherance of the Constitutional Directive Principles of State Policy in Article 47, the primary objetive of the tax-laws should be to regulate and control the production of these intoxicants and preparations on a uniform basis, and revenue earning should be a secondary purpose. The Union Ministry of Finance has also emphasised this aspect in the information supplied to us. The items covered by this Entry have inter-State aspects. Uniformity even in regard to the principles of their taxation is desirable in the larger national interest.

10.5.11 So far as stamp duties under Entry 91 (List I) are concerned, the desirability of uniform rates throughout the country in commercial and related transactions (involving bills of exchange, cheques, promissory notes, bills of lading, letters of credit, life insurance policies, genral insurance policies, transfers of shares, debentures, proxies and receipts) is self-evident. Inter-State disparities in their rates and tax-regulations can play havoc with commercial activity and free flow of trade. We are, therefore, of the view that no change in the present position and content of Entries 84 and 91 of List I is called for.

10.5.12 Some State Governments have pointed out that all the duties mentioned in Article 268 should be better exploited. The scope for raising revenue from these duties was examined for the first time recently by the Eights Finance Commission. It noted that inasmuch as the duties of excise on medicinal and toilet preparations were raised only in 1982, there was not much scope for a further increase then. Some scope or raising stamps duties on bills of lading (excluding those in respect of inland navigation), letters of credit and policies of genral insurance was considered feasible, but in the absence of adequate data, the amounts could not be quantified. The Finance Commission, therefore, left the matter to the Union Government for appropriate revisions in rates of duties. We have been informed by the Union Ministry of Finance that the Government "has already implemented most of these recommendations". The Ministry has further commented: "Since the Finance Commission is being asked to comment on the manner in which these duties could be exploited in the best interests of the States without affecting the national economy, the interests of the States are sufficiently safeguarded by the present procedure."

10.5.13 Under the present circumstances, duties on all the items covered by Article 268 do not appear to be a buoyant source of revenue amenable to frequent revisions. Since basic circumstances do not always remain constant, we recommend that the Union Government should, in consultation with the State Governments, periodically consider and explore the revisions of these duties. We further recommend that the revenues raised from these duties should be separately specified in the budget and other relevant publications.

Taxes and Duties under Article 269

10.5.14 Article 269 refers to taxes levied and collected by the Union but assigned to the States. It enlists eight taxes and duties (mentioned in the footnote to para 10.2.16 (b) above). These are referable to Entries 87, 88, 90, 92A and 92B of the Union List. Of these, at present, only under Entry 92A. a tax on sale or purchase of goods in the course of inter-State trade and commerce is being levied.

10.5.15 Some State Government have pointed out that the Union Government has not raised adequate revenues from these heads of taxation. They have suggested that the relevant Entries (specially Entries 87, 88, 89 and 90 of the Union List) may be transferred to the State List.

10.5.16 **Entries 87 and 88 of List I:**

"**87.** Estate duty in respect of property other than agricultural land."

"**88.** Duties in respect of succession to property other than agricultural land."

For reasons abstracted in paragraph 10.5.06 above, the same State Government has suggested that "duties in respect of succession to property other than agricultural land" and "estate duties in respect of property other than agricultural land", mentioned in Article 269(1) (a) and (b) respectively, "be delegated to the States for levy". Somewhat inconsistently with this plea for "delegation", the State Government has also asked for transfer of the corresponding Entries 87 and 88 of the Union List to the State List.

10.5.17 The incidence of both the taxes, viz., Estate Duty and Succession Duty, is on the same object viz., property passing on the death of the owner to his successors. But while in the case of the former, value of the whole estate (moveble and immovable even if situated in more than one State) would be the base, the succession duty is relatable to the value of individual shares passing on to the successors. In view of this commonality of incidence, the Fifth and the Eighth Finance Commissions, which had a term of reference to examine the scope for raising revenue from taxes in Article 269, took the position that as Estate Duty was then being levied, it was not worthwhile to levy Succession Duty also. The Economic Administration Reforms Commission, 1981-83 (Chairman: L.K. Jha) had recommended abolition of Estate Duty on the consideration that it had failed in both its objectives, namely, to mitigate the building up of dynastic wealth and raising reasonable resources. It had noted that 96.8 per cent of the assessees in 1980-81 related to the estates whose 'principal value' was less than Rs. 3 lakhs.[16] In the financial year 1985-86, Estate Duty was abolished in view of its meagre yield (gross collections Rs. 22.50 crores in 1984-85).

10.5.18 Although apparently Estate Duty has local base significance, there are several reasons for which it would be desirable to retain it in the Union List if it is re-imposed. An individual may have properties located in more than one State and a total view of his assets can be better taken by the Union Government. Further, if the tax is levied by the States the persons inheriting properties in different States will have to deal with several tax codes and regulations. It is necessary to recognise that taxes like estate/succession duties are not expected to be buoyant sources of revenue. If they are levied by the State Governments there is a possibility of unhealthy competition among the State, and consequent bewilderment and embarrassment to the assessees. Uniformity in the main principles of law with respect to these duties is essential in the national interest. Administratively also, it will be for more convenient if this tax is levied and administered by the Union in view of better access to information. Moreover, the net proceeds of Estate Duty till it was abolished were being allocated to and distributed among the States on the basis of formulae recommended by Finance Commission. In view of these considerations we are unable to support the plea that Entries 87 and 88 be shifted from List I to List II.

10.5.19. One State Government has suggested that "terminal taxes on goods or passengers, carried by railway, sea or air, taxes on sale or purchase of goods which take place in the course of inter-State trade, etc., be brought under the purview of Article 268." It has argued that it will be in the interest of tax administration to progressively allow the State Governments to levy and administer these taxes which have now been included in Article 269. One State Government has asked for the transposition of the taxation heads comprised in Entries 89 and 92 of List I to List II. We have dealt with these aspects in detail in the Chapter of Legislative Relations.

10.5.20 **Entry 89 of List I:**

“**89.** Terminal taxes on goods or passengers, carried by railway, sea or air; taxes on railway fares and freights.”

The above Entry covers taxes listed at (c) and (d) of Article 269 (1) while by virtue of this Entry Parliament is empowered to levy 'terminal' taxes on goods and passengers carried by railway, sea or air, the State Legislatures by virtue of Entry 52,[17] List II are competent to impose Octroi (terminal tax) on *entry* of goods into a local area for *consumption, use or sale.* Simillarly, under Entry 56[18] of List II, the State Ligislatures are competent to levy taxes on goods and passengers carried by road or on inland waterways. A State Government has suggested that the States may be empowered to levy the taxes mentioned in Entry 89 of List I.

10.5.21 One of the most important developments in post-independence period is the emergence of a vast common market. Transport sector constitutes an important element in the basic infrastructure and its development is vital for the growth of the economy. Uniform rate-structure and policies with respect to them are desirable to ensure that free flow of inter-State trade is not hampered by discriminatory and differential trade barriers raised by the States. Further, the suggestion under consideration carries greater scope for raising revenue by the advanced States with well-organised transport services and would discourage already under-utilised transport in less-developed areas. Finally inspite of these taxes being within the competence of the Union, in agreement with the Eighth Finance, Commission, we do not think that there is much scope for raising revenue from the terminal taxes on goods and passengers.[19] In view of the above considerations, we are of the view that the power to levy terminal taxes on goods and passengers carried by railway, sea or air should remain with the Union Government.

10.5.22 **Entry 90, List I:**

"**90.** Taxes other than stamp duty transactions in stock exchanges and future markets."

Two State Governments have pointed out that 'futures markets' are essentially intra-State in character dealing with local mercantile and commercial subjects and have suggested transfer of 'futures markets' to the State List. In line with the above argument, they have also suggested that Entry 90, List I (along with Entry 48[20] of List I) be suitably modified by Transferring taxes other than stamps duties on transactions in 'futures markets' to the State List.

10.5.23 Futures transactions comprise contracts for sale and purchase of goods at a future date primarily with a view to guarding against adverse price fluctuations. By its very nature futures trading has an organised character and is, in practice, conducted through Commodity Exchanges which frame rules and regulations concerning the contracts. At present, futures trading is allowed at specific centres in respect of four commodities, *viz.*, jute products (sacking bags), paper, turmeric and gur. No tax is currently being levied by Government of India on futures transactions. Indeed, the Fifth and the Eighth Finance Commissions, which considered the scope for raising revenue from taxes included in Article 269, did not find much scope in this tax commensurate with the administrative costs and the difficulties involved.

10.5.24 The futures transactions generally involve operations affecting interests of traders, manufacturers, etc., in more than one State. For example, in the case of 'gur', there are nine major centres where futures trading takes place. If power to tax these transactions is transferred to the States, it may lead to problems in regard to availability of the commodities and prices in other areas of the country. Entry 90 is functionally linked to Entry 48 of List I. We have noted in the Chapter on Legislative Relations that stock exchanges and futures markets have an inter-State character. The latter also entails overseeing development of a broadbased capital market which can be done effectively and uniformly by the Union Government only. In view of these considerations read alongwith the discussion in the chapter on Legislative Relations, we cannot support the suggestion for transfer of Entry 90 of List I to List II.

10.5.25 **Entry 92, List I:**

"**92.** Taxes on the sale or purchase of newspapers and on advertisements published therein."

The State Governments which have suggested the transfer of this Entry to List II, have not given cogent and specific reasons, apart from saying in general terms that such transfer will augment the fiscal resources of the States.

10.5.26 The Union Ministry of Finance has informed us that this tax was placed in the Union List "to ensure the freedom of the Press, promote the newspapers reading habit and increase the circulation of regional language newspapers." The scope for raising revenue from this tax was found to be very limited by the Taxation Enquiry Commission (1953) and the Fifth and the Eighth Finance Commissions in view of the still narrow base of newspaper readership and the need to encourage the Newspaper-reading habit. We have also been given to understand by the Union Ministry of Finance that to encourage the newspaper readership the Union Government "has even been canvassing the exemption of newsprint from State Sales Taxes."

10.5.27 A well-informed public opinion is a *sine qua non* of a healthy democratic system. Newspapers play a crucial role in disseminating information, mobilising and focussing public opinion on major issues or concerns of the day. No less significant are the services which newspapers with a large India-wide clientele, render in fostering national outlook and integration. As it is, there is a paucity of newspapers having an India-wide circulation and a sound financial position. If the power to impose this tax is assigned to the States, such newspapers may face cost-differential among States, adversely affecting their circulation and financial viability.

10.5.28 Moreover, under the present arrangements envisaged in Article 269, the net proceeds of this tax, if levied, are to be distributed on the recommendations of the Finance Commission among the States within which it is levied. If the power to levy or collect this tax is transferred to the States, it will be disadvantageous to the less-developed States with low urbanisation and nascent readership.

10.5.29 Since the power to tax has also a potential to destroy, the adoption of a uniform policy which balances the claims of a free viable Press with the need for raising revenue for the States from this meagre albeit dubious source, is essential in the larger interest of the nation as a whole. Only the Union is to do so.

10.5.30 In view of the above considerations, we are unable to support the demand for transfer of Entry 92 of List I to List II.

10.5.31 **Entries 92A and 92B, List I:**

"**92A.** 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."

"**92B.** Taxes on the consignment of goods (whether the consignment is to the person making it or any other person), where such consignment takes place in the course of inter-State trade or commerce."

A regional political party has suggested that these Entries be omitted from List I, and from Entry 54 [21] of List II, the words "subject to provisions of entry 92A of List I," be deleted.

10.5.32 We have dealt with this matter in the Chapter on Legislative Relations under the Section "Issues regarding Article 286 and related provisions." We may reiterate here that the broad purpose of the system encompassing Article 286, Entries 92A and 92B of List I and Entry 54 of List II, is to check multiple taxation of the same transaction by different States in the course of inter-State trade and commerce and ensure uniformity in taxation at a relatively lower rate on sale and purchase of certain goods declared to be of special importance. Union Government's overall control in such spheres of taxation to subserve this national purpose is essential. It is also pertinent to note that net proceeds of taxes included in Entries 92A and 92B are entirely for the benefit of the States and are not retained by the Union. In planning the Consignment Tax (Entry 92B) a series of consultations with the State Governments have already taken place. It would, indeed, be desirable that from time to time the Union Government takes the State Governments into confidence in organising all the taxes coming under Article 269. In view of the above-mentioned position, no change in respect of Entries 92A and 92B is called for.

Taxation of Properties

10.5.33 **Entry 32, List I:**

"**32.** Property of the Union and the revenue therefrom but as regards property situated in a State, subject to legislation by the State, save in so far as Parliament by law otherwise provides."

Articles 285 and 289 provide immunity from taxation of the properties of the Union and the State Governments by the other. A State Government has suggested deletion of the provision 'save in so far as Parliament by law otherwise provides' in Entry 32 of List I as well as as in Article 285. It has pointed out that on account of this limitation local bodies in the States are foregoing substantial revenues. Another State Government has suggested omission of clauses (2) and (3) of Article 289 as they allegedly discriminate against the States inasmuch as Article 285 does not have clauses analogous to these. On the other hand, it has been represented by a Union Government's Corporation that it should also be exempted from taxation under Article 285.

10.5.34 We have examined at length the rationale of the relevant provisions of Articles 285 and 289 in the Chapter on Legislative Relations. Briefly, we have noted therein that the immunities apply to direct taxes on property of the Union in a case falling under Article 285 and to direct taxes on income and property of the States under Article 289. There is no immunity in regard to taxes, such as Customs Duties, in relation to property. Similarly, the Union Government also has to pay Sales Tax. A necessary precondition for the harmonious working of a two-tier polity is that neither the national nor the regional government should have powers to make laws which are directed against each other. Properties of the Union Government's Corporations are not on the same footing as the properties of the Union Government. Tax immunities cannot be extended to them. In view of the above, and the detailed reasons given in the Chapter on Legislative Relations, we do not suggest any changes in Articles 285 and 289 and Entry 32 of List I. We may, however, reiterate our recommendation made in para 2.35.13 of the Chapter on Legislative Relations that a comprehensive law [under Clause (1) of Article 285 read with the saving clause in Entry 32 of List I] analogous to Section 135 of the Indian Railways Act, 1890 and Sections 3 and 4 of the Railways (Local Authorities' Taxation) Act, 1941 be passed making liable to taxation the properties of the departmental commercial undertakings of the Union Government at such fair and reasonable rates as may be notified from time to time by the Union Government after taking into consideration the recommendations of a person, who is or has been a Judge of a High Court or a District Judge.

10.5.35 So far as the issue of service charges is concerned, since April 1, 1954 on the recommendations of the Taxation Enquiry Commission, 1953, the Government of India has agreed to pay charges in lieu of property tax for the services rendered in respect of its properties by the local bodies. The services provided by the local bodies vary considerably and may include conservancy, water supply, drainage and sewerage, roads and lighting, etc. Large and compact Union Government's establishments, like the Railways and public sector undertakings, usually provide their own internal services and share the construction and maintenance costs on link services like roads, sewerage and drainage, with the local bodies.

10.5.36 The norms in regard to the service charges were determined by Government of India in 1962 and subsequently revised in 1967 and 1968.[22] The procedure has been systematised.

10.5.37 Problems like inadequate service charges paid for Government property or accumulation of their arrears are administrative issues and should be settled by mutual discussion between the Union and the State Governments. It is only fair that reasonable service charges should be paid by all beneficiaries.

10.5.38 We recommend that an official level committee may be set up to review the problems and evolve mutually agreeable solutions. This committee may have on its panel representatives of the Union Ministries of Finance, Home, Urban Development, Railways and from some State Governments.

10.5.39 **Entry 40 List I:**

"**40.** Lotteries organised by the Government of India or the Government of a State."

A State Government has suggested that a new Entry may be added to the State List, reading "Lotteries organised by the Government of a State" with suitable change in Entry 40 of List I. The import of the suggestion is that the State Governments be empowered in matters relating to lotteries organised by them and by implication, the jurisdiction of the Union should be restricted to lotteries organised by the Government of India. A similar suggestion has been made by another State Government and also by a State level political party.

10.5.40 We have dealt with this issue in detail in the Chapter on Legislative Relations. State lotteries cannot remain confined within the boundaries of the State and the distributors are scattered all over the country. Problems of inter-state character have, indeed, arisen in this regard.[23] It would not be possible for any particular State Government, being territorially limited in jurisdiction to legislate, if and when necessary, for regulating matters in regard to other States' lotteries. As observed in Chapter II, only Parliament can have the legislative competence to regulate such inter-State matters. We reiterate our finding that the changes proposed in respect of Entry 40, List I and addition of a corresponding Entry in the List II cannot be supported.

10.5.41. **Entry 45, List I:**

"**45.** Banking".

A State Government has pointed out that in other federal countries like United States and Australia, the States have also established banks and, therefore, banking should not be an exclusively Union subject. It has suggested that in Entry 45, List I, "Banking" should be replaced by "Central Bank or Reserve Bank". Further, the entry "Banking" must be transferred to the Concurrent List. Another State Government also has suggested such a change arguing that banking represents too big a concentration of economic power and that there is no reason why it should be the monopoly of a particular level of Government.

10.5.42 We have dealt with the issue in the Chapter on legislative Relations also. As mentioned there, banking operations transcend beyond territorial limits of the States. Functionally, banking has close links with matters like 'Currency' coinage and legal tender; 'foreign exchange' (Entry 36), 'Foreign loans' (Entry 37), 'Bill of exchange, cheques, promissory notes and other like instruments' (Entry 46), 'Insurance' (Entry 47) and 'Stock exchanges and futures markets' (Entry 48) which all belong to the Union List. Banking is also basic to trade and, indeed, to all aspects of socio-economic development and planning. Centralised control is essential for proper credit management and implementation of monetary policy. Banks have a crucial role in the economy and there is need to regulate their activities so as to ensure that they are in consonance with the economic and development policies and are fully integrated with them. We are of the view that the subject 'Banking' should continue in the Union List and the transfer of Entry 45 'Banking' to the Concurrent List would not be desirable in our special situation.

10.5.43. **Entry 84, List I: A State Government has suggested that the States should be allowed to levy excise duties on items like sugar, molasses, and *Khandsari.* This suggestion** implies transfer of taxation powers from the Union to the States with respect to the items cited.

10.5.44 The items under reference are classified in Chapter 17 of the Central Excise Tariff Act. At present, no Central Excise Duty on *Khandsari* is being levied. Sale of sugar is one of the items covered by the Central Sales Tax Act, 1956 and the Additional Duties of Excise (Goods of Special Importance) Act, 1957. Sugar industry also finds a place in the First Schedule of the Industries (Development and Regulation) Act, 1951 since its inception. The importance of sugar and related items in the context of industry as well as an item of mass consumption is obvious. Sugar has foreign trade implications also. An integrated and uniform policy with respect to production, pricing, distribution, storage, trade, taxation, etc. in regard to items like sugar is called for and it has to be a part of national economic policy. Transferring power of excise taxation to States in respect of these items may create difficulties in the implementation of national policies. Moreover, the proceeds of Union Excise Duty (the basic duty) on sugar, are already being shared with the States (at present 45 per cent) on approval by Parliament.[24]

10.5.45 We are, therefore, not persuaded to recommend that the States be given the power to levy excise duty on sugar, molasses and *Khandsari.*

10.5.46 A State Government has suggested that excise duty on industrial units, defined by Parliament by law as small-scale units, may be excluded from the jurisdiction of the Union and shifted to the States. It has been argued by this State that as the burden of excise duties ultimately falls on the consumers of excisable items in the form of higher prices, the higher per capital-income States, because of their larger consumption of such items, contribute a relatively higher proportion of the excise revenue, but the distribution criteria adopted by the Finance Commission affect redistribution of such revenues in favour of the less-developed States. The State Government has pleaded that an alternate arrangement which would be fair to all the States and also provide them a strong incentive to develop industrial production should be evolved. According to it, if the excise duty on small scale unit is made leviable by the States and if the definition of small-scale industries is liberalised by Parliament, this could become a growing source of revenue to the States and provide them incentive to develop the small-scale sector.

10.5.47 Several products in the small-Scale sector have wide inter-industrial and inter-State linkages and it will create problems if they are subjected to differential rates of excise. Moreover, the present efforts towards rationalisation of commodity taxation in the form of MODVAT will face serious administrative difficulties if levy of excise duties is bifurcated between the Union and the State Governments corresponding to scale of production. Administrative problems will also be encountered in plugging evasion of excise by the entrepreneurs who often exhibit some of the stages of production as taking place in the small-scale sector. At present, excise duties, including those on production in small industries, are sharable with the States as per provisions of Article 272. All the States benefit under this sharing arrangement. The Finance Commissions' formulae for allocation of the divisible portion of Union's tax-revenue among the States are based on a number of considerations, including the re-assessed revenue and expenditure forecasts of the States, the desisred extent of re-distribution, amounts of grants-in-aid of revenues, etc. Such re-distribution of revenues effected on the recommendations of the Finance Commissions is an essential ingredient of inter-governmental sharing of resources. Mere consideration of the 'collection' factor in permitting the States to levy excise on small-scale industries individually, which is implied in the above-mentioned proposal of a State Government, would run counter to this spirit and place the less-developed States in particular, at a disadvantage. However, the manner of allocation of the divisible tax-revenues and the relative weights to be given to the various components of the formulae are matters to be considered by the Finance Commissions from time to time. It is best to leave these matters to their expert judgement. So far as the argument for giving the States incentive to promote small-scale industries is concerned, it may be pointed out that the Union Government also is providing significant support to this sector.

10.5.48 In view of the above considerations, it is not possible to support the suggestion that the power to levy excise duty on small-scale sector be shifted from the Union List to the State List.

10.5.49 **Entry 85, List I:** A state Government has suggested that the States may be authorised to levy their own Corporation Tax on companies whose factories are located in their areas. The suggestion has been made in the contest of augmenting the States' resources.

10.5.50 By virtue of Entry 85 of List I read with Article 270(4)(a), the receipts from Corporation Tax belong exclusively to the Union Government. Historically, the power to impose this tax in India has always been with the Union. The main reasons for reserving this power for the Union have been two-fold. Firstly, it ensures uniformity of approach to the taxation of corporate incomes and profits. Secondly, this arrangement secures greater efficiency in the administration of this tax. It obviates problems which arise in determining the locale of income accruals where units and offices of the same company or undertaking are located in different States and, incidentally makes evasion of tax more difficult.

10.5.51 This State Government has, however, not indicated how such an authorisation can be made. If this suggestion of the State Government implies conferring of concurrent jurisdiction on the Union and the States to levy this tax *or* delegation of the legislative power of imposing this tax by the Union to the States, it will run counter to the basic scheme of division of taxation powers between the Union and the States envisaged by the Constitution. The principles on which the taxation powers have been divided by the Constitution between the Union and the States, and none of them has been included in the sphere of their concurrent jurisdiction, have been explained in Paragraph 10.2.15 *ante.* The alternative aspect as to delegation by the Union of its legislative power of taxation has also been considered in the Chapter of Legislative Relations (paragraph 2.34.02). Suffice it to say here that neither aspect of this suggestion is based on *terra firma.*

10.5.52. For all the foregoing reasons, we do not agree with the suggestion that the States should also be authorised to levy this tax on companies located within their territories.

10.5.53 **Entry 97, List I:**

"**97.** Any other matter not enumerated in List II or List III including any tax not mentioned in either of these Lists."

A suggestion has been made that the above Entry may be transferred to List II.

10.5.54 In the Chapter on Legislative Relations, we have already dealt with this issue in some detail in the context of Article 248. Here we are basically concerned with the residuary power of taxation. On five occasions, so far, these provisions have been invoked for enacting taxation laws which include tax on gifts of movable and immovable property, including land[25]; welath tax[26]; a tax on building contracts, and cess upon the entry of sugarcane into premises of a factory[27]. In our Constitution, the heads of taxation have been enumerated specifically in the Union and the State Lists but no such head has been placed in the Concurrent List. We have already noted in Chapter II that the power to tax may be invoked not only to raise resources but also to regulate economic action. New subjects of taxation may involve matters with inter-State or national implications, requiring uniformity in approach. For these and other reasons indicated in Chapter II, we do not agree with the suggestion that residual taxation powers under Entry 97, List I be transferred either to the State List or the Concurrent List.

10.5.55 **Entry 57, List II:**

"**57.** Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars subject to the provisions of entry 35 of List III."

A State Government has suggested that the expression "subject to the provisions of Entry 35 of List III" in the above Entry may be deleted and a new Entry [28]' in the List II may be added, as under:

"Entry 57-A—Taxes on mechanically propelled vehicles including the principles on which taxes on such vehicles are to be levied."

Another State Government has also made a similar proposal.

10.5.56 The above proposal amounts to fully empowering the States not only to levy a tax on such vehicles but also lay down the principles on which such taxes are to be levied. Under the present arrangements, the restriction on States' power in respect of Entry 57 (List II) arises only in case of repugnancy from any Union legislation under Entry 35 (List III). According to our information, no law has yet been enacted by Parliament under Entry 35 of List III. The issue raised is, therefore, at present premature and mainly academic.

10.5.57 We have been informed by the Union Ministry of Finance that there had been a wide disparity of motor vehicular taxes in different States and the vehicle operators have been representing against the resultant problems, specially in inter-State vehicular movements. Distortions have also been observed in the rates and policy on vehicle-registration followed by different States. One of the measures evolved is the scheme of national permits and composite fee.

10.5.58 Development of the transport sector is vital for the growth of the economy and development of inter-State trade and social inter-course. It is desirable to evolve uniform principles of taxation in this sector, so that free transport of goods through various States is not impeded. This is possible only if the Union has necessary powers to ensure uniformity in the main principles of the laws of the States with respect to tax on such vehicles, throughout the Country. This is the rationale for including Entry 35 the Concurrent List. We are, therefore, unable to support the suggestion for change in the Constitutional arrangements in this regard.

10.5.59 **Entry 60, List II:**

"60. Taxes on professions, trades, callings and employments."

The scope of these taxes has been spilt out in Article 276. According to clause (2) of that Article, the total amount payable by a person on account of these taxes "shall not exceed two hundred and fifty rupees per annum." Because of this limit, it has been alleged, the yields from such taxes, wherever levied, have been a minor source of revenue to the concerned States. It has been suggested by several States that this limit should be suitably raised in view of several-fold increase in income levels. If this is to be done, amendment of clause (2) of Article 276 will be necessary.

10.5.60 We are of the view that there is a strong case for upward revision of the monetary limit fixed 37 years ago on taxes leviable under Entry 60, List I and for periodic review of this limit in view of persistent inflation. The linkage between its incidence and that of Income Tax will also have to be considered simultaneously. We have been given to understand by the Union Ministry of Finance that it is already considering the revision of the monetary limit on professions tax, etc. In view of the same, we do not wish to make any specific recommendation in regard to a higher limit to be fixed in Article 276, except that such limit should be revised at frequent intervals in consultation with the States.

Taxation by States under Articles 287 and 288

10.5.61 A State Government has suggested that the States should be allowed to levy tax on power sold to the railways as the railways are a commercial organisation. Article 287 lays down, among other things, that save in so far as Parliament may by law otherwise provide, no law of a State shall impose or authorise the imposition of a tax on consumption or sale of electricity consumed or sold to Government of India or consumed by the railways.

10.5.62 Indian railways constitute a basic infrastructure. With the gradual shift from coal and diesel to electric traction, the consumption of power by railways is likely to increase. In the construction and maintenance of railways works, the consumption of electricity by railways may significantly add to its costs. In our opinion this may have serious repercussions on the extension and operation of railways. We, therefore, do not agree with the suggestion that the States should be given unrestricted power to levy a tax on electricity sold by the States to the railways by effecting an amendment to Article 287 of the Constitution.

10.5.63 Further, a suggestion has been made that Article 288(2) may be suitably amended to enable the State Legislature to impose a tax in respect of water or electricity stored, generated, consumed, distributed or sold by any authority whether subservient to the Union or a State Government. The proposal seems to imply removal of preconditions under Clause (1) of that Article requiring President's prior approval for effecting such a legislation by a State.

10.5.64 We have considered the above issue in the Chapter on Legislative Relations. In the present context, we may reiterate that the provision under Clause (2) of the Article 288 is a corollary to the principle of 'inter-governmental tax immunities'. Further, in as much as subject of taxation under this clause functionally involves inter-State aspects, the same becomes a matter of national concern, given the crucial significance of the items of water and electricity for the economy. Hence, the justification of the provision for the President's prior approval to a Bill seeking to impose such taxation. We are therefore, of the view that Article 288(2) needs no change.

10.5.65 An all-India political party has suggested that the States should be permitted to tax generation of electricity within their areas as distinguished from mere sale of electricity. The basic principle followed in the Constitution in the division of taxation powers between the Union and the States is that tax on production, with a few exceptions is levied by the Union and on sale by the State Governments. In our opinion, this principle is germane to taxation of electricity also. Electricity is an imporant ingredient of infrastructure. While its generation has to be location-specific in most cases, its consumption may be of inter-State significance. Even on taxation of inter-State sale of electricity, limitations have been put on States' powers, *vide* Article 288. A tax on generation of electricity by the States, if allowed, might operate as an additional barrier to inter-State flow of this strategic input. In view of these considerations, we do not agree with the suggestion that the States may be allowed to levy tax on generation of electricity.

Taxation of Agricultural Income

10.5.66 We have noted in paragraphs 10.3.06 and 10.3.07 that a criticism levelled against the States is that they have not sufficiently made use of the taxation powers allotted to them. In particular, the example of not levying or withdrawing the levy of Agricultural Income Tax is often cited. An all-India political party has submitted to us as follows:

> "Under Entry 46 of the State List, the State can levy tax on agricultural income. Because of the efforts as to the enormous expansion of irrigation facility, hybrid seeds, chemical fertilisers and research in soil fertility, a very large number of agriculturalists have come to occupy the upper bracket of elite group in the society. Green Revolution to the extent of burgeoning stocks of Food Corporation of India, search of export market of wheat and rice and ever-rising support prices for agricultural products have combined to bring into existence an affluent class of agriculturists. Yet, save Kerala no State has levied agricultural income tax........It is a truism that State Governments in order to keep intact their vote banks do not levy taxes and shed crocidile tears of shortage of resources."

A suggestion often made is that in order to overcome the resistance by interested groups and in the interest of uniformity in taxation, the union may levy a tax on agricultural income and its net proceeds be assigned to the States.

10.5.67 The Government of India Act, 1935 empowered the Provinces to levy tax on agricultural incomes while the income tax on other incomes was allotted to the Federal Government. This division was retained in the Constitution. At present, about half a dozan States are levying Agricultural Income Tax. In three of them, it is confined to plantation crops. Several States, which had been earlier levying taxes on agricultural incomes, gave them up or are collecting only nominal amounts following various exemptions.

10.5.68 In order to ascertain the factual position and views of the State Governments on the type of criticisms mentioned in para 10.5.66 above, we had issued a Supplementary Questionnaire. Several States have highlighted serious problems in the assessment of agricultural incomes; shrinkage of the tax bases due to land reforms (ceiling on holdings); widely dispersed potential assessees; fluctuations in production and incomes due to vagaries of nature; problems in maintaining systematic accounts of income and expenditure in agriculture, etc. A few State Governments are of the view that a direct tax on agricultural incomes will act as a disincentive to the spread of improved technology and high productivity.

10.5.69 The State Governments have generally expressed reservations and have opposed the suggestion that the Union Government may levy a tax on agricultural incomes and assign the net proceeds to the States. They have given different reasons for the same. Those already levying the tax on agricultural incomes are of the view that there will be no additional advantage if the tax is levied by the Union Government. Others have highlighted the difficulties in levying Agricultural Income Tax and pointed out that the Union Government will face similar problems. Indeed, according to them there is not much scope for such a tax: Some of them have also expressed apprehensions about the alternative of the Union levying the tax and have cited the 'unhappy' experience of the scheme of Additional Excise Duties in lieu of Sales Tax. Yet another State Government has argued that it was not so much a question of raising revenue as of a State's discretion to levy or not to levy a tax. Another State Government has pointed out that fixation of agricultural prices at levels much lower than those recommended by the States is already a tax in disguise on the agricultural sector. Only one State Government has suggested that in the interests of raising revenue and a uniform tax on agricultural sector, the Union Government might levy this tax as per arrangements under Article 268.

10.5.70 The Union Ministry of Finance has observed:

> ".....the Central Government has no intention of seeking a transfer of power to tax agricultural incomes on behalf of the States for the following reasons:
>
> While there may be justification for imposition of agricultural income tax in view of increased income due to the Green Revolution, substantial investment in the agricultural sector, low revenues raised from the agricultural sector, and greater need for raising additional resources for development, there would, however, be serious difficulties in the implementation of this policy at the Central level due to conceptual difficulties regarding the definition of agricultural income. No uniform definition of agricultural income can be precisely formulated due to diversity of the quality and productivity of land. Moreover, due to the illiteracy of the agricultural population, agriculturists would not be able to maintain accounts for taxation purposes and may not be able to follow the rules and regulations prescribed. Besides, some sort of agricultural income tax is already being levied by a few States and others could follow suit."

10.5.71 In the Long Term Fiscal Policy announced by the Government of India in December 1985 also it was recognised that taxation of agricultural income presented many conceptual and administrative problems. It categorically stated:

> "Land revenue and taxation of agricultural income are States' subjects under the Constitution. The Centre has no intention of seeking any change in this position."[29]

10.5.72 Taxation of agricultural income is, indeed, a sensitive matter requiring simultaneous consideration of an appropriate base, administrative convenience and costs, reasonable yield from the tax, parity with tax burden on non-agricultural sector: peculiar nature of agriculture as an enterprises, impact of the tax on productivity-improvements in agriculture and the like. Both the Union and the State Governments do not also at present seem to be inclined for a change in the Consitutional provision in regard to Entry 46 of List II. We have also taken note of the findings of a number of expert studies[30] in this regard. In view of the problems highlighted by the Union and the State Governments as well as the expert studies, the question of raising resources from this and other related aspects would require an indepth and comprehensive con-sideration in the National Economic and Development Council.

Rationale of Constitutional Scheme

10.5.73 The present division of fields of taxation between the Union and the States is based on economic and administrative rationale. Levying of taxes with inter-State base and where uniformity in rates is desirable are with the Union Government. Taxes that are location-specific are with the States. Canons of efficiency and equity in administration of taxes and the imperative need for the Union to have adequate resources, *inter alia,* to held the States with lower level of socio-economic development and tax-potential, leave hardly any scope for shifting any major sources of revenue of the States from the present allocation of areas of taxation to the Union. We may note here the views of the Administrative Reforms Commission Study Team that, if at all, a review of taxation powers is carried out, economic considerations would most probably compel a shift in favour of the union and not the other way. Some experts have also expressed similar views during their evidence before us.

10.5.74 A well balanced distribution of heads of taxation based on economic and administrative rationale between the Union and the States and adequate arrangements for sharing of resources is vital for the proper functioning of the two-tier polity. We are of the firm view that the basic scheme of the Constitution dividing the field of taxation between the Union and the States and incorporating adequate arrangements for sharing of resources between them is sound and no major modification in it are called for.

10.5.75 We have, in the Chapter on Legislative Relations (paragraph 2.4.04), referred to the memorandum submitted by a Regional Party in which it has referred to the draft resolution of its Working Committee demanding that the interference of the Union should be restricted to Defence, Foreign Relations, Currency and General Communications only and all other governmental powers (including residuary powers) should be assigned to the States. Further, the States would contribute for the expenditure of the Union in respect of the above mentioned subjects. We have pointed out therein that the resolution of the "Whole House" of the same party had substantially amended that in the final resolution. The State Government supported by this Regional Party has not made such an extreme demand and while suggesting various changes in the Seventh Schedule to the Constitution, it has not asked for any major change with respect to the heads of taxation enumerated in the Union List.

10.5.76 As explained in paragraphs 2.9.12 to 2.9.15 of the Chapter on Legislative Relations, no Union or federation can survive if it has no financial resources of its own and is entirely dependent on contributions from the constituent units. Indeed, this proposal cuts at the very root of the basic postulate that both the Union and State, Governments should each have independent financial resources of its own to meet bulk of the expenses for its exclusive functions.

10.5.77 It is pertinent to note here that approximately 85 per cent of the Union's tax revenues are collected from offices located in eight port and metropolitan cities situated in seven maritime States and one Union Territory.

10.5.78 Owing to different levels of development obtaining in the country, the tax potentials of States vary widely. If the financial arrangement as suggested by the regional party is adopted, a few States would be able to collect for themselves most of the revenues and all the less-developed States would be in perpetual financial crisis. All the advantages of efficiency in tax collection, uniformity in rates, economy in tax adminstration, etc. will be lost. Trade barriers will come up and the Union will collapse.

10.5.79 In view of the above considerations, we are unable to support the scheme of financial arrangements implicit in the suggestion referred to in para 10.5.75 above.

6. *ENLARGEMENT OF THE DIVISIBLE POOL*

10.6.01 We now consider the suggestions made by many State Governments and experts for the enlargement of the States' resources within the existing Constitutional scheme of division of taxation powers. All the State Governments and many experts have emphasised the need for extending the present divisible pool which at present mainly consists of the mandatorily sharable Income Tax and permissively sharable Union Excise Duties. We have already noted in Section 4 the substantial increase in resources transferred to the States over the period 1951—85. Considering the transfers through the mechanism of the Finance Commission it is seen that overall devolution effected has gone up from Rs. 476 crores (Annexures X 5 and X 6) during the period of the First Finance Commission (1952—57) to an estimated Rs. 39,452 crores during the Eighth Finance Commission period (1984—89). Since the First Finance Commission, the devolution of revenues on account of Union taxes which are sharable, has increased significantly in relation to the total revenue realised from these taxes as well as to the total tax receipts and total revenue resources of the Union. This is evident from the following table:

	1952-57	1979-84	1984-89 (estimated)
1. Income tax transferred as percentage of total Income Tax receipts of the Union	42.3	68.3	*
2. Union Excise Duties transferred as a percentage of total receipts from Union Excise Duties	13.1	42.1	*
	1952-57	1979-84	1984-89 (estimated)
3. Combined Income Tax and Union Excise Duties transferred as a percentage of the total receipts from these taxes	28.3	46.6	47.6
4. Tax devolution as percentage of total tax receipts	15.7	26.8	27.6
5. Total devolution (taxes + grants as percentage of total receipts on revenue account)	17.1	23.6	24.1

Sources: (1) Ministry of Finance—*Indian Economic Statistics, Vol. II—Public Finance,* various issues.

(2) *Report of the Eighth Finance Commission,* 1984.

10.6.02 The various suggestions requiring changes in the arrangements regarding the divisible pool, i.e., proceeds of the taxes levied by the Union but sharable with the States, may be grouped into three categories:

(i) All tax receipts of the Union be made sharable with the States.

(ii) Fix the collective share of all the States in the Constitution and leave its allocation among the States *inter se* to be done on the recommendations of the Finance Commission.

(iii) Enlargement of the present sharable pool by including the proceeds from any or all of the following:

- (a) Corporation Tax.
- (b) Surcharge on Income Tax.
- (c) Some other Union Taxes, e.g., Customs Duty, and
- (d) Revenue from increase in administered prices of items like petroleum and steel, yields from schemes like Special Bearer Bonds, and Compulsory Deposits (Income Tax Payers) Scheme, 1974.

Total Revenues of Union as divisible pool

10.6.03 A few States, some political parties and other knowledgeable persons have urged that the States may be given a share out of the total tax revenues of the Union on the ground that so long as the total quantum of transfers remains the same, it is immaterial whether the share comes out of specified taxes or out of the total tax receipts. It is argued that in this scheme the base will be larger and the States will be insultated to a greater extent from the effects of fluctuations of individual sharable taxes and would thus be given a more predictable and assured share. The proponents of this view point out that as the share of the States in Income Tax has already reached a high level (85 per cent), the Union Government may lose interest in maximising revenues from this source. They also allege that in order to reserve some resoures for its exclusive use, the Union Government has been resorting to increasing administered prices on certain items rather than the sharable Union Excise Duties. So, in order to get over the disincentive in raising revenue from the two taxes (with very high percentage of shares for States) and absolving the Union Government of the criticism of manipulating resources out of the divisible pool, it would be advantageous to make the entire receipts of the Union divisible.

10.6.04 We have considered these suggestions carefully. At the time of the framing of the Constitution also this matter came up for consideration. The Sarkar (Expert) Committee made a specific recommendation that certain taxes like duties of Customs (including those on exports) should be for the exclusive use of the Union. Such duties are subject to frequent adjustments keeping in view the terms of external trade and, therefore, are not suitable for sharing. Further, the scheme of the Constitution earmarking certain taxes for the exclusive use of the Union is sound in view of the very onerous responsibilities cast on it. We are of the view that while there is no particular advantage in bringing all tax receipts into the divisible pool, it may, on the other hand, place the Union at a disadvantage.

Fixed shares in Constitution

10.6.05 Yet another aspect of division of resources for consideration is the suggestion that the percentage shares of States should be built into the Constitution and the Finance Commission then need concern itself only with the division of such resources among the States. A State Government and a political party have suggested that at least 75 per cent of the revenue of the Union should be made sharable with the States as a Constitutional obligation. They have, however, not spelt out the basis for the same.

10.6.06 We have already noted that at the time of the framing of the Constitution Income Tax was the most important source of revenue. Revenue from Union Excise Duties was small and from Corporation Tax insignificant. Today, Union Excise Duties and Corporation Tax have by far overtaken the Income Tax. A moment's reflection would show that the States will be put to great disadvantage if percentage shares were fixed in the Constitution itself. The situation is dynamic, both in regard to availability of resources and in regard to needs of the Union and the States. It is the hallmark of the mechanism of the Finance Commission provided in our Constitution that it takes into account such factors in recommending a reasonable sharing of resources. We are not in favour of changing this system in view of its obvious merits. Further, a transfer of as high as 75 per cent of Union's revenue resources to the States is most impracticable inasmuch as such priority items as defence, interest payments and subsidies at present absorb about two-thirds of the Union's revenue resources.

Selective Enlargement of divisible Pool

Corporation Tax

10.6.07 We now consider the suggestion that the divisible pool may be enlarged by adding to it proceeds of some specified taxes, e.g., Corporation Tax, Surcharge on Income Tax, etc. A number of State Governments and others have suggested that the proceeds from the Corporation Tax should be included in the divisible pool. This demand stems from the fact that in 1959, Income Tax paid by companies, which was earlier included in Income Tax and was, therefore, mandatorily sharable with the States, was concerted into Corporation Tax which as per provision of Article 270, ceased to be sharable. In due course, it proved to be a buoyant source of revenue to the Union Government. Article 366(6) defines Corporation Tax as "any tax on income so far as that tax is payable by companies" subject to the qualifications that it is not chargeable in respect of agricultural income, that no deductions in tax are made with respect to the authorised dividends and that the tax so paid is not taken into account in computing the income for purposes of Income Tax, etc., thereon.

10.6.08 A simplification in the scheme of company taxation was introduced in 1959. Prior to it, out of the Income Tax paid by a company before declaring the dividends, a portion of such tax was 'deemed' to have been paid by the shareholders. When the shareholders' income was subsequently assessed for purposes of Income Tax and dividends were included in it, after being "grossed" (i.e., portion of 'deemed' tax paid added to it). The slab for their Income tax and the amount was then determined and out of the Income Tax liability the amount of 'deemed' tax-paid deducted. As this process of grossing was found "somewhat complicated"[31], the entire Income Tax Paid by Companies was defined as Corporation tax.

10.6.09 This change, however, created a problem in Union-State financial relations inasmuch as, according to the Constitution, the proceeds of the Corporation Tax are not sharable with the States. Before 1959, the Corporation Tax was small compared to Income Tax, but later the receipts from it had overtaken those from Income Tax (Annexure X 7). As this change came about at a time when the report of the Second Finance Commission was under implementation and the Third Finance Commission was yet to be 'constituted', compensatory *ad-hoc* grants were given to the States to make good their loss in the share of Income Tax. Since the reclassification of Income Tax on companies as Corporation Tax, most of the States have been asking for restoration of *status quo ante.* In view of the explicit Constitutional provision precluding the revenues from the Corporation Tax being sharable with the States, the first five Finance Commissions did not consider this demand. The Third Finance Commission, however, recommended increase in States' share in the Income Tax in view of the reduction of the divisible pool consequent to the reclassification of Income-Tax on companies as Corporation Tax. The Sixth Finance Commission suggested that the matter should be reviewed by the National Development Council and, at the same time, highlighted that inclusion of Corporation Tax in the divisible pool would not *ipso facto* upset the balance of the union-State resources as it would depend upon the percentage of resources that would be allocated to the States. The Seventh Finance Commission also suggested that the Union Government should hold consultations with the State Governments to settle the issue of Corporation Tax.

10.6.10 The Eighth Finance Commission took the view that the States should have access to such highly elastic source of revenue as the Corporation Tax. It, however, did not favour the suggestion for making a grant to them in lieu of a share in the Corporation Tax as it would amount to "circumventing" the Constitution.

10.6.11 The Union Ministry of Finance, whose comments were sought on this issue, has opposed the inclusion of Corporation Tax in the divisible pool on several grounds, viz., it is not provided for in the Constitution; the disadvantage to the states due to definitional change in 1959 has been compensated by the Finance Commissions by raising their share of Income Tax; the devolution to the States should be considered as a 'package'; a number of States are already having surpluses on revenue account consequent to devolutions from other sources whereas the Union Government is experiencing revenue deficits since 1979 and that the very fact of a tax being elastic should not be treated as a justification for its sharing. It has also been argued that the Finance Commission has several other ways of effecting transfer of revenues to the States.

10.6.12 We have given careful consideration to the views of the Union Government as well as those of the States and the observations of the various Finance Commissions. We have already noted that at present 85 per cent of the net proceeds of Income Tax are distributed among the States. As a result, there may be a risk of the Union Government losing in future its interest in increasing the receipts from this tax. There is also very little scope for any further increase in the States' share of Income Tax.

10.6.13 Further, as a consequence of the Eighth Finance Commission's recommendations, as much as 45 per cent of the net proceeds of Union Excise Duties constitute the share of the States. Here again, a signification increase in this share, if resorted to in future, might act as a disincentive to the Union to increase the receipts from the Union Excise Duties and look more towards non-sharable revenues.

10.6.14 We have presented in the Table below the Additional Resource Mobilisation (ARM) efforts of the Union Government conveniently divided into three periods:

(Rs. crores)

Period	Income Tax	Union Excise Duties	Customs Duties	Corporation Tax	Others	Total
1974-75 to 1978-79	9.90 (0.9)	1004.04 (90.2)	99.09 (8.9)	95.50 (8.6)	-95.48 -(8.6)	1113.05 (100.0)
1979-80 to- 1983-84	-111.30 -(4.6)	1153.14 (48.1)	1242.68 (51.9)	108.50 (4.5)	3.55 (0.1)	2396.57 (100.0)
1984-85 to 1986-87	-244.00 -(21.9)	130.21 (11.7)	1152.27 (103.6)	244.00 (21.9)	-169.76 -(15.3)	1112.72 (100.0)

Note: Figures in paranthese are percentages to total additional resource mobilisation. The data is as shown in the relevant year's budget documents presented to Parliament. The negative sign indicates taxes given up or concessions given.

The above figures do not include additional resources raised by the Union through revision in administered prices, railway fares and freight and in items of posts and telecommunications, which are not shared with the States. The Table above shows that while there has been a negative ARM in the case of Income Tax, Corporation Tax has been found to be a good source for additional resource mobilisation. Union Excise Duties contributed 90.2 per cent of the ARM in the seventies with Customs giving only 8.9 per cent. In the latest period it is the reverse with Customs Duties contributing 103.6 per cent and Union Excise Duties only 11.7 per cent. There may be many reasons for these changes in the pattern of ARM but the trend is significant.

10.6.15 It is a fundamental principle of taxation that the taxing authority should have interest in its proceeds. In order to maintain this principle and giving a more meaningful choice to the Union among fiscal alternatives, it is necessary to enlarge the base of devolution to the States but with a lower percentage share in individual taxes. This can be done by bringing into the divisible pool a major Union tax but still keeping a sizeable revenue source for exclusive utilisation by the Union. It is, therefore, necessary to enlarge the base of devolution. Corporation Tax is the largest source of tax revenue after the Union Excise Duties and Customs Duties.

10.6.16 We recommend that by an appropriate amendment of the Constitution, the net proceeds of Corporation Tax may be made permissibly sharable with the States, if and as Parliament may by law so provide. This would have the advantage of enlarging the base of devolution so that in the revenues of the States there would be greater stability and predictability in future. Further, being an elastic resource, the States would also benefit from its growth.

10.6.17 The justification for enlarging the divisible pool also emanates from the fact that in an inflationary situation the gap between the expenditure and revenues widens, particularly in case of poorer States. Inclusion of Corporation Tax in the divisible pool would enable the States to cover partly this gap, since this tax responds well in an inflationary situation.

10.6.18 However, it is necessary to recognise that consequent upon inclusion of Corporation Tax in the divisible pool, adjustments will have to be carried out by suitably bringing down the shares of States in Income Tax and Union Excise Duties. If this recommendation is implemented in the middle of a period dealt with by a Finance Commission it may create serious complications. It would be for the Finance Commissions constituted in future to determine the quantum of transfers as well as the allocation among the States.

10.6.19 Keeping in view the constraints on the Union's finances, we suggest that the net proceeds of Corporation Tax, while continuing to form part of the Consolidated Fund of India, should be permissively sharable with the States and distributed among them on the authority of law passed by Parliament. This arrangement would impart the needed flexibility in revenue-sharing between the Union and the States.

10.6.20 A State Government has suggested that while the proceeds of Custom Duty may remain exclusively available to the Union, which at present fully cover the defence expenditure—its "foremost Constitutional responsibility"—50 per cent of the revenue from Income Tax, Corporation Tax and the Union Excise Duties may go to the States as their share in Central taxes. This proposition has been made along with the proposals by this State Government that the Union should give up excise revenue on selected commodities to enable the States to raise an equivalent amount throught additional Sales Tax on them and that the power to levy excise duty on small-scale industries should be transferred to the States. We have dealt with these proposals in paragraphs 10.5.03—10.5.04 and 10.5.46—10.5.48 respectively. Further, this State Government has suggested that the divisible portion of the Central taxes be allocated among the States on the basis of specific objective criteria with given rates.

10.6.21 States' share in the divisible pool and the principles of its inter-State allocation are to be determined on the recommendations of the Finance Commission which pays attention to the changing situations and needs of the Union and the individual States. As has already been discussed in paragraph 10.6.06, the present system has considerable merit and it would not be advantangeous to proceed on the basis of fixed shares. Further, if a certain set of objective criteria were to be laid down before-hand, it will take away the needed flexibility in the revenuesharing arrangement. The argument linking specific needs (viz., defence expenditure in this case) to the proceeds of a particular tax is not in accoradance with the established principles of public finance. In view of the above reasons, it is not possible to agree with the scheme proposed by the State Government in the previous paragraph.

Surcharge on Income Tax

10.6.22. The Constitution provides for the levy of a Surcharge on Income Tax, the proceeds of which are not sharable with the States. The Expert Committee on the Finacial Provisions of the Union Constitution (1947) had treated Surchagre for the exclusive use of the Union Government but had simultaneously warned that it should be levied "whenever conditions require such a levy; obviously such occassion should be rare and not last for long periods". Surcharge was levied in 1951-52 and contiuned upto 1985. It has been used in many forms (*e.g.* surcharge, special surcharge, additional surcharge, etc.) and has in the past been distinguished between earned and unearned incomes (1957-58 to 1963-64) and salaried income in (in 1960s). Since 1975, it was being levied in a uniform manner till March, 1985.

10.6.23 It may be seen from Annexure X-7 that not only the revenue from Surcharge on Income Tax has increased sharply, its relative importance, gauged as percentage to Income Tax and Union's tax revenue, has also increased considerably and it has been continued for 34 years without interruption. This has been rise to the criticism that instead of meeting any special expenditure requirement, the Surcharge was being used by the Union Government as a regular source of revenue.

10.6.24 The State have also been raising the issue of bringing the Surcharge on Income Tax in the divisible pool before successive Finance Commissions. The first six Finance Commission did not consider this demand in view of the explicit Consitutional provisions. The Seventh Finance Commission, however, observed significantly that "surcharge continued indefinitely could well be called an additional Income Tax, sharable with the rest of the proceeds of the Income Tax."[32] The Eighth Finance Commission not only endorsed the views of the Seventh Commission but went further when it obseved" ....for the sake of amicable Centre-State relations it (Union Government) should recon-sider the indefinite continuance of the surcharge........... Therefore, we suggest that with the commencement of the financial year 1985-86, the Surcharge be with-drawn and the basic rates of Income Tax suitably adjusted."[33]

10.6.25 We cannot but describe the continuous levying of Surcharge on Income Tax, in one form or the other, for thirty four years ending March, 1985*, as substituting a special privilege for performing routing tasks. We have considered the various alternatives suggested like merging Surcharge with the basic rates thus making it sharable with the States, putting a ceilling on the period beyound which it should not be allowed in normal times, etc.

10.6.26 We are firmly of the view that the Surcharge on Income Tax should not be levied by the Union Government except for a specified purpose and for a strictly limited period only.

Administered prices

10.6.27 Revisions in the prices of items like petroleum, steel, cement, etc., which are produced mostly in the Public Sector by the Union Government, have implications for Union-State financial relations. It is argued by the States that an increase in prices of these commodities results in placing substantial additional resources at the disposal of the Union Government. On the other hand, inasmuch as most of these items are essential for building up the basic infrastructure by the States, the costs of these projects go up for which they are not only not compensated, but available resources get speread thinly thereby leading to a vicious circle of delay in completion causing further cost-escalations. It has been suggested by the States that instead of raising the administered prices, the Union Government should raise the Union Excise Duties which are sharable, or otherwise agree to share the increased net receipt on account of increase in prices. Some of the States have suggested that such sharing should be applicable only in cases where the Central Public Sector enterprises are making profits.

10.6.28 There seems to be an insufficient appreciation of the role of prices of Public Sector products in such proposals. The Union Government has invested very large amounts in building up various Public Sector units mostly in such core sectors as steel, heavy engineering, etc. These units have not been generating the surpluses as expected of them for new investment. Moreover, in the Seventh Five-year Plan, one of the important functions of the Public Sector enterprises is to generate surpluses of financing of further economic development. Another important function of pricing is to give appropriate signals to the products to utilise resources efficiently and to penalise inefficiency. Increase in prices could be due to a variety to factors and it would be nearly impossible to determine whether a part of it could be regarded as a substitute for increase in Excise Duty. Therefore, increases in administered prices do not easily lend themselves to sharing. The difficulty gets enhanced with other objectives of Public Sector, e.g., regional development, import-substitution, conserving a scare product, etc. are simultaneously considerd.

10.6.29 We are therefore, of the view that it would not be advisable to make the proceeds of increase in administrered prices sharable with the States.

Special bearer bonds and compulsory deposits scheme

10.6.30 With a view to improving the Government's financial position and reducing the budgetary deficit and also bringing out black moneny, the Government of India introduced the Special Bearer Bonds Scheme, 1981, effective from 2nd February, 1981. The Scheme provided certain immunities to the holders of these bonds in order to encourage sales of these Bonds. According to the Ministry of Finance, an amount of Rs. 964.59 crores (Rs. 88.67 crores in 1980-81 and Rs. 875.92 crores in 1981-82) was collected.

10.6.31 The Union Government introduced the Compulsory Deposit Scheme in July, 1974 as a part of its measures to contain inflation. The scheme had two parts. The first part provided for compulsory deposit of whole of the additional dearness allowance given to Government servants. This was expected to immobilise about Rs. 600 crores in a year. Tax second part of the scheme covered all Income Tax payers whose aggregate net annual income exceeded Rs. 15,000. There were different slabs of deposit rates for different income groups. It was expected to bring in a sum of Rs. 50 to Rs. 55 crores in a year. Both categories of deposits were to be repaid in five annual instalments together with interest.

10.6.32 The States have criticised the two scheme as measures to circumvent increases in Income Tax or as directly resulting from the inability of the Union Government to administer the same efficiently. They have, therefore, argued that the receipts of these two measures should also be shared with them as they have the same tax-base as the mandatorily shareable Income Tax. It has also been argued that as they represent savings they could be shared like the Small Savings collections. On the other hand, it has been countered that Union Government's access to these rescources is in the nature of loans which are not sharable with the States.

10.6.33 Demand for sharing of the proceeds from schemes like the Special Bearer Bonds and Compulsory Deposit (Income Tax payers) Scheme, 1974, are only of academic and illustrative significance today as these are not in force now. We are of the view that the Union Government should adopt such measures only under special circumstances when considered necessary as part of its fiscal and monetary policies. Sharing of such capital receipts with States will be beset with a host of problems in regard to allocation, terms of repayment, etc. However, nothing prevents the Union Government from providing special purpose assistance to the States keeping in view its overall financial position and the receipts from these sources, if found necessary.

Fiscal potential and resource mobilisation

10.6.34 The above consideration of issues and suggestions in revenue-sharing between the Union and the States has been in the context of the realised revenue mobilisation. The pressures felt on resources is a typcial feature of a developing economy. The problems in their sharing by the different levels of government are bound to be less acute if the overall availability of resources is considerably larger. Economy in expenditure and prudence in fiscal management,i.e., greater efficeincy in tax-assessment, tax-collection, better returns on investments on public enterprises, irrigation and power projects—at all levels of Government, are equally important factors which augment the totality of resources at the disposal of the nation as a whole. Further, the organic linkage in policies and measures adopted by different levels of Government in resource mobilisation and expenditure must be duly recognised. The, indeed , is the crux of the problem in Union-State financial relations.

In this regard, a State Government has urged: "A proper development perspective for the country calls for greater and not less tax efforts by both the Centre and the States, as well as greater efficiency in public expenditure". We fully agree with this perception.

10.6.35 A thorough examination of the potential and directions of revenue-raising both by the Union and the States is desirable. In our tax structure, the receipts from indirect taxes now contribute well over three-fourths of the total tax proceeds. In the resources mobilisation effort in future also, substantial reliance will have to be placed on indirect taxes. The Long Term Fiscal Policy announced by Government of India in December, 1985 seeks to introduce reforms both in regard to direct and indirect taxes. It contains directions for rationalising and simplifying tax laws and securing uniformity in procedures for direct taxes. It also aims at simplification of Central Excise Duties, introduction of MODVAT, reduction in arrears, and periodic upgradation of specific duties. Although in the Constitution, the taxation powers of the Union and the States are not concurrent, functionally (e.g., in terms of impact on prices and elasticity of taxes), the Union taxes like Excise Duties/MODVAT, Central Sales Tax, etc. interact with the States' Sales Tax. This has implications for actual use of taxation power by the States. The States complain that the Union Government's policies have restricted their scope to raise revenues from Sales Tax. There have been consultations between the Union and the States to levy the Consignment Tax. A comprehensive and expert consideration of reforms in taxation will be necessary to place consideration of Union-State fiscal relations by the concerned institutions in a proper perspective.

10.6.36 We recommend that an Expert Committee, with suitable representation on its penal from the States, may be appointed by the Union Government to recommend desirable directions of reforms in taxation and, *inter alia,* consider the potential for resource mobilisation by the Union and the States. The report of this committee should be placed before the Standing Finance Sub-Committee of the National Economic and Development Council, the establishment of which has been recommended in Section 9.

7. PATTERN OF DEVOLUTION

Issues

10.7.01 We have noted that the devolution of resources from the Union to the States has been very significant. These transfers are crucial in effecting a balance in the sharing of over-all resources between the Union and the States and their distribution among the States *inter se.* Following are the important issues that have been raised in respect of the pattern and efficacy of devolution of resources from the Union to the States:

(i) The devolutions effected on the recommendations of the Finance Commission—a body which has its origin in the Constitution—constitute only a part of the total transfers. Bulk of the transfers made for the Plan and other purposes under Articles 282 and 293 are 'discretionary', and by implication allow free play to the Union Government's choice in respect of their magnitude and allocation. It is alleged that the expectations of the Constitution-makers that the devolution of resources from the Union to the States through the mechanism devised by them, in an impartial and 'automatic' manner free from 'interference', has suffered change.

(ii) some expert studies have highlighted the iniquitous nature of the Central transfers with respect to allocations among the States. A few less-developed States have suggested special dispensation to them in Centreal transfers. Apart from the above issues, another aspect is whether the Union Government is transfering sufficient resources to the States. Before considering the above-mentioned issues, we may briefly review the factual position on the pattern of devolution of resources from the Union to the States.

Pattern of Transfers

10.7.02 Devolution of resourcs from the Union to States may be placed under three categories:

(i) transfers based on the recommendations of the Finance Commission:

(ii) transfers by way of assistance for execution of the Plan recommended by Planning Commission, including Centrally Sponsored Schemes; and

(iii) Others consisting of small savings loans, assistance for natural calamities, etc. canalised through the Union Finance Ministry.

Annexure X. 4 summaries the pattern of over-all transfers of resoruces from the Union to the States.

Statutory transfers

10.7.03 Transfers effected on the recommendation of the Finance Commission (called by some as 'statutory transfers') are normally determined for a period of five years. Bulk of these transfers are unconditional and have a built-in buoyancy with respect to the growth of the concerned tax receipts. In the totality of resource-transfers, those on the recommendations of the Finance Commission accounted for 40 per cent during the period 1951—85.

Central Plan Assistance

10.7.04 A substantial part of the transfers in the second category are by way of assistance for the execution of the State plans. These accounted for 31 per cent of the total resource transfers from the Union to the States during the period 1951—85. If to these transfers are added those on account of Central and Centrally Sponsored plan-schemes, the totality of plan transfers during the period 1951—85 works out to about 41 per cent of the total transfers. The Central assistance for the plan is based on the recommendations of the Planning Commission. It includes both loans and grants. During the Sixth Plan period the grant component in the total plan transfers was about 56 per cent. A large part of the Central assistance for the State plans is allocated on the basis of the Modified Gadgil Formula[34] and other pre-determined considerations. We have discussed and commented on this aspect in detail in the Chapter on Economic and Social Planning.

Other Transfers

10.7.05 Besides the transfers effected on the recommen-dations of the Finance Commission and on plan account, the Union Government gives grants and loans for various other purpose, like relief of natural calamities, improvement of roads, upgrading the salaries of teachers, relief and rehabilitation of displaced persons, etc. These comprise the third category. During the period 1951—85 such transfers accounted for about 19 per cent of the total transfers.

[34]The formula (popularly known as Gadgil Formula) for allocating Central assistance for State Plans was originally evolved in 1968 and modified in 1980. After keeping aside provisions for the special-category States and some other specific purposes, the amount of Central assistance allocated among the States in the original and modified formulae has been on the following criteria:

	Weights (per cent)

Criteria	In the original Formula	As modified by NDC in 1980 (Modified Gadgil Formula)
1. Population	60	60
2. Per cepita income below the national average	10	20
3. Per capita tax-effort	10	10
4. Outlay on continuing irrigation and power projects.	10	-
5. Special problems	10	10
Total. . .	**100**	**100**

Transfers on Revenue Account

10.7.06 The pattern of Central transfers on revenue account (Annexure X.8) shows that the transfers on the recommendations of the Finance Commission, comprising tax-shares, grants-in-aid under Article 275(1) and grants in lieu of the other taxes, in the various Plan periods have generally been well over 60 per cent of the total transfers on revenue account. The 'shares in taxes' and grants-in-aid under Article 275(1) have reinforced each other to maintain a fairly stable share of such transfers taken together. The share of 'other grants' under Article 282, which are given as part of the Plan assistance for the various schemes of the Union Ministries, natural calamities, etc., outside the purview of the Finance Commission, has been significant and, on the average, a little over 37 per cent.

Transfers on Capital Account

10.7.07 The position of the States is significantly different on capital account as their borrowings other than the Central loans-reckoned as their 'own' resources are also to be allowed by the Union Government in accordance with Article 293 of the Constitution. Transfers to the States for financing rapidly increasing Plan outlays have been largely in the form of Central loans (gross). The trends in the pattern of States' indebtedness as given in Annexure X.9. Signify more than 70 per cent share of the Central loans in States' indebtedness and also a declining share of their internal debt—from the market and financial institutions.

Transfers and financing of States' Expenditure

10.7.08 Financing of revenue expenditure of the States by different sources individually (Annexure X.10) and Cumulatively (Annexure X.11) throws further light on the respective roles of States' own resources, Central transfers, the pattern of Central transfers and trends in States' finances. The 'own' resources of the States on the average have had 62 per cent share in financing their revenue expenditure. However, the 'share in taxes', which is the category most preferred by the States in view of its statutory and condition-free status and buoyancy, has been signifacant (23 per cent during 1951—85) and rising over the period. The two together, constitute 85 per cent of the States' revenue expenditure during 1951—85. If to this are added, 'grants-in-aid of revenues under Article 275(1)' and 'grants in lieu of other taxes, etc., also given on the basis of the Finance Commissions recommendations, the total accounts for the financing of about 89 per cent revenue expenditure of the States. The scheme of financing of States' revenue expenditure resulted in an over-all surplus of 4.4 per cent during 1951—85, and has been quite substantial since 1974-75. The Statewise position would, however, show significant variations.

'Statutory' Vs. 'Discretionary' Trnasfers

10.7.09 It is often alleged that inasmuch as only 40 per cent of the total transfers from the Union have been effected on the recommendations of the Finance Commission envisaged in the Constitution, the balance of transfers has been discretionay in character. It is contended that Article 282 was intended to be a sort of residuary Article to take care of unexpected kind of things, *inter alia*, for making marginal adjustments; but the Plan grants made by the Union in exercise of its power under Article 282 by assuming a dominant role in devolving resources to the States, have distorted the Constitutional scheme. We have noted that although the financial assistance given to the States on the recommendations of the Finance Commission has substantially increased since the period of the First Five-Year Plan the bulk of the transfers (close to 60 per cent during the period 1951—85) have been in the form of Plan and 'other transfers'.

10.7.10 This criticism has two aspects—One technical and academic, the other oblique and imputative. As regards the first, these transfers under Article 282 are discretionary only in a technical sense, as opposed to mandatory. Whereas sharing with or assignment to the States by the Union of the net proceeds of certain taxes mentioned in Article 270 and 269 (on the advice of the Finance Commission) is mandatory, there is no such Constitutional obligation on the Union for making grants to the States under Article 282. The oblique aspect of this criticism, however, raises the question whether in substance and practice, the transfers made for Plan purposes under Article 282 on revenue account to the States are discretionary in the sense that they allow free-play to the Union Government's choice in respect of their magnitude and relative allocation.

10.7.11 So far as the Plan transfers are concerned the size of Central assistance for the Plan is determined as a part of the exercise for the financing of the Five-Year Plan, which is approved by the National Development Council on which all the States are represented. Any increase in the actual devolutions to the States over the Five-YearPlan estimate corresponds to the assessed needs for the Plan on annual basis. This is effected on the advice of the Planning Commission. Indeed, there has not been any criticism from the States on increasing the flow of Central Plan assistance to them as compared to the Five-Year Plan estimate or on its inter-Sate allocation. So far as the allocation of Central assistance for the State Plans is concerned, as has been discussed in detail in the Chapter on Economic and Social Planning, bulk of it is decided in terms of the Modified Gadgil Formula and other objective determinants and special investments (including Tribal and Hill Areas Sub-Plans) which are also approved by the National Development Council and are subject to review by that body. These do not leave any significant discretion to the Planning Commission which is confined to only 10 per cent allocation of Central assistance under the Modified Gadgil Formula. In the case of the Centrally Sponsored Schemes also, the pattern of financing, viz., Central assistance *vis-a-vis* States' own contribution, for the various schemes is determined and known well in advance. The States have also not objected to the flow of Central assistance as such in this respect. The thrust of their complaint is on the system of matching contribution and their allegedly inadequate involvement in the formulation of these schemes. These aspects, though otherwise very important should not confuse the issue in question. We have dealt with them in detail in the Chapter on Economic and Social Planning.

10.7.12 So far as the category of 'other transfers' (for natural calamaties, etc.) is concerned, the variety of purposes for which they are made by their very nature cannot be sufficiently anticipated by either the Finance Commission or the Planning Commission. Such transfers are purpose-specific and have to cater to the contingent problems which arise from time to time. These transfers being mostly on revenue account, do not carry much repayment liability on the part of the states. The States have not voiced any serious complaints against these transfers. The Study Team of the Administrative Reforms Commission, which examined in detail the use of Article 282 for such grants observed that 'a Constitutional amendment defining or restricting the scope of the Article is, therefore, not necessary, specially because to meet unforeseen situations, the Centre should have a degree of flexibility in the use of The Article.'[35] We fully endorse this observation.

10.7.13 In view of the above, the Plan and other transfers which are labelled 'discretionary' do not amount to a subversion of the Constitutional scheme. They cannot be considered either unreasonable or discretionary in a literal sense as their allocation follows predetermined criteria, or is tied to meet specific requirements of the States. The large magnitude of Plan transfers should not pose any controversy in this regard as the framers of the Constitution could not anticipate the extent of development resource-needs under the Plans of the States. The significant growth of Central assistance to States for planned development is, indeed, a natural response to such needs. The crux of the matter is that the States' participation in the planning process should be such that the Plan transfers are treated by them as part of a commonly agreed programme for the deployment of the nation's resources. We have discussed at length this aspect in the Chapter on Economic and Social Planning. In addition, in Section 8 we have dealt in detail with the controversy whether the Finance Comission could also attend to the assessment of financial requirements for the Plan.

10.7.14 We are of the view that the controversy between statutory *vs.* discretionary transfers to the States is based more on theoretical than realistic considerations. It is not humanly possible to devise fool-proof formulae which would make the totality of Central transfers conform fully to the ideal of 'automatic and free-from-interference' devolutions. Some amount of flexibility and room for subjective judgement will have to be left to the concerned institutions to deal with the specific situations as they arise. What is really important is that the institutions involved should function in a fair and non-partisan manner and take decisions with due discernment and expertise, which are implicitly acceptable to the States.

Equity in Transfers

10.7.15 An important direction of enquiry in the Union-State financial relations is whether the transfers from the Union to the States have satisfied the basic principle of equity. The Directive Principles of State Policy enshrined in the Constitution require that the 'State' should strive to minimise inequalities amongst groups of people residing in different areas. In our country, both inter-State and intra-State disparities are glaring and persistent in the backdrop of overall under-development. Lack of adequate financial resources has been recognised to be one of the basic constraints in the development of the backward areas. Provision for necessary administrative services, social and industrial infra-structural facilities is crucial for mitigating regional disparities.

10.7.16 A number of empirical studies have been made to ascertain how far the transfers effected have been progressive. In Annexure X.12 we have summarised the data indicating per capita transfers through channels of the Finance Commission, Planning Commission and the Union Finance Ministry. It will be observed that for several States, which are economically backward, the per capita transfers are lower than the all-States' average. The findings of the various studies indicate broadly that the transfers on the recommendations of the Finance Commissions and the Planning Commission have not been significantly progressive in earlier years. However, during the last three Five-Year Plan periods there has been considerable improvement in this regard. Transfers falling in the category of 'other transfers', which are mostly purpose-specific, have been found to be generally regressive, tending to dilute the progressivity of overall transfers to the States. Similar has been the pattern of allocation of the institutional finance from the commercial banks, term-lending financial instititutions, etc. On the whole, several of the less-developed States have been getting less that the average per capita devolution and share in institutional finance. this has contributed to the persistence of regional disparities in the country.

10.7.17 Finance Commissions carry out a reassessment of forecasts of revenue receipts and expenditure (on non-plan account) of the States before determining the devolutions necessary. Their formulae of tax devolutions have generally resulted in leaving substantial surpluses with about half the number of States. In the case of States still remaining in deficit, grants-in-aid under Article 275(1) have been given to make good the assessed gaps and needs. Resources of different States differ considerably owing to widely varying levels of development. Five or six States which have a better resource-base have surpluses from their own resources. Any further devolution only adds to their surpluses. Some other States, though not as well-off in respect of their own resources, reach the stage of surpluses consequent upon devolution of resources by the Finance Commission.

10.7.18 The weightage given to population size, which is essentially a scale factor, as a major criterion in the formulae of devolutions, when combined with other criteria, has resulted in lower per capita transfers to the less-developed States. The last two Finance Commissions, however, sought to evolve formulae with greater progressivity, by further emphasising the poverty criteria.

10.7.19 However, during the five-year period, on account of inflation, States' expenditure has gone up. To some extent it is compensated by increase in revenues on account of buoyancy in tax receipts. The States with revenue surpluses are better equipped to meet the adverse impact of inflation. On the other hand, grants-in-aid being fixed for most part, the effect of inflation is felt much more by the States in receipt of a larger proportion of grants. These States are precisely those which are less developed and lack the essential infra-structure which alone can enable them to develop quickly. The Seventh Finance Commission had observed as under:

> '........a Finance Commission's scheme of transfers which leaves a few States with substantial surpluses on revenue account which can be ploughed back into fresh investments, and the rest of the States with a zero surplus, could contribute to widening of the economic disparities.'[36]

10.7.20 The application of the modified Gadgil Formula (increasing the weightage of the 'States having per capita income below the national average' from 10 to 20 per cent in lieu of the 'expenditure on continuing irrigation and power projects') and provision of special Central assistance for the Tribal and Hill

Areas Sub-Plans, North Eastern Council and Special Component Plans, has made the allocation of Central Plan assistance more progressive.

10.7.21 Many suggestions have been placed before us in regard to the basis for inter-State allocations. The less-developed States have argued strongly in favour of formulae which would place more resources at their disposal. On the other hand, the States with revenue surpluses have pointed out that they have their own peculiar problems, *e.g.,* management of large metropolitan cities which, while generating resources, also require very large investments for providing essential services.

Backward Areas

10.7.22 Provision for the special needs and basic requirements of the backward areas, particularly in the backward States, would necessitate increasing attention to them in the allocation of funds by way of special provisions on soft terms over and above the general formula devolutions. The Union Government has a crucial role in helping the backward areas to get over the initial handicap of poor basic infra-structure. This would involve investments which may not produce returns for long years and, for the gestation period, need subsidisation by the Union Government. It is, indeed, in the long-run interests of the backward regions, and the country also, that by creating stimuli for development, they are helped to generate their own resources, rather than remain dependent indefinitely on the largesse of the Union, or the State Government, as the case might be. At the same time the overall resources being scarce, there is need for caution to ensure that the incentives given to the backward regions for accelerating their development do not, in the reverse, jeopardise for want of resources, the tempo and levels of development achieved in the relatively developed areas.

10.7.23 The financial problems of backward areas are, indeed, challenging and involve both availability of sufficient financial resources and their effective utilisation. It will be necessary to ensure that the less-developed or backward areas and States get adequate resources to meet their special requirements and bring their standards of administration at par with the advanced States. Both the Finance Commission and the Planning Commission will have to take coordinated and concerted action in devolving adequate resources to the less developed States and those having large backward areas. The Planning Commission will have to take a comprehensive view of the flow of Central investment and other institutional finance to the less-developed areas. Suitable institutional mechanisms need to be devised to ensure financial support and tying-up of the funds to the specific projects in such areas.

Union's Finances and Transfers

10.7.24 Another issue which is important in the context of Union-State financial relations is whether the Union Government has been making reasonable transfers to the States and, further, whether these could be significantly enchanced. It may be seen from Annexure X.13 that, of late, the Union Government has been transferring about one-third of gross resources raised by it to the States—the revenue account transfers showing an upward trend. Transfers from the Union continue to play an important role in meeting the expenditure of the States.

10.7.25 It is significant that since 1979-80 the Union Government has been running a deficit on revenue account. (Annexure X-14). The Balance from Current revenues became negative in 1985-86. During the Seventh Plan period, the Balance from Current Revenues has been estimated at (—) Rs. 12,011 crores. Thus, over the last several years the Union Government has been finding it increasingly difficult to meet its obligations on revenue account from its current budgetary resources and has had to take recourse to meeting them from borrowed funds.

10.7.26 As noted earlier in para 10.4.17, approximately three-fourths of the non-Plan expenditure of the Union now consists of defence, interest payments and subsidies. In recent years, massive anti-poverty programmes have been taken up and these have added substantially to the revenue expenditure. Of the total receipt (gross) in 1986-87, defence interest payments and subsidies absorb 36 per cent, transfers to States and Union Territories 29 per cent, leaving 22 per cent for Central Plan and 13 per cent for Union's non-Plan expenditure.

10.7.27 The broad analysis of the pattern of Union Government's expenditure on revenue account beings out that while on development side expenditure on high priority items has been provided, in the non-developmental component, because of compulsions of defence, interest payments, subsidies,

etc., not much manoeuvrability exists. Further, in addition to transfers of resources in the form of tax-shares and statutory and Plan grants substantial expenditure on subsidies and Central Sector and Centrally sponsored Schemes goes to benefit the States. The Union Government is thus already transferring substantial resources to the States. Under the present circumstances, there is need to pay attention to structural changes in transfers for which there is apparently greater scope.

10.7.28 However, the resource needs of the States also are not to be understated. The over-all situation, therefore, calls for all-out efforts to raise resources, increased rationality in their allocation at the two levels of Government, a judicious priority-ordering and improved efficiency in resource-management.

Pattern of expediture of Union and States

10.7.29 The over-all expenditure of the Union and the States has grown rapidly especially in the wake of the fast-rising Plan expenditure. The annual trend-rates of growth work out to be 14,30 per cent in case of the Union and 13,52 per cent in case of the States for the period 1951—85. The proportion of developmental expenditure on revenue account has been rising in the case of the Union as well as the States. (Annexure X 15). On capital account, an overwhelming part of the expenditure is incurred for developmental purposes. Net disbursements of loans account for about half of the Union's capital expenditure and more than one-third of that of the States. Development loans constitute about three-fourths of the loans disbursed.

10.7.30 Several experts have pointed out that substantial expenditure is incurred by both the Union and the state Governments on schemes which have come to be known as populist measures. These are often uneconomic but are supposed to earn popularity for the sponsoring Government. It will be in the best interests of the concerned Governments to take explicity into account the high opportunity-cost of such schemes and to examine whether any important programmes of development are compromised due to such diversion of scarce resources.

10.7.31 The Union Government provides directly large subsidies for a number of items of which fertilisers subsidy, food subsidy and subsidy for promotion of exports, constitute the bulk. The State Governments also give subsidies on schemes of food and nutrition, interest payments and on certain schemes for the benefit of the weaker sections. Apart from subsidies which can be directly seen as such, subsidisation is also inherent in a variety of measures, *e.g.*, exemption fully or partially from a tax or duty; allowance to channelise investments into particular sectors; refund of certain taxes to exporters, etc. Cross-subsidies are given by public corporations to particular groups of clients at the expense of others.

10.7.32 The total amount of (i) direct, (ii) indirect and (iii) cross-subsidies is thus very large. The share of direct subsidies has been substantial since 1977-78. Unfortunately, no reliable estimate, especially of indirect and cross-subsidies, is available. The need for keeping down the expenditure on account of these subsidies has been emphasised time and again. The essential point to recognise is that subsidies introduce a distortion in the economy. Flow of resourcee is directed away from sectors to which they would have normally been applied. It is not to suggest that all subsidies are *per se* wrong. But it is very important to scrutinise to whom the benefits are realy flowing. Each type of subsidy needs to be carefully reviewed from the point of view of overall impact on the economy and consideration of growth with social justice.

10.7.33 It is necessary that a comprehensive paper on direct, indirect and cross-subsidies, covering both Union and State Governments, is prepared by the Planning Commission every year and brought up before NEDC for discussion since the increasing burden of subsidies has a direct relevance to the availability of resources for the execution of the Plan.

Union's Expenditure on State Subject

10.7.34 It has been pointed out that the Union Government incures a lot of expenditure on maintaining establishments and on schemes relating to subjects which fall in the State list or the Concurrent List of the Seventh Schedule, *e.g.*, Agriculture, rural Development, Cooperation, Education, Health, etc. Bulk of such expenditure is channelised through the Centrally Sponsored Schemes either as grants or loans. In case of many schemes, the Union and the states share the expenditures. We have taken note of a study[37] which has tried to project the issue empirically by showing that very high expenditure is being incurred by the Union Government, directly or through Central institutions, on Centrally Sponsored Schemes in violation of directives of the NDC in this regard, on subjects which belong to the States. We have dealth with various aspects of Centrally Sponsored Schemes in the Chapters on Economic and Social Planning and Agriculture.

8. *ROLE OF THE FINANCE COMMISSION*

Constitutional Provisions and Evolution

10.8.01 We have earlier noted the inevitability of substantial transfer of resources from the Union to the States. Another important aspect is the allocation of the resources so tranferred among the States with wide differntials in fiscal capabilities and needs. The Constitution provides for the setting up of a Finance Commission periodically for this purpose. Article 280(1) enjoins on the President to constitute a Finance Commission, within two years of the commencement of the Constitution and thereafter at the expiration of every fifth year or before, if it is considered necessary. Clause (2) of that Article impoweres Parliament to determine by law the requisite qualifications of its members and the manner of their selection. Clause (3) of the same Article enumerates the duties of the Finance Commission. It reads as under:

"(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 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."

10.8.02 It would be pertinent to consider broadly the position in this regard in some of the other federations in the world. In USA and Canada the idea of an independent or regular agency for this purpose did not find acceptance. The Australian Commonwealth Grants Commission is an advisory body established by an Act of Parliament and recommends on special grants to the claimant States or on any other issue referred to it by the federal government.

10.8.03 In the absence of a well laid down and Constitutionally recognised institutional mechanism for revenue-sharing between the federal and unit Governments, in some of the countries numerous adjustments had to be resorted to. In the first place, because of concurrent taxation, in countries like USA, Canada and Australia, "which level uses what kind of tax and to what extent has been decided more by custom and negotiation, embodied in statute or agreement, than by constitutional provision".[38] In USA, the tax system which came to be developed over the years is described to be 'uncoordinated and over-lapping.[39] In Canada, recourse had to be taken to eleborate tax-rental arrangements. In Australia, at least in the initial years, the interests of the poorer states suffered. Even in West Germany, the Constitutional provision specifying the shares of the Laender (State) and Local governments, came to be incorporated between 1955 and 1967 after facing serious problems.

10.8.04 The processes of inter-governmental transfers in other federations, besides other problems, are often intreicately linked with political understanding and have given rise to controversies. For example, in USA, federal grants are based on agreements enforcing strict conditionality on the State and Local governments. The shift towards general grants in 1982, accompanied by substantial overall cuts is understood to have created serious problems for the States to implement social programmes. In Canada, the policy of revenue equalisation grants has always been politically controversial. The trend towards 'provincialisation' of federal funds is said to have reduced the ability of federal government to redistribute financial resources and has brought up the question of national standards. In Australia, the Commonwealth Grants Commission recommends special purpose grants to the claimant States, but the general grants are determined largely on the basis of discussions at the political level. In West Germany, the problem of matching the revenues and needs of the poorer States is sought to be solved through vertical and horizontal equalisation payments and inter-governmental grants and subsidies for special and joint projects.

10.8.05 The Finance Commission in India, in contrast, because of its Constitutional status, constitutes as unique arrangement. he framers of the Constitution by building it into the Constitution and by making it an expert body, removed the devolution of resources from the arena of political bargaining. The role assigned by the Constitution to the Commission has been deliberately given an advisory character. In a technical sense its recommendations are not definitive or self-executing. Parliament has been given the supreme authority to oversee the action taken by the Union Executive on the recommendations of the Commission. This has been ensured by requiring the Union Government to place before each house of Parliament every recommendation made by the Finance Commission, together with an explanatory memorandum as to the action taken thereon.

Issues

10.8.06 The Constitutional status accorded to it and its functioning as a semi-judicial expert body has earned for the Finance Commission high regard of the Union and State Governments. However, some aspects of the working of the arrangements have attracted criticism. This criticism may be classified into four categories:

(i) Deficiencies in the institutional arrangements envisaged in the Constitution.

(ii) Constrainst imposed by the Union on the Finance Commission by prescribing certain terms of reference.

(iii) Non-implementation of important recommendations of the Finance Commission by the Union Government.

(iv) Problems arising out of the methodologies followed by the Finance Commissions.

10.8.07 While many State Governments are of the view that the existing institutional arrangements are adequate, some of them desire that its functions should be enlarged. Some of them have drawn attention to the fact that since Finance Commission are established periodically, their approach has been inevitably somewhat *ad hoc* and there has been lack of continuity from one Commission to another. They have suggested a more permanent set-up. The various suggestions could be broadly classified as under:

(a) The functions of the Finance Commission be enlarged. It should also consider Plan and other transfers and/or undertake comprehensive annual/periodical reviews of the financial performance of the Union and State governments.

(b) The Finance Commission should be made a permanent or standing body to cope with enlarged responsibilities.

(b) The coordination between the Finance Commission and Planning Commission is very important and should be improved, so that an integrated view on the flow of Central assistance to the States becomes possible.

(d) It should be provided with a permanent and well-equipped secretariat to carry on studies and maintain operational continuity for the benefit of the subsequent Finance Commission.

10.8.08 The Finance Commission's recommendations generally remain effective for a period of five years. Many changes take place during the period in the estimates made by the Finance Commission at the beginning. Some of the State Governments have drawn attention to the fact that their financial position is adversely affected by inflation and various actions of the Union during this period. There is at present no mechanism to take care of the impact of these changes and provide relief.

10.8.09 It is argued that only one agency should deal with all the transfer, as the present dichotomy between plan and non-plan transfers is unnecessary and creates avoidable problems arising from differences in estimates and norms. Since the Finance Commission is the only institutional mechanism envisaged by the Constitution to recommend de-volutions in all aspects it would be but appropriate that it should deal with the problems in their entirely. Another suggestion is that the two bodies should be merged.

Enlargement of Functions

10.8.10 There has been some divergence of opinion as to whether the jurisdiction of the Finance Commission under Article 275(1) is limited to grants on revenue account, and capital grants needed to meet expenditure on Plan schemes are outside its purview. The First Finance Commission was of the opinion that this problem has to be considered "in the larger perspective of ensuring an equitable allocation of resources among the units". On this broad premise, the Commission recommended special grants-in-aid to eight States for development of primary education. The Second Finance Commission took a different view. In its opinion, there was no scope under Article 275(1) for special purpose grants for removal of inequalities in the standards of basic social services in States and that this function in a planned economy belonged to the Planning Commission and the National Development Council. The Third Finance

Commission took a view similar to that of the First regarding the broad scope of Article 275 and recommended 'special grants' to ten States for development of communications.

10.8.11 The issue was clinched by the Fourth Finance Commission when it observed:

"The Constitution does not make any distinction between plan and non-plan expenditure, and it is not unconstitutional for the Finance Commission to go into the whole question of the total revenue expenditure of the States. It has been pointed out to us that the reference to "Capital and recurring sums" in the first proviso to article 275(1) of the Constitution suggests that even capial expenditure need not necessarily be outside the scope of the Finance Commission. It is, however, necessary to note that the importance of planned economic development is so great and its implementation so essential that there should not be any division of responsiblity in regard to any element of plan expenditure. The Planning Commission has been specially constituted for advising the Government of India and the State Governments in this regard. It would not be appropriate for the Finance Commission to take upon itself the task of dealing with the States' new plan expenditure."[40].

10.8.12 The Fifth Finance Commission also held that in the language of Article 275, "there is nothing to exclude from its purview grants for meeting revenue expenditure on Plan schemes, nor is there any explicit bar against grants for capital purposes" However, its terms of reference required it not to take into account the Plan for purposes of recommending grants-in-aid under Article 275. It did not even agree to recommend grants for higher expenditure outside the Plan on specific social services for improving their levels "as it would blur the entire division of functions between this Commission and the Planning Commission."[41]

10.8.13 One of the terms of reference of the Sixth Finance Commission enjoined it to assess the non-Plan capital gap of the States for the period 1974-75 to 1978—79. Adopting a pragmatic approach, the Commission described "the separation of revene from capital expenditre and of non-plan from plan expenditure" in re-assessment of States' forecasts as one of the "ground rules."[42]

10.8.14 The approaches of the Seventh and the Eighth Finance Commission marked a significant departure from the earlier one. They recommended some capital grants for the upgradation of levels of administration. The eighth Finance Commission, recommended capital grants in Health and Education sectors, which are included among developmental sectors, treating them as essential non-plan earmarked capital requirements of the less-developed States. These recommendations were accepted by the Government of India. The observations of the Seventh Finance Commission on the issue need mention:

"We have given careful consideration to the scope for grant-in-aid under Article 275 for meeting capital expenditure. The operative part of this Article speaks of "sums". There is no restriction or bar in the Article for capital expenditure. The first proviso of the Article expressly speaks of grants of capital sums. This goes to show that the expression grants-in-aid of revenues does not limit grants for revenue expenditure only. We are fortified in this view by the note of the Chairman of the Fourth Finance Commission appended to its report on the interpretation of Article 275. Further, it seems unreasonable to hold that the operative part of the Article enables the Commission to make grants for revenue expenditure only, while the proviso enables grants being made of revenues as well as capital nature. It is quite clear therefrom that it is open to us to recommend grants for capital expenditure also, apart from grants for revenue expenditure under Article 275."[43]

10.8.15 The Union Ministry of Finance in response to a query on this issue, has provided the following clarification:

"It is settled policy of the Commission to cover the capital requirements of the States under the upgradation grants. In case the Commission on Centre-State Relations is alluding to the entire range of the capital requirements of the States during the forecast period, the roles of the finance Commission and the Planning Commission in that case will overlap. The Planning Commission which is primarily concerned with asset-creation is given the near-exclusive responsibility for catering to the capital requirements of the States by the mechanism of Plan assistance for the 5 year plans.The Finance Commission takes care of the capital requirements of States in non-developmental sectors by way of upgradation grants.......... It may thus be seen that even in recent years the Finance Commission have imaginatively and progressively made use of Article 275 grants both for capital and revenue and both for developmental and non-developmental purposes. This is not-withstanding the fact that the Presidential Order of the Eighth Finance Commission refers to up-gradation requirements of non-developmental sectors only".

10.8.16 Finance Commission is constituted periodically and works for a short period. Planning is a dynamic process and as such continuous appraisal and adjustments are essential. A static five-year frame would not meet the requirements of planning. The Planning Commission reviews annually the resources and plan needs of the States and recommends plan assistance. In a dynamic situtation, net resources avialable for transfer from the Union to the States towards Plan assistance will also be known only on a yearly basis. The necessary expertise, support and competence for dealing with such a situation has been developed by the Planning Commission. For obvious reasons, it would not be possible for the Finance Commission to perform such a role. Therefore, practical difficulties would arise if Plan transfers are also entrusted to the Finance Commission. The present division of labour which has developed over the years is that the Finance Commission advises on the non-Plan revenue requirements and non-Plan capital gap. In certain sectors, where the problem is clear and the numbers are reasonably sure, the Finance Commission has recommended capital re-source devolution also only to a limited extent.

10.8.17 We are of the view that the present division of responsibilities between the two bodies, which has come to be evolved with mutual understanding of their comparative advantage in dealing with various matters in their respective spheres, should continue. The present arrangements have also not given raise to any serious problems to necessitate any change.

Coordination between Finance Commission and Planning Commission

10.8.18 Need for greater coordination between the Finance Commission and the Planning Commission has been emphasised by many State Governments and experts. The Administrative Reforms Commission had recommended that in order to ensure greater coordination between the two bodies, one Member of the Planning Commission should also be nominated as Member of the Finance Commission. Since the Sixth Finance Commision, one Member is common to both the Commissions. It is however, a matter of concern that only two of the four common Members so far appointed were in charge of the Financial Re-sources Division in the Planning Commission. As this defeats the very purpose of having a common Member, we would suggest that the Member in-charge of financial resources in the Planning Commission should automatically be the common Member and remain in this charge even after the report of the Finance Commission is submitted. This arrangement would enable the adoption of an integrated approach in the assessment of financial resources and needs of the States by the two Commissions.

10.8.19 A precondition for smooth coordination between the two bodies is the synchronisation of Five-Year Plan period with the reference period of the Finance Commission. There is an impression that once the Finance Commission's report is submitted, it is not of much consequence beyond determining major parameters like tax shares, grants-in-aid, etc. A planned economy presupposes utmost financial discipline. The entire system of resource transfer built up on the basis of the recom-mendations of a semi-judicial body of experts would crumble in case there is scant regard for the norms evolved by it.

10.8.20 We have already noted that Finance Commissions reassess the receipts and expenditure of the States on a normative basis. A perusal of the reports of the various Finance Commissions shows that practically all the Finance Commissions have had occasion to note that on the receipts side the norms determined by the preceding Finance Commission were seldom reached, particularly in regard to returns from irrigation and power projects and from State road Transport Corporations. On the other hand, on the expenditure side, the norms have been invariably exceeded. In many cases, large expenditure on new non-Plan items has been incurred. Sometimes schemes which could not be accommodated in the Plan have been included as non-Plan items and large sums spent on them. Finance Commissions build into their forecasts of expenditure certain amounts for maintenance of assets already created, e.g., irrigation schemes, buildings, road, etc. Often the amounts intended for mainten-ance of these assets have been diverted for other uses with very adverse impact on the upkeep of assets already created.

10.8.21 Finance Commissions have determined norms of returns from the irrigation schemes, State Electricity Boards and Road Transport Corporations. One of the terms of reference to the Sixth Finance Commission was to have regard, while determining the grants-in-aid, to "the scope for

better fiscal management and economy consistent with efficiency which may be effected by the States in their administrative, maintenance, developmental and other expenditure". It observed that "with the increasing investments in irrigation and power projects and road transport undertakings, non-tax revenues in the form of interest receipts and dividends should be expected to become increasingly important in State finances."[44] After detailed consideration of irrigation schemes it reached the conclusion that in the case of multipurpose river valley projects and commercial irrigation, the receipts should cover the working expenses. However, this was not achieved. The Seventh Finance Commission, while reviewing the some, observed that working expenses continued to exceed the receipts and that "complacency in this regard would be harmful and unjustified".[45] The Eighth Finance Commission also observed that the norms evolved by the Seventh Finance Commission had not been met by the State Governments.[46] The position is similar in the case of State Electricity Boards and Road Transport Corporations.

10.8.22 We are of the view that these raise very serious questions in regard to fiscal management and financial discipline. In a situation of severe overall financial constraint. It is imperative that in-efficiency and imprudence in fiscal management is discouraged by evolving suitable procedures and systems of reward and punishment. We would emphasise that each Finance Commission should view with greater concern the violation of the regimen given by the preceding Commission and thus try to enforce a stricter discipline in checking wasteful expenditure.

10.8.23 The Finance Commission Cell/Division in the Planning Commission should continuously monitor the behaviour of the States' finances. It should also estimate annually the deviations from the norms evolved by the Finance commission. The Planning Commission would then be able to bring up before the National Economic and Development Council such annual reviews indicating, among other things, the deviations from the forecasts of Finance Commission and the reasons for the same. This would afford an opportunity to the National Economic and Development Council to monitor effectively and evolve consensus on the mobilisation of resources and contain the non-developmental expenditure.

10.8.24 The Sixth Finance Commission observed: "Fiscal management is a multi-dimensional concept. In the application of this concept to concrete situations, both qualitative and quantitative aspects deserve attention. Briefly stated, in assessing sound fiscal management one should have regard both to the manner in which the State has endeavoured to raise the resources needed for meeting its commitments and also the manner in which it has deployed the resources so raised so as to get the best possible results for the expenditure incurred. A review of fiscal management in this broad sense will call for a comprehensive and critical survey of the fiscal policies and administration of State Governments over a period of time. This is a task which is too difficult to undertake within the limited time at our disposal."[47]

10.8.25 During the interregnum between one Finance Commission and the appointment of the next Commission, the Finance Commission Division (reinforced as suggested in paragraph 10.8.30), should in cooperation with the States, organise comprehensive studies in trends in growth of public expenditure in the States in the light of the findings of the previous Finance Commission. It shall also collect, study and analyse the data with reference to the relevant parameters which would help a more critical appraisal of the achievements and failings of the States in the fiscal sphere. The studies conducted by the Finance Commission Division should be available well in time for the use of the next Finance Commission. This Division can also, with the cooperation of the Union Ministries and agencies under their control, arrange similar review of the expenditure of the Union Government. Professional institutes, organisations and Universities aided by Union government funds, can also be involved in such studies.

Permanent Finance Commission, its Secretariat/Division

10.8.26 Finance Commission has to deal with complex issues and the time available to it for the same is barely sufficient. Much of its time now spent on gathering data could be saved, if data collection is carried out on a continuing basis. Studies which may take time could also be organised in advance so that these are available to the subsequent Commissions and consideration of important matters would not be constrained for want of time. Two considerations are pertinent in this connection. Firstly, the Finance Commission is essentially an expert recommendatory body and cannot be expected to participate in active determination of the transfers on annual basis corresponding to changes in the economic situation. Indeed, the very scheduling of such exercises in an annual setting may be quite cumbersome and reopen a whole host of issues for consideration every year. Secondly, a measure of stability is desirable in the transfers and frequent changes may be very unsettling and counter-productive, giving rise to avoidable friction in Union-

State financial relations. We are, therefore, of the view that there is no need for a permanent Finance Commission.

10.8.27 The next question for consideration is whether it is possible to mitigate the difficulties and handicaps of a Finance Commission resulting from its periodic constitution with new members, in assessing the fiscal needs of the States, projected over the next five-year period. The Seventh Finance Commission had observed: "The position which prevails now is that once a commission completes its work, a small and ineffective cell comes into being in the Union Ministry of Finance, and this cell is merged in the Secretariat of the next Commission. This arrangement, in our view, in inadequate. We do, however, feel that it will be extremely useful to future Finance Commissions and greatly facilitate their work, if an expert non-political agency were to be established by the Central Government and were to perform such functions as the Secretariat of the Commission is expected to perform. In addition, it would be expected to play a watching a advisory role with regard to Centre-State financial relations generally. As and when a full-fledged Finance commission is appointed, this agency could merged into the Commission and its Secretariat. It should have the authority to call for whatever information may be required from the Central and State Governments and their institutions and should analyse and prepare the data based upon which a Finance Commission when appointed can act without further loss of time. It should carefully oversee the implementation of the recommendations of a Finance Commission as accepted by the Central Government and its advice should be sought by the various Ministries of the Central Government on matters which may require follow-up action".[48]

10.8.28 The Eighth Finance Commission also observed:

> "................. we do think that there should be a permanent Secretariat which should continue to function during the interregnum between one Commission and the next. Such a Secretariat should be headed by a senior officer, and may function as a Division in the Ministry of Finance. We are not satisfied by the present arrangement under which a small Cell consisting of a few officials functions as a part of the Ministry of Finance."[49]

10.8.29 We have been informed that in pursuance of the recommendations of the Eighth Finance Commission a Finance Commission Division has since been created in the Union Ministry of Finance with the following functions:

(i) Continuously update the data, both in financial and physical terms relating to performance of Union and each of the State Governments in fields which have been or could be of interest to the work ordinarily assigned to the Finance Commission;

(ii) Compilation of data and analysis of the working of the State undertakings including irrigation schemes to see whether the prescribed norms are being achieved and to suggest remedial measures;

(iii) To prepare analytical studies on the basis of the data collected from the State Governments regarding revenues, expenditure and prepare comprehensive reviews;

(iv) Resheduling and consolidation of loans on the basis of the Finance Commission's recommendations;

(v) Allocation of additional grants to States for meeting interest liability in respect of fresh loans advanced;

(vi) Allocation of additional grants in respect of committed liability for the new schemes taken up in 1984-85;

(vii) To monitor and evaluate the utilisation of the upgradation grants provided by the Finance Commission to States;

(viii) Collection of data about non-developmental sectors for preparation of comprehensive proposals for achieving equalisation of the standards of administration and social services in States within a definite period;

(ix) Organisation of suitable training workshops for the benefit of States which may be in need of such assistance.

10.8.30 We are of the opinion that there is need to further strengthen the Finance Commission Division. It would result in much closer coordination between the Planning Commission and the Finance Commission if this Division were to work under the general supervision of the Member in-charge of financial resources in the Planning Commission. Such an arrangement will also make available to the Planning Commission data and analysis on various parameters relevant for resources discussion for the Plan and reviewing of the finances of the Union and the States.

Composition of Finance Commission

10.8.31 Article 280(1) requires the President to constitute by order a Finance Commission within specified time-frame, comprising a Chairman and four other members. Clause (2) of Article leaves it to Parliament to determine by law the requisite qualifications of the Members and the manner of their selection Parliament enacted the 'Finance Commission (Miscellaneous Provisions) Act, 1951'.

10.8.32 No serious objection has come to our notice regarding the composition of the various Finance Commissions. A review of the composition of the nine Finance Commissions confirms that the prescribed strength, requisite specialisations and background of their Members and time-limit in their constitution were duly adhered to.

10.8.33 A suggestion has, however, been made that the State Governments should have representatives on the Finance Commission. One of the suggestions (non recommendation) of the Expert Committee on Financial Provisions of the Constitution (1947) was that two of the members of the Finance Commission be selected out of a panel of names from the States. Further, the appointment of the Chairman and Members of the Commission should be made by the President in his discretion as the Committee anticipated that the Commission would be required to deal with points of conflict between the Union and the State Governments. This was not accepted by the framers of the Constitution. This suggestion arises out of an apprehension that the States' case may go by default unless they are represented on the Finance Commission. The record of the Finance Commission, which have been known to be non-partisan, clearly shows that there is no basis for any anxiety on this score. We are, therefore, of the view that there is no need for any changes in the present arrangements in regard to the constitution of the Finance Commission.

10.8.34 Finance Commissions should draw from all over the country experts for assisting them in their work. Considerable amount of talent and experties in regard to Union-State financial relations is in the States. It would be advantageous if suitable experts are drawn from the States also for staffing the Secretariat of the Finance Commission.

10.8.35 The broad duties of Finance Commission have been enumerated in Article 280 of the Constitution. Over the years, a number of special terms under sub-clause (3) (c) of Article 280 and some 'special considerations' came to be included in the Presidential Order. Although the Presidential Order appointing the Finance Commission and specifying its terms of reference is drafted by the Union Government, some of the States in the past are understood to have voluntarily suggested to the Union Government important matters which the Finance Commission should look into. In the context of the Seventh and the Eighth Finance Commissions a more systematic consultation with the States on their terms of reference took place. The then Union Finance Minister invited suggestions from all the Chief Ministers in regard to the terms of reference for the Seventh Finance Commission. An official-level Committee formed in the Union Ministry of Finance to formulate the terms of reference considered, among other things, the replies received from the States. In the case of the Eights Finance Commission, while no suggestions were invited from the State Chief Ministers on 'terms of reference', an official-level Committee under the Union Expenditure Secretary was set up on which some State Governments were represented. The same procedure was followed in the case of the Ninth Finance Commission.

10.8.36 The step taken by the Union Government to initiate a process of consultation with the States in finalising the terms of reference of the Finance Commission is in the right direction. Any consultation to be meaningful should be adequate. However, we do not see any advantage in formalising the same through a change in the Constitutional provisions which would introduce, undue rigidity. Nonetheless, it is desirable that this healthy practice of informal consultation with the States in this matter should continue.

Special Considerations

10.8.37 Another criticism relates to the 'considerations' which the Finance Commissions are asked to have regard to, among other things, in recomending grants-in-aid under Article 275. These are in addition to the special terms of reference as per sub-clause (3) (c) of Article 280. These 'considerations' it is alleged, have conditioned the methodology of the Finance Commissions.

10.8.38 In making recommendations, the Finance Commissions have been asked to have due regard, among other things, to certain 'considerations'. To illustrate, the Sixth Finance Commission was required to consider the require-ments of States' backwardness in general administration with a view to raising the levels to those of the advanced States over a period of ten years. Similarly, some of the 'considerations' listed for the Seventh Finance Commission were:

(i) the resources of the Central Government and the demands thereon on account of expenditure on civil administration, defence, border security, debt-servicing and other committed expenditure or liabilities;

(ii) adequate maintenance and upkeep of capital assets and of completed plan schemes as on a specified year and monitoring of such expenditure, and

(iii) the need for ensuring reasonable returns on invest-ments in irrigation and power projects, transport undertakings, industrial and commercial enterprises and the like. [50]

In the Presidential Orders constituting both the Seventh and Eight Finance Commissions it was stated that "the Commis-sion shall adopt the population figures of 1971 census in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grant-in-aid".

10.8.39 On this issue, the Union Govenment has communi-cated to us that the Finance Commissions are free to make recommendations on matters covered by Article 280, in any manner they deem fit. The Presidential Order in all these cases states that the Finance Commissions shall 'among other things' have regard to the listed considerations. These considerations are, therefore, to be viewed as "an illustrative list of the factors considered germane by the Government to the task of the Finance Commissions". The Union Government has observed that the stipulation that the population figures of 1971 census should be adopted wherever pupulation is used as a factor in making recommendations for either devolution of taxes or grants-in-aid is in keeping with the Family Welfare Policy approved by Parliament on June 29, 1977.

10.8.40 Finance Commissions have enunciated from the very beginning considerations to be kept in view by them while determining the grants-in-aid, e.g., fiscal needs, considerations of equity in resources allocation among the States, etc. They have also taken into account, while assessing the fiscal needs, the considerations listed in the Presidential Order. But these conditions, have not by themselves restricted their approach. In fact, the Seventh Finance Commission observed: "The Commission's freedom to take into account other factors is not inhibited".[51] We note that a controversy has arisen in regard to the terms of reference of the recently constituted Ninth Finance Commission, particularly on para 4 of the Presidential Order which, it is alleged, binds it to follow a 'normative approach' and to take into account certain other aspects. In view of the reasons already stated by us in the preceding paragraphs, we are not covinced that any reference to Finance Commission unless constituting a term of reference vide Article 280(3) of the Constitution, can bind or delimit its approach. However, it will only be appropriate and befitting the statutory and high status of the Finance Commission that any considerations suggested to it, besides its terms of reference under Article 280(3), are put in a language which does not give an impression of formally binding it to adhere to a given approach or methodology.

10.8.41 The review made above clearly shows that from the practical angle the listing of various terms of reference and 'considerations' only facilitate the work of the Finance Commissions. They are, indeed, found to be reasonable, in the interests of equity and social justice. We have noted that the Finance Commissions have made recommendations in regard to various matters enumreated in the terms of reference as well as some others. It would thus appear that the objections are more on the theoretical plane. We are, therefore, of the view that the existing procedure has considerable merit in focussing the attention of the Commission on important problems faced by the States, and may continue.

Effectiveness of the mechanism

10.8.42 Several of the less-developed and middle income group States have drawn our attention to what is called the "gap-filling approach" of the Finance Commission. This approach implies that the revenue deficits which remain after determining and setting off the tax-shares of individual States are covered by the Commission through grants-in-aid. It is agrued that the adoption of such an approach, in essence, has led to the phenomenon of huge surpluses with some of the more-developed States after devolutions and slender or zero surpluses with the others. On the other hand, according to one of the advanced States, the highly "progressive" formulae of distribution of tax-shares followed by the Finance Commissions, entirely benefit the Union by minimising its total burden of devolution at the cost of revenue surplus States. Further, such formulae also do not benefit the deficit States fully as their deficits persist even after tax devolutions, though at a somewhat reduced scale. Moreover, the norms adopted by the Finance Commissions in reassessing revenue and expenditure forecasts do not obtain in reality, *inter alia*, on account of inflation and emergence of unforeseen situations. It is argued that in such a situation, with expenditure building up faster, the States receiving Article 275 grants to make up revenue account deficits are the first to be adversely affected followed by other less-developed States.

10.8.43 It is for the future Finance Commissions to go into the details and merits and demerits of the methodologies followed by the previous Finance Commissions and to suggest improvements therein. There has been a discernible trend towards refinement in the methodologies of the successive Finance Commissions. However, it may be necessary to go into the broad causes of disatisfaction so far as the role of the Finance Commission is concerned.

10.8.44 The most important parameter estimated by the Finance Commissions is the non-Plan revenue gap/surplus of the States. It is arrived at by reassessing tax and non-tax revenue forecasts of the States and deducting from them the non-developmental and non-Plan developmental expenditures. In 'projecting' the revenues, the rates of taxes and tariffs as obtainig in the base-year immediately prior to the period of the Finance Commission are taken into account as specified in the Presidential Order setting out the terms of reference. By implication, additional resource mobilisation effected in the subsequent period through revision in rates of taxes and tariffs, better collection, etc. is deemed as resource available for financing the plan.

10.8.45 This approach adopted by the various Finance Commissions has been criticised on the following grounds:

(i) The more-developed States have a surplus on non-Plan revenue account on their own resources, before taking into account devolution of taxes. Given the heavy reliance on tax-shares, any devolutions from the Finance Commission only adds further to their surpluses. These surpluses enable them to finance higher levels of expenditure, both Plan and non-Plan. In the case of the weaker States, they are heavily in deficit on their own resources. In the case of some of them the deficit persists even after devolutions by the Finance Commissions through tax-shares. This deficit is made up by giving grants-in-aid to them leaving them in a situation of zero surplus. It has been argued that such a system is totally opposed to principles of equity which would, in fact, require that they be left with large surpluses. It has been observed that since revenue account has been observed that since revenue account has been balanced with the help of grants-in-aid, and grants-in-aid are fixed, the effect of inflation is to convert the zero surplus into a deficit.

(ii) The Finance Commissions have necessarily to adopt a normative approach. The norms of receipts and expenditure adopted are stated to be unrealistic, particularly in the case of returns assumed from past investments on irrigation and power projects.

(iii) Specific grants have been give to States irrespective of whether they are, in deficit, or are enjoying a revenue surplus.

(iv) The "gap-filling" approach of the Finance Commissions has induced financial indisipline in the States. The critics suggest incorporation of some system of incentive and penalty corresponding to the quality of fiscal effort and management, in the absence of which the mechanism tends to become anomalous and iniquitous.

10.8.46 The Constitution provides that grants-in-aid of revenues charged on the Consolidated Fund of India in each year may be given to such States as are in need of assistance [Article 275 (1)]. The questions as to which States are in such need, is determined by Parliament after considering the recommendations of the Finance Commission. The gap between the estimated expenditure on current administration and the revenues of a State after including the devolutions by way of tax-Sharing, is taken by the Finance Commission as the "need" of that State. This may not be a fool-proof method of assessing the need of a State, but there is no alternative except to improve upon it. Several imponderables complicate this process. The Finance Commissions have themselves been

conscious of the infirmities of this method, that, *inter alia*, it tends to encourage unsound fiscal. policies and wasteful expenditure on the part of a State. In his key-note address at a symposium in August, 1974, Dr. Brahmananda Reddy, an experienced statesman and Chairman of the Sixth Finance Commission, emphasised the difficulty of evolving infallible formulae for assessing the fiscal needs of the States, as follows:

"........ a fool-proof scheme of grants-in-aid can be worked out only if Finance Commission are able to evolve suitable yardsticks for adjudging the reasonableness of levels of public expenditure attained in several States. Finance Commissions have not been able to find satisfactory answers to such questions as whether there is evidence of over-staffing or other forms of wasteful and unproductive expenditure? It is not merely lack of time that inhibits a Finance Commission from embarking on such enquiries. Finance Commission also possibly apprehend that they may be called upon to pronounce value judgements on issues of policy once they attempt a detailed analysis in qualitative terms of expenditure in different areas of administration. Finance Commissions are handicapped in probing public expenditure in depth in the absence of sufficient details on such matters as strength and disposition of staff and norms for assessing productivity of public expenditure. Audit reports highlight major irregularities, but they do not enable us to quantify the extent of economies consistent with efficiency that are possible."

According to the Seventh Finance Commissions: "Grants-in-aid may, in the first place, be given to States to enable them to cover fiscal gaps, if any, left after devolution of taxes and duties so as to enable them to maintain the levels of existing services in the manner considered desirable by us and built into their revenue forecaste."[52]

10.8.47 No doubt various Finance Commissions have taken pains to enunciate rational principles taking into account fiscal needs, tax-efforts, equity, efficiency, etc. But much work remains to be done in regard to defining principles for determining relative fiscal needs, quantifying relative tax-potential, etc. In the absence of this, the importance of revenue gaps has stayed. We are of the view that serious attention should be given by future Finance Commissions to these aspects also.

10.8.48 The various Finance Commissions have been effecting refinements in the methodology, keeping in view the emerging situations and terms of reference. Some notable developments in this regard have been: the increase in the tax-shares of the States in the divisible pool, progressivity introduced in the criteria of allocation, consideration of States' non-Plan capital gaps, provision of grants for upgradation of levels of administration along with their monitoring, standardisation of arrangements regarding grants for natural calamities, and building 5 per cent annual increase in revenue gap grants and linking distribution of 5 per cent of the divisible proceeds of the Union Excise Duties with the assessed revenue deficits of the States. We note that the terms of reference of the recently constituted Ninth Finance Commission require it, *inter alia*, to adopt a normative approach in assessing the receipts and expenditure on the revenue account of the States and the Centre; have due regard to the need for providing adequate incentives for better resource mobilisation and financial discipline as well as closer linking of expenditure and revenue-raising decisions; take into account the need for speed, efficiency and effectiveness of Government functioning and of delivery systems for Government programmes, and keep in view the objective of not only balancing the receipts and expenditure on revenue account of both the States and the Centre, but also generating surpluses for capital investments. We hope that these terms of reference of the Ninth Finance Commission will help in evolving a more comprehensive and integrated approach and will ultimately result in providing the much needed financial discipline both in the States and at the Centre.

10.8.49 State Governments and experts have made various suggestions in regard to methodological improvements, e.g., regarding changes in criteria of devolution, incroporation of fiscal-needs approach in place of the alleged gap-filling approach, special provisions, for the hill States in the devolution, etc. These are also the issues raised before successive Finance Commissions. We feel that such matters should appropriately be considered by the future Finance Commissions.

10.8.50 We cannot but emphasis two matters in this regard. Firstly, there is need to recognise that the less developed areas, would require greater attention than hitherto in the over-all interests of the nation. Even within a more advanced State, there are backward regions, which call for special attention. Secondly, it is imperative that the system of devolution encourages resource mobilisation, efficiency and cost-effectiveness in the application of the same. This aspect has assumed greater importance today than at any time before, owing to the emergence of a substantial resoruce crunch both in the Union and in the States.

State Planning and Finance Boards

10.8.51 Consideration of adequate, flow of funds to the backward regions in the States would necessitate creation of expert bodies like the Finance Commission at State level also. Without such an organisation at the State level to effect regional distribution, skewness will persist in large pockets even in an advanced State. In the Chapter on Economic and Social Planning we have stated that the State Planning and Finance Boards suggested by us can, with advantage, take an objective view of resources to be devolved to the districts.

Support to Administrative Capacities and Infrastructure

10.8.52 Another point which we would like to emphasise is the desirability of continuing the provisions for upgradation of administrative standards and maintenance of infra-structure and capital assests in the States. Since the Sixth Finance Commission a process has been initiated to give grants for upgradation of levels of a administrative/organisational support in backward area is a *sine qua non* for making the investment effective in consonance with the accepted policy of reducing regional disparities. As has been observed by the National Committee on the Development of Backward Areas, the present capacity of such States to absorb investment is a limiting factor for their long-run development. It may even be desirable to provide in the special terms of reference of the Finance Commission to make available finances, with effective monitoring arrangements, to fill up the inter-State gap in administrative capabilities, Otherwise also, we hope that the Finance Commissions will continue paying attention to this vital aspect.

Treatment of the Finance Commission's Recommendations

10.8.53 An important aspect connected with the role of the Finance Commission is the treatment accorded to its recommendations by the Union Government. By and large, the recommendations made by the Finance Commissions have been accepted by the Union Government. However, there have been three instances when the recommendations of the Finance Commissions were not accepted:

(i) The Third Finance Commission's recommendation for devolution as part of Article 275 grants, towards 75 per cent of the revenue-component of the Third Five-Year Plan was not accepted. The reason given by the Government was that no real advantage was seen in channelising grants for the same purpose from two different sources.

(ii) Two recommendations made by the Seventh Finance Commission were not accepted. They were:

- (a) The loss equal to the difference between the amount of excise revenue realised on sale of potable liquor and that assumed by the Commission may be compensated by the Centre to the full extent.
- (b) The small savings loan should be treated as 'loans in perpetuity.'

The former recommendation was not accepted on the ground that as prohibition was among the Directive Principles of State Policy, the State should also bear the loss. The Union Government's contribution was fixed at 50 per cent. In the case of the latter recommendation, the Government was not convinced of the logic given by the Commission and did not accept the recommendation. However, a decision was subsequently taken to postpone the recovery of these loans from the States for the period of the Finance Commission (1979—1984).

(iii) Recently the final recommendations of the Eighth Finance Commission were not implemented during 1984-85, i.e., the first year of the Commission's period of reference, during which its Interim Recommenda-tions remained in force.

10.8.54 It is this last instance which has been strongly protested against by several States, exeperts and others. It is alleged that, besides causing serious hardship to seven States as their expectations for higher devolutions in that year were belied, this has also adversely affected the prestige of the Finance Commission. In view of the latter aspect, in particular, this case requires a review here.

10.8. 55 The Union Government stated in the Explanatory Memorandum placed before Parliament that as four months of the financial year 1984-85 had arleady passed by which time the budget and annual plans were already finalised and were in operation, the implementation of the final recommendations would have caused 'undue disruption in the economy' if the budgets and the annual plans were then changed. In particular, it was stated that changes in the shares of taxes and duties, if effected at that stage, would have caused problems resulting in lower shares to some of the States.

10.8.56 Subsequently, in reply to a quary on this issue, the Ministry of Finance gave following additional reasons for non-implementation of the final recommendations of the Eighth Finance Commission in 1984-85:

(i) If the Union Government had received the report of the Finance Commission in time, it would not have agreed to give to the States Central Assistance towards the Annual Plan of the order made. The Central assistance was stepped up for the Annual Plan, involving additional transfers, of about Rs. 790 crores over the balance left for the last year of the Sixth Plan. Further, a decision was taken to provide an extra assistance of Rs. 499 crores to the States as medium-term loan to clear their overdrafts at the end of the financial year.

(ii) The recommendations of the Finance Commission, according to Constitutional provisions "do not constitute an award". These are "recommendations" to the President. Finance Commission is "an aid to the administrative machinery". The executive may or may not accept its recommendations considering their feasibility and desirability of implementation on objective considerations.

(iii) Finding additional resoruces to implement the final recommendations would have required unpleasant measures like additional taxation or deficit financing.

10.8.57 The above-mentioned reasons are to be evaluated in the light of the following facts:

(i) Presentation of the final report of a Finance Commission in the course of the financial year of its period of the reference is not an unusual phenomenon. The Fifth Finance Commission presented its report on July 31, 1969; yet it was implemented from that very year.

(ii) The argument that the Union Government would not have released substantially high order of Central Plan assistance to the States if the final report had been available in time, cannot be a justification for non-implementation of the recommendations as the nature of the two transfers is different. Central plan assistance carries a heavy loan component whereas the devolutions through the Finance Commission are in the nature of tax-shares and grants.

(iii) While some of the States might have lost in the mid-year implementation of the report in terms of tax-shares, etc., corresponding loss to other States due to non-implementation was much larger.

(iv) The final report of the Commission was submitted on April 30, 1984 but was presented to Parliament only on July 24, 1984. The Budgets and Annual Plans for 1984-85 were prepared on the basis of the recommenda-tions contained in the Interim Report of the Commission which were provisional in character. Nonetheless, there existed an expectation of more funds becoming available to the States during the course of the year.

(v) Assistance given on the basis of the Interim Report could be adjusted against dues based on the Final Report.

10.8.58 It is, indeed, unfortunate that the Eighth Finance Commission's final recommendations were not implemented in 1984-85 which caused serious financial problems to some States. Several State Governments have voiced protest in this connection before us. It has to be appreciated that non-implementation of Finance Commission's recommendations not only causes damage to its prestige but may give rise to serious friction in Union-State relations in future. We cannot but stress that while the recommendations of the Finance Commission are not binding on the Union Government in a technical sense, the expectation is that, as far as possible, these would not be departed from without compelling reasons, We hope that in future there would be no occasion for such departure. It is necessary that the time-schedule for the completion of the Finance Commission's work is so drawn up that it can reasonably submit its final report 4 to 5 months before the beginning of its period of operation. Such a step would also give the Union Government sufficient time to get the recommendations examined, place the Explanatory Memorandum before Parliament and make necessary budgetary provisions.

Finance Commissions' Data and other Observations

10.8.59 We would like to mention two more aspects regarding the Finance Commissions which hae been brought to our notice:

(i) during the course of its work the Finance Commission collects and proceses massive statistical data and other information. This does not become available for research and analysis by the experts and research institutions and even to the Government departments generally. This indeed, is not a happy state of affairs. We understand that the Australian Commonwealth Grants Commission publishes the details of its calculations and the intermediate data for scrutiny of public and use by researchers. As much of the information gathered by the Finance Commission, as well as the detailed methodology followed by it is of public interest, we recommend that it should be got published, say within six months of the submission of the Report, to enable informed discussion and responsible research in the relevant spheres and better appreciation by the State Governments.

(ii) In addition to the matter specified in the terms of reference, the Finance Commissions make a number of other observations and suggestions which they deem important. Some of these suggestions are taken note of by the Government. We are of the view that it will be a healthy practice if these observations and suggestions are also considered expeditiously by the Union Government and a comprehensive statement placed before Parliament subsequently indicating its views and action taken.

9. *SPECIFIC PROBLEMS AND INSTITUTIONS*

10.9.01 We have already considered the general issues, trends and the arrangements in Union-State financial relations. We now consider a variety of specific problems which have been raised by the State Governments in the working of the arrangements. Firstly, there are allegations regarding restrictions on States' powers of sales taxation, inadequate exploitation by the Union Government of the revanue heads under Articles 268 and 269, insufficient royalty on minerals and pressures on States' resources following revisions in pay-scales, rates of dearness allowance, etc. Secondly, some suggestions have been made for setting up institutions for consultations between the Union and the States on financial matters and for expenditure control. Finally are those problems arising in the day-to-day financial management, viz., regarding release of instalments of Central Plan assistance, natural calamities relief assistance, grants for upgradation of levels of administration, etc. The issues relating to indebtedness, market borrowings, rationalisation in the allocation of capital resources, the problem of overdrafts and flow of institutional finance have been discussed in Section 10.

Constraints on Resource Mobilisation–Sales Taxation

10.9.02 The enactment of Central Sales Tax Act, 1956, while declaring a number of goods to be of special importance in inter-State trade or commerce, has also put restrictions on States' powers to impose any tax on the sale and purchase of such goods inside the State to 4 per cent (which is the current rate) of the price, and that too only at one stage of its transaction. This followed amendment of Articles 269 and 286. A State Government has suggested that the power of Parliament under Clause (3) of Article 286 should not be exercised without consulting the states. A regional party also has suggested omission of Entries 92A and 92B from the Union List with corresponding modification on Entry 54 of the State List.

10.9.03 We have already noted that Sales Tax is the single most important and elastic source of revenue to the States. Its share in States' own tax-revenue has increased from about one-fourth in 1951-52 to 56.9 per cent in 1984-85. Arbitrary abridgement, if any, of States' powers in this regard, therefore, has to be viewed seriously.

10.9.04 In the Government of India Act, 1935, vide Entry 48 of List II, the Provincial Legislatures had powers to levy "taxes on the sale of goods and advertisements". By the time the Constitution came to be framed, a tendency on the part of the States was observed to tax goods in inter-State sale as internal sale leading to unregulated and multiple taxes on such goods which was burdensome both to the consumer and the trader. In the Constitution, therefore, certain restrictions were incorporated to meet this situation.

10.9.05 Article 286, prior to the Constitution (Sixth Amendment), Act, 1956, read as under:

"286. (1) Law of a State shall impose, or authorise the imposition of, a tax on the sale or purchase of goods where such sale or purchase takes place–

(a) outside the State; or

(b) in the course of the import of the goods into, or export of the goods out of, the territory of India."

10.9.06 Parliament had declared a number of goods as "essential goods" *vide* Essential Goods (Declaration and Regulation of Tax on Sale or Purchase) Act, 1952, thus prohibiting the States from taxing them. The Taxation Enquiry Commission, 1953-54 which, among other things, also looked into the inter-State sales taxation and anomalies in the approach to sales-taxation, made recommendations which led to the Constittution (Sixth Amendment) Act, 1956. Union List (Entry 92A) and the State List (Entry 54) of the Seventh Schedule, Articles 286 and 269 were amended with the following effect:

(i) The States cannot impose, or authorise imposition of any tax on sale and purchase of goods outside the State or in the course of imports and exports of goods across the territory of India (Clause (1) Article 286).

(ii) Parliament acquired the power to levy taxes on inter-State sale or purchase of goods (vide Entry 92A, List I, Seveth Schedule).

(iii) The proceeds of inter-State taxation became assignable to the States (Article 269).

(iv) Parliament was empowered to formulate, by law, principles determining inter-State sale and purchase of goods and their import and export across the territory of the country (vide Clause (2), Article 286).

(v) Parliament was also given powers to declare goods which are of special importance in inter-State trade or commerce and subject to the States' powers of taxation in this respect to such restrictions and conditions in regard to the system of levy, rates and other incidence of the tax as Parliament may by law specify (vide Clause (3) Article 286).

10.9.07 On the recommendations of that Commission, the Central Sales Tax Act was passed in 1956, essentially to achieve a degree of uniformity in taxation of goods of special importance by the States. It enabled the Union Government to regulate taxation of goods of special importance by the States. The original limit of 1 per cent of States Sales Tax, that too at single point, was raised to 2 per cent in 1958, 3 per cent in 1966 and 4 per cent in 1975. The list of the 'goods of special importance' was revised in 1976, and at present includes fifteen items (List of goods is given in Annexure X.16).

10.9.08 As observed in the Chapter on Legislative Relations, the Constitutional amendments referred to above were necessitated due to noticed ambiguity as it stood originally in clause (2) of Article 286 which had given rise to litigation. The arrangements as they stand today have several advantages. They are intended to prevent multiple taxation of the same transaction and thus keep the burden of taxes low on both consumers and producers of subsequent items. They facilitate maintaining of uniform rates of taxation of items declared as 'goods of special importance' with respect to which the powers of Parliament under Article 269 (Entry 33 of List III) were enhanced by the Essential Commodities Act, 1955. They have also sought to plug loopholes in the law and are in consonance with the spirit of Article 19(g). A more or less uniform rate of taxation of such items throughout the country and exercise of check in their taxation becoming too heavy on consumers and other users, are abundantly justified in terms of principles of equity and efficiency in the system. It is a matter of choice which the community as a whole has to make regarding the extent to which the essential goods need to be taxed but the need for uniformity cannot be disputed. Indeed, one of the objects of the 1956 Act was also to enable the State Governments to raise additional revenue from items then immune from taxation. Thus, while the Union Government levies sales tax on goods in inter-State trade, the proceeds are collected and retained by the States.

10.9.09 In view of the above considerations, we are of the view that the restrictions on the powers of the States to tax sales of specified goods cannot be regarded as arbitrary. Any other problems arising in this regard can be resolved by discussion in the proposed National Economic and Development Council or the Sub-Committee on Finance of its Standing Committee recommended by us later in paragraph 10.9.50. These could also be referred for expert advice to the Authority recommended by us to be set up under Article 307 (see para 8.4.05).

Consignment Tax

10.9.10 A regional Party has suggested that Entry 92B should be deleted. We have considered in the Chapter on Lgislative Relations this demand. Any tax levied by the Union under Entry 92B is assignable to the States and apart from augmenting States' resources it will also help plug loopholes. We haved, therefore, not supported the proposal for deletion of this Entry. Enetry 92B of List I was inserted by the Forth-Sixth Amendment to the Constitution in 1982. Even though five years have elapsed, no legislation has been undertaken to given effect to the intent of the Constitutional amendment. This has given rise to serious apprehensions. According to an estimate, the revenue realised from Consignment Tax during this period would have been in range of rupees 2,000 to 4,000 crores per annum. The States have a legitimate grievence that they are losing substantial revenues on accounts of inaction or delay by the Union. Indeed, one State Government as strongly represented that due to delay in the levy of the Consignment Tax, it has lost substantial revenues—around rupees 100 crores every year. In as much as the entire amount is assignable to the States, the Union is also laying itself open to the charge that precisely for this reason it is not showing sufficient interest in the lavy of this tax.

10.9.11 The Union Government has pointed out that the basic decisions about levying the tax and the manner of allocation of its proceeds were taken by consensus in a Conference of Chief Ministers convened by the then Finance Minister as early as on May 28, 1984. When asked out the reasons for the delay in the imposition of the Consignment Tax, the Union Minister of Finance has informed us in July 1986, as under :

> "It was decided by the Conference, among other things, that power of exemption might vest only in the State Governments. Subsequently, suggestions were received from various Ministries that it was essential that power of exemption might also vest concurrently with the Central Government along with the States. It was felt that the concurrent power of exemption would enable the Centre to have uniformity of taxation on goods and transaction of All India importance throughout the country and also to avoid any marked fluctuations of the prices of the commodities of national importance and those which are subject to the scheme of administered prices. Accordingly, Finance Minister wrote to the Chief Ministers in this regard. Some States agreed to this suggestion while others opposed it. The matter is proposed to be place before the Chief Ministers' Conference to be convened shortly by the Finance Minister."

10.9.12 There are two aspects which should be kept in view. Firstly, the levy of Consignment Tax will help to plug loopholes and enable a better check on evasion of inter-State Sales Tax. Here, the rate of tax is not the important aspect, but the fact that even a low rate of tax will help in detecting the evasion. The other aspect is that this tax is a potential source for raising substantial revenues for the States. It is a matter of serious concern that even after a lapse of about five years no legislation has been brought in for giving effect to the intent of the Constitutional amendment. By any reckoning, five years is long enough period sufficient for consultations with States and experts for formulating a Bill laying down the broad substantive guidelines, spelling out the methodology of levying the tax, delegating to the Union Executive authority to work out the details in regard to rate, etc. in accordance with the guidelines. We are of the firm view that the Union Government should bring in suitable legislation in this regard without further loss of time.

Additional Excise Duties in Lieu of Sales Tax

10.9.13 Another area where allegations of Union Government's inroads into States' sphere of raising revenue are made is the replacement of States' Sale s Tax by Additional Duties of Excise on selected commodities. This arrangement came into being after the concensus arrived at in the meeting of the National Development Council in 1956. Additional duties of excise in lieu of States' Sales Tax have since been implemented through the 'Additional Duties' of Excise (Goods of Special Importance) Act, 1957 covering millmade textiles, sugar and tobacco including un-manufactured tobacco. The receipts on this account are distributed among the States on the recommendations of the Finance Commission. The major considerations which weighed in evolving such 'tax-rental' arrangement as described by the Fourth Finance Commission, consisted of removal of administrative complexities and simplification of the structure of commodity taxation; preference indicated by trade, industry and consumer for excise taxation vis-a-vis sales tax; reduction in cost of collection and opportunities of evasion, and better collection and coordination keeping in view the total incidence of commodity taxation.

10.9.14 In their memoranda submitted to the Fourth and Fifth Finance Commissions, the State Governments complained that the receipts from additional excise duties were much lower than what they would have got if they had imposed sales tax on them. In pursuance of the recommendations made by the Fifth Finance Commission, the National Development Council in its meeting held on December 28, 1970, reviewed the arrangements and approved continuation of the scheme subject to :

(i) conversion of specific duties into *ad valorem* duties except in respect of unmanufactured tobacco;

(ii) the raising of the incidence of additional excise duties as a percentage value of clearance to 10.8 per cent 'in a period of two to three years'; and

(iii) achieving and maintenance of ratio of 2:1 between the yields of basic excise duties and the additional excise duties on these commodities.

10.9.15 A Standing Review Committee consisting of Central and State Government representatives was also constituted for reviewing the scheme. The committee suggested that the rate of 10.8 per cent be reached in phases, viz., 8.5 per cent by 1984-85, 9.75 per cent by 1987-88 and 10.8 per cent, by 1989-90. It also suggested that the States should not insist on 2:1 ratio of basic to additional excise duties till the incidence of additional excise duties of 10.8 per cent (with a total incidence of 32.4 per cent) was reached. Further, it was recommended by the Review Committee that the level of incidence should not be allowed to go below 7.4 per cent in future years. The Eighth Finance Commission expressed the hope that the above recommendations of the Standing Review Committee would be implemented by the Union Government within the time schedule contemplated. In 1984-85, the assurance regarding achievement of the incidence of 8.5 per cent of the value of clearances in respect of the additional excise duties was reached. The incidence of additional excise duties for 1987-88 is estimated at 9.90 per cent as against 9.75 per cent recommended by the Standing Review Committee. We hope that the level of 10.8 per cent of the net value of clearance will also be realised as per schedule indicated by the Standing Review Committee.

10.9.16 On the recommendations of the Report of the Indirect Taxation Enquiry Committee, 1978 (Chairman : L.K. Jha), a proposal has already met with general approval of the Chief Ministers in their meeting in September, 1980 to extend the scheme of additional excise duties to five more commodities; (i) Vanaspati; (ii) Drugs and Medicines; (iii) Cement; (iv) Paper and Paper Boards; and (v) Petroleum products. Some of the State Governments have, however, expressed reservations about the proposed extension of the scheme.

10.9.17 This scheme of extension of Additional Duties of Excise was examined by an Expert Committee (Chairman : Kamlapati Tripathi) 1983, which, among other things, suggested formulae for distributing the revenue realisable by additional excise duties from the five commodities under the proposed scheme.

10.9.18 On a consideration of the arguments given by the State Govrnments against the arrangement of additional excise duties in lieu of sales-tax, it has been observed that the problem is not so much with the rationale or principles involved as for not raising the tax to the level accepted by the National Development Council. The State Governments, in view of the past experience, do not feel assured with the formulae suggested and that the recommendations made by the Tripathi Committee would be duly honoured. One State Government has mentioned that this has happened because the decisions of the National Development Council have no statutory backing and that the recommendations of the Tripathi Committee might meet with the same fate resulting in considerable loss to the State Governments. Another State Government has challenged in the Supreme Court the provisions of the Constitution (Sixth Amendment) Act, 1957, Section 10 and 11 of the Central Sales Tax (Second Amendment) Act, 1958 and Additional Duties of Excise (Goods of Special Importance) Act, 1957.

10.9.19 We note that whatever be the theoretical arguments in favour of levy of additional excise duties in lieu of Sales Tax, in practice, many problems have arisen. The experience of the States during the past decade and more, in regard to Additional Duties of Excise on mill-made textiles, sugar and tobacco has given room for genuine apprehensions. Unless these misgivings are removed by devising a suitable formulae acceptable to the State, any extension of the scheme to additional commodities is likely to create quite an amount of Union-State friction. In view of the advantages of the scheme of Additional Excise Duties cited in para 10.9.13, we do not favour withdrawal of the present scheme as has been suggested by a State Government. We also note the document on long Term Fiscal Policy has stated :

"Merger of additional excise in lieu of sales tax with basic excise duties, though desirable, is not feasible for the present as it would require evolving a suitable formula for allocating a part of the excise duties on textiles, tobacco and sugar for distribution among the States. The matter will be referred to the next Finance Commission for determination of a suitable formula."[53]

We note that this matter has since been referred to the Ninth Finance Commission for examination.

Special Cesses/Duties in Excise Taxation

10.9.20 There have also been areas of inadequate under-standing in the sphere of excise-taxation and sharing of its proceeds. State Governments have viewed with dissatisfaction the various types of special regulatory and auxiliary duties which were imposed by the Union Government to raise exclusive and additional revenues. These have gradually become sharable with the States. However, the yield from certain cesses levied through special Acts of Parliament have remained outside the sharable pool of resources. Such cesses and duties earmarked for special purpose constitute about 10 per cent of the gross proceeds of the Union Excise Duties. The Finance Commissions, including the last one, have treated them on a different footing from the other variants of Excise duties and have not considered it desirable to suggest their sharing with the States. In the Long Term Fiscal Policy (1985), it has been recognised that although the revenue from these cesses is earmarked for specific purposes, they contribute to the multiplicity of taxes and that the "Government will endeavour to reduce the number of these cesses to the extent feasible."

10.9.21 We recommend that while it may become necessary for the Union Government to levy cesses in view of the special needs, their application should be for limited durations and for specific purposes only.

Articles 268 and 269

10.9.22 Some State Governments have pointed out that the fields of taxation mentioned in Articles 268 and 269, particularly of the latter, should be better exploited. In Section 5 we have already dealt with the suggestions made by some of the State Governments and political parties involving Constitutional changes with respect to powers to impose taxes enumerated in these Articles. Here we are concerned only with the allegation made regarding their inadequate exploitation by the Union Government thus depriving the States of the revenues assignable to them on their account.

Article 268

10.9.23 Article 268 relates to Stamp duties that are to be levied by the Union Government but collected and retained by the States. The scope for further mobilising revenues from various types of duties was examined by the Eighth Finance Commission in consultation with the Reserve Bank of India, Department of Banking, the Life Insurance Corporation and other concerned institutions. Some scope for raising stamp duty on bills of lading, letters of credit and policies of insurance and proxies was considered feasible but in the absence of adequate data the Reserve Bank of India could not quantify the amounts. This matter has to be further pursued by Government of India.

Article 269

10.9.24 Some State Governments have pointed out that the Union has not been taking steps to levy taxes covered by Article 269 and has thus deprived them of potential revenue. The Eighth Finance Commission considered the scope for raising revenues from the taxes and duties under Article 269 in pursuance of one of its terms of reference. A variety of problems in levying taxes and duties under Article 269 have been highlighted by the Commission. For example, although a majority of States favour levying of terminal taxes on goods or passengers carried by railway, sea or air, there are complex problems of detailed accounting, concurrent taxation by States on road transport, the need for maintaining a balance among the various modes, etc. Besides, meagre yields are estimated from these taxes and duties. Similarly, levying of a tax on railway freights of any considerable magnitude has to be considered against the odds of fuelling of inflation and the fact that the revenue yields may not be much in case the essential goods and raw materials are reasonably exempted from such a tax. The nascent stage of development of stock exchanges in the country was reckoned as a weighty consideration by the Eighth Finance Commission for not favouring a tax on transactions in stock-exchanges; the expected yield from a tax on transactions in 'futures market' was also considered to be insignificant. Further, a tax on the sale of news-papers, it is feared, will severely hit their circulation and not be in the larger interests of the country. The Eighth Finance Commission, however, did find some scope in levying tax on advertisements published in newspapers and journals which according to the estimates of Ministry of Finance, may fetch a revenue of Rs. 400 to 500 crores. Several States, however, favour exempting small newspapers from such a tax.

10.9.25 The scope for raising additional resources to any considerable extent on items covered by Article 269 would thus appear to have serious limitations. In fact, the opinions of the State Governments themselves are divided on the scope for levying these taxes and duties. It is necessary that the social and economic implications and administrative complexities are carefully gone into before any decisions are taken in this regard.

10.9.26 We are of the view that an expert committee should be constituted to enquire into, and review from time to time, in consultation with the States, the operational feasibility of the scope of levying such (Article 269) taxes and the complementary measures the State Governments would be required to take.

Tax on advertisements broadcast by Radio or Television

10.9.27 A State Government has made the following suggestions:

"A tax on advertisements should be imposed and the scope of Article 269(1)(f) may be widened to include, besides newspaper advertisements, advertisements broadcast by radio or telecast by television".

10.9.28 In paragraphs 10.9.24 and 10.9.25 above we have, *inter alia,* dealt with the scope for tax on advertisements published in the newspapers. States' power to levy tax on 'advertisements broadcast by radio or television' was precluded in Entry 55, List II by the Constitution (Forty-second Amendment) Act, 1976 in addition to the already existing exception in that Entry of tax on 'advertisements published in the newspapers'. But, whereas the latter had a corresponding mention in Entry 92, List I and Article 269(1)(f), the subject of tax on 'advertisements broadcast by radio or television' was not provided in the above-mentioned Amendment Act. We have not been able to get a satisfactory explanation for the same. The Union Ministries of Information and Broadcasting and Law and Justice have expressed the view that the rationale of amending Entry 55, List II was that the revenue from advertisements broadcast/telecast by radio/television should be fully available for the development of these services. Further, a tax on such advertisements might seriously erode accrual of revenue from them. We are not able to agree with these views as a tax on advertisements would have to be additionally borne by the advertisers without cutting into the revenues accruing to the Union. In view of the fast-growing commercialisation and competition, any adverse indirect effect of such a tax on revenue from advertisements on television and radio shall not be serious. For example, a steep hike in rates of advertisements on television effected in February, 1987 did not result in reduced demand for advertisement time.

10.9.29 As such, the implications of the amendment under reference amount to taking away the States' power in respect of taxation of advertisements broadcast on radio or television and, in addition, to denying them a share in the net proceeds, should the Union Government levy this tax (presumably under Entry 97 as it does not find a mention elsewhere in List I). This position appears quite anomalous to us. Such a tax, in principle, is on the same footing as the one on advertisements published in newspapers (Entry 92, List I)—only the media differ. It is, therefore, only logical that it should have found a place in Entry 92, List I and also been included in Article 269. As the television/telecasting network gets extended to large parts of this country, the revenue from this source is bound to increase fast. It will then be for the Union Government and Parliament to consider and exercise this power of taxation under this newly added head.

10.9.30 For all these reasons, we recommend that the Constitution should be suitably amended to add the subject of taxation of 'advertisements broadcast on radio or television' to the present Entry 92, List I and Article 269(1)(f).

Grant in Lieu of Railway passenger fare Tax

10.9.31 The State Governments have expressed serious dissatisfaction with the inadequate grant given in compensation of the repealed Railway Passenger Fare Tax. Such a tax was initiated in 1957 in accordance with the Railway Passenger Fares Act, 1957. It was repealed from 1st April, 1961 in pursuance of a recommendation by the Railway Convention Committee on the ground that the tax had reduced the scope for raising railway passenger fares. The States have since been paid grant in lieu of the tax which was initially fixed at Rs. 12.5 crores per annum and raised to Rs. 16.25 crores from 1966-67 and again to Rs. 23.12 crores for the period 1980-81 to 1983-84. The Eighth Finance

Commission has raised the grant to Rs. 95 crores per annum. The States have in the past felt dissatisfied about the fixed nature of this grant whereas the yield from railway passenger fares has increased manifold since 1961. Following this, a suggestion has also been made for reimposition of the tax. The successive Finance Commissions, while generally sympathising with the States' viewpoint, did not find reimposition of the tax advisable. The Eighth Finance Commission, however, found scope for levying the tax but observed that no such tax should be levied so long as the present arrangement of grants to States in lieu of the tax continues.[54]

10.9.32 By raising the lumpsum grant in lieu of the Railway Passenger Fare Tax, the Eighth Finance Commission has assuaged the feelings of the State Governments. While the matter, for the present, seems to have been settled amicably, for future we would only suggest periodical review and suitable adjustment of such lumpsum grant on the recommendations of the Finance Commission.

10.9.33 We have also noted that the implementation of the above-mentioned recommendation by the Eighth Finance Commission was somewhat delayed. In the Explanatory Memorandum laid before Parliament the procedure of its consideration by the Railway Convention Committee was mentioned.

10.9.34 The Finance Commission makes recommendations to the President. It would be unfortunate if the recommendations of the Finance Commission are again subjected to detailed scrutiny by yet another body, only because of likely impact on a department of the Union Government. Such matters should be treated as internal matters calling for inter-departmental adjustments in the functioning of the Union Government. We recommend that the Union Government should signify its acceptance of the Finance Commission's recommendation in regard to this item also along with the other items while placing the Explanatory Memorandum before Parliament.

Impact of Dearness Allowance, etc.

10.9.35 A major complaint of the State Governments is that periodical upward revisions of pay, dearness allowance, terminal benefits etc., of the Union Government's employees cast considerable burden on their finances as there is pressure on them to raise the benefits to their own employees covering not only Government servants but also employees of local bodies, teachers, etc. Due to bunching of such expenditure-obligations, the burden on the States' budgets often becomes unbearable, particularly for the less-developed States, thus wiping out the availability of surpluses from current revenues for development. On the other hand, during the last few years, revisions in the rates of salaries and emoluments in many States have been frequent and substantial, and in some cases have overtaken the pay-scales and benefits of the Union Government's employees.

10.9.36 The Finance Commissions have shown increasing concern with the States' expenditure requirements in this regard. The Eighth Finance Commission allowed dearness allowance upto an average of 520 points (All India Consumer Price Index Number with base 1960=100). However, the experience in this regard has been that the rate of inflation has been significantly higher than the original estimates on which such provisions were based. The burden and uncertainty in financial deployment due to dearness allowance, pay revisions, etc. has been faced by both the Union and the State Governments.

10.9.37 We note that the Finance Commissions take into account the expenditure liability of the States with respect to dearness allowance, etc. and make a provision for the same. According to some States, this provision has proved inadequate due to the actual rate of inflation being substantially higher than the projected rate. But if inflation increases outlay, it increases revenue also. The permanent secretariat of the Finance Commission recommended by us should make an annual review of the situation. We recommend that, if in any year the net burden of the State seems unduly heavy, the Planning Commission and the Union Ministry of Finance should jointly evolve appropriate relief measures.

Royalty on Minerals, Crude Petroleum, etc.

10.9.38 Some State Governments have alleged payment of inadequate royalty on minerals, petroleum, etc. extracted from their territories. The rates of royalty on minerals were to be fixed by the Union Government once in four years under Section 9(3) of the Mines and Minerals (Regulation and Development) Act, 1957. Following an amendment of the Act in 1986, this period has been reduced to three years. Similarly, in case of crude oil, the rates of royalty are fixed under the Oil Fields (Regulation and Development) Act, 1948. Section 6(A)(4) of this Act restricts the Union Government to fix the rate of royalty in case of any mineral oil not to exceed 20 per cent of the sale price of that oil at the field or well. The provision for considering the revision of the rates of royalty in the case of crude oil, etc. has been modified on persistent demand by the States to three years recently, vide Section 2 of the Oil Fields (Regulation and Development) Amendment Act, 1984.

10.9.39 A major demand of the State Governments has been payment of royalty on an *ad valorem* basis and not on the basis of a specific amount per tonne, specially in view of frequent and sharp increases in the prices of many minerals and crude oil. A State Government has cited the Nehru Award of 1962 and Indira Gandhi Award of 1968 in support of its demand that the royalty on crude petroleum should be based on "full-posted price" rather than on an artificial selling price of indigenous crude. On the other hand, the State Governments have levied cesses, mineral rights tax and surcharge which are not uniform among the States. This is alleged to have imposed a discriminatory burden on the price of minerals over and above the rate of royalty.

10.9.40 The question of royalty on mineral products is an area where, besides providing adequate rates to the States, the principles of pricing policy, the real factors behind movement of international price of crude-petroleum, the implications of increase in the price of basic inputs, etc., are to be considered. We have dealt with these issues in our Chapter on Mines and Minerals. If there are administrative considerations against making royalties *ad valorem*, there are equity considerations against not revising them for 3 or more years in times of persistent inflation. As recommended therein, the review of the royalty rates on minerals should be made every two years and well in time, as and when they fall due. The same procedure should also apply to royalty on petroleum and natural gas.

Suggestions for new institutions

10.9.41 While suggesting solutions to the problems in Union-State financial relations some State Governments, as also others, have suggested creation of new institutions. Such suggestions are made for two categories of institutions : (a) a machinery for consultations and discussion on issues on mutual economic interest between the Union and the States, and (b) institutions, with adequate representation of the States, also for specific purposes such as a Loans or Credit Council and an Expenditure Commission. The suggestions for the new institutions thus emanate from both a positive urge for a larger measure of consultation between the Union and the State Governments on financial and economic issues and from a feeling of arbitrariness in the approach of the Union Government to some matters.

10.9.42 One State Government has observed : "A large part of the inadequacy in the functioning of Union-State financial relations as reflected in persistent grievances seemingly harboured by the States and the concern expressed by them before different forums could have been taken care of by providing effective means of consultation, on a regular basis, between the Centre and the States on all matters pertaining to financial relationship between them". Another State Government has suggested that consultation between the Union and the States on financial matters could be ensured by a Committee of Finance Ministers of the States presided over by the Union Finance Minister. Some others have suggested that it would be desirable if the views of the State Government are ascertained before moving a bill to levy or vary rate-structure or abolish any of the duties enumerated in Article 268 and 269. Granting of exemptions and lowering of rates of Income Tax, net proceeds of which are now sharable with the States to the tune of 85 per cent, by the Union Government is often cited as another area where the State Government should be taken into confidence.

10.9.43 The Fourth Finance Commission had observed that there should be provision for inter-Governmental consultation as there was a wide-spread misunderstanding about the Union Government's policy arising from its alleged tendency to neglect shared revenues and inadequate exploitation of taxes under Article 269. The Sixth Finance Commission was also of the view that a significant improvement in the financial relations between the Union and the States would be achieved if decisions affecting revenues of States were taken after the widest possible measure of consultation as underlying the spirit of Article 274 of the Constitution. A State Government has also suggested that Article 274 be amended to include 'States' besides the 'President' for introducing or moving any Bill or amendment in which States are interested.

10.9.44 The Srinagar conclave of Opposition Parties (October, 1983) had also suggested an institutional forum for consultation between the Union and the State Governments on fiscal issues of mutual concern.

However, neither the State Governments nor the Finance Commissions have dwelt on the organisational details of a forum for regular and formal consultations on financial matters.

10.9.45 In the context of planning relationship, one State Government has suggested a National Planning and Development Council. An eminent economist has suggested setting up of a similar Council, with representation from the States to take care also of their wider interests, for example, in the field of industrial licensing, export and import licensing, subsidies, incentives, employment, etc.

10.9.46 Evolution of healthy Union-State relations in respect of all financial matters is basic to the proper functioning of a two-tier polity. We have noted that in the Constitution the thorny problem of division of resources between the Union and the States and among the States has been removed from the political arena by providing for a Finance Commission. Transfer of resources for Plan purposes also, to a very large extent, is based on accepted formulae and objective criteria. However, apart from the question of devolution of resources, there is a large area having interface between the Union and the States in respect of financial and economic relations. There is imperative need for organic linkage and coordination between the two levels of Government in raising resources and controlling of expenditure.

10.9.47 The major areas or matters requiring co-ordinated action may be classified broadly into four groups :

(i) actions of the Union Government which could result in higher resources for the States and also prevent loss of revenues to them;

(ii) restrictions resulting from Union action on taxation by the States;

(iii) actions of Union Government causing increase in States' expenditure obligations; and

(iv) fiscal and monetary policies having a bearing on States' finances.

Group I

(a) Raising resources from heads of taxation covered by Articles 268 and 269 : We have already noted in paragraphs 10.5.13, 10.5.32 and 10.9.26 that the question of raising more revenues from taxes mentioned in these Articles, requires periodic review in consultation with the States.

(b) Revision or rates of royalty : We have considered this matter in detail in the Chapter on Mines and Minerals. We have noted therein the complaint of the States that not only the rates of royalty are low but they are also not revised frequently. The Union Government has pointed out that the States have been imposing large cesses and varying them frequently. This is causing serious problems in ensuring the availability of these basic inputs for economic development at uniform prices throughout the country. Clearly, there is need here for consultation and coordinated action between the Union and the States in this matter.

(c) Policies and administration of Additional Duties of Excise on specified commodities in lieu of Sales Tax : States complain that the Union Government has for long followed a policy of adjusting the basic and Additional Excise Duties in a manner that deprived the States of revenues which they would have realised had the Sales Tax on these items been continued. Recently steps have been taken by the Union Government to enhance these Additional Excise Duties.

(d) Rebates/concessions in Income Tax, Union Excise Duties, etc., where the proceeds are sharable with the States : Much of the misunderstanding that exists in these matters could be cleared if only a measure of prior consultation is resorted to.

Group II

Many measures adopted by the Union Government amount to curbs on States' powers of taxation of purchases or sales. We have noted in paragraph 10.9.02 the complaints of the States in this regard arising from control of the Union over taxation of inter-State trade and commerce and taxation of transactions in respect of essential commodities. Levy of Consignment Tax has been made possible by the Forty-sixth Amendment to the Constitution and this tax is expected to yield substantial additional revenues to the States. We have noted that this power has been vested in the Union to ensure that the free flow of inter-State trade, commerce and intercourse throughout the country is not thwarted and the economic unity of the nation is not endangered by the States by eracting discriminatory or oppressive tax-barriers. Taxation of essential commodities has also to be kept low and reasonably uniform throughout the country.

Group III

(a) Actions of the Union in the field of administered prices of steel, coal, oil, etc., have large implications for the States. These increases affect significantly the costs of various projects undertaken by the States. While in the case of irrigation projects the capital costs go up, in power projects the capital as well as operational costs both escalate.

(b) Upgradation of pay, dearness allowance, pensionary benefits and the like of Union Government employees by its inexorable impact, often leaves the States with no choice but to provide similar benefits to their own employees.

Group IV

One of the most important areas requiring coordination of policies is the field of indirect taxation. The Taxation Enquiry Commission, 1953-54, had observed :

> "It is in the field of commodity taxation, however, that the need for understanding and coordination is greatest between the Central Government and the States. The sales taxes, as they have evolved in India, do not consist merely of a tax on the generality of sales, but also include special rates on specific commodities, many of which are subject to taxation by the Central Government in the form of excise duties. There are, besides, questions regarding the use of State sales tax system for purposes of economic policy that may have repercussions on areas and interests outside State jurisdiction".[55]

10.9.48 We have attempted above to illustrate through certain examples the existence of a vast area requiring inter-governmental coordination of economic policies. As observed by the Taxation Enquiry Commission, with growing importance of public finance in the national economy, and with increasing linking of the Union and the States in the fiscal system, it has become important to develop an integrated, national approach to the problems of mobilisation of resources including taxation and expenditure.

10.9.49 We are of the view that consideration of various financial matters, in the setting of a national perspective is essential to remove any misunderstanding with respect of fiscal measures adopted by the Union and the States as also to evolve mutually accepted policies. Keeping in view the importance of financial relations, it is necessary to provide a forum which will adequately respond to these needs. It is essential that various issues are examined by expert groups from time to time before the same can be brought up for consideration at a political level. This will facilitate crystallisation of issues and indicate possible solutions and remedial actions. We have recommended in the Chapter on Economic and Social Planning that National Economic and Development Council should be constituted under Article 263 as the apex institution for Inter-Governmental consultations on all economic and social developmental policies. Therefore, any forum for discussing financial aspects should be integrated fully into this arrangement.

10.9.50 We recommend that a Sub-Committee on Finance of the Standing Committee of the NEDC may be constituted consisting of the Union Finance Secretary and the Finance Secretaries of various States and Union Territories. It will consider all such matters calling for coordination of economic policies, as may be entrusted to it by the NEDC or its Standing Committee. This body will report to the Standing Committee of the NEDC. Since Planning Commission would be providing the secretarial support to the NEDC, the same may be extended for this body also. This will ensure expert consideration of various aspects of the problems and adequate consideration of the views of the Union and the State/Union Territories. The role of this Sub-Committee will be deliberative and advisory and helpful in forging a consensus on financial matters.

Expenditure Commission

10.9.51 Given the overall resource shortage and growing responsibilities of both the Union and the State Governments, increasing concern has been shown about their pattern of expenditure. Criticism has been levelled against both the tiers of Government with respect to their priorities in spending, coupled with allegations of wastage and fiscal inefficiency. There is also a specific allegation that the Union Government incurs substantial expenditure on State-subjects all of which cannot be justified in terms of its role specified in the Constitution. It has been pointed out by many in response to our Questionnaire that the present agencies concerned with expenditure control, namely, the Comptroller and Auditor General of India and

Public Accounts Committees of Legislatures have not been very effective in this regard. For quite some time there has been a suggestion that a National Commission on Expenditure should be created to examine the patterns of expenditure of the Union and the State Governments. The idea of an Expenditure Commission was also endorsed in a Seminar on Centre-State Relations held in Bangalore in 1983. However, none of the State Governments, except one, has favoured the proposal for such a Commission. This particular State Government has suggested a National Expenditure Commission as an *ad hoc* body, to "go into the expenditure of the Central and State Governments thoroughly and rationalise the basis for assessment of revenue surpluses for the guidance of future Finance Commission".

10.9.52 Indeed, a Commission on Public Expenditure was set up in India by a Resolution of the Union Government on May 29, 1979, as a result of the stress laid by the then Deputy Prime Minister-*cum*-Finance Minister on the need for containing the growth in public expenditure, while presenting the budget for 1979-80. Among other things, the Commission was required to look into the areas in which economy could be effected, identify non-essential activities or overlapping functions between the various departments of Government of India and State Governments, review the creation of new posts and suggest measures for containing expenditure on staff. It was also required to review the existing arrangements for planning, execution, monitoring and evaluation of major projects and programmes. The Commission was wound up on January 31, 1980. *i.e.,* after about eight months of its becoming operational, but before it could submit its report to the Government.

10.9.53 Before considering the need for an Expenditure Commission it is necessary to go into the adequacy of the existing machinery for expenditure control. The basic control on budget rests with the legislature. After passing the budget, the legislative control continues with the object of ensuring that the funds appropriated are properly used for the purposes specified and in an efficient manner.

10.9.54 The important instruments of Parliamentary control are the Committees of Parliament, *viz.,* the Public Accounts Committee and the Estimates Committee. The latter is also required to keep an eye on securing economy and efficiency in expenditure and to suggest necessary modifications. The Committee on Public Undertakings also seeks to ensure prud-ence in the management of finance by the public undertakings.

10.9.55 In a Parliamentary system, the role and authority of the legislature in determining priorities are supreme and cannot be questioned. However, for ensuring adherence to the priorities evolved, the legislature has to pay utmost attention to the budgetary proposals. Pre-vote scrutiny of the estimates is a very crucial stage. It may not be possible for Parliament or a State Legislature to go into the details of all the estimates. A practical way may be to constitute small Sub-Committees which could consider the estimates. However, it is for Parliament and State Legislatures to evolve suitable procedures in this regard.

10.9.56 A significant feature of the Constitutional provisions is that the Comptroller and Auditor General of India has the authority to audit all expenditure from the revenues of the Centre and the State Governments. He has to ascertain that the amounts shown in the accounts are duly disbursed and the expenditure conforms to the authority which governs it. The reports of the Comptroller and Auditor General are placed in Parliament and the State Legislatures and form the basis for further discussion by the Public Accounts Committee with the concerned departments.

10.9.57 While the system of audit and expenditure control is quite elaborate, some problems in its working have been highlighted. For example, it has been pointed out that there are delays in the preparation and submission of audit reports. The maintenance of accounts in the Treasuries and their reconciliation leaves much to be desired. There has to be a greater emphasis on evaluation audit. We are given to understand that processes are afoot to bring about qualitative improvements in these respects. However, the need for an efficient system of audit and accounts to serve as basis for expenditure control cannot be over-emphasised.

10.9.58 It has to be appreciated that there are processes subsequent to audit which are important for effective expenditure control. Indeed, the Comptroller and Auditor General of India can do little to reshape priorities and norms in spending. We have been informed that in several States, audit reports do not got the importance they deserve. They are often submitted to the Legislatures towards the fag end of their sessions, leaving little time for a fruitful discussion. Otherwise also, the discussions, it is alleged, are often insufficient and done in a routine manner. It has also been emphasised that the Public Accounts Committee, the Committee on Public Undertakings and the Estimates Committee need pay greater attention to the Audit Reports and it should be ensured that the executive responds to them well in time. Backlog of arrears in the consideration of the Audit Reports has been observed. In the case of a particular State, as in September, 1986 the last report on which discussion had been completed related to 1971-72.[56] Such delays as also non-regularisation of excess expenditure in relation to amounts granted, create a slackening tendency in expenditure-control, which is incompatible with the spirit of the Constitution. The post-audit process, indeed, needs to be further strengthened.

10.9.59 We are of the view that the establishment of an Expenditure Commission as a permanent or an *ad hoc* body for ‘one-shot operation’ is not necessary. A better alternative is to strengthen the existing system itself. For this purpose, it will have to be ensured that the existing institutions themselves play the role expected of them. This is indeed, an area where further institutional mechanisms and safeguards cannot be expected to substitute the conscience, will and responsibility of those on whom a duty in this regard has been appropriately devolved by the system.

10.9.60 The Constitution has done away with the multiplicity of audit authorities and has made the Comptroller and Auditor General of India as the sentinel of the country's finances. The merits of the present system of terms of uniformity and economy in the cost of audit are obvious. There is functionally a close interaction between the Union and the State Governments in fiscal and financial matters. Application of uniform principles and procedures in the maintenance of accounts at the two levels of Government their supervision by a common and independent Constitutional authority, early detection of any irregularities and initiation of timely remedial action are the hallmarks of our audit system. It will, indeed, create complications, both in administration and understanding, if multiplicity of authorities come into being and prescribe their own systems of accounting and procedures. There is also advantage in the present uniform authority in terms of economy in cost and audit services. We are, therefore, unable to support the suggestion that Entry 76 of List I be modified to provide for separate Auditors General at the State level. We are further unable to agree with the view-point of a State Government that the present centralisation of audit is the root-cause of the procedural delays. Scope for reducing delay in the finalisation of accounts has to be considered by the Comptroller and Auditor General himself, who, indeed is seized of the problem and has over time brought about improvements.

10.9.61 It is also not possible to support the suggestion made by another State Government, that evaluation audit should be entrusted to an agency constituted by the State Government itself as a qualitative improvement in the procedures of audit has to be intrinsic to the system. In our view, there is no pressing necessity at present to have separate Federal and State audit services.

Operational Irritants

10.9.62 The last thirty-seven years have witnessed progressive enlargement in the scale of fiscal operations and proliferation in the activities of both the Union and the State Governments. This has obviously increased the area of interaction between the two levels of Government. A few State Governments have brought to our notice some "irritants" in the day-to-day working of the financial arrangements. By their very nature these do not call for Constitutional remedies, or farreaching institutional changes, but merit mention for consideration of procedural improvements. Some of these problems have been noticed in the context of the issues discussed earlier. The other irritants relate to the arrangements and procedures governing release of funds to relieve natural calamities, grants for upgradation of administrative standards and Central assistance for State plans and Centrally Sponsored Schemes.

Relief for natural calamities

10.9.63 The system regarding financing of relief expenditure in the present form was standardised by the Seventh Finance Commission and modified with respect to the provision of margin-money by the Eighth Finance Commission. The salient features of the present scheme are :

(i) Margin-moneys towards expenditure on natural calamities have been fixed by the Eighth Finance Commission taking into consideration the average of non-plan expenditure on the relevant items during 1978-83 (aggregate for all States Rs. 240.75 crores in contrast to Rs. 100.55 crores recommended by the Seventh Finance Commission).

(ii) Half of the margin-money for each State was built into its reassessed expenditure forecast by the Finance Commission and the remaining half left to be provided by the Union Government.

(iii) On the occurrence of a natural calamity, if the order of expenditure is estimated to be in excess of the margin-money, the concerned State sends a memorandum to the Union Government. After examination of the memorandum in the Union Ministry of Agriculture, a Central Team visits the State for on-the spot assessment of the damage.

(iv) The report of the Central Team is considered by the High Level Committee on Relief, which recommends ceilings for different items. After considering the recommendations of the Committee, the Finance Ministry fixes the ceiling of expenditure and communicates the same to the State Government. The amount in excess of the margin-money qualifies for Central assistance.

(v) The pattern of Central assistance distinguishes between drought as one category and 'floods, cyclones, earthquakes, etc.', as another. In case of drought, the expenditure is to be treated as part of the Plan for which, subject to approval by the Central Team/High Level Committee, advance Central assistance is released upto five per cent of the outlay of that year's annual plan. If the relief expenditure cannot be contained within this limit, the extra amount is provided by the Union Government as 50 per cent loan and 50 per cent grant. In case of floods, cyclones, and other natural calamities, of the excess of expenditure over the margin-money, 75 per cent is given as grant against which a matching expenditure of 25 per cent is made by the State Government.

(vi) The unspent amount of margin-money is carried forward to the next year.

10.9.64 The State Governments have highlighted the following problems with respect to the arrangements for financing natural calamities relief :

(i) A few States have suggested that relief on natural calamities should be treated as a national obligation.

(ii) Central assistance towards drought should be put on the same footing as for floods and cyclones and should preferably be given outside the Plan.

(iii) The procedure for deciding Central assistance is time-consuming and does not ensure an objective assessment.

(iv) Because of the delay in receiving Union Government's decision, the State Governments have often to incur expenditure covering the former's portion of margin-money, at the cost of burdening their own finances. Besides, there is uncertainty that the pattern of expenditure might not find approval. States should have freedom to incur expenditure on any item subject to an overall ceiling.

(v) The assistance should continue even beyond the financial year, say upto the month of September.

10.9.65 Successive Finance Commissions have considered the question of providing relief to the States in the event of natural calamities. They have recognised that the State Governments are primarily responsible for organising such relief. The Seventh Finance Commission had observed that with a view to minimising any tendency for wasteful expenditure on the part of the States, they should bear a significant share of total relief expenditure burden. The Union Government is expected to supplement their efforts through the provision of Central assistance. This is as it should be. There is no doubt that natural calamities are to be viewed as a national problem, but this cannot be interpreted to mean that the Union Government should bear the entire expenditure on their account.

10.9.66 The Seventh Finance Commission, for the first time, brought out the distinction between a situation arising out of drought and that due to floods, cyclones, etc. This distinction has been continued by the Eighth Finance Commission also. The Seventh Finance Commission had provided for a more favourable flow of Central assistance for floods, cyclones, etc. *vis-a-vis* a drought situation, on the grounds that the serious damage caused to the assets by the former category of natural calamities "cannot be properly or adequately taken care of in the present scheme of Central assistance. A clear indication of this is the inclusion in recent years ....of expenditure on non-Plan nature in items taken into account for advance Plan assistance which, by definition should be available only for expenditure which creates new assets".[57] We are in agreement with the above views.

10.9.67 There cannot be two opinions that in the event of a natural calamity, relief must be given immediately. State Governments should be able to utilise their margin-money as well as the share of the Union Government as intended. We do not see any insuperable difficulty in sending a Central Team to the affected State immediately after the receipt of the State's request supported by adequate details of the damage incurred and the nature and extent of the assistance needed. We note that the Central Teams visit the affected areas and hold detailed discussions with the State Government. We see no better alternative for arriving at an objective assessment keeping in view the urgency of the situation. It is for the State Governments to assess and convince the Central team in making, such assessment of the damages caused by the natural calamity. In a situation of drought, it should be possible for the State Government to prepare a detailed memorandum and for the Union Government to assess the extent and nature of assistance to be given will in time. The drought situation gets built-up over a period of time. In the event of a cyclone or floods, immediate need is for providing relief to the victims by way of clothing and shelter. Emergency repairs to roads for restoring communication, irrigation and drinking water sources, etc., are also to be taken up immediately. If appropriate norms are formulated by the Union Government, in consultation with the States, there should be no difficulty for the State Governments in taking up relief operation immediately without waiting for formal approval from the Government of India. The Central Team to assess the damage caused by natural calamities should invariably be headed by the Adviser in charge of that State in the Planning Commission, as was the practice in the past. It would be his responsibility to help the Commission in assessing the States' performance over time in this regard.

10.9.68 We recommend that a procedure which enables States to expeditiously provide necessary succour and relief to the affected people should be evolved in consultation with the States along with suitable norms in regard to the scale of relief. This calls for a time-bound programme. Formulation of standard formats for submission of memoranda by the States will greatly help the Union in dealing with the requests of various States urgently and on a uniform basis.

10.9.69 As regards the suggestion to give the States freedom to incur expenditure on any item within the ceiling, it may be observed that the Central assistance is computed on the basis of requirements of various individual sectors. In our view it is not possible to give the States blanket permission to incur expenditure on any item whatsoever within the ceiling. Nevertheless, it is necessary to recognise that it is the State afficted by the calamity which is better conversant with the local needs. The State visited by such a *vis majore* must form the focal point itself—rather than placed in a strait-jacket—with better scope for necessary adjustments. In a calamitous situation, the State should have a reasonable discretion to make inter-district or inter-sectoral adjustments. To allay the apprehensions that the expenditure pattern adopted under the stress of urgency may not find approval, we would suggest that norms in regard to items of expenditure which are to be incurred immediately, *e.g.*, relief by way of free issue of foodgrains, clothing and rebuilding of shelters in the event of floods may be evolved by the Union and communicated to all State Governments.

10.9.70 We find considerable merit in the suggestion that relief assistance would extend beyond the financial year. The main working season in most parts of the country is from December to June-July. The rainy season begins in June or July. Thus, if restoration works are to be carried out in the event of floods, or if employment is to be provided in case of drought, the financial year loses its importance. We would suggest that assistance required till the next June/July should be decided in the beginning itself so that relief works can be properly planned and executed.

10.9.71 The Union Ministry of Finance has drawn our attention to certain disturbing trends. It has been pointed out that the demands made by State Governments are rising sharply and the ultimate relief found necessary is only a fracton of this demand. Even with this order of relief, the total burden on the Union has been going up steadily year after year and in 1985-86 it was well over Rs. 1200 crores. It is suspected that there is a connection between the very large demands for relief and increasing deficits emerging in the States' budgets. This is most unfortunate. Such a situation needs to be effectively tackled. Persistent irresponsibility in this regard by a State should be taken into account by the Finance and Planning Commissions in recommending future assistance.

10.9.72 We have pointed out in the preceding paragraphs, the need for leaving with the States considerable discretion in the financing of natural calamities relief. While this is necessary, it is equally important that wasteful expenditure is avoided and the intended benefits are really achieved. The present arrangements for monitoring of expenditure appear to be grossly inadequate. It is necessary that the responsibility for proper monitoring rests on agencies concerned with the administration of relief. Repeated demands for large relief assistance in the case of drought clearly underscore the need to evaluate the effectiveness of schemes undertaken in the previous years both under relief and as part of States' development plans. There should be a system of strict penalties for diversion and misapplication of funds. We would like to lay the greatest stress on setting up of an adequate machinery urgently for this purpose.

10.9.73 A few State Governments and some others have suggested that a National funds should be created out of which relief should be provided to the States whenever natural calamities occur. The details of the size, operation and management of such a Fund have not been spelt out. One of the State Governments has suggested that this should be a State Relief Fund and its funding should be on a statutory basis. The rationale behind this demand for creating a National Fund appears to be that such a fund will ensure more expeditious flow of assistance to the States in need, unhindered by political considerations, do away with limitations of margin money and cast a smaller burden on the States facing natural calamities. It may be pertinent to point out that the Sixth Finance Commission (1973) was specifically required to go into this question. The Commission weighed the pros and cons of creating a National Fund towards natural calamities relief. It was the advantage in the proposal in terms of a single focal point at the Centre for coordination, promotion of purposeful inter-Ministerial cooperation if the Fund had an administrative arm of its own, development of technical expertise in analysing natural calamities and creating a sense of common concern among the Centre and the States. On the other hand, that Commission took note of complex administrative problems, the danger of the National Fund arrangement degenerating into a creditor-debtor relationship with the States, introduction of an additional complication in the federal financial structure and the difficulty in covering the requirements in case of natural calamities of very large magnitude. The Finance Commission also noted that most of the State Governments were against the creation of a National Fund. It reached the conclusion that creation of a National Fund for meeting natural calamities funded by both Central and State Governments, was 'neither feasible nor desirable'.

10.9.74 It is important to mention that the existing arrangements for natural calamities relief assistance were evolved subsequent to the consideration of a National Fund by the Sixth Finance Commission. If any switch-over to an alternative arrangement is to be made, it must constitute a distinct improvement over the present system and also take into account other relevant matters like recent introductin of crop insurance schemes, inter-State differences in capacity to make contribution to the fund, relative proneness of the region to natural calamities, etc. An advantage of the Fund, however, could be to further insulate provision of relief assistance from political considerations. All these require expert examination along with an assessment of overall expenditure commitments of the States. We note that one of the terms of reference of the Ninth Finance Commission is to examine, along with other aspects of natural calamities relief arrangements, "the feasibility of establishing a national insurance fund to which the State Governments may contribute a percentage of their revenue receipts." As the matter has already been referred to this expert statutory body, we refrain from making any recommendation in this regard.

Release of grants for upgradation of standards of administration

10.9.75 Since the Sixth Finance Commission, special purpose grants are being provided to the States for upgradation of standards of administration in specified spheres. The present arrangements for the release of these grants have been spelt out by the Eighth Finance Commission. These have been accepted by the Government of India, and are under implementation. These are briefly as under:

(i) Initially, the Ministry of Finance would release a grant of 10 per cent on an 'on account' basis to a State, with a request for necessary institutional arrangements, *i.e.*, setting up of State level Empowered Committee to determine various aspects of the schemes, including specification of physical norms and costs, and a plan of action.

(ii) On receipt of the information about the constitution of the institutional arrangements and plan of action in the State, the Ministry of Finance would release another 15 per cent of the grant.

(iii) Subsequent releases of grants are determined on the basis of implementation and physical progress achieved.

10.9.76 The Finance Commission has specified the amounts of such instalments of grants to be released for each of the selected sectors. A Central-Level Inter-Ministerial Empowered Committee has been set up to monitor the progress of the projects and utilisation of grants. It was hoped that this institutional set-up would reduce the delays, and difficulties hitherto experienced in the released of such grants.

10.9.77 A few State Governments have brought to our notice that the Central-Level Inter-Ministerial Empowered Committee had been laying down conditions which made it difficult for them to implement the schemes. It has been argued by them that as the implementation of these schemes casts a burden on the States concerned due to cost-escalation or fluctuations in cost-norms, they should be allowed greater flexibility in incurring expenditure, including changes in year-wise phasing.

10.9.78 As the system has recently come into being, such teething troubles cannot be ruled out. The Central and State-Level Empowered Committees were set up with a view to streamling the various operational problems, inlcuding the types mentioned above, by developing proper rapport between them. The Eighth Finance Commission has recommended that the Central-Level Empowered Committee should be authorised to alter physical targets within the amounts specified by the Finance Commission and also to transfer grants from one scheme to another in the same sector. We are confident that with the flexibility provided in the scheme, it should be possible to implement the same without any serious difficulty. No doubt, these arrangements would be reviewed by the subsequent Finance Commissions in the light of the experience gained and necessary procedural changes recommended by them. In view of this, we do not make any recommendation in this regard.

Release of Central plan assistance

10.9.79 Central assistance for the Plan for all the categories of schemes now constitutes over two-fifths of the total transfers by the Union to the States. The details of the mechanism and the problems in this regard have been dealt with in the Chapter on Economic and Social Planning. Over the years, some streamlining of the procedures has taken place with respect to its allocation, pattern and release. So far as the State-plan sector is concerned, ten instalments, each representing 1/12th of the amount of allocation for a State, are released every month from April to January and the balance is released during February-March after ascertaining the progress of Plan expenditure as a whole and on the earmarked sectors. The additional Central assistance towards the externally-aided projects is released on a quarterly basis, in the months of June, September, December and March. Advance Plan assistance towards natural calamities is released on the basis of the recommendations of the Central Study Team and the High Level Committee on Relief in suitable instalments keeping in view the progress of expenditure.

10.9.80 For the schemes in Central Sector Plan being implemented in the States, the Ministers concerned sanction and release the amounts along with monitoring of the schemes. So far as the Centrally Sponsored Schemes are concerned, since 1977, the Union Ministries have themselves been releasing the amounts. Although no set schedule is followed they have been advised to maintain regularity in the releases.

10.9.81 Some operational problems highlighted by the State Government in regard to releasse of Central assistance for the Plan are:

(i) The delay in the auditing of the figures for which the States are dependent on the Comptroller and Auditor General of India, in turn, causes delay in the settlement of assistance.

(ii) In case of Centrally Sponsored Schemes, the conditions imposed by the Union Ministries compel the State Governments to make special efforts to get the Central assistance released.

(iii) Often the Central component of financial allocations for the Centrally Sponsored Schemes are communi-cated late in the financial year. As the States continue incurring expenditure on the basis of previous years amount, serious pressure on finances is felt by them.

10.9.82 The above-mentioned problems are procedural in nature. We are given to understand by the Union Ministry of Finance that over the years there has been an improvement in the release of Central assistance to States. So far as the Centrally Sponsored Schemes are concerned, as has been pointed out by us in the Chapter on Economic and Social Planning, their modalities should be discussed along with the Annual Plans of the States and monthly releases of Central assistance on their account made on that basis.

10. *INDEBTEDNESS, MARKET BORROWINGS AND SHARING OF CAPITAL RESOURCES*

10.10.01 We have so far dealt with the arrangements and mechanisms in regard to revenue resources and their transfers to the State. In this Section, we consider the issues raised in respect of availability of capital resources. In a developing economy, with a large component of Public Sector Plan, the significance of capital resources cannot be over-emphasised. Indeed, much of the resource-shortage felt by the States, as well as by the Union Government, has reportedly been on this account. The manner of deployment and management of capital resources have, at the same time, resulted in increasing indebtedness of the States. On the other hand, the debt burden of the Union Government is also mounting. The flow of capital resources to the States are in the form of Central loans as part of Plan assistance, market borrowings, small savings loans and negotiated loans from the financial institutions, etc.

Issues

10.10.02 Several State Governments are of the view that the present arrangements for the allocation of community's savings are unsatisfactory. It is alleged by them that the Union Government is appropriating for itself a lion's share of the available capital resources. States' heavy indebtedness and recourse to overdrafts are generally projected as manifesta-tions of basic disequilibrium in their finances. Growing budgetary deficits of the States are said to reflect lack of correspondence between their responsibilities and resources.

10.10.03 Most State Governments have drawn attention to the increasing indebtedness of the States and its deleterious effects on their economies. Further, it is argued that the mounting burden of debts servicing has led to serious erosion in resources for development as debt servicing itself absorbs as large part of available resources. In evidence it has been pointed out that in some years there has been reverse flow of capital resources, since the burden of debt service exceeded the gross flow of Central loans to some of the States.

10.10.04 The major cause of States' indebtedness is stated to be high proportion of loans in the Central assistance for the Plans. Investments made by the States in their enterprises yield low returns. They, therefore, encounter serious difficulties in servicing the loans. Debt relief provided on the recommendations of the last three Finance Commissions in the form of debt-rescheduling and or writing off, is alleged to have provided only part temporary relief. According to them, a lasting solution would require a significant enlargement of their resources, drastic reduction in the loan component in Central transfers, converting small savings loans into loans in perpetuity, allowing the States a share in deficit financing incurred by the Union Government, accommodation of States' overdrafts in genuine cases etc.

Factual Position

10.10.05 Before dealing with these issues, we briefly review the factual position regarding indebtedness of States and also of the Union Government. It will be seen from Annexure X.9 that between 1951 and 1984 the States' outstanding debt inscreased by about hundred times and between 1961 and 1984 by about fourteen times. The pattern of States' indebtedness shows a very high proportion of Central loans, ranging between 70 and 75 per cent since, 1955-56. In the literature on the subject, the States indebtedness has often been referred to as being synonomous with the burden of Central loans on them. The study team of the Administrative reforms Commission (1967) had ascribed the heavy liability of the States towards Union Government mainly to fast increasing Plan loans. It has termed the Union-State relationship in this respect as that of 'creditor and debtor'. It was found by the Eighth Finance Commission that between 1978-79 and 1983-84 the States, indebtendess has doubled and that this rate of increase has been faster than the growth in their own resources or total revenue receipts. The data presented for the Sixth Plan period in Annexure X. 18 shows that in many cases the ratio of net to gross Central loans is very low and in certain cases such flow has been negative. This has been commented upon by some experts as indicating a heavy debt-burden on the States and a situation of a 'debt-trap' where fresh loans are necessary to service old debts.

10.10.06 On the other hand, the burden of debt on the Union Government is also very heavy and growing. The proportion of repayment of principal on market loans and external borrowings and interest charges in the aggregate expenditure of the Union Government was about 15 per cent during the Sixth Plan period, and of repayment in the capital expenditure about 6 per cent. The outstanding external debt stood at Rs. 18,342 crores in the end of March 1986 and constituted 7.7 per cent of the Gross Domestic Product[58] at current prices. There has been a perceptible increase in the commercial external borrowings in recent years. With the gradual saturation of option of soft external borrowings and increasing pressure of both defence and development requirements the burden of Union Governments indebtendess is likely to go up in foreseable future.

10.10.07 We first consider the criticism and suggestions relating to the growing burden of indebtedness of the States. In a growing economy, it is but natural that a significant part of the developmental expenditure is financed out of borrowed funds. In India, the combined debt of the Union and the State Governments (excluding loans and advances from Union to the States) increased from Rs. 22,248 crores in 1970-71 to Rs. 76,324 crores in 1981-82 or by more than three times, and was about 50 per cent of the Gross Domestic Product. Over a period of time, in absolute terms an increase in indebtedness is but to be expected and is, indeed common place. For purposes of analysis, it would be meaningful to gauge the incidence of indebedness in relation to growth in income and aggregate expenditure to be able to form an opinion whether it has become too heavy. This, indeed, was also the approach of the Eighth Finance Commission which had a special term of reference to examine the State's non-plan capital gaps. It may be pointed out that whereas States' indebtedness is a serious problem requiring a careful probe into its causes and corresponding remedial measures, it may not be conceptually correct to compare debt-servicing of past loans with fresh inflow of Central loans. It has to be viewed in the perspective of overall development which was facilitated by past loans enabling higher levels of investment. Fresh loans, in this sense, are a function of current levels of investment. The increse in outstanding debt only illustrates the compulsions of a growing economy having to depend to a substantial extent on borrowed funds to finance current investments.

10.10.08 Annexures X.19 and X.20 relate to Statewise burden of debt repayment and servicing to their aggregate expenditure and servicing to their aggregate expenditure (revenue + capital) and the State Domestic Product (SDP) at current prices, respectively, in 1973-74, 1978-79 and 1983-84. These points relate to the base years of the last three Finance Commissions which were asked to recommend debt-relief in relation to the Central loans. It may be observed that, so viewed, the burdern of debt-repayment and servicing has not increased over the levels in 1973-74, except in case of one State. But compared to the average of all States the burden of debt-repayment and servicing has been higher for the less-developed States. SDP is taken as a broad indicator of the capacity of the economy to bear taxation and also to give credit. The present range (2 to 3 per cent) of debt-repayment (after rescheduling to SDP cannot as such be considered too heavy a burden on the economy. As percentage of aggregate expenditure also, the debt servicing has come down appreciably from 18.5 per cent in 1973-74 to 12.2 per cent in 1983-84 (and from 12 per cent to 9.2 per cent in case of Central loans).

10.10.09 It is pertinent to note here that while the State Government have received perceptible relief on their debt liability towards Union Government, the latter has been carrying a heavy burden of indebtedness. The proportion of repayment of principal and interest-charges in the aggregate non-development expenditure of the Union Government has been close to one-fourth. The public debt of Government of India—both internal and external—as percentage of GDP has increased very sharply in recent years, from 52.5 per cent in 1980-81 to 56.5 in 1985-86 and 60.5 per cent in 1986-87. This, seen alongwith the sizeable deficit on revenue account Rs. 5,565 crores in 1985-86, Rs. 7,233 crores in 1986-87 (R.E.) and Rs. 6,742 crores in 1987-88 (B.E.), presents a grim picture of the Union Government’s finances.

10.10.10 Annexure X-21 analyses the relative importance of net capital transfers to the State over the successive Five-Year Plan periods. It may be seen that while the capital transfers have remained about 60 per cent of the States' total capital receipts, their share in relation to total Central transfers, Union Government's gross capital receipts and the Union Government's aggregate budgetary resources, have significantly come down over the years. Two conclusions can be drawn.

(a) The Union Government has increasing utilised capital resources for its own purpose; and

(b) over time, more of revenue transfers and less of capital transfers are being made to the State Governments.

Inasmuch as the proportion of over-all transfers (revenue and capital) in the Union Government's aggregate resources has not come down, a substitution of capital transfers by revenue transfer, particularly since 1976—79, is indicated. This is in consonance with the substantial increase in revenue transfers recommended by the Seventh Finance Commission and maintained by Eighth Finance Commission. Although some of the state

Governments have complained about the declining importance of Central capital transfers to them, larger revenue transfers are advantageous to the States particularly in a situation where many States have complained of their growing indebtedness.

10.10.11 We now consider the broad pattern of capital transfers bifurcated between Plan and others. The Statewise data since the Fourth Five-Year Plan is presented in Annexure X-22. 'Other transfers' include State's share in small savings, relief for natural calamities, ways and means advances, etc. It is obvious that not only the proportion of capital transfers is low in case of the special category States (with the exception of Jammu and Kashmir), the relative importance of capital transfers on Plan account is also significantly small, thanks to the liberal pattern (90 per cent grant and 10 per cent loans) of Central Plan assistance applicable to them. In case of other backward States like Assam, Bihar, Madhya Pradesh, Orissa and Rajasthan, the proportion of both capital transfers, and, therein of Plan transfers in total transfers, is significantly high. Such States along with some in the middle-income group, carry a high burden of servicing Central loans.

Approaches of ARC, and Finance Commissions

10.10.12 The Study Team of the ARC considered the debt burden of the States and recommended that loans to States (Plan and non-Plan) intended for relending as also the share of small savings and ways and means advances, may be continued on the existing terms and conditions. But it recommended that a financially productive scheme, Plan or non-Plan, should be eligible for an interest-bearing, non-repayable loan. It was also of the view that productive schemes should not be eligible for grant assistance. Financially non-productive schemes should be eligible for capital grants.

10.10.13 The debt-servicing burden of the States, which shows considerable variations among them, has to be dealt with on its merits. Since the Sixth Finance Commission, assessment of non-plan capital gaps of States and provision of relief thereon, has been a special term of reference of the successive Finance Commissions. It is pertinent to point out that the approaches of the three Finance Commissions on the issue of debt-relief differ. The Sixth Finance Commission took into consideration outstanding loans in relation to State Domestic Product (STD) and States were categorised accordingly and grouped into convenient ranges. The Sixth Finance Commission gave uniform relief to States through debt-rescheduling on certain categories of Central loans, e.g., for police, anti-decoity operations, displaced persons, welfare on backward areas and loans for clearing overdrafts, outstanding at the end of 1974-75. On the other types of Central loans, however, uniform relief was not given.

10.10.14 The Seventh Finance Commission divided capital funds available to the States in terms of unproductive, semi-productive and productive purposes arriving at criteria for debt rescheduling. Significantly, it stated: "It is not as if the States had the choice to use Central loans only for purposes other than unproductive ones.[59]

10.10.15 The Eight Finance Commission took the view that there is nothing basically wrong in the growth of public debt as the governmental functions are growing and certain social and economic goals are sought to be achieved. Therefore larger investments than that which can be sustained on the basis of current savings are found necessary. The Commission observed that in a growing economy, normally loan receipts would exceed the repayments in any year and hence, a situation should not arise in which the capacity of the States to discharge their debts is impaired. So long as the liability for repayments to the third parties is fully provided for, the indebtedness of the States to the Union could continue to grow without any detrimental effect on the national economy[60] on the issue of Union-State relationship, the Commission held the view that a creditor-debtor relation did not operate as most of the loans given by the Union to the States were used to create capital assets. "Returns, if any, from these assets are also required by the States for further development. In these circumstances, the States have no option but to seek assistance from the Union for their developmental requirements. The Centre, in turn, has to view each State's requirements in the prespective of total national needs and provide for them. In fact, this is precisely what has been happening and the growing volume of Central assistance for the Plan is an indication of the partnership between the Union and the States in the common endeavour for further economic development.[61]" The Eighth Finance Commission also found a good index of the capacity of a State to meet its repayment obligation to the Centre in its level of development as measured by State Domestic Product. The Seventh and the Eighth Finance Commissions did not take into account Central loans for clearing overdrafts of States for purposes of debt-relief. The debt-relief provided by the Sixth, Seventh and the Eighth Finance Commissions (Annexure X-23 and X-24) checked the deterioration in indebtedness of the States. But for this, many States with low ratios of net to gross Central loans would have crossed over to the situation of negative flow of loan funds.

10.10.16 An analysis made by Seventh Finance Commission shows that less than 10 per cent of the loans outstanding with the States were for non-productive schemes and programmes. There appears to be a tendency to bring in such programmes under the capital head in order to expand the Plan size. This is not sound finance and ultimately it reacts adversely on the availability of resources for the Plans themselves. In future Plans, for reasons of financial propriety, this sector, though small, has to be weeded out of the capital budget and put under the revenue budget. It is better to tackle the situation at this stage whilst the problem is marginal.

10.10.17 The Seventh Finance Commission has also classified certain programmes as semi-productive and a few as fully productive. The loans outstanding against semi-productive programmes were to be repaid in 30 years whereas those classified as productive were to be repaid in 15 years. It is pertinent to note here that while the Union Government provides capital funds to the States with periods for repayment extending to 15 or 30 years, the monies borrowed by it are to be repaid at much shorter intervals. This casts additional burden on the Union. The Eighth Finance Commission has further lengthened out the terms of certain items of repayment. In fact, the Sixth, Seventh and Eighth Finance Commissions have thrown a fairly large burden on the Union in bailing out the States for inclusion of non-productive schemes in the capital sector and also not planning sufficient returns to meet the capital amortisation charges due on other loans by suitable management of programmes. It has to be realised that this process of bailing out cannot be carried on endlessly. The overall availability of capital resources is severely limited. It is a matter of serious concern that the investments made by the States do not yield sufficient returns to service the debt, thus further eroding the availability of capital resources. It is high time that due attention is paid by the States to these aspects rather than merely complaining about non-availability of resources for development due to high indebtedness.

Pattern of Central Assistance

10.10.18 Bulk of Central loans to the States being on Plan account, the pattern of Central assistance (viz., proportion of loans and grants) has been projected by them as a major factor contributing to their indebtedness. The retionalisation in the pattern of Central Plan assistance had been introduced in 1969 by shifting to the concept of block loans and block grants. The normal Pattern (70 per cent loan and 30 per cent grant) of assistance was then devised keeping in view the overall schematic patterns of Central Plan assistance and the broad composition of outlays into revenue and capital components, the logic being to establish correspondence between the revenue component of Plan outlay and grants in Central assistance. The State Governments have generally argued, as is also the opinion of the experts, that the proportion of economically remunerative sectors in the State Plan outlays would not justify the present normal pattern of 70 per cent loan and 30 per cent grant in Central assistance. In the Sixth Five-Year Plan, outlays on sectors like 'forests', 'irrigation', 'power', 'large and medium industry' and 'road transport' constituted about 54 per cent of the total State Plan outlays. Even among these sectors, commercial returns are very small.

10.10.19 The argument of the present pattern of Central assistance contributing to States' indebtedness takes into account only the normal pattern (30 per cent grant and 70 per cent loan) of Central assistance given under the Modified Gadgil Formula for the State Plans. This component accounts for a little over half (50.2 per cent in Sixth Five-Year Plan and 55.6 per cent in Seventh Five-Year Plan) of the Central assistance for State Plan. Even out of this, for six Special Category States namely, Himachal Pradesh, Manipur, Meghalaya, Nagaland, Sikkim and Tripura, the Central assistance carries 90 per cent grant and 10 per cent loan. Special Central assistance for the Sub-Plans and for some other special programmes, forming part of the State Plans, similar liberal patterns are applicable. Central assistance for the externally aided projects carries the normal pattern of 70:30 of loan and grant. For the State Plan as a whole, the actual pattern of Central assistance during the Sixth Plan works out to 40 per cent grant and 60 per cent loan. Central assistance for the Centrally Sponsored and Central Sector Schemes has a high grant component (92.3 per cent in the Sixth Plan period). In the totality of Plan transfers during this period, the proportion of grant was 56.1 per cent and of loan 43.9 per cent. This is a significant fact which should be kept in view in any discussion on the pattern of Central assistance both from the viewpoint of States' repayment liability and Union Government's ability to transfer more capital resources to the States.

Debt Relief

10.10.20 We have noted earlier that the debt-relief on Central loans provided by the Sixth, Seventh and the Eighth Finance Commissions has perceptibly reduced the debt-burden of the States. The relative position of the Special Categoty States has generally been favourable though the same cannot be said of some of the other backward States. Some developed States also got more-than-average debt-relief by the Sixth and the Seventh Finance Commissions. The crux of the matter is that while the Finance Commissions have provided a measure of debt-relief to the State based on sound principles, following a systematic methodology, they have also made certain assumptions regarding States revenue sources, both tax-revenue and non-tax revenue, the latter also including returns on their Public Sector enterprises. The recommendations of Finance Commissions on debt-relief are consistent with these assumptions. Therefore, so long as the principles stated by Finance Commissions are approximated in observance the indebtedness of the States will remain manageable.

10.10.21 Coming to the complaint of greater grant component in the Plan transfers it has to be noticed that the Five-Year Plan and the Annual Plan exercises fix the amount of revenue and capital that can be transferred from the Union to the States for the Plans. The quantum may vary from year to year, but overall there is a limitation in the economy in providing revenue and capital to the Union and the States, for planned development. We cannot wish away this basic constraint. Whilst it is true that a strict interpretation of financial propriety may show that in a State for the five years or in a year, the Plan programmes require more than 30 per cent content of revenue, the question is whether this burden should be borne by the Union. It should not be forgotten that a State's Plan comprises not only the Union transfers but the State's own resources whose revenue and capital component may be quite different from the 30:70 proportion of Central transfer. The relief mechanism provides that any imbalance in the loan component from the Central sector to the States is corrected by the Finance Commission. From the Sixth Plan onwards the overall position is now more manageble. If better financial management and canons of fiscal propriety are followed, the situation is likely to improve further. In view of the above, should we change this?

10.10.22 Assuming for a moment that in an Annual Plan, the Planning Commission assess the programmes of each State into its revenue and capital components and finds that the States require more revenue than 30 per cent, it is to further consider what revenue and capital is available to the States from its own resources and then make the marginal adjustment for grant from the Union to the States for its Plan transfers. This may vary from State to State for the five years of the Plan and from year to year. These will give rise to endless controversies. A once-in-five-year experiment can be possible. But if this exercise leads to an over-all transfer of more than 30 per cent to the States, certain problems would arise. The over-all revenue transfer, possible under the Plan to the States being limited, if the percentage of revenue and capital is changed from 30:70 to something more in favour of grants, then wherefrom will the extra revenue come? We have already noted that of late the Union is financing part of its revenue expenditure from the borrowings. It is, therefore, clear that since the possibility of increasing the revenue component is not much, there is danger of a net reduction in the overall size of transter if the capital component in Central assistance is reduced. The States will certainly not appreciate this. The problem of the less-developed States on account of high loan component, however, calls for an urgent solution, keeping in view the over-all financial constraints. The gap-filling approach of the Finance Commission leaves several States with revenue surpluses on the non-Plan side. As discussed in the Chapter on Economic and Social Planning, we are of the view that the two-fold pattern of Central assistance of 30:70 and 90:10 grant and loans needs to be reviewed by the Planning Commission in view of the latest developments. If the new formula leads to a need for greater revenue transfers to the poorer, average and the special category States, this amount can be deducted from the transfers to the advanced and medium States, on the principle that these States having substantial revenue surpluses must be able to look after their revenue requirements by suitable adjustments. Our advice would be not to do away with the present methodology. There are correctives in the system which seem to work. If, on the other hand, the States want to experiment with the new idea, it is for them to raise the issues when the Plan is under consideration. It will be for the Planning Commission and the National Economic and Development Council to take decision on any revision of methodology that they may think wise and proper.

10.10.23 Strictly speaking bank loans should be available only for projects or programmes which have capacity to service the debt. Even where there is no direct return, the indirect benefits should be assessed reasonably as also the ability to service the debt. If these principles are followed it would only be the States which are already administratively and economically advanced that can fulfil the conditions. Incidentally, the richer States also do not appear to observe the basic principles of proper return from projects financed from capital. Some marginal deviation towards the backward States may be possible but not much. It is this limitation of viability that limits over-all bank loans to the State Plan Sector.

10.10.24 The States have, on the other hand, raised the issue that the Plan transfers to the States should have a larger grant component than the 30 percent now provided as, given the pattern of outlays, the strict financial properiety stated earlier cannot be held within the 30 percent grant component. On the other hand, the States also want that they should have more access to market loans. The two submissions appear to be at cross-purposes. Market loans should generally be taken for programmes which can provide for due amortisation of the loans in time. Given the States' own assertion about their programmes not being able to fulfil this basic criterion, they should not reasonably expect the banks to flout the basic financial principles. Not surprisingly, over time the relative flow of bank-finances to the Union has increased. it has to be appreciated that this is, in fact, to the advantage of the States. We do not propse that there should be any change in this trend.

Market Borrowings

10.10.25 The complaints of State Government in regard to market borrowings are as follows:

(i) States' share in market borrowings has come down drastically over the years and should be raised in view of their pressing capital needs. Simultaneously, rational and objective principles for their allocations among the States should be evolved. Some State Governments and experts have suggested the setting up of a Loan Council having representatives on its panel from the States to attend to such matters.

(ii) At present the Union Government is having exclusive control over the vast resources and policies of the banking and financial institutions. There should be a better and participative understanding with the State Governments in their utilisation.

10.10.26 It is clear from the data presented in Annexure X.25 that the States' share in market borrowings has come down drastically since the 1960s. It may be also seen from this Annexure that corresponding to the buoyancy in capital market, the volume of total net market borrowings between 1961-62 and 1982-83 has increased over 30 times. The implication is that this resource is being increasingly used by the Union Government. In this context, it should not be forgotten that Central loans to the States are increasing and accumulating and the Union has to find this capital resource.

10.10.27 The determination of the respective shares of the Union and the States in total market borrowings does not follow any predetermined or definite criteria. These shares are evolved on a year-to-year basis through consultations between the Planning Commission, Ministry of Finance and the Reserve Bank of India. The major considerations kept in view apparently are the current financial position of the Union and the States and requirements of Plan programmes. Prior to 1969, the Reserve Bank of India used to determine the share of individual States on the basis of its accessibility to capital market and the assessment of response of the capital market to the bond floatations by that State. This had obviously put the industrialised and advanced States in an advantageous position, vis-a-vis the others. The nationalisation of banks enabled the Reserve Bank of India to centralise the operations and channelise investment.

10.10.28 On a demend from several less-developed States during the period of the Fourth Five-Year Plan itself, some rationalisation in the allocation of market borrowings was effected, which reduced the inter-State disparities. In the meetings of the National Development Council held in 1978-79 and in August 1980, demands were made for evolving objective criteria for the allocation of market borrowing also on the pattern of Central assistance. However, no formula has been evolved so far. In the context of the Sixth Five-Year Plan, a 10 per cent annual step-up in market borrowings of the States over the base-year level of 1979-80 was allowed (indeed, this practice had been in vogue since 1975-76) with provision of additional market borrowings for the less developed States having per capital income below the national average. It has been argued that as a result of this approach, the per capita disparities in market borrowing among the States have been further reduced.

10.10.29 Even after the approach adopted for the Sixth Five-Year Plan, discontent has been voiced by serveal States regarding the basis of allocation of market borrowings. Several approaches have been suggested by them which will be advantageous in their respective cases. Among the important suggestions given are that, the market borrowings should be linked to the Plan outlays of the States their distribution should be based on the same criteria as followed for Central Plan assistance; special treatment should be given to the less-developed States; the credit-deposit ratio of commercial banks and funds mobilised by the other concerned financial institutions in the various States should be given due weightage, and the totality of market borrowings and the Central Plan assistance on per capita basis should be more or less equal among the States. We have also taken note of the report of the Resource Committee appointed by the Government of Gujarat (1981) which recommended that the share of States in total borrowings should be raised to 50 per cent and the share of each State be determined taking into account its relative weightage in State Plan outlays and the funds raised by the nationalised banks. Provident Funds and insurance Corporations.While a set of objective criteria has not yet been evolved for allocation of market borrowings among the States, the argument given in that the present system offers considerable flexibility to adjust according to the financial position of the States and their need for development funds.

10.10.30 Market borrowings have consituted a major component of Plan-finance of the Government of India. Judgement of the relative needs of the Union and the States and the level of total resources of the States from various sources are crucial matters in this regard. In our opinion, the determination of the respective shares of the Union and the States in market borrowings should continue to be done in consultation among the Ministry of Finance, Planning Commission and the Reserve Bank of India. But its tying up with the medium-term resource-exercise will make it more purposive. Regarding *inter se* allocations to the States of market borrowings, broad principles will have to be evolved by the Planning Commission and got approved by the National Economic and Development Council.

Our Approach

10.10.31 The various issues regarding States' indebtedness and their share in capital resources are only different facets of the fundamental question of adequacy of States' resources in relating to their responsibilities, in the present context especially, In terms of their development needs. The Constitutional provisions, besides specifying respective legistlative and revenue-raising spheres, the mechanisms of transfer and the institution of Finance Commission, do not elaborately spell out how this should be done and what principles should be followed. Clearly, sharing of resources between the Union and the State Governments has to be considered in a spirit of partnership and in a comprehensive manner, keeping in view the relative needs and capabilities and rational utilisation of resources.

10.10.32 In suggesting solutions to the problems of indebtedness, market borrowings, etc., a tendency towards a segmented approach has ben discerned. For example, a State Government has suggested equal shares for the Union and the States in market borrowings and other sources of capital receipts as also specific criteria for their allocation among the States. In view of the overall shortage and competing claims on the use of capital resources, an overall assessment of their availability and deployment is pre-eminently desirable. The sharing of capital resources in its individual segments must not be effected on the basis of rigid formulae. In our opinion mechanisms of financial flows and roles of institutions in respect of them should follow an over-all rationality. Earlier in this Chapter, the trends in financial flows and the role of Finance Commission in balancing the resources towards their revenue requirements were discussed. The budgetary resource flows from the Union to the States on capital account, as also sharing of the large institutional finance—partly through indicatie planing in a case of the private sector—are extremely important from the view-point of development and resource-generation in future and reduction of regional economic disparities.

10.10.33 Keeing in view the fact that the overall resources of the community are limited, the initial crucial decisions to be made are: (a) how much of the current incomes should be allowed to be consumed and how much saved, (b) how the community's savings should be utilised in the public sector and what should be the modes, e.g., taxation, borrowings etc. of their mobilisation, (c) how the resources in the public sector should be allocated between the Union and the State Governments and (d) how the Central transfers should be allocated among the States. An important decision to be made is what should be the pattern, viz.,loans or grants of transfer or resources among the States. A broad analysis of the behaviour of consumption and savings and resources available in the public and private sectors is made by the Planning Commission in the context of the Five-Year Plans.

10.10.34 We are of the view that the rationality of transfers from the Union to the States would involve more of revenue tranfers to the less-developed States with lower repayment capacity and weak financial base. In contrast, keeping in view the needs of development in the advanced States, a suitable mix of budgetary and non-budgetary access to capital resources may be allowed to them. The logic is that such States are in a better position to service commercial borrowings.

10.10.35 Broad estimates of capital availability for the Union and the States from the banks and the financial institutions are made by the Planning Commission in consultation with the Union Ministry of Finance and the Reserve Bank of India. These over-all estimates for the five years are part of the financial exercise for estimation of the resources in every Plan. As was explained earlier, the division of the market, loans between the Union's requirements and the States requirements is carried out annually. The division of the available funds between the States *inter se* is made according to the methodology approved by the National Development Council. The Planning Commission assesses the Union funds, both revenue and capital, available for transfer to the States on Plan account. Incidently, the Finance Commission has already dealt with the non-Plan capital gap by suggesting relief in various forms.

10.10.36 We recommend that the flow of capital funds from various sources to the States and their allocation among them should form part of an integrated plan. This may be attended to by the Planning Commission in consultation with the Ministry of Finance and the Reserve Bank of India and got approved by the National Economic and Development Council as part of Plan financing. A comprehensive examination of the allocation of capital resources for the Plan by the NEDC will improve understanding between the Union and the States in the overall sharing and utilisation of capital resources. To facilitate such comprehensive examination by the NEDC, the Sub-Committee on Finance of its Standing Committee, proposed by us in para 10.9.50 can play a useful role.

States' Borrowing powers

10.10.37 Some State Governments as well as experts have complained that the borrowing powers of the States have been unduly restricted by the Constitution. The Constitution does not permit States to borrow outside India. Even internally, the borrowing is subject to two limitation: (a) as may be imposed by the State Legislature under Article 293 (1), and (b) if the Union Govenrment has guaranteed an outstanding loans of the State without the consent of the Union Government as per Article 293(3) it is argued that such restictions do not obtain in a federation like the USA, If it is felt that in a planned economy like India there is need for some such restriction, it should apply only to long and medium term borrowing from the open market, and not to borrowing from financial institutions or to short-term loans for less than one year.

10.10.38 We feel that there is a case for some flexibility in this matter. Undue rigidity is often economically counter-productive and politically inexpedient. In our view, a solution lies in making a distinction between short-term loans under one year and medium and long-term loans. Credit estimates included in financial provisions of the National and State Plans comprise basically of long and medium term loans. Considering this fact, as well as the large margin of conjecture inherent in most credit estimates, neither the Plans should be seriously affected nor undue risk taken if the Union Government permits the States to borrow freely from the commercial banks for periods of less than one year. It can do this under Article 293 (4) and no amendment of the Constitution is needed. As loans from commerical banks are constlier than those from the Reserve Bank of India, and have to be individually negotiated, it will help tone up financial discipline in the States and defuse their grievances against the Reserve Bank.

10.10.39 We recommend that the Union Government should give its consent freely to States for borrowing from banks and financial institutions for periods less than one year under Clause (4) of Article 293. Since most of these are now nationalised, no irremediable risk would be involved.

10.10.40 The Union Government has been permitting some of its public sector undertakings (e.g., National Thermal Power Corporation, Indian Telephone Industries, National Hydro-Electric Power Corporation, Railways, Coal and Petro-Chemical Undertakings) to issue bonds which are exempt from Wealth Tax and/or Income Tax. Following a demand from the States that their public sector undertakings and local bodis should also have this facility, it has been recently decided by the Union Government to allow their public sector units 'on merit' to raise funds by floating bonds. We hope that, in practice, the considerations relating to 'merit' of a State's enterprise will not put them to any disadvantage vis-a-vis the Union Government's undertakings. So far as local bodies are concerned, tax-free Municipal bonds have greatly helped urban development works in U.S.A. and some other countires by providing flexibility and encouraging local initiative and competence.

10.10.41 We recommend that the system of tax free municipal bonds should be introduced in this country. This may also help induce local governments to raise more revenue to service the bonds, if suitable conditions are created for the purpose. We may point out that Municipal bodies which are now constrained in raising loans from the market, can increase their capacity to service loans if their tax collections increase and/or economy in their expenditure is effected. Their capacity to borrow and spend for development will correspondingly improve.

Small Savings Loans

10.10.42 Share in small savings collection constitutes an important source of financing the Plan. Under the present arrangements, a two-third share of the net receipts collected in a State is allowed to be retained by that State as loan. Very recently the Union Government has decided to raise the States' share in the not small savings collections from two-thirds to three-fourths, effective from 1987-88. These loans carry an initial moratorium of five years and are repayable in 25 years. In 1984, about Rs. 7,000 crores of small savings loans were outstanding against which repayment obligation of Rs. 960 crores was estimated by the Eighth Finance Commission for the period 1984-89. Several of the State Governments have argued that the Samll savings loans may be treated as 'loans in perpetuity' as they are given in net to them after taking into consideration fresh mobilisation. The Seventh Finance Commission had agreed to this demand but the Union Government did not accept its recommendation in this regard. However, the Union Government did not insist on collection of repayment of those loans during the Sixth Plan period. In the Eighth Finance Commission, there was a difference of opinion among the Members but the majority view supported continuation of repayment of these loans as it thought that sufficient moratorium on them was granted.

10.10.43 Several State Governments have demanded that their share in the additional small savings collections should be increased from the present two-thirds share, and that such loans should be treated as loans in perpetuity. A specific suggestion made by a State Government is that the share of the developed States in the net small savings collections should be increased to 80 per cent and that of other States having per capita income below the national average to 90 per cent. Further, the maturity period of such loans may be increased from 25 years to 50 years and the grace period from 5 years to 10 years.

10.10.44 Treatment of small savings loan is a matter of judgement by the Finance Commission in relation to the over-all debt burden of the States. As long as small savings keep increasing and their is a surplus every year after repayment of due loans, the Union is not called upon to repay any loan not already covered by the net transfer principle. If and when the position changes in any year, when the outgo is greater than the inflow, the States would be responsible for their share of the net small savings collections. If formula is adopted for such recoupment of revenue from the States, the recom-mendations of the Finance Commission will be workable. This aspect will have to be examined by the National Economic and Development Council.

Institutional Finance for State Plan Schemes

10.10.45 We now consider the flow of institutional finance to the States. While some broad basis is followed in the allocation of market borrowing, in the case of institutional finance the flows correspond to the projects and to State-wise allocation determined beforehand. Over the years, the resources at the disposal of the banking and term-lending financial institutions have grown very considerably.

10.10.46 During the Sixth and Seventh Five-Year Plans, the share of negotiated loans in the States' total Plan outlay was 5.2 per cent and 5.7 per cent respectively. The allocation of negotiated loans to States from the financial institutions, in our opinion, should continue to be a part of Planning Commission's over-all exercise for deployment of capital resources for the Plan.

10.10.47 A State Government has suggested that a full complement of financial institutions to provide development finance to the Central and State enterprises, as well as to the private sector,

should be established. Further, it would be desirable to have an apex the financing institution to pool together the country's investible funds-both in public and private sector in accordance with national development priorities. Such an institution may be called Investment Bank of India (IBI). The National Development Council, according to this State Government, should also undertake annual, or as often as necessary, reviews of the working of the term financing structure.

10.10.48 At present, with the efforts of the Union and the State Governments, a network of financial institutions has already come into existence. At apex level, term financing institutions, corresponding to specialised investment demands of various sectors, like IDBI, NABARD and EXIM Bank exist. At State level, the coordination is done by Industrial Development Corporations, Finance Corporations and Cooperative Banks. Along with this network of institutions, a system of coordination of their activities has also come into being. Apart from the Standing Coordination Committee set up by the Reserve Bank, many issues involving coordination are discussed at the State-level Inter-institutional Committees and State-level Banker's Committees. In July 1986, in order to further the objective of raising mobilisation of financial savings and channelisation of resources in accordance with national priorities, the Reserve Bank has set up a National Finance and Credit Council. This Council, besides taking an overall view of the flow of finance and credit, both short-term and long-term, for industry, agriculture and trade, considers developments in capital and money markets with a view to improving their financial efficiency. The Governor of the Reserve Bank is the Chairman of the Council and its members include Deputy Governors of the Reserve Bank; Finance Secretary, Government of India; Secretary, Banking, Government of India; Chairman of Industrial Development Bank of India, Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India, Life Insurance Corporation, General Insurance Corporation, Unit Trust of India, Export Import Bank, Industrial Reconstruction Bank of India, State Bank of India, Indian Bank's Association and Chairmen of two other commercial banks by rotation once in two years. Besides, selected representatives/officials of stock exchanges, cooperative institutions, financial experts and senior officials of State-level financial institutions may attend the meetings of the Council by special invitation.

10.10.49 In the setting up of the National Finance and Credit Council, the suggestion made by a State Government in the previous paragraph has been met substantially. However, planning for investment allocation is done by the Planning Commission and overseen by the National Development Council. We do not see the necessity for any change in these arrangements. If any problems in the working of the arrangements concerning flow of development finance arise, the Sub-Committee on Finance of the Standing Committee of the NEDC proposed by us earlier, should be able to take care of the same.

Central Assistance for Externally Aided Projects

10.10.50 Several State Governments have represented to us that the terms of channelling external assistance for the projects included in their Plans are more unfavourable than those on which the Union Government is provided assistance by the external agencies. It is also complained by them that the full amount of assistance is not transferred to them.

10.10.51 The assistance for externally aided projects is channelised to the States on the same terms as rest of the Central assistance for State Plans. External aid is obtained by Government of India from various agencies at different terms. We have been informed by the Ministry of Finance that the weighted rate of interest on external borrowings is about 2.3 per cent. In this connection, the Ministry of Finance has explained the position to use as follows :

“The question of transferring external assistance to respective State Governments on the same terms and conditions on which it is received from external agencies has been considered in the past and it was decided to maintain the existing uniformity in terms and conditions in the background of following considerations :

(i) The States should not be subjected to frequent fluctuations in terms and conditions of the external assistance as it would create difficulties in terms of accounting and introduce uncertainty in estimating over-all financial burdens on the States.

(ii) The over-all mix of external assistance may carry higher interest burden particularly in the contest of declining IDA share.

(iii) It would not be possible to distribute equitably amongst the States the repayment burden of external assistance as different credits and loans carry different terms of interest and repayment, and

(iv) The States should not be subjected to any fluctuations in foreign exchange rates."

"It is relevant to note that out of Rs. 6157 crores of Central assistance provided in the Budget for 1986-87, only Rs. 738 crores relate to externally aided projects."

"Interest rate charged on Central loans to States for Plan schemes is periodically revised taking into account the increase in over-all cost of borrowing by the Centre. It is, at the same time, ensured that the interest burden on the States is not excessive the other forms of direct and indirect assistance provided to States are also kept in view. Leaving out small savings on which Centre pays interest of about 12 per cent and the States are also charged the same rate, there is substantial concession in the interest on Central assistance to States for Plan schemes."

10.10.52 We have earlier mentioned that there should be an over-all rationality and consideration of terms and implications of capital transfers to States. Segmented approaches lead to misunderstanding and avoidable controversies. In the case of externally aided projects, the benefits to the country as a whole are to be weighted in relation to the costs involved. It has also to be borne in mind that whereas aid becomes available to the country, the projects are being implemented only in some of the States. In so far as these projects are fully funded as part of Plan financing, it no more remains a relevant question whether the same terms are being applied to this part of Plan finance, on which the external aid was obtained. We have been given to understand that these considerations have also been germane to determining the flow of only 70 per cent of the external project assistance to the States. This, indeed, has to be treated as a matter of internal accounting done by the Government of India. In this connection, it may be necessary to point out that whereas the weighted rate of interest on Union Government's borrowings—both internal and external—is 9.9 per cent, the rate of interest on which Central loans are given to the States is 8.75 per cent only. Besides, the Union Government also provides a substantial part of Plan funds in the form of capital grants which, it also included, would give a weighted rate of interest of only 5.1 per cent for the States.

10.10.53 We do not suggest any change in the existing procedure of channelling external aid for projects to States. However, much misunderstanding would be avoided if at the time of consideration of the Five Year Plan, all relevant factors taken into consideration in this regard are placed before the National Economic and Development Council.

National Debt Commission

10.10.54 There is a suggestion that a thorough examination of the States' indebtedness should be carried out by a National Debt Commission as an "one-shot operation". From the very nature of the situation, a one-shot operation cannot solve the problem. In the fast changing situation and political and economic compulsions which obtain, the results from such an operation will soon become out of date. It is the successive Finance Commissions which would be in a better position to deal with this problem from time to time.

10.10.55 There has been a view-point that an institution like a Loan Council, with representation from the States also, be established to determine the allocations of market borrowings and attend to other problems in borrowing. The example of the Australian Loan Council is often cited in this regard.

10.10.56 Several of the State Governments have opined against the setting up of an additional institution such as a loan Council. They have preferred instead spelling out objective criteria with the approval of the National Development Council for allocation of market borrowings among the States. It is argued that with the nationalisation of banks in 1969 and subsequent evolution of a captive capital market in the public financial institutions, the problems of competition among the States and of credit-worthiness of those with weak financial base, have largely been taken care of.

10.10.57 It may be mentioned that the circumstances in which the Loan Council was created in Australia were very different from those in India. The Australian Loan Council owes its genesis to independent and excessive borrowings by the States in the London money market and internally, absence of funds for repayment, etc., and the accumulation of debt-burden during the period of the First World War. A new institution of this kind does not seem necessary in India in view of the fact that we have quite an effecitve arrangement of the Planning Commission, Ministry of Finance, and the Reserve Bank of India working together. The working of the Australian Loan Council is criticised on the ground that it has not been able to work independently of the control of the Federal Government, that loans are still being channelised to States outside the purview of the Loan Council and that it has not been able to exercise control over the utilisation of loans.

Overdrafts

10.10.58 Many State Governments have drawn our attention to the problem of overdrafts and have justified the same attributing it to basic imbalances in the resource allocation, etc. The issues are as under :

(i) The overdrafts of the States are symptomatic of a deeper malaise in their finances. The immediate need for them may arise out of unforeseen expenditure on natural calamities, payment of D.A. instalments, delays in the release of instalments of assistance for Centrally Sponsored Schemes, etc.

(ii) The Ways and Means limits need to be determined rationally, in relation to the scale of States' budgetary operations and their seasonal variations. There is also a view that the interest charged by the Reserve Bank on States' overdrafts and Ways and Means Advances should not be higher than that on the deficit financing incurred by the Union Government.

10.10.59 The phenomenon of States' overdrafts has been one of the vexatious problems in Union-State financial relations. Unauthorised overdrafts arise when either the limits of Ways and Means Advances, as per agreements between the Reserve Bank of India and the State Governments, are exceeded and/or the overdrafts are not paid within the stipulated period. The overall Ways and Means limits, expressed as multiples of the cash balances, as revised from time to time, are given in Annexure X.26. The Ways and Means Advances are to be repaid within 90 days and the overdrawals over them within 7 days.

10.10.60 In 1950, for the first time the Government of Orissa incurred overdraft of an appreciable size followed by the then Government of Madras. Since then, for a variety of reasons, a number of State Governments incurred overdrafts which, at times, for exceeded the prescribed Ways and Means limits. In 1960s itself the problem had become serious enough and was included as a special term of reference of the Fifth Finance Commission in 1968. The overdrafts have since persisted after reaching large amounts necessitating corresponding provision of assistance from the Union Government. (Annexures X.27 and X.28).

10.10.61 A change in the attitude of some of the State Governments with respect to the problem of overdrafts has also come about over the years. When the Fifth Finance Commission went into the question of overdrafts, there was a near-unanimity among the States to end the "extremely undesirable state of affairs" of the routing clearance of overdrafts by the Union Government. Now, some State Governments argue that if the Union Government have access to deficit financing, they should also be provided a share in the same.

10.10.62 Several causes for the emergence of overdrafts have been identified. One of the reasons for a transient overdraft is the existing accounting and Treasury procedures. The transactions of the State Government take place in a large number of Treasuries, Sub-Treasuries and branches of the State Banks. It takes time to report the net result of these transactions. In this process the account with the Reserve Bank of India may show a negative balance. The Report of the Administrative reforms Commission on Financial Administration had termed this a 'chronic situation' needing more elaborate remedies. The State Governments typically complain of inadequacy of their resources in relation to their responsibilities as the fundamental structural problem which often compels them to resort to overdrafts. Ambitious Plan expenditure, erosion of resources due to inflation, revenues estimated by the Finance Commission on stringent assumptions, sudden and unforeseen expenditure towards natural calamities and payment of bunched-up instalments of DA and emoluments of employees, financial indiscipline, allegedly aggrevate the structural disequilibrium in their resources. Temporary problems and delays in the release of instalments of Central assistance and other transfers to the States are also among causes of overdrafts. Inadequacy of Ways and Means limits has been cited as an operational problem.

10.10.63 There are several serious and undesirable consequences of overdrafts. They are in contravention of Article 293(3) of the Constitution and of the States' agreements with the Reserve Bank of India. The Sixth Finance Commission termed them as 'compulsory loan on Central Government'. As has been happening, the Union Government has to accommodate the outstanding overdrafts of the State Governments at the end of the financial year, by extending advance assistance and loans, to uphold the credit of such State Governments on a discretionary basis. This has been a persistent source of misunderstanding and irritation in Union-State relations.

10.10.64 Many remedial measures have been attempted since 1950s to check overdrafts. As may be seen from Annexure X.26, minimum balances with the Reserve Bank and the Ways and Means limits have been revised several times to provide greater operational facilities to the States. Overdrafts Regulation Schemes have been implemented from time to time, the latest one being to phase out in four years the overdrafts aggregating Rs. 1928 crores on 28th of January, 1985. Over the years, the procedures of releasing of Central funds to the States have also been streamlined by the Union Government.

10.10.65 We are of the firm view that overdraft is basically a Ways and Means problem and it should not be reckoned as a regular resource for any purpose whatsoever. The overdrafts cannot be compared with deficit financing. We would, however, emphasise that resourse to deficit financing by the Union Government should carry ample economic justification and that it should be kept within reasonable limits. The problem of overdrafts cannot be tackled on permanent basis unless the fundamental causes underlying the basis imbalance between resources and needs are dealt with imaginatively. The ban imposed since 28th January, 1985 seems to have worked successfully so far. But it was substantially assisted by the unusual spurt in Income Tax collections which have, for the time being improved the finances of the States. It remains to be seen whether under conditions of tighter financial situation, overdrafts will not recur.

10.10.66 Persistence of sizeable overdrafts in the past, in view of their serious implications, raised the problem of sifting genuine from artificial reasons. This has two types of implications. Firstly, it may not be possible to do away with the problem of overdrafts altogether although one would so wish. Secondly, from the view-point of solution, a multi-pronged approach will have to be followed. In other respects also, it is necessary that more careful and purposive sharing of the resources between the Union Government and the State Governments should be evolved. The Planning Commission, the Finance commission and the institutions concerned with expenditure regulation and control will have to perform their tasks more rigorously. Estimation of revenues will have to be more realistic making due allowance for seasonal weekly variations and the determination of Plan size of the States based on firm estimates of resources. Simultaneously, the State Governments will have to excercise greater discipline in financial management and modernise the operations and reporting of their Treasuries. While these are general and basic matters, to allow manoeuvrability in financial operations, the Ways and Means limits of States will have to be determined in relation to the volume of their budgetary operations. These will also have to be subjected to periodic review.

10.10.67 Inspite of the type of general reforms mentioned above, some overdrafts may still occur owing to unforeseen expenditure or some other genuine problems. Some of the suggestions received by us consist of making provisions for allowing overdrafts within limits. For example, an expert has suggested that a limit of 5 per cent on the basis of overall revenue expenditure, both in case of the Union Government and the States, should be put for deficit financing and overdraft, respectively. In case of States, any overdraft in excess of such a limit of another 5 per cent should attract a steeply graduated penal rate of interest. Beyond this, it should not be allowed. Another suggestion is for a prior review of overdrafts by a high-level body. Yet another view-point is that the loans given towards clearance of overdrafts should be recoverable within the next year.

10.10.68 We recommed that seasonal range of weekly Ways and Means "demand" compared to the prescribed limit should be carefully studied every year for the preceding triennium in the light of price trends separately for each State by the Reserve Bank and taken into account in refixing quarterly Ways and Means limits for the State. This will help meet more realistically the diverse situations in different States and seasons. The period for overdrafts should be extended from 7 days to 14 days in view of the prevailing time lag in collecting relevant information from various Treasuries. Simultaneously, steps should be taken to modernise the Treasury system.

10.10.69 We are of the view that if adequate attention is paid to fundamental matters, mentioned in the previous paragraph, there should not be any need to provide for arrangements for accommodating overdrafts. The present ban on unauthorised overdrafts has lasted several months. We are of the view that with due attention to the basic problems and the political will for not allowing overdrafts the problem may be contained. If the recommendation made by us in paragraph 10.10.39 is implemented, it will also help.

Foreign Exchange Allocation to States

10.10.70 Some States and experts have complained that the complete centralisation of foreign exchange under Entry 36 of list I of Seventh Schedule has created special difficulty for both State Governments and the public, especially when they are situated several hundred kilometers away from Delhi, the administrative centre, and Bombay, the financial centre of the country. Treatment received by the State Governments is said to compare unfavourably in practice, if not in theory, not only with the Union Ministries but even with some of the private sector corporations. Small and medium industrialists in outlaying States feel handicapped for want of expeditious release of even small amounts of foreign exchange they need for projects which have been cleared by Government in all other aspects. No useful purpose will be served by our going into the details of these complaints. It should be a matter of concern that such feelings at all exist. These can be substantially assuaged if more flexibility and decentralisation are introduced in the matter.

10.10.71 We recommend that the following two proposals should be considered by the Union Government:

(a) Free foreign exchange to the extent of a small fraction of a States annual budget should be placed at its disposal. This will introduce a flexibility which will help reduce much of the present irritation.

(b) In each State capital and in the headquarters of remote but important districts of the bigger States, a designated officer of the State Bank of India (or some other nationalised bank) should be given powers of Deputy Controller of Foreign Exchange of the Reserve Bank of India, in case an officer of the Reserve Bank itself is not located there. This will go a long way to help the local public, especially small and medium businessmen.

10.10.72 It will be useful if the Union Government appoints an Expert Team to look into the special diffculties of the people in remote States and districts in matters like the issue of shares, bonds, licences, permits, etc. for which they have now to come to New Delhi and suggest measures for delegating the powers to some officer or agency under its control at the headquarters of each State and remote but important districts of the bigger States.

Flow of Institutional Finance to Private Sector

10.10.73 Flow of direct assistance and re-finance through cooperatives and other institutions to agriculture and private enterprises in other sectors does not generally fall within the ambit of Union-State financial relations. However, given the over-all development and equity considerations, it is too important to be ignored. Over the years, the Union Government and the Reserve Bank of India have evolved policies of preferential/soft treatment to beneficiaries in rural areas, priority sectors and to those located in specified backward areas. This policy orientation has resulted in remarkable spurt in advances from cooperative, banking and other financial institutions. Statewise flow of institutional credit to private sector for different purposes is given in Annexures X.29 to X.36.

10.10.74 The cooperative system has developed over the years as the main institutional mechanism for channelling short-term, medium and long-term credit to the rural areas. However, the performance of the system varies considerably from State to State. The CRAFICARD Report has brought out how the cooperative system has been rendered ineffective through politicisation and tardy collection of dues by States' administration[62]. Thus substantial institutional finance available for development to private sector in the States has remained untapped. In this regard, some inbuilt deficiencies in the organisational structure in the States have been noticed by expert studies. The backward States do not possess adequate administrative capacity to formulate viable programmes for absorbing institutional credit. The advanced States are also observed to be not able to run the cooperative system smoothly and huge outstanding overdues therein are common place. This is by and large also true of institutional finance provided by non-cooperative institutions to the private sector. This is evident from Annexure X.32 to X.36 which show that both their spread and utilisation are patchy. All this brings out the inherent weaknesses in the system resulting in sub-optimal utilisation of institutional credit.

10.10.75 In the context of availability of institutional finance to the private sector, two aspects become pertinent. One is that scarce capital resources in our country carry a high opportunity cost. Therefore, their optimum use is a must. This becomes particularly important in the context of the trade-off involved between growth and equity objectives. The second aspect is that notwithstanding the preferential and concessional finance facility offered, people in the less-developed States have not been able to avail of the institutional finance to the desired exent. We are of the view that is necessary to develop organisational capabilities and enterprise urgently in such States. The primary responsibility for these rests with the concerned State Governments. However, the less developed States must be helped to develop infra-structure and provided technical support by the concerned Union and State agencies in overcoming their organisational handicap. This involves tying-up of flow of institutional finance with comprehensive planning for their development.

11. *RECOMMENDATIONS*

10.11.01 Under the present circumstances, duties on *all* the items covered by Article 268 do not appear to be a buoyant source of revenue amenable to frequent revisions. Since basic circumstances do not always remain constant, the Union Government should, in consultation with the State Governments, periodically consider and explore the revision or imposition of these duties. The revenue raised from these duties should be separately specified in the budget and other relevant publications.

(Para 10.5.13)

10.11.02 The monetary limit of "Rupees two hundred fifty per annum" fixed 37 years ago on taxes that can be levied on professions, trades, callings and employments (Entry 60 of List II) should be, in consultation with the States, revised upwards immediately and reviewed periodically.

(Para 10.5.60)

10.11.03 Taxation of agricultrural income is a sensitive matter. Both the Union and the State Governments are not inclined at present for a change in the Constitutional provision in regard to Entry 46 of List II. Many problems have been highlighted by the Union and the State Governments in connection with the levy of such a tax. Nonetheless, in view of its potential, the question of raising resources from this source by forging political consensus and the modalities of levying the tax and collection of proceeds, etc., would require an indepth and comprehensive consideration in the National Economic and Development Council.

(Para 10.5.72)

10.11.04 By an appropriate amendment of the Constitution, the net proceeds of Corporation Tax may be made permissibly sharable with the States, if and as Parliament may by law so provide. This would have the advantage of enlarging the base of devolution so that in the revenues of the States there would be greater stability and 'redictability, if future. Further, being an elastic resource, the States would benefit from its growth.

(Para 10.6.16)

10.11.05 Consequent on inclusion of Corporation Tax in the divisible pool, adjustments will have to be carried out by suitably bringing down the shares of States in Income Tax and Union Excise Duties.

(Para 10.6.18)

10.11.06 The Surcharge on Income Tax should not be levied by the Union Government except for a specific purpose and for a strictly limited period only.

(Para 10.6.26)

10.11.07 the organic linkage in policies and measures adopted by different levels of government in resource mobilisation and expenditure must be duly recognised. This, indeed, is the crux of Union-State financial relations. An expert Committee, with suitable representation from the States, may be appointed by the Union Government to recommend disirable directions of reforms in taxation and *intra alia*, consider the potential for resource mobilisation by the Union and the States. The report of this Committee should be placed before the Standing Finance Committee of the National Economic and Development Council for consideration.

(Para 10.6.34 and 10.6.36)

10.11.08 Substantial expenditure is incurred by both the Union and the State Governments on schemes which have come to be known as populist measures. It will be in the best interests of the concerned Governments to take explicitly into account the high opportunity-cost of such schemes and to examine whether any important programmes of development are compromised due to such diversion of scarce resources.

(Para 10.7.30)

10.11.09 It is necessary that a comprehensive paper on direct, indirect and cross-subsidies, covering both Union and State Governments, is prepared by the Planning Commission every year and brought up before NEDC for discussion, since the increasing burden of subsidies has a direct relevance to the availability of resources for the execution of the Plan.

(Para 10.7.33)

10.11.10 The present division of labour which has developed over the years between the Finance Commission and the Planning Commission is that the former advises on the non-Plan revenue requirements and non-Plan capital gap. In certain sectors, where the problem is clear and the numbers are reasonably sure, the Finance Commission has recommended capital resource devolution also only to a limited extent. The present division of responsibilities between the two bodies, which has come to be evolved with mutual understanding of their comparative advantage in dealing with various matters in their respective spheres, may continue.

(Para 10.8.16 and 10.8.17)

10.11.11 The Finance Commission Cell/Division, proposed to be located in the Planning Commission, should continuously monitor the behaviour of States' finances. It should also estimate annually the deviations from the norms evolved by the Finance Commission. The Planning Commission would then be able to bring before the National Economic and Development Council annual reviews indicating, among other things, the deviations from the forecasts of Finance Commission and the reasons for the same. This would afford an opportunity to the National Economic and Development Council to monitor effectively and evolve consensus on the the mobilisation of resources and contain the nondevelopmental expenditure.

(Para 10.8.23)

10.11.12 The Finance Commission Division should, in cooperation with the States, organise comprehensive studies on trends in growth of public expenditure in the States in the light of the findings of the previous Finance Commission. The studies conducted by the Finance Commission Division should be available well in time for the use of the next Finance Commission.

(Para 10.8.25)

10.11.13 There is need to further strengthen the Finance Commission Division. It would result in much closer coordination between the Planning Commission and the Finance Commission if this Division were to work under the general supervision of the Member incharge of financial resources in the Planning Commission. Such an arranagement will also make available to the Planning Commission data and analysis on various parameters relevant for resource discussions for the Plan and reviewing of the finances of the Union and the States.

(Para 10.8.30)

10.11.14 Finance Commission should draw experts for assisting them in their work from various parts of the country. It would be advantageous if suitable experts are drawn from the States also for staffing the Secretariat of the Finance Commission.

(Para 10.8.34)

10.11.15 The step taken by the Union Government to initiate a process of consultation with the States in finalising the terms of reference of the Finance Commission is in the right direction. Any consultation to be meaningful should be adequate. However, there is no advantage in formalising the same through a change in the Constitutional provisions which would introduce undue rigidity.Nonetheless, it is desirable that this healthy practice of informal consultation with the States in this matter should continue.

(Para 10.8.36)

10.11.16 Consideration of adequate flow of funds to the backward regions in the States would necessitate creation of expert bodies, like the Finance Commission, at State level also. Without such an organisation at the State level to effect regional distribution, skewness will persist in large pockets even in advanced States. State Planning and Finance Boards may be set up at State level to take an objective view of resources to be devolved to the districts.

(Para 10.8.51)

10.11.17 Since the Sixth Finance Commission, grants for upgradation of levels of administration in the States are being provided. The crucial role of administrative/organisational support in the backward areas is a *sine qua non* for making the investment effective in consonance with the accepted policy of reducing regional disparties. It may even be desirable to provide in the special terms of reference of the Finance Commission to make available finances, with effective monitoring arrangements, to fill up the inter-State gap in administrative capabilities. This vital aspect should continue to receive due consideration of the Finance Commission.

(Para 10.8.52)

10.11.18 It is, indeed, unfortunate that the Eight Finance Commssion's final recommendations were not implemented in 1984-85 which caused serious financial problems in some States. While the recommendations of the Finance Commission are not binding on the Union Government in a technical sense, the expectation is that, as far as possible, these would not be departed from without compelling reasons. It is to be hoped that in future there would be no occasion for such departure. It is necessary that the time-schedule for the completion of the Finance Commission's work is so drawn up that it can reasonably submit its final report 4 to 5 months before the beginning of its period of operation.

(Para 10.8.58)

10.11.19 (i) As much of the information gathered by the Finance Commission, as well as the detailed methodology followed by it, is of public interest, it should be got published, say within six months of the publication of the Report, to enable informed discussion and responsible research in the relevant spheres and better appreciation by the State Governments.

(ii) In addition, it will be a healthy practice if the observations and suggestions made by the Finance Commission on matters other than the terms of reference of the Finance Commission, are also considered expeditiously by the Government and a comprehensive statement placed before Parliament subsequently indicating its views and action taken.

(Para 10.8.59)

10.11.20 It is a matter of serious concern that even after a lapse of about five years no legislation has been brought in for giving effect to the intent of the Constitutional amendment enabling levying of the Consignment Tax. The Union Government should bring in suitable legislation in this regard without further loss of time.

(Para 10.9.12)

10.11.21 There are complaints that the yield from certain cesses levied along with Union Excise Duties under special Acts of Parliament have remained outside the divisible pool of resources. While it may become necessary for the Union Government to levy such cesses in view of the special needs, their application should be for limited durations and for specific purposes only.

(Para 10.9.20 and 10.9.21)

10.11.22 The scope for raising additional resources to any considerable extent on items covered by Article 269 appears to be limited. An Expert Committee should be constituted to enquire into and review from time to time, in consultation with the States, the operational feasibility of the scope for levying taxes and duties included in Article 269 and the complementary measuers the State Governments would be required to take.

(Para 10.9.25 and 10.9.26)

10.11.23 The Constitution should be suitably amended to add the subject of taxation of 'advertisement broadcast by radio or television' to the present Entry 92, List I and Article 269(1)(f).

(Para 10.9.30)

10.11.24 The Union Government should signify its acceptance of the Finance Commission's recommendation in regard to the grant in lieu of the Railway Passenger Fare Tax also, alongwith other items, while placing the explanatory Memorandum before Parliament.

(Para 10.9.34)

10.11.25 The Finance Commissions take into account the expenditure liability of the States with respect to dearness allownace, etc., and make a provision for the same. But inflation increases both outlays and revenues. The permanent secretariat of the Finance Commission should make an annual review of the situation. If in any year the net burden of the States seems unduly heavy, the Planning Commission and the Union Ministry of Finance should jointly evolve appropriate relief measures.

(Para 10.9.37)

10.11.26 The reviews of royalty rates on minerals, petroleum and natural gas should be made every two years and well in time, as and when they fall due.

(Para 10.9.40)

10.11.27 A Sub-Committee of Finance of the Standing Committee of NEDC may be constituted consisting of Union Finance Secretary and the Finance Secretaries of various States and Union Territories. It will consider all such matters calling for coordination of economic policies as may be entrusted to it by the NEDC or its Standing Committee. This body will report to the Standing Committee of the NEDC. Since Planning Commission would be providing the secretariat support to the NEDC, the same may be extended for this body also. This will ensure expert consideration of various aspects of the problems and adequate consideration of the views of the Union and the States/Union Territories. The role of this Committee will be deliberative and advisory and helpful in forging a consensus of financial matters.

(Para 10.9.50)

10.11.28 The distinction made by the Seventh and the Eighth Finance Commissions in providing a more favourable flow of Central assistance for floods, cyclones, etc., vis-a-vis a drought situation, may continue.

(Para 10.9.66)

10.11.29 (i) The Central Team to assess the damage caused by natural calamities should invariably be headed by the Advisor incharge of the State in the Planning Commission, as was the practice in the past.

(ii) In the event of a natural calamity, relief must be given immediately. A procedure which enables States to expeditiously provide necessary succour and relief to the affected people should be evolved, in consultation with the States, along with suitable norms in regard to the scale of relief. Formulation of standard formats for submission of memoranda by the States will greatly help the Union in dealing with requests of various States urgently and on a uniform basis.

(Para 10.9.67 and 10.9.68)

10.11.30 In a calamitous situation, the States should have a reasonable discretion to make inter-district or inter-sectoral adjustments. To allay the apprehension that the expenditure pattern adopted under the stress of urgency may not find approval, norms in regard to items of expenditure which are to be incurred immediately, e.g., relief by way of issue of foodgrains, clothing and rebuilding of shelters in the event of floods may be evolved by the Union and communicated to all State Governments.

(Para 10.9.69)

10.11.31 Relief assistance should extend beyond the financial year. The assistance required till the next June/July should be decided in the beginning itself so that relief works can be properly planned and executed.

(Para 10.9.70)

10.11.32 There appears to be a tendency to bring in non-productive schemes and programmes under the capital head in order to expand the Plan size. In future Plans, for reasons of financial propriety this sector, though small, has to be weeded out of the capital-budget and put under the revenue budget. It is better to tackle the situation at this stage whilst the problem is marginal.

(Para 10.10.16)

10.11.33 The rationality of transfers from the Union to the States would involve more of revenue transfers to the less-developed States with the lower repayment capacity and weak financial base. In contrast, keeping in view the needs of development in the advanced States, a suitable mix of budgetary and non-budgetary access to capital resources may be allowed to them. The logic is that such States are in a better position to service commercial borrowings.

(Para 10.10.34)

10.11.34 The flow of capital fund from various sources to the states and their allocation among them should form part of an integrated plan. This task may be attended to by the Planning Commission in consultation with the Ministry of Finance and the Reserve Bank of India and got approved by the National Economic and Development Council as part of Plan financing.

(Para 10.10.36)

10.11.35 The Union Government should give its consent freely to States for borrowing from banks and financial institutions for periods less than one year under Clause (4) of Article 293.

(Para 10.10.39)

10.11.36 The Union Government has now allowed the States' public sector units to raise funds 'on merit' by floating bonds. In practice, the considerations relating to 'merit' of a State's enterprise should not put them to any disadvantage vis-a-vis the Union Government's Undertakings.

(Para 10.10.40)

10.11.37 The system of tax-free municipal bonds should be introduced in this country.

(Para 10.10.41)

10.11.38 Treatment of small savings loan is a matter of judgement by the Finance Commission in relation to the over-all debt burden of the States. As long as small savings keep increasing and there is a surplus every year after repayment of due loans, the Union is not called upon to repay any loan not already covered by the net transfer principle. If and when the position changes in any year, when the outgo is greater than the inflow, the States would be responsible for their share of the net small savings collections. If a formula is adopted for such recoupment of revenue from the States, the recommendations of the Finance Commission will be workable. This aspect will have to be examined by the National Economic and Development Council.

(Para 10.10.44)

10.11.39 Any problems in the working of the arrangements concerning flow of development finance from the financial institutions should be looked into by the Sub-Committee on Finance of the Standing Committee of the NEDC.

(Para 10.10.49)

10.11.40 No change in the existing procedure of channelling external aid for projects is suggested. However, much misunderstanding would be avoided if at the time of consideration of the Five-Year Plan, all relevant factors taken into consideration in this regard are placed before the National Economic and Development Council.

(Para 10.10.53)

10.11.41 The seasonal range of weekly Ways and Means "demand" compared to the prescribed limits should be carefully studied every year for the preceding triennium in the light of price-trends, separately for each State, by the Reserve Bank and taken into account in re-fixing quarterly Ways and Means Limits for the State. The period for overdrafts should be extended from 7 to 14 days in view of the prevailing timelag in collecting relevant information from various Treasuries. Simultaneously, steps should be taken to modernise the treasury system.

(Para 10.10.68)

10.11.42 The following two proposals may be considered by the Union Government:

(a) Free foreign exchange to the extent of a small fraction of a State's annual budget should be placed at its disposal. This will introduce flexibility which will help reduce much of the present irritation.

(b) In each State capital and in the headquarters of remote but important districts of the bigger State, a designated officer of the State Bank of India (or some other nationalised bank) should be given powers of Deputy Controller of Foreign Exchange of the Reserve Bank of India, in case an officer of the Reserve Bank itself is not located there. This will go a long way to help the local public, especially small and medium businessmen.

(Para 10.10.71)

10.11.43 It will be useful if the Union Government appoints an Expert Team to look into the special difficulties of the people in remote States and districts in matters like the issue of shares, bonds, licences, permits, etc. for which they have now to come to New Delhi, and suggest measures for delegating the powers to some officer or agency under its control at the headquarters a of each State and remote but important districts of the bigger States.

(Para 10.10.72)

10.11.44 Flow of direct assistance and re-finance through cooperatives and the other institutions to agriculture and private enterprises in other sectors does not generally fall within the ambit of Union-State financial relations. However, given the overall development and equity considerations, it is too important to be ignored. Undesirable politicisation of the cooperative system, thus leaving untapped substantial institutional finance which could be available for development has been noted by expert studies. In the context of consideration of institutional finance to the private sector, two aspects become pertinent. One is that scarce capital resources in our country carry a high opportunity-cost. Therefore, their optimum use is a must. The second aspect is that notwithstanding the preferential and concessional finance facility offered, people in the less-developed States have not been able to avail of the institutional finance to the desired extent. It is necessary to develop organisational capabilities and enterprise urgently in such States.

(Paras 10.10.73 and 10.10.74)

LIST OF ANNEXURES

ANNEXURE X.1

TAXATION HEADS ASSIGNED TO THE UNION AND THE STATES IN THE CONSTITUTION (AS LISTED IN THE SEVENTH SCHEDULE OF THE CONSTITUTION)

UNION

Entry in List I of the Seventh Schedule	Head
82	Taxes of income other than agricultural income.
83	Duties of customs including export duties.
84	Duties of excise on tobacco and other goods manufactured or produced in India except— (a) alcoholic liquors for human consumption; (b) opium, Indian hemp and other narcotic drugs and narcotics; but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.
85	Corporation tax.
86	Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies.
87	Estate duty in respect of property other than agricultural land.
88	Duties in respect of succession to property other than agricultural land.
89	Terminal taxes on goods of passengers, carried by railway, sea or air; taxes on railway fares and freights.
90	Taxes other than stamp duties on transactions in stock exchanges and futures markets.
91	Rates of stamp duty in respect of bills of exchange cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts.
92	Taxes on the sale or purchase of newspapers and on advertisements published therein.
*92A	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.
**92B	Taxes on the consignment of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of inter-State trade or commerce.
97	Any other matter not enumerated in List II or List III including any tax not mentioned in either or those Lists.

STATES

Entry in List II of the Seventh Schedule	Head
45	Land-revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenues.
46	Taxes on agricultural income.
47	Duties in respect of succession to agricultural land.
48	Estate duty in respect of agricultural land.
49	Taxes on lands and buildings.
50	Taxes-on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development.
51	Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India:— (a) alcoholic liquors for human consumption; (b) opium, Indian hemp and other narcotic drugs and narcotics; but not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.
52	Taxes on the entry of goods into a local area for consumption, use of sale therein.
53	Taxes on the consumption or sale or electricity.
†54	Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of entry 92A of List I.
55	Taxes on advertisements other than advertisements published in the newspaper†† and advertisements broadcast by radio or television.
56	Taxes on goods and passengers carried by road or on inland waterways.

* Ins. by the Constitution (Sixth Amendment) Act, 1956 s. 2

** Ins. by the Constitution (Forty-sixth Amendment) Act, 1982, s. 5

† Subs. by the Constitution (Sixth Amendment) Act 1956, s. 2, for entry 54.

†† Ins. by the Constitution (Forty-second Amendment) Act, 1976, s.57 (w.e.f. 3-1-1977).

57 Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars, subject to the provisions of entry 35 of List III.

58 Taxes on animals and boats.

59 Tolls.

60 Taxes on professions, trades, cillings and employments.

61 Capitation taxes.

62 Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.

63 Rates of stamp duty in respect of documents other than those specified in the provisions of List I with regard to rates of stamp duty.

ANNEXURE X.2
SHARING OF RESOURCES BETWEEN THE UNION AND THE STATES 1951-52 to 1984-85
REVENUE ACCOUNT

(Rs. Crores)

Plan Periods	Union and States combined (3+6)	UNION Before Transfers to States (Gross Collections)(3+4)	After Transfers to States (Net Receipts)	Transfers to States	STATES Own Resources	Total (including Transfers) (4+5)	
(1)		(2)	(3)	(4)	(5)	(6)	(7)
First Plan (1951—56)	2,691	2,089	602	1,846	2,448	4,537	
		(59.3)	(46.0)	(13.3)	(40.7)	(54.0)	(100.0)
Second Plan (1956—61)		4,526	3,067	1,459	2,657	4,116	7,183
		(63.0)	(42.7)	(20.3)	(37.0)	(57.3)	(100.0)
Third Plan (1961—66)		10,147	7,553	2,594	4,763	7,357	14,910
		(68.1)	(50.7)	(17.4)	(31.9)	(49.3)	(100.0)
Three Annual Plans (1966—69)	9,130	6,289	2,841	4,603	7,444	13,733	
		(66.5)	(45.8)	(20.7)	(33.5)	(54.2)	(100.0)
Fourth Plan (1969—74)		24,486	15,955	8,527	11,899	20,426	36,385
		(67.3)	(43.9)	(23.4)	(32.7)	(56.1)	(100.0)
Fifth Plan (1974—78)	38,959	26,810	12,149	19,382	21,531	58,341	
		(66.8)	(46.0)	(20.8)	(33.2)	(54.0)	(100.0)
Two Annual Plans (1978—80)		27,425	17,296	10,129	13,939	24,068	41,364
		(66.3)	(41.8)	(24.5)	(33.7)	(58.2)	(100.0)
Sixth Plan (1980—85)		1,11,937	69,871	42.066	59,845	1,01,911	1,71,782
		(65.2)	(40.7)	(24.5)	(34.8)	(59.3)	(100.0)
TOTAL (1951—85)	2,29,301	1,48,934	80,367	1,18,934	1,99,301	3,48,235	
		(65.8)	(42.8)	(23.1)	(34.2)	(57.2)	(100.0)

CAPITAL ACCOUNT

(Rs. Crores)

Plan Periods	Union and States combined (9+12)	UNION Before Transfers to States (Gross Collections)(9+10)	After Transfers to States (Net Receipts)	Transfers to States	STATES Own Resources	Total (including Transfers) (10+11)	
(1)	(13)	(8)	(9)	(10)	(11)	(12)	
First Plan (1951—56)	1,804	1,099	705	395	1,100	2,199	
		(82.0)	(50.0)	(32.0)	(18.0)	(50.0)	(100.0)
Second Plan (1956—61)		4,655	3,585	1,070	557	1,627	5,212
		(89.3)	(68.8)	(20.5)	(10.7)	(31.2)	(100.0)
Third Plan (1961—66)		6,957	4,834	2,123	940	3,063	7,897

		(88.1)	(61.2)	(26.9)	(11.9)	(38.8)	(100.0)
Three Annual Plans (1966—69) .	5,530	4,036	1,494	882	2,376	6,412	
		(86.2)	(62.9)	(23.3)	(13.8)	(37.1)	(100.0)
Fourth Plan (1969—74) . . .		8,804	6,087	2,717	2,505	5,222	11,309
		(77.8)	(53.8)	(24.0)	(22.2)	(46.2)	(100.0)
Fifth Plan (1974—78) . . .	13,700	10,644	3,056	2,914	5,970	16,614	
		(82.5)	(64.1)	(18.4)	(17.5)	(35.9)	(100.0)
Two Annual Plans (1978—80) . .		11,957	8,169	3,788	1,931	5,719	13,888
		(86.1)	(58.8)	(27.3)	(13.9)	(41.2)	(100.0)
Sixth Plan (1980—85) . . .		62,819	48,854	13,965	9,795	23,760	72,614
		(86.5)	(67.3)	(19.2)	(13.5)	(32.7)	(100.0)
TOTAL (1951—85) . . .	1,16,226	87,308	28,918	19,919	48,837	1,36,145	
		(85.4)	**(64.1)**	**(21.2)**	**(14.6)**	**(35.9)**	**(100.0)**

AGGREGATE RESOURCES

(Rs. Crores)

Plan Periods	Union and States combined (15+18)	UNION Before Transfers to States (Gross Collections)(15+16)	After Transfers to States (Net Receipts)	Transfers to States	STATES Own Resources	Total (including Transfers) (16+17)	
(1)	(19)	(14)	(15)	(16)	(17)	(18)	
First Plan (1951—56)	4,495	3,188	1,307	2,241	3,548	6,736	
		(67.7)	(47.3)	(19.4)	(33.3)	(52.7)	(100.0)
Second Plan (1956—61)		9,181	6,652	2,529	3,214	5,743	12,395
		(74.1)	(53.7)	(20.4)	(25.9)	(46.3)	(100.0)
Third Plan (1961—66)		17,104	12,387	4,717	5,703	10,420	22,807
		(75.0)	(54.3)	(20.7)	(25.0)	(45.7)	(100.0)
Three Annual Plans (1966—69)	14,660	10,325	4,335	5,485	9,820	20,145	
		(72.8)	(51.3)	(21.5)	(27.2)	(48.7)	(100.0)
Fourth Plan (1969—74)		33,290	22,046	11,244	14,404	25,648	47,694
		(69.8)	(46.2)	(23.6)	(30.2)	(53.8)	(100.0)
Fifth Plan (1974—78)	52,659	37,454	15,205	22,296	37,501	74,955	
		(70.3)	(50.0)	(20.3)	(29.7)	(50.0)	(100.0)
Two Annual Plans (1978—80)		39,382	25,465	13,917	15,870	29,787	55,252
		(71.3)	(46.1)	(25.2)	(18.7)	(53.9)	(100.0)
Sixth Plan (1980—85)		1,74,756	1,18,725	56,031	69,640	1,25,671	2,44,396
		(71.5)	(48.6)	(22.9)	(28.5)	(51.4)	(100.0)
TOTAL (1951—85)	3,45,527	2,36,242	1,09,285	1,38,853	2,48,138	4,84,380	
		(71.3)	(48.8)	(22.6)	(28.7)	(51.2)	(100.0)

SOURCE : Ministry of Finance—*Indian Economic Statistics—(Part II—Public Finance)*, various issues.

NOTES : 1. Figures in parentheses are percentages to the combined revenues.

2. Date for States includes that of Union Territories with legislature and of the Union the remaining Union Territories.

3. Transfers to States include tax shares, grants (both statutory and others). The Union's revenues 'before transfers to the States' are arrived at by adding the transfers to its net receipts.

4. Broad details of transfers to States (col. 4) on Revenue Account are given in Annexure X.2A on col. 10 on Capital Account are given in Annexure X.2B.

5. Transfers in col. (4) do not include payment of interest by States on Central loans. Likewise, figures in col. 10 relate only to net loans, i.e., gross loans minus repayments.

ANNEXURE X.2A

TRANSFERS FROM THE UNION TO THE STATES, 1951-52 To 1984-85

REVENUE ACCOUNT

(Rs. Crores)

Plan Period	Share in Taxes	Grants under Art. 275(1)	Grants in lieu of other taxes	Other Grants	Total (2+3+4+5)

(1)	(2)	(3)	(4)	(5)	(6)
I Plan (1951—56)	348	24	64	166	602
II Plan (1956—61)	670	153	78	558	1,459
III Plan (1961—66)	1,195	292	84	1,023	2,594
Three Annual Plans (1966—69)	1,271	422	48	1,100	2,841
IV Plan (1969—74)	4,547	737	77	3,166	8,527
V Plan (1974—78)	6,313	2,068	65	3,703	12,149
Two Annual Plans (1978—80)	5,361	927	33	3,808	10,129
VI Plan (1980—85)	23,522	2,020	116	16,408	42,066
TOTAL (1951—85)	43,227	6,643	565	29,932	80,367

SOURCE :As in ANNEXURE X.2.

NOTES : 1. Grants in lieu of other taxes include (i) Art. 278 grants upto 1955-56, (ii) Art. 273 grants upto 1959-60 and (iii) Grants in lieu of tax on railway passenger fares from 1961-62 onwards. They also include the share proceeds of the tax for the four years 1957—61.

2. Does not include Interest payments by States on Central Loans.

ANNEXURE X.2B

TRANSFERS BETWEEN THE UNION AND THE STATES, 1951-52 TO 1984-85—UNION'S GROSS LOANS & NET LOANS AND INTEREST PAYMENTS BY STATES

(Rs. Crores)

Plan Period	Gross Loans from the Centre	Repayment by States to Centre	Net Loans by Centre to States (2-3)	Interest payments by States on Central Loans
(1)	(2)	(3)	(4)	(5)
I Plan (1951—56)	777	72	705	58
II Plan (1956—61)	1,416	346	1,070	215
III Plan (1961—66)	3,137	1,014	2,123	522
Three Annual Plans (1966—69)	2,715	1,221	1,494	625
IV Plan (1969—74)	6,379	3,662	2,717	1,635
V Plan (1974—78)	5,853	2,797	3,056	1,817
Two Annual Plans (1978—80)	5,476	1,688	3,788	1,101
VI Plan (1980—85)	21,621	7,656	13,965	5,706
TOTAL (1951—85)	47,374	18,456	28,918	11,679

SOURCE : (i) As in ANNEXURE X.2.

(ii) For the I Plan and II Plan in Col. 5—Comptroller and Auditor General of India—Combined Finance and Revenue Accounts of the Union & State Governments, various issues.

NOTE : Figures given in Col. 5 have not been taken in the total/net transfers from the Union to States.

ANNEXURE X.3

ANNUAL TREND RATES OF GROWTH IN THE RESOURCES OF THE UNION AND THE STATES, 1951-52 TO 1984-85

(Percentages)

	Revenue Account	Capital Account	Total
I. Resources: *Union and States combined.*	13.43	11.49	12.80
Union : (i) Before transfers to the States	13.76	11.51	12.83
(ii) After transfers to the States	13.05	12.03	12.58
States:			
(i) 'Own resources	12.86	11.76	12.67
(ii) Total resources (including transfers)	13.74	10.77	13.04
II. Transfers to States:	15.60	10.30	13.67

SOURCE : As in ANNEXURE X.2.

NOTE : The growth rates are obtained by fitting the function.

Y=a.bt, Where

y=Resources/Transfers

a=Constant

b=1 + (r/100)

r=growth rate

t—time

ANNEXURE X.4

PATTERN OF CENTRAL RESOURCE TRANSFERS TO STATES, 1951-52 TO 1984-85

(Percentages)

Category	1951—56	1956—61	1961—66	1966—69	1969—74	1974—79	1980—85	Total @ (1951—85)
1	2	3	4	5	6	7	8	9
I. On Finance Commissions' Recommendations:	**31.2**	**32.0**	**28.4**	**33.3**	**35.9**	**43.5**	**41.3**	**40.1**
(i) Share in taxes	24.0	23.3	21.4	24.0	30.2	33.1	38.9	34.9
(ii) Grants under Article 275(1)	1.9	5.3	5.2	7.9	4.7	10.1	2.2	4.6
(iii) Other grants in lieu of taxes, etc.	5.3	3.4	1.8	1.4	1.0	0.3	0.2	0.6
II. Plan Transfers:	**61.5**	**36.0**	**48.9**	**35.9**	**31.3**	**41.5**	**43.4**	**41.1**
(i) State Plan Scheme	24.5	36.9	44.9	33.1	23.4	31.4	32.0	31.2
(ii) Central/Centrally Sponsored Schemes	37.0	*	4.0	2.8	7.9	10.1	11.4	9.9
III. Other Transfers	**7.3**	**31.3**	**22.7**	**30.8**	**32.8**	**15.0**	**15.3**	**18.8**
Total (I to III)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE : (i) *Reports of the Finance Commission, 1978.*

(ii) *Reserve Bank of India—Bulletins,* various isues.

*Included under 'State Plan Schemes'.

@ Also includes the data for the Annual Plan 1979-80 not shown here separately.

NOTE : 'Plan Transfers' and 'Other Transfers' include both loans as well as grants.

ANNEXURE X.5

BROAD PATTERN OF DEVOLUTION ON FINANCE COMMISSIONS' RECOMMENDATIONS

(Rs. Crores)

Finance Commission	Total Devolution (Share of Taxes and grants) (Col. 3+4)	Tax Shares	Statutory and other Grants		Art. 275 grants as percent of total devolution [Col. (5) as per-cent of Col. (2)]
			Total	Of which Art. 275 grants	
(1)	(2)	(3)	(4)	(5)	(6)
I (1952—57)	476	370	106	34	7.14
II (1957—62)	1,054	768	286	185	17.55
III (1962—66)	1,355	1,017	338	252	18.60
IV (1966—69)	1,782	1,282	500	423	23.74
V (1969—74)	5,421	4,562	859	713	13.15
VI (1974—79)	11,048	8,275	2,773	2,683	24.28
VII (1979—84)	22,888	21,177	1,711	1,627	7.11
VIII* (1984—89)	39,452	35,208	4,244	3,769	9.55

*Estimated.

SOURCE : Report of the *Eighth Finance Commission,* 1984, pages 156-7 and 96.

ANNEXURE X. 6

TAX SHARES OF STATES RECOMMENDED BY THE SUCCESSIVE FINANCE COMMISSIONS AND THE PERCENTAGE OF THE STATES' SHARE IN DIVISIBLE TAXES TO GROSS RECEIPTS OF INCOME TAX AND UNION EXCISE DUTIES, TOTAL TAX REVENUES OF THE UNION AND TOTAL REVENUE RECEIPTS OF THE UNION

Finance Commission (Period)	Recommended percentage share in Income Tax	Recommended percentage share in Union Excise Duties (Basic)	Percentage of the State's share in Total Gross receipts of Income Tax and Union Excise Duties	Percentage of the State's share in Total tax revenue of the Union (Gross)	Total revenue receipts of the Union (Gross)
(1)	(2)	(3)	(4)	(5)	(6)
First (1952—57)	55	40*	28.47	15.45	12.32
Second (1957—62)	60	25*	28.25	17.70	14.57
Third (1962—66)	66 2/3	20*	30.28	15.02	13.83
Fourth (1966—69)	75	20	27.96	17.61	13.82
Fifth (1969—74)	75	20	34.67	23.17	18.43
Sixth (1974—79)	80	20	30.93	19.77	15.83
Seventh (1979—84)	85	40	46.47	26.82	21.90
Eighth (1984—89)	85	45@	47.62@@	27.59@@	21.50@@

* The percentage share relates to selected commodities.
@ 40 percent to all States and 5 percent to those States having assessed deficits on their revenue account.
@@ As estimated by the Eighth Finance Commission.

SOURCE: 1. Cols. 2 and 3 — Reports of the Finance Commissions.
2. Cols. 4, 5 & 6 — Worked out on the basis of the data contained in Ministry of Finance—*Indian Economic Statistics (Part II—Public Finance)*, various issues.

ANNEXURE X. 7

REVENUE FROM INCOME TAX, CORPORATION TAX AND SURCHARGE ON INCOME TAX AND THEIR RELATIVE IMPORTANCE

(Rs. Crores)

Revenue Year	Revenue Total from Income Tax (including Surcharge)	Amount of Surcharge	Share of States in Income Tax (included in Col. 2)	Revenue from corporation tax	Centre's Total Tax Including States Share (Gross)	Excluding States Share (Net)	statutory transfers to States (including grants)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1951-52	147	4	53	41	568	515	70
1956-57	151	6	58	50	570	492	99
1959-60	149	8	79	107	799	642	219
1961-62	161	5	94	157	1,054	875	235
1966-67	306	8	137	331	2,307	1,782	526
1969-70	448	18	293	353	2,823	2,201	794
1974-75	874	48	512	709	6,322	5,097	1,722
1975-76	1,214(1,015)	63	734	862	7,609	6,010	2,118
1976-77	1,194(1,161)	68	652	984	8,271	6,581	2,207
1977-78	1,002	102	675	1,221	8,858	7,060	2,397 1978-
1980-81	1,506	120	1,002	1,311	13,179	9,388	4,127
1984-85	1,928	218	1,231	2,556	23,471	19,694	6,317
Percentage Annual rate of growth							
(i) 1984-85 over 1951-52	36.79	147.11	67.57	184.00	122.14	101.01	270.48
(ii) 1984-85 over 1969-70	22.00	73.19	21.34	41.55	48.76	46.92	46.42
(iii) 1984-85 over 1974-75	**12.05**	**35.80**	**14.04**	**26.00**	**27.13**	**24.71**	**26.68**

ANNEXURE X.7 (*Concld.)*

Year	Percentage of revenue from Income Tax (Col-2) to Centre's gross revenue (Col. 6)	Percentage of sur-charge on Income Tax (Col. 3) to revenue from Income Tax (Col. 2)	Percentage of sur-charge on Income Tax (Col. 3) to Centre's net tax revenue (Col. 7)	Percentage of States share in Income Tax (Col. 4) to total Statutory transfers (Col. 8)	Percentage of revenue from Cor-poration Tax (Col-5) to Centre's net tax revenue (Col. 7)	
(1)	(9)	(10)	(11)	(12)	(13)	
1951-52	25.82	3.00	0.85	75.51	8.03	
1956-57	15.13	3.70	1.14	58.48	10.23	
1959-60	18.67	5.50	1.29	33.68	16.58	
1961-62	15.28	3.16	0.58	39.93	17.87	
1966-67	13.28	2.68	0.46	26.06	18.57	
1969-70	15.88	4.06	0.83	36.95	16.05	
1974-75	13.89	5.42	0.93	29.75	13.92	1975-
	(13.34)*	(6.18)*				
1976-77	14.44	5.65	1.02	29.56	14.96	
	(14.04)*	(5.81)*				
1977-78	11.31	10.20	1.45	28.17	17.29	
1978-79	11.19	8.66	1.19	26.74	14.61	
1980-81	11.43	7.97	1.28	24.28	13.96	
1984-85	8.21	11.31	1.23	19.49	14.45	

*Excluding collections under Voluntary Disclosure Scheme.

SOURCE: (i) Ministry of Finance—*Indian Economic Statistics, (Part II-Public Finance)*, various issues.
(ii) Union Government's Budgets, various issues.
(iii) Reports of the Finance Commissions.

ANNEXURE X. 8

PATTERN OF UNION TRANSFERS TO STATES ON REVENUE ACCOUNT, 1951-52 to 1984-85

(Percentages)

Plan Period	Share in Taxes	Grants under Art. 275 (1)	Total (2+3)	Grants in lieu of other taxes	Other Grants	Total Transfers (4+5+6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
First Plan (1951—56)	57.7	4.0	61.7	10.7	27.6	100.0
Second Plan (1956—61)	46.0	10.5	56.5	5.3	38.2	100.0
Third Plan (1961—66)	46.1	11.2	57.3	3.3	39.4	100.0
Three Annual Plans (1966—69)	44.7	14.9	59.6	1.7	38.7	100.0
Fourth Plan (1969—74)	53.3	8.7	62.0	0.9	37.1	100.0
Fifth Plan (1974—78)	52.0	17.0	69.0	0.5	30.5	100.0
Two Anual Plans (1978—80)	52.9	9.2	62.1	0.3	37.6	100.0
Sixth Plan (1980—85)	55.9	4.8	60.7	0.3	39.0	100.0
Total: (1951—85)	53.8	8.3	62.1	0.7	37.2	100.0

SOURCE : Ministry of Finance, *Indian Economic Statistics (Part II- Public Finance)*, various issues.

ANNEXURE X. 9

PATTERN OF STATES' INDEBTEDNESS

(Rs. Crores)

	(As on 31st March)							
	1951	1956	1961	1966	1969	1974	1979	1984
I. Internal Debt								
(a) Market Loans	111 (29.6)	222 (17.1)	410 (15.0)	720 (13.1)	950 (12.8)	1,543 (13.3)	2,572 (13.7)	4,236 (11.3)
(b) Others	12 (3.2)	45 (3.5)	182 (6.6)	458 (8.3)	539 (7.3)	612 (5.3)	776 (4.1)	1,724 (4.6)
Total I	123	267	592	1,178	1,489	2,155	3,348	5,960
II. Loans from the Centre	196 (52.3)	943 (72.8)	2,014 (73.5)	4,103 (74.4)	5,569 (75.0)	8,578 (74.0)	13,463 (71.7)	27,059 (72.4)
III. Unfunded Debt	56 (14.9)	86 (6.6)	133 (4.9)	231 (4.2)	367 (4.9)	857 (7.4)	1,974 (10.5)	4,387 (11.7)
Total (I+II+III)	375 (100.0)	1,296 (100.0)	2,739 (100.0)	5,512 (100.0)	7,425 (100.0)	11,590 (100.0)	18,785 (100.0)	37,406 (100.0)

SOURCE: (i) Report of the *Finance Commission*, 1978, p. 110.
(ii) Report of the *Eighth Finance Commission*, 1984, p. 265 & p. 98.

NOTE : Figures in parantheses are percentages to the total.

ANNEXURE X. 10

FINANCING OF REVENUE EXPENDITURE OF THE STATES, 1951-52 TO 1984-85

(Rs. Crores)

Plan Period	Own Resources	Share in taxes	275 (1) grants-in-aid	Grants in lieu of other taxes etc.	Other Grants	Total-revenue receipts (cols. 2 to 6)	Surplus(+) Deficit(—) (cols. 7. to 9)	Total expen-diture
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
First Plan (1951—56)	1845.96 (74.1)	347.47 (14.0)	24.20 (1.0)	64.11 (2.5)	166.25 (6.7)	2447.99(—) (98.3)(—)	42.41 (1.7)	2490.40 (100.0)
Second Plan (1956—61)	2657.17 (66.5)	670.39 (16.8)	152.99 (3.8)	78.12 (2.0)	557.33 (13.9)	4116.00(+) (103.00) (+)	118.09 (3.0)	3997.91 (100.0)
Third Plan (1961—66)	4762.67 (65.4)	1195.04 (16.4)	291.72 (4.0)	84.22 (1.2)	1022.87 (14.0)	7356.52 (+) (101.0) (+)	73.78 (1.0)	7282.74 (100.0)
Three Annual Plans (1966—69)	4603.36 (61.5)	1271.48 (17.0)	422.23 (5.7)	48.48 (0.6)	1099.81 (14.7)	7445.36 (—) (99.5) (—)	34.28 (0.5)	7479.64 (100.0)
Fourth Plan (1969—74)	11898.87 (57.5)	4546.90 (22.0)	736.70 (3.6)	77.06 (0.3)	3166.35 (15.3)	20425.88 (—) (98.7) (—)	261.37 (1.3)	20687.25 (100.0)
Fifth Plan (1974—78)	19381.90 (69.1)	6313.06 (22.5)	2068.24 (7.4)	65.00 (0.2)	3702.64 (13.2)	31530.84 (+) (112.4) (+)	3470.53 (12.4)	28060.31 (100.0)
Two Annual Plans (1978—80)	13939.15 (65.2)	5360.51 (25.0)	926.97 (4.3)	32.50 (0.2)	3808.67 (17.8)	24067.80 (+) (112.5) (+)	2683.65 (12.5)	21384.15 (100.0)
Sixth Plan (1980—85)	59845.44 (60.2)	23522.30 (23.6)	2019.30 (2.0)	115.60 (0.1)	16408.11 (16.5)	101910.75 (+) (102.4) (+)	2419.03 (2.4)	99491.72 (100.0)
Total (1951—85)	118977.05 (62.3)	43227.17 (22.6)	6642.35 (3.5)	565.09 (0.3)	29932.09 (15.7)	199343.75 (+) (104.4) (+)	8469.63 (4.4)	190874.12 (100.0)

SOURCE: Ministry of Finance: *Indian Economic Statistics (Part II-Public Finance), various issues,*
NOTE: Figures in parantheses are percentages to Total Expenditure.

ANNEXURE X. 11

CUMULATIVE FINANCING OF REVENUE EXPENDITURE OF STATES, 1951-52 TO 1984-85.

(Rs. Crores)

Plan Period	Cumulative resources: Own Resources	Cumulative resources: Share in taxes	Cumulative resources: 275 (1) grants-in aid	Cumulative resources: Grants in lieu of other taxes etc.	Deficit (—) Total resources including other grants	Surplus (+) Expenditure (Col. 6—8)	Total
1	2	3	4	5	6	7	8
First Plan (1951—56)	1845.95	2193.43	2217.63	2281.74	2447.00(—)	42.41	2490.40
	(74.1)	(88.1)	(89.0)	(91.6)	(98.3) (—)	(1.7)	(100.0)
Second Plan (1956—61)	2657.17	3370.09	3523.08	3601.20	4116.00 (+)	118.09	3997.91
	(66.5)	(84.3)	(88.1)	(90.1)	(103.0) (+)	(3.0)	(100.0)
Third Plan (1961—66)	4762.67	5957.71	6249.43	6333.65	7536.52 (+)	73.78	7282.74
	(65.4)	(81.8)	(85.8)	(87.0)	(101.0) (+)	(1.0)	(100.0)
Three Annual Plans (1966—69)	4603.36	5874.84	6297.07	6345.55	7445.36 (—)	34.28	7479.64
	(61.5)	(78.5)	(84.2)	(84.8)	(99.5) (—)	(0.5)	(100.0)
Fourth Plan (1969—74)	11898.87	16445.77	17182.47	17259.53	20425.88 (—)	261.37	20687.25
	(57.5)	(79.5)	(83.1)	(83.4)	(98.7) (—)	(1.3)	(100.0)
Fifth Plan (1974—78)	19381.90	25694.98	27763.22	27828.22	31530.86 (+)	3470.55	28060.31
	(69.1)	(91.6)	(98.9)	(99.2)	(112.4) (+)	(12.4)	(100.0)
Two Annual Plans (1978—80)	13939.15	19299.66	20226.63	20259.13	24067.80 (+)	2683.65	21384.15
	(65.2)	(90.3)	(94.6)	(94.7)	(112.5) (+)	(12.5)	(100.0)
Sixth Plan (1980—85)	59845.44	83367.74	85387.04	85502.64	101910.75 (+)	2419.03	99491.72
	(60.2)	(83.8)	(85.8)	(85.9)	(102.4) (+)	(2.4)	(100.0)
Total (1951—85)	118934.52	162204.22	168846.57	169411.66	199301.16 (+)	8427.04	190874.12
	(62.3)	(85.0)	(88.5)	(88.8)	(104.4) (+)	(4.4)	(100.0)

SOURCE : Ministry of Finance— *Indian Economic Statistics (Part II-Public Finance)*—various issues.

NOTE : Figures in parantheses are percentages to Total Expenditure.

ANNEXURE X. 12

PER-CAPITA TRANSFERS UNDER THE AEGIS OF FINANCE COMMISSION, PLAN TRANSFERS, OTHERS TRANSFERS AND AGGREGATE TRANSFERS DURING PLAN PERIODS.

(In Rupees)

State	Fourth Plan (1969—74): Statutory transfers	Plan Transfers: Total (4+5+6)	Plan Transfers: State Plan	Plan Transfers: Central Plan	Plan Transfers: Centrally Sponsored Schemes	Other transfers	Aggregate transfers (2+3+7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Andhra Pradesh	104	83	61	4	18	88	275
2. Assam	135	222	207	6	9	115	472
3. Bihar	88	100	47	..	53	17	205
4. Gujarat	87	123	54	2	67	40	250
5. Haryana	84	165	129	1	35	106	355
6. Himachal Pradesh	141	286	196	..	90	129	556
7. Jammu & Kashmir	258	484	315	6	163	380	1,122
8. Karnataka	84	130	62	9	59	58	272
9. Kerala	109	101	81	7	13	93	303
10. Madhya Pradesh	83	82	59	7	16	25	190
11. Maharashtra	99	46	32	7	7	116	261
12. Manipur	322	157	134	..	23	336	815
13. Meghalaya	202	334	299	2	33	282	818
14. Nagaland	1,568	760	643	..	117	752	3,080
15. Orissa	124	94	85	1	8	123	341
16. Punjab	81	93	59	33	1	78	252
17. Rajasthan	102	84	53	..	31	412	598
18. Sikkim	..	..	..	..	..	..	..
19. Tamil Nadu	88	42	36	..	6	90	220
20. Tripura	157	164	70	..	94	160	481
21. Uttar Pradesh	86	70	58	..	12	46	202
22. West Bengal	101	97	48	11	38	100	298
Total (All States)	**98**	**95**	**64**	**4**	**27**	**91**	

ANNEXURE X.12 *(Contd.)*

(In Rupees)

State	Fourth Plan (1974—78)						
	Statutory transfers	Plan Transfers				Other transfers	Aggregate transfers (9+10+14)
		Total (11+12+13)	State Plan	Central Plan	Centrally Sponsored Schemes		
(1)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1. Andhra Pradesh	156	123	94	12	17	31	310
2. Assam	255	191	146	30	15	37	483
3. Bihar	133	83	69	8	6	42	258
4. Gujarat	131	127	88	13	26	40	298
5. Haryana	104	132	93	19	20	64	300
6. Himachal Pradesh	483	429	418	-	11	46	958
7. Jammu & Kashmir	429	762	710	22	30	103	1,294
8. Karnataka	117	122	79	22	21	29	268
9. Kerala	274	125	95	11	19	25	424
10. Madhya Pradesh	115	108	71	12	25	22	245
11. Maharashtra	126	83	52	15	16	36	245
12. Manipur	1,037	376	292	57	27	311	1,724
13. Meghalaya	698	609	531	39	39	43	1,350
14. Nagaland	2,061	1,199	1,020	-	179	286	3,546
15. Orissa	225	142	109	14	19	28	395
16. Punjab	110	140	103	19	18	70	320
17. Rajasthan	191	121	82	12	27	38	350
18. Sikkim	78	1,603	1,359	-	244	231	1,912
19. Tamil Nadu	118	108	83	12	13	27	253
20. Tripura	682	335	232	83	20	22	1,039
21. Uttar Pradesh	133	108	90	7	11	35	276
22. West Bengal	164	74	55	6	13	70	308
Total All (States)	158	121	92	12	17	39	318

State	Annual Plan (1978—80)						
	Statutory transfers	Plan Transfers				Other transfers	Aggregate transfers (16+17+21)
		Total (18+19+20)	State Plan	Central Plan	Centrally Sponsored Schemes		
(1)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
1. Andhra Pradesh	108	139	109	15	15	29	276
2. Assam	99	295	243	26	26	14	408
3. Bihar	113	108	83	9	16	39	260
4. Gujarat	118	118	86	9	23	44	280
5. Haryana	87	149	118	7	24	31	267
6. Himachal Pradesh	294	503	411	-	92	46	843
7. Jammu & Kashmir	284	540	270	13	257	143	967
8. Karnataka	97	100	67	20	13	18	215
9. Kerala	122	111	90	7	14	18	251
10. Madhya Pradesh	101	109	85	13	11	33	243
11. Maharashtra	98	93	71	10	12	47	238
12. Manipur	590	612	512	46	54	149	1,351
13. Meghalaya	443	563	507	13	43	28	1,034
14. Nagaland	1,402	1,402	1,166	-	236	316	3,120
15. Orissa	119	171	128	25	18	59	349
16. Punjab	88	108	79	17	12	97	293
17. Rajasthan	120	57	3	34	20	134	311
18. Sikkim	527	1,770	1,561	-	209	295	2,592
19. Tamil Nadu	100	85	67	8	10	23	208
20. Tripura	427	359	299	37	23	28	814
21. Uttar Pradesh	110	121	98	11	12	55	286
22. West Bengal	114	94	81	3	10	77	285
Total All (States)	**114**	**125**	**95**	**13**	**17**	**49**	**288**

ANNEXURE X.12 *(Contd.)*

(In Rupees)

State		Sixth Plan (1980—85)						
		Statutory transfers	Plan Transfers				Other transfers	Aggregate transfers (23+24+28)
			Total (25+26+27)	State Plan	Central Plan	Centrally Sponsored Schemes		
	(1)	(23)	(24)	25)	(26)	(27)	(28)	(29)
1.	Andhra Pradesh	347	344	229	42	73	83	774
2.	Assam	336	854	647	179	28	97	1,287
3.	Bihar	384	296	218	37	41	128	808
4.	Gujarat	335	301	200	31	70	233	869
5.	Haryana	298	372	243	27	102	180	850
6.	Himachal Pradesh	931	1,525	1,210	5	310	231	2,687
7.	Jammu & Kashmir	789	1,572	1,188	14	370	715	3,076
8.	Karnataka	331	281	175	41	65	104	716
9.	Kerala	375	315	214	32	69	76	766
10.	Madhya Pradesh	371	318	235	27	56	73	762
11.	Maharashtra	336	365	278	32	55	197	898
12.	Manipur	335	2,721	2,683	18	20	1,582	4,638
13.	Meghalaya	1,256	2,159	1,926	32	201	1,885	5,300
14.	Nagaland	3,779	4,405	3,770*	-	635	68	8,252
15.	Orissa	432	490	329	67	94	193	1,115
16.	Punjab	302	533	472	27	34	282	1,117
17.	Rajasthan	324	417	273	24	120	143	884
18.	Sikkim	365	6,345	6,282@	-	63	99	6,809
19.	Tamil Nadu	379	277	170	41	66	125	781
20.	Tripura	1,233	1,537	1,285	122	130	123	2,893
21.	Uttar Pradesh	347	332	229	45	58	117	796
22.	West Bengal	360	255	203	10	42	229	844
	Total All (States)	370	386	280	39	67	155	911

* Includes Loans for Central/Centrally Sponsored Schemes also.

@ Break-up not available.

SOURCE : *Reserve Bank of India-Bulletins,* various issues.

NOTES : (i) Statutory Transfers—Include share in taxes and statutory grants.

(ii) Plan Transfers—Information has been compiled under three heads i.e. Plan transfers under State Plan, Central Plan and Centrally Sponsored Schemes. All the three categories include transfers in the form of loans as well as grants.

(iii) Other Transfers— Include both loans and grants given to states for relief of natural calamities, other loans and grants and share in small savings.

ANNEXURE X.13

TRANSFERS TO THE STATES AS PERCENTAGE OF TOTAL RESOURCES OF THE UNION, STATES AND THE COMBINED RESOURCES SEPARATELY ON REVENUE ACCOUNT, CAPITAL ACCOUNT AND AGGREGATE RESOURCES, 1951–85

(Percentages)

Plan Period	Revenue Account			Capital Account			Aggregate Resources		
	Union	States	Union and States combined	Union	States	Union & States combined	Union	States	Union & States combined
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
First Plan (1951–56)	22.4	24.6	13.3	39.1	64.1	32.0	29.1	36.8	19.4
Second Plan (1956–61)	32.2	35.4	20.3	23.0	65.8	20.5	27.5	44.0	20.4
Third Plan (1961–66)	25.6	35.3	17.4	30.5	69.3	26.9	27.6	45.2	20.7
Three Annual Plans (1966–69)	31.1	38.2	20.7	27.0	62.9	23.3	29.6	44.2	21.5
Fourth Plan (1969–74)	34.8	41.7	23.4	30.9	52.0	24.0	33.8	43.8	23.6
Fifth Plan (1974–78)	31.2	38.5	20.8	22.3	51.2	18.4	28.9	40.6	20.3
Two Annual Plans (1978–80)	36.9	42.1	24.5	31.7	66.2	27.3	35.3	47.7	25.2
Sixth Plan (1980–85)	37.6	41.3	24.5	22.2	58.8	19.2	32.0	44.6	22.9
Total (1951–85)	35.0	40.3	23.1	24.9	59.2	21.2	31.6	44.0	22.6

SOURCE : Ministry of Finance–*Indian Economic Statistics (Part II–Public Finance), various issues.*

NOTES : 1. Transfers include all transfers–Statutory, Plan and others.

2. In working out the percentages gross resources (before transfers) were taken for the Union and total revenues (own resources *plus* the transfers from the Union) for the States.

ANNEXURE X-14

STATEMENT SHOWING THE OVERALL BUDGETARY POSITION OF THE UNION

(Rs. Crores)

Year	Surplus (+) Deficit (—) on Revenue Account	Surplus (+) Deficit (—) on Capital Account	Overall Budgetary Surplus (+) Deficit (—)
(1)	(2)	(3)	(4)
1969-70	125.17	(—) 170.70	(—) 45.53
1970-71	163.02	(—) 447.78	(—) 284.76
1971-72	(—) 99.95	(—) 419.37	(—) 519.32
1972-73	17.72	(—) 889.27**	(—) 871.55
1973-74	236.79	(—) 565.11	(—) 328.32
1974-75	764.29	(—) 1485.08	(—) 720.79
1975-76	886.88	(—) 1252.92	(—) 366.04
1976-77	298.45	(—) 429.14	(—) 130.69
1977-78	429.80	(—) 1362.81	(—) 933.01
1978-79	292.30	(—) 1243.04£	(—) 950.74
1979-80	(—) 694.09	(—) 1732.71	(—) 2426.80
1980-81	(—) 776.76	(—) 1799.57	(—) 2576.33
1981-82	(—) 293.44	(—) 1098.46	(—) 1391.90
1982-83	(—) 1254.33	(—) 401.13*	(—) 1655.46
1983-84	(—) 2397.67	980.51	(—) 1417.16
1984-85	(—) 3479.58	(—) 247.57	(—) 3745.15
1985-86 (RE)	(—) 5939.96	(+) 1449.63	(—) 4490.33

Source: Ministry of Finance—*Indian Economic Statistics, (Part II—Public Finance).*

Notes: * Excludes assistance of Rs. 1743.46 crores given to the States for clearing their deficits as on 31-3-1982.
£ Excludes assistance of Rs. 555 crores given to the States for clearing their over-drafts.
****** Excludes the assistance of Rs. 421.13 crores given to the States for clearing their over-drafts.

ANNEXURE X-15

PATTERN OF EXPENDITURE OF UNION AND STATES

(Percentages)

Period	Union				
	Revenue Account		Capital Account		
	Developmental	Non-Developmental	Developmental	Non-Developmental	Net Disbursements of loans
(1)	(2)	(3)	(4)	(5)	(6)
First Plan (1951—56)	15.6	84.4	32.2	7.4	60.4
Second Plan (1956—61)	29.4	70.6	44.0	8.8	47.2
Third Plan (1961—66)	24.0	76.0	37.4	9.8	52.8
Three Annual Plans (1966—69)	24.2	75.8	23.9	15.5	60.6
Fourth Plan (1969—74)	27.0	73.0	40.5	13.7	45.8
Fifth Plan (1974—78)	30.3	69.7	44.3	8.2	47.5
Two Annual Plans (1978—80)	36.8	63.2	36.4	7.2	56.4
Sixth Plan (1980—85)	35.8	64.2	43.8	9.2	47.0
Total (1951—85)	33.0	67.0	41.3	9.5	49.2

Period	States				
	Revenue Account		Capital Account		
	Developmental	Non-Developmental	Developmental	Non-Developmental	Net Disbursements of loans
(1)	(7)	(8)	(9)	(10)	(11)
First Plan (1951—56)	54.4	45.6	86.5	—7.1 (a)	20.6
Second Plan (1956—61)	57.9	42.1	75.0	2.9	22.1
Third Plan (1961—66)	57.7	42.3	58.1	4.6	37.3
Three Annual Plans (1966—69)	55.7	44.3	59.5	2.3	38.2
Fourth Plan (1969—74)	55.3	44.7	67.3	—0.5 (a)	33.2
Fifth Plan (1974—78)	62.3	37.7	64.0	0.6	35.4
Two Annual Plans (1978—80)	65.9	34.1	61.0	Negl. (b)	39.0
Sixth Plan (1980—85)	64.9	35.1	65.1	0.1	34.8
Total (1951—85)	62.6	37.4	64.6	0.4	35.0

Source: Ministry of Finance—*Indian Economic Statistics, Part II—Public Finance,* various issues.

Notes: 1. Percentages are in relation to respective total expenditure on revenue and capital accounts. However, on revenue accounts, 'transfers to funds' in the case of States and 'Statutory grants to States' and 'Self-balancing' amounts in the case of Union have been deducted from total expenditure while working out the percentages.

2. On Capital Account of the Centre 'Transfers of developmental assistance from USA' during 1960-61 to 1967-68 has not been included.

(a) Mainly State Trading.

(b) Mainly Compensation payments to Land holders**.**

ANNEXURE X.16

LIST OF GOODS OF SPECIAL IMPORTANCE

(i) Cereals;
(ii) Cotton;
(iii) Cotton yarn (excluding cotton yarn waste);
(iv) Cotton fabrics;
(v) Rayon or art silk fabrics;
(vi) Woolen fabrics;
(vii) Sugar;
(viii) Tobacco;
(ix) Coal;
(x) Crude Oil;
(xi) Hides and skins;
(xii) Iron and steel;
(xiii) Jute;
(xiv) Oil seeds; and
(xv) Pulses.

SOURCE: Ministry of Finance—*Report of the Expert Committee on replacement of Sales Tax*, 1983, p.3

ANNEXURE X.17.

DEBT POSITION OF UNION GOVERNMENT

(AMOUNTS OUTSTANDING AT THE END OF FINANCIAL YEAR)

(Rs. Crores)

Category	1950-51	1955-56	1960-61	1965-66	1968-69	1973-74	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
I. Internal debt	2,022	2,330	3,978	5,415	6,803	11,107	19,855	24,319	30,864	35,653	46,939	50,263	58,537
II. External Debt.,	32	113	1,001	3,152	6,520	5,824	9,373	9,964	11,298	12,328	13,682	15,120	16,637
III. Other Liabilities *of Which;*	811	1,068	1,575	2,758	3,526	7,336	14,254	15,932	17,587	20,205	24,251	29,521	38,267
(i) Small savings;	337	575	970	1,538	1,904	3,271	5,750	6,855	7,976	9,375	11,098	13,506	17,157
(ii) Provident funds	95	166	289	527	697	1,135	2,174	2,402	2,645	2,924	3,420	3,747	4,158
Total (I+II+III)	2,865	3,511	6,554	11,325	16,849	24,267	43,482	50,215	59,749	68,186	84,872	94,904	1,13,441

SOURCE : Ministry of Finance—*Indian economic Statistics, Part II—Public Finance*, Dec. 1983 & Dec. 1985.

ANNEXURE X.18

STATEWISE GROSS CENTRAL LOANS, DEBT-SERVICING AND PERCENTAGE OF NET TO GROSS-LOANS DURING THE SIXTH PLAN PERIOD

1980-81

(Rs. Crores)

CATEGORY/STATE	Gross Loans from Centre	DEBT SERVICING Repayment	DEBT SERVICING Interest payment	Total (3+4)	Net Loans (2—5)	Percentage of Net to Gross Loans
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A—ADVANCED						
1. Gujarat	163.50	45.37	36.58	81.95	81.55	49.88
2. Haryana	64.67	21.77	22.67	44.44	20.23	31.28
3. Maharashtra	312.00	46.27	61.85	108.12	203.88	65.35
4. Punjab	92.81	48.73	23.63	72.36	20.45	22.03
5. Tamil Nadu	154.58	40.17	55.57	95.74	58.84	38.06
6. West Bengal	263.74	134.68	73.81	208.49	55.25	20.95
TOTAL	1,051.30	336.99	274.11	611.10	440.20	41.87

(ANNEXURE X.18—*Contd.*)

1980-81

(Rs. Crores)

CATEGORY/STATE	Gross Loans from Centre	DEBT SERVICING Repayment	Interest payment	Total (3+4)	Net Loans (2—5)	Percentage of Net to Gross Loans
(1)	(2)	(3)	(4)	(5)	(6)	(7)
B—MIDDLE LEVEL						
7. Andhra Pradesh	213.54	68.73	55.83	124.56	88.98	41.67
8. Karnataka	147.50	76.01	39.34	115.35	32.15	21.80
9. Kerala	74.82	18.74	21.99	49.73	34.09	45.56
TOTAL	**435.86**	**163.48**	**171.16**	**280.64**	**155.22**	**35.61**
C—BACKWARD						
10. Bihar	259.86	63.53	105.23	168.76	91.10	35.05
11. Madhya Pradesh	211.15	55.41	41.27	96.68	114.47	54.21
12. Orissa	138.16	89.31	32.42	121.73	16.43	11.89
13. Rajasthan	172.56	128.44	46.06	174.50	(—)1.94	(—)1.12
14. Uttar Pradesh	381.35	118.35	108.46	226.81	154.54	40.52
TOTAL	**1,163.08**	**455.04**	**333.44**	**788.48**	**374.60**	**32.21**
D—SPECIAL CATEGORY						
15. Assam	157.62	254.95	21.94	276.89	(—)119.27	(—)75.67
16. Himachal Pradesh	20.54	79.09	4.64	83.73	(—)63.19	(—)307.64
17. Jammu & Kashmir	124.14	21.26	30.71	51.97	72.17	58.13
18. Manipur	42.07	54.05	2.89	56.94	(—)14.87	(—)35.34
19. Meghalaya	4.05	19.00	0.41	19.41	(—)15.36	(—)379.26
20. Nagaland	12.03	46.42	0.20	46.62	(—)34.59	(—)287.53
21. Sikkim	2.86	0.29	0.32	0.61	2.25	78.67
22. Tripura	5.60	27.59	1.06	28.65	(—)23.05	(—)411.61
TOTAL	**368.91**	**502.65**	**62.17**	**564.82**	**(—)195.91**	**(—)53.10**
ALL STATES	**3,019.15**	**1,458.16**	**786.88**	**2,2 .04**	**774.11**	**25.64**

1981-82

CATEGORY/STATE	Gross Loans from Centre	Repayment	Interest payment	Total (3+4)	Net Loans (2—5)	Percentage of Net to Gross Loans
A—ADVANCED						
1. Gujarat	219.86	76.03	41.46	117.49	102.37	46.56
2. Haryana	90.18	31.37	19.67	51.04	39.14	43.40
3. Maharashtra	358.27	93.59	81.02	174.61	183.66	51.26
4. Punjab	136.38	63.36	26.42	113.05	23.33	17.10
5. Tamil Nadu	154.62	47.57	49.78	97.35	57.27	37.04
6. West Bengal	385.87	183.42	86.85	270.27	115.60	29.96
TOTAL	**1,345.18**	**518.61**	**305.20**	**823.81**	**521.37**	**38.76**
B—MIDDLE LEVEL						
7. Andhra Pradesh	189.90	79.46	67.34	146.80	43.10	22.70
8. Karnataka	134.30	55.28	42.55	97.83	36.47	27.15
9. Kerala	93.48	147.71	26.52	174.23	(—)80.75	(—)86.38
TOTAL	**417.68**	**282.45**	**136.41**	**418.86**	**(—)1.18**	**0.28**
C—BACKWARD						
10. Bihar	258.57	77.59	85.89	163.48	95.09	36.77
11. Madhya Pradesh	180.89	53.48	50.91	104.39	76.50	42.29
12. Orissa	123.33	36.22	43.88	80.10	43.23	35.05
13. Rajasthan	253.04	139.26	57.31	196.57	56.47	22.31
14. Uttar Pradesh	420.26	142.73	129.21	271.94	148.32	35.29
TOTAL	**1,236.09**	**449.28**	**367.20**	**816.48**	**419.61**	**33.95**

ANNEXURE X.18—*Contd.*

1981-82

(Rs. Crores)

CATEGORY/STATE	Gross Loans from Centre	DEBT SERVICING Repayment	DEBT SERVICING Interest payment	Total (3—4)	Net Loans (2+5)	Percentage of Net to Gross Loans
(1)	(2)	(3)	(4)	(5)	(6)	(7)
D—SPECIAL CETEGORY						
15. Assam	**171.23**	**64.73**	**28.96**	**93.69**	**77.54**	**45.28**
16. Himachal Pradesh	**21.87**	**3.48**	**5.79**	**9.27**	**12.60**	**57.61**
17. Jammu & Kashmir	**140.31**	**26.84**	**28.21**	**55.05**	**85.26**	**60.76**
18. Manipur	**21.99**	**22.48**	**1.68**	**24.16**	**(—)2.17**	**(—)9.87**
19. Meghalaya	**5.06**	**0.86**	**0.66**	**1.52**	**3.54**	**69.96**
20. Nagaland	**4.35**	**2.52**	**0.87**	**3.39**	**0.96**	**22.07**
21. Sikkim	**2.64**	**0.55**	**-**	**0.55**	**2.09**	**79.17**
22. Tripura	**6.07**	**0.86**	**1.06**	**1.92**	**4.15**	**68.36**
TOTAL	**373.52**	**122.32**	**67.23**	**189.55**	**183.97**	**49.25**
ALL STATES	**3,372.47**	**1,372.66**	**876.04**	**2,248.70**	**1,123.77**	**33.32**

1982-83

CATEGORY/STATE	Gross Loans from Centre	Repayment	Interest payment	Total (3—4)	Net Loans (2+5)	Percentage of Net to Gross Loans
A—ADVANCED						
1. Gujarat	356.97	79.39	52.96	132.35	224.62	62.92
2. Haryana	119.39	112.06	23.77	135.83	(—)16.44	(—)13.77
3. Maharashtra	453.95	112.89	98.66	211.55	242.40	55.40
4. Punjab	162.99	113.69	29.97	143.66	19.33	11.86
5. Tamil Nadu	208.57	87.85	57.04	144.89	63.68	30.53
6. West Bengal	550.62	155.34	103.03	258.37	292.25	53.08
TOTAL	**1,825.49**	**661.22**	**365.43**	**1,026.65**	**825.84**	**44.58**
B—MIDDLE LEVEL						
7. Andhra Pradeh	229.75	80.58	74.52	155.10	74.65	32.49
8. Karnataka	175.41	89.05	47.93	136.98	38.43	21.91
9. Kerala	108.47	39.32	22.60	61.92	46.55	42.91
TOTAL	**513.63**	**208.95**	**145.00**	**354.00**	**159.63**	**31.08**
C—BACKWARD						
10. Bihar	347.84	115.31	96.62	211.93	135.91	39.07
11. Madhya Pradesh	230.45	74.72	59.45	134.17	96.28	41.78
12. Orissa	156.05	49.08	47.84	96.92	59.13	37.89
13. Rajasthan	241.42	92.91	61.29	154.20	87.22	36.12
14. Uttar Pradesh	483.63	179.96	149.71	329.67	153.96	31.83
TOTAL	**1,459.39**	**511.98**	**414.91**	**926.89**	**532.50**	**36.49**
D—SPECIAL CATEGORY						
15. Assam	198.51	35.77	40.02	75.79	122.72	61.82
16. Himachal Pradesh	30.11	3.94	7.09	11.03	19.08	63.37
17. Jammu & Kashmir	144.07	32.48	35.47	67.95	76.12	52.83
18. Manipur	15.56	6.03	1.83	7.86	7.70	49.48
19. Meghalaya	8.26	2.14	0.85	2.99	5.27	63.80
20. Nagaland	6.33	1.21	0.99	2.20	4.13	65.24
21. Sikkim	3.83	-	-	-	3.83	100.00
22. Tripura	7.82	2.26	1.34	3.60	4.22	53.96
TOTAL	**414.49**	**83.83**	**87.59**	**171.42**	**143.07**	**58.64**
ALL STATES	**4,240.00**	**1,465.98**	**1,012.98**	**2,478.96**	**1,761.04**	**41.53**

(ANNEXURE X.18—*Contd.*)

1983—84

(Rs. Crores)

CATEGORY/STATE		Gross Loans from Centre	DEBT SERVICING Repayment	DEBT SERVICING Interest payment	Total (3+4)	Net Loans (2—5)	Percentage of Net to Gross Loans
(1)		(2)	(3)	(4)	(5)	(6)	(7)
A—ADVANCED							
1.	**Gujarat**	**290.23**	**69.24**	**64.41**	**133.65**	**156.58**	**53.95**
2.	**Harayana**	**180.25**	**96.14**	**27.08**	**123.22**	**57.03**	**31.64**
3.	**Maharashtra**	**569.17**	**146.89**	**125.07**	**271.96**	**297.21**	**52.22**
4.	**Punjab**	**304.93**	**235.77**	**36.57**	**272.34**	**32.59**	**10.68**
5.	**Tamil Nadu**	**313.91**	**121.42**	**67.71**	**189.13**	**124.78**	**39.75**
6.	**West Bengal**	**492.68**	**141.13**	**130.80**	**271.93**	**220.75**	**44.80**
	TOTAL	**2,152.17**	**810.59**	**451.64**	**1,262.23**	**888.94**	**41.30**
B—MIDDLE LEVEL							
7.	Andhra Pradesh	246.42	91.91	85.41	177.32	69.10	28.04
8.	Karnataka	225.68	120.56	56.37	176.93	48.75	21.60
9.	Kerala	199.68	54.71	45.15	99.86	99.82	49.98
	TOTAL	**671.78**	**267.18**	**186.93**	**454.11**	**217.67**	**32.40**
C—BACKWARD							
10.	Bihar	514.92	140.57	111.70	252.27	262.65	51.00
11.	Madhya Pradesh	265.59	87.99	32.86	120.85	144.74	54.49
12.	Orissa	214.42	60.25	55.44	115.69	98.73	46.05
13.	Rajasthan	243.82	91.32	72.64	163.96	79.86	32.75
14.	Uttar Pradesh	680.06	291.62	173.37	464.99	215.07	31.62
	TOTAL	**1,918.81**	**671.45**	**446.01**	**1,117.76**	**801.05**	**41.75**
D—SPECIAL CATEGORY							
15.	Assam	295.63	47.61	49.28	96.89	198.74	67.22
16.	Himachal Pradesh	31.73	5.72	8.99	14.71	17.02	53.64
17.	Jammu & Kashmir	177.90	43.23	46.08	89.31	88.59	49.79
18.	Manipur	9.77	4.31	2.72	7.03	2.74	28.04
19.	Meghalaya	9.88	2.97	1.27	4.24	5.64	57.08
20.	Nagaland	17.94	11.12	1.32	12.44	5.50	30.65
21.	Sikkim	7.66	3.88	0.00	3.88	3.78	49.34
22.	Tripura	10.30	9.94	1.89	11.83	(—)1.53	(—)14.85
	TOTAL	**560.81**	**128.78**	**111.55**	**240.33**	**320.48**	**57.14**
	ALL STATES	**5,302.57**	**1,878.30**	**1,196.13**	**3,074.43**	**2,228.14**	**42.02**
	1984-85						
A—ADVANCED							
1.	Gujarat	319.97	75.05	88.16	165.21	154.76	48.37
2.	Haryana	120.12	51.75	40.55	92.30	31.39	26.13
3.	Maharashtra	741.74	176.27	166.77	343.04	398.70	53.75
4.	Punjab	629.86	260.94	48.70	309.64	320.22	50.84
5.	Tamil Nadu	257.42	89.12	76.18	165.30	92.12	35.78
6.	West Bengal	434.24	278.94	181.45	460.39	(—)26.15	(—)6.02
	TOTAL	**2,503.35**	**932.07**	**601.81**	**1,533.88**	**969.47**	**38.73**
B—MIDDLE LEVEL							
7.	Andhra Pradesh	309.62	103.23	99.38	202.61	107.01	34.56
8.	Karnataka	371.76	190.28	64.70	254.98	116.78	31.41
9.	Kerala	212.98	172.11	53.83	225.94	(—)12.96	(—)6.09
	TOTAL	**894.36**	**465.62**	**217.91**	**683.53**	**210.83**	**23.57**

(ANNEXURE X.18—*contd.)*

1984-85

(Rs. Crores)

CATEGORY/STATE	Gross Loans from Centre	DEBT SERVICING Repayment	Interest payment	Total (3+4)	(2—5)	Net Loans of Net to Gross Loans	Perce
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
C—BACKWARD							
10. Bihar	**486.40**	**183.33**	**142.93**	**326.26**	**160.14**	**32.92**	**11. M**
12. Orissa	**157.75**	**72.94**	**65.30**	**138.24**	**19.51**	**12.24**	
13. Rajasthan	**290.35**	**148.83**	**169.44**	**318.27**	**(—)27.92**	**(—)9.62**	
14.Uttar Pradesh	**681.96**	**223.50**	**204.06**	**427.56**	**254.40**	**37.30**	
TOTAL (10—14)	**1,903.75**	**765.75**	**675.70**	**1,441.45**	**462.30**	**24.28**	
D—**SPECIAL CATEGORY**							
15. Assam	308.37	77.75	75.87	153.62	154.75	50.18	
16. Himachal Pradesh	44.17	9.78	13.62	23.40	20.77	47.02	
17. Jammu & Kashmir	205.75	52.90	58.80	111.70	94.05	45.71	
18. Manipur	10.17	10.97	7.64	18.61	(—)8.44	(—)82.99	
19. Meghalaya	10.82	3.98	2.93	6.91	3.91	36.14	
20. Nagalaand	9.62	4.38	3.27	7.65	1.97	20.48	
21. Sikkim	4.49	1.56	1.80	3.36	1.13	29.62	
22. Tripura	14.83	4.72	2.69	7.41	7.42	50.03	
TOTAL (15—22)	**608.22**	**166.04**	**166.62**	**332.66**	**275.56**	**45.31**	
ALL STATES	**5,909.68**	**2,329.48**	**1,662.04**	**3,991.52**	**1,918.15**	**32.45**	
A—ADVANCED							
1. Gujarat	1,350.53	345.08	283.57	628.65	721.88	53.45	
2. Haryana	574.61	313.09	133.84	446.93	127.68	22.22	
3. Maharashtra	2,435.13	575.91	533.10	1,109.01	1,326.12	54.46	
4. Punjab	1,326.97	745.76	165.29	911.05	415.92	31.34	
5. Tamil Nadu	1,089.10	386.13	306.28	692.41	396.69	32.42	
6. West Bengal	2,127.15	893.51	575.94	1,469.45	657.70	30.92	
TOTAL(1—6)	**8,903.49**	**3,259.48**	**1,998.02**	**5,257.50**	**3,645.99**	**40.95**	
B—MADDLE LEVEL							
7. Andhra Pradesh	1,189.23	423.91	382.48	806.39	382.84	32.19	8. Kar
9. Kerala	689.43	432.59	170.09	602.68	86.75	12.58	
TOTAL (7—9)	**2,933.31**	**1,387.68**	**803.46**	**2,191.14**	**742.17**	**25.30**	
C—BACKWARD							
10. Bihar	1,867.59	580.33	542.37	1,122.70	744.89	39.88	
11. Madhya Pradesh	1,175.34	408.75	278.26	687.01	488.33	41.55	
12.Orissa	789.71	307.80	244.68	552.48	237.23	30.04	
13. Rajasthan	1,201.19	600.76	406.74	1,007.50	193.69	16.12	
14. Uttar Pradesh	2,647.26	956.18	764.81	1,720.99	926.29	34.99	
TOTAL (10—14)	**7,681.09**	**2,853.82**	**2,236.86**	**5,090.68**	**2,590.41**	**33.72**	
D—SPECIAL CATEGORY							
15. Assam	1,131.36	480.81	216.07	696.88	434.48	38.40	
16. Himachal Pradesh	148.42	102.01	40.13	142.14	6.28	4.23	
17. Jammu & Kashmir	792.17	176.21	199.27	365.98	416.19	52.54	
18. Manipur	99.56	97.84	16.78	114.62	(—)15.06	(—)15.67	
19. Meghalaya	38.07	28.95	6.12	35.07	3.00	7.88	
20. Nagaland	50.27	65.65	6.65	72.30	(—)22.03	(—)43.82	
21. Sikkim	21.48	6.28	2.12	8.40	13.08	61.82	
22. Tripura	44.62	45.37	8.04	53.41	(—)8.79	(—)19.70	
TOTAL (15—22)	**2,325.95**	**1,003.62**	**495.18**	**1,498.80**	**827.15**	**35.56**	
ALL STATES	**21,843.84**	**8,504.60**	**5.533.52**	**14,038.12**	**7,805.72**	**35.73**	

Source : Reserve Bank of India—Bulletins, various issues.

ANNEXURE X.19

PROPORTION OF DEBT SERVICING TO AGGREGATE EXPENDITURE IN STATES DURING 1973-74, 1978-79 AND 1983-84

(Rs. Crores)

Year	**1973-74**				
State	**Aggregate Expenditure**	**Repayment+ interest (Total)**	**Repayment+ Interest (To Centre)**	**Col. 3 as percentage of Col. 2**	**Col.4 as percentage of Col. 2**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
1. Andhra Pradesh	**562.74**	**122.87**	**109.93**	**21.8**	**19.5**
2. Assam	**215.19**	**66.50**	**62.70**	**30.9**	**29.1**
3. Bihar	**550.88**	**128.32**	**114.88**	**23.3**	**20.9**
4. Gujarat	**467.31**	**63.10**	**51.94**	**13.5**	**11.1**
5. Haryana	**231.73**	**35.29**	**31.57**	**15.2**	**13.6**
6. Himachal Pradesh	**99.08**	**14.13**	**13.09**	**14.3**	**13.2**
7. Jammu & Kashmir	**168.68**	**35.36**	**34.56**	**21.0**	**20.4**
8. Karnataka	**555.55**	**118.06**	**106.12**	**21.2**	**19.1**
9. Kerala	**335.95**	**68.06**	**60.13**	**20.3**	**17.9**
10. Madhya Pradesh	**494.86**	**87.34**	**75.14**	**17.6**	**15.2**
11. Maharashtra	**1,126.40**	**151.75**	**129.10**	**13.5**	**11.5**
12. Manipur	**32.67**	**4.19**	**4.08**	**12.8**	**12.5**
13. Meghalaya	**24.48**	**1.82**	**1.72**	**7.4**	**7.0**
14. Nagaland	**41.16**	**3.72**	**2.25**	**9.0**	**5.5**
15. Orissa	**298.70**	**68.68**	**60.22**	**23.0**	**20.2**
16. Punjab	**308.89**	**35.20**	**26.75**	**11.4**	**8.7**
17. Rajasthan	**439.11**	**120.98**	**109.68**	**27.5**	**25.0**
18. Sikkim	**..**	**..**	**..**	**..**	**..**
19. Timal Nadu	**605.52**	**89.48**	**69.42**	**14.8**	**11.5**
20. Tripura	**41.81**	**3.96**	**3.74**	**9.5**	**8.9**
21. Uttar Pradesh	**1,037.96**	**159.66**	**137.93**	**15.4**	**13.3**
22. West Bengal	**588.89**	**140.79**	**129.72**	**23.9**	**22.0**
TOTAL	**8,227.63**	**1,519.26**	**1,334.87**	**18.5**	**16.2**

Year	1978-79				
State	Aggregate Expenditure	Repayment+ interest (Total)	Repayment+ Interest (To Centre)	Col. 8 as percentage of Col. 7	Col. 9 as percentage of Col. 7
(1)	(7)	(8)	(9)	(10)	(11)
1. Andhra Pradesh	1,246.79	136.70	153.15	11.0	12.3
2. Assam	412.30	54.79	45.25	13.3	11.0
3. Bihar	929.27	140.14	116.55	15.1	12.5
4. Gujarat	900.58	106.96	75.09	11.9	8.3
5. Haryana	466.09	60.86	37.42	13.1	8.0
6. Himachal Pradesh	187.48	18.35	14.25	9.8	7.6
7. Jammu & Kashmir	376.19	76.18	62.66	20.3	19.3
8. Karnataka	919.83	109.90	84.78	11.9	9.2
9. Kerala	626.72	76.73	54.66	12.2	8.7
10. Madhya Pradesh	997.82	102.08	67.09	10.2	6.7
11. Maharashtra	2,080.66	191.69	134.15	9.2	6.4
12. Manipur	79.74	5.93	4.46	7.4	5.6
13. Meghalaya	55.18	2.80	1.92	5.1	3.5
14. Nagaland	96.10	4.92	3.22	5.1	3.4
15. Orissa	577.32	78.97	56.52	13.7	9.8
16. Punjab	589.77	113.85	82.58	19.3	14.0
17. Rajasthan	792.16	110.16	83.37	13.9	10.5
18. Sikkim	30.37	0.47	0.44	1.5	1.4
19. Timal Nadu	1,070.65	121.97	75.71	11.4	7.1
20. Tripura	71.64	5.66	4.07	7.9	5.7
21. Uttar Pradesh	1,922.24	242.04	180.55	12.6	9.4
22. West Bengal	1,260.85	192.73	159.26	15.3	12.6

TOTAL	**15,689.85**	**1,953.88**	**1,507.15**	**12.5**	**9.6**

ANNEXURE X. 19—*Concld.*

Year **State**			**1983—84**		
	Aggregate Expenditure	**Repayment+ Interest (Total)**	**Repayment+ Interest (to Centre)**	**Col. 13 as Percentage of Col. 12**	**Col. 14 as percentage of Col. 12**
(1)	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**
1. Andhra Pradesh	**2,587.35**	**235.65**	**177.32**	**9.1**	**6.9**
2. Assam	**942.18**	**115.78**	**96.89**	**12.3**	**10.3**
3. Bihar	**2,143.64**	**298.97**	**252.27**	**13.9**	**11.8**
4. Gujarat	**2,178.20**	**203.57**	**133.65**	**9.3**	**6.1**
5. Haryana	**960.28**	**164.50**	**123.22**	**17.1**	**12.8**
6. Himachal Pradesh	**384.78**	**24.69**	**14.71**	**6.4**	**3.8**
7. Jammu & Kashmir	**619.93**	**100.39**	**89.31**	**16.2**	**14.4**
8. Karnataka	**2,002.11**	**236.18**	**176.93**	**11.8**	**8.8**
9. Kerala	**1,321.83**	**158.04**	**99.86**	**12.0**	**7.6**
10. Madhya Pradesh	**2,323.92**	**190.31**	**120.85**	**8.2**	**5.2**
11. Maharashtra	**4,243.97**	**369.73**	**271.96**	**8.7**	**6.4**
12. Manipur	**158.23**	**7.76**	**7.03**	**4.9**	**4.4**
13. Meghalaya	**139.05**	**6.50**	**4.24**	**4.7**	**3.0**
14. Nagaland	**215.00**	**21.27**	**12.44**	**9.9**	**5.8**
15. Orissa	**996.85**	**170.06**	**115.69**	**17.1**	**11.6**
16. Punjab	**1,434.26**	**335.53**	**272.34**	**23.4**	**19.0**
17. Rajasthan	**1,585.07**	**230.03**	**163.96**	**14.5**	**10.3**
18. Sikkim	**67.13**	**5.15**	**3.88**	**7.7**	**5.8**
19. Tamil Nadu	**2,572.10**	**277.34**	**189.13**	**10.8**	**7.3**
20. Tripura	**187.53**	**13.36**	**11.83**	**7.1**	**6.3**
21. Uttar Pradesh	**4,116.12**	**570.58**	**464.99**	**13.9**	**11.3**
22. West Bengal	2,180.55	345.98	271.93	15.9	12.5
TOTAL	**33360.08**	**4081.37**	**3074.43**	**12.2**	**9.2**

Source: Reserve Bank of India—Bulletins, various issues.
Note: Debt Servicing includes Repayment of Market Loans, Central Loans, Negotiated Loans, etc. plus interest thereon.

ANNEXURE X. 20
STATEWISE PERCENTAGE OF DEBT-SERVICING TO STATE DOMESTIC PRODUCT 1973-74, 1978-79 AND 1983-84.
(Rs. Crores)

Year			1973—74		
State	SDP at current prices	Repayment+ Interest (Centre only)	Repayment+ Interest (Total)	Col. 3 as Percentage of Col. 2	Col. 4 as percentage of Col. 2
(1)	(2)	(3)	(4)	(5)	(6)
1. Andhra Pradesh	3,926.00	109.93	122.87	2.8	3.1
2. Assam	1,023.10	62.70	66.50	6.1	6.5
3. Bihar	3,400.10	114.88	128.32	3.4	3.8
4. Gujarat	3,169.10	51.94	63.10	1.6	2.0
5. Haryana	1,303.80	31.57	35.29	2.4	2.7
6. Himachal Pradesh	341.60	13.09	14.13	3.8	4.1
7. Jammu & Kashmir	352.00	34.56	35.56	9.8	10.8
8. Karnataka	3,002.00	106.12	118.06	3.5	3.9
9. Kerala	1,823.00	60.13	68.06	3.3	3.7
10. Madhya Pradesh	3,244.70	75.14	87.34	2.3	2.7
11. Maharashtra	5,757.90	129.10	151.75	2.2	2.6
12. Manipur	46.40	4.08	4.19	5.3	5.5
13. Meghalaya	N.A.	1.72	1.82	N.A.	..
14. Nagaland	N.A.	2.25	3.72	N.A.	..
15. Orissa	1,607.20	60.22	68.68	3.7	4.3
16. Punjab	2,155.70	26.75	35.20	1.2	1.6
17. Rajasthan	2,285.10	109.68	120.98	4.8	5.3
18. Sikkim	N.A.	**	**	N.A.	..
19. Tamil Nadu	3,432.30	69.62	89.48	2.0	2.6
20. Tripura	110.40	3.74	3.96	3.4	3.6
21. Uttar Pradesh	6,220.00	137.93	159.66	2.2	2.6
22. West Bengal	4,366.30	129.72	140.79	3.0	3.2
TOTAL	47,596.70*	1,334.87	1,519.26	2.8	3.2

ANNEXURE X. 20—*Contd.*

STATEWISE PERCENTAGE OF DEBT-SERVICING TO STATE DOMESTIC PRODUCT 1973-74, 1978-79 AND 1983-84.

(Rs. Crores)

Year / State	SDP at current prices (1976—79)	Repayment+ Interest (Centre only)	Repayment+ Interest (Total)	Col. 8 as Percentage of Col. 7	Col. 9 as percentage of Col. 7
			1978—79		
(1)	(7)	(8)	(9)	(10)	(11)
1. Andhra Pradesh	5,530.28	153.15	136.70	2.8	2.5
2. Assam	1,824.97	45.25	54.79	2.5	3.0
3. Bihar	5,225.13	116.55	140.14	2.2	2.7
4. Gujarat	5,272.30	75.09	106.96	1.4	2.0
5. Haryana	2,415.41	37.42	60.86	1.5	2.5
6. Himachal Pradesh	548.89	14.25	18.35	2.6	3.3
7. Jammu & Kashmir	684.51	72.66	76.18	10.6	11.1
8. Karnataka	4,377.65	84.78	109.90	1.9	2.5
9. Kerala	3,052.95	54.66	76.73	1.8	2.5
10. Madhya Pradesh	4,597.12	67.09	102.08	1.5	2.2
11. Maharashtra	10,734.43	134.15	191.69	1.2	1.8
12. Manipur	118.12	4.46	5.93	3.8	5.0
13. Meghalaya	143.96	1.92	2.80	1.3	1.9
14. Nagaland	85.89	3.22	4.92	3.7	5.7
15. Orissa	2,650.58	56.52	78.97	2.1	3.0
16. Punjab	3,767.04	82.58	113.85	2.2	3.0
17. Rajasthan	3,767.30	83.37	110.16	2.2	2.9
18. Sikkim	26.73@	0.44	0.47	1.6	0.0
19. Tamil Nadu	5,751.32	75.21	121.97	1.3	2.1
20. Tripura	211.87	4.07	5.66	1.9	2.7
21. Uttar Pradesh	9,330.47	180.55	242.04	1.9	2.6
22. West Bengal	6,805.68	159.26	192.73	2.3	2.8
TOTAL	**76,895.28**	**1,507.15**	**1,953.88**	**2.0**	**2.5**

Year / State	SDP at current prices (1982-83)	Repayment+ Interest (Centre only)	Repayment+ Interest (Total)	Col. 13 as Percentage of Col. 12	Col. 14 as percentage of Col. 12
			1983—84		
(1)	(12)	(13)	(14)	(15)	(16)
1. Andhra Pradesh	9,430.00	177.32	235.65	1.0	2.5
2. Assam	3,342.00	96.89	115.78	2.9	3.5
3. Bihar	7,424.70	252.27	298.97	3.4	4.0
4. Gujarat	8,361.10	133.65	203.57	1.6	2.4
5. Haryana	3,834.40	123.22	164.50	3.2	4.3
6. Himachal Pradesh	846.20	14.71	24.69	1.7	2.9
7. Jammu & Kashmir	1,057.60	89.31	100.39	8.4	9.5
8. Karnataka	6,489.10	176.93	236.18	2.7	3.6
9. Kerala	4,214.00	99.86	158.04	2.4	3.8
10. Madhya Pradesh	7,296.00	120.85	190.31	1.7	2.6
11. Maharashtra	1,697.48	271.96	369.73	16.0	21.8
12. Manipur	223.20	7.03	7.76	3.1	3.5
13. Meghalaya	182.40	4.24	6.50	2.3	3.6
14. Nagaland	N.A.	12.44	21.27	N.A.	..
15. Orissa	3,650.30	115.69	170.06	3.2	4.7
16. Punjab	6,081.80	272.34	335.53	4.5	5.5
17. Rajasthan	5,630.90	153.96	230.03	2.9	4.1
18. Sikkim	35.90	3.88	5.15	10.8	14.3
19. Tamil Nadu	99.00	189.13	277.34	191.0	280.1
20. Tripura	N.A.	11.83	13.36	N.A.	. .
21. Uttar Pradesh	16,687.40	464.99	570.58	2.8	3.4
22. West Bengal	9,975.30	271.93	345.98	2.7	3.5
TOTAL	**1,19,548.10***	**3,074.43** **(3,056.61)***	**4,081.37**	**2.6***	**3.4**

***** Relates to the States for which the data for SDP is available.

@ Estimated as average for 1976-79 by the Eighth Finance Commission.

Source : for SDP: (i) *Ministry of Finance, Indian Economic Statistics, Part II—Public Finance,* December, 1984.

(ii) For 1978-79, *Report of the Eighth Finance Commission,* 1984. p. 158.

ANNEXURE X. 21

RELATIVE IMPORTANCE OF NET CAPITAL TRANSFERS TO STATES

Plan Periods	Total transfers to State (NET)	As percentage of States total capital Receipts (NET)	Union Govt's Gross capital Receipts	Union Govt's Gross budgetary Resources
(1)	(2)	(3)	(4)	(5)
FIRST PLAN (1951-56)	53.9	64.1	39.0	15.0
SECOND PLAN (1956-61)	43.0	65.8	23.0	11.7
THIRD PLAN (1961-66)	45.0	69.3	30.5	12.4
THREE ANNUAL PLANS (1966-69)	34.5	62.9	27.0	10.2
FOURTH PLAN (1969-74)	24.2	52.0	30.9	8.2
FIFTH PLAN (1974-78)	20.1	51.2	22.3	5.8
TWO ANNUAL PLANS (1978-80)	27.2	66.2	31.7	9.6
SIXTH PLAN (1980-85)	24.9	58.8	22.2	8.0
TOTAL (1951-85)	**26.5**	**59.2**	**24.9**	**8.4**

NOTE : Please see notes below ANNEXURE X. 2

SOURCE : Ministry of Finance —*Indian Economic Statistics (part II—Public Finance)*, various issues.

ANNEXURE X. 22

PATTERN OF CAPITAL RECEIPTS OF THE STATES

(Percentage)

State	Fourth Plan (1969-74) Internal Debt	Loans from the Centre: Plan	Loans from the Centre: Non-Plan	Loans from the Centre: Ways & Means Advance	Loans from the Centre: Total	Recovery of Loans	Small savings, Provident Funds, etc.	Others	Total
1	2	3	4	5	6	7	8	9	10
1. Andhra Pradesh	10.5	8.3	40.3	1.3	71.3*	6.7	2.2	9.3	100.0
2. Assam	6.2	16.6	24.3	..	85.8*	2.0	2.3	3.7	100.0
3. Bihar	7.5	14.0	8.8	2.5	65.1*	8.0	6.3	13.1	100.0
4. Gujarat	16.8	12.3	12.6	..	50.3*	13.3	3.6	16.0	100.0
5. Haryana	11.5	9.0	16.8	..	57.0*	7.2	4.3	20.0	100.0
6. Himachal Pradesh	3.5	58.9	29.8	..	88.7	2.4	8.1	—2.7	100.0
7. Jammu & Kashmir	0.6	7.2	10.8	..	92.6*	2.6	4.2	..	100.0
8. Karnataka	8.7	9.8	1.6	3.2	59.4*	12.0	1.8	18.1	100.0
9. Kerala	8.9	28.3	37.8	1.1	67.2	7.8	7.6	8.5	100.0
10. Madhya Pradesh	10.8	40.0	14.9	..	54.9	12.9	16.0	5.4	100.0
11. Maharashtra	8.4	19.2	18.6	3.9	47.2*	7.1	5.6	31.7	100.0
12. Manipur	7.9	19.6	14.9	..	89.4*	1.0	—3.2	4.9	100.0
13. Meghalaya	14.3	20.1	65.0	..	85.1*	1.9	3.8	—5.1	100.0
14. Nagaland	25.2	24.6	47.0	..	71.6	3.0	7.1	—6.9	100.0
15. Orissa	10.7	29.5	27.3	..	69.2*	4.0	4.0	12.1	100.0
16. Punjab	12.0	11.9	8.5	..	37.9*	6.7	7.1	36.3	100.0
17. Rajasthan	7.2	14.2	52.7	..	80.6*	2.1	2.0	8.1	100.0
18. Sikkim	..	..	..	..	..	..	..	..	..
19. Tamil Nadu	15.2	16.4	19.1	..	52.6*	14.5	3.2	14.5	100.0
20. Tripura	0.3	90.6	2.1	..	143.1*	7.0	9.0	—59.4	100.0
21. Uttar Pradesh	7.9	26.3	24.0	..	50.3	6.5	3.6	31.8	100.0
22. West Bengal	9.3	24.3	49.0	3.5	76.8	4.1	2.8	7.0	100.0

TOTAL (ALL STATES)	9.4	19.0	26.1	1.2	62.7*	7.3	4.4	16.2	100.0

ANNEXURE X. 22—*Contd.*

PATTERN OF CAPITAL RECEIPTS OF THE STATES

(Percentage)

State	Internal Debt	Fifth Plan (1974-78) Loans from the Centre: Plan	Non-Plan	Ways & Means Advance	Total	Recovery of Loans	Small savings, Provident Funds, etc.	Others	Total
1	2	3	4	5	6	7	8	9	10
1. Andhra Pradesh	18.3	42.5	14.4	..	56.9	10.7	3.4	10.7	100.0
2. Assam	14.7	59.7	16.6	..	76.3	5.1	4.3	—0.5	100.0
3. Bihar	9.6	33.5	26.1	15.7	75.3	11.8	3.8	—0.5	100.0
4. Gujarat	14.0	26.4	14.0	5.9	46.3	15.2	7.9	16.6	100.0
5. Haryana	16.4	38.6	9.2	1.8	49.6	7.9	9.5	16.6	100.0
6. Himachal Pradesh	17.7	29.3	28.1	..	57.4	8.5	22.2	—5.8	100.0
7. Jammu & Kashmir	2.5	61.6	11.7	..	86.2*	2.5	4.5	4.3	100.0
8. Karnataka	19.3	33.6	11.9	0.9	46.4	12.6	4.7	17.0	100.0
9. Kerala	11.9	37.1	10.5	4.6	52.2	12.0	16.3	7.6	100.0
10. Madhya Pradesh	9.6	34.9	12.5	..	47.4	17.5	17.7	7.8	100.0
11. Maharashtra	10.7	18.5	12.1	2.3	32.9	19.8	7.6	29.0	100.0
12. Manipur	30.7	35.8	0.8	..	71.3*	4.6	4.4	—11.0	100.0
13. Meghalaya	49.0	28.6	11.4	..	40.0	5.4	20.3	—14.7	100.0
14. Nagaland	43.7	22.5	1.8	32.6	56.9	8.4	13.0	—22.0	100.0
15. Orissa	17.7	41.1	12.9	..	54.0	11.8	9.6	6.9	100.0
16. Punjab	26.2	23.3	4.1	20.5	47.9	8.7	5.2	12.0	100.0
17. Rajasthan	21.1	37.5	12.2	18.8	51.5	18.6	5.9	2.9	100.0
18. Sikkim	30.3	624.2	..	..	624.2	103.0	66.7	—924.2	—100.0
19. Tamil Nadu	15.9	32.6	11.3	..	43.9	20.7	3.6	15.9	100.0
20. Tripura	43.0	17.7	5.3	..	23.0	15.2	21.2	—2.4	100.0
21. Uttar Pradesh	12.0	34.7	15.1	4.7	54.5	6.8	4.5	22.2	100.0
22. West Bengal	9.8	22.7	32.1	6.4	61.2	7.0	3.9	18.1	100.0
TOTAL (ALL STATES)	**14.1**	**32.9**	**15.1**	**4.4**	**52.8**	**12.4**	**6.6**	**14.1**	**100.0**

State	Internal Debt	Annual Plans (1978-80) Loans from the Centre: Plan	Non-Plan	Ways & Means Advance	Total	Recovery of Loans	Small savings, Provident Funds, etc.	Others	Total
1	2	3	4	5	6	7	8	9	10
1. Andhra Pradesh	10.9	58.5	10.8	0.1	69.4	6.9	4.2	8.6	100.0
2. Assam	6.5	33.6	6.5	..	76.8*	3.5	2.0	11.2	100.0
3. Bihar	6.2	50.1	31.0	..	81.1	4.4	6.8	1.5	100.0
4. Gujarat	10.5	22.5	18.2	1.8	42.5	11.8	6.0	29.2	100.0
5. Haryana	15.0	32.5	14.0	4.2	50.7	5.8	14.1	14.4	100.0
6. Himachal Pradesh	10.1	31.0	23.3	..	54.3	5.4	21.3	8.9	100.0
7. Jammu & Kashmir	2.1	28.2	15.6	..	88.3*	1.5	5.6	2.5	100.0
8. Karnataka	9.9	36.8	10.3	7.3	54.4	10.1	6.2	19.4	100.0
9. Kerala	14.1	47.8	11.4	..	59.2	6.5	22.6	—2.4	100.0
10. Madhya Pradesh	6.0	41.7	23.6	..	65.3	9.3	16.4	3.0	100.0
11. Maharashtra	6.0	24.6	19.3	2.8	46.7	11.2	8.5	27.6	100.0
12. Manipur	16.0	27.1	38.5	..	65.6	2.0	2.9	13.5	100.0
13. Meghalaya	20.2	31.5	11.3	..	42.8	11.0	4.0	22.0	100.0
14. Nagaland	18.4	29.6	20.9	11.6	62.1	3.1	24.2	—7.8	100.0
15. Orissa	10.7	57.0	13.4	..	70.4	7.4	8.3	3.2	100.0
16. Punjab	15.2	22.3	36.3	9.5	68.1	8.8	4.5	3.4	100.0
17. Rajasthan	10.8	—15.0	61.5	15.0	61.5	8.9	5.9	12.9	100.0
18. Sikkim	19.9	140.5	..	..	140.5	10.3	10.6	—81.3	100.0
19. Tamil Nadu	(12.1)	38.0	13.1	5.3	56.4	27.5	0.3	3.7	100.0
20. Tripura	(39.2)	14.8	16.5	..	31.3	11.7	15.0	2.8	100.0
21. Uttar Pradesh	6.0	35.4	25.0	..	60.4	2.8	3.3	27.5	100.0

22. West Bengal	5.3	28.5	36.0	13.3	77.8	5.7	3.0	8.2	100.0
TOTAL (ALL STATES)	(8.5)	(33.4)	(23.5)	(3.7)	(62.6)	(8.1)	(6.5)	(14.3)	(100.0)

ANNEXURE X. 22—*Concld.*

State		Sixth Plan (1980-85)								
		Internal Debt	Loans from the Centre				Recovery of Loans	Small savings, Provident Funds, etc.	Others	Total
			Plan	Non-Plan	Ways & Means Advance	Total				
1		2	3	4	5	6	7	8	9	10
1.	Andhra Pradesh	19.3	39.7	14.8	..	54.5	6.5	5.2	14.5	100.0
2.	Assam	6.3	64.1	10.9	..	87.3*	3.9	2.8	(—0.3)	100.0
3.	Bihar	6.9	31.4	23.9	1.9	57.2	2.0	12.3	21.6	100.0
4.	Gujarat	8.4	21.3	24.8	4.7	50.8	10.0	5.3	25.5	100.0
5.	Haryana	13.6	23.7	21.0	11.6	56.3	10.5	13.4	6.2	100.0
6.	Himachal Pradesh	10.1	28.1	29.7	..	57.8	5.3	25.7	1.1	100.0
7.	Jammu & Kashmir	13.5	47.3	24.2	..	71.5	1.2	8.9	4.9	100.0
8.	Karnataka	11.0	21.6	16.3	10.3	48.2	12.5	6.8	21.5	100.0
9.	Kerala	16.5	31.2	12.0	11.1	54.3	6.1	20.0	3.1	100.0
10.	Madhya Pradesh	8.4	35.7	14.3	1.4	51.4	9.1	19.4	11.7	100.0
11.	Maharashtra	7.4	32.3	21.5	2.4	56.2	7.4	5.2	23.8	100.0
12.	Manipur	22.8	10.5	..	..	67.0*	2.3	6.5	1.4	100.0
13.	Meghalaya	34.7	34.9	22.4	0.4	57.7	12.3	7.7	(—)12.4	100.0
14.	Nagaland	32.6	35.2	9.5	10.8	55.5	4.6	22.5	(—)15.2	100.0
15.	Orissa	17.9	41.4	12.4	..	53.8	9.1	11.6	7.6	100.0
16.	Punjab	15.0	7.6	22.1	11.5	63.4*	8.4	6.1	7.1	100.0
17.	Rajasthan	15.4	30.8	19.8	7.2	57.8	7.8	11.9	7.1	100.0
18.	Sikkim	16.3	33.5	..	..	97.8*	5.9	10.6	(—)30.6	100.0
19.	Tamil Nadu	9.6	21.7	11.9	2.5	36.1	26.2	3.2	24.9	100.0
20.	Tripura	32.5	24.6	12.0	..	36.6	5.3	13.5	12.1	100.0
21.	Uttar Pradesh	15.3	30.6	18.3	2.6	51.5	6.3	7.5	19.4	100.0
22.	West Bengal	9.8	20.0	38.0	12.1	70.1	14.4	3.8	1.9	100.0
	TOTAL (ALL STATES)	**11.8**	**29.5**	**19.8**	**4.5**	**55.8***	**9.2**	**8.3**	**14.9**	**100.0**

* Breakup of loans under Plan and Non-Plan categories is not available. Therefore, in such cases and for all States' total, the percentage under column of Plan, Non-Plan and Ways and Means Advances do not add up to those under total loans from the Centre.

***Source : Reserve Bank of India—Bulletins,* various issues.**

ANNEXURES X.23

STATEWISE OUTSTANDING LOANS FROM THE CENTRE AND DEBT RELIEF AS PER 6TH, 7TH AND 8TH FINANCE COMMISSIONS' RECOMMENDATIONS

(Rs. Crores)

		Central Loan Outstanding as on 31st March			Debt Servicing Relief Provided by		
Sl. No.	States	1974	1979	1984	Sixth Finance Commission 1974—79	Seventh Finance Commission 1979—84	Eighth Finance Commission 1984—89
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	692	1,051	1,860	191	136	205
2.	Assam	392	597	1,306	163	112	205
3.	Bihar	721	1,187	2,612	133	183	331
4.	Gujarat	349	521	1,419	36	108	18
5.	Haryana	234	304	635	33	38	32
6.	Himachal Pradesh	140	150	215	35	30	16
7.	Jammu & Kashmir	330	612	913	134	134	213
8.	Karnataka	452	677	1,077	127	39	48
9.	Kerala	366	535	859	110	115	54
10.	Madhya Pradesh	417	712	1,643	87	147	144
11.	Maharashtra	687	978	2,545	67	161	28
12.	Manipur	44	57	124	15	12	11
13.	Meghalaya	19	24	45	7	6	6
14.	Nagaland	25	41	52	6	19	8
15.	Orissa	515	706	1,215	157	96	196
16.	Punjab	242	380	682	15	61	39
17.	Rajasthan	762	967	1,803	258	138	239
18.	Sikkim	..	6	16	..	1	3
19.	Tamil Nadu	426	754	1,399	87	50	28
20.	Tripura	38	40	69	15	10	2
21.	Uttar Pradesh	916	1,824	3,532	151	368	338
22.	West Bengal	811	1,342	3,038	143	192	121
	TOTAL	**8,578**	**13,465**	**27,059**	**1,970** (23%)	**2,156** (16.0%)	**2,285*** (8.4%)

Sources : For 1894—Report of the *Eighth Finance Commission*, p. 265, p. 268.
For 1979—Report of the ——————— *Finance Commission*, 1978, p. 263, p. 116.
For 1974— (i) Ministry of Finance, Deptt. of Economic Affairs, Budget Division, Finance Commission Cell '*Consolidation of Loans and Debt-Relief to States'.*
(ii) ——————— Report of the Finance Commission, 1973, p. 95

*Excluding relief of Rs. 117.08 crores in the repayment on Small Saving Loans in 1984-85.

ANNEXURE X. 24

PERCENTAGE OF DEBT-RELIEF PROVIDED BY THE SIXTH, SEVENTH AND THE EIGHTH FINANCE COMMISSIONS TO THE OUTSTANDING CENTRAL LOANS IMMEDIATELY PRIOR TO THE RESPECTIVE PERIOD OF THE COMMISSIONS AND TO THE ASSESSED NON-PLAN CAPITAL GAP

STATE	Debt-relief as percent of outstanding Central loans			Debt-relief as per cent of assessed non-plan capital gap during the period covered by the Commission		
	6th F.C.	7th F.C.	8th F.C.	6th F.C.	7th F.C.	8th F.C.
1	2	3	4	5	6	7
Andhra Pradesh	27.6	12.9	11.0	85.1	50.0	53.2
Assam	41.6	18.8	15.7	93.0	74.4	75.0
Bihar	18.4	15.4	12.7	89.5	56.0	75.0
Gujarat	10.3	20.7	1.3	161.1	76.1	21.8
Haryana	14.1	12.5	5.0	61.3	43.5	33.9
Himachal Pradesh	25.0	20.0	7.4	87.1	85.5	85.0
Jammu & Kashmir	40.6	22.0	23.3	94.2	73.8	85.0
Karnataka	28.1	5.8	4.4	96.2	27.1	27.3
Kerala	30.1	21.5	6.3	87.6	73.2	49.9
Madhya Pradesh	20.9	20.6	8.8	116.7	60.0	48.8
Maharashtra	9.8	16.5	1.1	146.1	98.7	33.8
Manipur	34.1	21.1	8.9	98.0	81.5	85.1
Meghalaya	36.8	25.0	13.3	90.8	85.6	84.8
Nagaland	24.0	46.3	15.4	104.5	118.8	84.8
Orissa	30.5	13.6	16.1	91.3	54.7	75.0
Punjab	6.2	16.1	5.7	81.0	44.1	32.6
Rajasthan	33.9	14.3	13.3	89.0	49.3	75.0
Sikkim	..	16.7	18.8	..	128.2	84.6
Tamil Nadu	20.4	0.7	2.0	95.7	34.2	29.5
Tripura	39.5	25.0	2.9	105.3	122.1	84.3
Uttar Pradesh	16.5	20.2	9.6	87.6	62.0	51.7
West Bengal	17.6	14.3	4.0	93.3	84.5	75.0
ALL STATES	23.0	16.0	8.4	98.8	61.4	59.3

Source : Reports of the *Sixth* (1973), *Seventh* (1978) *and Eighth Finance Commission* (1984).

Note : F.C. = Finance Commission.

ANNEXURE X. 25

NET MARKET BORROWINGS OF UNION AND STATE GOVERNMENTS

(Rs. Crores)

YEAR	Union Government	State Governments	Total (2+3)	Percentage share of States in Total
1	2	3	4	5
1961—62	62.63	74.17	136.80	54.2
1966—67	79.89	96.77	176.66	54.8
1969—70	139.31	81.28	220.59	36.8
1974—75	494.06	211.51	705.57	30.0
1968—79	1,653.63	185.95	1,839.58	10.1
1979—80	1,951.24	187.14	2,148.38	8.7
1980—81	2,603.43	201.07	2,804.50	7.2
1981—82	2,903.91	333.90	3,237.81	10.3
1982—83	3,800.13	398.26	4,198.39	9.5
1983—84	4,001.26	587.54	4,588.80	12.8
1984—85	4,100.01	772.45	4,872.46	15.9

Source : **Ministry of Finance —** ***Indian Economic Statistics (Part II—Public Finance),*** **December, 1985.**

ANNEXURE X. 26

AGGREGATE OF STATE GOVERNMENT'S MINIMUM BALANCES AND LIMITS FOR ADVANCE FROM THE RESERVE BANK OF INDIA

(Rs. Crores)

Effective from	Minimum balance	Limits for normal or 'clean' ways and means advance	Limits for special or secured ways and means advance	Additional special ways and means advance
1	2	3	4	5
1.4.1938	1.85	1.85	ad-hoc	
1.4.1953	3.94	7.88 (Twice the minimum balance)	2 crores for each state	
1.3.1967	6.25	18.75 (3 times)	37.50 (6 times)	On merits
1.5.1972	6.50	78.00 (12 times)	39.00 (6 times)	*Ad-hoc*
1.5.1976	13.00	130.00 (10 times)	130.00 (10 times)	On exceptional occasions
1.10.1978	13.00	260.00 (20 times)	130.00 (10 times)	
1.7.1982	13.00	520.00 (40 times)	260.00	

Source : Reserve Bank of India.

ANNEXURE X. 27

STATES' OUTSTANDING OVERDRAFTS WITH RESERVE BANK OF INDIA, 1975 TO 1984

(Rs. Crores)

	March-end									
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Major States										
Andhra Pradesh	—	—	—	—	—	—	—	—	—	13.00
Assam	—	—	—	—	—	—	33.05	115.43	9.83	60.48
Bihar	96.49	86.53	79.46	69.01	—	—	—	180.14	204.14	112.40
Gujarat	2.81	—	14.88	—	—	—	17.59	53.60	—	—
Haryana	10.09	11.27	12.49	—	—	1.95	36.01	66.79	48.87	12.63
Karnataka	—	—	—	—	—	—	14.37	—	4.84	37.26
Kerala	5.26	19.66	31.21	4.62	—	—	—	75.93	—	45.05
Madhya Pradesh	8.47	—	—	49.60	—	1.27	97.93	130.88	20.27	35.43
Maharashtra	—	—	—	—	—	—	—	36.40	—	—
Orissa	5.83	8.36	14.36	0.98	—	—	—	6.43	20.98	—
Punjab	22.93	29.87	38.11	56.36	—	9.53	64.01	79.35	—	47.34
Rajasthan	11.54	4.13	1.48	8.89	—	22.10	143.27	271.46	2.07	—
Tamil Nadu	—	—	—	—	—	—	—	—	—	—
Uttar Pradesh	99.55	135.13	86.21	145.68	—	—	—	—	2.00	36.61
West Bengal	—	8.07	46.58	91.40	—	41.16	97.08	316.96	38.69	62.90
Other States										
Himachal Pradesh	7.39	5.87	4.14	—	—	—	—	32.85	3.30	14.70
Manipur	0.91	3.83	7.86	3.45	6.59	11.06	22.49	64.29	13.58	12.71
Meghalaya	—	0.77	—	—	—	—	—	14.11	0.18	2.59
Nagaland	—	7.69	11.07	7.80	1.94	6.81	0.64	19.96	14.94	33.59
Tripura	—	5.66	4.03	0.38	—	2.66	9.46	28.72	1.13	4.57
Total	**271.27**	**326.84**	**351.88**	**438.17**	**8.53**	**96.54**	**535.00**	**1493.00**	**304.92**	**531.26**

Source : **Centre for Monitoring Indian Economy, Basic Statistics (1984).**

ANNEXURE X.28

LOANS GIVEN TO STATES FOR CLEARANCE OF THEIR DEFICITS/OVERDRAFTS

(Rs. Crores)

STATES	DURING 1972-73	1978-79	1980-81	1982-83	1983-84	1984-85
1	2	3	4	5	6	7
1. Andhra Pradesh	60.23	—	—	18.85	—	—
2. Assam	22.45	—	—	127.43	—	—
3. Bihar	18.75	79.26	—	197.39	169.29	—
4. Gujarat	—	4.17**	—	74.60	—	—
5. Haryana	22.73	—	—	75.79	19.93	—
6. Himachal Pradesh	—	—	—	36.91	—	—
7. Jammu & Kashmir	8.15	—	—	—	—	10.00
8. Karnataka	53.17	—	—	—	4.84	—
9. Kerala	42.47	12.20	—	93.93	42.26	—
10. Madhya Pradesh	—	65.60	—	154.88	20.27	—
11. Maharashtra	—	—	—	81.40	—	—
12. Manipur	—	4.45	13.06	66.29	—	—
13. Meghalaya	—	—	—	16.41	—	—
14. Nagaland	—	8.80	8.81	21.96	—	—
15. Orissa	4.92	12.98	—	24.43	41.00	—
16. Punjab	—	68.36	—	97.35	21.32	290.25
17. Rajasthan	78.89	14.89	—	283.46	48.71	52.18
18. Tamil Nadu	54.69	—	—	—	55.78	—
19. Tripura	—	1.38	—	30.72	—	—
20. Uttar Pradesh	17.81	175.18	—	0.85	2.00	—
21. West Bengal	35.99	105.10	—	340.71	73.72	—
Total	**420.55**	**552.37**	**21.87***	**1743.46**	**499.12**	**352.43**

* Converted later into long term loans.
** Released during 1979-80.
Source: **Ministry of Finance - Department of Expenditure, Plan Finance Division.**

ANNEXURE X.29

STATE WISE MEDIUM TERM AND LONG TERM CREDIT LIMITS AND UTILISATION IN 1982-83 TO 1984-85 — NABARD TO STATE CO-OPERATIVE BANKS AND FOR SHARE CAPITAL OF CO-OPERATIVE CREDIT INSTITUTIONS

(Rs. Crores)

		Medium term credit for "approved" Agricultural Purposes by RBI/NABARD to State Co-operative Banks out of National Rural Credit (Long term operations) Fund					
		1982		1983		1984	
Sl. No.	State	Limits Sanctioned	Outstanding at the end of December	Limits Sanctioned	Outstanding at the end of Decemebr	Limits Sanctioned	Outstanding at the end of December
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	3.76	2.64	3.88	3.49	3.27	3.7
2.	Assam	—	—	—	—	—	—
3.	Bihar	0.05	Neg.	0.05	Neg.	—	—
4.	Gujarat	1.50	1.00	1.80	1.42	0.88	1.13
5.	Haryana	1.58	1.99	2.04	2.14	1.49	2.30
6.	Himachal Pradesh	—	—	0.10	0.10	0.06	0.16
7.	Jammu & Kashmir	0.29	0.35	0.20	0.52	—	0.35
8.	Karnataka	1.44	2.15	1.89	2.65	2.00	3.00
9.	Kerala	1.19	2.80	0.96	2.03	1.02	1.59
10.	Madhya Pradesh	2.5	3.52	2.36	4.01	1.95	3.86
11.	Maharashtra	0.99	1.49	2.46	2.31	2.28	3.16
12.	Manipur	—	—	—	—	—	—
13.	Meghalaya	—	—	—	—	—	—
14.	Nagaland	—	—	—	—	—	—
15.	Orissa	1.06	2.83	1.21	1.76	—	0.79
16.	Punjab	0.13	—	—	—	—	—
17.	Rajasthan	5.74	9.69	6.07	10.07	4.33	9.38
18.	Tamil Nadu	1.40	1.75	1.21	1.69	1.77	2.54
19.	Tripura	0.10	0.12	0.10	0.11	—	0.08
20.	Uttar Pradesh	7.04	6.00	7.03	5.10	5.86	6.04
21.	West Bengal	—	—	—	—	0.06	
	TOTAL	28.32	36.33	31.36	37.40	24.97	38.08

ANNEXURE X.29 (*Concld*)

(Rs. Crores)

Sl. No.	State	Long term credit to State Governments out of NAC/NRC Fund for contribution to the share capital of Co-operation Credit Institutions					
		1982-83		1983-84		1984-85	
		Limits Sanctioned	Outstanding at the end of March	Limits Sanctioned	Outstanding at the end of March	Limits Sanctioned	Outstanding at the end of March
1	2	9	10	11	12	13	14
1.	Andhra Pradesh	0.49	11.72	0.40	8.74	0.40	7.97
2.	Assam	..	0.21	..	0.15	..	0.13
3.	Bihar	0.91	3.91	0.80	3.90	..	3.08
4.	Gujarat	0.35	4.62	0.31	3.81	0.21	3.29
5.	Haryana	1.46	9.16	1.25	8.46	0.92	8.34
6.	Himachal Pradesh	0.01	0.24	0.02	0.26	..	0.23
7.	Jammu & Kashmir	0.12	0.34	0.45	0.75	0.02	0.75
8.	Karnataka	0.76	7.36	0.24	6.49	0.27	6.75
9.	Kerala	0.88	6.68	0.56	6.42	0.10	5.86
10.	Madhya Pradesh	..	10.18	1.02	7.55	0.67	6.95
11.	Maharashtra	0.21	1.94	0.82	1.51	..	2.27
12.	Manipur	0.02	0.08	0.06	0.07	..	0.07
13.	Meghalaya	0.13	0.31	..	0.26	..	0.26
14.	Nagaland	..	0.01	..	0.01	..	..
15.	Orissa	1.44	11.25	0.72	10.36	0.68	9.83
16.	Punjab	0.73	7.31	1.30	7.17	1.00	7.40
17.	Rajasthan	2.27	14.29	1.16	13.83	1.10	13.20
18.	Tamil Nadu	0.32	10.39	0.28	9.06	0.34	6.49
19.	Tripura	0.10	0.70	0.10	0.72	0.15	0.76
20.	Uttar Pradesh	2.09	15.91	1.48	15.40	1.47	16.75
21.	West Bengal	0.41	11.48	0.21	10.36	0.16	9.13
	Total	12.70	128.08	11.18	115.28	7.49	109.51

Source: NABARD—Bulletin on Operations on Short, Medium Term Credit Limit Sanctioned by NABARD to State Co-operative Banks 1982-83 to 1984-85.

ANNEXURE X.30

CREDIT LIMITS SANCTIONED, MAXIMUM AMOUNT OUTSTANDING AND PERCENTAGE UTILISATIONS IN 1982-83, 1983-84 AND 1984-85—NABARD

FOR SEASONAL AGRICULTURAL OPERATIONS

(Rs. Crores)

	States	1982—83			1983—84			1984—85		
		Limits sanctioned	Max. out-standing	Percen-tage of utilisation	Limits sanctioned	Max. out standing	Percen-tage of utilisation	Limits sanctioned	Max. out standing	Percen-tage of utilisation
	1	2	3	4	5	6	7	8	9	10
1.	Andhra Pradesh	122.95	104.49	85.0	137.80	105.54	76.6	149.20	124.51	83.5
2.	Assam	..	..	..	..	..	..	..	..	..
3.	Bihar	18.65	13.34	72.0	16.05	15.09	94.0	29.58	24.30	82.1
4.	Gujarat	87.80	80.04	91.2	95.85	79.86	83.3	98.70	88.50	89.7
5.	Haryana	93.00	91.20	98.1	112.18	96.66	86.2	102.80	87.18	84.8
6.	Himachal Pradesh	..	..	..	0.57	0.57	100.00	0.16	0.16@	100.00
7.	Jammu & Kashmir	3.15	3.01	95.4	4.05	3.85	95.1	3.90	3.73	95.7
8.	Karnataka	51.75	47.38	91.6	67.20	51.52	76.7	67.20	43.44	64.6
9.	Kerala	39.75	38.05	95.7	41.20	35.20	85.4	42.70	38.25	89.6
10.	Madhya Pradesh	112.40	87.59	77.9	123.02	95.12	77.3	124.60	105.83	84.9
11.	Maharashtra	98.20	68.13	69.4	126.45	60.77	48.1	75.50	..	..
12.	Manipur	0.80	0.67	82.5	0.80	0.66	82.9	..	0.66	..
13.	Meghalaya	..	..	..	0.50	..	..	0.50	..	..
14.	Nagaland	0.40	0.28	70.0	0.40	0.40	100.00	0.40	0.40	100.00
15.	Orissa	58.10	54.30	93.5	61.55	50.28	81.7	63.40	56.61	89.3
16.	Punjab	126.70	112.16	88.5	136.15	106.44	78.2	144.20	118.76	82.4
17.	Rajasthan	78.25	67.97	86.8	85.40	62.68	73.4	84.15	77.36	91.9
18.	Tamil Nadu	42.40	37.22	87.8	48.20	39.79	82.6	62.95	54.43	86.5
19.	Tripura	0.40	0.40	10.00	0.40	0.30	75.0	0.40	0.30	75.0
20.	Uttar Pradesh	146.81	117.58	80.01	166.08	126.03	75.9	150.71	121.42	80.6
21.	West Bengal	38.30	14.56	38.0	20.50	11.37	55.5	30.65	3.63	11.8
22.	Union Territories	0.52	0.47	154.0	0.52	0.51	189.8	0.82	0.80	184.2
	All India	**1120.33**	**857.84**	**76.6**	**1244.87**	**942.63£** (802.63)	**75.7** (64.5)	**1232.52**	**950.27** (867.71)	**77.1** (70.4)

@ RS. 0.57-only to September 1984 outstanding on last year

£ All India maximum outstanding

Source: As in Annexure X.29

ANNEXURE X. 31

STATEWISE TERM CREDIT MOBILISED

DURING 1980—85 (SIXTH FIVE YEAR PLAN) UNDER I.R.D.P.

(Rs. Crores)

		Term Credit Mobilised in 1980—85 State						Per Capita
		Total	Percentage to the total	By co-operative Banks	Percentage to the Total	By Commercial Banks	Percentage to the Total	Term Credit (In Rs.)
1		2	3	4	5	6	7	8
1.	Andhra Pradesh	243.96	7.9	52.06	8.3	175.62	8.3	2,012
2.	Assam	61.09	2.0	15.85	2.5	36.02	1.7	1,992
3.	Bihar	300.12	9.8	26.81	4.3	250.67	11.9	1,561
4.	Gujarat	130.04	4.2	14.80	2.3	110.83	5.2	1,731
5.	Haryana	48.30	1.6	5.78	0.9	40.83	1.9	1,004
6.	Himachal Pradesh	28.62	0.9	0.39	0.1	28.21	1.3	1,330
7.	Jammu & Kashmir	23.24	0.7	3.06	0.5	13.10	0.6	1,437
8.	Karanataka	149.36	4.8	22.53	3.6	126.83	6.0	2,088
9.	Kerala	114.89	3.7	10.54	1.7	45.03	2.1	2,160
10.	Madhya Pradesh	335.79	11.0	52.35	8.3	214.20	10.1	32,55
11.	Maharashtra	225.39	7.3	48.85	7.8	128.60	6.1	2,342
12.	Manipur	0.21	0.0	0.03	0.0	0.18	0.0	48
13.	Meghalaya	..	..	..	..	..	..	..
14.	Nagaland	NA	NA	..	..	..	..	NA
15.	Orissa	129.52	4.2	49.62	7.9	75.32	3.6	1,405
16.	Punjab	74.00	2.4	2.05	0.3	59.36	2.8	1,870
17.	Rajasthan	134.10	4.4	42.00	6.7	59.05	2.8	1,890
18.	Sikkim	1.11	0.0	0.06	0.0	1.05	0.0	1,115
19.	Tamil Nadu	257.27	8.4	69.09	11.0	180.87	8.6	1,843
20.	Tripura	5.70	0.3	1.50	0.2	8.20	0.4	2,059
21.	Uttar Pradesh	730.50	23.8	206.13	32.8	500.61	23.8	2,128
22.	West Bengal	68.25	2.2	4.91	0.7	48.17	2.3	1,172
	Total States	3065.46	99.6	628.41	99.9	2102.75	99.5	1,881
23.	Union Territories	12.88	0.4	0.59	0.1	10.27	0.5	1,014
		3078.34*	100.00	629.00	100.0	2113.02	100.0	1,875

* Of the total term credit, the bankwise classification of the term credit is available for Rs. 2742 crores as some of the States and Union Territories have not furnished the complets break-up.

Source : Ministry of Agriculture & Rural Development — *Sixth plan Review on IRDP by Department of Rural Development.*

ANNEXURE X. 32

STATEWISE ASSISTANCE* SANCTIONED AND DISBURSED BY IDBI IN 1980—85

(Rs. Crores)

Sl. No.	State	Sanctioned Amount	Sanctioned Percentage to Total	Disbursed Amount	Disbursed Percentage to Total	Percentage utilisation (Col. 5 as percentage of Col. 3)
1	2	3	4	5	6	7
1.	Andhra Pradesh	1028.9	9.5	655.2	8.4	63.7
2.	Assam	85.3	0.8	59.7	0.8	70.0
3.	Bihar	269.5	2.5	611.2	2.0	59.8
4.	Gujarat	1203.0	11.1	877.7	11.3	73.0
5.	Haryana	347.5	3.2	265.3	3.4	76.3
6.	Himachal Pradesh	149.6	1.4	100.4	1.3	67.1
7.	Jammu & Kashmir	127.1	1.2	83.7	1.2	65.9
8.	Karnataka	753.6	7.0	652.4	8.4	86.6
9.	Kerala	294.4	2.7	251.9	3.2	85.6
10.	Madhya Pradesh	519.0	4.8	363.6	4.6	70.1
11.	Maharashtra	1444.5	13.4	1068.6	13.7	74.0
12.	Manipur	4.3	0.0	5.8	0.1	134.9
13.	Meghalaya	12.4	0.1	11.8	0.2	95.2
14.	Nagaland	6.9	0.1	6.5	0.1	94.2
15.	Orissa	530.3	4.9	355.8	4.5	67.1
16.	Punjab	353.6	3.3	263.3	3.3	74.5
17.	Rajasthan	496.1	4.6	398.9	5.1	80.4
18.	Sikkim	4.8	0.0	2.0	0.0	41.7
19.	Tamil Nadu	1074.7	9.9	911.1	11.7	84.8
20.	Tripura	6.4	0.1	7.1	0.1	118.9
21.	Uttar Pradesh	1239.7	11.5	637.4	8.2	51.4
22.	West Bengal	529.1	4.9	380.0	4.9	71.8
23.	Union Territories	325.2	3.0	273.0	3.5	83.3
	Total	**10805.9**	**100.0**	**7792.4**	**100.0**	**72.1**

Source : Industrial Development Bank of India—*Operational Statistics of* 1984-85 (pages 16 and 17)

***Includes direct assistance (Project loans, underwriting gaurantees, soft loans TDF loans equipment finance), refinance and bills rediscounting assistance and excludes subscription to shares and bonds of financial institutions and Seed Capital Assistance.**

ANNEXURE X. 33

STATEWISE ASSISTANCE

SANCTIONED AND DISBURSED UNDER REFINANCE SCHEME TO SMALL SECTOR IN 1980—85

(Rs. Crores)

Sl. No.	State	Sanctioned Amount	Percentage to total	Disbursed Amount	Percentage to total	Percentage Utili-sation (Col. 5 as percent of Col.3)
1	2	3	4	5	6	7
1.	Andhra Pradesh	276.4	9.62	213.4	9.03	77.21
2.	Assam	28.3	0.98	26.6	1.12	93.92
3.	Bihar	126.8	4.41	66.5	2.81	52.52
4.	Gujarat	236.0	8.21	208.9	8.84	88.52
5.	Haryana	95.3	3.32	84.0	3.55	83.14
6.	Himachal Pradesh	48.8	1.70	34.5	1.46	70.70
7.	Jammu & Kashmir	56.1	1.95	46.6	1.97	83.01
8.	Karnataka	234.6	8.16	193.7	8.21	82.57
9.	Kerala	91.6	3.19	87.9	3.72	95.96
10.	Madhya Pradesh	121.4	4.22	107.0	4.53	88.14
11.	Maharashtra	357.6	12.44	273.1	11.57	76.37
12.	Manipur	1.8	0.06	3.8	0.16	211.11
13.	Meghalaya	7.7	0.27	8.0	0.34	103.90
14.	Nagaland	4.2	0.15	5.1	0.22	121.42
15.	Orissa	141.7	4.93	84.4	3.57	59.56
16.	Punjab	104.9	3.65	75.6	3.20	72.07
17.	Rajasthan	144.6	5.03	145.6	6.16	100.69
18.	Sikkim	1.4	0.05	0.4	0.02	28.57
19.	Tamil Nadu	295.3	10.28	261.5	11.10	88.55
20.	Tripura	5.2	0.18	5.7	0.24	109.62
21.	Uttar Pradesh	263.9	9.19	226.5	9.56	85.83
22.	West Bengal	94.2	3.28	80.2	3.39	85.14
23.	Union Territories	135.9	4.73	123.4	5.23	90.80
	Total	2873.7	100.00	2362.4	100.00	82.22

Source : Industrial Development Bank of India—*Operational Statistics of* 1984-85 *(page 125)*

Note: **14 States have been classified as industrially backward. These are : Andhra Pradesh, Assam, Bihar, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa, Rajasthan, Sikkim, Tripura and Uttar Pradesh.**

ANNEXURE X.34

STATEWISE TREND IN ASSISTANCE

SANCTIONED AND DISBURSED BY THE END OF MARCH 1985 BY ALL FINANCIAL INSTITUTIONS*

(Rs. Crores)

Sl. No.	State	Cumulative by the end of March 1985 Amount sanctioned	Percentage to Total	Amount disbursed	Percentage Percentage to Total	Utilisation (Col. 5 as per-cent of Col. 3)
1	2	3	4	5	6	7
1.	Andhra Pradesh	2135.04	8.3	1418.34	7.69	66.43
2.	Assam	230.69	0.9	163.73	0.89	72.77
3.	Bihar	808.99	3.2	525.10	2.85	64.90
4.	Gujarat	3155.76	12.3	2146.26	11.63	68.00
5.	Haryana	692.36	2.7	528.83	2.87	76.38
6.	Himachal Pradesh	218.61	0.9	155,25	0.84	71.02
7.	Jammu & Kashmir	213.61	0.8	159.86	0.87	74.84
8.	Karnataka	1906.73	7.5	1468.48	7.97	77.02
9.	Kerala	736.39	2.9	551.15	2.97	74.84
10.	Madhya Pradesh	1060.62	4.2	711.12	3.85	66.55
11.	Maharashtra	4452.34	17.4	3410.70	18.48	76.60
12.	Manipur	3.54	Neg	3.54	0.02	100.00
13.	Meghalaya	22.86	0.1	21.93	0.12	95.93
14.	Nagaland	15.41	0.1	11.02	0.07	71.51
15.	Orissa	919.84	3.6	507.60	2.75	55.18
16.	Punjab	789.88	3.1	636.90	3.43	80.62
17.	Rajasthan	1107.25	4.3	848.05	4.60	76.59
18.	Sikkim	9.07	Neg	4.07	0.02	44.97
19.	Tamil Nadu	2404.34	9.4	1867.81	10.12	77.68
20.	Tripura	12.13	Neg	10.56	0.05	87.06
21.	Uttar Pradesh	2289.74	9.0	1245.11	7.72	62.24
22.	West Bengal	1680.45	6.6	1894.39	6.96	76.44
23.	Union Territories	712.46	2.7	593.13	3.21	83.25
		a		b		Total

Source: Industrial Development Bank of India—*Operational Statistics of* 1984-85 (pages 168 and 169)

Notes: States classified as industrially backward are : Andhra Pradesh, Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa, Rajasthan, Sikkim, Tripura and Uttar Pradesh.

* Includes IDBI, IFCI, ICICI, LIC, UTI, GIC, IRBI, SFC, and SIDC.

a Includes assistance of Rs. 37 lakhs sanctioned for Bhutan.

b Includes Rs. 29 lakhs disbursed to Bhutan.

ANNEXURE X.35

STATE-WISE PROJECT FINANCE ASSISTANCE SANCTIONED TO SPECIFIED BACKWARD AREAS DURING JULY 1970—JUNE 1985

(Rs. Crores)

Sl. No.	State	Total Assistance	Assistance to backward areas	Percentage to Total	Percentage of (4) to (3)
1	2	3	4	5	6
1.	Andhra Pradesh	521.3	349.5	11.1	67.0
2.	Assam	54.3	54.3	1.7	100.0
3.	Bihar	75.8	21.5	0.7	28.4
4.	Gujarat	713.7	533.3 (201.8)	16.9 (9.6)	74.2
5.	Haryana	77.3	56.7	1.8	73.4
6.	Himachal Pradesh	31.2	81.2	1.0	100.0
7.	Jammu & Kashmir	37.7	87.7	1.2	100.0
8.	Karnataka	350.8	215.7 (134.1)	6.8 (8.7)	61.5
9.	Kerala	156.5	71.2	2.3	45.5
10.	Madhya Pradesh	165.0	153.0 (93.5)	4.8 (4.4)	92.7
11.	Maharashtra	424.7	240.6 (197.5)	7.6 (9.4)	56.7
12.	Manipur	0.5	0.5	Neg.	100.0
13.	Meghalaya	3.0	3.0	0.1	100.0
14.	Nagaland	0.5	0.5	Neg	100.0
15.	Orissa	266.9	92.3	2.9	34.6
16.	Punjab	163.1	94.5	3.0	57.9
17.	Rajasthan	209.6	159.0	5.0	75.9
18.	Sikkim	2.4	2.4	0.1	100.0
19.	Tamil Nadu	369.4	241.2 (95.6)	7.6 (4.5)	65.3
20.	Tripura	1.9	1.9	0.1	100.0
21.	Uttar Pradesh	787.0	658.5 (219.0)	20.8 (10.3)	83.7
22.	West Bengal	205.9	100.3	3.2	48.7
23.	Union Territories	79.9	40.7	1.3	50.9
	Total	4708.1	3159.5 (2108.6)		67.2

Source: Industrial Development Bank of India—*Operational Statistics of* 1984-85.

Note : Figures in brackets are exclusive of projects sanctioned assistance of more than Rs. 30 crores each.

ANNEXURE X.36

STATE-WISE ASSISTANCE* SANCTIONED TO SPECIFIED BACKWARD AREAS DURING JULY 1970—JUNE 1985

(Rs. Crores)

Sl. No.	State	Total assistance	Percentage to total	Assistance to backward Areas	Percentage to total
1	2	3	4	5	6
1.	Andhra Pradesh	1305.1	8.5	669.1	9.9
2.	Assam	133.4	0.9	106.8	1.6
3.	Bihar	415.6	2.7	156.5	2.3
4.	Gujarat	1968.8	12.8	876.5 (545.0)	13.0 (9.6)
5.	Haryana	470.6	3.0	133.6	2.0
6.	Himachal Pradesh	176.1	1.1	153.6	2.3
7.	Jammu and Kashmir	167.1	1.1	166.4	2.5
8.	Karnataka	1119.3	7.3	551.6 (520.0)	8.2 (9.1)
9.	Kerala	489.4	3.2	191.0	2.8
10.	Madhya Pradesh	638.8	4.1	367.9 (308.4)	5.5 (5.4)
11.	Maharashtra	2212.1	14.4	492.0 (448.9)	7.3 (7.9)
12.	Manipur	6.1	Neg.	6.1	0.1
13.	Meghalaya	18.2	0.1	15.6	0.2
14.	Nagaland	9.1	0.1	8.2	0.1
15.	Orissa	634.6	4.1	185.9	2.7
16.	Punjab	488.3	3.2	181.2	2.7
17.	Rajasthan	670.8	4.4	381.3	5.6
18.	Sikkim	5.1	Neg.	5.1	0.1
19.	Tamil Nadu	1540.3	10.0	622.5 (176.9)	9.2 (8.4)
20.	Tripura	9.5	0.1	9.5	0.1
21.	Uttar Pradesh	1604.1	10.4	912.5 (473.0)	1305 .(8.3)
22.	West Bengal	819.1	5.3	282.5	4.2
23.	Union Territories	497.9	3.2	273.4	4.1
	Total	15399.8**		6748.8 (5697.9)	

* Comprising direct finance, refinance and bills rediscounting assistance sanctioned during July 1964—June 1985.

** Including assistance of Rs. 0.4 crore sanctioned to Bhutan.

Note : Figures in brackets are exclusive of 8 projects sanctioned project finance assistance of more than Rs. 30 crores each.

***Source :* Industrial Development Bank of India—*Operational Statistics of* 1984-85, pp. 16 to 18.**