

INTRODUCTION

1.1 This Finance Commission is the tenth since the commencement of the Constitution. The Order of the President [SO No.431 (E) dated 15th June, 1992], constituting the Commission is reproduced below :

"In pursuance of the provisions of article 280 of the Constitution of India and of the Finance Commission (Miscellaneous Provisions) Act, 1951 (33 of 1951), the President is pleased to constitute a Finance Commission consisting of Shri Krishna Chandra Pant as the Chairman and the following four other Members, namely:-

1. Dr. Debi Prosad Pai, Member of Parliament, Member
2. Shri B.P.R. Vithal Member
3. Dr. C. Rangarajan Member
4. Shri M.C. Gupta Member Secretary

2. The Chairman and other members of the Commission shall hold office from the date on which they respectively assume office upto the 30th day of November, 1993.

3. The Commission shall make recommendations relating to the following matters :

- (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 Chapter I of Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
- (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article.

4. In making its recommendations, the Commission shall have regard, among other considerations, to:-

- (i) the objective of not only balancing the receipts and expenditure on revenue account of both the States and the Central Government, but also generating surplus for capital investment and reducing fiscal deficit;
- (ii) the resources of the Central Government and the demands thereon, in particular, on account of expenditure on civil administration, defence and border security, debt-servicing and other committed expenditure or liabilities;
- (iii) the maintenance and upkeep of capital assets and maintenance expenditure on plan schemes to be completed by 31st March, 1995 and the norms on the basis of which specified amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;
- (iv) the requirements of States for modernization of administration, e.g. computerization of land records and providing faster channels of communication upto and

above district level, and for upgrading the standards in non-developmental sectors and services, and the manner in which such expenditure can be monitored;

- (v) the revenue resources of the States for the five years commencing on 1st April, 1995, on the basis of the levels of taxation likely to be reached in 1993-94, targets set for additional resource mobilization for the Plan and the potential for raising additional taxes;
- (vi) the requirement of the States for meeting the Non-Plan revenue expenditure also keeping in view the potential for raising additional taxes;
- (vii) the tax efforts made by the States;
- (viii) the need for ensuring reasonable returns on investment by the States in irrigation projects, power projects, state transport undertakings, departmental commercial undertakings, public sector enterprises, etc.; and
- (ix) the scope for better fiscal management consistent with efficiency and economy in expenditure.

5. The Commission may suggest changes, if any, to be made in the principles governing the distribution of :-

- (a) the net proceeds in any financial year of the additional excise duties leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, in replacement of the sales tax levied formerly by the State Governments; and
- (b) the grants to be made available to the States in lieu of the tax under the repealed Railway Passenger Fares Act, 1957.

6. In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 1971 in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.

7. The Commission may review the present scheme of Calamity Relief Fund and may make appropriate recommendations thereon.

8. The Commission may make an assessment of the debt position of the States as on 31st March, 1994, and suggest such corrective measures as are deemed necessary also keeping in view the financial requirements of the Centre.

9. The Commission shall make its report available by the 30th November, 1993, on each of the matters aforesaid, covering a period of five years commencing on the 1st day of April, 1995. The Commission shall indicate the basis on which it has arrived at its findings and make available the State-wise estimates of receipts and expenditure."

1.2 Shri K.C.Pant served as the full-time Chairman for the entire period of the Commission. Dr. Debi Prosad Pai and Shri B.P.R.Vithal served for the entire period as part-time Members. Dr.C.Rangarajan was also a part-time Member, until he resigned with effect from 21st December, 1992 to take up his new

assignment as Governor of the Reserve Bank of India. Shri M.C.Gupta, Member Secretary, relinquished charge of his office on 31st January, 1994 to take over as Chief Secretary to the Government of Haryana.

1.3 Shri Manu R.Shroff was appointed by the President vide his Order SO No. 800(E) dated 14th October, 1993 in the vacancy caused by the resignation of Dr.Rangarajan. Shri Shroff assumed charge the same day.

1.4 The post of Member Secretary, which lay vacant since 31st January, 1994, was filled up by Shri Arun Sinha who was appointed by an order dated 1st March, 1994. Shri Sinha assumed charge of his office the same day.

1.5 Information sought by the Commission from the Centre and the States was slow in coming. Even by November, 1993 many States had not submitted forecasts or memoranda to the Commission. Besides, the vacancy caused by the resignation of Dr.Rangarajan on 21st December, 1992 was not filled till 14th October, 1993. The Commission at that stage requested the President for extension of time for submission of the report up to 30th June, 1994 and the same was granted by the President. The order is reproduced at Annexure I.1.

1.6 The Commission did not receive the forecasts/memoranda from all the States even till the last week of May, 1994. The working of the Commission's secretariat was disrupted when the Member Secretary, who had been with the Commission right from the beginning, was transferred at the end of January, 1994. In the meantime the Central and State Budgets having been presented for the year 1994-95, it became necessary to take a fresh look at the resources of the Centre and the States. For all these reasons, the Commission requested a further extension of its term up to 30th November, 1994 and the same was granted by the President. The order is reproduced at Annexure I.2.

1.7 The first meeting of the Commission was held on 18th June, 1992. The Commission issued a press note in the month of July, 1992 inviting the general public to offer its views on the issues before the Commission. The Chairman of the Commission sought the views of Union Ministers, Chief Ministers, Members of Parliament, Members of State Legislatures, eminent economists and other prominent citizens. In response, close to two hundred memoranda were received by the Commission. Besides, a number of individuals and organizations met the Commission during the time of its visits to States. A list of those from whom memoranda were received is given at Annexure I.3. A list of those who met the Commission is given at Annexure I.4. We are thankful to those who submitted memoranda or had discussions with us.

1.8 A conference of all State Finance Ministers was organized at New Delhi on 27th August, 1992, which proved very helpful to us in our work. We had a round of discussions with representative interest groups including Union and State Ministers, Members of Parliament, leaders of political parties, chairmen and senior office bearers of chambers of commerce and industry, chiefs of public sector organizations, leaders of trade unions and of employees' associations, agriculturists, agricultural experts, economists, engineers, educationists, journalists and media persons. Our interaction with these groups gave us valuable insights into their perception of issues before the Commission. A list of such meetings is at Annexure I.5.

1.9 The Member Secretary had a series of discussions with the chief secretaries/finance secretaries, heads of department and senior officers of State Governments. These discussions were very informative and useful to the Commission in its deliberations.

1.10 We had requested the Comptroller and Auditor General to issue directions to Accountants General of the States to provide a critical appraisal of State finances and to assist the Commission during its visits to the States. We wish to record our appreciation of the cooperation given to us by the Comptroller and Auditor General and the Accountants General in the States.

1.11 The Commission had a meeting with the Governor of the Reserve Bank of India. In addition, meetings were also held with Member Secretary, Planning Commission and secretaries in the Union Ministries/Departments of Power, Surface Transport, Textiles, Fertilizer, Education, Rural Development, Defence, Home Affairs and Chairman and Member (Traffic) of the Railway Board. Discussions were also held with Finance Secretary and Secretary (Expenditure) along with the Chairmen of the Boards of Direct Taxes and of Excise and Customs. We had a detailed discussion regarding the financing of calamity relief expenditure with the Relief Commissioner in the Ministry of Agriculture, and representatives of State Governments. We are thankful to all of them for helping us in our work. A list of the meetings is at Annexure I.6.

1.12 The visits of the Commission to the States commenced with Punjab on 7th September, 1993 and ended with Bihar on 20th August, 1994. The dates of discussions with different States are at Annexure I.7. We found the visits to the States of great value. They enabled us to have free, frank and detailed discussions with the Chief Ministers, their cabinet colleagues and officials. The visits also provided us with an opportunity to hold discussions with leaders of the opposition, eminent persons, economists, and representatives of political parties, chambers of commerce and industry, employees' associations and the media. The States arranged field visits to enable us to acquire first hand knowledge of different projects and of the ground realities. We are grateful to all the State Governments for the courtesies extended to us. We are also grateful to the media which took keen interest in our work and helped us in appreciating local problems.

1.13 The National Institute of Public Finance and Policy (NIPFP) organized a seminar on issues before the Commission which was attended by experts from the Central and State Governments and academe. We would like to place on record our appreciation of the efforts of NIPFP and of the contributions made by the participants.

1.14 We commissioned a number of studies. The Institute of Public Enterprises, Hyderabad undertook a study on 'Financial Contribution and Requirements of State Level Public Enterprises in India'; Professor Hemlata Rao of the Institute for Social and Economic Change, Bangalore on 'Taxable Capacity, Tax Efforts and Forecasts of Tax Yield of States'; Ms. Laxmi Reddy on 'Girls' Education and Role of Non-Governmental Organizations' and a team of experts led by Professor K.L. Krishna of the Delhi School of Economics on 'Measuring Inter-State Differentials in Infrastructure'. We are grateful to all of them.

1.15 We also constituted three advisory groups on State Electricity Boards, State Transport Undertakings and Central Public Sector Undertakings. The detailed composition of the advisory groups is given at Annexure I.8. The reports of the advisory groups of experts contributed substantially to our understanding of their respective areas of study.

1.16 The Commission is thankful to the National Informatics Centre which provided the computer facilities in the Commission's Office. In particular, we would like to thank Shri V.M.Raman, our Computer Programmer.

1.17 Our Terms of Reference required meticulous and elaborate collection of information and its processing. We were fortunate in having a harmoniously working, dedicated team of officers and other members of the staff, advisers and consultants who ungrudgingly put in hard work for long hours and gave of their best. At the end of June 1994, at a crucial stage in our work, Professor Atul Sarma, Economic Adviser, who had been with us

since the beginning, left to take up another assignment. In his place, Professor D.K.Srivastava of Benaras Hindu University joined us as Economic Adviser. We are grateful to him for having done so at short notice, regardless of the personal inconvenience.

1.18 We would like to place on record our appreciation of the valuable and wide ranging work done by our officers, advisers and consultants who carefully guided the staff and painstakingly scrutinised, sifted and analysed the voluminous material received by us and presented options for consideration of the Commission. The officers included Shri Kamal Pande, Shri M.N.Prasad, Smt.Neelam Nath, Joint Secretaries and Shri Laxman Das, Director. The excellent contribution of these officers and, at the technical level, of Professors Atul Sarma and D.K.Srivatsava was of immense benefit to us and proved crucial to our work. Apart from providing excellent technical support, Shri Haseeb Drabu, Consultant, worked meticulously and untiringly for the preparation of the Report. Our advisers/consultants S/Shri L.C.Gupta, V.S.Jafa, G.N.Tandon, Bharat Karnad, N.I.Vyas and

T.S.Rangamannar likewise gave us the benefit of their rich experience and knowledge of their respective areas of work.

1.19 We are also grateful to our Joint Directors, Shri Satish Kumar and Shri Pushp Raj Singh, and to Deputy Directors S/Shri H.S.Puri, S.R.Dongre, H.M.Dass and R.K.Gaur who did an excellent job of the work allotted to them. We would like to make a special mention of S/Shri A.K.Raina, Deputy Director and B.K.Aggarwal, Assistant Director who carried on their shoulders much more than their share of work. We also acknowledge the first rate work put in by S/Shri S.Roy, S.S. Sharma, Radhey Shyam, R.N.Tiwari, and T.C.Aggarwal Assistant Directors, and all other staff members including Superintendents, Private Secretaries, Personal Assistants, Economic Investigators, Technical Assistants, Computers, Stenographers, Cashier, photo-copy operators, Clerks and Class D employees without whose untiring support it would not have been possible to produce this report. Our special thanks are due to our personal staff who worked unsparingly without a thought to themselves.