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REPORT

OF

THE FINANCE COMMISSION

1952

PRINTED IN INDIA BY THE MANAGER
GOVT. OF INDIA PRESS, NEW DELHI, [illegible]

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CHAPTER I

Introductory

Appointment of the Commission.—The President is required under Article 280(1) of the Constitution to constitute within two years from the commencement of the Constitution and thereafter at the expiration of every fifth year, or at such earlier time as he may consider necessary, a Finance Commission consisting of a Chairman and four Members appointed by him. By an Order dated the 22nd November 1951, the President constituted a Commission consisting of the following Members:—

Chairman

Shri K. C. Neogy.

Members

Shri V. P. Menon.

Shri Justice R. Kaushalendra Rao.

Dr. B. K. Madan.

Shri M. V. Rangachari, Member-Secretary.

The Chairman and Members of the Commission assumed office on the 30th November 1951. Shri V. P. Menon resigned his office as Member of the Commission on the 18th February 1952 and the President appointed Shri V. L. Mehta in his place.

The Chairman and Members of the Commission were appointed for a period of one year ending the 30th November 1952. This period was subsequently extended by one month.

2. *Functions of the Commission.*—Under Article 280 of the Constitution the Commission are charged with the duty of making 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 the provisions of 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;

(c) the continuance or modification of the terms of any agreement entered into by the Government of India with the

Government of any State specified in Part B of the First Schedule under clause (1) of Article 278 or under Article 306; and

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

The provisions of the Constitution bearing on the functions of the Finance Commission are given in Appendix I.

3. Under Article 273(3) read with Article 270(4)(b) and the proviso to Article 275(2) of the Constitution, after a Finance Commission has been constituted, the President has to take into account the recommendations of the Commission before making an Order prescribing grants-in-aid in accordance with the provisions of those articles. A formal request from the President to make recommendations to him in regard to these grants was communicated to us on the 6th April 1952. The communication is reproduced below:

"I am directed to state that the President has been pleased to decide that the Commission should be formally requested to make recommendations to him in regard to—

(a) the sums to be prescribed by him as grants-in-aid of the revenues of the States of Assam, Bihar, Orissa and West Bengal in lieu of assignment of any share of the net proceeds in each year of the export duty on jute and jute products to these States in accordance with the provisions of article 273 of the Constitution; and

(b) the States in need of assistance and the sums payable to such States as grants-in-aid of their revenues under the substantive portion of clause (1) of Article 275 of the Constitution.

I am to convey the decision of the President to the Commission for such action as may be necessary."

4. *Powers and Procedure.*—Under sub-clauses (2) and (4) of Article 280 of the Constitution, the qualifications which shall be requisite for appointment as Members of the Commission and the manner in which they shall be selected have to be determined by Parliament by law and the Commission shall have such powers in the performance of their functions as Parliament may by law confer on them. The Finance Commission (Miscellaneous Provsions) Act, 1951, enacted in accordance with these provisions, is reproduced in Appendix II.

5. The Constitution authorises the Commission to determine their procedure, while the Finance Commission (Miscellaneous Provisions) Act, 1951, has conferred on the Commission all the powers of a Civil Court under the Code of Civil Procedure, 1908. The Commission

have also been empowered to require any person to furnish information on such points or matters as, in the opinion of the Commission, may be useful for, or relevant to, any matter under the consideration of the Commission. The powers conferred on the Commission are set out in detail in Section 8 of the Act mentioned earlier.

6. The Commission prescribed their own rules of procedure under the powers vested in them. Among other things, these rules provided that the Commission shall decide from time to time whether their meetings with representatives of State Governments or members of the public should be held in public or private session. We felt that, in the earlier stages of the working of the Commission, at any rate, no rigid formality should be introduced into the procedure and that it would facilitate a full and frank discussion if the meetings were, as far as possible, held in private session. In the latter view the Chief Ministers of the State Governments, whom we generally consulted at the outset of our discussions in the respective States, also concurred. Our discussions with Ministers and other representatives of State and Central Governments were, therefore, held in private session. The discussions with certain Chambers of Commerce in Calcutta and Bombay were held in public.

7. *Provisional Recommendations.*—At a very early stage of our work we had to consider the question of making provisional recommendations to the President in respect of matters in which, after the appointment of a Finance Commission, the Constitution requires him to take into account their recommendations before making an Order. Pending our final recommendations we proposed that in order to avoid dislocation to the finances of the States which were receiving a share of income-tax or grants under one or other of the provisions of the Constitution the position as existing in 1951-52 should be maintained for the year 1952-53 also. We added the condition that any decisions taken on our final recommendations should be given effect to from the year 1952-53. We also recommended that the grants made to some of the States specified in Part A* of the First Schedule to the Constitution, in which certain territories of former Indian States have been merged, on the same basis as some States specified in Part B* of the First Schedule receive grants under sub-clause (1)(b) of Article 278 of the Constitution might also be continued during 1952-53, subject to the condition that they were to be treated as provisional and readjusted in the light of any decisions that might be taken on our final recommendations in regard to financial assistance to these States. Our report, dated the 16th December 1951, containing these recommendations is given in Appendix III. These recommendations were accepted by the President and the formal Order giving effect to them, where necessary, was made by him on the 19th April 1952.

* Herein after referred to as Part A and Part B States respectively.

8. *Method of Enquiry.*—As part of the preliminary work in connection with the appointment of the Commission the Ministry of Finance addressed the Governments of the Part A States on the 22nd September 1951 requesting them to prepare their case for submission to the Commission on the various matters to be considered by them. After the Commission had been constituted we addressed a similar enquiry to the Governments of the Part B States on the 14th December 1951. At a later stage, we invited the views of the State Governments on the subject of sharing Union excises between the Centre and the States and the distribution of the States' share among them.

9. On the 19th February 1952 we issued a Press Note inviting suggestions of the public in regard to the distribution of the net proceeds of income-tax between the Union and the States and the allocation of the States' share among them and the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India. We requested the State Governments to assist us by giving the widest publicity to this note. We also circulated copies of the note to the editors of important financial and commercial journals, Chambers of Commerce, University Departments of Economics and a number of individuals who, in our view, could help us with their suggestions. The general communications addressed to the States and the Press Note issued are reproduced in Appendix IV. We also give in Appendix V a list of the supplementary points on which we asked for information from the State Governments.

10. We received from the State Governments detailed memoranda giving the information called for and setting out their views on the various matters to be considered by us. These memoranda were of great assistance to us and we were also readily furnished with whatever supplementary information we required. We received from certain Chambers of Commerce and a number of individuals memoranda giving their views, which we have carefully studied and taken into account.

11. We had occasion to avail freely of the facilities in the libraries of the Delhi University, the Indian Council of World Affairs, the Federation of Indian Chambers of Commerce and Industry and the Information Offices of some of the foreign Embassies in New Delhi. We desire to record our sense of appreciation for this help. We also had to obtain information from a number of firms and individuals and their ready response facilitated our task.

12. *Visits to States.*—We visited all the sixteen States between April 1952 and September 1952 and had discussions with the State Governments and their senior officers. We invariably met the Chief Ministers and the Finance Ministers, while in a number of States

we had the opportunity of meeting other Ministers as well. We met the Finance, Development and other Secretaries and senior officers in charge of various departments. The discussions with the State Governments were largely on the basis of the memoranda submitted by them. These had the advantage of enabling us to appreciate their problems and needs more vividly than was possible from a formal document. Some of us also visited a few "scheduled" and border areas in certain States and several institutions connected with development and welfare work. We would like to place on record our deep sense of obligation to the State Governments and their officers for the ready assistance given to us in carrying out our work and for the promptness with which our requests for information were met. The dates of our meetings with the State Governments are given in Appendix VI.

13. We held two public sittings, one in Calcutta on the 13th May 1952 when we met the representatives of the Indian Chamber of Commerce and Industry, the Bharat Chamber of Commerce, the Eastern Chamber of Commerce and the Bengal National Chamber of Commerce, and the other in Bombay on the 6th June 1952 when we met the representatives of the Indian Merchants' Chamber. The representatives of the Bihar Chamber of Commerce met us in New Delhi while the representatives of the Rajasthan Chamber of Commerce and the Jaipur Chamber of Commerce and Industry met us in Jaipur.

14. During the course of our visits to the States we had informal discussions with the Commissioners of Income-Tax concerned. We also met the Accountants General of the States, whom the Comptroller and Auditor General had very kindly asked to assist us.

15. *Discussions with Central Ministries.*—On our return after completing our visits to the States we had discussions with the Secretaries and senior officers of the Central Ministries of Finance, Home Affairs, Education, States, Commerce and Industry, Rehabilitation, Food and Agriculture, Defence, Transport, Works, Housing and Supply and Natural Resources and Scientific Research. We also had a general discussion with the Union Finance Minister. Our thanks are due to the Finance Minister and the officers of the Central Ministries for the ready assistance given to us.

16. *Inadequacy of data.*—While the Central and State Governments made a great deal of material available to us, we consider it our duty to mention that we felt somewhat handicapped by the lack or inadequacy of factual and statistical data in regard to certain matters. This related in particular to national income, the structure and incidence of taxation,—Central, State and Local—the standards and availability of social services in the various States, the distribution of responsibility in certain spheres between the States and local bodies and so on. We realise that this is only part

of the general problem of the want of adequate economic and financial data in this country and that in the case of the more backward of the former Indian States statistics regarding the past may be almost impossible to obtain at the present stage. Later, we are making some recommendations in regard to the collection of current data to be made available to the Finance Commissions in future. In this connection we would recall the suggestions made by the Expert Committee on the Financial Provisions of the Union Constitution that Government should make necessary arrangements without delay for the collection of certain essential data and statistics.

17. *Some special problems of Part B States.*—We should like, at this stage, to mention an important point which arose in our discussions with the Part B States. It was represented by some of them that we should enquire into their grievances in regard to the federal financial integration agreements entered into with them by the Central Government. We carefully considered this point and came to the conclusion that it would not be appropriate for the Commission to deal with the agreements at this stage. Under Articles 278 and 306 of the Constitution, the President is empowered to terminate or modify these agreements only after the expiration of five years from the commencement of the Constitution. Even if we were to make any recommendations affecting the agreements now, the President would not be in a position till then to take action on the recommendations. Further, we feel that for the purpose of the proviso to clause (2) of Article 278 of the Constitution any review of the working of these agreements can be usefully undertaken only after they have been in operation for a reasonable period of time.

18. The agreements with four of the Part B States *viz.*, Saurashtra, Madhya Bharat, Rajasthan and Patiala and East Punjab States Union contain a special provision which is reproduced below:—

> "There is need for assistance to the State in connection with the internal integration of its administration and services and particularly in relation to its development in different directions, having regard to the fact that the State is backward in several respects as compared with Part A States. The Government of India will* undertake a systematic enquiry into this problem with a view to rendering financial and technical assistance at the earliest opportunity. It will not be enough if as a result of federal financial integration the State is treated in the matter of grants and other forms of assistance in exactly the same way as Part A States."

* The word "must" is used in the agreement with Saurashtra.

Our attention was drawn to this provision by the above mentioned States. One of them, namely, Saurashtra, expressed the fear that, unless this Commission had the necessary power and undertook the responsibility for this enquiry, any recommendations that they might make in regard to that State on the basis of principles applicable to Part A and other Part B States might prejudice the special enquiry on which the State Government relied for financial and technical assistance to remedy the State's backward condition. We explained to the representatives of the State Government, during our preliminary discussions with them, that the Commission had a duty cast upon them by the President to determine which of the States were in need of assistance and make recommendations to him in regard to the sums to be given as grants-in-aid to such States, and that in assessing the needs of the State we would take into account the special problems of Saurashtra including those created by the formation of the Saurashtra Union and the subsequent federal financial integration. This did not, however, seem to satisfy the State Government, and the Chief Minister addressed a letter on the subject to the Chairman, which is reproduced in Appendix VII. We would invite special attention to paragraphs 2, 3 and 5 of that letter. The State Government have expressed the view that it would be against the interests of the State to enter into a discussion of their needs with the Commission unless the enquiry contemplated by the agreement was conceded. Merely because of the caveat entered by the State, we could not refrain from enquiring into its needs as we had to discharge the duty placed upon us by the President to make recommendations to him in regard to all States in need of assistance. We have, therefore, enquired into the needs of Saurashtra, as of all the other States, by standards and criteria which we have applied without discrimination.

19. *Commission's approach to the problem.*—It will be convenient if, before dealing with the individual matters in regard to which we have to make recommendations, we set out briefly our approach to the problem of adjustments between Central and State revenues. The States laid before us an impressive case for increased assistance to meet their growing needs and our discussions with the State Governments have left us in no doubt about the imperative need for a substantial augmentation of the revenues now available to them. We had, however, to take into account not merely the needs of the States but the ability of the Centre as well to assist the States by the transfer of a larger portion of its revenues. It is unnecessary for us to emphasise that the prosperity of the States must rest on the solid foundation of a reasonably strong and financially stable Centre. Nor need the point be laboured that while the States have large and expanding responsibilities for the welfare and development of the people the capacity of the Centre to make additional

resources available is conditioned both by the amount of revenue it can raise and by its own essential needs, which, in the ultimate analysis, are the needs of the country as a whole.

20. The plan of assistance which we have drawn up envisages a substantial transfer of resources from the Centre to the States. We have used the methods both of devolution of revenue and grants-in-aid but have relied substantially on the devolution of revenue for securing this transfer. In doing so we believe we are meeting the general desire of the States themselves. The method has also the advantage of linking the revenues of the States directly with those of the Centre, so that both share in whatever elasticity the revenue that is divided between them possesses. In our proposals for the devolution of revenue we have widened the field of division by recommending the division of a few excises in addition to increasing somewhat the States' share in the divisible pool of income-tax. An increase in the number of divisible taxes also makes it possible to diversify the basis of distribution and achieve a balanced scheme which would benefit all the States. We have recommended general grants-in-aid to such of the States to whom our scheme for the devolution of revenue does not provide adequate resources. We have also recommended grants-in-aid to some of the less developed States to enable them to make some progress in one of the important social services of national interest.

21. We would like to emphasise that our scheme should be considered as an integrated whole. Any modifications in the individual recommendations would affect the balance of the scheme and we have no doubt that this will be borne in mind in taking action on our recommendations.

22. In drawing up the scheme of assistance we have kept three main considerations in view. Firstly, the additional transfer of resources from the Centre must be such as the Centre could bear without undue strain on its resources, taking into account its responsibility for such vital matters as the defence of the country and the stability of its economy. Secondly, the principles for the distribution of revenues between the States and the determination of grants-in-aid must be uniformly applied to all the States. Lastly, the scheme of distribution should attempt to lessen the inequalities between States.

23. During the course of discussions a number of State Governments drew our attention to the finance required for meeting expenditure on capital schemes. We are primarily concerned with the distribution of revenues between the Centre and the States and the determination of grants-in-aid of the revenues of the States, which

have to come from Central revenues. The capital needs both of the Centre and the States have to be met largely from borrowed funds and no devolution of revenue or grants-in-aid which we could suggest would, in present circumstances, be able to satisfy such needs. We are, therefore, making no recommendations in regard to grants for meeting the capital requirements of the States.

24. *Some special points made by States.*—Some of the State Governments also mentioned to us certain handicaps in expanding their revenue under which they laboured as a result of Central policy. Some of them pointed out that under the Central Mining Rules the royalty which they could obtain on minerals exploited in their territories was reduced and thereby, to some extent, they suffered a loss of revenue. The Government of Assam complained against the high price fixed for petrol in the State, although the State was the only producer of motor spirit, and they contended that this high price reduced the margin available to them for the levy of sales taxes on this commodity. The Governments of Orissa and Madhya Pradesh stated that the prices paid to them in the past for the rice supplied by them to the deficit States was much lower than the competitive price that could have been obtained and that to the extent to which this reduced the income of the people of the State it restricted the taxable capacity available to the State Government. The Government of Travancore-Cochin complained that they were not receiving a fair price for the monazite sands supplied by them. We have brought some of these complaints to the notice of the Central Ministries. We do not make any recommendations on these isolated matters as they do not fall within the general scope of our work.

25. *Scheme of the Report.*—The scheme of the Report may now be briefly indicated. In Chapter II we give an account of the evolution of financial relations between the Centre and the units, outlining the changes in the constitutional basis of these relations from time to time as well as the discussions which preceded them. In the third chapter we attempt an analysis of the significant trends in Central and State finances, including outstanding changes in the composition of the revenue and expenditure from one period to another. Thereafter, we deal in separate chapters with the specific matters on which we make recommendations. Thus in Chapter IV we deal with the question of the distribution and allocation of income-tax, and in the fifth chapter with the division of Union excises which we also recommend. Chapter VI treats of grants-in-aid in lieu of the jute-export duty which form a category of grants-in-aid by themselves. In Chapter VII we go on to formulate a few principles which should govern grants-in-aid of the revenues of States before setting out in Chapter VIII, our own proposals for grants-in-aid. Chapter IX gives a summary of our recommendations and in the final chapter we

make certain suggestions for the setting up of machinery for the collection and collation of material for the use of the Finance Commission in future. The appendices reproduce certain communications and give subsidiary information and statistical tables of interest, bearing on our work.

26. *Miscellaneous.*—Throughout this report references to Part A States are to the States including the "merged areas" and references to the Part B States should be read as excluding the State of Jammu and Kashmir.

CHAPTER II

Evolution of Financial Relations between the Centre and the States

Four periods.—For the purposes of our review the history of financial relations between the Centre and the units in India may be divided broadly into four periods: the period of about sixty years before the coming into effect of the Government of India Act, 1919; the period from 1st April 1921 to 31st March 1937, during which the Government of India Act, 1919, remained in force; the period covered by the Government of India Act, 1935, namely, from 1st April 1937 to the coming into force of the Constitution of India in early 1950; and the period subsequent to the commencement of the Constitution.

First Period

2. *Financial Devolution and "Divided Heads"*.—The first period witnessed a gradual process of progressive devolution of financial authority from the Central Government to the Provincial Governments. In the earlier stages of this period, the system of government was highly centralised and the Central Government retained complete control over provincial revenue and expenditure. The financial authority of Provinces was enlarged, at first through fixed grants for the upkeep of definite services and later by the transfer to them of the whole or part of specified heads of revenue, to stimulate their interest in collections as well as to encourage economy in expenditure. Thus developed a system of allocation known as "provincial financial settlements". The settlements, to start with, were reviewed quinquennially but were later made quasi-permanent and then permanent in 1912. Of particular interest in these arrangements was the system of "divided heads" of revenue evolved by gradual stages. Under the system, the Centre retained the entire profits of the commercial departments and the proceeds of revenue whose *locale* was no guide to its true incidence, such as the net receipts from customs, salt and opium. As the income derived from these sources was not sufficient to cover the central expenditure, other sources of revenue including income-tax were divided between the Central and Provincial Governments. The Central Government retained a proportion—fixed in the case of each Province, but not uniform as between the Provinces—of the proceeds of the main heads of revenue collected in the Provinces, based on an assessment of the respective needs of the Provinces. In practice, since no definite standards of needs had been evolved, allocations to the Provinces were largely a result of history. The revenue from "divided heads", being insufficient to meet

the needs of the Provincial Governments, was supplemented by means of fixed cash assignments, recurring as well as non-recurring, which continued to remain an important feature of the system.

Second Period

3. *Separation of Sources of Revenue.*—The Montagu-Chelmsford Report on Constitutional Reforms, which led to the passing of the Government of India Act, 1919, sought to secure for the Provinces a greater measure of financial autonomy by abolishing the "divided heads" and effecting a complete separation between the central and provincial heads of revenue. At the time the heads which were divided in all or some of the Provinces were land revenue, stamps, excises, income-tax and irrigation receipts. Of these, income-tax and general (or commercial) stamps were to be made entirely central receipts; and excise, judicial stamps, land revenue and irrigation receipts were to be given wholly to the Provinces. With all sources of revenue completely distributed on the lines proposed, it was estimated that there would remain a large deficit in the Government of India budget. This led to the proposal in the Report that the Provinces should make contributions to the Government of India.

4. *Provincial Contributions.*—The Financial Relations Committee presided over by Lord Meston was appointed to advise on the amounts of provincial contributions, and also on the claims of Bombay to a share of the proceeds of income-tax. The Meston Committee reported in March 1920. While recognising that it would not be possible permanently to exclude Provincial Governments from some form of direct taxation upon the industrial and commercial earnings of their people, the Committee advised against the division of income-tax with the Provinces. They recommended that general stamps be made provincial for financial and administrative reasons. The Committee proposed a scheme of initial contributions and of standard contributions to be attained over a period of seven years. The standard contributions, which were based on the relative taxable capacity of the Provinces and other economic factors, never came into operation. The initial contributions were computed on the increased spending power of each Province resulting from the new scheme of distribution, *i.e.*, the additional income which each Province would acquire on the separation of the sources of revenue. The scheme of contributions was subjected to criticism from various quarters. Some Provinces disliked the initial contributions, others the standard contributions, and industrial Provinces like Bombay were opposed to the whole basis of the revised scheme. The Joint Select Committee of Parliament on Draft Rules made under the Government of India Act, 1919, suggested a gradual reduction of the aggregate contribution of all Provinces and underlined the idea that contributions should cease at the earliest possible moment.

5. The Committee were definitely opposed to provincialising income-tax but recommended that some share in the growth of revenue from taxation of income should be granted to all Provinces in so far as that growth was attributable to an increase in the amount of incomes assessed in each Province. The scheme of financial arrangements contained in the Report on Indian Constitutional Reforms, as modified on the recommendations of the Joint Select Committee on Draft Rules, was incorporated in the Devolution Rules under the Government of India Act, 1919, which were promulgated in December 1920.

6. *Beginnings of Income-tax as Balancing Factor: Devolution Rule* 15.—The recommendations of the Joint Select Committee relating to income-tax were embodied in Devolution Rules 14 and 15. Rule 15 provided that a Province should receive 3 pies in each rupee of the amount by which the assessed income of any year exceeded that of the year 1920-21. Inasmuch as collection might not accurately reflect the income-tax revenue due to the economic activity of a Province, some *ad hoc* adjustments were made on account of industrial units located in a Province different from the Province in which they were assessed to income-tax. The operation of the rule gave unequal results as between Provinces. It did not lead, on the whole, to any significant accretion to provincial revenues and, in particular, virtually failed to secure for the larger industrial Provinces a share in the yield of income-tax. The rule, however, represented a slight departure in principle from the scheme of complete division of sources originally proposed, and thus marked the beginning of the use of income-tax as a balancing factor.

7. *Abolition of Contributions*.—The trends in central and provincial budgets in the early 'twenties belied the estimates on which the schemes of contributions was based. The Provinces pressed insistently for the abolition of contributions. They were remitted over a period, were wholly suspended from 1927-28 and were abolished from 1928-29. The abolition of the contributions considerably eased the situation of the agricultural provinces which had the largest contributions to make.

8. *Defects of Financial Settlement: Enquiries with a view to Revision*.—Two main criticisms were made against the general scheme of financial relations under the "Reforms" of 1919, which is often somewhat inaptly described as the Meston Settlement. While the needs in the provincial field were of an expanding nature, the sources of revenue assigned to the Provinces were relatively inelastic; on the other hand, the more elastic and expanding sources of revenue were given to the Centre whose needs were then viwed as comparatively stationary. Secondly, while agricultural Provinces received a welcome accession of resources in land revenue which, of all the central

and provincial heads, was the most important at the time, the revenues of industrial Provinces were precluded from benefiting by the prosperity of business enterprise in their areas.

9. The framework set up in 1919, however, remained unaltered till the Government of India Act, 1935, came into operation. The period covered by the Government of India Act, 1919, was marked by frequent discussions on the structure of financial relations between the Centre and the units. A principal objective of these discussions was to equip the Provincial Governments with greater financial resources. The inadequacy of the existing resources, both of the Centre and the units, and a search for fresh avenues of taxation, also represented a thread running through the discussions. During this period there was also the first systematic enquiry into the whole field of Indian taxation by the Indian Taxation Enquiry Committee, 1924-25.

10. *Indian Taxation Enquiry Committee, 1924-25.*—The Indian Taxation Enquiry Committee examined, among other matters, the division of sources of revenue and the structure of financial relations between the Centre and the Provinces. They recommended that general stamps and the excise duty on foreign liquors manufactured in the country should be transferred to the Centre, and also suggested that the whole of the revenue from opium might well be transferred similarly. They considered that if any division of taxes was to be made at all, the choice of income-tax as the main balancing factor was inevitable. The other possible balancing factors which, however, they thought should be used only in the last resort, were the export duties, the restrictive excises, besides those on opium and foreign liquor, and the probate duties.

11. The Committee expressed themselves against giving the Provinces power to levy and administer an income-tax as well as against the imposition by the Centre of surcharges for the benefit of the Provinces. They suggested that the most appropriate solution for this problem was the assignment to the Provinces of a share of the tax. In regard to its distribution, the Committee proposed that this should be based primarily on the principle of domicile. They proposed to give the Provinces the proceeds of a basic rate on personal incomes, graduated proportionally to the general rate. Under their scheme, collections on incomes not pertaining to residents in particular Provinces such as the tax on undistributed dividends of companies or on incomes of persons resident outside the Province or the country and the whole of super-tax would be retained by the Centre. In addition to the allotment made on the basis of personal incomes, the allocation of which would be based entirely on domicile, the Committee also recommended the giving of a partial recognition to the principle of origin by assigning to each Province a small portion of the receipts of the corporation profits tax. They contemplated that this might be

distributed on the basis of the collections of each Province, subject to adjustments similar to those agreed upon for the purpose of the distribution of income-tax under Devolution Rule 15, in cases where profits assessed in one Province originated in another.

12. *Indian Statutory Commission Report, 1930.*—The next important review of the Indian financial arrangements was made by the Indian Statutory Commission, whose report was issued in 1930. The Commission accepted the general principles of the scheme drawn up by their Financial Assessor, Sir Walter (now Lord) Layton, for the division of resources between the Central and Provincial Governments. Lord Layton envisaged the use of income-tax as the main balancing factor in the reallocation of revenues between the Centre and the Provinces. He suggested that in order to meet the claim of the industrial Provinces a substantial part of the revenue from income-tax should be assigned to the Provinces. He endorsed the general method of division proposed by the Taxation Enquiry Committee and recommended that one-half of the income-tax paid by residents of a Province (including tax on dividends received by them from companies carrying on operations outside the Province) be assigned to the Province concerned. Super-tax would remain entirely Central, subject to reconsideration after ten years. The Provincial Governments were also to have the option of levying a surcharge on tax collected on the incomes of residents in the Province limited to half the tax transferred to them, i.e., one-fourth of the total tax. The Commission also suggested that the exemption of agricultural incomes from income-tax should be abolished by definite stages and the whole of the proceeds of the taxation of these incomes should be assigned to the Province of origin.

13. Lord Layton further recommended that a Provincial Fund be formed out of the proceeds of certain new excises on such commodities as cigarettes and matches and, when the central budgetary position permitted, the duty on salt, for distribution among the Provinces on a *per capita* basis. The Commission endorsed this proposal.

14. *First Peel Committee, 1931.*—The problem of allocation of resources between the Centre and the units came up again for consideration by two sub-committees of the Federal Structure Committee of the Second and Third Round Table Conferences, both of them presided over by Viscount Peel, and by an Expert Committee presided over by Lord Percy, which came in between. The First Peel Committee suggested that all income-tax proceeds should be transferred to the Provinces at the very outset of federation, collection and administration being in federal hands: federal tax revenues would be mostly derived from indirect taxation. Any resultant federal deficit could be met from provincial contributions which would be extinguished in definite stages over a ten to fifteen year period. Later, if

any permanent federal surplus were to materialise, the federal government should be free to allocate the surplus to the units as an alternative preferable to reduction of taxation. The Committee suggested that it was desirable that the Constitution itself should lay down the proportions in which funds thus available should be divided among the units, whether according to respective revenues or to population or to some other criteria. They recommended that an expert committee should advise on this aspect as well as on the criteria by which the proceeds of income-tax should be allocated among the Provinces.

15. *Percy Committee, 1932.*—The Percy Committee were accordingly appointed to examine these questions. The basis of distribution of income-tax among the units was considered in detail by this Committee. They held that a proper basis of distribution of income-tax receipts should satisfy what they called three fundamental tests: it should be simple, easily understood and administratively workable; it should give results likely to be accepted as fair between Province and Province; and it should be compatible with the idea of a federation of autonomous units. They considered that an allocation on the basis of collections would lead to gross injustice as between Province and Province and ruled it out. While distribution by population had equally no scientific basis it could be adopted with advantage for the distribution of taxes on certain forms of income not easily assignable to any locality. Theoretically, the basis of origin had much to commend it, but it would be administratively unworkable unless the allocations were made on arbitrary lines. The Committee did not, therefore, recommend the adoption of this basis. Ultimately, they expressed themselves in favour of the basis of residence in one of two forms, either the basis of personal incomes assessed or assessable in each Province or the amount of income-tax attributable to each Province.

16. On the question of distribution of income-tax between the Centre and the Provinces, the Percy Committee expressed the view that if the entire proceeds of income-tax were transferred, the Centre would be faced with a substantial deficit. They, therefore, proposed the following scheme: corporation tax (super-tax on companies), tax paid by residents in federally administered areas and tax paid on salaries of federal officers should be retained by the Centre; of the remainder of the net proceeds, a Province should receive the amount of personal super-tax on the basis of collections from residents, an estimated amount of personal income-tax creditable to it, and a share on the basis of population of the tax on non-residents and undistributed profits of companies, both to be taken as an estimated percentage of the total collections. From the point of view of stability of provincial budgets they suggested that the share of income-tax due to the Provinces should not be altered from year to year even if the data for this were readily available on the bases suggested by them, but should

be fixed for a term of years, subject to revision every five years in the light of figures of personal income-tax for the previous quinquennium. For a transitional period, provincial contributions were proposed, primarily with reference to the additional resources of Provincial Governments, *i.e.*, generally in proportion to the share of income-tax. The federal government would have the power to impose a surcharge, for its own purposes, on any tax levied by it for the benefit of the Provinces. Federal grants, if and when they became feasible, should be made on a population basis as the Committee believed that the surplus would arise mostly from taxes on consumption.

17. *Second Peel Committee, 1932.*—The Second Peel Committee proposed a two-fold division of the proceeds of taxes on income into shares which would be assigned as a permanent constitutional arrangement to the federal government and to the Provinces respectively. The federal government would be entitled to a share based on the proceeds of heads of tax which were not derived solely from the residents in British India, such as corporation tax, tax on federal officers, tax in federal areas, tax on Government of India securities and taxes on the incomes of persons not resident in British India. The whole of the remaining proceeds from income-tax were to be assigned to the Provinces, but until sufficient time had elapsed for the development of new sources of revenue, the federal government should retain a block amount out of the provincial share of income-tax. The Committee as a whole were in favour of the federal government having the power to levy for its own purposes a surcharge on the heads of income-tax permanently assigned to the Provinces. Most of the members of the Committee were also agreed that the Provinces should have a right to levy a surcharge on the personal tax levied on its residents under the heads permanently allocated to the Provinces, subject to a maximum of 12½ per cent. The Committee also proposed subventions from the Centre to the deficit Provinces in approved cases and on certain conditions, to enable them to balance their budgets on the basis of providing for bare necessities. The Committee suggested that the exceptional difficulties of Bengal might perhaps be met by granting it some share in the revenue from the jute export duty, but made no definite proposal as to the form which this share should take. They thought that it was desirable to provide in the constitution for emergency powers for the federal government to levy contributions under defined circumstances.

18. *White Paper on Indian Constitutional Reforms, 1931.*—The White Paper on the Proposals for Indian Constitutional Reforms issued by His Majesty's Government in December 1931 contemplated that a prescribed percentage, not being less than 50 per cent. nor more than 75 per cent., of the net revenue derived from taxes on income, other than agricultural income, except taxes on the income of companies should be assigned to the Provinces on a prescribed basis. It also

proposed that the federation should retain for the first three years a prescribed sum out of the provincial share which would continue to be retained for a further period of seven years with a reduction of one-eighth of the original sum in each successive year. Both the federation and the Provinces were to have power to levy surcharges on income-tax for their own purposes. The White Paper proposals introduced two new features into the plan for the division of sources of revenue. The federal legislature was to be empowered by law to assign to the units the whole or part of the yield of salt duties, excise duties, other than those specifically assigned to the units, and export duties. They also suggested that in respect of certain taxes, including terminal taxes and death duties, while the power to levy the tax would be vested solely in the federation, the proceeds would be distributed to the Provinces; the federation would have the right to impose a surcharge for federal purposes.

19. *Joint Parliamentary Committee, 1933-34.*—The Joint Parliamentary Committee on Indian Constitutional Reforms, 1933-34, agreed generally with the proposals in the White Paper. They left the provincial share of income-tax to be prescribed by an Order-in-Council, but could not visualise any prospect of the Provinces' share of income-tax exceeding half of the net revenue from the source. The Committee did not favour the proposal to empower the Provinces also to impose surcharges on personal income-tax. The modified proposals relating to income-tax and other matters were incorporated in the Government of India Act, 1935.

20. It is interesting to note that the idea of devolving the whole of income-tax to the Provinces leaving the Centre to cover the consequent deficit by provincial contributions was abandoned, and a measure of elasticity in the distribution of income-tax was introduced by limiting the provncial share to a part of the net proceeds and giving the Centre power to retain, for a transitional period, a fixed amount out of the provincial share to give it time to adjust its finances.

21. *The position of former Indian States.*—We may take note at this stage of the position of the former Indian States in relation to the constitutional developments. These States had remained outside the fiscal and financial system of the rest of the country except for certain arrangements entered into with them by the Government of India regarding such matters as maritime customs, central excises, posts and telegraphs and railways. The scheme of the Government of India Act, 1935, contemplated the accession of these States to the Indian federation. Under it the Indian States were to accede in regard to foreign relations, defence and communications, with option to accede in regard to other Central subjects also. This followed an extensive examination of the problems connected with the assimilation of States of varying sizes and having different kinds of relationship with the Centre into a workable system of financial relations

with the proposed federation. As it happened, the provisions of the Government of India Act, 1935, relating to federation never came into operation. It was not until after Independence that the princely States were integrated into the fiscal system of the country.

22. *Government of India Act, 1935.*—Under the structure of financial arrangements embodied in the Government of India Act, 1935, agricultural income-tax was included in the list of Provincial subjects. Section 138 of the Act provided (a) for the assignment to Provinces and the States which acceded in respect of the subject of income-tax of a percentage of the net proceeds of taxes on income other than agricultural income, except in so far as these proceeds represented proceeds attributable to Chief Commissioners' Provinces or to taxes payable in respect of federal emoluments, and (b) for the distribution among the Provinces and States of their share. The Centre was, at the same time, empowered to retain for a period a sum cut of the share of income-tax assigned to the Provinces and federated States. Section 140 of the Act provided that duties on salt, federal duties of excise and export duties, while levied and collected by the federation would, if an Act of the federal legislature so provided, be assigned wholly or in part to the Provinces and States and be distributed among them in accordance with principles to be formulated by such Act. The provision in respect of the export duty on jute was, however, specific. Section 140 (2) laid down that one-half or such higher proportion as might be determined by Order-in-Council of the net proceeds of the export duty on jute and jute products should be assigned to the Provinces or federated States in which jute was grown in proportion to the respective amounts of jute grown therein. Provision was made in Section 142 for the payment of grants-in-aid of the revenues of such Provinces as might be in need of assistance, the amounts of such grants to be prescribed, however, by Order. Further, the Act provided for the levy by central legislation of duties in respect of succession to property other than agricultural land, stamp duties, terminal taxes on goods and passengers carried by railway or air and taxes on railway fares and freights and for the distribution of the net proceeds, other than those attributable to the Chief Commissioners' Provinces, to the Provinces and federated States, the federal legislature having the right to levy a surcharge on these taxes for federal purposes.

THIRD PERIOD

23. *Enquiry by Sir Otto Niemeyer, 1936.*—The scheme of the Government of India Act left several questions to be decided before it could be put into operation. Sir Otto Niemeyer was appointed to make recommendations on matters which under Sections 138 (1) and (2), 140 (2) and 142 of the Government of India Act had to be prescribed or determined by Order-in-Council and on certain other

ancillary matters. The scope of the enquiry was made comprehensive by a supplementary reference which enabled it to be extended to cover a review of the existing liabilities of the Provincial Governments to the Centre.

24. In respect of income-tax, having regard to the dual considerations of the necessity of safeguarding the financial stability of the Centre and the obvious future needs of the Provinces, and "in order to maintain a reasonable adjustment of relative burdens between the various units", Sir Otto Niemeyer felt it was desirable that the maximum practicable distribution should be achieved. He recommended that 50 per cent. of the net proceeds of income-tax should be assigned to the Provinces. As regards the distribution of the provincial share, he expressed the view that the mere accident of place of collection was an unsuitable guide and that the residence of the individual, though it might be a convenient practical dividing line for the avoidance of double taxation between separate political units, was not in itself a very scientific criterion, particularly in a federation. Even supposing it were practicable to ascertain to what part of the country particular fractions of income and the incidence of the taxation burden properly adhered, it was, he pointed out, still arguable that in a federation other considerations also were involved, particularly if the benefits and incidence of other forms of common taxation were unequally divided as between the various partners. After a consideration of the various elements of the problem, he came to the conclusion that substantial justice would be done by fixing the scale of distribution partly on residence and partly on population. He recommended distribution among the Provinces according to the following fixed percentages:—

		Per cent
Madras	...	15
Bombay	...	20
Bengal	...	20
United Provinces	...	15
Punjab	...	8
Bihar	...	10
Central Provinces	...	5
Assam	...	2
North-West Frontier Province	...	1
Orissa	...	2
Sind	...	2
		100

Sir Otto Niemeyer also recommended that the Centre should retain for the first five years out of the provincial moiety a sum equivalent to the amount by which the central share plus the contribution from Railways fell short of Rs. 13 crores a year and that the amount retained from the provincial share should be surrendered to the Provinces over a further period of five years. As part of the assistance he contemplated for the jute-growing Provinces, Sir Otto Niemeyer recommended that the provinces' share of the jute export duty be raised by 12½ per cent. to 62½ per cent. of the net proceeds of the duty.

25. The following annual grants to the Provinces were also recommended by Sir Otto Niemeyer:—

	(Rupees, lakhs.)
United Provinces	25 for a fixed period of five years.
Assam	30
North-West Frontier Province	100 subject to consideration at the end of five years.
Orissa	40 with Rs. 7 lakhs additional in the first and Rs. 3 lakhs additional in each of the next four years.
Sind	105 for 10 years, with Rs. 5 lakhs additional in the first year, and thereafter falling until the grant ceased in about 45 years' time.

As part of the general scheme, Sir Otto Niemeyer recommended the cancellation of the outstanding debts to the Centre of Bengal, Bihar, Assam, North-West Frontier Province and Orissa, contracted prior to the 1st April 1936, and a reduction in the outstanding debt of the Central Provinces.

26. The above recommendations were accepted by the authorities and embodied in the Government of India (Distribution of Revenues) Order, 1936. This Order, subject to a change made in 1940, continued to regulate the allocation of resources between the Centre and the units until the partition of the country in August 1947. Following the outbreak of World War II, and the increasing expenditure it entailed on the Centre, steps had to be taken to strengthen Central finances. It was decided that for the duration of the war, the Centre should be permitted to retain a fixed sum of Rs. 4·5 crores out of the provincial share of income-tax. The Order-in-Council was amended accordingly to secure this and the modified provision regulated the distribution of the tax from 1940-41 to 1945-46. In each of the next four years the sum retained by the Centre from the provincial share was reduced by Rs. 75 lakhs a year over the previous year, and the full provincial share was restored to the Provinces in 1950-51.

27. *The Partition: Adjustments in Financial Arrangements, 1947.*—The partition of the country in August 1947 necessitated an adjustment in financial arrangements which affected the scheme of distribution of both income-tax and jute export duty. In regard to income-tax the basic scheme of Sir Otto Niemeyer was retained. The Government of India reduced the shares of the divided Provinces of Bengal and the Punjab in proportion to population and the released percentages as well as the percentages of Sind and North-West Frontier Province were pooled for redistribution. The provincial shares were refixed after distributing the lapsed quota among the Indian Union Provinces, including West Bengal and Punjab, according to population, with a readjustment in favour of West Bengal and a minor adjustment in favour of Assam. The provincial shares thus fixed, which governed the distribution between the 15th August 1947 and 31st March 1950, were as follows:—

	Per cent
Bombay	21
Madras	18
West Bengal	12
Uttar Pradesh	19
Madhya Pradesh	6
Punjab	5
Bihar	13
Orissa	3
Assam	3

As regards the jute duty, the provincial share was reduced from 62½ per cent to 20 per cent, roughly in proportion to the jute-growing area which came to be included in Pakistan, but the basis of distribution of the share among the Provinces was left undisturbed.

28. *Expert Committee on Financial Provisions of the Constitution, 1947.*—The financial relations between the Centre and the units came up for review in connection with the drafting of the new Constitution. The financial provisions in the Draft Constitution were referred by the President of the Constituent Assembly to an Expert Committee of three, under the chairmanship of Shri N. R. Sarker. This Committee recommended that the whole of income-tax, including corporation tax and income-tax on federal emoluments, should be shared between the Centre and the units except to the extent of the tax attributable to Centrally administered areas. They suggested that the provincial share should be fixed at 60 per cent and allocated among the Provinces in the following manner: 20 on the basis of population and 35 on the basis of collection, the remaining 5 being used for mitigating hardships that might arise as a result of

the application of the other two criteria. As regards the jute export duty, the Committee recommended that the existing arrangements for the sharing of the net proceds with the Provinces should be terminated as, in their view, export duties were unsuitable for sharing with the Provinces. In order, however, to avoid hardship to the four jute-growing Provinces which were receiving a share of the duty they proposed that fixed grants-in-aid of Rs. 1 crore to West Bengal, Rs. 15 lakhs to Assam, Rs. 17 lakhs to Bihar and Rs. 3 lakhs to Orissa be given every year as "compensation" for a period not exceeding ten years or till the export duties on jute were abolished. Another recommendation of the Committee, which is of interest in the present context, relates to central excise duties. The Committee remarked that the Provincial Governments had been almost unanimous in demanding some share of excises and considered the problem as being not only one of finding more resources for the units but also one of imparting a better balance to their revenue structure. The Committee suggested that the Provincial Governments should be given a share of one of the important central excises on a commodity not receiving tariff protection, *viz.* tobacco, and accordingly recommended that 50 per cent of the net proceeds of the excise duty on tobacco be distributed to the Provinces on the basis of estimated consumption. Pursuant to the recommendations of the Committee, export duties were made exclusively Central under the Constitution. Provision was made for the payment of grants-in-aid to the States of West Bengal, Bihar, Assam and Orissa in lieu of their share of the jute export duty; the amounts were, however, left to be prescribed by the President. The Committee were also responsible for the suggestion that a Finance Commission should be set up to deal, among other things, with matters connected with the division of revenues between the Centre and the units and the distribution among the units of their shares.

FOURTH PERIOD

29. *The Constitution of India, 1950.*—The scheme of division of sources of revenue and powers of taxation embodied in the Constitution of India is substantially the same as in the Government of India Act, 1935, differing from it only in regard to a few matters. Financial relations between the Centre and the States become for the first time a matter certain aspects of which are to be regulated after considering the recommendations of a Finance Commission. The percentage of the net proceeds of income-tax to be assigned to the States and the distribution of the States' share among them are left to be prescribed by an Order of the President. It is also provided that after a Finance Commission is constituted the President should take the recommendations of the Commission into consideration before making the Order. Provision is made specifically

for the payment of grants-in-aid for the purpose of promoting the welfare of the scheduled tribes and raising the level of administration of the scheduled areas in the States. In this connection, the Constitution provides for special grants-in-aid for raising the level of administration of the tribal areas of Assam and for schemes of development in such areas. Lastly, export duties have ceased to be divisible.

30. *The Deshmukh Award, 1950.*—As a Finance Commission could not be set up immediately, the States' share of income-tax and its distribution and the payment of grants-in-aid under Articles 273 and 275 of the Constitution had to be regulated by Order of the President for the period between the commencement of the Constitution and the appointment of the Commission. Some of the States had expressed dissatisfaction with the arrangements regarding the allocation of income-tax and the jute export duty made by the Government of India immediately after the partition. It was, therefore, decided that the matters should be referred to an impartial authority for reconsideration. Towards the end of 1949, Shri C. D. Deshmukh was requested by the Government of India to enquire into and decide these two questions. It was agreed that his decision would be in the nature of a binding award. Shri Deshmukh's enquiry did not cover the determination of the States' share of the tax nor was he requested to deal comprehensively with the problem of the distribution of the States' share among *all* the States. He confined himself to the reallocation of the percentages released as a result of the partition from the share of the divided Provinces and the Provinces wholly included in Pakistan. He did not concern himself with determining the shares of the Part B States or the shares allocable in respect of the territories of the former Indian States merged in the Part A States. There were thus two aspects of the problem before him:—

(a) to determine the shares to be taken from Bengal, Punjab and Assam in respect of parts of these Provinces included in Pakistan and

(b) to reallocate among the Part A States in the Indian Union these lapsed percentages, as well as the percentages formerly prescribed for Sind and North-West Frontier Province.

31. In approaching his task, Shri Deshmukh first attempted to estimate as nearly as possible the percentages that might have been allotted by Sir Otto Niemeyer to parts of the Provinces now included in Pakistan had they been in existence as separate Provinces at the time. Having thus determined the aggregate quota available for redistribution, he distributed it largely on the basis of population, making minor adjustments for the purpose of rounding off and

giving a small weightage in favour of the weaker States. In taking population as the basis of reallocation he was influenced by the consideration that any award which gave additional weightage to residence would hinder progress towards a general equalisation of the levels of administration which, in the prevailing circumstances, he thought was a desirable end. The table below indicates the percentage distribution among the States of their share of income-tax (i) before the partition, (ii) under the arrangements made by the Government of India immediately after partition and (iii) under the award given by Shri Deshmukh: —

Province	Pre-partition share, per cent.	Share under Government of India allocation, per cent.	Share under Deshmukh Award, per cent.
Madras	15	18	[illegible]·5
Bombay	20	21	21·0
West Bengal	20*	12	13·5
Uttar Pradesh	15	19	18·0
Punjab	8*	5	5·5
Bihar	10	13	12·5
Madhya Pradesh	5	6	6·0
Assam	2*	3	3·0
Orissa	2	3	3·0

* relates to the undivided Provinces.

32. In regard to grants-in-aid in lieu of a share in the export duty on jute and jute products, Shri Deshmukh observed that the provision in the Constitution "alters completely the constitutional rationale of the old arrangement", the grants being in effect "compensation payments" "constituting a means of financial assistance to the four Provinces". He recommended that the following grants-in-aid be paid each year to the four States mentioned in Article 273 of the Constitution, until the Finance Commission proposed any revision:

Province.	(Rupees, lakhs)
West Bengal	105
Assam	40
Bihar	35
Orissa	5

The Deshmukh Award was given effect to from the 1st April 1950 and remained in force for the two years ending with the 31st March 1952.

33. *Financial Integration of former Indian States.*—We mentioned earlier the position of the Indian States in the fiscal and financial set-up of the country. During the period between the achievement of Independence and the framing of the Constitution, a great step forward was taken in the unification of the country by the integration of these States. Within less than two years from the date of Independence, all the Indian States had been either formed into sizeable units, or merged in the neighbouring Provinces or constituted into separate Centrally administered Chief Commissioners' Provinces. The political integration had to be followed by financial integration with the Centre and in October 1948 the Indian States Finances Enquiry Committee were set up under the Chairmanship of Shri V. T. Krishnamachari to consider this problem. The Committee were asked to examine and report upon, among other matters, the desirability and feasibility of integrating federal finance in the Indian States and Unions of States with the rest of India; the extent to which the process of integration should be gradual and the manner in which it ought to be brought about; the results of a policy of integration upon the finances of the States and the Unions of States and the consequential financial adjustments between the Governments of these States and Unions of States and the Government of India; and the measures necessary to revise the structure of "provincial" finance and the levels and sources of "provincial" revenue in these States and Unions of States. While the scope of this Committee's work was limited to what are now Part B States, they were also requested to advise on similar problems arising out of the merger of Baroda with Bombay. The recommendations of the Committee were accepted by the Government of India and the Governments of the States concerned, with certain agreed modifications, and embodied in agreements entered into by the Government of India with them.

34. It is sufficient for our purpose to indicate only the broad features of these agreements which affect the allocation of resources between the Centre and the States. As a result of the integration, the Centre took over from these States the subjects and services falling in the Union List of the Constitution with the related assets and liabilities. Viewed in the light of the distribution of subjects adopted by the Constitution some of the States had, in effect, been financing services falling in the State field from the surplus from Union subjects. Some form of financial assistance thus became necessary to enable them to meet the dislocation caused by the disappearance from their budgets following integration of the revenue and expenditure relating to Union subjects. It was, therefore, agreed that the centre should make good to such States for a transitional period the difference between the revenue lost to them from Union subjects and the expenditure

saved to them on Union subjects and services as a result of financial integration, the computation being made with reference to the actual revenue and expenditure during an agreed basic period immediately preceding the integration. The payments made to these States under this arrangement, generally called "revenue gap grants", were guaranteed in full for the first five years and on a gradually diminishing scale for a further period of five years, at the end of which the grants would reach roughly 60 per cent of the original figure. After integration all the Part B States would be entitled to a share in divisible sources of Central revenue like income-tax on the same footing as the Part A States, the Part B States getting their share of revenue or the "revenue gap grant" whichever might be larger.

35. Of the seven Part B States, four States, *viz.*, Hyderabad, Mysore, Travancore-Cochin and Saurashtra received "revenue gap grants". Three States, *viz.*, Rajasthan, Madhya Bharat and Patiala and East Punjab States Union did not qualify for this grant because the expenditure saved to them by integration was more than the revenue lost to them. For a transitional period the States falling in this category were to make a limited and progressively decreasing contribution to the Centre in respect of the payments made by the Government of India on account of the privy purses of the former Rulers. In computing the financial effects of integration on the States the privy purses of the former Rulers were treated as an item of expenditure saved to the States, as the privy purses were payable to the Rulers by the Government of India. In regard to income-tax, which is at present the only tax divided between the Centre and the States, it was agreed that the share of each Part B State should be 50 per cent. of the net proceeds of the taxes on income other than agricultural income levied and collected by the Government of India in that State in each year.

36. *Income-tax Concessions in Part B States.*—The pattern of Central taxation is now uniform throughout the country, except in Jammu and Kashmir with which there has been no financial integration and which is governed by special provisions in the Constitution. It is, however, necessary to add that while the rates of income-tax are uniform throughout the country, provision has been made for the grant of rebate on a progressively diminishing scale for a short transitional period in some of the Part B States. It was considered undesirable to bring the Indian rates into operation immediately, either because these States had no income-tax prior to integration or because their rates of taxation were lower. The rebates will disappear in Hyderabad from 1953-54, in Mysore from 1954-55 and in Saurashtra, Rajasthan and Madhya Bharat from 1955-56. It may also be mentioned that in four Part B States (Hyderabad, Rajasthan,

Madhya Bharat and Saurashtra), which before integration relied to a substantial extent for their revenue on internal customs duties, inter-State transit duties have been allowed to be levied instead for a short period of four or five years, to give these States time to replace them by alternative taxes like the sales tax.

37. *"Merged Areas" in Part A States.*—The financial dislocation caused to some of the Part A States by the merger of former Indian States in their territory was also dealt with on the same lines as for the Part B States, although the Constitution does not contemplate any agreements with them on this account. All the Part A States affected by the merger receive 50 per cent of the net proceeds of the taxes on income other than agricultural income levied and collected in the merged territories within the States each year or the "revenue gap grant" whichever might be larger. Four Part A States, namely, Bombay, Bihar, Madhya Pradesh and West Bengal are now in receipt of "revenue gap grants". The other States affected by the merger (Madras, Uttar Pradesh, Punjab and Orissa) do not receive "revenue gap grants" but get instead their share of income-tax in respect of the merged territories.

CHAPTER III

Trends in Central and State Finances

It is difficult to make a connected survey of trends in the finances of the Central and State Governments over a long period of years owing to the disturbance of continuity as a result of the partition and the integration of the former Indian States; earlier, in 1935, changes took place in the constitutional basis of financial relations between the Centre and the units. This makes it necessary to divide the period of about thirty years since the coming into effect of the Government of India Act, 1919, from the 1st April, 1921,—to which we propose to restrict the scope of the survey in this chapter—into three or four periods. It is possible to study the outstanding features of the Central and State finances from one period to another. This may indicate some essential characteristics of the finances of the Centre and the States as well as changes in the relative financial position of States which have a bearing on the problem of the adjustment of financial relations.

2. *Comparative elasticity of Central and State revenues.*—One aspect of central and state finances which is of special interest relates to the comparative elasticity of central and state revenues. The following table gives the revenues collected by the Central and State Governments at the beginning, middle and end of the sixteen-year period from 1921-22 to 1936-37; during the first and last years of the decade of "provincial autonomy" *viz.*, 1937-38 and 1946-47; and for the last four years following the attainment of Independence and the partition of the country.* Except during the first period, there were significant transfers of revenues from the Centre to the States. For purposes of the present comparison, these have been included, not in State revenues but in Central revenues.

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* In the tables given in this report figures relating to 1947-48 have been omitted owing to the partition of the country in the middle of the financial year.

Central and Provincial Revenues since 1921-22

Year	Total Revenue				Tax Revenue			
	Central		Provincial		Central		Provincial	
	Rs.	*Index*	Rs. crores	*Index*	Rs. crores	*Index*	Rs. crores	*Index*
1921-22 . .	70·54	*100*	69·86	*100*	68·01	*100*	55·63	*100*
1929-30 . .	97·08	*138*	83·45	*119*	80·09	*118*	61·15	*110*
1936-37 . .	84·01	*119*	77·97	*112*	79·94	*118*	51·23	*92*
1937-38 . .	89·65	*100*	78·66	*100*	78·96	*100*	55·11	*100*
1944-45 . .	363·74	*407*	177·05	*225*	282·98	*358*	117·66	*214*
1946-47 . .	375·63	*426*	211·82	*269*	308·66	*391*	134·76	*245*
1948-49 (*a*) .	414·92	...	186·67	...	364·08	...	132·03	...
1949-50 . .	398·06	*100*	217·14	*100*	360·46	*100*	154·31	*100*
1950-51 . .	458·18	*115*	234·05	*108*	407·38	*113*	162·91	*106*
1951-52 . .	(*b*)550·37	*138*	(*c*)242·30	*112*	(*b*)501·28	*139*	(*c*)169·34	*109*

Central Revenue.—Excludes provincial contributions (1921-22) but includes share of income-tax and jute duty assigned to the Provinces.

Provincial Revenue.—Relates to all Provinces in British India (except Burma) upto 1946-47 and Part A States only thereafter. Figures *include* provincial contributions (1921-22) but *exclude* (*i*) transfers from Revenue Reserve Funds, and (*ii*) receipts from the Centre as shown in the provincial budgets in respect of a share in income-tax and jute duty, subventions and grants-in-aid including special grants.

(*a*) Provincial figures for 1948-49 are not strictly comparable with those for the later years due to the merger of some of the former Indian States in the adjoining Provinces. Because of this 1949-50 is taken as the base year.

(*b*) Revised Estimates.

(*c*) Provisional figures.

3. The figures as between the different periods given in the table are not comparable, but the relative trends within each period make interesting comparison. During the first period, both Central and Provincial revenues rose between 1921-22 and 1929-30 and recorded substantial declines in the later part of the period. The main rise occurred in the first few years, which marked the peak of agricultural prices between the world wars, and the later decline was associated with the depression; some recovery actually took place by the end of the first period. The trends in central and provincial revenues, though similar, were disparate in degree, the variations in central revenues being greater than in provincial revenues. Central tax revenues, however, showed no decline during the latter part of the period.

4. The greater elasticity of central revenues continued after the redistribution of sources under the Government of India Act, 1935, and was strikingly demonstrated in the period 1937-38 to 1946-47, when Central revenues expanded more than four-fold as against an increase of over two-and-a-half times in Provincial revenues. It was, no doubt, inevitable that in the war years and after, under inflationary conditions, the yield from taxation of personal and business incomes should expand considerably; the incentive to develop tax resources to the maximum possible extent in order to meet the increasing demands of war expenditure and to mop up the surplus purchasing power was also greater at the Centre than in the Provinces. Even allowing for such increases in revenue as were due to new tax measures, however, it would appear that the degree of the elasticity of tax revenues in response to changes in general economic conditions was greater in the Central than in the Provincial sphere. The same general conclusion regarding the greater elasticity of Central revenues is also brought out by the development of Central tax revenues, particularly under customs, in the last period.

Provincial Autonomy, War and After

(1937-38—1946-47)

5. We may now turn to a somewhat fuller analysis of the position of the Centre and the States, since the inauguration of "provincial autonomy" in 1937-38 under the Government of India Act, 1935, the scheme of division of sources of revenue and functions underlying which was substantially the same as under the present Constitution.

6. *Central Government Finances.*—The following table brings out the relative trends in the important revenue and expenditure heads of the Central Government and their altering pattern during the decade before partition.

A. Rev

Heads of Revenue	Yield (Rs. crores)		
	1937-38	1944-45	1946-47
TOTAL REVENUE	86·61	335·72	342·89
Customs	43·11	39·77	89·22
Central Excise Duties	7·66	38·14	43·03
Taxes on Income*	14·58	164·74	130·72
Corporation Tax	1·88	83·65	68·85
Taxes on Income other than Corporation Tax*	12·70	81·09	61·87
Commercial Departments	3·33	42·23	10·56
Railways	2·76	32·00	5·40
Posts & Telegraphs	0·57	10·25	5·16

* Excluding share assigned

B. Expendi

Heads of Expenditure	Expenditure (Rs. crores)		
	1937-38	1944-45	1946-47
TOTAL REVENUE EXPENDITURE	86·61	496·26	343·49
Defence (net)	47·35	395·49	207·37
Civil Expenditure	39·26	100·76	136·12
Civil Administration	10·44	24·02	39·68
Debt Services*	21·04	25·75	45·06

* Excluding interest transferred

EXPENDITURE 1937-38 TO 1946-47

enue.

Index of yield (1937-38 = 100)			Share in Total Revenue (per cent.)					
1937-38	1944-45	1946-47	1937-38		1944-45		1946-47	
100·0	*187·6*	*295·9*	100·0		100·0		100·0	
100·0	*92·3*	*206·9*	49·8		11·9		26·0	
100·0	*497·9*	*561·8*	8·3		11·4		12·6	
100·0	*1136·0*	*896·6*	16·3		49·1		38·1	
100·0	*4449·5*	*3562·2*		2·2		24·9		20·1
100·0	*635·5*	*487·2*		14·6		24·2		18·0
100·0	*1263·2*	*317·4*	3·9		12·6		3·1	
100·0	*1159·4*	*197·6*		5·2		9·6		1·6
100·0	*1794·7*	*907·0*		0·7		3·0		1·5

to the Provinces.

ture

Index of Expenditure 1937-38 = 100			Share in total Revenue Expenditure (per cent.)					
1937-38	1944-45	1946-47	1937-38		1944-45		1946-47	
100·0	*673·0*	*395·6*	100·0		100·0		100·0	
100·0	*532·2*	*435·0*	54·7		79·7		60·4	
100·0	*232·5*	*316·7*	45·3		26·3		39·6	
100·0	*230·1*	*389·1*		12·1		4·8		11·6
100·0	*122·1*	*211·2*		24·3		5·2		13·1

to railways.

7. Central *Revenues.*—The indices of yield of individual revenue heads as well as their percentage shares of total revenue show that the elasticity of Central revenues under the impact of war was primarily due to the phenomenal expansion of taxes on income including corporation tax and the war time excess profits tax, as well as the remarkable increase in receipts from commercial departments —Railways and Posts and Telegraphs. There was also the comparatively more moderate, but by itself considerable, increase in receipts from excise duties, which became much more broad-based during this period. Customs revenue declined during the war years owing to the fall in imports. In 1946-47 Central revenues were maintained at or around the high levels reached in 1944-45 and 1945-46, but their composition underwent significant alterations. Customs revenue in 1946-47 was more than double that in 1944-45; the yield from excise duties maintained its upward course; taxes on income and corporation tax declined with the removal of excess profits tax; and the net contribution of Railways and Posts and Telegraphs to Central revenues fell steeply, particularly the receipts from railways.

8. Important changes in the proportion of total revenues represented by the main heads of Central revenues, during the period, may be noted: customs lost its old position as the mainstay, except in times of war, of Central revenues, and its share dropped from about one-half of the total to a bare one-eighth by 1944-45 and recovered to a little above one-quarter in 1946-47. Central excise duties steadily gained ground and by 1946-47 were half as high as customs. Taxes on income took the pre-war place of customs in relation to the total Central revenues, becoming one-half of the total revenues at the end of the war, and still remained about two-fifths of the total in 1946-47.

9. *Central Expenditure.*—The figures relating to expenditure show a greater relative increase than in revenue up to 1944-45 due to the war, which resulted in heavy deficits amounting in all to Rs. 481·5 crores for the years 1939-40 to 1944-45. The annual revenue deficit was the largest in 1943-44, at Rs. 189·9 crores; it was Rs. 160·6 crores in 1944-45 and Rs. 123·4 crores in 1945-46. By 1946-47, with revenues remaining steady around the 1944-45 and 1945-46 levels, a near balance between revenue and expenditure was attained owing to the marked reduction in defence expenditure, though expenditure on civil administration and debt services rose. Even in 1946-47, there would have been a deficit of Rs. 29·3 crores but for the transfer to revenue of Rs. 28·7 crores from the War Risks Insurance Fund.

10. *Provincial Finances: Transfer of resources to States.*—While the Centre incurred heavy deficits in the war period, most of the

Provinces had surpluses and built up reserves. This comfortable position was due largely to the buoyancy of revenues, with only moderate increases in expenditure. Larger receipts through share of income-tax reinforced provincial revenues, total income-tax receipts of the Provinces from the Centre being Rs. 132·7 crores in the period 1937-38 to 1946-47. As against only Rs. 1·25 crores in 1937-38, the provincial share of income-tax in 1946-47 amounted to nearly Rs. 30 crores. Though income-tax receipts in 1946-47 were less than in 1944-45 and 1945-46, the provincial share itself was somewhat larger due to the amalgamation of Central surcharges with basic rates in 1946-47. With the decline in the yield from the jute export duty in war years, the Provinces' share was reduced from Rs. 2·65 crores in 1937-38 to Rs. 1·38 crores in 1943-44 but increased to Rs. 2·87 crores in 1946-47; total provincial receipts from this head for the period amounted to Rs. 20·2 crores. Subventions to certain Provinces under the Niemeyer award amounted to Rs. 25·8 crores. Thus, in this ten-year period, through devolution of income-tax and jute duty and subventions under section 142 of the Government of India Act, the Provinces received a total sum of Rs. 178·7 crores, which formed 12·3 per cent of total provincial revenues for the period. The percentage of receipts under these three heads to the total revenue of each Province in the ten-year period as a whole was as follows:—

	Per cent
North-West Frontier Province	48·0
Orissa	27·0
Bengal	18·9
Bihar	16·7
Assam	15·6
Sind	15·2
Bombay	11·7
United Provinces	10·3
Central Provinces	9·2
Madras	6·7
Punjab	5·4

This transfer of revenues formed 8·3 per cent of the revenues of the Centre on an average during the 10-year period.

11. *Provincial Revenues.*—The following table giving the combined results for all Provinces for three selected years *viz.* 1937-38, 1944-45 and 1946-47 shows at a glance the growth of important heads of revenue as well as their share of the aggregate revenue.

PROVINCIAL

1937-38 TO

	Yield (Rupees crores)		
	1937-38	1944-45	1946-47
TOTAL REVENUE (*a*) . . .	**85.67**	**213·79**	**246·26**
Land Revenue	26·36	31·25	30·96
Provincial Excise	14·36	44·88	52·00
Stamps	10·69	15·62	19·56
Registration	1·15	2·45	3·02
Sales Tax	...	6·60	9·72
Forests	2·81	12·33	11·32
Irrigation	9·32	13·89	13·15
Devolution of Revenue and Grants from the Centre	7·02	36·74	48·30
Income-tax Share assigned to Provinces . .	1·25	26·55	29·87
Share of Jute Duty assigned to Provinces . .	2·65	1·49	2·87
Grants-in-aid from Centre .	3·12	8·70(*b*)	15·56(*c*)

(*a*) Excluding transfers from Revenue Reserve Funds.

(*b*) Including Rs. 7 crores received by Bengal as special grant for famine relief.

(*c*) Including subventions from the Central Government for post-war development of Rs. 13·86 crores.

REVENUE

1946-47

Index of yield (1937-38=100)			Share in total Revenue (per cent)		
1937-38	1944-45	1946-47	1937-38	1944-45	1946-47
100	250	287	100·0	100·0	100·0
100	119	118	30·3	14·6	12·6
100	313	362	16·8	21·0	21·1
100	146	183	12·5	7·3	7·9
100	213	263	1·3	1·1	1·2
...	...	...	...	3·1	3·9
100	430	403	3·3	5·8	4·6
100	119	141	10·9	6·5	5·3
100	523	683	8·2	17·2	19·6
100	2121	2300	1·5	12·4	13·1
100	56	108	3·1	0·7	1·2
100	276	495	3·5	4·1	6·3

12. Between 1937-38 and 1946-47, while total provincial revenue increased from Rs. 85·7 crores to Rs. 246·3 crores, central assistance under income-tax, share of jute duty and subventions went up from Rs. 7 crores to Rs. 34·4 crores. In 1945-46, a policy of liberal assistance to Provinces for post-war development schemes was initiated and central assistance on this account actually began to flow from 1946-47; in that year, central grants for Grow More Food and post-war development schemes were Rs. 3·24 crores and Rs. 13·9 crores, respectively; both were debited to the capital account of the Centre. Much the largest part of these post-war development grants has, however, been taken to revenue by the Provinces. In addition, in the years 1943-44, 1944-45 and 1945-46, special assistance of Rs. 3 crores, Rs. 7 crores and Rs. 8 crores, respectively was given by the Centre to Bengal to meet part of the expenditure in connection with the famine. Thus, central assistance was an important contributory factor in the increase in provincial revenues.

13. The elasticity of certain provincial heads of revenue, such as excise, and the Provinces' action, in response to the Central Government's advice, in imposing additional taxation also played their part in the improvement of provincial finances. The rates of existing taxes were raised and new sources of revenue, like the general sales tax, entertainments tax and agricultural income-tax were tapped where they were not already in use. Of the main provincial heads, excise and forests showed the largest increase, while land revenue and irrigation did not expand significantly; excise became the largest single head of provincial revenue, contributing over one-fifth, while land revenue dropped during the ten years from about one-third of total provincial revenues in 1937-38 to only one-eighth in 1946-47.

14. At this stage we may take a summary glance at the relative position of the principal heads of revenue of the Central and State Governments as part of the total revenues as well as the tax revenues of the Centre and States taken together. The table below, which gives the figures for 1937-38, 1944-45 and 1946-47, shows the basic changes in the pattern of total revenue as well as tax revenue.

PRINCIPAL HEADS OF REVENUE
(Central and Provincial)
A.—*Total Revenue*

	1937-38		1944-45		1946-47	
	Rs. crores	*Per cent*	Rs. crores	*Per cent*	Rs. crores	*Per cent*
Total Revenue	164·18	*100*	537·03	*100*	567·67	*100*
Taxes on Income* . . .	15·83	*9·6*	192·21	*35·8*	162·05	*28·6*
Customs	45·76	*27·9*	41·26	*7·7*	92·09	*16·2*
Central Excises	7·66	*4·7*	38·14	*7·1*	43·03	*7·6*
Provincial Excises . . .	14·58	*8·9*	45·55	*8·5*	52·95	*9·3*
Land Revenue	26·56	*16·2*	31·57	*5·9*	31·25	*5·5*
Stamps	11·05	*6·7*	16·41	*3·1*	20·61	*3·6*
Sales Tax	...	...	8·74	*1·6*	13·31	*2·3*
Forests	2·98	*1·8*	12·40	*2·3*	11·62	*2·0*
Irrigation	9·33	*5·7*	13·90	*2·6*	13·16	*2·3*

All figures are for undivided India.

* Includes Agricultural Income-tax.

Principal Heads of Revenue—(contd.)

B.—*Tax Revenue*

	1937-38		1944-45		1946-47	
	Rs. crores	*Per cent*	Rs. crores	*Per cent*	Rs. crores	*Per cent*
Total Tax Revenue . . .	134·05	*100*	400·64	*100*	443·41	*100*
Taxes on Income* . . .	15·83	*11·8*	192·21	*48·0*	162·05	*36·6*
Customs	45·76	*34·1*	41·26	*10·2*	92·09	*20·8*
Central Excises . . .	7·66	*5·7*	38·14	*9·5*	43·03	*9·7*
Provincial Excises . . .	14·58	*10·9*	45·55	*11·4*	52·95	*11·9*
Land Revenue	26·55	*19·8*	31·57	*7·9*	31·25	*7·0*
Stamps	11·05	*8·2*	16·41	*4·1*	20·61	*4·6*
Sales Tax	...	...	8·74	*2·2*	13·31	*3·0*

All figures are for undivided India.

* Includes Agricultural Income-tax.

15. Taxes on income, by far the most elastic of the principal heads during the period, advanced from one-ninth of total tax revenue in 1937-38 to over one-third in 1946-47; customs fell from its pre-war eminence, receding from 34 to 21 per cent. In 1937-38, apart from customs, land revenue was more important than any other single tax head; by 1946-47 it had become relatively unimportant, its share in total tax revenue having fallen from 19·8 per cent to 7 per cent. Central excises continued to expand throughout the period, while the potentially important head of sales tax had, by the end of the war, entered the picture. With the growth of taxation of income, the tax structure became less regressive than it was before the war.

16. *Provincial Expenditure.*—The expenditure pattern of the Provinces during the period is brought out in the following table.

	Expenditure (Rs. crores)					
	1937-38		1944-45		1946-47	
Total Revenue Expenditure (a)	83·11		180·36		234·82	
Direct Demands on Revenue	8·54		17·40		19·51	
Debt Services (b)	7·44		10·46		10·36	
Irrigation (c)	0·96		4·25		4·24	
Administrative Services	28·01		43·06		63·60	
General Administration		10·32		13·27		21·21
Police		10·83		19·12		30·14
Social Services	19·55		34·62		52·87	
Medical and Public Health		5·18		9·69		15·35
Education		11·67		16·42		24·59
Civil Works	8·18		11·45		18·08	
Miscellaneous (d)	8·96		27·29		30·83	
Extraordinary charges (e)	0·03		21·88		22·49	

(a) Excluding transfers to Revenue Reserve Funds.
(b) Including interest on capital in respect of irrigation, electricity schemes, other
(c) Excluding interest charges included under Debt Services.
(d) Includes Famine Relief, Superannuation Allowances and Pensions, Stationery
(e) Includes charges incurred as a direct result of war, establishment of price control schemes of State Trading", etc.

1937-38 TO 1946-47

Index of yield (1937-38 = 100)			Share in total expenditure (*Per cent*)					
1937-38	1944-45	1946-47	1937-38		1944-45		1946-47	
100	217	283	100·0		100·0		100·0	
100	204	229	10·3		9·6		8·3	
100	141	139	9·0		5·8		4·4	
100	443	413	1·2		2·4		1·8	
100	154	227	33·7		23·9		27·1	
100	129	206		12·4		7·4		9·0
100	177	273		13·0		10·6		12·8
100	177	270	23·5		19·2		22·5	
100	187	300		6·2		5·4		6·5
100	141	210		14·0		9·1		10·5
100	140	221	9·8		6·3		7·7	
100	305	344	10·8		15·1		13·1	
—	...	...	...		12·1		9·6	

Government Commercial Departments and undertakings, forests, etc.

and Printing, Contributions, charges on account of War Risks (Goods) Insurance Scheme, etc.
and other control agencies, amount transferred from "85-A-Capital outlay on provincial

17. Excluding transfers to revenue reserve funds, the increase in provincial expenditure was smaller than the increase in revenue: between 1937-38 and 1944-45, while revenue went up by 150 per cent, expenditure rose by 117 per cent. Most of the Provinces had surpluses which were largely transferred to reserves for post-war reconstruction and development. The Provinces together had a surplus of Rs. 33·4 crores in 1944-45 and of Rs. 11·4 crores in 1946-47. The increase in expenditure was, among other things, due to additional burdens in respect of police measures, operation of food and other controls, payment of dearness and other allowances, larger provision for reduction of debt, and increased expenditure on social services. There was a progressive strengthening of internal security measures during the war years; the expenditure met from provincial revenues in respect of police increased from Rs. 10·8 crores in 1937-38 to Rs. 19·1 crores in 1944-45 and Rs. 30·1 crores in 1946-47. Expenditure on administrative services as a whole was Rs. 28 crores, Rs. 43·1 crores and Rs. 63·6 crores in the three years, respectively, their share of total expenditure, however, declining from 33·7 per cent in 1937-38 to 23·9 per cent in 1944-45 and rising again to 27·1 per cent in 1946-47. Expenditure on social services also rose in this period and was Rs. 19·6 crores, Rs. 34·6 crores and Rs. 52·9 crores in the three years, respectively, but its share in total expenditure declined from 23·5 per cent in 1937-38 to 19·2 per cent in 1944-45 and recovered to 22·5 per cent in 1946-47. During the war years, expenditure under "Miscellaneous" and "Extraordinary Charges" increased considerably from 10·8 per cent in 1937-38 to 27·2 per cent in 1944-45 and formed 22·7 per cent of the total expenditure in 1946-47.

18. The balances of the individual Provinces in the post-war reconstruction or revenue reserve funds as at the end of March 1947 were:—

	(In crores of rupees)
Madras	26·57
Bombay	14·80
United Provinces	11·95
Central Provinces	8·33
Bihar	7·27
Punjab	2·30
Assam	1·03
Bengal	—
Orissa	—
Sind	4·32
North-West Frontier Province	—

Famine affected the finances of Bengal considerably in this period and, in spite of special grants amounting to Rs. 18 crores from the Centre, at the end of 1946-47, Bengal had a minus balance of Rs. 5 crores. Orissa, with its exiguous resources, had no accumulated reserves.

THE PARTITION, MERGER AND INTEGRATION OF STATES 1947-48 TO 1949-50

19. The three years that followed the advent of Independence witnessed a transformation in the political, economic and financial background. The partition divided three Provinces while large areas comprised in the former Indian States were merged with Provinces or formed into new political units as Part B and Part C States. The developments during these years added appreciably to Central expenditure. After Independence, defence involved additional commitments. Besides, Independence gave a natural stimulus to expansion of social services and called for large additional outlays on nation-building activities, while the deficit position of the country in regard to food in an inflationary context rendered necessary the continuance of subsidies on foodgrains.

20. *Central Finances.*—Central finances in this period bear the impress of all these events. Defence expenditure, lower than during war time, was still high and civil expenditure continued to increase. Revenue also remained high; rates of income-tax were further raised in 1947-48 before partition; the war time increases under Central excise were maintained and new excise duties were levied; higher rates of certain export duties and the beneficial effects of devaluation on external trade helped to raise customs revenue. The accounts for 1947-48 (post-partition), 1948-49 and 1949-50 showed surpluses of Rs. 44·5 crores, Rs. 50·8 crores and Rs. 33·3 crores, respectively.

21. *Provincial Finances.*—In several Provinces, particularly the divided Provinces, the pressure of events following partition was felt in respect of general administration and security services. The expansion of State activities following Independence, the increased outlay on social services, the revision of scales of pay and allowances and the continuance of food controls and subsidies, largely contributed to the increase in provincial expenditure in this period.

22. The Central Government, impelled by fears of a post-war recession as well as by the necessity for making up the large leeway in economic development had, towards the end of the war, invited the Provincial Governments to formulate plans of post-war reconstruction and development. Toward financing this development, the Centre extended liberal financial assistance. A development programme of considerable dimensions was thus already under way when partition struck at the country's economy. Soon after the

attainment of Independence, many Provincial Governments embarked on projects to establish industrial, electricity, road transport and other enterprises under public ownership. Economic decontrol came shortly after partition and the inflationary upsurge of prices that followed in its wake led the Centre to reduce its assistance to the Provinces. Post-war development grants were stopped from 1950-51, except for "Grow More Food" and for certain special schemes. This imposed some strain on the finances of such Provinces as could not contract their commitments in respect of development. The development grants received by the Provinces from the Centre between the 15th August 1947 and 31st March 1950 amounted to Rs. 38·3 crores.

23. Provincial revenues maintained their buoyancy throughout the period and expanded steadily. A principal constituent of these revenues was the Provinces' share in the divisible pool of income-tax, which increased from about Rs. 29·9 crores in 1946-47 to Rs. 41·8 crores in 1948-49 and Rs. 45·7 crores in 1949-50. As regards provincial heads of revenue, the policy of prohibition resulted in loss of revenue to some Governments, particularly Madras and Bombay, but this was more than made up by additional receipts from fresh taxation, chiefly from the general sales tax. The increases in provincial taxation were particularly marked in the three years 1947-48 to 1949-50. The rates of existing taxes like the entertainment and betting taxes, the tax on motor spirit, excise duties, electricity duties and the motor vehicles tax, were increased and new taxes such as the sales tax and the agricultural income-tax were introduced.

24. During each of the three years under review, provincial revenue as a whole was in excess of expenditure; the combined surplus in 1949-50 was Rs. 5·3 crores. Taking the Provinces individually, Bihar, Madhya Pradesh and West Bengal showed sizeable surpluses; the budgets of Assam, Bombay, Madras and Punjab had either small surpluses or small deficits; Uttar Pradesh and Orissa showed fairly large deficits. To meet the difficulties created for Punjab after partition, special grants were made; Rs. 100 lakhs were paid in 1947-48 and Rs. 175 lakhs each in 1948-49 and 1949-50. *Ad hoc* grants of Rs. 40 lakhs in 1947-48 and Rs. 50 lakhs each in 1948-49 and 1949-50 were also made to West Bengal.

The Current Financial Scene

25. With the completion of mergers and federal financial integration of the former Indian States, it has become possible for the first time to form a picture of the finances of all the States of India. We can now take a view of Central and State finances together as well as in relation to each other so as to approach the specific problems referred to us in the perspective of the current financial scene.

26. Central *Finances.*—The following table brings together the salient facts of Central revenue and expenditure since 1950-51.

REVENUE AND EXPENDITURE OF THE CENTRAL GOVERNMENT 1950-51 TO 1952-53

A.—*Revenue*

	1950-51		1951-52 (Revised Estimates)		1952-53 (Budget Estimates)	
	Rs. crores	*Per cent*	Rs. crores	*Per cent*	Rs. crores	*Per cent*
Total Revenue	410·66	*100*	497·67	*100*	404·98	*100*
Taxes on Income (*a*)	125·71	*30·6*	122·30	*24·6*	104·16	*25·7*
Customs	157·15	*38·3*	232·00	*46·6*	165·00	*40·7*
Central Excise Duties	67·54	*16·4*	84·30	*16·9*	86·00	*21·2*
Currency and Mint	12·27	*3·0*	11·31	*2·3*	10·39	*2·6*
Railways (net contribution)	6·50	*1·6*	7·34	*1·4*	7·65	*1·9*
Posts & Telegraphs (net)	3·98	*1·0*	3·87	*0·8*	1·16	*0·3*

B.—*Expenditure*

	1950-51		1951-52 (Revised Estimates)		1952-53 (Budget Estimates)	
	Rs. crores	*Per cent*	Rs. crores	*Per cent*	Rs. crores	*Per cent*
Total Expenditure	351·44	*100*	405·06	*100*	401·25	*100*
Direct Demands	12·50	*3·6*	16·95	*4·2*	15·76	*3·9*
Debt Services (*b*)	44·22	*12·6*	46·84	*11·6*	48·24	*12·0*
Civil Administration	48·80	*13·9*	56·66	*14·0*	55·98	*14·0*
Civil works (*c*)	10·38	*3·0*	13·25	*3·3*	14·96	*3·7*
Defence Services (net)	164·13	*46·7*	181·24	*44·7*	197·95	*49·3*
Grants to States (*d*)	15·58	*4·4*	18·07	*4·5*	20·27	*5·1*

(*a*) Taxes on Income include corporation tax and taxes on income other than corporation tax, excluding States' share.

(*b*) Excluding interest transferred to railways.

(*c*) Including transfers to Road Fund.

(*d*) Grants payable to the States under Articles 273 and 275 of the Constitution, Revenue Gap Grants and in 1952-53 grants-in-aid to Part C States.

27. The large surpluses in 1950-51 and 1951-52 were due mainly to the temporary rise of revenue under customs and partly to increases in taxation effected in 1951-52 with a view to securing a revenue surplus to finance part of the capital programme. The full impact on customs revenue of the post-Korean inflationary boom and of the increases effected in import and export duties during the course of 1950-51 was felt in 1951-52. Customs revenue increased from Rs. 157·2 crores in 1950-51 to Rs. 232 crores in 1951-52, but, with the reduction or abolition of export duties on a number of items, is estimated at Rs. 165 crores for 1952-53: at this figure it forms 40·7 per cent of total Central revenue compared to 49·8 per cent in 1937-38 and 38·3 per cent in 1950-51. The revenue from Central excise duties shows a steady increase each year, but taxes on income are expected to decline in 1952-53 as compared with the two previous years. No additional taxation was proposed in the budget for 1952-53. On the expenditure side, there is some rise in expenditure on defence. While small variations are anticipated under other heads of civil expenditure in 1952-53, the main decrease is in respect of food subsidies.

28. *State Finances.*—The following table gives the combined picture of the revenue of the sixteen Part A and Part B States.

PRINCIPAL HEADS OF STATE REVENUE

	1950-51		1951-52 (Provisional Figures):		1952-53 (Budget Estimates)	
	Rs. crores	*Per cent*	Rs. crores	*Per cent*	Rs. crores	*Per cent*
Total Revenue	382·90	*100*	406·66	*100*	415·99	*100*
Land Revenue	49·59	*13·0*	50·74	*12·5*	60·90 (a)	*14·6*
Sales Taxes (*b*)	59·62	*15·6*	59·55	*14·6*	59·10	*14·2*
State Excise	47·34	*12·4*	48·93	*12·0*	47·54	*11·4*
Stamps	22·17	*5·8*	22·36	*5·5*	22·92	*5·5*
Forests	19·21	*5·0*	21·15	*5·2*	20·14	*4·8*
Irrigation	7·38	*1·9*	8·40	*2·1*	8·27	*2·0*
Inter-State Transit Duties	9·31	*2·4*	8·85	*2·2*	6·38	*1·7*
Devolution of Revenue and Grants from the Centre	66·41	*17·4*	76·30	*18·8*	74·06	*17·7*
Income-tax share	47·68	*12·5*	52·60	*12·9*	50·80	*12·2*
Grants in lieu of Jute Duty share	1·85	*0·5*	1·85	*0·5*	1·85	*0·4*
Other Grants	16·88	*4·4*	21·85	*5·4*	21·41	*5·1*

Revenue and Expenditure exclude transfers from/to Revenue Reserve Funds.

(*a*) Includes Rs. 5·12 crores as a result of abolition of Zamindari in Uttar Pradesh.

(*b*) Include General Sales Tax and Tax on sale of motor spirit.

29. The total revenue of all the States, allowing for transfers from revenue reserves and including the addition to revenue anticipated from tax proposals in the budgets for 1952-53, is Rs. 382·9 crores, Rs. 406·7 crores and Rs. 416 crores in 1950-51, 1951-52 and 1952-53 respectively. Total expenditure in the respective years is Rs. 380·6 crores, Rs. 401·7 crores and Rs. 435·3 crores, leaving surpluses of Rs. 2·29 crores and Rs. 4·93 crores in 1950-51 and 1951-52 and a deficit of Rs. 19·3 crores in 1952-53.

30. *Transfer of resources to States.*—The States' share of income-tax, grants under Articles 273 and 275 and "revenue gap grants" amount to a total of Rs. 62·4 crores in 1950-51 and Rs. 70·8 crores in 1951-52, forming 16·3 per cent and 17·4 per cent respectively, of the total State revenues in the two years. The share of Part B States at Rs. 11·6 crores, mostly in "revenue gap grants", forms 11·4 per cent of their revenue, and of Part A States, at Rs. 59·2 crores, is 19·4 per cent of their revenue for 1951-52. The total devolution of revenue and grants-in-aid to States formed 13·6 per cent and 12·8 per cent of Central revenues in 1950-51 and 1951-52 respectively. Details of resources transferred to the States are given in tables 9 and 10 of Appendix IX.

31. *State revenues.*—In 1950-51 and 1951-52 the States did not resort to any important additional taxation. In the current year, however, several States have taken action with a view to increasing their resources through additional taxation. Some additional revenue from new taxes and increases in existing taxes is expected in Bombay, Madras, Uttar Pradesh, Punjab, Hyderabad and a few other States. Among the measures of additional taxation taken or contemplated are the adoption of multi-point general sales tax in place of single point tax, enhancement of sales tax on motor spirit, increase in rates of motor vehicles taxation, levy of surcharges on land revenue and bus passenger fares, etc.

32. Taking all the States together, on the basis of 1951-52 figures, sales taxes (including the tax on motor spirit) emerge as the most important single head of revenue for the States, followed as a close second by income-tax (*i.e.* the share of Central income-tax, and agricultural income-tax). Land revenue and excise are of about equal importance, each somewhat less than sales taxes and income-tax. The percentage shares of sales tax, income-tax, land revenue and excise in the aggregate revenue of all State revenues are 14·6, 14, 12·5 and 12 respectively. Total tax revenue raised by the States forms 56·4 per cent of their total revenue, income-tax receipts from the Centre 12·9 per cent and Central subventions and grants of all kinds 5·8 per cent.

33. *Comparative Revenue Pattern of Part A and B States.*—The revenue pattern has important differences as between Part A and

Part B States. For Part A States, income-tax and the sales tax are the most important sources of revenue, followed by land revenue and excise. For Bombay and Madras, the sales tax is the largest single revenue item. On the other hand, land revenue and excise are the mainstay of the finances of Part B States, these together forming 35·6 per cent of their total revenue for 1951-52 as against 20·8 per cent for Part A States. Excise is the largest single source of revenue for Hyderabad, Mysore and the Patiala and East Punjab States Union, sales tax for Travancore-Cochin, while land revenue occupies a similar place in the revenue systems of the other three Part B States. Inter-state transit duties, which are to be replaced by sales tax and other measures, yield sizeable revenues for Hyderabad, Rajasthan and Madhya Bharat, amounting to Rs. 8·7 crores in 1950-51 and 8·5 crores in 1951-52. The total yield from the sales tax for all Part B States is Rs. 7½ crores; this source is yet to be developed, particularly in Rajasthan, Madhya Bharat and Saurashtra. Among Part B States, only Travancore-Cochin derives an appreciable revenue from agricultural income-tax which over a large part of the State is integrated with the land revenue system.

34. *State Expenditure.*—We now turn to an examination of the pattern of expenditure in the States. The following table shows the principal heads of State expenditure and their share of total expenditure in the three years 1950-51, 1951-52 and 1952-53.

	1950-51			
	Rs. crores		Per cent	
Total Revenue Expenditure . . .	384·61		*100*	
Cost of Tax Collection	32·56		*8·5*	
Irrigation	8·55		*2·2*	
Debt Services (*a*)	14·86		*3·9*	
Administrative Services	100·80		*26·2*	
Police		51·80		*13·5*
General Administration . . .		31·23		*8·1*
Social Services	112·07		*29·1*	
Education		57·91		*15·1*
Medical and Public Health . .		26·10		*6·8*
Civil Works	40·99		*10·7*	

" Administrative Services " include General Administration, Administration of Justice,
" Social Services " include Scientific Departments, Education, Medical, Public Health,
(*a*) Including interest on capital in respect of irrigation, electricity schemes, other

OF EXPENDITURE

1951-52 (Provisional Figures)				1952-53 (Budget Estimates)			
Rs. crores		Per cent		Rs. crores		Per cent	
408·78		100		437·80		100	
35·50		8·8		39·31		9·0	
12·29		3·1		11·86		2·7	
19·29		4·8		21·79		5·0	
106·09		26·4		104·58		23·9	
	53·71		13·4		52·50		12·0
	33·84		8·4		33·71		7·7
116·26		29·0		128·92		29·4	
	60·18		15·0		67·02		15·3
	28·88		7·2		31·26		7·1
43·02		10·7		56·29		12·9	

Jails and Convict Settlements, Police and Ports and Pilotage.
Agriculture, Veterinary and Co-operation.
Government Commercial Departments and undertakings, forests, etc.

35. The foregoing figures of expenditure indicate that expenditure on social services is somewhat larger than on administrative services: education and police each accounts for about one-half of the expenditure in respect of these two categories of services respectively. A reference to table 7 of Appendix IX will indicate that while administrative services represent a somewhat larger share of expenditure in Part A States than in Part B States, the share of tax collection costs is more in Part B States. The percentage share of administrative services in total expenditure is relatively high for Saurashtra, Punjab, Patiala and East Punjab States Union and Rajasthan, while in respect of social services, Mysore has the highest percentage share of all.

36. *General picture of Public Revenue.*—The following table gives the composition of the combined Central and State revenue according to main heads.

PRINCIPAL HEADS OF REVENUE

(Central and State)

A.—*Total Revenue*

	1950-51		1951-52		1952-53	
	Rs. crores	*Per cent*	Rs. crores	*Per cent*	Rs. crores	*Per cent*
Total Revenue	755·08	*100*	863·83	*100*	781·14	*100*
Taxes on Income* . . .	177·31	*23·5*	179·39	*20·8*	158·98	*20·4*
Customs	157·15	*20·8*	232·00	*26·9*	165·00	*21·1*
Central Excise	67·54	*8·4*	84·30	*9·8*	86·00	*11·0*
State Excise	49·40	*6·5*	50·94	*5·9*	47·61	*6·1*
Land Revenue	51·59	*6·8*	53·14	*6·2*	61·63	*7·9*
Stamps	23·94	*3·2*	24·19	*2·8*	24·11	*3·1*
Forests	21·54	*2·9*	23·68	*2·7*	21·17	*2·7*
Sales Tax	55·42	*7·3*	52·45	*6·1*	52·72	*6·7*
Inter State Transit Duties . .	9·31	*1·2*	8·85	*1·0*	6·88	*0·9*
Irrigation	7·40	*1·0*	8·41	*1·0*	8·28	*1·1*

* Including Agricultural Income-tax.

B.—Tax Revenue

	1950-51		1951-52		1952-53	
	Rs. crores	*Per cent*	Rs. crores	*Per cent*	Rs. crores	*Per cent*
Total Tax Revenue	629·48	*100*	730·61	*100*	646·35	*100*
Taxes on Income* . . .	177·31	*28·2*	179·39	*24·6*	158·98	*24·6*
Customs	157·15	*25·0*	232·00	*31·7*	165·00	*25·5*
Central Excise	67·54	*10·7*	84·30	*11·5*	86·00	*13·3*
State Excise	49·40	*7·8*	50·94	*7·0*	47·61	*7·4*
Land Revenue	51·59	*8·2*	53·14	*7·3*	61·63	*9·5*
Stamps	23·94	*3·8*	24·19	*3·3*	24·12	*3·7*
Sales Tax	55·42	*8·8*	52·45	*7·2*	52·72	*8·2*
Inter-State Transit Duties . .	9·31	*1·5*	8·85	*1·2*	6·88	*1·1*

* Including Agricultural Income-tax.

37. The combined revenue of Central and State Governments increased from Rs. 755 crores in 1950-51 to Rs. 864 crores in 1951-52. Customs, the yield of which after the end of the war had been rapidly approaching that of taxes on income, shot up higher in 1951-52 and, though estimated to decline in 1952-53, is still higher than income-tax; each of these heads exceeds one-fifth of the total of all revenues. Central excises come next, with 11 per cent. Much behind, State excise, land revenue and sales taxes stand at 6 to 8 per cent. each.

Of the total revenue of the Centre and States together, in the three-year period 1950-51 to 1952-53, State revenues are a little less than one-half. Taking tax revenue separately, the total estimated tax revenue of the Central and State Governments in 1952-53 is Rs. 646 crores, or 82·8 per cent. of the total revenue from all sources. The tax revenue of the Centre forms 88·6 per cent. of central revenue while that of the States forms 69 per cent. of total States' revenue.

38. The following table gives the combined expenditure of Central and State Governments under main heads.

PRINCIPAL HEADS

(*Central*

	1950-51			
	Rs. crores		Per cent	
Total Expenditure	704·52		100	
Defence (net)	164·13		23·3	
Administrative Services	114·00		16·2	
General Administration		40·12		5·7
Social Services	124·35		17·7	
Education		61·14		8·7
Medical and Public Health		28·10		4·0
Debt Services*	58·64		8·3	
Irrigation	8·76		1·2	

* Adjusted for interest payment by the States in respect of borrowings from the

OF EXPENDITURE

and State)

1951-52				1952-53			
Rs. crores		*Per cent*		Rs. crores		*Per cent*	
766·29		*100*		796·72		*100*	
181·24		*23·7*		197·95		*24·8*	
122·05		*15·9*		119·29		*15·0*	
	44·20		*5·8*		44·18		*5·5*
132·24		*17·3*		145·44		*18·3*	
	64·68		*8·4*		71·17		*8·9*
	31·40		*4·1*		32·02		*4·2*
60·80		*7·9*		62·74		*7·9*	
12·54		*1·6*		12·04		*1·5*	

Centre; exclusive of interest transferred to Railways.

39. Of the total expenditure of Central and State Governments, Defence accounts for less than one quarter. Social services, together, are somewhat more important than administrative services.

40. *Per Capita State Revenues.*—Having reviewed the changing composition and distribution of the revenue and expenditure of the Centre and the States, we may consider how far the available data enable us to judge the relative tax burden or tax effort of the different States, in terms of total taxation as well as individual tax heads, and the standards of expenditure on administrative and social services, as a whole and in terms of individual services.

Such comparisons are often made on the basis of *per capita* revenue and *per capita* expenditure and we attempt below a study, similarly based, of the relative position in the various States. It is necessary, however, to appreciate the limitations of *per capita* tax comparisons. With similar tax rates and equally efficient tax administration in any two States, the yield from a tax in one State may be smaller than in another, due to differences in income levels and the degree of concentration of wealth, turnover of trade and taxable capacity in large cities. Differences in *per capita* taxation, therefore, should not be interpreted as necessarily reflecting differences in the tax effort of States. For the latter, reference should also be made to comparative rates of taxation in relation to the field of taxation *as a whole*. Extreme differences in *per capita* taxation, with reasonably efficient administration and broadly comparable rates, however, may be taken to reflect broad differences in taxable capacity. Also, over a period of time, comparisons of *per capita* revenue give a clue to the relative resources available to the States and may reveal some interesting trends.

41. The following table gives the *per capita* revenue on an average for the ten-year period from 1937-38 to 1946-47 and in 1950-51 and 1951-52.

PER CAPITA REVENUE OF PART A AND PART B STATES

(Excluding transfers from Revenue Reserve Funds)

	Average 1937-38 to 1946-47	1950-51	1951-52 Provisional figures
	Rs.	Rs.	Rs.
Assam	4·3	11·0	12·5
Bihar	2·5	7·2	7·0
Bombay	10·7	16·8	16·8
Madhya Pradesh	4·3	9·1	10·8
Madras	5·7	10·2	10·5

	Average 1937-38 to 1946-47	1950-51	1951-52 Provisional figures
Orissa	3·0	7·1	7·9
Punjab	6·9*	13·4	14·1
Uttar Pradesh	3·7	8·2	8·6
West Bengal	3·9*	13·8	15·6
Hyderabad	...	14·0	15·6
Madhya Bharat	...	13·0	14·2
Mysore	...	15·8	15·6
Patiala and East Punjab States Union	...	16·1	17·0
Rajasthan	...	9·5	10·2
Saurashtra	...	19·0	18·3
Travancore-Cochin	...	15·0	19·2

* Figures relate to the undivided Provinces.

42. In the period 1937-38 to 1946-47, the total revenue available to Bombay was the largest *per capita* at Rs. 10·7 a year, and lowest for Bihar at Rs. 2·5 a year. Bombay including the merged areas still has the highest *per capita* revenue among Part A States, but the disparities among these States have narrowed down. In this period, the ratio of the highest *per capita* revenue (Bombay's) to the lowest (Bihar's) was over four times: in 1951-52 it was less than two-and-a-half times. Some changes will also be noticed in the relative position of different States. The most significant change has occurred in the case of West Bengal, whose *per capita* revenue in 1951-52 is four times that of undivided Bengal in the pre-partition decade. On an average undivided Punjab's per capita revenue was 75 per cent. higher than that of Bengal during 1937-38 to 1946-47; the *per capita* revenue of Punjab is now lower than West Bengal's. On the whole, over the years, there is a trend toward a lessening of inequalities in the *per capita* revenue of different States.

43. *Part A and Part B States compared.*—Figures for the last two years enable a comparison to be made of the position of Part A States with that of Part B States. (Statements 4 and 6 of Appendix IX). The *per capita* tax revenue collected by the States (i.e. excluding the share of income-tax) in 1951-52 is Rs. 6·6 for all States, the average for Part B States is higher at Rs. 9 and no Part B State is below the average for all States together. Patiala and East Punjab States Union and Hyderabad among Part B States and Bombay and West Bengal among Part A States are well above the average, while Orissa and Bihar have the lowest *per capita* tax revenue.

44. *Per capita revenue under important tax heads.*—Although comparisons of *per capita* total revenue are more relevant in considering the overall relative resources available to States, and different States may have tapped particular taxes in different degrees, a comparative view of *per capita* revenue under important tax heads is of interest, if the figures are interpreted in the light of other information bearing on the scope and rates of a tax. Table 6(a) in Appendix IX shows the *per capita* revenue of States under the principal revenue heads.

45. The *per capita* revenue of Part B States which, as already noted above, is definitely higher on the whole than of Part A States, is higher under the older taxes like land revenue and excise, particularly the latter. In respect of excise, the *per capita* revenue of Hyderabad is more than double that of the next highest State, *viz.* West Bengal; on the other hand, the *per capita* revenue of Part A States under new taxes like sales tax definitely exceeds that of Part B States. Broadly, the pattern of taxation in Part B States corresponds more to the pre-war tax pattern of the Part A States than to their present tax structures, which include more new elements than the tax systems of the Part B States. Sales taxes, motor vehicles taxes, entertainment duties, property taxes and taxes on professions are among the taxes which remain to be developed adequately in several of the Part B States, whether directly for State purposes or for local bodies.

46. In considering the resources available for such services among others as education, medical and public health, the finances of local bodies are a relevant element. Information relating to the finances of local bodies even in Part A States is incomplete and it is not, therefore, possible to take a precise view of the total expenditure in each State on these services. As for the Part B States, local self-government is of recent origin in some of them and local finances are inadequately developed excepting in one or two States.

47. *Per capita expenditure pattern.*—*Per capita* expenditure on revenue account for Part A States and Part B States respectively is Rs. 10·4 and 13·5 in 1950-51, Rs. 11 and 13·9 in 1951-52 and Rs. 11·8 and 15·5 in 1952-53, the *per capita* figures for all States together for the respective years being Rs. 11, Rs. 11·6 and Rs. 12·6. The *per capita* figures for Part B States are thus generally higher than for Part A States, only Rajasthan being below the average for all States. At this point, two factors peculiar to Part B States need to be mentioned. Firstly, costs of administration are relatively high for such Part B States as were formed by the integration of a large number of units. Secondly, the relatively high *per capita* figures of expenditure, either total or under individual major heads, obscure the great disparities in service levels between the urban and other areas within a State:

for instance, in respect of medical and public health services, communications or education, the interior areas are generally poorly served. Such regional disparities exist in Part A States also but they are generally greater in Part B States. *Per capita* expenditure is highest for Saurashtra among Part B States and for Bombay among Part A States and considerably below the average in Bihar and Orissa. Madhya Pradesh and Uttar Pradesh also have relatively low *per capita* expenditure though it is somewhat higher than in Orissa and Bihar.

48. Table 8 in Appendix IX shows the *per capita* expenditure under main categories of expenditure in the different States. In Mysore, Travancore-Cochin and Assam, expenditure on social services forms a much larger proportion of total expenditure than on administrative services: *Per capita* expenditure on administrative services is the highest in Saurashtra, at Rs. 6·8 in 1951-52. Expenditure on administrative services in this State also forms the highest proportion of total expenditure among all States. Bombay and the Patiala and East Punjab States Union come next in this respect. It is to be noted that Saurashtra and the Patiala and East Punjab States Union are the smallest States in population and revenue, and what constitutes their 'overhead' expenditure, in a sense, is, therefore, high. As compared with the 1950-51 and 1951-52 average of Re. 0·95 for all States, the expenditure of Saurashtra on general administration is Rs. 2·15.

49. Net expenditure on the administration of rationing and controls (exclusive of subsidies charged to revenue) is large in West Bengal, and sizeable in Uttar Pradesh and Assam. In Bombay, Punjab, Madhya Pradesh and certain other States, the bulk of the expenditure is recovered from consumers. *Per capita* of rationed population, expenditure on administration of food controls was approximately Rs. 4·1 in Assam, Rs. 2·4 in West Bengal and Re. 1 in Uttar Pradesh for 1951-52 as compared with only Rs. 0·06 in Bombay.

50. *Per capita* expenditure on social services for all States together was on an average Rs. 3·3 during 1950-51 and 1951-52. In these years, Mysore and Bombay had the highest figures of Rs. 6·3 and Rs. 5·9 respectively. Mysore also incurred the largest proportion of its expenditure on social services. Among the Part B States, Rajasthan stands lowest in the scale of *per capita* expenditure on social services; though higher than for certain Part A States *viz.*, Madhya Pradesh Uttar Pradesh, Bihar and Orissa. Bombay and Mysore have the highest *per capita* figures in regard to education, but West Bengal heads the list in respect of medical and public health expenditure; Orissa and Bihar stand last in regard to education, medical and public

health as well as in respect of the total expenditure on social services. Uttar Pradesh and Madhya Pradesh also fall in the lowest group in respect of medical and health services.

51. The large concentration of population, particularly of industrial labour, in and around Bombay and Calcutta involves special commitments for the State Governments concerned and the influx of displaced persons has increased Calcutta's problems. For instance, of the total expenditure on police, Bombay spends in Bombay city about 23 per cent. and West Bengal in Calcutta city nearly 30 per cent: similarly in total medical expenditure of the two States, the shares of the two cities are 24 per cent. and 50 per cent. (in 1950-51) respectively. Reference is invited to table 11 in Appendix IX which gives the collection of taxes, and expenditure on certain services in the cities of Bombay, Calcutta and Madras separately from those in the rest of the respective States. A study of this table indicates that the bigger responsibilities of certain States toward industrial areas are compensated for by the larger revenues contributed by these areas to the State exchequer. The excess of revenue over expenditure in respect of big metropolitan areas is no doubt a source of financial strength for the respective States.

52. *General financial position of Centre and States.*—Some idea of the capital outlay of the Centre and States and the overall budgetary position, taking revenue and capital accounts together, as also the means of financing the overall deficit, if any, should be useful for a proper appreciation of their general financial position. Since 1948-49, while the revenue budget of the Centre has revealed substantial surpluses each year, the capital account shows an appreciable gap between receipts and disbursements, primarily due to the inadequacy of borrowings from the market. However, in 1950-51 and 1951-52, the large revenue surpluses helped to meet the deficits in the capital account: there was an overall surplus of Rs. 12·44 crores in 1950-51 and a small deficit of Rs. 3·70 crores in 1951-52. In 1952-53, the capital account is expected to show a deficit of Rs. 102·4 crores, which will be met largely from the accumulated cash balances of Government.

53. The capital expenditure of the States, including net results of schemes of state trading but excluding appropriation to contingency fund, was Rs. 84 crores in 1950-51 and is estimated at Rs. 128 crores in 1951-52 and at Rs. 158 crores in 1952-53. Multipurpose river valley projects, other irrigation works, electricity schemes and civil works are the main categories of capital outlay.

54. As at the end of March 1950, six Part A States had outstanding balances of Rs. 91 crores in revenue reserve funds*, which are expected to decline to Rs. 38 crores by the end of the current year, thus:

In crores of rupees at the end of March

	1950	1951	1952 Revised Estimates	1953 Budget Estimates
Madras	33·50	23·32	9·42	0·59
Bombay	17·29	13·29	11·29	8·79
Bihar	14·50	14·50	8·50	5·50
Madhya Pradesh . . .	11·49	11·34	10·74	9·84
Uttar Pradesh	13·00	12·99	12·58	12·58
Assam	1·01	1·01	0·99	0·97
Total	90·79	76·45	53·52	38·27

The balances have been utilised for meeting revenue deficits and financing capital expenditure.

55. Comparable figures of reserves are not available for all Part B States. It is only possible to state that at the time of federal financial integration, most of these States had substantial reserves which have since gone down. The claims of the Centre to a part of these reserves arising out of the allocation of assets and liabilities on financial integration have also still to be met by some States. It would appear that only a small part of the outstanding reserves of Part B States would be available to meet their revenue deficits or capital expenditure.

*Punjab, West Bengal and Orissa have no such funds.

CHAPTER IV

DISTRIBUTION OF INCOME-TAX

Constitutional provisions.—Under Article 270 of the Constitution we have to make recommendations to the President in regard to three matters. They are: (1) the percentage of the net proceeds of income-tax which should be assigned to the States, (2) the manner in which the share so assigned shall be distributed among the States and (3) the percentage of the net proceeds of the tax which shall be deemed to represent proceeds attributable to the Part C States.

2. *Present arrangements.*—We have given in Chapter II an account of the developments leading to the provision in Article 270 and the changes that have taken place from time to time in the allocation of income-tax between the Centre and the States. At present fifty per cent of the net proceeds of income-tax, exclusive of the proceeds attributable to Part C States and the proceeds of taxes payable in respect of Union emoluments is assigned to the States. As a transitional arrangement, out of the sums so assigned each Part B State is entitled to receive fifty per cent of the net proceeds of the tax levied and collected in that State while each Part A State, in whose territory former Indian States have been merged, is entitled to receive fifty per cent of the net proceeds of the tax levied and collected in the merged territories within that State. The balance is distributed among the Part A States as follows:—

	Per cent
Assam	3
Bihar	12·5
Bombay	21
Madhya Pradesh	6
Madras	17·5
Orissa	3
Punjab	5·5
Uttar Pradesh	18
West Bengal	13·5

For purposes of working out the divisible pool one per cent of the net proceeds is deemed to be the tax attributable to Part C States. These arrangements will be replaced with effect from the 1st April 1952, by the President, after considering the recommendations of the Finance Commission. We have now to take into account the

Part A States, as reconstituted after the merger of former Indian States, and the Part B States and to devise a scheme of distribution based on principles uniformly applied to all of them.

3. *Claims by States.*—It will be convenient to give a brief account of the claims advanced before us by the State Governments separately in regard to the two points affecting them on which we are required to make recommendations, namely, the percentage of the net proceeds of income-tax to be assigned to the States and the distribution of the States' share among them. All the Part A States, except Orissa, suggested an increase in the share assigned to the States from 50 per cent as at present to at least 60 per cent. The Governments of Saurashtra, Rajasthan and Hyderabad made the same claim; the Government of Rajasthan further proposed that the divisible pool should include the proceeds of corporation tax as well. The Governments of Travancore-Cochin and Mysore urged that the States' share should be raised to 70 per cent while the Governments of Orissa and the Patiala and East Punjab States Union did not suggest any change in the present percentage. The Government of Madhya Bharat expressed no view on this aspect of the problem.

4. In regard to the distribution of the States' share we received a variety of suggestions from the State Governments. The Government of Bombay suggested that 25 of the States' share of 60 per cent should be allocated on the basis of collection, 25 on the basis of industrial labour and 10 on the basis of other considerations such as need, backwardness, etc. Alternatively, the State Government were prepared to accept the formula for distribution recommended by the Expert Committee on the Financial Provisions of the Constitution. The State Government held that it would be inappropriate to introduce in the distribution of taxes considerations which would apply to grants-in-aid. They were of the view that the basis of population was unscientific and suggested that the contribution of each State should be the main factor in the allocation of income-tax. It was not an accident, they argued, that the bulk of the collections was made in the industrially advanced States. This position had been built up by the capital and enterprise of the citizens of the State concerned; besides, the existence of big industries and the presence of a large and concentrated population of industrial labour created special problems for these States, as for example in regard to law and order. They pointed out that these States had to provide for the welfare and amenities of industrial labour and could claim a fair share of the revenue from income-tax on these considerations.

5. The West Bengal Government claimed that, subject to adjustments in regard to economic allegiance, which they admitted would

be necessary, each State should get back out of the net proceeds attributable to it the percentage share assigned to the States as a whole, the attributability for Part A States being determined for each State in the same manner as for Part C States. They contended that the money raised in one State could not be made available to another State. They relied on the language of Article 270 for their view that the sharing of income-tax was conditioned by the leviability of the tax and they argued that the manner of distribution contemplated by the Article merely required the President, after retaining the Central share, to place the balance in the hands of the Governments in whose respective territories the taxes had been levied or to whom they were attributable, as the case might be, to be disposed of under the control of their respective legislatures. It was not a case of the Centre expending or disposing of the money on any principle of merit but simply the separation of a common pool of money so as to place in the hands of each the share to which it was entitled.

6. The Government of Assam suggested that 35 out of 60 per cent to be assigned to the States should be distributed on the basis of population, adjusted for area or density, 20 on the basis of origin and 5 used for removing any hardships. The Government of Bihar proposed that 80 per cent of the States' share should be distributed on the basis of population and the balance with reference to other factors such as backwardness, the special responsibilities of a State and general financial management of different States. The Government of Madhya Pradesh claimed that the distribution should be on the basis of population with a weightage for the backward classes, scheduled castes and scheduled tribes living in a State. The Government of Madras suggested population as the main criterion, but expressed their willingness to accept any other equitable formula based upon a consideration of the conflicting claims and points of view. The Government of Punjab expressed the view that the needs of a State, not its population or collections in it, should be the determining factor. The Government of Orissa proposed that 50 per cent of the States' share should be distributed on the basis of the inverse ratio of *per capita* income, 35 per cent on the basis of population and 15 per cent on the basis of area. The Government of Uttar Pradesh suggested that the States' share should be distributed on a population basis.

7. Among the Part B States, Travancore-Cochin proposed that 60 per cent of the States' share should be distributed on a population basis, 20 per cent on a collection basis and 20 per cent with reference to other relevant factors such as the progress achieved by a State and not merely a State's backwardness. Rajasthan and Saurashtra both suggested population as the basis; Rajasthan was, however.

prepared for 10 per cent being distributed on the basis of other factors such as backwardness, administrative needs and sparseness of population. Madhya Bharat and the Patiala and East Punjab States Union asked for distribution on the basis of needs and both indicated a sum as their minimum requirement; if population were adopted as the basis of distribution, the Patiala and East Punjab States Union asked for a somewhat higher allocation than its population ratio. Hyderabad and Mysore also suggested population but Mysore wanted some weight to be given to area.

8. *Experience of other Federations.*—Before considering the problem of distribution of income-tax, we may scan the experience of other Federations in this field, though there are important differences in this regard between India and some of the other countries concerned. The peculiarities of the Indian position from the point of view of the significance of foreign experience for our guidance are: (a) the distribution of income-tax has formed a significantly larger proportion of the total annual transference of funds from the Centre to the States in this country than in the other Federations like Australia and Canada; while in the U.S.A., grants are virtually the only form of such transference of resources; (b) of the total income-tax collections of the federal government, a much smaller proportion has been distributed to the States in Australia (in the form of tax reimbursement grants) and in Canada (as tax rental grants) than in India, so that, on the whole, whatever principles apply in regard to the distribution of grants in lieu of income-tax collection in these countries apply over a smaller region of federal financial relations than in this country; (c) in India, the Provinces (Part A States) never possessed any right to tax incomes (other than agricultural income) while in Australia and Canada, the units have never surrendered their constitutional right to levy such taxation, which has only been temporarily suspended; (d) there are, besides, significant differences in the pattern of collections—unlike in the other federations mentioned above, Central income-tax in India is paid by an extremely small proportion of the population; and (e) divisible income-tax in India, with which we are dealing, includes a portion of the tax paid by companies on their income, the balance forming Corporation Tax. A statement of the practices prevailing in other federations may, however, be useful in view of the considerable public interest displayed in the working of the federations as well as for such light as, despite the differences, this might throw on the problem before us.

9. In Australia and Canada, until 1942, the federal government as well as the state governments had under their respective constitutions the right to tax incomes. In both countries, the uniform taxation of incomes by the federal government was an outcome of the

war. It was an essential part of the scheme that the states should be induced temporarily to vacate a field of taxation which they were already occupying in their own right. It was thought necessary to assure the States in Australia and the Provinces in Canada that their share out of the proceeds of the uniform tax would not be less than what they were recovering prior to the imposition of the Commonwealth or the Dominion tax. While uniform income-tax legislation in Canada was based on prior agreement of the Provinces, in Australia it was enacted against the opposition of some States.

10. In Australia, under the States Grants (Income-Tax Reimbursement) Act, 1942, a State not imposing a tax on income was entitled, by way of financial assistance, to grants, the amounts of which were fixed by reference to what each State was raising in exercise of its own constitutional right to tax income. But, technically speaking, there was nothing in the Commonwealth legislation to prevent a State from continuing to levy its own tax on income or reviving it, if it refrained from levying it in any particular year. In that contingency, the State would not qualify for any reimbursement grant. The States were in practice completely ousted from the field of income-tax by reason of the priority given to the liability to pay the Commonwealth tax.

11. Though the uniform tax was to continue in operation until the end of one financial year to commence after the cessation of the war, the scheme is continued till 1957 under an Act of 1946. This Act provided for the payment of a higher aggregate grant, which itself was liable to be increased in proportion to the increase in population and the increase in wages over the average wages in 1946-47. After 1947-48, there was to be a progressive shift in the distribution of the aggregate grant in the course of ten years to an adjusted population basis, *i.e.*, the basis of the respective populations of the States after adjustments which took into account the relative sparsity of population and the number of school children. The arrangement is subject to review in 1953, and proposals are under examination at present with a view to restoring to the States their power to levy income-tax.

12. In Canada, the scheme of uniform taxation was recommended by the Rowell-Sirois Commission. Under the post-war tax rental agreements signed in Canada between the Federal Government and eight Provinces (*i.e.*, including Newfoundland and excluding Quebec and Ontario), minimum payments were guaranteed to the Provinces by the application of either of two general formulae at the option of a Province. The first formula took into account, in addition to fiscal need, the tax capacity or tax potential of a Province. It assured a

Province (1) $12.75 *per capita* according to 1942 population, (2) a sum equal to one-half of the revenue derived by the Province from individual income-tax and corporation tax in 1940 and (3) the statutory subsidy payable to a Province in 1947. The other formula recognised fiscal need as the chief factor and guaranteed (1) $ 15 *per capita* on the 1942 population and (2) the statutory subsidy payable in 1947. The payments to Provinces from year to year have been actually higher than the guaranteed minimum amounts, having been related to national growth as reflected by gross national product and provincial growth as reflected in provincial population. In return, the Provinces agreed to suspend the imposition of individual income-tax for five years and to impose only a 5 per cent uniform corporation income-tax on the same basis as the Dominion tax, to be administered by the Dominion. Seven Provinces which signed the agreement continued to levy a 5 per cent corporation tax. Ontario and Quebec which did not sign the agreement levied a 7 per cent corporation tax, but refrained from imposing an individual income-tax. The new arrangements for the five years beginning 1952-53 are based on revised financial terms which propose an increase of approximately 50 per cent over the guaranteed minimum payments for the Provinces. It appears that nine Provincial Governments including the Government of Ontario (i.e., all Provinces with the exception of Quebec) have reached agreement with the Dominion Government on the basis of the latter's proposals.

13. In the United States, both the Federation and the States enjoy concurrent right of taxation over income. No question of the distribution among the States of the proceeds of an income-tax levied federally has, therefore, arisen. But it is interesting to note that the federal tax in that country is far and away the most important part of taxes on income, the States' taxes yielding only a small fraction of the receipts obtained from the federal tax. There being no equivalent to the distribution of income-tax in that country, the role of balancing factor *viz.*, to bring the functions and resources of the states into better accord is played by grants.

14. To place the experience of these federations in the sphere of federal finance including shared taxes in perspective, it is necessary to take note of certain outstanding trends in the pattern of distribution of total revenues of these federations. Financial powers as well as the flow of public revenues and expenditure through federal channels, have tended to grow considerably in recent years at the expense of the unit governments. In all the three Federations, U.S.A., Canada and Australia, the percentage of the revenue of the Federal Government to total public revenue fell within a range of forty to fifty per cent in the 'thirties'. The proportion in all the three countries has gone up and is now between two-thirds and three-fourths. Out of the federal revenues a portion flows back again to the States

through shares in taxes or grants-in-aid of various types. The area of federal revenues and expenditure, constitutes the field where the collections in different areas and the flow of expenditure are determined on overall national considerations. In India the proportion of revenues raised by the States to the combined Central and State revenues was 42 per cent in 1950-51.

15. The available information relating to the financial arrangements in Latin American federations is meagre. In Brazil, most of the important taxes are assigned to the nation—customs revenues, taxes on incomes, production and consumption, business transactions and documents. These levies are the bulwark of the Brazilian tax system; therefore, the States are left without a sufficient number of major sources of revenue. This situation is partially corrected, however, by a constitutional provision requiring the federal government to share certain revenues with the States, apportioning the money on the basis of population, area and a number of other factors. In Argentina, the federal government also shares some of its tax receipts directly with the Provinces. The law of 1932 specified that 17½ per cent of the amount collected each year by way of income-tax shall be apportioned among the Provinces and the federal capital. Thirty per cent of the Provinces' share is distributed on the basis of the cost of government in each Province, as shown by its budget; another 30 per cent is paid out on the basis of the revenue of each Province in the year immediately preceding the apportionment; still another 30 per cent is based on population (relying on the 1914 census figures, rather than more recent estimates); and the remaining 10 per cent is alloted in proportion to the amount of income-tax collected in each Province. The federal capital's share is based on the first three factors only, presumably on the ground that it would receive too large an amount if it were permitted to benefit directly from heavy income-tax collections within its limits. Also, 17½ per cent on the sales tax is apportioned on the same four-fold basis. In addition, the Provinces in Argentina refrain from taxing certain articles covered by federal law and are compensated by the Centre with amounts fixed under a complicated formula which in effect transfers revenue from the wealthier to the poorer Provinces through the gradual substitution of population for collection as the basis of allocation of these taxes.

16. *Share to be assigned to States.*—We now revert to a consideration of the three points on which we have to make our recommendations.

17. We shall first deal with the percentage of the net proceeds of income tax to be assigned to the States. We consider it undesirable to concentrate on income-tax as a balancing factor in the adjustment of resources between the Centre and the units. We think that

an increase in the States' share of this tax should not be used as a major factor in the devolution of further revenues to the States. On the other hand, the State Governments have put forward an almost unanimous demand for an increase in the States' share of income-tax. There will now be sixteen participants in the States' share of the divisible pool against nine participants in the past. Besides, owing to the concession given in regard to the application of the full rates of income-tax for a transitional period in some of the Part B States, the revenue from income-tax may be smaller than otherwise while the distribution to all the participating States will have to be on uniform principles. Moreover, the increase in the number of Part C States has resulted in our recommending a somewhat larger percentage than at present of the net proceeds of income-tax as attributable to Part C States. The cost of collection allocable to income-tax is also likely to be slightly more than at present and these factors would, to some extent, go to reduce the amount of the divisible pool. On a consideration of all the circumstances, we have come to the conclusion that some increase in the share assignable to the States is justified although it cannot be of the order suggested by the majority of State Governments. We accordingly recommend that the percentage of the net proceeds of income-tax to be allocated to the States be raised from fifty per cent to fifty-five per cent.

18. *Distribution of States' share.*—Before dealing with the distribution of the States' share among them, we should like to refer to the points raised by the Government of West Bengal about the construction to be placed upon the language of Article 270 of the Constitution. We do not think that the interpretation placed upon this article by the Government of West Bengal can be sustained. The phrase "within which the tax is leviable" appearing in this article only means that a State in which the tax is not leviable has no right to a share at all. This phrase survives from the Government of India Act, 1935, under which there was uncertainty about the Indian States acceding to the federation and the extent of their accession. While Jammu and Kashmir is now a State of the Indian Union the provisions of the Indian Income-tax Act do not apply to that State. Indian income-tax is not leviable in that State which is, therefore, not entitled to any share of this tax. Nor is there, in our view, any warrant for the contention of the West Bengal Government that the "manner" of distribution involves merely the process of returning to each State a proportion of the revenue collected in its area and that it is only the manner in which the money is to be returned, that is to say, the mode of payment, that is left to the determination of the Commission. The West Bengal Government's contention is untenable as the manner of distribution about which we are asked to

make recommendations is different from the manner of making the actual payments about which there is a specific provision in Article 279(2). The fact that a prescribed percentage of a tax does not form part of the Consolidated Fund of India does not *ipso facto* make it or any portion of it part of the Consolidated Fund of any particular State. The share to which each State is entitled would itself depend upon the manner in which the divisible amount is distributed among the States. It may be noted that, although the language of Article 270 closely follows that of section 138 of the Government of India Act, 1935, the scheme for the allocation and distribution of income-tax in the Government of India (Distribution of Revenues) Order, 1936, was never challenged on the ground that the manner of distribution laid down by it did not correctly carry out the intention of section 138 of that Act.

19. We do not think it proper to consider this problem on the assumption of what the Centre and each of the States could have raised by levying the tax concurrently and dividing the proceeds of the Central tax on that basis, as suggested by the Government of West Bengal. The Constitution does not recognise that any State has a right to the income-tax collected or even arising in its area. A State acquires the right to a definite amount of the divisible pool only after the manner of distribution has been prescribed by the President. Until a State can be said to acquire a right to a particular portion of the proceeds not forming part of the Consolidated Fund of India, there is, speaking constitutionally, no question of the transfer to one State of what belongs to another. A right of concurrent taxation in the income-tax field was not enjoyed by any Part A State. The former Indian States had an independent right to tax incomes but even in their case this right was lost under the Constitution as the integration of these States proceeded on the principle that what are now called Part B States should be in the same position as the former Indian Provinces with respect to functions as well as resources, subject, however, to some transitory provisions.

20. In our view, there is no question of considering the distribution of the tax on the basis of returning to a particular State the whole or part of the collections in its area or on the basis of the States having a notional right to the concurrent levy of income-tax. The units in Australia and Canada had to be assured a quid *pro quo* for forgoing the exercise of a right to which they were entitled to under the Constitution. Similar procedure was followed when the Commonwealth entered the field of taxation of entertainments. We do not think that it is right to proceed from the Australian and Canadian concepts of "compensation" or "reimbursement" to deduce any "scientific principle" applicable to all federal systems where there is a uniform income-tax levied centrally but a part of which has to be distributed among the units. There is no question

of any compensation or reimbursement in India where the former Provinces, now Part A States, at any rate, never possessed any right to tax incomes; even in the case of Part B States the integration did not countenance the theory of compensation either in respect of federal assets or federal revenues passing to the Centre. Even if the States had been in a position to levy their own income-tax, it is difficult to forecast what the pattern of distribution of the collections would have been. With a multiplicity of tax jurisdictions all the income which is now assessed to tax in Bombay or Calcutta may not have been taxable in those places.

21. Various bases have been suggested for the distribution of income-tax among the States, the more important of which are:

(i) the *collection* of income-tax in the various States;

(ii) the amount of income-tax realised in respect of incomes, wherever earned, of individuals *resident* in the different States;

(iii) the collection of income-tax in the various States adjusted with reference to the *origin* of the income;

(iv) the relative *population* of each State;

(v) the relative volume of industrial *labour* in each State;

(vi) the relative *per capita* income of the States; and

(vii) the needs of the different States according to various criteria, *e.g.*, area or sparseness of population, economic backwardness or the inverse relative *per capita* income of each State.

22. The first three factors primarily seek to relate the distribution to the respective contributions of the different States to the total proceeds, and are intended to provide the most adequate or convenient measure of such contribution. At the other end are factors like the area of a state in relation to its population, economic backwardness and inverse relative *per capita* income which are specialised measures of needs. Between these categories fall suggestions for the adoption of such factors as population, industrial labour, etc., which are supposed to reflect both the needs and, to an extent, the contribution of the States.

23. The relevance of the factor of contribution in the distribution of a shared tax will be generally acknowledged. It is recognised, however, that collection is an inadequate index of contribution. Some consideration of the facts regarding collection will serve to bring this out clearly. Between them, the two States of Bombay and West Bengal account for nearly three-quarters of the collections of income-tax in the country: of these collections again, about

three-quarters are made within the cities of Bombay and Calcutta. It is clear that the collections of income-tax within the limits of these two cities which account for the greater part of the collections in the country, do not in the main arise on account of activities which are confined to those limits. Nor can the high collections be accounted for by economic activity which is restricted largely to the States of which they are the capitals. Indeed, though it is impossible to indicate in what degree income subjected to tax in these cities should be ascribed to other States, there is no doubt that a substantial part of the tax receipts in these big port cities in fact accrues in respect of incomes originating beyond the boundaries of the respective States. The high collections of income-tax in these all-India cities are due in a large measure to their being in a sense entrepots of the country's import and export trade and to the concentration within their confines of the head offices of companies and other concerns operating all over the country. A study of the information collected by us from some of the larger concerns indicates that the bases of income-creation are far more diversified and widely spread over the country than the facts of collection would seem to suggest.

24. Apart from the impracticability of establishing the precise contribution of different regions to a common tax, the doctrine of economic allegiance on which the principle of contribution is based is open to objection when applied to the sharing of the proceeds of a tax among the units of a federation. The bases of residence or origin—in so far as origin can be identified—may be conveniently used for providing relief from double taxation as between two sovereign states, but may not give proper results in the allocation of the proceeds of a Central tax like income-tax among the States of a country. The incomes which are earned in different States in India cannot be put in the same category as incomes earned in different sovereign States. Unlike the incomes earned in the different units of a federation the incomes which are taxable by a sovereign state are not necessarily or directly conditioned by the policies pursued by other States. In a federation the policies of the federal government are mainly conceived in the national interest and these may confer unequal benefits and may impose unequal burdens on the different units. To illustrate the point, Central policies governing the regulation of company operations, the development of railways and ports, tariffs and subsidies, freight rates, food subsidies, control, regulation and location of industries and price control are conceived and operated in the broad national interest. These policies have a bearing on the pattern of development of large-scale enterprise in industry and trade which are important contributory sources of income-tax. Since the benefits which result in the growth of enterprise flow from policies pursued on the ground of national

interest, there is every reason why national considerations should in a large measure influence the sharing of the proceeds of taxes on such enterprise.

25. Another argument in favour of giving collection some importance in the distribution of income-tax is based on the heavier responsibilities of States where large collections are made to look after the problems of law and order and welfare in respect of the concentration of industrial labour in those States. The very concentration of industries and business enterprises in those States, however, leads to increased receipts in the State sphere from such heads as stamps, sales taxes and entertainment duties which directly benefit the State finances.

26. Taking all the considerations into account, we believe that the basis of collections, either unadjusted or adjusted with reference to residence of tax-payers, will not secure by itself an equitable distribution among the various States. We think, besides, that even if it were practicable to ascertain precisely the contribution of the various units to the pool of income-tax, distribution based solely on this criterion might not be satisfactory. It might not substantially conform to the relative responsibility of the various States to provide governmental services to the people. Whatever the theoretical validity of alternative indexes of contribution, a proper scheme of distribution should not overlook the broad purpose of the devolution of revenues to the States, which is to make larger funds available to them to meet their expanding responsibilities in respect of the welfare of their population.

27. In so far as needs should, in our view, form the main criterion of distribution, we consider that only a broad measure of need such as is given by the respective populations of the States is suitable for application in the distribution of the proceeds of a shared tax. Further refinements of the needs criterion or specialised and particular measures of needs should be left for consideration in relation to grants-in-aid, as such factors like area, or sparseness of population, economic backwardness, financial difficulties, special burdens or commitments of a State, etc. are more relevant to the determination of grants-in-aid.

28. There remain the bases of industrial labour and per capita national income. It has been argued that the volume of industrial labour in a State reflects both the contribution of a State to the tax-yielding incomes and the State's needs in the way of larger administrative and welfare services. It is, however, in our view only a partial index of either contribution or needs. In regard to the suggested criterion of per capita income, there are no figures for individual States and we are unable, in the circumstances, to form

any idea regarding the possible use of such data for the purpose of distribution of income-tax. We wish to emphasise here that we attach the utmost importance to the selection of factors which can be related to definite, unambiguous and authoritative data.

29. The elements which, in our opinion, should enter into the appropriate scheme of distribution of income-tax thus are: (i) a general measure of needs furnished by population, and (ii) contribution. It will be perfectly justifiable, in our view, to give a moderate weight in the scheme of distribution to the factor of contribution. It is pertinent to bear in mind the fact that there is all over the country a core of incomes—particularly in the range of personal and small business incomes—which could be treated as of local origin. Having regard to the essential postulate of definiteness in the factors chosen, the figures of collections furnish the only index available in respect of contribution, though, as the preceding paragraphs indicate, they are an inadequate and partial measure. On a broad view of the position, we propose that twenty per cent. of the States' share of the divisible pool should be distributed among the States on the basis of the relative collections of States and eighty per cent. on the basis of their relative population according to the census of 1951.

30. As regards the actual distribution of the States' share in each year, we consider that it will be convenient, both to the States and to the Centre, if as at present, the shares are expressed as fixed percentages instead of our formula being left to be applied each year. We accordingly propose that the shares of each of the States should be expressed as a percentage of the total States' share. We have applied the formula for distribution which we propose to the actual figures of collections for the three years ending 1950-51 with suitable adjustments in the case of the Part B States; figures of population taken by us relate to the 1951 census. We accordingly recommend that the percentage share of the net proceeds of income-tax assigned to the States should be distributed among them in the following manner:—

State	*Per cent.*
Assam	2·25
Bihar	9·75
Bombay	17·50
Hyderabad	4·50
Madhya Bharat	1·75

State	*Per cent*
Madhya Pradesh	5·25
Madras	15·25
Mysore	2·25
Orissa	3·50
Patiala and East Punjab States Union	0·75
Punjab	3·25
Rajasthan	3·50
Saurashtra	1·00
Travancore-Cochin	2·50
Uttar Pradesh	15·75
West Bengal	11·25

31. *Share attributable to Part C States.*—As regards the percentage to be fixed under sub-clause (3) of Article 270 in regard to the Part C States we recommend that this should be prescribed as two and three-quarters per cent. of the net proceeds of the tax instead of at one per cent. as at present. We have arrived at this figure by allocating to all the Part C States taken together the share which would have accrued to them collectively had they been entitled to a share of income-tax on the same basis as that adopted by us for the Part A and Part B States.

32. *Cost of collection.*—We should like to draw attention to an incidental point in connection with the calculation of the net proceeds of income-tax. We understand that the practice has been to apportion the cost of collection *pro rata* between income-tax and corporation tax on the basis of the net revenue under these heads. This method of apportionment was originally suggested by Sir Otto Niemeyer. We were informed by the Central Board of Revenue that recent experience indicated that this method did not secure an equitable apportionment of the cost between corporation tax and income-tax, and they suggested an alternative formula for our consideration. This, however, seems to us to be a matter for the Comptroller and Auditor-General to decide, as under Article 279(1) of the Constitution the "net proceeds" in relation to any tax or duty have to be ascertained and certified by him and, in the process, the cost of collection has to be taken into account. In such computations as we have had to make of the net proceeds of income-tax we have, however, allowed for the fact that a somewhat larger share of the cost of collection may be allocable to income-tax than under the present formula.

33. "*Revenue gap grant*" *of Part A States*.—In making our recommendations in regard to the percentage of the net proceeds of income-tax to be assigned to the States and the distribution of the States' share among them we have taken into account the population and the collections of the "merged areas" included in the various Part A States. As these States will be receiving their share of divisible taxes on a common basis with all the other States, the "revenue gap grants" which the States of Bihar, Bombay, Madhya Pradesh and West Bengal are now receiving in respect of the "merged areas" should be discontinued with effect from the 1st April 1952 and any payments made in the current year should be adjusted against their respective shares of the divisible taxes for the year.

CHAPTER V

DIVISION OF UNION EXCISES

Constitutional provisions.—The distribution between the Union and the States of Union duties of excise, other than such duties on medicinal and toilet preparations, is governed by Article 272 of the Constitution which runs as follows:

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

2. In Chapter I we have briefly indicated the reasons which have led us to suggest that a part of the additional resources to be made available to the States should take the form of a share of the revenue from Union excises. We had first to consider whether, having regard to the provisions of Article 272 of the Constitution which leaves it to Parliament to provide by law for the distribution of Union excises between the Union and the States, the Commission were competent to make recommendations in this behalf to the President. Article 280(3) (a) which casts upon the Commission the duty of making recommendations in regard to the distribution between the Union and the States of the net proceeds of divided taxes does not limit the Commission's functions to such taxes as are already divisible but refers also to taxes which " may be" divided between the Union and the States. We, therefore, consider that it is within the competence of the Commission to recommend to the President the division of Union excises, although our recommendations in this behalf cannot be implemented without a law of Parliament.

3. *Historical retrospect.*—Prior to the 1st April 1921 there were excise duties on intoxicating spirits and drugs, salt, cotton cloth and petroleum. The excise duty on salt, cotton cloth and petroleum was retained wholly by the Centre. The excise on intoxicating spirits and drugs was wholly provincial in some of the Provinces and a divided head in others. The Government of India Act, 1919, allocated the excise duty on intoxicating liquors and drugs wholly to the Provinces and left the other excise duties to the Centre. The duty on cotton

cloth was subsequently removed but duties on matches, sugar, steel ingots and kerosene were levied from time to time. By 1937-38 the total revenue from these four excises and the excise on petrol amounted to Rs. 7·66 crores, against Rs. 2·71 crores realised from the excise duties on cotton cloth and petrol in 1921-22. With the outbreak of the war, the need to meet the rising cost of defence expenditure led to increases in the rates of duty on these commodities and to the levy of excise duties on other articles. A duty on pneumatic tyres and tubes was imposed in 1941-42 while in 1942-43 the first step was taken in the levy of an excise duty on tobacco, which has since developed into the most fruitful single source of excise tapped so far. An excise duty on "vegetable products" was levied in 1943-44 and duties on betelnuts, tea and coffee were imposed in the following year. An excise duty on cloth was imposed in 1947-48 while the duty on betelnut was withdrawn in 1948-49. At present twelve important commodities are subject to Union excises and the revenue from them in 1951-52 amounted to Rs. 84 crores.

4. The Taxation Enquiry Committee recommended that excise duties levied for revenue purposes, which in many cases may have to be regulated with reference to customs duties and where consumption of the commodities may also be difficult to trace, should be Central. During the discussions preceding the enactment of the Government of India Act, 1935, the question of utilising Union excises for making more resources available to the units was first considered by the Statutory Commission. The Commission proposed that a Provincial Fund should be established from the proceeds of certain new excises and possibly of the salt duty. The amount in the fund was to be automatically distributed to the Provinces on a *per capita* basis. The Percy Committee (1932) recommended that the Federal Legislature should be empowered to assign to the units the whole or any part of the proceeds of federal excises. This was endorsed by the Joint Committee of Parliament on Indian Constitutional Reforms and embodied in section 140 (1) of the Government of India Act, 1935. The provision in this section was, however, not availed of for transferring a part of any Central excise to the Provinces.

5. The Expert Committee on the Financial Provisions of the Union Constitution recommended no change in the Constitutional position as embodied in the Government of India Act, 1935, but suggested that one-half of the net proceeds of the duty on tobacco should be assigned to the Provinces and distributed on the basis of estimated consumption. The Constitution made no specific provision for the sharing of any excise duty and left the matter to be regulated, as in the past, by an Act of the Union Parliament.

6. While, as mentioned earlier, Union excises were not shared between the Centre and the Provinces, there were arrangements for

the sharing of some of the excises like those on matches, sugar, tobacco and vegetable products with some of the former Indian States before their integration. These sharing arrangements, the basis of which sometimes varied from State to State, lapsed with the financial integration of these States and no State is now in receipt of a share of any Central excise duty.

7. *Claims advanced by States.*—During our earlier discussions with the State Governments, the possibility of distributing Union excises was not prominently before us, although this had been raised by a few of the State Governments nor had we specifically asked for the views of the State Governments on this question. But as our discussions with the State Governments progressed we felt that we should formally obtain their views. We accordingly addressed them on the 19th September 1952 and we reproduce the communication in Appendix IV. We received the views of all the State Governments, and have taken them into account in making our recommendations.

8. All the States except Bombay, Madhya Pradesh, Assam and Rajasthan, suggested the distribution of all the excise duties. The Bombay Government suggested the distribution of the duties on tobacco, matches, cloth, sugar and tyres, the Madhya Pradesh Government the duty on tobacco, the Assam Government the duties on sugar, cotton cloth, tobacco, matches, petrol and tea and the Rajasthan Government the duties on cloth, sugar, matches and tobacco. All the States except Assam, Mysore, Travancore-Cochin, Saurashtra, Punjab and Rajasthan proposed that the duties suggested by them should be divided equally between the Centre and the States. The Government of Assam suggested that a fund of Rs. 30 crores should be created annually for the benefit of the States from the proceeds of the duties on sugar, cotton cloth, tobacco and matches, while the excise duty on tea should be divided equally between the Centre and the States. In regard to petrol, the State asked for a special allocation of 75 per cent of the duty to Assam on the basis of production. The Governments of Mysore and Travancore-Cochin proposed that 70 per cent of the net proceeds of all excise duties should be allocated to the States while the Government of Saurashtra suggested that 60 per cent should be the States' share. The Punjab and Rajasthan Governments expressed no view on this aspect of the question. As regards the distribution of the States' share among them Madras, West Bengal, Punjab and Bihar suggested consumption as the basis. Uttar Pradesh, Madhya Pradesh, Assam, Madhya Bharat, Travancore-Cochin and the Patiala and East Punjab States Union proposed population. Orissa suggested that half the States' share should be distributed on the basis of population and the balance on the basis of area of the State, and Saurashtra that 80 per cent should be distributed on a population basis and the balance on a consumption basis. The Government of Bombay suggested the distribution of the States' share according to

their relative contribution to the receipts. The Government of Mysore suggested that 45 per cent to 60 per cent of the States' share might be distributed on the basis of collection, 35 per cent to 50 per cent on the basis of population or consumption and 5 per cent with reference to special circumstances.

9. *Selection of excises to be divided and States' share.*—We had first to consider whether the States should be given a share in all the Union excises or in only one or more selected excises. We consider that it is inadvisable, at any rate to begin with, to divide too many excises, particularly as the yield from some of them is relatively small, and that it is desirable to restrict the division to a few selected excises. The selected excises should be such as are levied on commodities which are of common and widespread consumption and which yield a sizeable sum of revenue for distribution. There should also be reasonable stability of yield and comparative immunity of the duties selected from fluctuations related to changes in the customs tariff. Taking all these factors into account we have come to the conclusion that duties on tobacco (including cigarettes, cigars, etc.), matches and vegetable products are the most suitable for distribution. We recommend that 40 per cent of the net proceeds of these duties be allocated to the States. We have fixed the States' share with reference to the amount which, in our scheme as a whole, we consider it appropriate should be transferred to the States by the division of excise duties.

10. *Distribution of States' share.*—The question of determining the mode of distribution remains. The resources of the States require to be strengthened. At the same time, the scheme of distribution needs to be balanced and equitable as a whole. For the period with which we are concerned, we believe these objectives can be achieved by recommending the distribution of the excise duties on a *per capita* basis. We, therefore, recommend that the States' share of the excise duties be distributed among them on the basis of population.

11. As we have mentioned earlier, some States have suggested consumption as the basis of distribution. That basis cannot at present be considered, as there are no reliable data regarding the consumption of each of the commodities in the various States. We recommend that steps should be taken to collect and maintain statistics of the consumption of all major commodities that may be subject to Union excise from time to time, so that the data may be available to the Commission in future. We recognize, however, that meticulous accuracy in regard to these figures may not be possible.

12. Even if the requisite data become available during the period covered by our recommendations, we are of the opinion that the basis for distribution which we have suggested should not be disturbed

during this period. Firstly, the States should have the least uncertainty with regard to their share of the duties. Secondly, it is not possible at this stage to say what adjustments would be called for in our scheme of distribution of revenues, which we wish to be treated as an integrated one, if the excise duties were to be distributed on the basis of consumption.

13. Our recommendations on this subject can be given effect to only by an Act of Parliament and we suggest that action to promote the necessary legislation may be taken at the earliest possible date. We further recommend that this legislation should be given effect to from the 1st April 1952. The Act may provide for the distribution of the share of the net proceeds of the three excises suggested by us for allocation to the States on the following basis, which represents the percentages of the population of the different States in accordance with the Census of 1951.

State	*Per cent*
Assam	2·61
Bihar	11·60
Bombay	10·37
Hyderabad	5·39
Madhya Bharat	2·29
Madhya Pradesh	6·13
Madras	16·44
Mysore	2·62
Orissa	4·22
Patiala and East Punjab States Union	1·00
Punjab	3·66
Rajasthan	4·41
Saurashtra	1·19
Travancore-Cochin	2·68
Uttar Pradesh	18·23
West Bengal	7·16

14. When the excise duty on tobacco was first levied in 1943-44, the Central Government considered it desirable to avoid the taxation of this commodity both by the Centre and by the Provinces. They accordingly invited the four Provinces that were taxing tobacco, in one form or another, namely, Bombay, Madras, Central Provinces and Punjab, to suspend their measures of taxation and refrain from taxing tobacco. They agreed to pay a compensation on this account of Rs. 29 lakhs a year to Bombay, Rs. 22 lakhs a year to Madras, Rs. 1·5 lakhs a year to the Central Provinces and Rs. 6,000 a year to

Punjab for a period of five years, when the position was to be further reviewed. The compensation paid to Punjab was withdrawn after the partition while the payment to Madhya Pradesh has remained unchanged. With effect from the 1st April 1949 the amount of compensation payable to Madras was raised to Rs. 56 lakhs and that to Bombay to Rs. 54 lakhs. We see no reason why, when the remaining States are left free to tax tobacco (and some of them actually do so), only these three States should be called upon to refrain from doing so and receive a compensation on this account. As we are recommending that a part of the excise duty on this commodity should be distributed to the States, we feel that it would be anomalous to continue the compensation payments to these States. We accordingly recommend that the existing arrangements with these States should be terminated with effect from the 1st April 1953, leaving them free to levy such taxes as they may like.

CHAPTER VI

GRANTS-IN-AID IN LIEU OF JUTE EXPORT DUTY

Constitutional provision.—One of the forms of grants-in-aid provided for by the Constitution is to the four States of West Bengal, Bihar, Assam and Orissa in lieu of their share of the export duty on jute and jute products. We have been directed by the President to make recommendations to him regarding the sums to be prescribed as grants-in-aid payable to these States under Article 273.

2. *Historical retrospect.*—The jute export duty was first levied in 1916 and became divisible with the jute-growing Provinces only under the Government of India Act, 1935. The question of giving the jute-growing Provinces a share of the export duty on jute and jute products was considered during the constitutional discussions preceding the enactment of the Government of India Act, 1935. The Government of India Act, 1935, in Section 140(2) provided that "one half or such greater proportion as His Majesty in Council may determine of the net proceeds in each year of any export duty on jute or jute products shall not form part of the revenues of the federation, but shall be assigned to the Provinces or federated States in which jute is grown in proportion to the respective amounts of jute grown therein." Sir Otto Niemeyer who was asked to make recommendations regarding the proportion of the export duty to be assigned to the Provinces recommended that the provincial share be increased to 62½ per cent of the net proceeds and this recommendation was embodied in the Government of India (Distribution of Revenues) Order, 1936.

3. The division of Bengal and Assam on the partition of the country, which resulted in roughly 70 per cent of the jute growing area of undivided India being included in Pakistan, necessitated the reconsideration of the allocation of the duty made in the Government of India Act, 1935, particularly as the basis of distribution between the Provinces was the amount of jute grown in them. Accordingly, when the Government of India Act, 1935, was adapted at the time of the transfer of power, the provision in Section 140 about the proportion of the jute export duty allocable to the Provinces was amended and the provincial share was left to be prescribed by Order of the Governor General. In the altered circumstances the Government of India decided that the share of the jute export duty allocable to the Provinces should be reduced from 62½ per cent of the net proceeds to 20 per cent, the basis of allocation among the Provinces continuing to be the amount of jute grown in them. The necessary

Order was made by the Governor General from year to year prescribing this percentage. This reduction in the share of the jute export duty led to protests from certain jute-growing States. The difficulty created for the Government of West Bengal by the loss of revenue from this source was recognised by the Government of India who sanctioned *ad hoc* grants of Rs. 40 lakhs in 1947-48 and Rs. 50 lakhs in each of the years 1948-49 and 1949-50.

4. The Expert Committee on the Financial Provisions of the Union Constitution held that export duties were unsuitable for sharing with the Provinces and recommended that these should be entirely Central. They, however, proposed that the Provinces which were receiving a share of the export duty on jute and jute products should be compensated for the loss of this item of revenue. They suggested a grant of Rs. 100 lakhs to West Bengal, Rs. 15 lakhs to Assam, Rs. 17 lakhs to Bihar and Rs. 3 lakhs to Orissa.

5. The Constitution has made no provision for the sharing of export duties. The principle of compensation, for a transitional period, to the four jute-growing States was incorporated in Article 273. The sums to be paid were not, however, specified but were left to be prescribed by the Order of the President. After a Finance Commission have been constituted, the President is required to make the Order after considering the recommendations of the Commission.

6. In November 1949 the Government of India requested Shri C. D. Deshmukh to determine the grants-in-aid payable to the four States mentioned above. Shri Deshmukh held that the grants-in-aid payable to these States must necessarily be related to the sums actually received in the past by the States concerned, viewed as part of their revenue, and could not be related to any estimates of the net proceeds in future years of the export duty. He decided that, until the Finance Commission proposed any revision, the following annual grants-in-aid should be paid to these States:—

	(*In lakhs of rupees*).
West Bengal	105
Assam	40
Bihar	35
Orissa	5

These grants-in-aid were paid in 1950-51 and 1951-52.

7. *Claims by States.*—In their representations to the Commission the Government of West Bengal stated that the reduction of the provincial share of the jute export duty by the Government of India in 1947 without consulting the Provinces was unjustified and did not take into account the fact that because of the location of the jute industry

in Calcutta there was no diminution in the revenue from the export duty as a result of the partition. They contended that the reduction in the provincial share and its distribution on the basis of the volume of jute grown adversely affected West Bengal only where almost the whole of the manufacturing capacity was located, and not the other jute-growing Provinces. They also stated that the decision of Shri C. D. Deshmukh about the amount of the grant-in-aid payable to West Bengal, which related it to the sums actually received in the past, was not correct, as the basis of the previous allocation itself was open to question. They submitted that the Commission had first to decide, having regard to the language of Article 273 (1), whether the grants should vary from year to year in relation to the net proceeds of each year and, if the Commission came to the conclusion that the grants should be fixed once for all, they suggested that the grants should be fixed in relation to the revenue of 1951-52. Incidentally, we may mention that the Government of West Bengal in their comments on the Deshmukh award (a copy of which was submitted by them to us) agreed "that the grants or the compensation payments must be related to the sums received in the past and not what may be received in the future".

The Government of Assam urged that the Commission should restore the States' share of the duty to the original 62½ per cent.

The Government of Orissa were of the view that if the grant-in-aid was to be in the nature of a compensation the amount should be fixed on the basis of what the States had actually received in the past.

The Government of Bihar suggested that the share of the jute-growing Provinces should be fixed at a suitable percentage, above 20 per cent of the net proceeds of the duty, and distributed on the basis of the amount of jute grown in each Province.

8. *Implications of Constitutional provisions*.—In view of the point raised by some of the States regarding the construction of Article 273 we had first to consider whether the language of this Article required the grants-in-aid to be related to the net proceeds of the duty in each year. After a careful examination of the question we have come to the conclusion that the Article cannot bear such an interpretation. Firstly, if the intention of the Constitution had been to maintain, for the limited period mentioned in Article 273, the right of the four States mentioned in that Article to a grant equivalent to a share of the export duty on jute and jute products, the Constitution would have made a specific provision to that effect. Secondly, in terms, this Article requires the President to prescribe *sums* of money for each State and not shares of revenue. Thirdly, as jute is grown in some of the other States also it could not have been the intention of the Constitution to limit the payment of the grants-in-aid to these four States, except

on the basis of compensation for the loss of an item of revenue which had accrued to them in the past. We consider that the references in this Article to the payment being in lieu of a share of the export duty should be construed not as continuing a right to a share of revenue but as indicating the reason for which the grants-in-aid are to be made. Similarly, the reference in sub-clause (2) of that Article to the continuance of the export duty on jute as a condition to the making of the grant should be construed not as establishing any direct connection between the amounts of the grants-in-aid and the revenue collected in each year, but as limiting the payment of the grant to the period during which the duty itself—in regard to which the temporary right to receive a grant arose—continues. We are, therefore, of the view that the grants-in-aid under this Article should not be related to the amount of the revenue in each year subsequent to the commencement of the Constitution. For the same reason, we are unable to accept the contention of West Bengal that the grants-in-aid should be related to the revenue of 1951-52.

9. A suggestion was made before us by a Chamber of Commerce that the grants-in-aid to these four States should be determined with reference to the proportion which the revenue from this source bore in the past to the total revenue of the State. In the allocation of the States' share of the export duty in the past this had never been a consideration and we see no reason why it should now be imported into this question. The suggestion also seems to ignore the fact that under the Constitution *sums* have to be prescribed which, once prescribed, will *continue* to be charged; it would be impossible to do this if the grants-in-aid were to be related to the total revenue of the State in subsequent years, which cannot be foreseen.

10. *Determination of grants-in-aid*.—On the view of the constitutional provision taken by us the grants-in-aid payable to these States have to be of fixed sums. Considering, however, the objection raised by the Governments of these States that the alteration in the provincial share of the export duty by the Government of India in 1947 was made without consulting them, we feel that it would not be proper to fix the grants-in-aid with reference to the actual sums received by the four States under the revised allocation. In our opinion it would be reasonable if the shares of these States in 1949-50—the last year in which the States were entitled to a share of the jute export duty—were worked out on the basis of allocation before its modification by the Government of India in 1947, and grants were determined accordingly.

11. The Government of India Act, 1935, read with the Government of India (Distribution of Revenues) Order, 1936, provided for the distribution of 62½ per cent of the net proceeds of the export duty on jute and jute products among the jute-growing Provinces in proportion to the volume of jute grown therein. In 1949-50 the net proceeds

of the export duty were Rs. 968 lakhs and the divisible pool for that year at 62½ per cent would amount to Rs. 605 lakhs. The total quantity of raw jute exported in 1949-50 was 2·01 lakh tons and the raw jute used in the manufactured goods exported in that year (on the assumption* that the manufacture of 1 ton of jute goods requires 29 maunds of raw jute) was 8·38 lakh tons. During that year the production of raw jute in these four States was:

	(In lakhs of tons)
West Bengal	2·59
Bihar	1·29
Assam	1·28
Orissa	0·26

As the basis of distribution, which has remained unchanged ever since the jute duty began to be shared, is the amount of jute grown, these four States cannot, in equity, lay claim to the whole of the divisible pool as a much larger quantity of jute than grown in these States went into the total exports for that year, taking raw jute and manufactured goods together. Even on the assumption that the entire production of these States went into exports in that year and that the demand for local consumption was met entirely from other sources, the *pro rata* share of these States in the divisible pool for that year would, in round figures, amount to:

	(In lakhs of rupees)
West Bengal	150
Bihar	75
Assam	75
Orissa	15

We recommend that these sums be prescribed as grants-in-aid payable annually to these States under Article 273 of the Constitution, with effect from 1952-53.

* Monthly Summary of Jute and Gunny Statistics.

CHAPTER VII

PRINCIPLES OF GRANTS-IN-AID

Constitutional provisions.—The Finance Commission have been charged under Article 280 (1) (b) of the Constitution, with the duty of making recommendations to the President as to the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India. Article 275 provides for the payment of such sums as Parliament may by law provide as grants-in-aid of the revenues of such States as Parliament may determine to be in need of assistance. The first proviso to Article 275 requires grants to be made to a State to enable it to meet the cost of schemes of development undertaken with the approval of the Central Government for the purpose of promoting the welfare of the Scheduled Tribes or to raise the level of administration of the Scheduled Areas in the State to that of the rest of the areas of that State. In regard to Assam, the second proviso requires the payment of a grant-in-aid equivalent to the average excess of expenditure over the revenues of the State during the two years preceding the commencement of the Constitution in respect of the administration of the tribal areas specified in Part A of the table in paragraph 20 of the Sixth Schedule, and the cost of such schemes of development as may be undertaken by that State, with the approval of the Government of India, for raising the level of administration of these areas to that of the rest of the areas of that State. Provision is made in Article 273 for grants-in-aid of the revenues of the States of Assam, Bihar, Orissa and West Bengal in lieu of their share of the net proceeds of the jute export duty.

2. We have dealt with the grants-in-aid in lieu of the share of jute export duty in an earlier chapter. In regard to the grants-in-aid under the provisos to Article 275, the principles of these grants are contained in the provisos themselves. The principles which we enunciate in this chapter would, therefore, concern the grants-in-aid of the revenues of States, under the substantive portion of clause (1) of Article 275.

3. *Scope of grants-in-aid of revenues.*—The term "grants-in-aid of the revenues" has not been defined in the Constitution. Both the Government of India Act, 1935, and the Constitution contain provisions under which assistance may be given to the States by way of grants. Section 142 of the Government of India Act provided for the payment of such sums as might be prescribed by His Majesty in Council as grants-in-aid of the revenues of such Provinces as His Majesty might determine to be in need of assistance, while Section 150 gave the

Centre or a Province power to make grants for any purpose, notwithstanding that the purpose was not one with respect to which the Federal or the Provincial Legislature, as the case might be, might make laws provided the burden on the revenues was for the purpose of India or some part of India. Article 275(1) of the Constitution, in its substantive part, is worded similarly to Section 142 of the Government of India Act, 1935, while Article 282, except for the substitution of 'any public purpose' for 'any purpose' also follows the wording of Section 150 of the Government of India Act, 1935. Thus Article 282 permits the Union or a State to make grants for any public purpose notwithstanding that the purpose is not one with respect to which Parliament or the Legislature of a State, as the case may be, may make laws.

4. The grants made to the Provinces under Section 142 of the Government of India Act, 1935, the grants made to Assam, Punjab and Orissa so far under Article 275 of the Constitution and the grants made to the four jute-growing Provinces under Article 273, have been of the nature of unconditional assistance to the revenues of these States. All the grants have been made by formal orders issued in accordance with the provisions of the Constitution. The "revenue gap grants" made to Part B States under Article 278(1)(b) of the Constitution and similar grants to the Part A States in respect of "merged areas" have likewise been unconditional grants. Under the powers given to the Centre by Article 282 (and previously by Section 150 of the Government of India Act, 1935) large sums have in the past been made available to the States by way of specific grants and such grants still continue to be made. A reference to some of these grants is made later in the chapter.

5. It is possible to argue that the term "grants-in-aid of the revenues" should be construed as confining it to such grants as are intended for the augmentation of the revenues of the receiving State without any limitation as to how the money so made available should be spent. We consider that the problem has to be viewed in the larger perspective of securing an equitable allocation of resources among the units. We are, therefore, of the view that the scope of Article 275 or Article 280(3)(b) should not be limited solely to grants-in-aid which are completely unconditional; grants directed to broad but well-defined purposes could reasonably be considered as falling within their scope. In enunciating the principles which should govern grants-in-aid of the revenues of the States we accordingly propose to cover both general grants and grants for broad purposes.

6. Before we proceed to a consideration of the principles which should govern grants-in-aid of the revenues of the States, we refer

briefly to the grants-in-aid given in the past by the Central Government to the State Governments in India as well as the experience of other countries.

7. *General grants*.—The system of grants in India has had a fairly long history, some reference to which has been made in Chapter II. The system of Provincial assignments, which was in operation before 1919, was the earliest experiment in the field. The first statutory provision for grants-in-aid, however, came with the Government of India Act, 1935, under which grants-in-aid were given to Provinces in need of assistance. These were prescribed on the basis of Sir Otto Niemeyer's Report. Sir Otto Niemeyer made his enquiry preparatory to the coming into effect of a new constitution. He proceeded from the premise that each Province should be so equipped as to be able to enjoy a reasonable prospect of maintaining financial equilibrium, and in particular that the chronic state of deficit into which some of the Provinces had fallen should be brought to an end, consistently with the condition of not jeopardising the solvency of the Centre. He stated that in any country of the size of India there must inevitably be substantial differences in standards of administrative needs and possibilities just as there were in other areas of the same size elsewhere in the world, or for that matter even in much smaller units. He recognised that "some Provinces are intrinsically better off than others and at the moment less urgently in need of additional resources; and it is both fair and inevitable that a certain measure of corrective should be applied, even if it means that Provinces which have been able to attain higher standards of administration should now to some slight extent have to progress more slowly". Though he recognised the responsibility of the Provinces to look after their own budgets, he examined the budgetary position of the different Provinces and hence the needs of each Province, making necessary adjustments in the budget to make it reflect as far as possible the prospective position of a Province. He accordingly determined the measure of assistance which should be given to the various Provinces. This assistance, he recommended, should be afforded in various forms such as debt cancellation, increase in the share of the net proceeds of the jute export duty to be given to jute growing Provinces and grants-in-aid, either fixed or tapering, in the case of some Provinces. Grants-in-aid were thus based on an assessment of the final measure of need, being the amounts which were estimated to be sufficient to place the finances of the Provinces on an even keel, after taking into account all other forms of assistance including devolution of revenue and adjustment of debts.

8. Grants-in-aid which were recommended by Sir Otto Niemeyer were unconditional grants. The amounts were charged on the revenues of the Central Government and accrued as revenues to the

Governments of the units, and there was no question of the Governments conforming to any conditions. Later, grants-in-aid amounting to Rs. 100 lakhs in 1947-48, Rs. 150 lakhs each in the following two years, and Rs. 75 lakhs in 1950-51 were made to Punjab under Section 142 of the Government of India Act.

9. *Other grants.*—Besides these general or unconditional grants, there were also other forms of grants given by the Centre, mainly of the specific type. The more important of these may be noticed briefly.

During the three years ending 1945-46 the Centre gave the Government of Bengal a total grant of Rs. 18 crores to assist them in meeting a part of the expenditure on famine and the subsequent rehabilitation measures.

From 1944-45 onwards, the Central Government have been giving the States substantial assistance for "Grow More Food" schemes. The grants are given on the basis of schemes of additional food production prepared by State Governments. Allocations of funds are not made to each State as such, but care is taken to see that "every State gets a fair share of the total block allocation, provided that the State has useful and productive schemes to execute". "The underlying principle is to produce the maximum quantity of foodgrains at minimum cost irrespective of regional considerations". Between the 15th August 1947 and 31st March 1952, these grants aggregated to Rs. 13·71 crores.

Another important category of grants was the post-war development grant. They were related to specific schemes of development in respect of which the State Governments were expected to contribute a proportion of the cost—usually one-half, but lower or nil in the case of certain Provinces like Orissa, Assam and Punjab. Between 15th August 1947 and 31st March 1950, when the grants were generally stopped, the total of these grants amounted to Rs. 38·32 crores.

Mention may also be made of the Special Development Grant of Rs. 3 crores to the four States of Saurashtra, Madhya Bharat, Rajasthan and Patiala and East Punjab States Union over the two years 1951-52 and 1952-53 for the purpose of financing specific development schemes to remedy their special backwardness, which is distributed largely on a population basis.

Under sub-clause (a) of the second proviso to Article 275, which requires a grant-in-aid to be paid to Assam, equivalent to the average excess of expenditure over the revenue during the two years immediately preceding the commencement of the Constitution in respect of the administration of certain tribal areas, a grant of Rs. 40 lakhs per annum is paid to the State. In addition, under sub-clause (b), a grant-in-aid of Rs. 36 lakhs in 1951-52 and Rs. 35 lakhs in 1952-53 is provided for payment to Assam for meeting the expenditure on schemes of development. Under proviso (1) which prescribes grants for the development of scheduled tribes and areas, Rs. 24 lakhs and Rs. 124·8 lakhs were given in the years 1950-51 and 1951-52 respectively; the provision for 1952-53 is Rs. 135·5 lakhs.

A new category of grants is that relating to the community projects which involve recurring and non-recurring expenditure by State and Central Governments and sizeable grants by the Centre. Broadly, the scheme postulates a progressively diminishing contribution by the Central Government supplemented by an increasing contribution by the State Governments themselves.

10. *Experience of other countries.*—Both general or unconditional and specific or conditional grants have been used with comparative success in different countries and the debate on their relative merits continues. Unconditional grants have been tried and are in operation more prominently in Canada and Australia. Of these a type of grants which is of particular interest to us is that of 'special' grants in Australia. In that country where special grants are given to three States, called the claimant States, the principles of general grants-in-aid have been elaborated and refined to a greater degree than perhaps in any other country. The concept of the budgetary standard underlies the whole procedure of such grants. This is basically founded on the criterion of need, modified to ensure that a State receiving aid is not extravagant in its expenditure and does its best to tap its own sources of revenue. The modifications are applied by taking into account in the grants given any scope that may exist for reducing the expenditure or enlarging the receipts from taxation. Subject to these adjustments, the objective of grants is to enable the States obtaining them to function at a standard not appreciably below that of the States which do not claim any assistance. A margin is maintained on the ground that a State should not expect to be brought to a level of equality with other States which rely on their own resources and that a State's incentive to exert itself to better its position should be left unimpaired. But the system depends for its efficient functioning on an annual enquiry into and determination by the Commonwealth Grants Commission of the record of performance and needs of the States.

11. In other countries, specific grants are also given for the development of particular services and activities which are felt to be of national concern. Usually such grants are made subject to conditions of 'matching' the federal grants with equal or varying degrees of contribution by the States. While in Canada and Australia, the conditional grants exist side by side with the unconditional, in the U.S.A. they constitute virtually the only method of assistance to the States, the federal aid being channelled to the support of particular activities.

12. Wherever specific grants have been developed, the main case in favour of them rests on (1) the deficiency of States' resources in relation to functions; (2) the concern of the federal government in seeing that welfare services (*e.g.*, education, health, etc.) and developmental activities (*e.g.*, roads) are maintained at a certain minimum standard throughout the country; (3) the interest of the federal government in developing some activities which State Governments, left to themselves, might neglect (*e.g.*, unemployment insurance, social security, etc.); (4) the possibility of improving the quality of performance in the sphere of social services, owing to the superior technical advice available to the higher level of government; and (5) the desirability of some co-ordination of standards which can be achieved thereby.

13. It should be noted, however, that historically such grants became important owing to the first factor, *viz.*, deficient resources of States, at a time when the impact of a rapidly changing economic situation created large and insistent demands for new governmental services, though the interest of the federal government in maintaining certain minimum standards was responsible for the earliest excursions into the field.

14. The most important factors that appear to have influenced policy in the field of conditional grants are the increasing adaptation of these grants on the one hand to the ability or fiscal capacity of the units and on the other to their relative need for the specific services concerned. The former factor leads to the varying of the requirement to 'match' the federal grant with a State contribution so as to reduce the State contribution in the case of financially weaker States. The principle of need is, of course, innate in the purpose of a grant, and implies that States with a deficiency of the particular service which is assisted, *e.g.*, education or roads, would receive a proportionately greater measure of assistance than those which are relatively better served.

15. As regards the relative role of unconditional and conditional grants in the scheme of financial assistance by the federal authority, there is no clear lead in the experience of other federations, there being no single system of universal applicability in regard to this sector of federal financial relations. It appears that each country has tried to find for itself the system or combination of systems that best fits the facts of its political, economic and administrative conditions.

16. We believe that both the methods of conditional and unconditional grants should have their part to play in the scheme of assistance by the Centre. Unconditional grants should reinforce the general resources of the State Governments, which they would be free to

allocate among competing purposes according to their best judgment, subject to the usual administrative and parliamentary checks. Grants for broad purposes may be given to stimulate the expansion of particular categories of services rather than specified schemes under those categories. In the following paragraphs we consider the principles which should govern grants-in-aid to States.

PRINCIPLES RECOMMENDED

17. *Budgetary needs.*—As budgetary needs are an important criterion for determining the eligibility of a State for a grant-in-aid as well as for the assessment of the amount of the grant-in-aid, the budget has necessarily to be the starting point of an examination of fiscal need. In using the budget as a basis for this purpose, several adjustments are, however, necessary in the State budgets. These adjustments should, in the first place, reduce all budgets to a comparable basis. Adjustments are called for in respect of any abnormal or unusual and non-recurrent items of receipts or expenditure which may vitiate comparisons unless these are excluded. Besides such adjustments, which should be made for the purpose of arriving at what might be broadly termed a normal budget, certain other allowances mentioned below have also to be made.

18. *Tax effort.*—The extent of self-help of a State should determine the eligibility for, as well as the amount of, help from the Centre. This requires an assessment of the general scope for additional taxation in the States and of their tax effort. The point may be made that differences in relative taxation from State to State are of no relevance for the purpose of determining the degree of Central assistance to various States, as such assistance should be based primarily on the comparative poverty or affluence of the States, as judged by indices of their relative *per capita* incomes. This argument seems to miss the rationale of taking the relative tax effort of States into consideration. A State which is prepared to raise the maximum amount of revenue through taxation is better entitled to Central assistance than a State which does not itself act sufficiently in the same direction. In respect of a State in the latter class, there is no guarantee that the benefit of external assistance will, in fact, accrue to the weaker sections of the community for whom it would be intended. Assistance to such a State may have the effect of postponing action by the State to increase its own taxation. Such assistance from outside may thus go to relieve those who are comparatively well off from the necessity of contributing more to State revenues rather than help to increase public expenditure for the benefit of the general mass of the people. It may be observed that it is only in clear cases of inadequate taxation that this should affect the quantum of assistance a State would otherwise be qualified to get.

19. *Economy in expenditure.*—An allowance should be made for possibilities of economy in expenditure. The principle of self-help also implies that a State should utilise its existing resources to good account before it makes a claim for assistance from the Centre. We should like to emphasise here that it is not the purpose of any system of grants-in-aid to diminish the responsibility of the State Governments to balance their own budgets. The method of extending financial assistance should be such as to avoid any suggestion that the Central Government have taken upon themselves the responsibility for helping the States to balance their budgets from year to year. If the amount of grants-in-aid were to be merely in proportion to the financial plight of a State, a direct premium might be placed on impecunious policies and a penalty imposed on financial prudence. On the other hand, if a State is eligible for a grant on other grounds, it should not be precluded from this benefit, merely because its budget is in order as a result of its sound financial management.

20. *Standard of social services.*—An important purpose of grants-in-aid is to help in equalising standards of basic social services. The standards of social services in a State may be a criterion for grant-in-aid. Thus, of two States whose budgets, with the adjustments already indicated, point to the need for an equal amount of assistance, the one with a significantly lower level of social services should, in our view, qualify for a higher amount of assistance than the other with a relatively high level of such services. Alternatively, in marginal cases, a State with a high level of such services may become ineligible, while another State with a low level of services is eligible for a grant. Factors like the area of a State in relation to its population, economic backwardness, etc., would be reflected in the level of social services and the standard of development of a State, and would be taken into account accordingly under this principle.

21. *Special obligations.*—Grants-in-aid may be given to help a State to meet special burdens or obligations of national concern, though within the State sphere, if they involve an undue strain on its finances. Certain States may have special obligations or burdens likely to continue for a period of years, i.e., commitments arising out of abnormal conditions. These would justify assistance by way of grants-in-aid to the States concerned. The circumstances necessitating assistance may, for example, include the consequences of partition, such as the disruption of the institutional framework of a State, the strain on the economy and administration of a State, and its increased responsibility in respect of security.

22. *Broad purposes of national importance.*—Independently of the budgetary criterion, grants may be given to further any beneficient service of primary importance in regard to which it is in

the national interest to assist the less advanced States to go forward. It is, in our view, desirable to provide grants-in-aid for a broad purpose, selected with reference both to the importance of the service assisted and to the practicability of measuring, from time to time, the standard of the service on the basis of reliable indices.

23. We have ourselves applied the above principles, as far as possible, in the determination of the States in need of assistance as well as of the amounts of grants-in-aid which we recommend for the various States. As information regarding the finances of State Governments and other relevant matters comes to be better organised, it may be possible to make a more precise application of the principles.

CHAPTER VIII

GRANTS-IN-AID TO STATES

Constitutional provisions.—We have been directed by the President to make recommendations in regard to the States which may be in need of assistance and the sums to be paid to such States as grants-in-aid of their revenues, under the substantive portion of clause (1) of Article 275 of the Constitution.

2. *Some broad considerations.*—In assessing the needs of the States and formulating our recommendations in regard to the sums to be paid as grants-in-aid we have considered the budgetary position of the States and the probable amount which would accrue to them under our plan for the devolution of revenue from income-tax and Union excises, which we have explained in the earlier chapters of the Report. We have taken into account the additional burdens arising out of the partition of the country which have been placed upon some of the States. We have also kept before us the need for assisting to some extent, the less developed States by the provision of special grants which would enable them to raise the standards of one of the important social services. While it has not been possible for us to meet all the demands placed before us by the State Governments for assistance by way of grants, as a result of our scheme most States will receive, by the devolution of revenue and Central grants, more resources than they received in the past.

3. *Claims by States.*—We received from the State Governments forecasts of the revenue and expenditure for the five years beginning with 1952-53. These were based on the existing levels of taxation and expenditure and were of considerable assistance to us in taking a view of their financial position. In addition to requests for assistance on the basis of budgetary needs most States also preferred a number of specific claims for assistance. These latter covered a wide field and among the more important we would mention claims for assistance for financing the Five-Year Plan and carrying out schemes not included in it; meeting the burdens in regard to the maintenance of security as a result of the partition and the subsequent developments; covering the recurring loss on the maintenance of certain minor ports; meeting expenditure on the reorganisation of pay structures in certain States as a result of the integration or merger of the former Indian States, and levelling up of administration in the "merged areas."

4. So far as the claims relate to finance required for schemes of capital outlay, these are hardly likely to be met by grants from revenue with which we are primarily concerned. Nor are we concerned with the provision of finance for the various individual schemes included in the Five-Year Plan taken by themselves. In so far as they involve expenditure on revenue account this will have to be met from the revenues, as augmented by the States' efforts or by our scheme.

5. As regards the other requests for grants which relate to expenditure normally met out of the revenue budget, we have given them our careful consideration and taken them into account in assessing the needs of the individual States. Some of the factors, such as the effects of "mergers", given as the ground for the claims are already reflected in the expenditure budgets of the States which we have taken into account. For the rest, these demands will have to be financed from the future budgets of these States to the extent to which their finances permit. In our view, so long as the claim relates to a subject which is constitutionally the responsibility of a State Government, it can arise ordinarily only as part of the total financial commitments of the State as a whole. Lastly, for reasons explained in an earlier chapter we have not gone into the complaints made by some of the Part B States against the fixation of the "revenue gap grants".

6. The Government of Travancore-Cochin asked for the continuance of the grant of Rs. 3 crores promised to them in the current year to meet the expenditure on subsidising food in the State. This grant is now presumably being made under Article 282 of the Constitution with which we are not required to deal. In any case, the question of giving a subsidy in the future will have to be considered from time to time with reference to changes in policy in regard to imports and internal procurement, the then ruling prices and the price level which the State Government may be required by the Centre to maintain. It is not, therefore, possible to take any view on this problematic matter but we merely mention it because of the importance attached to this point by the State Government. We should not, thereby, be considered as having expressed any opinion on the merits of the claim.

7. *Revenue and expenditure of States.*—Appendix VIII summarises for each State its revenue and expenditure in the last three years and the estimated position in the current year, excluding from its revenue the share of income-tax and the statutory grants from the Centre.

8. *Claims examined.*—Under our scheme for the devolution of revenue all the States except Bombay, Punjab, Mysore, Travancore-Cochin and Saurashtra are likely to receive a larger measure of

assistance than at present. Mysore, Travancore-Cochin and Saurashtra will continue to receive the "revenue gap grants" guaranteed to them as their share of revenue under our scheme would be less than these grants. They are not therefore affected by our scheme. The cases of Bombay and Punjab are dealt with separately later.

9. We now deal with the question of determining, after taking into account the devolution of revenue and the grants-in-aid in lieu of export duty on jute to some of the States suggested by us, which States would be in need of assistance by way of grants-in-aid. In considering this problem we have had in mind two or three broad considerations. One is that the assistance suggested by us should meet what could conveniently be called the normal budgetary needs of these States and should allow a reasonable margin for expansion. Another consideration is that the special problems created for some of the States by the partition of the country which have caused a significant addition to their expenditure should be adequately met. It is not possible, particularly in present circumstances, when the country is in the process of carrying through a large development programme covering both the revenue and capital sections of the budget, to take a precise view of the requirements of individual States. There are also unforeseeable factors like famine and other natural calamities or upheavals in the nature of abnormal movements of population in regard to which it is difficult to make a forecast for the purpose of determining in advance the assistance that may be required. We have not taken these factors into account, but have based our assessment largely on the financial position of the States as disclosed by their actual revenue and expenditure in recent years, corrected where necessary, with reference to their budget estimates for the year 1952-53 and such subsequent information affecting these estimates as became available to us.

10. *Grants-in-aid recommended.*—On the criteria explained above, we have come to the conclusion that Madras, Uttar Pradesh, Bihar, Madhya Pradesh, Hyderabad, Rajasthan, Madhya Bharat and the Patiala and East Punjab States Union cannot be considered as being in need of assistance: we deal with Mysore and Travancore-Cochin later. Bombay, West Bengal, Orissa and Saurashtra may be said to be marginal cases, while Punjab and Assam would be definitely in need of assistance.

So far as Bombay is concerned, the proposed withdrawal of the present restriction on taxing tobacco will leave the State free to raise additional revenue from this source. Considering, moreover, the well developed economy of the State, the size of its budget and the resilience of its resources, we do not recommend any grant-in-aid to it.

West Bengal has special problems to face as a result of the partition and the continuing movement of displaced persons from East Pakistan, leading to additional strain on the administration and the finances of the State. Its requirements would not be adequately met by its share of the divisible taxes and the grant-in-aid in lieu of the jute export duty recommended by us and we recommend a grant-in-aid of Rs. 80 lakhs a year to this State.

We are satisfied that the devolution of revenue and the grant in lieu of the jute export duty will not leave Orissa a margin for further development. Orissa has in recent years been unable to make an advance in the field of social services owing to want of adequate finance. It has had a large accession of relatively backward territory in its "merged areas". It has a substantial element of Scheduled Tribes and other backward classes and in certain directions like communications the State is very poorly served. Taking these various considerations into account we recommend that the present grant-in-aid of Rs. 40 lakhs be raised to 75 lakhs.

In the case of Saurashtra, there appears to be some scope for the State to improve its revenue position. Considering, however, the size of the State and of its budget we think that a measure of assistance is necessary and we recommend a grant-in-aid of Rs. 40 lakhs to that State.

For Punjab the allocation of revenue recommended by us will not meet its budgetary needs, much less leave any margin for development. The State has additional responsibilities such as in the sphere of law and order arising out of the partition, over and above the problem of coping with the disabilities created by it, which have affected its budgetary position. We recommend a grant-in-aid of Rs. 125 lakhs a year to that State.

Assam is another State for which the suggested allocation of revenue will, in our view, be inadequate. It is also a State with special difficulties resulting from partition and it is necessary to allow it some margin for development. A grant-in-aid of Rs. 1 crore a year to that State would meet its requirements and we recommend that the present grant-in-aid of Rs. 30 lakhs be raised to Rs. 1 crore.

In the case of Assam, West Bengal and Punjab we are assuming that the expenditure on relief and rehabilitation of displaced persons will continue to be borne mainly by the Centre and that no appreciable additional burden will be placed upon these States on this account.

11. Mysore and Travancore-Cochin are States with relatively limited resources and we consider it desirable, taking all the circumstances into account, that both these States should be given a measure of assistance to help them to maintain their progress. We

accordingly recommend grants-in-aid of Rs. 40 lakhs for Mysore and Rs. 45 lakhs for Travancore-Cochin.

12. *Grants-in-aid for primary education.*—Some of the State Governments have impressed upon us the need for taking large strides in the field of primary education. We find that quite a few States have to make a considerable advance from the present position if they are to attain the average position in the country. We, therefore, consider that it is in the national interest to allocate a part of such assistance as the Centre may be able to give to the advancement of such an important social service as primary education.

13. For purposes of gauging the need for development we took as the basis the extent of the spread of primary education in the States. A good measure of this is afforded by the proportion of the children between the ages of 6 and 11 who actually attend school. The table below summarises the present position in regard to primary education in the various States:—

State	Population (in thousands)	No. of Children in the age group 6-11 (in thousands)	Children in this age group attending school (in thousands)	Percentage of (4) to (3)
(1)	(2)	(3)	(4)	(5)
Travancore-Cochin . . .	92,80	11,79	11,64	98·8
Bombay	3,59,56	45,66	29,24	64·0
Mysore	90,75	11,53	6,57	57·0
Madras	5,70,16	72,41	38,17	52·7
Assam	90,44	11,49	5,71	49·7
Saurashtra	41,37	5,25	2,23	42·4
West Bengal	2,48,10	31,51	12,77	40·5
Uttar Pradesh	6,32,16	80,28	27,28	34·0
Bihar	4,02,26	51,09	14,98	29·3
Hyderabad	1,86,55	23,69	6,22	26·2
Punjab	1,26,41	16,05	3,92	24·4
Orissa	1,46,46	18,60	4,46	24·0
Madhya Bharat	79,54	10,10	2,03	20·1
Madhya Pradesh . . .	2,12,48	26,98	5,38	19·9
Patiala and East Punjab States Union	34,94	4,44	47	10·6
Rajasthan	1,52,91	19,42	2,06	10·6

(2) According to the 1951 Census.
(3) At 12·7 per cent. of population, a basis adopted by the Ministry of Education.
(4) Figures furnished by the State Governments.

We consider that a modest beginning should be made in the direction of helping those States where a large leeway has to be made up and we propose that the eight States which are lowest in the table given above should be given this assistance. We have taken in each of the next four years sums rising from Rs. 150 lakhs next year to Rs. 300 lakhs in 1956-57 and we propose that these sums should be distributed among the eight States in proportion to the number of children of school-going age not attending school at present. We have provided a gradually rising figure for these grants as in our view this will assist the States in planning for the proper utilisation of the grants. On the basis of distribution suggested by us the grants-in-aid of the revenues of these States for this purpose during the next four years will be as set out below:—

(In lakhs of rupees.)

	1953-54	1954-55	1955-56	1956-57
Bihar	41	55	69	83
Madhya Pradesh	25	33	42	50
Hyderabad	20	27	33	40
Rajasthan	20	26	33	40
Orissa	16	22	27	32
Punjab	14	19	23	28
Madhya Bharat	9	12	15	18
Patiala and East Punjab States Union	5	6	8	9
Total	150	200	250	300

We recommend that the above grants-in-aid of the revenues be made to these States in each year for the purpose of expanding primary education. These grants-in-aid are not for itemised schemes of expenditure in any State. The State Governments would have full discretion in utilising them for the purpose for which they are intended. The extent to which the purpose of the grant-in-aid is achieved may be left to be assessed by our successors when the finances of the States concerned for this period come up for review. The actual progress achieved during this period will have to be judged on such criteria as the increase in the number of primary schools and children attending school, the conversion of ordinary primary schools into basic schools, the improvement of facilities for the training of primary school teachers and measures adopted for the reduction of wastage in regard to primary education. Annual reports about the progress achieved by these States in the expansion of primary education should be obtained and made available to the next Commission.

CHAPTER IX

SUMMARY OF RECOMMENDATIONS

Our recommendations may now be summarised.

I. Under Article 270 of the Constitution—

(a) the percentage of the net proceeds in any financial year of taxes on income, other than agricultural income, except in so far as these proceeds represent proceeds attributable to States specified in Part C of the First Schedule to the Constitution or to taxes payable in respect of Union emoluments, to be assigned to the States, should be fifty-five;

(b) the percentage of the net proceeds of taxes on income which shall be deemed to represent proceeds attributable to States specified in Part C of the First Schedule to the Constitution should be 2·75; and

(c) the percentage share of the net proceeds of taxes on income assigned to the States should be distributed among the States as follows:—

State	*Per cent*
Assam	... 2·25
Bihar	... 9·75
Bombay	... 17·50
Hyderabad	... 4·50
Madhya Bharat	... 1·75
Madhya Pradesh	... 5·25
Madras	... 15·25
Mysore	... 2·25
Orissa	... 3·50
Patiala and East Punjab States Union	... 0·75
Punjab	... 3·25
Rajasthan	... 3·50
Saurashtra	... 1·00
Travancore-Cochin	... 2·50
Uttar Pradesh	... 15·75
West Bengal	... 11·25

II. Under Article 272 of the Constitution forty per cent of the net proceeds of the Union duties of excise on tobacco (including cigars, cigarettes, etc.), matches and vegetable products should be distributed among the States in Part A and Part B of the First Schedule, except the State of Jammu and Kashmir, in proportion to their population according to the 1951 census. The shares of the States will on this basis be:

State	*Per cent*
Assam	... 2·61
Bihar	... 11·60
Bombay	... 10·37
Hyderabad	... 5·39
Madhya Bharat	... 2·29
Madhya Pradesh	... 6·13
Madras	... 16·44
Mysore	... 2·62
Orissa	... 4·22
Patiala and East Punjab States Union	... 1·00
Punjab	... 3·66
Rajasthan	... 4·41
Saurashtra	... 1·19
Travancore-Cochin	... 2·68
Uttar Pradesh	... 18·23
West Bengal	... 7·16

III. The following sums should be prescribed under Article 273 of the Constitution as grants-in-aid of the revenues each year of the States of Assam, Bihar, Orissa and West Bengal in lieu of assignment of any share of the export duty on jute and jute products:—

	(In lakhs of rupees)
Assam	... 75
Bihar	... 75
Orissa	... 15
West Bengal	... 150

IV. The following sums should be paid each year as grants-in-aid of the revenues of the States mentioned below under the substantive portion of Article 275(1) of the Constitution:—

(In lakhs of rupees)

Assam	100
Mysore	40
Orissa	75
Punjab	125
Saurashtra	40
Travancore-Cochin	45
West Bengal	80

V. The following further sums should be paid as grants-in-aid of the revenues of the States mentioned below under the substantive portion of Article 275(1) of the Constitution for the purpose of expanding primary education in the States:—

(In lakhs of rupees)

States	1953-54	1954-55	1955-56	1956-57	
Bihar	41	55	69	83	248.
Hyderabad	20	27	33	40	120.
Madhya Bharat	9	12	15	18	54.
Madhya Pradesh	25	33	42	50	150.
Orissa	16	22	27	32	097.
Patiala and East Punjab States Union	5	6	8	9	28.
Punjab	14	19	23	28	84.
Rajasthan	20	26	33	40	

VI. The grants now being paid to the States of Bombay, Madhya Pradesh and Madras for refraining from the taxation of tobacco should be discontinued with effect from the 1st April 1953.

VII. The "revenue gap grants" now being paid to the States of Bihar, Bombay, Madhya Pradesh and West Bengal in respect of the "merged areas" should be discontinued with effect from the 1st April 1952.

2. The table below compares what each State might, on an average, expect to receive under all our recommendations taken together with the corresponding sums the Part A States received during the three years ending 1951-52 and the Part B States during the two years ending 1951-52. The actual sums accruing by way of devolution of revenue will vary from year to year and the average sums given are only by way of indication of the order of the sums likely to be received under our scheme on the present estimates of the yield from the divisible taxes. We have assumed that our recommendations, if given effect to, would be operative for a period of five years ending with the 31st March 1957.

AVERAGE FOR THE PERIOD 1949-50 TO 1951-52

	Share of Income Tax	Grants-in-aid under Article 273	Grants-in-aid under substantive portion of Article 275(1)	"Revenue Gap Grants"	Total
Assam	1,45	46	30	...	2,21
Bihar	6,14	39	...	2	6,55
Bombay	10,18	...	...	1,42	11,60
Hyderabad	...	...	...	1,25	1,25
Madhya Bharat	6	...	...	...	6
Madhya Pradesh	2,91	...	...	44	3,35
Madras	8,56	...	...	...	8,56
Mysore	...	...	...	3,45	3,45
Orissa	1,44	6	40	11	2,01
Patiala and East Punjab States Union	16	...	...	...	16
Punjab	2,59	...	84**	...	3,43
Rajasthan	10	...	...	...	10
Saurashtra	...	...	...	2,75	2,75
Travancore-Cochin	...	...	...	3,22	3,22
Uttar Pradesh	8,88	...	...	...	8,88
West Bengal	6,32	1,14	...	8	7,54
TOTAL	48,79	2,05	1,54	12,74	65,12

*As the share of divisible taxes of these States is expected to be less than the guaran
after allowing for the share of divisible taxes is shown in this column.

NOTE : 1. Assam and the other States with Scheduled Areas and Scheduled Tribes will
Assam will also receive Rs. 40 lakhs under sub-clause (a) of the Second proviso to

2. In addition to the share of revenues under the Commissions' scheme the
period before the 1st April 1952. The budget for 1952-53 assumes that these
Rs. 87 lakhs, Bombay Rs. 105 lakhs, West Bengal Rs. 68 lakhs, Uttar Pradesh
Rs. 15 lakhs and Orissa Rs. 15 lakhs.

**Discontinued from 1951-52. The grants-in-aid to Punjab were *ad hoc*.

UNDER THE COMMISSION'S SCHEME.

(In lakhs of rupees)

Share of Income Tax and Union Excise	Grants-in-aid under Article 273	General Grants-in-aid under substantive portion of Article 275(1)	"Revenue Gap Grants"	Total	Primary Education Grants	Grand Total
1,70	75	1,00	—	3,45	...	3,45
7,30	75	...	...	8,05	50	8,55
11,25	...	...	...	11,25	...	11,25
3,35	...	...	...	3,35	24	3,59
1,35	...	...	...	1,35	11	1,46
3,90	...	...	...	3,90	30	4,20
11,10	...	...	—	11,10	...	11,10
1,70	...	40	1,58*	3,68	...	3,68
2,65	15	75	—	3,55	19	3,74
60	...	...	—	60	5	65
2,40	...	1,25	—	3,65	17	3,82
2,65	...	...	—	2,65	24	2,89
75	...	40	1,87*	3,02	...	3,02
1,80	...	45	98*	3,23	—	3,23
11,70	—	—	—	11,70	—	11,70
7,30	1,50	80	—	9,60	—	9,60
71,50	3,15	5,05	4,43	84,13	1,80	85,93

[illegible]ted "Revenue Gap Grants" the States will receive the latter. The balance of these grants

in addition receive grants under the two provisos to Article 275 (1) of the Constitution.
Article 275(1).

States will also receive the outstanding arrears of their share of income-tax in respect of the [illegible] will be Rs. 5 crores and, if the actual amount is of this order, Madras will receive Rs. 90 lakhs, Punjab Rs. [illegible] lakhs, Bihar Rs. 63 lakhs, Madhya Pradesh Rs. 30 lakhs, Assam.

CHAPTER X

MISCELLANEOUS

Our experience as the first Commission has impressed us with the need for a small organisation being set up, preferably as part of the secretariat of the President, to make a continuous study of the finances of the State Governments so that whenever the Commission are constituted in the future, they will have sufficient material available to them at the very commencement of their enquiry. This organisation should work in close liaison with the Finance Ministry and should make a study of the budgets of the State Governments, the changes in their finances from time to time, the rates of taxes in operation, the effects of the further measures of taxation undertaken by them, the working of their commercial enterprises and their effect on the State finances and cognate matters. A study should be made of the various reports on the administration of State Governments, the reports of the proceedings of the State Legislatures and the reports of their Public Accounts and Estimates Committees, and points of interest affecting the State finances noted. The organisation should also obtain direct from the State Governments periodical information in regard to the progress of various social services such as education, medical and public health. Current data about the number of schools, the number of children attending schools, the number of hospitals and dispensaries, the number of beds provided, the number of patients treated and the dispersal of facilities, both medical and educational, in rural as distinct from urban areas, should be obtained periodically and tabulated. Information should be collected regarding the progress of local self-government in each State, the resources raised by local bodies, their dependence on the State Government for their finance and the extent to which the local bodies provide services in the field of education, public health and other social services. Information about the facilities provided by non-government agencies in these fields should also be obtained. Data about the development and maintenance of communications should be obtained periodically from the State Governments. Annual returns may be prescribed so that there is a continuous flow of information for tabulation and study. The results of these studies should be embodied in periodical papers, copies of which should be made available to the Commission. We suggest that the question of setting up this organisation be taken up immediately and the details worked out in consultation with the appropriate Ministries.

2. We would also like to draw attention to the need for improving the available statistics in regard to income-tax. At present, apart from the collection figures available in the accounts by broad categories, there are no other statistics except those relating to assessments published by the Central Board of Revenue. The latter

contain a volume of useful information but these relate only to assessments and not to actual collections. We suggest that the question of compiling statistics with similar details but related to the actual collections should be considered. Information should also be readily available State-wise in regard to the collections of personnel income-tax. In respect of assessees having an income of over Rs. 25,000 a year, we suggest, moreover, that information under the heads suggested in the statement given in Appendix X should be collected and be kept for reference.

3. A doubt was expressed to us whether, in view of Section 54(2) of the Indian Income-tax Act, Commissioners of Income-tax can supply us with particulars relating to the income of assessees and the tax assessed thereon. It is necessary that the Finance Commission should have whatever information they may consider necessary for the proper discharge of their duties and we suggest that this doubt be removed by amending the Finance Commission (Miscellaneous Provisions) Act, 1951, so as to include a provision similar in terms to that in Section 6(1) of the Taxation on Income (Investigation Commission) Act, 1947.

ACKNOWLEDGMENTS

4. We should like to place on record our appreciation of the help given to us by our staff. Among these we would particularly make mention of our Assistant Secretary, Dr. N. A. Sarma, who facilitated our work considerably by the zeal and ability which he brought to bear on his duties. The Research Officer, Shri B. S. Mahajan, and our Superintendent Shri A. G. Krishnan, worked assiduously and willingly and bore more than their usual share of the burden. We are greatly indebted to all of them for the ready help which they, along with the rest of the staff, rendered to us.

5. In conclusion, the rest of us on the Commission desire to express our high sense of appreciation of the valuable services rendered by Shri Rangachari as Member-Secretary. His long and intimate acquaintance with problems of Central and State finances, and particularly his association with the Expert Committee on the financial provisions of the Union Constitution, has equipped him with an uncommon measure of specialised knowledge which was of great assistance to his colleagues.

K. C. NEOGY
V. L. MEHTA
R. KAUSHALENDRA RAO*
B. K. MADAN
M. V. RANGACHARI

NEW DELHI;
The 31st December, 1952.

*Subject to the appended Minute.

MINUTE

I am in agreement with the recommendations of the Commission. I, however, deem it necessary to deal with some aspects of the income-tax question which in my view are important. On previous occasions the decision on this question was in the nature of an award. But on this occasion the question has been discussed at length. We have chosen a constitutional system influenced by the three leading federal systems—America, Canada and Australia. There is need for appreciation of the issues raised in the light of the experience of those federal systems.

2. The fundamental fact about the distribution of income-tax among the States is that about 74·4 per cent of the divisible income-tax is collected in only two of the States: Bombay 45·8 per cent and West Bengal 28·6 per cent. These States have a population of about 17·5 per cent of the total population in Part A and B States (Bombay 10·37 per cent and West Bengal 7·16 per cent).

3. No doubt, each State is putting forward a scheme of distribution which is most advantageous to it. But, broadly, the main controversy in the country is between two schools of thought. One is that the tax should be distributed on the basis of contribution, if not collection, and the other on the basis of needs of the States measured by the population within their jurisdiction.

4. The experience of the three leading federal systems offers no ready-made solution to the specific problem with which we are concerned. But that experience has a lesson. It conveys a warning that in a federal system uniform distribution of powers between the Federation and the States does not necessarily mean the equal allocation of resources to fulfil the functions assigned under the Constitution.

5. The division of powers in any federal system is a matter of ideals or convenience, political and economic, and has no reference to any criterion of economic or much less social justice. But the Constitution is designed to secure economic and social justice in all the States of the Union. The yield from the State heads of revenues varies in each State according to its conditions and resources. But the extent of financial responsibility of a State would primarily, though not necessarily, depend upon the number of people within its charge. Inequalities become apparent after the costs of the basic administration are met.

6. The vast majority of Indians are not directly interested in industry. Development of industries is part of a plan to raise the

standards of living in the country. The growth of economic inequalities has been an inevitable accompaniment of industrialisation in the West. It is that problem with which most governments are now grappling. That general problem is apt to be further complicated in a federation by regional disparities. The compromise between economic integration and political autonomy which is involved in federalism may, in the absence of a corrective, result in the accentuation of economic inequalities in the different States in a Federation. That has been the common experience of the three leading federal systems, United States of America, Australia and Canada. The inequalities were noticed and discussed in Australia in the 3rd Report of the Commonwealth Grants Commission (1936), in Canada in the Rowell-Sirois Report (1940) and in America in the Report presented to the Senate in 1943(¹). Each federation is trying to solve the problem under the limitations set by its own Constitution and history.

7. In America a tax on income could not at one time be levied without apportionment(²). Direct taxation by the Federal Government was originally subject to the rule of apportionment. That rule meant that once the Federal Government decided on a sum to be raised by direct taxation that sum had to be divided up among the States according to their respective populations. The purpose of the apportionment clause was to prevent any State being called upon to contribute more than its due share of the burden of the Federal Government. That seemed an eminently just procedure in an age of pre-occupation with state rights without appreciation of all the implications of economic integration. In 1913, the 16th Amendment dispensed with the necessity of apportionment in the case of taxes on income(³). The Federal Government was thus enabled to raise a tax on the principle of ability to pay irrespective of state lines. The grants to the State by the Federal Government were at first made to stimulate specific State services rather than from the necessity of enabling the States to provide a minimum of essential services(⁴). But the recourse to the Welfare Clause by the Federal Government and the increasing number of grants made to the States have resulted in some diversion of financial resources from the States where they are raised to the States where they are needed. It is not that this

(¹) U.S. Senate Document No. 69, Federal, State and Local Government Fiscal Relations, 1943.

(²) 158 U.S. 601.

(³) 240 U.S. 1.

(⁴) U.S. Senate Document No. 69, Federal, State and Local Government Fiscal Relations 1943, p. 160.

process has gone without the criticism familiar in federations or that the criticism has not been met(1).

8. In Canada the exigencies of the last War favoured the adoption of the scheme of uniform taxation. But the movement towards it was recommended by the Rowell-Sirois Commission on their study of the inequities in the income-tax structure as a whole as well as "the great inequity as between Provinces in the revenues available for provincial services; the impossibility at times for some Provinces of providing services of average Canadian standards."(2). The Commission also favoured Dominion administration of unemployment relief and national adjustments grants with a view to enabling the Provinces to meet the costs of major subjects of public welfare within the provincial sphere.

9. Though under the options given to the Provinces which subscribe to the uniform tax proposals the amount receivable by one of the Provinces like Ontario is in absolute terms higher than the amount of the estimated collections in that State prior to the uniform tax, its relative share in the total payments is reduced(3).

10. In Australia the intention under the Act of 1946 to make by 1957 population the dominant criterion is in the direction of equalisation(4). Financial assistance to the States under section 96 which was originally intended to have but a temporary operation now seems to have become a permanent feature with the establishment of the Grants Commission. Assistance was considered necessary to correct the inequality of financial resources of the members of the federation.

11. A significant fact both in Australia and Canada is that the prosperous States are the populous States as well. Thus New South Wales and Victoria account for about 66 per cent of the population

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(1) "It has been argued by some of the wealthiest states to refuse such aid that it is not fair to them for the federal government to take, for the help of other states money raised from estate taxes and income taxes paid by the citizens of those states. It is probably inevitable that estate taxes and income taxes especially if highly graduated will be for the most part paid by the people of some of our largest cities, because that is where the people paying these kinds of taxes largely reside. But the taking of tax money raised in this way for the purposes of state aid in other states is not unfair as it first seems. For one thing, the people in these cities who object to having highways built by the federal government in other states are just as likely to use the highways in those states as the people of those states; and for another thing, the people in all the states of the Union have helped to contribute to the making of the fortunes of the people in our large city centres".
(1936) Wills : Constitutional Law, p. 411.

(2) Report of the Royal Commission on Dominion-Provincial Relations, 1940, Book II, p. 111.

(3) Proceedings of the Conference of Federal and Provincial Governments, Ottawa, 1950, pp.145-146.

(4) Section 7, States Grants (Tax Reimbursement) Act, 1946 (No. 1 of 1946).

of Australia. Ontario and Quebec account for about 60 per cent of the population of Canada. In neither country the well-being of two such States is by itself regarded as a satisfactory test of national welfare.

12. The original theory upon which federal systems were based in regarding indirect taxation as the main support of the federal government and direct taxation as within the legitimate province of the units has, in no small measure, been responsible for the maladjustments between the resources and the functions of the units in a federation. These maladjustments are being corrected either by recourse to the levy of a uniform progressive tax like the tax on incomes and the equitable distribution of it among the units or by the federal government making grants to the units or itself assuming responsibilities in a wider field(1).

13. The limited conception about the functions of the federal government and about the role of a tax on income has changed or is changing. In the three federations the emphasis is shifting from the units to the people in whichever unit they may be. In federal finance the theory of contribution is yielding ground to the theory of equalisation. The federal government is raising taxes from territories where there is ability to pay and is appropriating the proceeds more and more to uses in territories where they are needed.

14. Further, there is a noticeable change in the old ideas about the contribution made by a community or an area to national economy. Even in America there is awareness of the fact that under the prevailing economic conditions "the production of important raw materials does not insure a high place in the income scale"(2).

15. There are certain special features about the position of the States in the Indian Union which require to be noticed. Unlike in Australia or America, the States in India have not the same significance so far as territorial integrity is concerned(3). The creation

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(1) *Australia* : The amendment of section 51 of the Australian Constitution after the decision in 71 C.L.R. 237 by introducing clause (xxiiiA) is a recognition of the new responsibility of the Commonwealth as a social service State : See Nicholas : The Australian Constitution.

U.S.A. : C.F. the implications of the Supreme Court on the Social Security Act: 301 U.S. 548, 301 U.S. 619.

(2) U.S. Senate Document No. 69, Federal, State and Local Government Fisca Relations, 1943, pp. 185, 187 & 198.

(3) Article 3 of the Constitution.

of autonomous Provinces was not a concession to economic independence: it was in recognition of the need to administer certain functions and services in closer contact with the people than the Central Government. Aspirations for self-government were first met by affording scope for autonomous administration in matters of provincial concern.

16. The development of the ports and the railways are not invariably a federal responsibility. In Australia, each one of the States had its own access to the sea, its own railway feeding its capital city and its own debt representing the costs of its development(1). Even after the establishment of the Commonwealth a State is free to favour its manufacturers by determining the scale of freights on its railways (2). In Canada, the Provinces are authorized to construct railways within the Province(3) and two of them own railways.

17. The establishment of the ports and their development in India was determined by geographical and national rather than provincial considerations. During the First Great War extensions and improvements to the port of Bombay costing some Rs. 10 crores were effected by 1919 (4). An expenditure of Rs. 8 crores is now recommended by the Planning Commission for the creation of port facilities for the oil refineries proposed to be set up at Bombay. Loans to the extent of Rs. 12 crores by the Centre are recommended for the development of the five major ports, including Calcutta and Bombay. Apart from benefitting the national economy, the development of the ports cannot but result in improving the economic activity at the port centres, in raising the incomes and in further concentrating tax collections there. Of the total sea-borne trade valued at Rs. 1166 crores in 1950-51, imports and exports of the value of Rs. 1147 crores passed through the ports in the three States—West Bengal, Bombay and Madras. The distribution trade which is largely centred at Bombay and Calcutta is assessed to over 18 and 9 crores (including super-tax) respectively in 1949-50.

18. It is not a universal feature of federal systems that a company incorporated in one State can transact business as of right in another State. In the United States though there has been a tendency towards uniformity of treatment of corporations, the right of a State to exclude a company incorporated in another State of the Union from doing business within the territory of the former or subject it to discriminatory taxation as a condition to its doing business has been recognized and affirmed (5). The States viewed with

(1) The Australian Constitution by Nicholas, page 57.
(2) Page 245 *ibid*. Section 102 of the Australian Constitution.
(3) Lefroy, Canada's Federal System, p. 452.
(4) 'The Economic Development of India' by Vera Anstey, p. 149.
(5) 125 U.S. 181 at p. 184 & U.S. Reports 45 L.Ed. 260.

apprehension the expansion of business by companies incorporated in other States of the Union(1).

In Australia, it would appear that the guarantee given to the subjects resident in one State against disability or discrimination is not available to a company incorporated under the law of one State but carrying on business in another (2). A non-resident corporation may be taxed at a higher rate than that applicable to a resident corporation(3).

In Canada, the Provinces have the right to raise revenue for provincial purposes by taxing extra-provincial corporations including Dominion corporations under the powers of licensing and of direct taxation (4). For example, a Province can impose a tax on a bank incorporated in another Province, proportioned to the paid-up capital of the bank and the number of office opened by the bank in the taxing Province (5).

19. The States in India can tax professions, trades, callings and employments. But the power is limited by Article 276 of the Constitution. The total amount payable by any one person to the State or to any local authority etc. cannot exceed Rs. 250.

20. The magnitude of the corporate enterprise located in the two collection States is evident from the fact that out of about Rs. 567 crores of paid-up capital of companies registered in Part A and Part C States, Rs. 203 crores is accounted for by companies registered in Bombay and Rs. 225 crores by companies registered in West Bengal (6). The companies are assessed annually to about Rs. 53 crores. The assessment in Bombay is over Rs. 25 crores and in West Bengal over Rs. 18 crores (7). The presence of corporate enterprise of such magnitude influences even the level of personal incomes.

21. Even in the working of Devolution Rule 15 some *ad hoc* arrangements had to be made with regard to the allocation of income-tax of companies carrying on production in one Province but assessed

(1) The prevailing attitude was well expressed by Mr. Justice Field in *Paul v. Virginia* (8 Wall. 168): "It is not too much to say that the wealth and business of the country are to a great extent controlled by them. And if, when composed of citizen of one State, their corporate powers and franchises could be exercised in other States without restriction, it is easy to see that, with the advantages thus possessed, the most important business of those States would soon pass into their hands. The principal business of every State would, in fact, be controlled by corporations created by other States."

(2) Quick & Garran, p. 961.

(3) The rate payable by a non-resident company is forty-two pence in a pound while the rate payable by a resident company is 36 pence. See Sixth Schedule to the Income Tax Act, N.S.W. Act 47 of 41.

(4) Lefroy, Canada's Federal System, p. 372.

(5) Bank of Toronto v. Lambe (1887) 12 A.C. 575.

(6) Statistical Abstract, India, 1950, p. 452.

(7) All India Income-tax Revenue Statistics, 1949-50.

to tax in another. The Province in which the production was carried on was credited with 70 to 85 per cent of the tax and the rest was credited to the Province in which the tax was paid ([1]). The question was then regarded as one concerning only these two Provinces. But this is only a superficial view. For example, the leading steel company which is now paying about a crore as tax has its production works in Bihar, but the sources of its mineral ores are in Orissa, Bihar and Madhya Pradesh. Though its registered office is in Bombay, the head sales office is in Calcutta with branches in different States of the country.

22. The Commission have rejected collection as the sole or even a major factor in the distribution of the tax. That uniform tax has a tendency to concentrate collections is evident from the shift in collections from some of the territories now comprised in Part B States as a result of integration. The non-residents who used to pay tax in those States need no longer pay them there.

23. But the question is whether the contribution of a State should not enter into any scheme of distribution. The surplus which is taxed is the result of the efforts of individuals, the States and the nation as a whole. It is not that each State is a self-sufficient economic unit free to pursue its own economic policies joined in the Union only for the limited purposes of defence, external affairs and free commerce. With respect to the development and regulation of the national economy as a whole and particularly the industrial sector, the power of the Centre is either exclusive or dominant when concurrent. Central policies to augment production, though justifiable in the national interest, may have different results in different States. The extent of benefit or burden need not be the same in all the States. Under the Constitution the Centre when authorised by the Parliament can even pursue a policy of preference or discrimination for the purposes of dealing with a situation arising from scarcity of goods in any part of the territory of India ([2]).

24. The two collection States are among the States deficit in food. The deficit is made good by procuring food at controlled prices from the surplus States and by the import of foodgrains. The Central Government has borne a part of the cost of the food subsidy in these two States. During the last six years from 1946-47 to 1951-52 the subsidising of imported foodgrains cost the Central Government about Rs. 112 crores. Of the above expenditure, over Rs. 40 crores was in Bombay

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([1]) R. Dis. File No. 23-I.T./32, Central Board of Revenue, Income-tax.

([2]) Clause (2) of Article 303.

and nearly Rs. 10 crores in Bengal [1]. Procurement and subsidy are ensuring the equitable supply of a vital necessity like food irrespective of provincial considerations. The result can, however, be viewed in two aspects—either as a direct benefit to the residents in the collection States or partly as an indirect subsidy to the industries concentrated there.

The Five Year Plan recognizes food control to be executed as an all-India policy. The objective in view is to secure from each surplus State the maximum it can make available and to organize the procurement and distribution of grains in each deficit State.

25. The prices of important raw materials like cotton, coal and rubber are also being controlled. The textile industry in Bombay is assessed to over Rs. 11 crores (including super-tax). The rubber goods industry is assessed in Bombay and West Bengal to over Rs. 180 lakhs (including super-tax). The object of price control may be either to ensure floor prices or to ensure that the prices do not go beyond the ceiling. It is not to purpose to begin analysing what has been the effect of price control—whether it has benefited the producer of the raw material or the manufacturer. The level of the price of coal may have influenced the industrial profits in Bombay or the profits of the collieries in Bihar but assessed to tax in Bengal. The point is the Centre is in a position either to initiate or co-ordinate policies in regard to prices, the result of which may either depress incomes in certain States or raise them in others.

26. The right of the States to tax mineral rights within their jurisdiction is subject to regulation by the Centre in the public interest [2]. States like Bihar, Orissa and Madhya Pradesh have invited our attention to the loss resulting from the regulation of the rates of royalties under the rules recently made by the Centre [3].

27. An Act of Parliament [4] now governs the development and regulation of 37 industries engaged in the manufacture or production of textiles, cement, vanaspati, batteries, bicycles, machine tools, pharmaceutical drugs, rubber goods, leather goods, small and hand tools, etc. No person can start an industry unless he gets a licence from the Central Government. The permission may impose conditions as to the location of the industry and the minimum standards in respect of the size to be provided therein. The main object of this legislation is to conserve the national resources. Competition is reduced by eliminating ill-thought-out ventures. In the long run the law may also be conducive to the further expansion of some of the industries already well established in the collection States.

(1) 'Bulletin on Food Statistics' January 1952, p. 22 (the subsidy in 1946-47 and 1947-48 relates to the undivided province of Bengal).

(2) Mines and Minerals (Regulation and Development) Act, 1948 (No. LIII of 1948).

(3) Mineral Concession Rules, 1949.

(4) The Industries (Development and Regulation) Act, 1951 (No. LXV of 1951).

28. The Commission are not concerned with the merits of any particular policy which is in the sole discretion of the Central Government. It is not suggested that the policies are pursued with an intention to discriminate between the States. But the question here is about the results and not the intenion.

29. Some States are more favourably endowed with natural resources than others. But the economy of the States is interdependent. As the economy of the country is being planned, it is coming to be regulated more according to national or social objectives than by the freeplay of individual or regional interests. It is not possible to measure by the quantum of the taxes paid the relative contributions made by the States which are producing food and raw materials, supplying them at controlled prices and providing a market for finished goods and those which are increasing wealth by manufacture and sale of finished goods—also at times at controlled prices.

Nor is it possible to measure by reference to collections the contribution made by the consumer all over the country in respect of the tax paid by industries helped by tariffs. To illustrate, the match industry developed as a result of an almost prohibitive tariff amounting to 100 to 200 per cent *ad valorem*. One of the leading match companies pays tax between 16 to 31 lakhs a year at Bombay. It has its manufacturing units in three other States and also in the Andamans.

30. It was, however, urged that a *per capita* distribution of the tax may be unfair as it ignores the additional burdens imposed on the States in which the industries are concentrated. The point has some force and requires careful consideration. The high level of prices and wages in such a State results in increasing the costs of provincial administration. The cost of maintenance of law and order and general administration is comparatively high in Bombay and West Bengal.

But all the burdens of an industrial economy are not on the States concerned. The Central Government is subsidising industrial housing schemes and has been advancing loans. The provision in the current year's budget for industrial housing is Rs. 9 crores. Out of this amount the allocation between subsidies and loans is Rs. 324 and 392 lakhs respectively.

31. An industrial and commercial economy confers benefits as well which are apt to be reflected under the State heads of revenue. Thus Bombay and Bengal which together have 21·8 per cent of the population in Part A States are, largely because of the concentration of industry and commerce within their States, in a position to tax for State purposes about 52 (24 and 28) per cent of the motor vehicles (1), 42 (25 and 17) per cent of motor spirit consumed (2) and subject to

(1) Statistical Abstract, India, 1950, p. 693.
(2) Figures relate to 1952-53; supplied by Ministry of Transport [vide their D.O. No. 51-TAG (15)/52, dated 23-10-52].

Arts. 287-288, 67 (41 and 26) per cent of the electricity sold (1) in all the Part A States.

32. The wages and salaries paid in the two collection States by the manufacturing industries alone indicate the comparative strength of their economic position. In 1948 out of about Rs. 132 crores of the total wages paid to workers and about Rs. 26 crores of salaries paid in the Part A States, the workers in Bombay received over Rs. 62 crores and the workers in Bengal received over Rs. 33 crores. The salaries paid are over Rs. 8 crores in Bombay and over Rs. 7 crores in Bengal (2). Because of this large purchasing power, relative to the population, the receipts under the taxes on sales, luxuries, amusements and entertainments are likely to be higher. Again the yield under the head of 'general stamps' must necessarily be higher in the States in which the commercial and business activities of the nation are centered.

It is not suggested that in an industrial State every head of State revenue can be taken to the highest pitch. But the sources of revenue available to such a State are more varied and lucrative than in other States.

33. In the industrial States in urban areas the local authorities are in a position to relieve the State Government from the responsibility of providing certain social services. The budgets of the corporations of the two collection cities are of nearly the same dimensions as of some of the smaller States in the Union. The scope for the taxes on professions, trades and callings in the very nature of things is comparatively large in States where industry and commerce are most concentrated.

34. Even if some allowance has to be made because of the higher costs of administration to be maintained in an industrial State, it is worthwhile to consider whether the factor of industrial labour in each State, suggested by Bombay, is not a more satisfactory factor to enter into the formula for distribution than the concept of collection.

35. The relevance of industrial labour as a factor in the distribution of the tax is not on the ground that labour alone produces the incomes which are taxed or that labour has any particular right to share in the tax. We are concerned with the distribution of a tax on non-agricultural incomes. The presence of industrial labour may furnish a much truer index than collection of the degree of industrialization and the burdens thrown upon a State by the nature of the

(1) Statistical Abstract, India, 1950, p. 860-61.

(2) Statistical Abstract, India, 1950, p. 632.

economy. For example, Bihar has large industrial labour. But its collections do not bring out the benefits of industrialization to the same extent as in other States as a substantial part of the incomes accruing in that State is assessed to tax elsewhere. So the State is left with the burden of having to deal with an industrialized economy without the corresponding advantage reflected in the collections in that State. The difference in the strength of the industrial labour, employed in Bombay and Bengal, is not of the same degree as the difference in collections. The statistics available from the Part B. States are, however, not all maintained on the same basis as in the Part A States. Until proper statistics are available, this factor, though probably very useful, has to be excluded from consideration.

36. For the very reason another basis of allocation cannot be considered on this occasion. As has been suggested before it is possible to allocate the divisible pool by permitting, for example, each State to retain the taxes on incomes below the super-tax limit and distributing the rest of the pool on a *per capita* basis. If the tax on incomes of local origin were to be permitted to be retained by the States, this may be a more satisfactory basis than giving weight to collection.

37. Either of the above factors can, if at all, be taken into account in substitution of the factor of collection and not in addition to it.

38. It is not necessary to pursue the discussion. The Commission are called upon to deal with the problem not in the abstract but as it has developed in the country. The formula of Sir Otto Niemeyer was based partly on residence and partly on population. There is nothing to indicate in what proportions the two factors were taken into account. Nor is there anything to show whether collection figures based on residence were separately available to him. It is also not clear how the factor of residence was used with reference to corporations. The result of the formula was that it gave to Bombay with 7·1 per cent of the population 20 per cent of the tax and the same percentage to Bengal also with a population of 19·9 per cent (1). The adjustments made by Shri Deshmukh were largely based on population. It is at that point that the Commission are called upon to deal with the problem.

39. It is true that the right of the States to share in the tax had its origin in the claim put forward by the industrial Provinces. But the claim was advanced on the basis of contribution as well as the special needs of the industrial States (2).

40. A claim on the basis of contribution or special needs cannot be divorced from its context. The relative position of land revenue and income-tax in the total revenues of the country is today not the same

(1) 1931 Census.

(2) Report of the *Financial Relations Committee*, 1920, pp. [illegible]

as at the beginning of the century or in the twenties. The divisible pool of income-tax in the first year of its distribution was Rs. 1 crore 25 lakhs (1937-38). It has passed Rs. 45 crores in 1949-50. The States have now the right to tax sales and the other heads of revenue are much more developed in Part A States than in the twenties.

41. The principal data available to the Commission are the population figures, the collection figures and the assessment figures. The adjustment which has been made in the formula is in the right direction. It is in the circumstances equitable and all that can be done. The disparities in the resources of the States which arose as a result of the distribution of only the tax on incomes and the omission to give effect to the recommendation of Sir Walter Layton to distribute some of the duties on excise on a population basis are to some extent corrected by the scheme of distribution now recommended.

R. KAUSHALENDRA RAO.

APPENDICES

APPENDIX I

Provisions of the Constitution bearing on the work of the Finance Commission

Article 270—

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

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

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

(4) In this article—

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

(b) "prescribed" means—

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

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

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

Article 273—

(1) There shall be charged on the Consolidated Fund of India in each year as grants-in-aid of the revenues of the States of Assam, Bihar, Orissa and West Bengal, in lieu of assignment of any share of the net proceeds in each year of export duty on jute and jute products to those States, such sums as may be prescribed.

(2) The sums so prescribed shall continue to be charged on the Consolidated Fund of India so long as any export duty on jute or jute products continues to be levied by the Government of India or until the expiration of ten years from the commencement of this Constitution, whichever is earlier.

(3) In this article, the expression "prescribed" has the same meaning as in article 270.

Article 275—

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

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

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

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

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

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

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

Article 278—

(1) Notwithstanding anything in this Constitution, the Government of India may, subject to the provisions of clause (2), enter into an agreement with the Government of a State specified in Part B of the First Schedule with respect to—

(a) the levy and collection of any tax or duty leviable by the Government of India in such State and for the distribution of the proceeds thereof otherwise than in accordance with the provisions of this chapter;

(b) the grant of any financial assistance by the Government of India to such State in consequence of the loss of any revenue which that State used to derive from any tax or duty leviable under this Constitution by the Government of India or from any other sources;

(c) the contribution by such State in respect of any payment made by the Government of India under clause (1) of Article 291,

and, when an agreement is so entered into, the provisions of this Chapter shall in relation to such State have effect subject to the terms of such agreement.

(2) An agreement entered into under clause (1) shall continue in force for a period not exceeding ten years from the commencement of this Constitution:

Provided that the President may at any time after the expiration of five years from such commencement terminate or modify any such agreement if after consideration of the report of the Finance Commission he thinks it necessary to do so.

Article 280—

(1) The President shall, within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a Chairman and four other members to be appointed by the President.

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

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

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

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

(c) the continuance or modification of the terms of any agreement entered into by the Government of India with the Government of any State specified in Part B of the First Schedule under clause (1) of article 278 or under article 306; and

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

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

Article 306—

Notwithstanding anything in the foregoing provisions of this Part or in any other provisions of this Constitution, any State specified in Part B of the First Schedule which before the commencement of this Constitution was levying any tax or duty on the import of goods into the State from other States or on the export of goods from the State to other States may, if an agreement in that behalf has been entered into between the Government of India and the Government of that State, continue to levy and collect such tax or duty subject to the terms of such agreement and for such period not exceeding ten years from the commencement of this Constitution as may be specified in the agreement:

Provided that the President may at any time after the expiration of five years from such commencement terminate or modify any such agreement if, after consideration of the report of the Finance Commission constituted under article 280, he thinks it necessary to do so.

APPENDIX II

THE FINANCE COMMISSION (MISCELLANEOUS PROVISIONS) ACT, 1951

AN ACT

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

BE it enacted by Parliament as follows:—

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

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

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

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

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

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

(d) have special knowledge of economics.

4. *Personal interest to disqualify members.*—Before appointing a person to be a member of the Commission, the President shall satisfy himself that that person will have no such financial or other interest as is likely to affect prejudicially his functions as a member of the Commission; and the President shall also satisfy himself from time to time with respect to every member of the Commission that he has no such interest and any person who is, or whom the President proposes to appoint to be a member of the Commission shall, whenever required by the President so to do, furnish to him such information as the President considers necessary for the performance by him of his duties under this section.

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

(a) if he is of unsound mind;

(b) if he is an undischarged insolvent;

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

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

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

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

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

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

(a) summoning and enforcing the attendance of witnesses;

(b) requiring the production of any document; and

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

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

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

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

APPENDIX III

First Report of the Finance Commission

We have been constituted as the Finance Commission under Article 280 of the Constitution and we assumed office on the afternoon of the 30th November, 1951.

As the work of the Commission has only just begun and is likely to take some time to complete we have considered the question of making certain provisional recommendations to the President in respect of the matters in which, after the appointment of the Finance Commission, the Constitution requires him to take into account their recommendations before making an Order.

The Commission understand that the allocation of income-tax between the Union and the States and the distribution of the States' share among them, the payment of grants to certain States in lieu of assignment of any share of the net proceeds in each year of export duty on jute and jute products and the payment of general grants-in-aid to certain States are now regulated by an Order made by the President from year to year and that the Order now regulating these matters is current upto the 31st March 1952. Pending their final recommendations the Commission consider that some provisional arrangements should be made so as to avoid dislocation to the finances of the States which are now receiving a share of income-tax or grants under one or other of the provisions of the Constitution. We feel that the most appropriate course would be for the existing position to be maintained for the year 1952-53, subject to the condition that any decision taken on our final recommendations should be given effect from the year 1952-53. The Commission accordingly recommend that subject to the aforesaid condition the President may be pleased to make an Order applying the provision of paragraphs 3 and 4 of the Constitution (Distribution of Revenues) Order 1950, in relation to the year ending on the 31st day of March 1953, as they apply in relation to the year ending on the 31st day of March 1952.

We also understand that some of the States specified in Part A of the First Schedule to the Constitution in which certain territories of former Indian States have been merged are now receiving grants on the same basis as certain States specified in Part B of the First Schedule to the Constitution receiving grants under sub-clause (I)(b) of Article 278 of the Constitution. The Commission ecommend that such grants, if any, payable to the States concerned nay also be continued during the year ending on the 31st day of March 1953, subject to the condition that they are treated as provisional and readjusted in the light of any decisions that may be taken on their final recommendations in regard to financial assistance to these States.

K. C. NEOGY

V. P. MENON

R. KAUSHALENDRA RAO

B. K. MADAN

M. V. RANGACHARI

NEW DELHI,

The 15th *December*, 1952.

initialed 16.12.1952

[? see p 3 para]

APPENDIX IV

Communications addressed to State Governments and Press Note issued by the Commission

(1) *D.O. letter No. D. 8885-B-II/51, dated the 22nd September, 1951, from Shri M. V. Rangachari, Joint Secretary, Ministry of Finance, Government of India, to the Finance Secretaries of all Part A States.*

As you may have seen from the papers and from answers to questions in Parliament, the Finance Commission is likely to be constituted about the middle of next month and may be expected to commence its work almost immediately. In anticipation of the formal constitution of the Commission, I thought it might be an advantage if I gave you informally some idea of the kind of material which should be prepared by you for presentation to the Commission, so that you might take the collection of the material in hand. This is purely an informal letter which I have shown to the Chairman-designate and which I shall place before the Commission as soon as it is constituted. If the Commission, or any of its members require additional information, I shall write to you further.

2. To begin with, the Commission will be concerned with three problems. The first is the allocation of the States' share of income-tax among the Part A States, which is now regulated by the Deshmukh Award. The second is the determination of grants payable to the States of Assam, Bihar, Orissa and West Bengal in lieu of the export duty on jute under Article 273 of the Constitution. The third is the determination of the general grants payable to Orissa and Assam (and such other States as may now ask for grants) under Article 275 of the Constitution.

3. In regard to the shares of income-tax and the grant payable in lieu of the jute export duty the representations made by the State Governments to Mr. Deshmukh when he was enquiring into this subject and the criticism of the State Governments of the Award made by him will be placed before the members of the Commission. In any further representation which the State Government may wish to make in this matter, it is unnecessary to repeat what has been urged by them in the earlier representations. It will be sufficient if a concise statement of the State's case is now prepared for the use of the Commission and sent so as to reach it by the 15th November at the latest. It will be convenient if six copies

are sent together with six copies of the representation made to Mr. Deshmukh in 1949. It is unnecessary, at this stage, to go into all the past historical arguments for or against a particular method of allocation and it will suffice if the State's case is prepared with reference to the existing circumstances and the needs of the State rather than with reference to historical arguments of rights and wrongs or abstract principles of social justice.

4. As regards general grants-in-aid to the States, at present only Assam and Orissa are in receipt of them. These two States may wish to press for a modification of the sums now paid to them and other States may conceivably wish to ask for grants-in-aid in addition to their share of income-tax and the specific grants, if any, received by them under Article 273 of the Constitution. Here again, it would assist the Commission if each State sent a self-contained statement of its case for assistance supported by a forecast of its revenue and expenditure for the next 5 years. This forecast should be by major heads of account and should be prepared on the basis of the existing level of taxation and expenditure. For the purposes of this forecast the State's share of income-tax and grant-in-aid whether for general purposes or in lieu of the jute export duty, may be taken as 'Nil'. In these States in which any of the former Indian States have been merged, the forecast should include the revenue and expenditure under the State heads in the merged States. The forecast should also provide for the bringing up of the level of administration in these areas to the level of the rest of the State. Subject to this, the forecast of revenue and expenditure should not provide for any further developmental or other expenditure. In determining the amount of Central revenue to be diverted to the State either by way of a share of income-tax or by way of grants, the Commission would doubtless take into account the needs of the State for development. I suggest, therefore, that the case for any increase in the existing grant or for fresh grants-in-aid should be prepared on the basis of the dislocation in the revenue position of the State at the existing level of taxation and expenditure. If the State bases its claim for a further grant on its additional requirements for developmental and other purposes, this should be set out in a separate memorandum and the expenditure involved should not be included in the forecast just mentioned. I enclose a form in which this forecast may be prepared and have added a few explanatory footnotes which may assist in its preparation. If on this, or any other point, you require further elucidation, would you kindly drop me a line?

Forecast of Revenue and Expenditure

———— State.

(In lakhs of rupees)

Heads	1951-52 Budget	1952-53	1953-54	1954-55	1955-56	1956-57
REVENUE						
....						
....						
....						
....						
TOTAL **REVENUE**						
EXPENDITURE MET FROM REVENUE						
....						
....						
....						
....						
TOTAL **EXPENDITURE**						
Surplus						
NET						
Deficit						

NOTES

1. Figures should be given by Major Heads of account.
2. In the section dealing with revenue—
    (a) The State share of income-tax and any grant received under Article 273 or 275 of the Constitution should be shown as nil.
    (b) Full details should be given of any other grant from the Centre included in the estimate *e.g.* grant to make good the revenue-gap following federal financial integration, grants for rehabilitation of displaced persons, etc.
    (c) Any amount included for expected improvement in revenue or any allowance made for the abandonment of any existing sources of State revenue or the reduction in their yield should be explained in detail in supplementary notes, indicating the amounts involved each year.

3. In the section dealing with expenditure—

(a) No allowance should be made for fresh expenditure on developmental purposes.

(b) If the estimates in any year include any special item of expenditure this should be indicated in explanatory notes.

(c) The estimates should include provision for the bringing up of the level of administration in the areas forming the merged States. The amounts so included should be indicated in the explanatory notes.

4. All important variations in revenue or expenditure from year to year should be briefly explained in suitable footnotes.

(2) *D.O. letter No. F.C. III-51, dated the 14th December 1951, from Shri M. V. Rangachari, Member-Secretary, to the Finance Secretaries of all Part B States except Jammu and Kashmir.*

As you might have seen from the papers the Finance Commission constituted under Article 280 of the Constitution has started its work and I am writing this letter to you on behalf of the Commission in regard to matters affecting the Part B States with which the Commission will have to deal.

So far as the Part B States are concerned, the Commission will have to make recommendations to the President regarding the share of the divisible taxes allocable to each of the States and also to make recommendations in regard to any request from a State for a general grant-in-aid. As you know, the actual payment of the States' share of any divisible taxes is subject to the terms of the agreement between the State and the Centre under Articles 278 and 306 of the Constitution.

At present the only divisible tax is income-tax other than tax on agricultural income and Article 270 regulates the distribution of this tax between the Centre and the States. The Commission would like to have any representation which your Government may wish to make in regard to the allocation of this tax between the Centre and the States and also your State's share of the share allocated to the States.

If in addition to your share of income-tax your State intends to ask for a general or specific grant a detailed note setting out the reasons for this request may also be sent. This statement should be supported by a forecast of the revenue and expenditure of the State for the next five years. This forecast should be by major heads of accounts and should be prepared on the basis of the existing level of taxation and expenditure. The forecast of expenditure should not provide for any further new expenditure on development. In determining the scale of Central assistance whether by way of a devolution of revenue or a general grant from revenue the Commission would doubtless take into account the needs of the State for development. If the State bases its claim for a grant on its requirements for developmental or other purposes this should be set out in a separate memorandum and the expenditure involved should not be included in the forecast just mentioned. I enclose a form in which this forecast may be prepared and have added a few explanatory foot-notes which may assist in its preparation. If on this or any other point you require further elucidation, will you kindly let me know?

The Commission will be glad if the case for your State with seven spare copies is sent to reach them by the 1st of February at the latest.

Forecast of Revenue and Expenditure

———State.

(In lakhs of rupees)

Heads	1951-52 Budget	1952-53	1953-54	1954-55	1955-56	1956-57
REVENUE						
....						
....						
....						
....						
TOTAL REVENUE						
EXPENDITURE MET FROM REVENUE						
....						
....						
....						
....						
TOTAL EXPENDITURE						
NET Surplus						
NET Deficit						

NOTES

(1) Figures should be by Major Heads of accounts.

(2) In the section dealing with revenue—

(a) the State's share of income-tax received from the Centre should be shown separately.

(b) Full details should be given of other grant from the Centre included in the estimate such as the grant to cover the revenue gap following federal financial integration, grants for rehabilitation of displaced persons, Grow More Food, etc.

(c) Any amount included for anticipated improvement in revenue or any allowance made for the abandonment of any existing sources of State revenue or the reduction in their yield should be explained in supplementary notes indicating the amount involved each year. In those States in which internal customs duties have to be replaced gradually by Sales taxes, the revenue from each of the sources should be shown separately for each year.

(3) In the section dealing with expenditure—

(a) No allowance should be made for fresh expenditure on developmental purposes.

(b) If the estimates in any year include any special item of expenditure this should be indicated in explanatory notes.

(c) The estimates should include provision for any additional expenditure that may have to be incurred on the reorganisation of administration in those Unions formed by the merger of a large number of Indian States, *viz*. Rajasthan, Saurashtra, Madhya Bharat and PEPSU. The amount so included should be indicated in a separate note.

(4) All important variations in revenue or expenditure from year to year should be briefly explained in suitable foot-notes.

(3) *D.O. letter No. F.C. II/(17)/52, dated the 19th September 1952, from Shri M. V. Rangachari, Member-Secretary, to the Finance Secretaries of all Part A and Part B States except Jammu and Kashmir.*

The question was raised by more than one State during the Commission's recent visits to the States that one or more of the Union Excises should also be divided between the Centre and the States so as to increase the resources available to the latter. The Commission would be grateful if you would kindly send them a memorandum setting out the views of your Government on this subject. In particular the Commission would like to have the views of the State Government as to whether *all* the excises or only one or more of them should be divided, the relative share of the Centre and the States and the basis on which the States' share of any excise which your Government may wish to have divided should be allocated among the States.

The State's memorandum may be sent as soon as possible with 6 spare copies and in any case by the 10th October 1952.

(4) *Press Note dated the 19th February* 1952 *issued by the Finance Commission*

Among the questions on which the Finance Commission will have to make recommendations are:—

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

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

At present, 50 per cent of the divisible net proceeds of income-tax (other than Corporation Tax) is assigned to the States and distributed among them in the following percentage ratios: Assam—3; Bihar—12·5; Bombay—21; Madhya Pradesh—6; Madras—17·5; Orissa—3; Punjab—5·5; Uttar Pradesh—18; and West Bengal—13·5.

Seven out of the eight Part B States are also now entitled to share in the proceeds of the income-tax along with the nine Part A States.

Various bases have been suggested for allocating income-tax:—

(i) the *collection* of income-tax in the various States;

(ii) the amount of income-tax realised in respect of incomes, wherever earned, of individuals *resident* in the different States;

(iii) the collection of income-tax in the various States adjusted with reference to the *origin* of the income;

(iv) the relative *population* of each State;

(v) the relative volume of *industrial labour* in each State;

(vi) the *needs* of the different States according to various criteria; and

(vii) different combinations of the above factors.

Claims are advanced for grants-in-aid on the basis of needs for balancing the budget, for bringing up the level of administration and raising the standard of social services in certain States and backward regions, for implementing some of the Directive Principles of the Constitution, for economic development, for bearing special additional burdens or dealing with disabilities consequent upon partition, etc., etc.

Further points which arise with respect to grants-in-aid are whether the grants should be general or specific, conditional or unconditional.

Before making their recommendations, the Finance Commission would welcome the views of all who may have made a study of these questions. The views may be set forth in a written memorandum and sent to the Secretary, Finance Commission, Faridkot House, Lytton Road, New Delhi, on or before April 15, 1952.

APPENDIX V

SUPPLEMENTARY POINTS ON WHICH STATE GOVERNMENTS WERE ASKED FOR INFORMATION

1. Changes in rates of the principal heads of revenue (agricultural income-tax, stamps, motor vehicles, entertainment tax, electricity duty, general sales tax and other taxes and duties) from 1946-47 to 1951-52.

2. Changes in land revenue and excise revenue.

3. Incidence of food subsidies on States revenues.

4. Changes in the balances in the Famine Relief Fund and Road Fund.

5. Burden on the State Revenue on account of the relief and rehabilitation of displaced persons.

6. Revenue of local bodies and expenditure incurred by them on education and health services.

7. Mileage of national highways and (A), (B) and (C) Class Roads.

8. Strength of establishment under Police and general administration during 1946-47 and 1951-52.

9. Number of primary schools, attendance at schools and number of teachers in them.

10. Number of hospitals and dispensaries, rural and urban.

11. Taxes levied by the State on professions, callings and employment.

12. Economy campaign carried out by State Governments in the three years ending 1951-52.

13. Programmes of agrarian reforms in the States.

14. Expenditure incurred in 1950-51 and 1951-52 on the administration of controls and rationing.

15. Expenditure incurred on development schemes.

16. Working of commercial undertakings of the States like road transport, electricity schemes, etc.

17. Assets and liabilities of the States in recent years.

319—10

18. Regional distribution of population.

19. Cash and securities taken over from merged States.

20. Results of Grow More Food Schemes.

21. Position of taccavi loans in recent years.

22. Revenue from royalties on minerals.

NOTE.—The information in regard to items 2 to 6 inclusive was asked for the five years ending 1951-52 from Part A States and the two years ending 1951-52 from Part B States.

APPENDIX VI

DATES OF DISCUSSIONS WITH STATE GOVERNMENTS

Government	*Dates*
Madhya Pradesh	7th to 10th April 1952
West Bengal	17th to 31st April 1952
Orissa	23rd to 25th April 1952
Assam	3rd to 7th May 1952
Madhya Bharat	27th to 30th May 1952
Bombay	2nd to 5th June 1952
Travancore-Cochin	10th to 12th June 1952
Mysore	2nd to 5th July 1952
Madras	9th to 12th July 1952
Hyderabad	16th to 18th July 1952
Saurashtra	1st to 3rd August 1952
Punjab	9th to 13th August 1952
Patiala and East Punjab States Union	16th to 18th August 1952
Rajasthan	22nd to 25th August 1952
Uttar Pradesh	27th to 30th August 1952
Bihar	6th to 8th September 1952 and 22nd September 1952.

APPENDIX VII

LETTER FROM THE CHIEF MINISTER OF SAURASHTRA DATED THE 1ST AUGUST, 1952, TO THE CHAIRMAN, FINANCE COMMISSION

This morning we discussed the question about the powers of the Finance Commission *vis-a-vis* clause (I) of the Federal Financial Agreement entered into between the Government of India and the Government of Saurashtra. As we had anticipated the provisions of Article 280 will not cover an inquiry under clause (I) of the said Agreement. We appreciate the difficulty of the Finance Commission. The Constitution gives them certain powers and it is just and proper that the investigations by the Finance Commission should be confined to the provisions and the terms of the Constitution. On our side, however, you will appreciate the difficulty that for the period for which the Commission is to report there is also another body contemplated by the provisions of the F.F.I. Agreement to report practically on the same matter, although the background and the approach will be different.

2. We have carefully considered whether we should proceed further with an inquiry under Article 280 or should insist upon an inquiry under the provisions of the F.F.I. Agreement. After careful consideration, we have come to the conclusion that in the light of what has happened it would be against the interests of the State to enter into a discussion of the question unless the discussion covers an inquiry contemplated by the aforesaid Agreement.

3. Apart from the question that we feel that an inquiry limited to the terms of Article 280 will prejudice an inquiry under clause (I) of the Agreement, we feel that two Inquiry Bodies inquiring into the needs of Saurashtra for the same period will lead to all sorts of complications all of which cannot be appreciated at the present moment. At least there will be much over-lapping and duplication.

4. Under the circumstances, we have decided to move the Government of India to institute an inquiry under clause (I) of F.F.I. Agreement. I may explain that this is not in a spirit of huff or non-co-operation. We will be glad if this Commission itself is vested with the power to undertake an inquiry suggested above.

5. Subject to what I have said above, we shall have no objection to discuss other aspects of the problem, namely, Article 280(3) (a) i.e., the divisibility of taxes. We shall similarly have no objection to give you a general idea of our backwardness and needs from our angle under clause (I) of the Agreement, should it prove useful to the Commission for the examination of the case of Part B States. I may once again state that I am very sorry that I did not get this point clarified from the proper quarters earlier.

Thanking you.

APPENDIX VIII

SUMMARY OF THE BUDGETARY POSITION OF PART A AND PART B STATES

(In lakhs of rupees)

	1949-50	1950-51	1951-52 (Provisional Figures)	1952-53 (Budget Estimates)
ASSAM				
TOTAL Revenue	1030	992	1129	1005
Deduct—				
(i) Share of Central Income Tax	139	142	154	151
(ii) Grants-in-aid . .	88	70	70	70
NET REVENUE	803	780	905	784
TOTAL EXPENDITURE . . .	994	928	1090	1260
Surplus (+) or Deficit (—)	—191	—148	—185	—476
BIHAR				
TOTAL REVENUE	2595	2897	2823	2829
Deduct—				
(i) Share of Central Income Tax	595	592	654	631
(ii) Grants-in-aid . .	46	39	39	37
NET REVENUE	1954	2266	2130	2161
TOTAL EXPENDITURE . . .	2375	2605	3273	2980
Surplus (+) or Deficit (—)	—421	—339	—1143	—819
BOMBAY				
TOTAL REVENUE	6153	6031	6045	6503
Deduct—				
(i) Share of Central Income Tax	961	995	1099	1060
(ii) Grants-in-aid . .	135	145	145	116
NET REVENUE	5057	4891	4801	5327
TOTAL EXPENDITURE . . .	6150	6037(*a*)	6274	6501(*b*)
Surplus (+) or Deficit (—)	—1093	—1146	—1473	—1174

(*a*) Rs. 400 lakhs transferred to meet capital expenditure, corresponding to transfer to Revenue of an equivalent amount from the Revenue Reserve Fund, excluded.

(*b*) Rs. 250 lakhs transferred to meet capital expenditure, corresponding to transfer to Revenue of an equivalent amount from the Revenue Reserve Fund, excluded.

SUMMARY OF THE BUDGETARY POSITION OF PART A AND PART B STATES—*contd.*

(In lakhs of rupees)

	1949-50	1950-51	1951-52 (Provisional Figures)	1952-53 (Budget Estimates)
		MADHYA PRADESH		
TOTAL REVENUE	1960	1921	2280	2100
Deduct—				
(i) Share of Central Income Tax	274	234	314	303
(ii) Grants-in-aid . .	58	19	55	12
NET REVENUE	1628	1618	1911	1785
TOTAL EXPENDITURE . . .	1778	1674	1817	2082
Surplus (+) or Deficit (—)	—150	—56	+94	—297
		MADRAS		
TOTAL REVENUE	5589	5816	5965	6446
Deduct—				
(i) Share of Central Income Tax	823	829	915	883
(ii) Grants-in-aid . .	...	...	...	...
NET REVENUE	4766	4987	5050	5563
TOTAL EXPENDITURE . . .	5554	5945	6372	6534
Surplus (+) or Deficit (—)	—788	—958	—1322	—971
		ORISSA		
TOTAL REVENUE	1082	1031	1160	1178
Deduct—				
(i) Share of Central Income Tax	137	142	154	151
(ii) Grants-in-aid . .	47	61	61	61
NET REVENUE	898	828	945	966
TOTAL EXPENDITURE . . .	1147	1201	1085	1168
Surplus (+) or Deficit (—)	—249	—373	—140	—202

SUMMARY OF THE BUDGETARY POSITION OF PART A AND PART B STATES—*contd.*

(In lakhs of rupees)

	1949-50	1950-51	1951-52 (Provisional Figures)	1952-53 (Budget Estimates)
	PUNJAB			
TOTAL REVENUE	1695	1687	1780	1705
Deduct—				
(i) Share of Central Income Tax	229	261	288	278
(ii) Grants-in-aid	175	75	...	...
NET REVENUE	1291	1351	1492	1427
TOTAL EXPENDITURE	1612	1600	1649	1748
Surplus (+) or Deficit (—)	—321	—249	—157	—321
	UTTAR PRADESH			
TOTAL REVENUE	5397	5189	5461	6099
Deduct—				
(i) Share of Central Income Tax	869	853	942	909
(ii) Grants-in-aid	...	...	...	...
NET REVENUE	4528	4336	4519	5190
TOTAL EXPENDITURE	5626	5184	5442	6524
Surplus (+) or Deficit (—)	—1098	—848	—923	—1334
	WEST BENGAL			
TOTAL REVENUE	3401	3430	3858	3637
Deduct—				
(i) Share of Central Income Tax	549	640	706	682
(ii) Grants-in-aid	132	117	117	117
NET REVENUE	2720	2673	3035	2838
TOTAL EXPENDITURE	3138	3734	3739	4204
Surplus(+) or Deficit (—)	—418	—1061	—704	—1366

Summary of the Budgetary Position of Part A and Part B States—*contd.*

(In lakhs of rupees)

	1949-50	1950-51	1951-52 (Provisional Figures)	1952-53 (Budget Estimates)
		HYDERABAD		
Total Revenue	—	2618	2909	2701
Deduct—				
(i) Share of Central Income Tax	—	...	...	...
(ii) Grants-in-aid . .	—	131	118	116
Net Revenue	...	2487	2791	2585
Total Expenditure . . .	...	2755	2701	2736
Surplus (+) or Deficit (—)	...	—268	+90	—151
		MADHYA BHARAT		
Total Revenue	...	1038	1136	1188
Deduct—				
(i) Share of Central Income Tax	...	6	6	8
(ii) Grants-in-aid . .	...	—	—	—
Net Revenue	...	1032	1130	1180
Total Expenditure . . .	...	1177	1142	1318
Surplus (+) or Deficit (—)	...	—145	—12	—138
		MYSORE		
Total Revenue	...	1440	1422	1499
Deduct—				
(i) Share of Central Income Tax	...	—	—	—
(ii) Grants-in-aid . . .	...	345	345	345
Net Revenue	...	1095	1077	1154
Total Expenditure . . .	...	1352	1337	1601
Surplus (+) or Deficit (—)	...	—257	—260	—447

SUMMARY OF THE BUDGETARY POSITION OF PART A AND PART B STATES—*contd.*

(In lakhs of rupees)

	1949-50	1950-51	1951-52 (Provisional Figures)	1952-53 (Budget Estimates)
PATIALA & EAST PUNJAB STATES UNION				
TOTAL REVENUE . . .	...	563	596	522
Deduct—				
(*i*) Share of Central Income Tax	...	16	15	11
(*ii*) Grants-in-aid . .	...	—	—	—
NET REVENUE	...	547	581	511
TOTAL EXPENDITURE . . .	...	462	464	585
Surplus (+) or Deficit (—)	...	+85	+117	—74
RAJASTHAN				
TOTAL REVENUE . . .	...	1461	1560	1632
Deduct—				
(*i*) Share of Central Income Tax	...	8	12	13
(*ii*) Grants-in-aid . .	...	—	—	—
NET REVENUE	...	1453	1548	1619
TOTAL EXPENDITURE . . .	...	1391	1552	1726
Surplus (+) or Deficit (—)	...	+62	—4	—107
SAURASHTRA				
TOTAL REVENUE . . .	...	777	752	873
Deduct—				
(*i*) Share of Central Income Tax	...	—	—	—
(*ii*) Grants-in-aid . .	...	250	300	275
NET REVENUE	...	527	452	598
TOTAL EXPENDITURE . . .	...	742	884	872
Surplus (+) or Deficit (—)	...	—215	—432	—274

Summary of the Budgetary Position of Part A and Part B States—*concld.*

(In lakhs of rupees)

	1949-50	1950-51	1951-52 (Provisional) Figures)	1952-53 (Budget Estimates)
TRAVANCORE-COCHIN				
Total Revenue	...	1399	1790	1684
Deduct—				
(i) Share of Central Income Tax	...	—	—	—
(ii) Grants-in-aid . . .	...	280	363	305
Net Revenue	...	1119	1427	1379
Total Expenditure	...	1274	1352	1693
Surplus (+) or Deficit (—)	...	—155	+75	—314

Total Revenue excludes transfers from Post-war Development or Revenue Reserve Funds.

Total Expenditure excludes transfers to Post-war Development or Revenue Reserve Funds.

Grants-in-aid are the grants in lieu of jute export duty, revenue gap grants, subventions and special grants to West Bengal and Punjab.

Receipts from additional taxation in Madras, Bombay and Hyderabad for 1952-53 are included in total revenue.

Special Development Grants to backward B States, are excluded.

In arriving at the net total revenue, the share of income tax and statutory grants [*i.e.*, those under Articles 273, 275 and 278(1) (*b*) of the Constitution or the corresponding provisions of the Government of India Act, 1935] have been deducted from total revenue.

The revenue and expenditure of the Government of Mysore for 1951-52 and 1952-53 take into account only net figures under "Industries and Supplies".

The information that the Government of Orissa are not eligible for any federal revenue gap grant was received by them after finalising their budget for 1952-53. Further, as the State expected their share of Central income tax to go up, they decided not to alter the estimates already adopted.

Figures for 1951-52 are provisional.

APPENDIX IX
STATISTICAL TABLES

[illegible]

[illegible]

1. [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] figures [illegible] [illegible]

[illegible] figures [illegible] [illegible]

2. [illegible] and [illegible] [illegible] figures [illegible] [illegible] [illegible] [illegible] figures [illegible] to the Indian [illegible]

3. The figures for [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] a part of the [illegible] [illegible] the [illegible] of the [illegible] [illegible] and the Governments of Punjab, [illegible] [illegible] [illegible] and [illegible] not comparable with the figures of a full year.

4. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] and [illegible] [illegible] and [illegible] [illegible] [illegible] [illegible] [illegible] and [illegible] [illegible].

5. Unless otherwise [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] and [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] and other [illegible] [illegible].

6. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] of [illegible] [illegible] [illegible] [illegible] [illegible] and [illegible] [illegible].

7. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] Public Health, Agriculture, [illegible] [illegible] [illegible] [illegible]

1. *Statement showing Population and Area of Part A and Part B States on the basis of 1951 Census*

State	Population	Percentage of Total	Area sq. miles	Density per sq. mile
Assam*	90,43,707	2·61	54,084	167·2
Bihar	402,25,947	11·60	70,330	572·0
Bombay	359,56,150	10·37	111,434	322·7
Madhya Pradesh . . .	212,47,533	6·13	130,272	163·1
Madras	570,16,002	16·44	127,790	446·2
Orissa	146,45,946	4·22	60,136	243·5
Punjab	126,41,205	3·66	37,378	338·2
Uttar Pradesh	632,15,742	18·23	113,409	557·4
West Bengal	248,10,308	7·16	30,775	806·2
Hyderabad	186,55,108	5·39	82,168	227·0
Madhya Bharat	79,54,154	2·29	46,478	171·1
Mysore	90,74,972	2·62	29,489	307·7
Patiala & East Punjab States Union	34,93,685	1·00	10,078	346·7
Rajasthan	152,90,797	4·41	130,207	117·4
Saurashtra	41,37,359	1·19	21,451	192·9
Travancore-Cochin . .	92,80,425	2·68	9,144	1014·9
Total .	3466,89,040	100·00	1064,623	325·6

*Figures for Assam do not include figures for tribal areas specified in Part B of the Table in para 20 of the Sixth Schedule to the Constitution of India.

2. *Revenue and Expenditure of Central and State Governments 1937-38 to 1952-53*

Year	Revenue		Expenditure		Surplus (+) or Deficit (—)	
	Central	State	Central	State	Central	State
1937-38 . .	86,61	85,67	86,61	83,11	—	+ 2,56
1938-39 . .	84,52	84,94	85,15	85,76	— 64	— 82
1939-40 . .	94,57	91,23	94,57	89,12	—	+ 2,11
1940-41 . .	107,65	98,39	114,18	94,69	— 6,53	+ 3,70
1941-42 . .	134,57	108,38	147,26	102,69	— 12,69	+ 5,69
1942-43 . .	177,12	125,34	288,90	115,04	—111,78	+10,30
1943-44 . .	249,95	167,87	439,85	143,69	—189,90	+24,18
1944-45 . .	335,72	213,79	496,26	180,35	—160,55	+33,43
1945-46 . .	361,19	233,92	484,62	188,72	—123,43	+45,20
1946-47 . .	342,89	246,26	343,49	234,82	— 60	+11,44
1948-49 . .	371,70(a)	256,45	320,86(a)	244,01	+ 50,84	+13,60
1949-50 . .	350,38(a)	239,04	317,12(a)	283,74	+ 33,27	+ 5,30
1950-51 . .	410,66(a)	382,90	351,44(c)	380,61	+ 59,22	+ 2,29
1951-52 . .	497,67(b)	406,66(a)	405,06(b)	401,73(a)	+ 92,61	+ 4,93
1952-53 (c) .	404,98	415,99	401,25	435,30	+ 3,73	—19,31

Figures exclude transfers from/to Revenue Reserve Funds.

Figures upto and including 1946-47 relate to undivided India; later figures relate to the Indian Union. State figures from 1950-51 are inclusive of those of Part B States (except Jammu & Kashmir).

(a) Provisional figures.

(b) Revised estimates.

(c) Budget estimates.

3. Composition of Revenue and Expenditure

	1937-38	1938-39	1944-45	1945-46
REVENUE—				
Customs	43,11	40,51	39,77	73,61
Central Excise	7,66	8,66	38,14	46,36
Taxes on Income	15,83	17,28	1,91,30	1,77,63
of which				
(1) Corporation Tax	8	2,04	83,65	75,33
(2) Taxes on Income other than Corporation Tax	13,95	15,24	1,07,65	1,02,30
Railways (*a*)	2,76	11,37	32,00	32,00
Posts and Telegraphs (*a*)	57	19	10,25	11,31
Currency and Mint	75	58	12,46	16,75
Other Heads	17,18	7,43	38,41	32,28
Deduct States' share of Income Tax	—1,25	—1,50	—26,56	—28,75
Total	86,61	84,52	3,35,72	3,61,19
EXPENDITURE—				
Defence Services (Net)	47,35	46,18	3,95,49	3,60,23
Direct Demands on Revenue	3,73	4,24	8,31	9,67
Debt Services (Net) (*b*)	15,00	14,12	21,70	33,62
Civil Administration	10,44	10,90	24,02	29,45
Civil Works (*c*)	2,50	2,52	—1,75	1,38
Contributions & Miscellaneous Adjustments between Central and State Governments	3,16	3,06	8,76	9,74
Miscellaneous	3,91	3,63	6,49	17,47
of which				
Subsidy on food-grains	—	—	—	—
Expenditure on displaced persons	—	—	—	—
Extraordinary Items	3	1	31,03	21,37
Other Heads	49	49	2,20	1,70
Total	86,61	85,15	4,96,26	4,84,62
Surplus (+) or Deficit (—)	—	—64	—1,60,55	—1,23,43

... Revenues (*b*) Including appropriations for reduc *met from Revenue of the Government of India*

1946-47	1948-49	1949-50	1950-51	1951-52 (Revised Estimates)	1952-53 (Budget Estimates)
89,22	1,26,16	1,24,71	1,57,15	2,32,00	1,65,00
43,03	50,63	67,85	67,54	84,30	86,00
1,60,59	1,81,76	1,61,12	1,73,22	1,75,00	1,55,00
68,85	62,26	39,53	40,49	37,55	30,53
91,74	1,19,50	1,21,59	1,32,73	1,37,45	1,24,47
5,40	7,34	7,00	6,50	7,34	7,65
5,16	2,36	2,38	3,98	3,87	1,16
15,57	12,63	11,22	12,27	11,31	10,39
53,79	32,61	21,87	37,52	36,55	30,62
—29,87	—41,79	—45,76	—47,52	—52,70	—50,84
3,42,89	3,71,70	3,50,39	4,10,66	4,97,67	4,04,98
2,07,37	1,46,05	1,48,86	1,64,13	1,81,24	1,97,95
10,37	8,62	13,90	12,50	16,95	15,76
41,66	42,53	39,43	37,36	37,30	36,16
39,68	35,56	39,30	48,80	56,66	55,98
5,63	6,61	6,53	10,38	13,25	14,96
1,72	2,96	2,96	15,59	18,08	20,28
32,78	56,89	52,44	52,88	66,44	40,93
23,59	31,64	27,54	24,48	38,66	15,00
—	3,45	12,28	8,74	13,83	10,09
2,47	19,45	11,54	7,03	12,06	15,86
1,81	2,19	2,16	2,77	3,07	3,38
3,43,49	3,20,86	3,17,12	3,51,44	4,05,06	4,01,25
—60	+50,84	+33,27	+59,22	+92,61	+3,73

tion or avoidance of debt. (c) Including Block grant for transfer to Central Road Fund.

4. *Revenue and **Expenditure** of Part A and*

Per Capita figures (in rupees) **are given in italics along-side**

	1950-51 (Accounts)			
	Revenue		Expenditure	
Assam	9,92	*11·0*	9,28	*10·3*
Bihar	28,97	*7·2*	26,05	*6·5*
Bombay	60,31(c)	*16·8*	60,37(*d*)	*16·8*
Madhya Pradesh	19,20(*g*)	*9·1*	16,74	*7·9*
Madras	58,16	*10·2*	59,45	*10·4*
Orissa	10,31	*7·1*	12,01	*8·2*
Punjab	16,87	*13·4*	16,00	*12·7*
Uttar Pradesh	51,89	*8·2*	51,84	*8·2*
West Bengal	34,30	*13·8*	37,34	*15·1*
Hyderabad	26,18	*14·0*	27,55	*14·7*
Madhya Bharat	10,38	*13·0*	11,77	*14·7*
Mysore	14,40	*15·8*	13,52	*14·9*
Patiala and East Punjab States Union	5,63	*16·1*	4,62	*13·2*
Rajasthan	14,61	*9·5*	13,91	*9·1*
Saurashtra	7,77	*19·0*	7,42	*18·1*
Travancore-Cochin	13,99	*15·0*	12,74	*13·7*
TOTAL	3,82,90	*11·0*	3,80,61	*11·0*

(*a*) Excludes Rs. 600 lakhs transferred from Revenue Reserve Fund.

(*b*) Excludes Rs. 300 lakhs transferred from the Revenue Reserve Fund (Post-war

(*c*) Excludes Rs. 400 lakhs transferred from Revenue Reserve Fund.

(*d*) Excludes Rs. 400 lakhs transferred to Capital, corresponding to transfer to Revenue

(*e*) Includes an estimated Rs. 450 lakhs from additional taxation; excludes Rs. 250 lakhs

(*f*) Excludes Rs. 250 lakhs transferred to Capital, corresponding to transfer to Revenue

(*g*) Excludes Rs. 44 lakhs transferred from the Revenue Reserve Fund (Development

(*h*) Excludes Rs. 80 lakhs transferred from Revenue Reserve Fund.

(*i*) Excludes Rs. 5 lakhs on account of transfer to Revenue Reserve Fund.

(*j*) Excludes Rs. 90 lakhs transferred from Revenue Reserve Fund (Development

(*k*) Includes Revenue from additional taxation of Rs. 270 lakhs.

(*l*) Includes addition to Land Revenue of Rs. 512 lakhs from Zamindari Abolition in

(*m*) Includes additional taxation of Rs. 146 lakhs.

(*n*) Excludes Rs. 115 lakhs withdrawn from Funds ear-marked for Development

(*o*) Only net figures of "Industries and Supplies" taken into account ; that is, Revenue
Government Industrial and Commercial undertakings ; expenditure accordingly excludes

(*p*) Includes Rs. 2·63 lakhs on account of amount recoverable from the Centre, not

NOTE.—Receipts from additional taxation included in revenue figures for 1952-53
tion in Uttar Pradesh are not included in the budget estimates of revenue.

Part B States—1950-51 to 1952-53

the figures for Total Revenue/Expenditure

1951-52 (Provisional Figures)				1952-53 (Budget Estimates)			
Revenue		Expenditure		Revenue		Expenditure	
11,29	*12·5*	10,90	*12·1*	10,05	*11·2*	12,60	*14·0*
28,23 (*a*)	*7·0*	32,73	*8·1*	28,29 (*b*)	*7·0*	29,80	*7·4*
60,45	*16·3*	62,74	*17·4*	65,03 (*e*)	*18·1*	65,01 (*f*)	*18·1*
22,80 (*h*)	*10·8*	18,17 (*i*)	*8·6*	21,60 (*j*)	*9·9*	20,82	*9·3*
59,65	*10·5*	63,72	*11·2*	64,46 (*k*)	*11·3*	65,34	*11·5*
11,60	*7·9*	10,85	*7·4*	11,78	*8·1*	11,68	*8·0*
17,80	*14·1*	16,49	*13·1*	17,05	*13·5*	17,43	*13·9*
54,61	*8·6*	54,42	*8·6*	60,99 (*l*)	*9·7*	65,24 (*l*)	*10·3*
38,58	*15·6*	37,39	*15·1*	36,37	*12·7*	42,04	*17·0*
29,09	*15·6*	27,01	*11·4*	27,01 (*m*)	*11·1*	27,36	*11·6*
11,36	*14·2*	11,42	*14·3*	11,88 (*n*)	*11·9*	13,18	*16·5*
14,22 (*o*)	*15·6*	13,37 (*o*)	*14·7*	14,99 (*o*)	*15·5*	16,01 (*o*)	*17·6*
5,96	*11·0*	4,64	*13·3*	5,22	*11·9*	5,85	*16·7*
15,60	*10·2*	15,52	*10·1*	16,32	*10·7*	17,26	*11·3*
7,52	*15·3*	8,84	*21·5*	8,73	*21·2*	8,72	*21·3*
17,90	*19·2*	13,52	*13·5*	16,82 (*p*)	*18·2*	16,91	*13·2*
4,06,66	*11,7*	40,1,73	*11·6*	4,15,99	*12·0*	4,35,30	*12·6*

Reconstruction and Development Fund).

of an equivalent amount from Revenue Reserve Fund.
transferred from Revenue Reserve Fund.
of an equivalent amount from Revenue Reserve Fund.
Fund).

Fund).

1952-53 ; expenditure includes additional expenditure in respect of Zamindari Abolition.

Expenditure.
includes Gross Receipts under "Industries and Supplies" *minus* working expenses of working expenses.
included under Revenue otherwise.
are as given in the budget estimates for 1952-53. Yield from measures of additional taxa-

5(*a*). *Composition of Revenue of Part A and*
Percentages of collections to the total Revenue of the

	Agricultural Income Tax		Land Revenue		State Excise		Stamps		Registration	
Assam	79	8·0	190	19·1	93	9·4	24	2·4	3	0·3
Bihar	69	2·4	159	5·5	526	18·2	248	8·5	67	2·3
Bombay	—	—	631	10·5	107	1·8	410	6·8	32	0·5
Madhya Pradesh	—	—	375	19·5	231	12·0	100	5·2	23	1·2
Madras	—	—	694	11·9	55	1·0	488	8·4	108	1·9
Orissa	10	1·0	103	10·0	213	20·7	65	6·3	8	0·8
Punjab	—	—	184	10·9	208	12·3	65	3·9	10	0·6
Uttar Pradesh	138	2·7	772	14·9	651	12·5	244	4·7	24	0·5
West Bengal	63	1·8	213	6·2	620	18·1	278	8·1	45	1·3
Hyderabad	—	—	447	17·1	969	37·0	49	1·9	7	0·3
Madhya Bharat	—	—	247	23·8	189	18·2	36	3·5	3	0·3
Mysore	—	—	129	9·0	200	14·0	49	3·4	9	0·6
Patiala & East Punjab States Union	—	—	99	17·6	190	33·6	15	2·7	3	0·5
Rajasthan	—	—	421	28·8	249	17·0	43	3·0	3	0·2
Saurashtra	—	—	225	29·0	15	1·9	22	2·8	9	1·2
Travancore-Cochin	50	3·6	69	4·9	218	15·6	81	5·8	28	2·0
TOTAL	409	1·1	4959	13·0	4734	12·4	2217	5·8	383	1·0

(*a*) Excludes Income Tax share.

(*b*) Excludes transfers from Revenue Reserve Funds.

Part B States under Main Heads—1950-51
respective States are given against each head in Italics

Sales Taxes (including taxes on Motor Spirit)		Other Taxes and Duties		Total tax Revenue (a)		Income Tax Share		Grants from the Centre		Other Items of Revenue (b)		Total Revenue (b)
73	*7·4*	45	*4·5*	507	*51·1*	142	*14·3*	116	*11·7*	227	*22·9*	992
440	*15·2*	63	*2·2*	1573	*54·3*	592	*20·4*	230	*8·0*	502	*17·3*	2897
1518	*25·2*	891	*14·7*	3589	*59·5*	995	*16·5*	145	*2·4*	1302	*21·6*	6031
261	*13·6*	82	*4·3*	1072	*55·8*	284	*14·8*	32	*1·7*	533	*27·7*	1921
1675	*28·8*	569	*9·7*	3589	*61·7*	829	*14·3*	20	*0·3*	1378	*23·7*	5816
93	*9·0*	17	*1·6*	509	*49·4*	142	*13·8*	116	*11·2*	264	*25·6*	1031
193	*11·4*	65	*3·9*	724	*43·0*	261	*15·5*	75	*4·4*	627	*37·1*	1687
523	*10·1*	350	*6·7*	2702	*52·1*	853	*16·4*	—	—	1634	*31·5*	5189
615	*17·9*	333	*9·7*	2166	*63·2*	640	*18·7*	117	*3·4*	507	*14·8*	3430
74	*2·8*	368	*14·1*	1914	*73·1*	—	—	131	*5·0*	573	*21·9*	2618
42	*4·0*	161	*15·5*	678	*65·3*	6	*0·6*	16	*1·5*	338	*32·6*	1038
141	*9·8*	61	*4·2*	590	*41·0*	—	—	345	*23·9*	505	*35·1*	1440
48	*8·3*	20	*3·6*	373	*66·3*	16	*2·8*	—	—	174	*30·9*	563
—	—	393	*26·9*	1108	*75·9*	8	*0·6*	—	—	345	*23·5*	1461
8	*1·0*	75	*9·7*	354	*45·6*	—	—	250	*32·2*	173	*22·2*	777
259	*18·5*	53	*3·8*	758	*54·2*	—	—	280	*20·0*	361	*25·8*	1399
5962	*15·6*	3546	*9·3*	22206	*58·0*	4768	*12·5*	1873	*4·9*	9443	*24·6*	38290

5. (b).—*Composition of Revenue of Part A and Part B*
Percentages of collections to the total revenue of

	Agricultural Income Tax		Land Revenue		State Excise		Stamps		Registration	
Assam	94	*8·3*	181	*16·0*	121	*10·7*	29	*2·6*	5	*0·4*
Bihar	56	*2·0*	145	*5·1*	484	*17·1*	223	*7·9*	63	*2·2*
Bombay	—	—	622	*10·3*	92	*1·5*	414	*6·8*	31	*0·5*
Madhya Pradesh	—	—	439	*19·3*	256	*11·2*	108	*4·7*	24	*1·1*
Madras	—	—	921	*15·4*	38	*0·6*	455	*7·6*	110	*1·8*
Orissa	16	*1·1*	107	*9·2*	200	*17·2*	69	*6·0*	12	*1·0*
Punjab	—	—	198	*11·1*	278	*15·6*	59	*3·3*	9	*0·5*
Uttar Pradesh	100	*1·8*	757	*13·9*	632	*11·6*	233	*4·3*	27	*0·5*
West Bengal	64	*1·7*	210	*5·4*	671	*17·4*	293	*7·6*	45	*1·2*
Hyderabad	10	*0·3*	482	*16·6*	946	*32·5*	83	*2·8*	8	*0·3*
Madhya Bharat	—	—	253	*22·3*	179	*15·8*	41	*3·6*	2	*0·2*
Mysore	—	—	131	*9·2*	211	*14·8*	51	*3·6*	10	*0·7*
Patiala & East Punjab States Union	—	—	90	*15·1*	235	*39·4*	19	*3·2*	4	*0·7*
Rajasthan	—	—	315	*20·2*	293	*18·8*	47	*3·0*	4	*0·3*
Saurashtra	—	—	152	*20·2*	17	*2·3*	23	*3·1*	9	*1·2*
Travancore-Cochin	99	*5·5*	71	*4·0*	240	*13·4*	89	*5·0*	30	*1·7*
TOTAL	439	*1·1*	5074	*12·5*	4893	*12·0*	2236	*5·5*	393	*1·0*

(a) In the figures of Provisional Accounts for 1951-52 obtained from the Accountants separately. The figures for "Other Taxes and Duties" have been retained as shown in the Similarly since details of "Grants and Subventions" from the Centre have not been given, Revised Estimates.

(b) Excludes transfers from Revenue Reserve Funds.

(c) Excludes Income Tax Share.

(d) Only net receipts under "Industries and Supplies" included.

***States under** Main Heads—1951-52 (Provisional **Figures**)*
the respective States are given against each head in italics.

Sales Taxes (including taxes on Motor Spirit) (a)		Other Taxes		Total Tax Revenue (c)		Income Tax Share		Grants from the Centre		Other Items of Revenue (b)		Total Revenue (b)
101	*9.0*	47	*4.2*	578	*51.2*	154	*13.6*	161	*14.3*	236	*20.9*	1129
420	*14.9*	67	*2.4*	1458	*51.6*	654	*23.2*	147	*5.2*	564	*20.0*	2823
1283	*21.2*	924	*15.3*	3366	*55.7*	1099	*18.2*	145	*2.4*	1435	*23.7*	6045
265	*11.6*	89	*3.9*	1181	*51.8*	314	*13.8*	72	*3.2*	713	*31.3*	2280
1687	*28.3*	622	*10.4*	3833	*64.3*	915	*15.3*	107	*1.8*	1110	*18.6*	5965
127	*10.9*	17	*1.5*	548	*47.2*	154	*13.3*	173	*14.9*	285	*24.6*	1160
193	*10.8*	73	*4.1*	810	*45.5*	288	*16.2*	—	—	682	*38.3*	1780
448	*8.2*	534	*9.8*	2731	*50.0*	942	*17.3*	84	*1.5*	1704	*31.2*	5461
683	*17.7*	363	*9.4*	2329	*60.4*	706	*18.3*	156	*4.0*	667	*17.3*	3858
193	*6.6*	330	*11.3*	2052	*70.5*	—	—	188	*6.5*	669	*23.0*	2909
68	*6.0*	165	*14.5*		*62.3*	6	*0.5*	19	*1.7*	403	*35.5*	1136
164	*11.5*	79	*5.6*	646	*45.4*	—	—	403	*28.3*	373	*26.2*	1422(d)
47	*7.9*	34	*5.7*	429	*72.0*	15	*2.5*	15	*2.5*	137	*23.0*	596
—	—	445	*28.5*	1104	*70.8*	12	*0.8*	37	*2.4*	406	*26.0*	1560
27	*3.6*	63	*8.3*	291	*38.7*	—	—	300	*39.9*	161	*21.4*	752
249	*13.9*	92	*5.1*	870	*48.6*	—	—	363	*20.3*	557	*31.1*	1790
5955	*14.6*	3944	*9.7*	22934	*56.4*	5260	*12.9*	2370	*5.8*	10102	*24.8*	40666

General, the collections from "Sales Tax and Taxes on Motor Spirit" were not indicated
Revised Estimates for the year and the residue shown as receipts under "Sales Taxes".
the figures for "Grants and Subventions" have been calculated after a comparison with the

5 (c).—*Composition of Revenue of Part A and B States*
Percentages of collections to the total revenue of the

	Agricultural Income Tax		Land Revenue		State Excise		Stamps		Registration	
Assam	71	*7·1*	165	*16·4*	76	*7·6*	26	*2·6*	4	*0·4*
Bihar	40	*1·4*	159	*5·6*	580	*20·5*	257	*9·1*	70	*2·5*
Bombay	—	—	761	*11·7*	107	*1·6*	436	*6·7*	32	*0·5*
Madhya Pradesh	—	—	456	*21·7*	223	*10·6*	107	*5·1*	25	*1·2*
Madras	—	—	913	*14·2*	49	*0·8*	475	*7·4*	120	*1·9*
Orissa	15	*1·3*	107	*9·1*	167	*14·2*	77	*6·5*	13	*1·0*
Punjab	—	—	195	*11·4*	247	*14·5*	67	*3·9*	10	*0·6*
Uttar Pradesh	98	*1·6*	1247	*20·4*	612	*10·0*	240	*3·9*	26	*0·4*
West Bengal	64	*1·8*	207	*5·7*	592	*16·3*	289	*7·9*	43	*1·2*
Hyderabad	10	*0·4*	596	*22·1*	990	*36·7*	48	*1·8*	8	*0·3*
Madhya Bharat	—	—	344	*29·0*	193	*16·2*	41	*3·5*	2	*0·2*
Mysore	—	—	134	*8·9*	178	*11·9*	47	*3·1*	11	*0·7*
Patiala and East Punjab States Union	—	—	107	*20·5*	169	*32·4*	22	*4·2*	5	*1·0*
Rajasthan	15	*0·9*	376	*23·0*	290	*17·8*	50	*3·1*	4	*0·2*
Saurashtra	—	—	252	*28·9*	16	*1·8*	22	*2·5*	10	*1·1*
Travancore-Cochin	85	*5·1*	71	*4·2*	265	*15·8*	87	*5·2*	30	*1·8*
TOTAL	398	*1·0*	6090	*14·6*	4754	*11·4*	2291	*5·5*	413	*1·0*

(a) Excludes Income Tax share.
(b) Excludes Transfers from Revenue Reserve Fund.

under *Main Heads*—*1952-53* (*Budget Estimates*)
respective States are given against each head in italics.

Sales Taxes (including taxes on Motor Spirit)		Other Taxes		Total Tax Revenue (a)		Income Tax Share		Grants from the Centre		other Items of Revenue (b)		Total Revenue (b)
75	*7·5*	43	*4·3*	460	*45·8*	151	*15·0*	158	*15·7*	236	*23·5*	1005
335	*11·8*	67	*2·4*	1508	*53·3*	631	*22·3*	207	*7·3*	483	*17·1*	2829
1472	*22·6*	935	*14·4*	3743	*57·6*	1060	*16·3*	145	*2·2*	1555	*23·9*	6503
198	*9·4*	83	*4·0*	1092	*52·0*	303	*14·4*	69	*3·3*	636	*30·3*	2100
1595	*24·7*	711	*11·0*	3863	*59·9*	833	*12·7*	50	*0·8*	1650	*25·6*	6446
101	*8·6*	17	*1·4*	496	*42·1*	151	*12·8*	249	*21·1*	282	*23·9*	1178
181	*10·6*	74	*4·3*	773	*45·3*	278	*16·3*	...	...	653	*38·3*	1705
504	*8·3*	468	*7·7*	3195	*52·4*	909	*14·9*	72	*1·2*	1923	*31·5*	6099
660	*18·1*	397	*10·9*	2252	*61·9*	681	*18·8*	117	*3·2*	586	*16·1*	3637
258	*9·5*	187	*6·9*	2098	*77·7*	—	—	116	*4·3*	488	*18·1*	2701
92	*7·7*	138	*11·6*	809	*68·1*	8	*0·7*	54	*4·5*	317	*26.7*	1188
140	*9·3*	77	*5·1*	587	*39·2*	—	—	379	*25·3*	532	*35·5*	1499(c)
38	*7·2*	16	*3·0*	356	*68·2*	11	*2·1*	15	*2·9*	140	*26·8*	522
—	—	402	*24·6*	1137	*69·6*	13	*0·8*	60	*3·7*	422	*25·9*	1632
22	*2·5*	52	*6·0*	374	*42·8*	—	—	308	*35.2*	191	*21·9*	873
241	*14·3*	84	*5·0*	863	*51.3*	—	—	327	*19·4*	492	*29·2*	1682
5912	*14·2*	3751	*9·0*	23606	*56·7*	5079	*12·2*	2326	*5·6*	10586	*25·5*	41599

Per Capita figures (in rupees) are given

	Tax Revenue *excluding*			
	1950-51		1951-52 (Provisional Figures)	
Assam	507	*6·6*	578	*6·4*
Bihar	1573	*3·9*	1458	*3·6*
Bombay	3589	*10·0*	3356	*9·4*
Madhya Pradesh	1072	*5·0*	1181	*5·6*
Madras	3589	*6·3*	3833	*6·7*
Orissa	509	*3·5*	548	*3·8*
Punjab	724	*5·8*	810	*6·1*
Uttar Pradesh	2702	*4·3*	2731	*4·3*
West Bengal	2166	*8·7*	2329	*9·4*
Hyderabad	1914	*10·2*	2052	*11·0*
Madhya Bharat	678	*8·5*	708	*8·8*
Mysore	590	*6·5*	646	*7·1*
Patiala and East Punjab States Union	373	*10·7*	429	*12·3*
Rajasthan	1108	*7·2*	1104	*7·2*
Saurashtra	354	*8·6*	291	*7.1*
Travancore-Cochin	758	*8·2*	870	*9·4*
TOTAL	22206	*6·4*	22934	*6·6*

(a) Includes receipts from additional taxation estimated at rupees 450 lakhs.
(b) Includes receipts from additional taxation estimated at rupees 270 lakhs.
(c) Includes the anticipated increase of rupees 512 lakhs in land revenue consequent on
(d) Includes receipts from additional taxation estimated at rupees 146 lakhs.

States, 1950-51 to 1952-53
in italics along-side the figure of Total Revenue.

Income Tax 1952-53 (Buget Estimates)		Tax Revenue *including* Income Tax 1950-51		1951-52 (Provisional Figures)		1952-53 (Budget Estimates)	
460	*5·1*	649	*7·2*	732	*8·1*	611	*6·8*
1508	*3·8*	2165	*5·4*	2112	*5·3*	2139	*5·3*
3743 (a)	*10·4*	4584	*12·7*	4465	*12·4*	4803 (a)	*13·3*
1092	*5·2*	1356	*6·4*	1495	*7·1*	1395	*6·3*
3863 (b)	*6·8*	4418	*7·7*	4743	*8·3*	4746 (b)	*8·3*
496	*3·4*	651	*4·5*	702	*[illegible]·3*	647	*4·[illegible]*
773	*6·1*	985	*7·8*	1098	*8·7*	1052	*8·3*
3195 (c)	*5·1*	3555	*5·6*	3773	*5·8*	4104 (c)	*6·5*
2252	*9·1*	2806	*11·3*	3035	*12·2*	2933	*11·8*
2998 (d)	*11·2*	1914	*10·2*	2052	*11·0*	2098 (d)	*11·2*
809	*10·1*	684	*8·6*	714	*8·9*	817	*10·2*
587	*6·5*	590	*6·5*	646	*7·1*	587	*6·5*
356	*10·2*	389	*11·1*	444	*12·7*	367	*10·5*
1137	*7·4*	1116	*7·3*	1116	*7·3*	1150	*7·5*
374	*9·1*	354	*8·6*	291	*7·1*	374	*9·1*
863	*9·3*	758	*8·2*	870	*9·4*	863	*9·3*
23606	*6·8*	26974	*7·8*	28193	*8·1*	28685	*8·3*

Zamindari abolition.

6. *(a)*—*Per Capita* **Receipts** *of Part A and Part B*

(Figures in rupees)

	Total Tax Revenue (a)		Land Revenue		State Excise	
	1950-51	1951-52	1950-51	1951-52	1950-51	1951-52
Assam	5·6	6·4	2·1	2·0	1·0	1·3
Bihar	3·9	3·6	0·4	0·4	1·3	1·2
Bombay	10·0	9·4	1·8	1·7	0·3	0·3
Madhya Pradesh	5·1	5·6	1·8	2·1	1·1	1·2
Madras	6·3	6·7	1·2	1·6	0·1	0·1
Orissa	3·5	3·8	0·7	0·7	1·5	1·4
Punjab	5·7	6·4	1·5	1·6	1·7	2·2
Uttar Pradesh	4·3	4·3	1·2	1·2	1·0	1·0
West Bengal	8·7	9·4	0·9	0·8	2·5	2·7
Hyderabad	10·2	11·0	2·4	2·6	5·2	5·1
Madhya Bharat	8·5	8·8	3·1	3·2	2·4	2·2
Mysore	6·5	7·1	1·4	1·4	2·2	2·3
Patiala & East Punjab States Union	10·7	12·3	2·8	2·6	5·4	6·7
Rajasthan	7·2	7·2	2·8	2·1	1·6	1·9
Saurashtra	8·6	7·1	5·5	3·7	0·4	0·4
Travancore-Cochin	8·2	9·4	0·7	0·8	2·3	2·6
TOTAL	6·4	6·6	1·4	1·5	1·4	1·4

(a) Excludes States' share of Income Tax.
(b) Includes Taxes on Motor Spirit.
(c) Grants under Articles 273, 275, and 278 of the Constitution.

States under Main Heads, 1950-51 and 1951-52

Stamps		Sales Tax (b)		Forests		Income Tax and Grants (c)	
1950-51	1951-52	1950-51	1951-52	1950-51	1951-52	1950-51	1951-52
0·3	0·3	0·8	1·1	0·6	0·7	2·9	3·5
0·6	0·6	1·1	0·9	0·2	0·2	2·0	2·0
1·1	1·2	4·2	3·6	1·0	0·9	3·2	3·5
0·5	0·5	1·2	1·2	1·4	2·1	1·5	1·8
0·9	0·8	2·9	3·0	0·3	0·4	1·5	1·8
0·5	0·5	0·6	0·9	0·7	0·7	1·8	2·2
0·5	0·5	1·5	1·5	0·4	0·5	2·7	2·3
0·4	0·4	0·8	0·7	0·5	0·5	1·3	1·6
1·1	1·2	2·5	2·8	0·2	0·2	3·1	3·5
0·3	0·4	0·4	1·0	0·5	0·5	0·7	1·0
0·4	0·5	0·5	0·8	0·7	0·8	0·3	0·3
0·5	0·6	1·5	1·8	0·6	0·6	3·8	4·4
0·4	0·5	1·4	1·3	0·2	0·2	0·5	0·9
0·3	0·3	—	—	0·3	0·3	0·1	0·3
0·5	0·6	0·2	0·7	0·2	0·1	6·1	7·3
0·9	1·0	2·8	2·7	1·7	2·0	3·0	3·9
0·6	0·6	1·7	1·7	0·6	0·6	1·9	2·2

7. (a).—Composition of Expenditure met from Revenue

The percentage of the expenditure in each category

	Cost of Tax Collection		Irrigation		Debt Services	
Assam	81	8·7	7	0·8	10	1·1
Bihar	164	6·3	201	7·7	5	0·2
Bombay	559	8·7	211	3·3	157	2·4
Madhya Pradesh	200	11·9	23	1·4	35	2·1
Madras	524	8·8	289	4·9	—66	(—)
Orissa	87	7·2	94	7·8	2	0·2
Punjab	137	8·6	98	6·1	—3	(—)
Uttar Pradesh	498	9·6	227	4·4	71	1·4
West Bengal	180	4·8	104	2·8	20	0·5
Hyderabad	297	10·8	146	5·3	257	9·3
Madhya Bharat	92	7·8	33	2·8	—	—
Mysore	80	5·9	19	1·4	91	6·8
Patiala & East Punjab States Union .	40	8·7	—	—	—	—
Rajasthan	163	11·7	32	2·3	21	1·5
Saurashtra	41	5·5	22	3·0	3	0·4
Travancore-Cochin	112	8·8	3	0·2	105	8·2
TOTAL	3255	8·5	1509	3·9	708	1·8

(a) Rs. 400 lakhs transferred to meet capital expenditure, corresponding to transfer to *of Part A and Part B States—1950-51*

to total expenditure is given in italics along-side the figures.

Administrative Services		Social Services		Industries & Miscellaneous Departments		Civil Works		Other Items		Total
182	*19·6*	278	*30·0*	10	*1·1*	136	*14·7*	225	*24·3*	928
782	*30·0*	702	*26·9*	62	*2·4*	419	*16.1*	271	*10·4*	2605
1653	*25·7*	2158	*33·5*	472	*7·3*	639	*9·9*	589	*9·2*	6437(a)
483	*28·9*	453	*27·1*	14	*0·8*	259	*15·5*	206	*12·3*	1674
1640	*27·6*	1872	*31·5*	308	*5·2*	951	*16·0*	428	*7·2*	5945
295	*24·6*	299	*24·9*	101	*8·4*	258	*21·5*	66	*5·5*	1201
499	*31·2*	387	*24·2*	33	*2·1*	198	*12·4*	251	*15·7*	1600
1472	*28·4*	1536	*29·6*	425	*8·2*	344	*6·6*	611	*11·8*	5184
943	*25·3*	892	*23·9*	105	*2·8*	326	*8·7*	1165	*31·2*	3734
718	*26·1*	595	*21·6*	151	*5·5*	196	*7·1*	395	*14·3*	2755
284	*24·1*	313	*26·6*	73	*6·2*	102	*8·7*	280	*23·8*	1177
175	*12·9*	626	*46·3*	38	*2·8*	152	*11·2*	170	*12·6*	1352
132	*28·6*	118	*25·5*	12	*2·6*	42	*9·1*	117	*25·3*	462
412	*29·6*	370	*26·6*	78	*5·6*	129	*9·3*	186	*13·4*	1391
257	*34·6*	215	*29·0*	37	*5·0*	70	*9·4*	96	*12·9*	742
153	*12·0*	390	*30·6*	18	*1·4*	193	*15·1*	300	*23·6*	1274
10080	*26·2*	11207	*29·1*	1931	*5·0*	4414	*11·5*	5356	*13·9*	38461

revenue of an equivalent amount from the Revenue Reserve Fund, not excluded.

7. (*b*).—*Composition of Expenditure met from Revenue of*

The percentage of the expenditure in each category to

	Cost of Tax Collection		Irrigation		Debt Services	
Assam	98	*9·0*	16	*1·8*	9	*0·8*
Bihar	177	*5·4*	227	*6·9*	—9	(—)
Bombay	545	*8·7*	162	*2·6*	206	*3·3*
Madhya Pradesh	248	*13·6*	42	*2·3*	41	*2·3*
Madras	590	*9·2*	299	*4·7*	—	—
Orissa	84	*7·8*	100	*9·2*	34	*3·1*
Punjab	147	*8·9*	67	*4·1*	110	*6·7*
Uttar Pradesh	545	*10·0*	261	*4·8*	105	*1·9*
West Bengal	188	*5·0*	95	*2·5*	18	*0·5*
Hyderabad	306	*11·3*	106	*3·9*	213	*7·9*
Madhya Bharat	102	*8·9*	41	*3·6*	—	—
Mysore	90	*6·7*	76	*5·7*	121	*9·0*
Patiala & East Punjab States Union	47	*10·1*	—	—	—	—
Rajasthan	201	*12·9*	50	*3·2*	18	*1·2*
Saurashtra	57	*6·4*	32	*3·6*	11	*1·3*
Travancore-Cochin	125	*9·3*	62	*4·6*	89	*6·6*
TOTAL	3550	*8·8*	1636	*4·1*	846	*2·1*

(*a*) Includes Rs. 5 lakhs on account of transfer to Revenue Reserve Fund.
(*b*) Expenditure under 'Industries and Supplies' excludes working expenses of Govern

Part A and Part B States—1951-52 (Provisional figures)

the total expenditure is given in italics along-side the figures.

Administrative Services		Social Services		Industries & Miscellaneous Departments		Civil Works		Other Items		Total
222	*20·4*	330	*30·3*	11	*1·0*	206	*18·9*	198	*18·1*	1090
864	*26·4*	796	*24·3*	68	*2·1*	657	*20·1*	493	*15·1*	3273
1672	*26·6*	2063	*32·9*	605	*9·6*	305	*4·9*	716	*11·4*	6274
504	*27·7*	508	*27·9*	13	*0·7*	274	*15·0*	192	*10·5*	1822 (a)
1777	*27·9*	2050	*32·2*	438	*6·9*	919	*14·4*	419	*6·6*	6372
303	*27·9*	274	*25·3*	50	*4·6*	179	*16·5*	61	*5·6*	1085
504	*30·6*	374	*22·7*	32	*1·9*	169	*10·2*	246	*14·9*	1649
1469	*27·0*	1530	*28·1*	418	*7·7*	316	*5·8*	798	*14·7*	5442
1031	*27·7*	1025	*27·4*	102	*2·7*	422	*11·3*	858	*22·9*	3739
703	*26·0*	672	*24·9*	130	*4·8*	150	*5·6*	421	*15·6*	2701
304	*26·6*	334	*29·3*	39	*3·3*	112	*9·8*	160	*14·0*	1142
200	*15·0*	515	*38·5*	57(b)	*4·3*	153	*11·4*	122	*9·1*	1337 (b)
150	*32·3*	114	*24·5*	14	*3·0*	69	*14·9*	70	*15·1*	464
462	*29·8*	425	*27·4*	61	*3·9*	93	*6·0*	242	*15·6*	1552
278	*31·4*	210	*23·8*	35	*4·0*	93	*10·5*	169	*19·1*	884
166	*12·3*	406	*30·0*	17	*1·3*	183	*13·5*	305	*22·6*	1352
10609	*26·4*	11626	*29·0*	2140	*5·3*	4302	*10·7*	5470	*13·6*	40178

...ment Industrial and Commercial undertakings.

7. (c).—*Composition of expenditure met from revenue*

The percentage of the expenditure in each category

	Cost of Tax Collection		Irrigation		Debt Services	
Assam	102	*8·1*	16	*1·2*	10	*0·8*
Bihar	189	*6·3*	168	*5·6*	—4	(—)
Bombay	701	*10·4*	276	*4·1*	167	*2·5*
Madhya Pradesh	246	*11·8*	78	*3·8*	84	*4·0*
Madras	586	*9·0*	345	*5·3*	—166	(—)
Orissa	110	*9·4*	96	*8·2*	28	*2·4*
Punjab	170	*9·7*	74	*4·2*	—4	(—)
Uttar Pradesh	543	*8·3*	295	*4·5*	194	*3·0*
West Bengal	191	*4·5*	146	*3·5*	30	*0·7*
Hyderabad	334	*12·2*	82	*3·0*	263	*9·6*
Madhya Bharat	112	*8·5*	48	*3·6*	3	*0·2*
Mysore	94	*5·9*	87	*5·4*	120	*7·5*
Patiala & East Punjab States Union	72	*12·3*	—	—	1	*0·2*
Rajasthan	242	*14·0*	91	*5·3*	29	*1·7*
Saurashtra	97	*11·1*	36	*4·1*	7	*0·8*
Travancore-Cochin	142	*8·4*	70	*4·1*	49	*2·9*
TOTAL	2931	*9·0*	1908	*4·4*	811	*1·9*

(*a*) Rs. 250 lakhs transferred to meet Capital Expenditure, corresponding to transfer to

(*b*) Expenditure under 'Industries and Supplies' excludes working expenses of Go *of Part A and Part B States—1952-53 (Budget Estimates)*

to the total expenditure is given in italics along-side the figures.

Administrative Services		Social Services		Industries and Miscellaneous Departments		Civil Works		Other Items		Total
210	*16·7*	356	*28·3*	16	*1·3*	372	*29·5*	178	*14·1*	1260
757	*25·4*	841	*28·2*	72	*2·4*	639	*21·4*	318	*10·7*	2980
1637	*24·2*	2151	*31·9*	412	*6·1*	749	*11·1*	658	*9·7*	6751(*a*)
479	*23·1*	623	*29·9*	15	*0·7*	314	*15·1*	242	*11·7*	2082
1675	*25·6*	2193	*33·6*	470	*7·2*	1033	*15·8*	398	*6·1*	6534
307	*26·3*	299	*25·6*	62	*5·3*	181	*15·5*	83	*7·1*	1168
523	*29·9*	400	*22·9*	38	*2·2*	218	*12·5*	330	*18·9*	1748
1605	*24·6*	1705	*26·1*	461	*7·1*	412	*6·3*	1308	*20·1*	6524
1073	*25·5*	1156	*27·5*	157	*3·7*	480	*11·4*	971	*23·1*	4204
547	*20·0*	728	*26·5*	70	*2·6*	197	*7·2*	516	*18·8*	2736
304	*23·1*	422	*32·0*	33	*2·5*	147	*11·2*	250	*19·0*	1318
222	*13·1*	618	*38·6*	56(*b*)	*3·5*	264	*16·5*	140	*8·7*	1601(*b*)
164	*28·0*	177	*30·3*	20	*3·4*	79	*13·5*	72	*12·3*	585
492	*28·5*	463	*26·8*	57	*3·3*	169	*9·0*	182	*10·5*	1726
270	*31·0*	238	*27·3*	33	*3·8*	92	*10·6*	98	*11·2*	872
193	*11·4*	520	*30·8*	23	*1·4*	283	*16·7*	411	*24·3*	1691
10458	*23·9*	12892	*29·4*	1995	*4·6*	5629	*12·9*	6155	*14·1*	43780

revenue of an equivalent amount from the Revenue Reserve Fund, not excluded.

vernment Industrial and Commercial undertakings.

8. (*a*).—*Amount and Per Capita Expenditure in States on*

Per Capita figures (in rupees) are given in italics along-side

	Administrative Services		General Administration	
Assam	182	*2·0*	61	*0·7*
Bihar	782	*1·9*	213	*0·5*
Bombay	1653	*4·6*	446	*1·2*
Madhya Pradesh	483	*2·3*	160	*0·8*
Madras	1640	*2·9*	655	*1·1*
Orissa	395	*2·0*	118	*0·8*
Punjab	499	*4·0*	154	*1·2*
Uttar Pradesh	1472	*2·3*	483	*0·8*
West Bengal	943	*3·8*	210	*0·8*
Hyderabad	718	*3·8*	152	*0·8*
Madhya Bharat	284	*3·6*	88	*1·1*
Mysore	175	*1·9*	62	*0·7*
Patiala and East Punjab States Union	132	*3·8*	41	*1·2*
Rajasthan	412	*2·7*	145	*0·9*
Saurashtra	256	*6·2*	87	*2·1*
Travancore-Cochin	153	*1·6*	48	*0·5*
TOTAL	10079	*2·9*	3123	[illegible]

selected services—1950-51

the figures for Total Expenditure.

Police		Social Services		Education		Medical and Public Health	
86	1·0	278	3·1	152	1·7	63	0·7
390	1·0	702	1·7	319	0·8	165	0·4
912	2·5	2158	6·0	1249	2·6	446	1·2
252	1·2	453	2·1	252	1·2	69	0·3
699	1·2	1872	3·3	1043	1·8	419	0·7
136	0·9	299	2·0	138	0·9	70	0·5
265	2·1	387	3·1	135	1·5	78	0·6
741	1·2	1536	2·4	710	1·1	300	0·5
530	2·1	892	3·6	307	1·2	372	1·5
484	2·6	595	3·2	393	2·1	122	0·7
151	1·9	313	3·9	145	1·8	105	1·3
85	0·9	626	6·9	274	3·0	102	1·1
67	1·9	118	3·4	61	1.7	44	1·3
218	1·4	370	2·4	202	1·3	109	0·7
103	2·5	215	5·2	104	2·5	57	1·4
61	0·7	390	4·2	257	2·3	89	1·0
5180	1·5	11204	3·3	5791	1·7	2610	0·8

8. (*b*).—*Amount and Per Capita Expenditure in*
Per Capita figures (in rupees) are given in italics

	Administrative Services		General Administration	
Assam	222	*2·5*	91	*1·0*
Bihar	864	*2·1*	259	*0·6*
Bombay	1672	*4·6*	433	*1·2*
Madhya Pradesh	504	*2·4*	183	*0·9*
Madras	1777	*3·1*	754	*1·3*
Orissa	303	*2·1*	123	*0·8*
Punjab	504	*4·0*	156	*1·2*
Uttar Pradesh	1469	*2·3*	487	*0·8*
West Bengal	1031	*4·2*	247	*1·0*
Hyderabad	703	*3·8*	104	*0·6*
Madhya Bharat	304	*3·8*	96	*1·2*
Mysore	200	*2·2*	82	*0·9*
Patiala and East Punjab States Union	150	*4·3*	47	*1·3*
Rajasthan	462	*3·0*	174	*1·1*
Saurashtra	278	*6·8*	92	*2·2*
Travancore-Cochin	166	*1·8*	56	*0·6*
TOTAL	10609	*3·1*	3384	*1·0*

States on Selected Services—1951-52 (Provisional Figures)
along-side the figures for Total Expenditure.

Police		Social Services		Education		Medical and Public Health	
96	1·1	330	3·7	172	1·9	78	0·9
409	1·0	796	2·0	358	0·9	201	0·5
933	2·6	2063	5·7	1210	3·4	430	1·2
247	1·2	508	2·4	293	1·4	85	0·4
717	1·3	2050	3·6	1096	1·9	500	0·9
137	0·9	274	1·9	125	0·9	68	0·5
268	2·1	374	3·0	188	1·5	85	0·7
729	1·2	1530	2·4	745	1·2	305	0·5
576	2·3	1025	4·1	336	1·4	430	1·7
519	2·8	672	3·6	403	2·2	149	0·8
159	2·0	334	4·2	159	2·0	103	1·3
89	1·0	515	5·7	284	3·1	108	1·3
76	2·2	114	3·3	60	1·7	32	0·9
234	1·5	425	2·8	229	1·5	137	0·9
117	2·9	210	5·1	113	2·8	62	1·5
65	0·7	406	4·4	247	2·7	115	1·2
5371	1·5	11626	3·4	6018	1·7	2888	0·8

8. (c).—*Amount and Per Capita Expenditure in*
Per Capita figures (in rupees) are given in

	Administrative Services		General Administration	
Assam	210	*2·3*	69	*0·8*
Bihar	757	*1·9*	201	*0·5*
Bombay	1637	*4·5*	422	*1·2*
Madhya Pradesh	479	*2·3*	172	*0·8*
Madras	1675	*2·9*	712	*1·2*
Orissa	307	*2·1*	119	*0·8*
Punjab	523	*4·2*	165	*1·3*
Uttar Pradesh	1605	*2·5*	637	*1·0*
West Bengal	1073	*4·3*	255	*1·0*
Hyderabad	547	*2·9*	95	*0·5*
Madhya Bharat	304	*3·8*	100	*1·2*
Mysore	222	*2·4*	79	*0·9*
Patiala and East Punjab States Union	164	*4·7*	52	*1·5*
Rajasthan	492	*3·2*	155	*1·0*
Saurashtra	270	*6·6*	80	*2·0*
Travancore-Cochin	193	*2·1*	58	*0·6*
TOTAL	10458	*3·0*	3371	*1·0*

States on Selected Services—1952-53

italics along-side the figures for Total Expenditure.

Police		Social Services		Education		Medical and Public Health	
105	*1·2*	356	*4·0*	185	*2·1*	81	*0·9*
382	*1·0*	841	*2·1*	412	*1·0*	202	*0·5*
924	*2·6*	2151	*6·0*	1290	*3·6*	465	*1·8*
236	*1·1*	623	*2·9*	345	*1·6*	106	*0·5*
668	*1·2*	2193	*3·8*	1180	*2·1*	483	*0·8*
144	*1·0*	299	*2·0*	139	*1·0*	72	*0·5*
274	*2·2*	400	*3·2*	199	*1·6*	97	*0·8*
711	*1·1*	1705	*2·7*	810	*1·3*	344	*0·5*
605	*2·4*	1156	*4·7*	400	*1·6*	491	*2·0*
369	*2·0*	726	*3·9*	442	*2·4*	162	*0·9*
156	*2·0*	422	*5·3*	177	*2·2*	121	*1·5*
109	*1·2*	618	*6·3*	338	*3·7*	138	*1·5*
83	*2·4*	177	*5·1*	78	*2·2*	37	*1·1*
280	*1·8*	463	*3·0*	250	*1·6*	152	*1·0*
119	*2·9*	238	*5·8*	122	*3·0*	56	*1·4*
85	*0·9*	520	*5·6*	335	*3·6*	119	*1·3*
5250	*1·5*	12888	*3·7*	6702	*1·9*	3126	*0·9*

9.—*Resources transferred from the Centre to the*

(As shown in the

	Share of Income tax	Share of jute export duty	Subventions under the Niemeyer Award	Grants under		
				Article 273	Article 275	Article 278
1937-38 . .	1,25	2,65	3,12	—	—	—
1938-39 . .	1,50	2,51	3,03	—	—	—
1939-40 . .	2,79	2,56	3,03	—	—	—
1940-41 . .	4,16	1,85	3,03	—	—	—
1941-42 . .	7,39	1,95	3,03	—	—	—
1942-43 . .	10,90	1,40	2,75	—	—	—
1943-44 . .	19,50	1,38	2,75	—	—	—
1944-45 . .	26,56	1,49	1,70	—	—	—
1945-46 . .	28,75	1,57	1,70	—	—	—
1946-47 . .	29,87	2,87	1,70	—	—	—
1948-49 . .	41,79	1,43	70	—	—	—
1949-50 . .	45,74(b)	1,94	70	—	—	1,86
1950-51 . .	47,52(b)	—	—	1,85	1,11	11,87
1951-52 . .	52,70(c)	—	—	1,85	2,45	13,77
1952-53 . .	50,84(f)	—	—	1,85	2,50	11,92

(a) Rehabilitation Grants, Grow More Food Grants and Development Grants from

(b) Receipts under this head as shown in the States' budget add upto Rs. 45,76 lakhs

(c) Inclusive of Rs. 2·5 crores arrears. Receipts as shown in the States' budgets add

(d) Grants to Madhya Bharat, Patiala and East Punjab States Union, Rajasthan and

(e) Inclusive of grants to Part C States.

(f) Inclusive of Rs. 5 crores arrears.

Subventions from the Central Road Fund and payments for National Highways have not 1952-53 for capital construction has also been excluded as full details for individual years

The scheme of assistance to States by way of post-war Development Grants has been

Rehabilitation grants prior to 1950-51 do not include grants to former Indian States.

Post-war Development and Grow More Food Grants were made from the Capital Revenue Budget ; even upto 1950-51, the Provinces were largely taking Post-war Develop

States through devolution of Revenue and Grants

Central Budget)

Rehabilitation Grants (a)	Grow More Food Grants (a)	Post-War Development Grants (a)	Special Grants to Bengal and Punjab	Other Grants	Total
—	—	—	—	—	7,02
—	—	—	—	—	7,04
—	—	—	—	—	8,38
—	—	—	—	—	9,04
—	—	—	—	—	12,37
—	—	—	—	—	15,05
—	—	—	3,00	—	26,63
—	—	2	7,00	—	36,77
—	—	2	8,00	—	40,24
—	3,24	13,93	—	—	51,61
12,11	3,03	11,73	2,25	—	73,04
9,34	2,13	14,78	2,25	—	78,74
9,92	1,42	—	75	2	74,46
8,78	5,31	1,05(d)	—	81	86,72
5,60	6,35(e)	1,95(d)	—	1,00	82,01

1950-51 are given under Article 282.
In 1949-50 and Rs. 47,68 lakhs in 1950-51.
up to only Rs. 52,60 lakhs.
Saurashtra under clause 1 of Federal Financial Integration Agreements.

been included. The total grant of Rs. 132 lakhs to Orissa between the years 1947-48 and are not shown in the State budgets.
suspended with effect from 1950-51.

Budget of the Government of India upto 1950-51. Since 1951-52, all grants are from the ment and Grow More Food Grants to their revenues.

10.—*Resources transferred from the Centre to the State through devolution of Revenue and Grants: Details—1950-51 to 1952-53*

(As shown in the Central Budget)

	1950-51									
	Share of Income Tax	Grants under				Rehabilitation Grants	Grow More Food Grants	Other Grants		Total
		Article 273	Article 275		Article 278			Special Development Grants to backward B States	Assistance for Natural Calamities	
			General Grants-in-aid	Grants under Provisos						
Assam	1,42	40	30	41	—	22	1	—	2	2,78
Bihar	5,92	35	—	—	4	34	1,15	—	—	7,80
Bombay	9,95	—	—	—	1,45	1,20	—51	—	—	12,09
Madhya Pradesh	2,84	—	—	—	19	12	—4	—	—	3,11
Madras	8,29	—	—	—	—	1	—14	—	—	8,16
Orissa	1,42	5	40	—	16	49	53	—	—	3,05
Punjab	2,61	—	75	—	—	1,33	—	—	—	4,69
Uttar Pradesh	8,53	—	—	—	—	29	—	—	—	8,82
West Bengal	6,40	1,05	—	—	12	5,38	10	—	—	13,05
Hyderabad	—	—	—	—	1,16	—	—	—	—	1,16
Madhya Bharat	6	—	—	—	—	—	—	—	—	6
Mysore	—	—	—	—	3,45	—	—	—	—	3,45
Patiala & East Punjab States Union	16	—	—	—	—	—	—	—	—	16
Rajasthan	8	—	—	—	—	32	—	—	—	40
Saurashtra	—	—	—	—	2,50	20	—	—	—	2,70
Travancore-Cochin	—	—	—	—	2,80	—	—	—	—	2,80
TOTAL	(c)47,68	1,85	1,45	41	11,87	(a)9,92	(b)1,42	—	2	(bb)74,62

10.—*Resources transferred from the Centre to the States through devolution of Revenue and Grants: Details—1950-51 to 1952-53—contd.*

	1951-52 (Provisional Figures)									
	Share of Income Tax	Grants under				Rehabilitation Grants	Grow More Food Grants	Other Grants		Total
		Article 273	Article 275		Article 278					
			General Grants-in-aid	Grants under Provisos				Special Development Grants to backward B States	Assistance for Natural Calamities	
Assam	1,54	40	30	99	—	...	...	—	19	3,42
Bihar	6,54	35	—	15	4	...	...	—	23	(e)7,70
Bombay	10,99	—	—	1	1,45	...	...	—	—	12,45
Madhya Pradesh	3,14	—	—	12	55	...	...	—	—	3,81
Madras	9,15	—	—	4	—	...	...	—	—	9,19
Orissa	1,54	5	40	(j) 30	—	...	...	—	—	2,29
Punjab	2,88	—	—	1	—	...	...	—	—	2,89
Uttar Pradesh	9,42	—	—	—	—	...	...	—	—	9,42
West Bengal	7,06	1,05	—	2	49	...	...	—	—	8,62
Hyderabad	—	—	—	2	1,16	...	...	—	—	1,18
Madhya Bharat	6	—	—	4	—	...	...	30	—	40
Mysore	—	—	—	—	3,45	...	...	—	—	3,45
Patiala & East Punjab States Union	15	—	—	—	—	...	...	15	—	30
Rajasthan	13	—	—	5	—	...	...	45	—	63
Saurashtra	—	—	—	—	3,00	...	...	15	—	3,15
Travancore-Cochin	—	—	—	—	3,63	...	...	—	—	3,63
TOTAL	(c)52,60	1,85	70	1,75	13,77	(d)8,78	(d)5,31	1,05	42	(e) 86,62

10.—*Resources transferred from the Centre to the States through devolution of Revenue and Grants: Details—1950-51 to 1952-53—contd.*

	1952-53 (Budget Estimates)									
	Share of Income Tax	Grants under				Rehabilitation Grants	Grow More Food Grants	Other Grants		Total
		Article 273	Article 275		Article 278			Special Development Grants to backward B. States	Assistance for Natural Calamities	
			General Grants-in-aid	Grants under Provisos (gg)						
Assam	1,36	40	30	77	—	...	...	—	...	2,83
Bihar	5,69	35	—	18	1	...	...	—	...	6,23
Bombay	9,55	—	—	7·5	1,16	...	...	—	...	10,79
Madhya Pradesh	2,73	—	—	17	12	...	...	—	...	3,02
Madras	7,96	—	—	7·5	—	...	...	—	...	8,03
Orissa	1,40	5	40	22	—	...	...	—	...	2,07
Punjab	2,50	—	—	5	—	...	...	—	...	2,55
Uttar Pradesh	8,19	—	—	—	—	...	...	—	...	8,19
West Bengal	6,14	1,05	—	6	22	...	...	—	...	7,47
Hyderabad	—	...	—	3	1,16	...	...	—	...	1,19
Madhya Bharat	8	...	—	4·5	—	...	...	45	...	57
Mysore	—	...	—	1	3,45	...	...	—	...	3,46
Patiala & East Punjab States Union	11	...	—	—	[illegible]	...	...	22·5	...	34
Rajasthan	13	...	—	7	—	...	...	1,05	...	1,25
Saurashtra	—	...	—	0·5	2,75	...	...	22·5	...	2,98
Travancore-Cochin	—	...	—	—	3,05	...	...	—	...	3,05
TOTAL	(f)50,84	1,85	70	(g)1.80	11,92	(d)5,60	(h)6,35	1,95	(d)1,00	(i)82,01

Subventions from the Central Road Fund and payments for National Highways have not been included; the total grant of Rs. 1,32 lakhs to Orissa

Subventions from the Central Road Fund and payments for National Highways have not been included; the total grant of Rs. 1,32 lakhs to Orissa for Capital Construction has also been excluded.

(*a*) Includes Rs. 2 lakhs for Part C States.

(*b*) Includes Rs. 32 lakhs on account of Grants to Part C States.

(*bb*) Includes Rs. 34 lakhs on account of grants to Part C States.

(*c*) Figures for Income tax for 1950-51 for the States have been taken from the respective States Budgets. The figures for 1951-52 are based on provisional figures supplied by the respective Accountants General. The total figures shown in the Central Budget for these two years are, however, Rs. 47,52 lakhs and Rs. 52,70 lakhs respectively.

(*d*) Distribution amongst States not available.

(*e*) Includes Rs. 39 lakhs on account of arrears of Post-war Development Grants in respect of Bihar and Rs. 14,09 lakhs on account of Rehabilitation and Grow More Food Grants.

(*f*) Includes Rs. 5,00 lakhs on account of arrears, state-wise breakdown for which is not available.

(*g*) Includes a lump-sum provision of Rs. 4 lakhs not specifically assigned to any State/States yet.

(*gg*) Ceilings.

(*h*) Includes grants to Part C States. State-wise breakdown not available.

(*i*) Includes Rs. 17,99 lakhs, state-wise breakdown for which is not available.

(*j*) For 1950-51 and 1951-52.

11.—*Collection and Expenditure under certain major heads in*
Figures in brackets indicate collection/

	Bombay City		
	1948-49	1949-50	1950-51
Revenue—			
State Excise	181 (617)	105 (409)	52 (107)
Stamps	210 (343)	204 (358)	232 (410)
Registration	5 (28)	7 (29)	7 (32)
Receipts under Motor Vehicles Act	7 (121)	7 (128)	7 (145)
Electricity Duty	62 (85)	108 (151)	131 (187)
Entertainment Tax*	76 (134)	87 (163)	86 (173)
Sales Tax (General)	411 (622)	796 (1265)	852 (1456)
Other Taxes	240 (365)	332 (509)	234 (448)
Expenditure—			
Police	204 (704)	225 (843)	211 (912)
Medical	.4 (172)	88 (248)	81 (238)
Public Health	3 (157)	3 (219)	1 (208)
Education	86 (802)	112 (1125)	134 (1249)
General Administration	78 (290)	97 (408)	95 (446)

*In the case of Madras figures for "Entertainment Tax" include figures for taxes on
case of Bombay and Calcutta the figures are for taxes on entertainments only.

cities of Bombay, Madras and Calcutta, 1948-49 to 1950-51.
expenditure for the entire States

Calcutta City			Madras City		
1948-49	1949-50	1950-51	1948-49	1949-50	1950-51
315 (622)	304 (614)	306 (620)	78 (367)	12 (59)	10 (55)
136 (240)	147 (266)	147 (278)	64 (406)	60 (433)	67 (488)
6 (30)	8 (37)	11 (45)	4 (37)	4 (95)	4 (108)
29 (44)	28 (46)	28 (47)	31 (197)	39 (301)	42 (349)
64 (74)	78 (82)	82 (86)	2 (15)	2 (17)	2 (18)
48 (62)	69 (93)	72 (105)	44 (132)	44 (142)	43 (147)
348 (432)	372 (464)	419 (520)	333 (1303)	353 (1524)	357 (1587)
197 (223)	187 (215)	155 (188)	22 (82)	18 (126)	20 (167)
147 (418)	155 (447)	186 (530)	70 (652)	70 (690)	72 (699)
85 (130)	138 (272)	153 (306)	92 (277)	97 (296)	96 (315)
21 (40)	22 (66)	19 (66)	17 (91)	20 (114)	15 (104)
71 (197)	79 (269)	93 (307)	71 (886)	82 (958)	83 (1043)
77 (183)	83 (206)	90 (210)	71 (582)	70 (626)	75 (655)

luxuries including taxes on entertainments, amusements, betting and gambling. In the

12.—*Statement of Revenue from Central*

Excise Duties on	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44
Motor Spirit . .	122	120	107	181	171	257	40
Kerosene . . .	76	67	32	71	64	70	53
Sugar . . .	333	423	249	391	672	487	724
Matches . .	200	218	224	227	290	332	471
Iron and Steel . .	35	37	40	49	52	50	59
Coal and Coke . .	—	—	1	30	32	25	23
Mechanical Lighter .	—	—	—	—	—	—	—
Tyres	—	—	—	—	35	56	83
Tobacco . . .	—	—	—	—	—	2	947
Vegetable Products .	—	—	—	—	—	—	94
Betel Nuts . . .	—	—	—	—	—	—	—
Tea	—	—	—	—	—	—	—
Coffee	—	—	—	—	—	—	—
Cotton Cloth . .	—	—	—	—	—	—	—
Miscellaneous . .	—	—	—	—	—1	—	—
Deduct Refunds . .	—	—	—	—	—	—	—
TOTAL RECEIPTS .	766	865	653	949	1315	1279	2494

*Figures relate only to the period 15th August, 1947 to 31st March, 1948. Figures

Excise Duties, 1937-38 to 1952-53

1944-45	1945-46	1946-47	1947-48*	1948-49	1949-50	1950-51	1951-52 (Revised Estimates)	1952-53 (Budget Estimates)
18	227	179	74	142	178	207	185	200
48	35	27	16	20	23	28	25	25
776	584	697	286	646	732	648	800	800
537	644	442	322	730	757	807	850	850
52	52	49	30	46	52	54	60	60
132	347	357	74	102	132	162	110	110
2	—	—	—	—	—	—	—	—
114	124	68	62	198	357	404	625	600
1712	2072	2031	1157	2546	2823	3201	3500	3600
111	133	127	74	197	228	219	240	240
130	180	76	21	—	—	—	—	—
150	190	211	209	366	254	335	425	425
16	33	23	102	49	50	117	70	70
—	—	—	—	89	1232	926	1700	1700
21	15	16	15	35	34	244	30	30
—	—	—	16	101	62	396	190	110
3814	4636	4303	2426	5065	6790	6754	8430	8600

prior to 1947-48 relate to undivided India.

APPENDIX X

PARTICULARS OF MAJOR ASSESSEES

Name of the assessee			Place of Residence or other registered office of the company, partnership or association of persons	Amount of tax excluding corporation tax paid during the last five years	State in which tax was paid	State or States where production units or sources of income are situated	Other States in which there are branches, sub-offices, agencies and sub-agencies, or depots and the number of each	*Nature of the business (production, distribution or service)*
ividuals and du undivided families	Unregistered firms and other associations of persons	Companies and other concerns assessable at company rate						
1	2	3	4	5	6	7	8	9

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