

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.