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.

* 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	*420*	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 i ken 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.

CENTRAL REVENUE AND

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

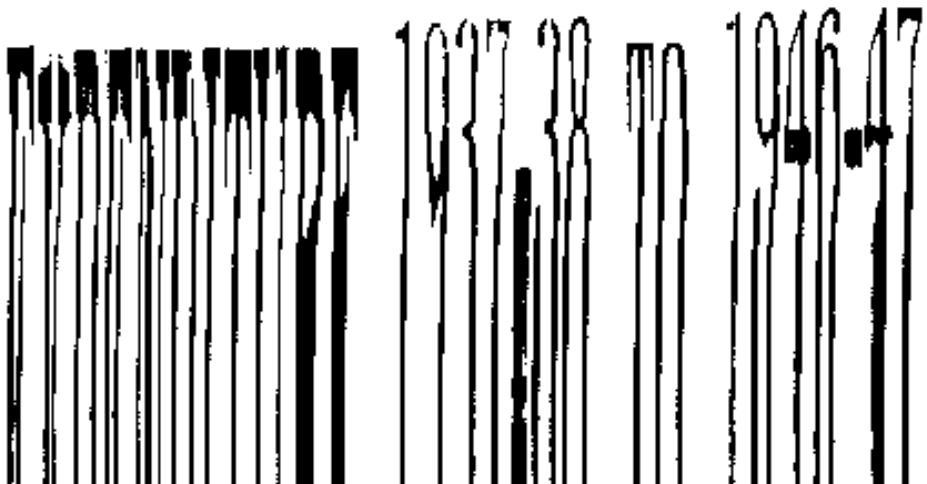
* Excluding interest transferred

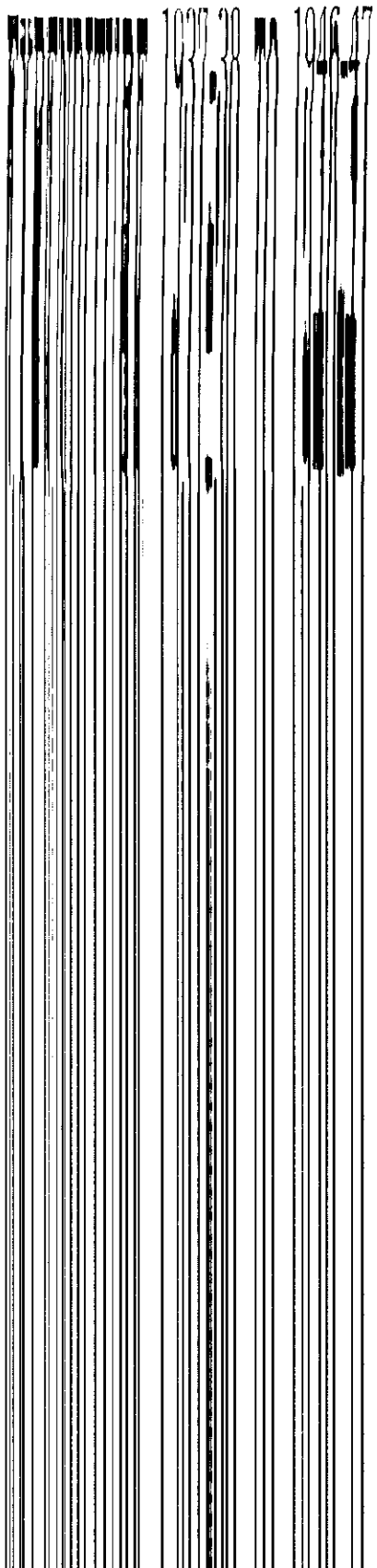
EXPENDITURE 1937-38 TO 1946-47

EXPENDITURE 1097.22 TO 1046.47

1937-38 TO 1946-47

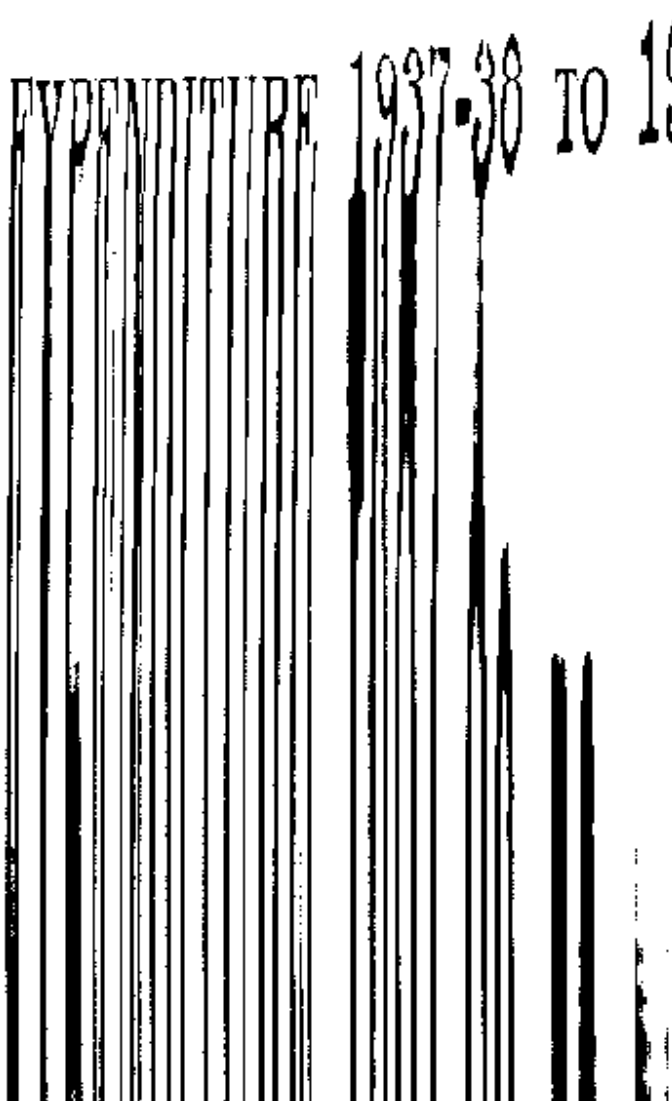
1937-38 TO 1946-47


1937-38 TO 1946-47


1937-38
1946-47

AGRICULTURE 1937-38 TO 1946-47

EXPENDITURE 1937-38 TO 1946-47



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	*387·8*	*395·9*	100·0		100·0		100·0	
100·0	*92·3*	*205·9*	49·8		11·9		26·0	
100·0	*497·3*	*561·8*	8·8		11·4		12·6	
100·0	*1130·0*	*882·6*	16·8		49·1		38·1	
100·0	*4449·5*	*3662·2*		2·2		24·9		20·1
100·0	*635·5*	*457·2*		14·6		24·2		18·0
100·0	*1268·2*	*317·4*	3·9		12·6		3·1	
100·0	*1159·4*	*193·6*		3·2		9·6		1·6
100·0	*1791·7*	*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*	*396·6*	100·0		100·0		100·0	
100·0	*835·2*	*438·0*	54·7		79·7		60·4	
100·0	*256·5*	*346·7*	45·3		26·3		39·6	
100·0	*239·1*	*380 1*		12·1		4·8		11·6
100·0	*122·1*	*214·2*		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	9·71
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	*439*	*493*	3·3	5·8	4·6
100	*149*	*141*	10·9	6·5	5·3
100	*323*	*688*	8·2	17·2	19·6
100	*2124*	*2390*	1·5	12·4	12·1
100	*56*	*108*	3·1	0·7	1·2
100	*276*	*496*	3·6	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 . . .	134·06	*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*	*443*	1·2		2·4		1·8	
100	*154*	*227*	33·7		23·9		27·1	
100	*159*	*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*	*200*		6·2		5·4		6·5
100	*131*	*230*		14·0		9·1		10·5
100	*170*	*...1*	9·8		6·3		7·7	
100	*...*	*...*	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. 13 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	*2·9*	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

Principal Heads of State Revenue

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

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

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.

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.

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