

Explanatory Memorandum on the action taken on the Recommendations of the Second Finance Commission

Dated 30th September, 1957

The recommendations of the Commission have been summarised in Section XVIII of their Report which is being laid on the table of Parliament. They have been accepted by Government.

The Commission's recommendations fall into three categories, those to be implemented by an Order of the President, those to be implemented by law of Parliament and those to be implemented by executive orders. The recommendations under Article 270, 273 and 275(1) of the Constitution fall in the first category and the necessary orders will be submitted to the President for approval. The recommendations relating to the distribution of certain Union duties of excise between the Union and the States, the distribution among the States under Article 269(2) of the Constitution of Estate Duty on property other than agricultural land and the tax on railway fares and the levy and distribution of additional duties of excise in replacement of sales taxes on certain commodities fall in the second category. Legislation will be promoted, if possible in the current session of Parliament, to implement them. The question of the levy of additional duties of excise in replacement of sales taxes is still under discussion with the State Governments and if those duties are levied, they will be distributed as recommended by the Commission. The recommendation regarding loans has to be implemented by executive orders and necessary action will be taken in consultation with the State Governments.

The Commission have also made certain recommendations in paragraphs 164, 182, 191 to 197 and 202 of their Report. These recommendations are also generally acceptable to Government and will be implemented, as far as possible, in consultation with the State Governments and other authorities where necessary.

Sd/-

(H.M. Patel)

Principle Secretary to the Government of India
New Delhi

Dated the 13th November, 1957.

Explanatory Memorandum on the action taken on the Recommendations of the Second Finance Commission Recommendation relating to loans to State Governments

1. The recommendations of the Second Finance Commission together with an Explanatory Memorandum as to the action taken thereon was laid before the Lok Sabha on the 14th November, 1957 and the Rajya Sabha on the 18th November, 1957. The Memorandum stated inter-alia that the recommendations of the Commission had been accepted by Government and that so far as the recommendation regarding the loans made to State Governments was concerned, which had to be implemented by executive action, necessary action will be taken in consultation with the State Governments.

2. The Government of India, in consultation with the Planning Commission, have now examined the question. They consider that the scheme of consolidation suggested by the Commission, which would have the effect of postponing the repayment of loans normally due for the next 15 years, would affect the ways and means position of the Central Government and reduce the resources available for them to assist State Governments during the period by way of loans either for plan projects or projects outside the plan. They also consider that there is not sufficient justification for the fixation of a uniform rate of interest as suggested by the Commission for all loans irrespective of the purposes for which the loans had been taken and that the rates of interest should have some relevance to the purpose of the loan.

3. After a careful consideration of the matter, they have come to the following conclusions:-

(a) Loans for rehabilitation of displaced persons and interest free loans

The recommendation of the Commission should be accepted. In other words the terms of repayment of all interests _ free loans shall remain unaltered and in respect of loans for rehabilitation of displaced persons w.e.f. 1st April, 1957, the States should pay to the Union the amounts of the principle and interests, they collect on account of these loans, including the arrears, if any.

(b) Loans for industrial and commercial enterprises and for industrial housing

The rate of interest applicable to each of the loans in this category should remain unaltered.

(c) Loans for electricity undertaking and for extension of Power facilities

The rate of interest should be refixed at 4% p.a. for all such loans.

(d) Loans against collection of Small Savings

The existing rate of interest viz., 4 per cent per annum should continue.

(e) Loans for multi-purpose River Valley Projects

The loans for each project should be broken up into two parts, one for power and the other for irrigation and other purposes. The loans allocated for power should bear interest at 4 per cent and the balance of the loans at 3 per cent per annum. Where such an allocation is not possible, an ad-hoc rate should be settled for the composite loans in consultation with the State Government concerned and the Planning Commission.

(f) Other Loans

All other loans, i.e., those not falling in any of the categories (a) to (e) above, should have the rate of interest refixed at 3 per cent, except that where the rate now applicable is less than 3 per cent, the lower rate shall continue to apply.

(g) The Government of India also propose that this pattern of interest should also apply to outstandings of loans sanctioned during 1956-57 and 1957-58 and the revised arrangements should take effect in the case of all the loans, other than loans for rehabilitation, from 1st April, 1958.

(h) In regard to the scheme of consolidation suggested by the Commission, the Government of India consider that this should be left for discussion with individual State Governments.

For the present, therefore, they do not propose to vary the existing terms in regard to repayment except to the extent mentioned in sub-para (a) above.

(i) The Government of India expect that the effect of their proposal will be to reduce, on the whole, the interest burden on the States on account of the loans taken between the 15th August, 1947 and the 31st March, 1958 by about Rs. 4 crores a year.

4. The Government's conclusions have been communicated to the State Governments.

Sd/-
(M.V. Rangachari)
Special Secretary

Dated, New Delhi,
The 12th March, 1958.