(e) Expenditure has been steadily rising as a result of development; non-developmental expenditure has risen at a *pace somewhat in excess of that envisaged by the plan.*

VIII. Assessment of Needs of States

85. In examining the claims put forward by the States, our main objective has been to ensure that the States should have sufficient revenues to meet normal expenditure and their commitments in respect of the plan expenditure on revenue account.

86. For arriving at what may be regarded as a reasonable level of normal or committed expenditure, certain adjustments have been made by us to secure uniformity in classification.

87. We have omitted from our estimates all items of a capital nature. Most of the States had already removed from the revenue budgets many such items as a result of the suggestions made to the State Governments by the Government of India in October 1955. The object was to transfer from the revenue budget to the capital budget all items of expenditure which created tangible assets. This change is not unreasonable in a period of expansion though, under ordinarily circumstances, there may be justification for meeting unproductive capital expenditure from revenue. It may also be supported by the argument that the State Governments, which now derive about 30 per cent of their budgeted revenues from payments made in some form or other by the Union, are not justified in presenting to the Union Government an exaggerated picture of their needs on revenue account, by including within that account expenditure which can be reasonably treated as of a capital nature.

88. No provision has been made by us for payments from revenue towards the capital cost of the abolition of zamindari. The total amount of compensation cannot yet be closely estimated, as in some States like Bihar the detailed information, which is necessary for this purpose, is still being collected. On a rough estimate, however, the capital payments for the extinction of all proprietary and intermediary rights in land (excluding rehabilitation grants) has been estimated at Rs. 380 crores. The bulk of this liability has accrued in two States, namely, Bihar and Uttar Pradesh. The sums involved in the case of some other States, namely, Rajasthan, West Bengal, Madhya Pradesh and Andhra Pradesh, are appreciable though not

on Administrative Services increased by about 12 per cent, the bulk of it occurring under General Administration and Police, the expenditure on the former rising from Rs. 33·7 crores to Rs. 42·41 crores and that on the latter from Rs. 54·9 crores to Rs. 58·24 crores. Expenditure on social services increased by 55·7 per cent, mostly on account of development. Expenditure on Education increased from Rs. 60·30 crores to Rs. 98·89 crores, on Medical and Public Health from Rs. 29·21 crores to Rs. 44·56 crores, on Agriculture from Rs. 18·87 crores to Rs. 25·78 crores, on Veterinary Services from Rs. 4·07 crores to Rs. 5·62 crores and on Co-operation from Rs. 3·75 crores to Rs. 6·32 crores. Miscellaneous and other expenditure rose by 60 per cent, mainly under Civil Works. In many States, larger sums were spent on maintenance and minor works while in some others there was also considerable expenditure on flood and famine relief. On the whole, non-developmental expenditure appears to have risen at a pace somewhat more rapid than was envisaged in the plan, but part of the increase was perhaps unavoidable.

84. The main points brought out by the review of the States' revenue and expenditure may now be summarised:

(a) The scale of devolution recommended by the last Finance Commission was generally adequate for the normal expenditure of most States and left for many of them a sizeable surplus for meeting their plan expenditure.

(b) The tax effort of many States during this period fell far short of the expectations of the Planning Commission. If they had raised the resources expected of them, some of the States, which ran into deficits, might not have done so.

(c) The level of arrears of revenue and overdue loans in some States is a matter of concern and special efforts would seem to be necessary to reduce these arrears.

(d) The public debt of the States is increasing rapidly on account of the implementation of the plan. A considerable part of it may turn out to be deadweight debt and the cost of its servicing will fall on general revenues. Efforts should be made to ensure that irrigation electricity, transport, commercial and industrial schemes yield the maximum revenue so as to keep down the net burden of interest charges.

as large as in respect of Bihar and Uttar Pradesh. For the remaining States, the capital payments are not considerable.

89. The procedure for meeting the expenditure on compensation is not uniform, but the States have generally adopted the practice of setting aside in some way the additional land revenue which has accrued to them from the abolition of zamindari for meeting the capital cost of compensation. This practice is apparently intended to make zamindari abolition self-financing, the capital cost being in effect written back to revenue over a limited period. This throws an excessive burden on the revenue budgets. In our view, the cost of compensation for zamindari abolition should be met from outside the revenue account. Accordingly, no provision has been made for it in our estimates. Interest on the capital cost of zamindari abolition is, however, a legitimate charge on revenue and allowance has been made for it.

90. It has been the practice in certain States to provide in the revenue budgets substantial sums for amortisation of debt. Such provision has been excluded from our estimates of committed expenditure. In the present circumstances, when the public debt of the States is increasing and the States depend in a substantial measure on devolution of Central revenues for meeting even their committed expenditure, it seems unrealistic to provide for amortisation of debt from revenue, as such provision has, in effect, to come from further devolution of Central revenues. We are wholly in favour of amortisation of debt from revenue, if it could be met out of a real revenue surplus. But now no State has such a surplus.

91. In certain States, special funds for meeting specific items of expenditure have been constituted to which transfers are made from revenue. Where such transfers are made for financing capital outlay, they have been excluded. But when they are for meeting expenditure normally chargeable to revenue, such as maintenance expenditure, we have included them in our estimate of committed expenditure.

92. The reorganised States have to unify the taxation laws inherited from the former States. As it is not possible to assess the financial effect of such unification, we have not taken any account of it in our estimates.

93. Our estimates of the States' resources have been made on the assumption that the cost of any extension of prohibition will be met by special taxation.

94. As regards plan expenditure and the revenue expected to be raised for it from new taxation, the point arose whether we should confine our recommendations to the four years 1957-58—1960-61, the remaining period of the second plan, and we decided that our recommendations should cover a five year period. For our estimates, we have taken the revenue expenditure of the second plan as agreed to between the Planning Commission and the States as the development expenditure for the five years ending 1961-62. The amounts involved for the States are as follows:—

(Rupees in crores)

State	Total expenditure on the second five year plan	Revenue expenditure included in the total plan outlay shown in the preceding column
Andhra Pradesh	175	54
Assam	58	36
Bihar	194	77
Bombay	350	102
Kerala	87	28
Madhya Pradesh	191	70
Madras	152	45
Mysore	146	39
Orissa	100	27
Punjab	163	44
Rajasthan	105	31
Uttar Pradesh	253	93
West Bengal	154	53
Jammu and Kashmir	34	10
Total	2162	709

We have also assumed that the revenues to be raised by the States and the specific grants to be made to them by the Union during our five year period will be of the same order and on the same pattern as in the second five year plan.

95. No provision has been made in the second five year plan for the interest charges on the capital to be borrowed by the State Governments during the plan period; it has been assumed that these charges would be met from the income accruing from the schemes financed from such borrowing. Many States contended that this assumption was unrealistic and that, as the additional burden involved was likely to be large, it should be included in any estimate of