XIX. Conclusion

199. The scheme of devolution recommended by us is an integrated scheme. It takes into account the needs of the States with due regard to the ability of the Union, with its immense responsibilities particularly for defence and national development, to transfer resources to the States. It maintains a balance between devolution by transfer of shares of taxes and devolution by fixed grants-in-aid. We would like to emphasize that any modification of individual recommendations will upset this balance.

200. We recommend that the decisions taken by the Government of India on this report be given effect to from 1st April 1957, and all payments made on the basis of the interim report submitted by us be readjusted against the final payments. This will be without prejudice to the settlemen' of past arrears, if any.

201. Our scheme provides for a devolution of about Rs. 140 crores a year against an average sum of Rs. 93 crores received by the States under the last Commission's recommendations in the five years ending 31st March 1957. The table below summarises what each State may expect to receive under our recommendations taken together in each of the five years beginning on 1st April 1957. The figures shown against shares of taxes are only estimates and indicate the order of the sums to be received; the actuals will vary from year to year.

(Rupees in crores)

State	Shares of taxes	Grant under article 273*	Grant under substantive portion of article 275(1)	Total
Andhra Pradesh	8·50	..	4·00	12·50
Assam	2·75	0·45	4·05	7·25
Bihar	10·00	0·43	3·80	14·23
Bombay	14·75	..	..	14·75
Kerala	3·75	..	1·75	5·50
Madhya Pradesh	7·00	..	3·00	10·00
Madras	8·25	..	..	8·25
Mysore	5·50	..	6·00	11·50
Orissa	4·00	0·09	3·[illegible]	7·44
Punjab	4·25	..	[illegible]·25	6·5[illegible]
Rajasthan	4·25	..	[illegible]·50	[illegible]

(b) The remainder, if any, of the net proceeds be distributed as follows:

State	Percentage
Andhra Pradesh	7·81
Assam	2·73
Bihar	10·04
Bombay	17·52
Kerala	3·15
Madhya Pradesh	7·16
Madras	7·74
Mysore	5·13
Orissa	3·20
Punjab	5·71
Rajasthan	4·32
Uttar Pradesh	17·18
West Bengal	8·31

VIII. (a) Out of the net proceeds in each financial year of the tax on railway fares a sum equal to ¼ (one-quarter) per cent be retained by the Union as proceeds attributable to Union territories; and

(b) the balance of the net proceeds of the tax on railway fares be distributed among the States as follows:

State	Percentage
Andhra Pradesh	8·86
Assam	2·71
Bihar	9·39
Bombay	16·28
Kerala	1·81
Madhya Pradesh	8·31
Madras	6·46
Mysore	4·45
Orissa	1·78
Punjab	8·11
Rajasthan	6·77
Uttar Pradesh	18·76
West Bengal	6·31

(Rupees in crores)

State	Shares of taxes	Grant under article 273*	Grant under substantive portion of article 275(1)	Total
Uttar Pradesh	16·25	..	..	16·25
West Bengal	9·50	0·91	3·85	14·26
Jammu and Kashmir	1·25	..	3·00	4·25
	100·00	1·88*	37·55	139·43

*This is an average for five years of payments which will actually be made to the States in the three years ending 31st March 1960. Grants-in-aid under article 273 cease on the expiry of ten years from the commencement of the Constitution.

NOTE 1.—Assam will receive, in addition, a grant-in-aid of Rs. 40 lakhs under clause (*a*) of the second proviso to article 275(1).

NOTE 2.—Under Section 74 of the States Reorganisation Act, the States of Bombay, Kerala, Madras and Mysore are entitled to receive during the three years ending 31st March 1960 the sums by which a prescribed percentage of their share of divisible Central taxes may fall short of the average of the revenue gap grants guaranteed to the former Part B States of Saurashtra, Travancore-Cochin and Mysore, now merged in them. On the estimate of divisible Central taxes adopted by us, the sums due to Kerala and Madras will be marginal while Bombay and Mysore may receive sums of the order of Rs. 3½ crores and Rs. 1 crore respectively for all the three years.

202. The increased devolution just mentioned is not the only source of additional income for the States. During this period the States will receive their share of the new Centrally levied tax under article 269, namely, the tax on railway fares. These receipts, which do not form part of the revenue devolved by us, are likely to be of the order of Rs. 15 crores in a full year; a state-wise detailed analysis, on the basis of the distribution recommended by us, is given in the table below:

(Rupees in lakhs)

State	Share of tax on railway fares
Andhra Pradesh . . .	131
Assam	40
Bihar	139
Bombay	241
Kerala	27
Madhya Pradesh	123
Madras	96

(Rupees in lakhs)

State	Share of tax on railway fares
Mysore	66
Orissa	26
Punjab	120
Rajasthan	100
Uttar Pradesh	278
West Bengal	94
Total	1481

203. We cannot over-emphasise the paramount importance of States balancing their revenue budgets. We have framed our scheme of devolution so as to enable them to do so. With a massive development plan under implementation, there is a grave risk of the budgetary deficits of the States endangering the country's economy by adding to the inflationary potential. Now that all expenditure creating permanent assets are being treated as capital outlay, deficits on current account covered by borrowing result in an unfair shifting by the present generation of its burden to future generations. Development expenditure should, therefore, be adjusted to the available resources and States should not run into a revenue deficit even for meeting such expenditure. We earnestly trust that they will bear this in mind in shaping their financial policies.

XX. ACKNOWLEDGEMENTS

204. During the earlier stages of our work, when the accommodation allotted to us was not ready, we held some of our meetings in the Committee rooms of Parliament or in the rooms of the Judges of the Supreme Court, by the courtesy of the Speaker and the Chief Justice. We are most grateful to them for their assistance.

205. In conclusion we should like to place on record our appreciation of the assistance given to us by our officers and staff. Our Secretary, Shri H. B. Bhar, brought to bear on his work expert knowledge of Government finances and accounting. Our Under Secretary, Shri R. Saran, had a detailed knowledge of budgetary procedure and practice which was of great value. Our Research organisation,