

## I. Introductory

This Finance Commission, the second to be set up under article 280 of the Constitution, was constituted by an Order of the President (No. S.R.O. 1285 dated 1st June 1956) which is reproduced below:

"In pursuance of the provisions of article 280 of the Constitution of India and of the Finance Commission (Miscellaneous Provisions) Act, 1951 (33 of 1951), the President is pleased to constitute a Finance Commission consisting of Shri K. Santhanam, lately Lt. Governor of the State of Vindhya Pradesh, as the Chairman and the following four other members, viz.,

1. Shri Ujjal Singh, former Finance Minister, Punjab
2. Shri L. S. Misra, retired Chief Justice, Hyderabad.
3. Shri M. V. Rangachari, for some time Finance Secretary, Government of India.
4. Dr. B. N. Ganguli, Professor, Delhi School of Economics.

2. The members of the Commission shall hold office for a period of fifteen months from the date on which they respectively assume office.

3. The members of the Commission except Dr. B. N. Ganguli, shall render whole-time service to the Commission; and Dr. Ganguli shall render, up to the thirtieth day of September, 1956, part-time service, and thereafter whole-time service, to the Commission.

4. The Commission shall, in addition to making recommendations as to the matters specified in sub-clauses (a) to (c) of clause (3) of article 280, make recommendations as to the following matters, namely:—

- (a) the sums which may be prescribed under article 273 as grants-in-aid of the revenues of the States of Assam, Bihar, Orissa and West Bengal, in lieu of assignment of any share of the net proceeds in each year of export duty on jute and jute products to those States;

- (b) the States which are in need of assistance by way of grants-in-aid of the revenues of those States under article 275, and the sums to be paid to those States, having regard, among other considerations, to:—
- (i) the requirements of the Second Five Year Plan, and
  - (ii) the efforts made by those States to raise additional revenue from the sources available to them;
- (c) the principles which should govern the distribution under article 269 of the net proceeds in any financial year of estate duty in respect of property other than agricultural land, levied by the Government of India in the States within which such duty is leviable; and
- (d) the modifications, if any, in the rates of interest and the terms of repayment of the loans made to the various States by the Government of India between the 15th day of August 1947 and the 31st day of March 1956.”

On 22nd May 1957, we received two additional references from the President. The communication from the Principal Secretary to the Government of India, Ministry of Finance, containing these references is reproduced below:

“The Government of India, in consultation with the State Governments, have decided that an additional duty of excise should be levied on mill-made textiles, sugar and tobacco, including manufactured tobacco, in replacement of the sales taxes now levied by the State Governments, the net proceeds being distributed among the States, subject to the present income derived by each of the States being assured to it. Necessary legislation will be promoted shortly for the levy, by the Centre, of this additional duty. In this connection the President has been pleased to decide that the Finance Commission should be requested to make recommendations to him as to the principles which should govern the distribution of the net proceeds of this additional duty among the States and the amounts which should be assured to the States as the income now derived by them from the levy of sales taxes on these commodities.

2. The President has also been pleased to decide that the Commission should be requested to make recommendations to him as to the principles which should govern the distribution, under article 269 of the Constitution, of the net proceeds in any financial year of the tax on railway fares proposed to be levied by the Railway Passenger Fares Bill, 1957, introduced in the Lok Sabha on 15th May, 1957.

3. I am to request that these two references, which are additional to those made in para 4 of the Order of the President No. S.R.O. 1285, dated 1st June, 1956, may be placed before the Commission for necessary action."

We assumed office on 1st June 1956. Our term of office was extended by a month and we completed our work on 30th September 1957.

2. Before the formal constitution of the Commission, the Government of India took preliminary steps for the collection of material for the use of the Commission. Towards the end of January 1956, a senior officer of the Finance Ministry, Shri M. V. Rangachari, selected to be a member of the Commission, was appointed as Officer on Special Duty in the Ministry, and on 1st April 1956, Shri K. Santhanam also took over as Chairman-designate. In addition to securing the nucleus staff of the Commission, the Finance Ministry requested the State Governments to furnish forecasts of their revenue and expenditure for the five years beginning on 1st April 1957 and memoranda containing their views on matters on which the Commission had to make recommendations to the President. The Civil Accounts Officers were also requested at the same time to supply certain statistics of Central loans to the States. After we assumed office, we wrote to the State Governments on 7th June 1956 asking for additional information, which was likely to be of interest to us, and invited their views on the principles which should govern the distribution of the estate duty on property other than agricultural land and their suggestions regarding modifications, if any, in the terms of the loans taken by the State Governments from the Union between 15th August 1947 and 31st March 1956. On 12th July 1956, we issued a press note asking for the views of the public on the matters to be considered by us. On receipt of the two additional references in May 1957, we wrote again to the State Governments for their views thereon and for certain data connected therewith. The relevant correspondence and the press note are reproduced in Appendix I.

3. We received from the Union and State Governments the forecasts and information required by us as well as detailed memoranda setting out their views on the various issues. They also readily supplied all supplementary information we required.

4. Under article 230 of the Constitution, the qualifications requisite for appointment as members of the Commission and the manner of their selection have to be determined by Parliament by law. This article also lays down that the Commission shall have such powers in the performance of their functions as Parliament may by law confer on them. The Finance Commission (Miscellaneous Provisions) Act, 1951, enacted in pursuance of those provisions and as amended by the Finance Commission (Miscellaneous Provisions) Amendment Act, 1955, is reproduced in Appendix II.

5. The Constitution and the Act referred to in the last paragraph authorise the Commission to prescribe their own rules of procedure. We accordingly made our rules, based more or less on the rules framed by the first Commission. These rules, which are reproduced in Appendix III, provide, among other things, for the manner in which our discussions with the State Governments and members of the public should be conducted. Following the practice of the first Commission, we held our discussions with State Governments and their officers in private session. The Chief Ministers of the State Governments, to whom we invariably explained the procedure we proposed to adopt, concurred in it. We had discussions in public session only with private individuals and representatives of Chambers of Commerce and other institutions, who had submitted memoranda on the problems before us. The names of those who submitted memoranda and of those who appeared before us are shown in Appendix IV. We wish to record our appreciation of the public spirit shown by them.

6. Neither the Constitution nor the Finance Commission (Miscellaneous Provisions) Act, 1951, makes any reference to the staff to be employed by the Commission. The staff has, therefore, to be recruited in accordance with the general rules of recruitment to the public services. As the Commission's work is of a temporary nature, we found some difficulty in recruiting suitable staff speedily. Qualified persons appeared reluctant to serve the Commission without additional remuneration. There was also the general rule that even temporary appointments to certain categories of posts tenable for more than one year should be made through or with the consent of the Union Public Service Commission. While we realise that the scale

of remuneration for the staff and the method of their recruitment should follow the general pattern adopted by the Government, we suggest that the question of making suitable relaxations in order to expedite the work may be considered before the appointment of the next Commission.

7. In one direction, we made a departure from the procedure adopted by the last Commission. We felt that it would be useful to meet the representatives of the press and keep them informed of the progress of our work. We held a press conference at Delhi shortly after assuming office and we made it a practice to hold a press conference on the conclusion of our discussions with each State. These conferences were generally well attended and the representatives of the press showed a lively interest in our work and in the financial problems of the States. We should like to place on record our appreciation of the interest taken by the press in all the States in our work and their courtesy in responding to our invitation. The dates of the press conferences held by us are given in Appendix V.

8. At an early stage of our work, there was a doubt about the exact scope of the reference made to the Commission under article 275 of the Constitution. The majority of the Commission felt that clause (2) of article 275 covered not only the substantive portion of clause (1) but also the two provisos appended to it. We accordingly wrote to the Secretary to the President suggesting that if this interpretation was acceptable to the President, he might be pleased to issue necessary orders to enable the Commission to make recommendations regarding grants under the provisos. We were informed in reply that the President had been advised that as the duty of the Commission to make recommendations was only in respect of grants-in-aid as to which Parliament could make a law under clause (1) of article 275 and as the provisos constituted exceptions to the main provision and there was no mention in them of Parliament making any law, the power of the Commission to make recommendations under clause (2) of article 275 did not extend to the grants under the two provisos. The President accordingly decided that no order need issue asking for the Commission's recommendations regarding the grants under the provisos to article 275. The correspondence is reproduced in Appendix VI.

9. The recommendations of the first Finance Commission were given effect to for the five years ending 31st March 1957. Once a Finance Commission is appointed under article 280 of the Constitution, the President cannot, without considering the recommendations

of the Commission, issue any orders under articles 270, 273 and 275 for transfer of resources to the States. There was also the further difficulty that, owing to the reorganisation of States, the Union Duties of Excise (Distribution) Act became inapplicable from 1st April 1957. It was not possible for us to make our final recommendations in time for steps to be taken for the necessary devolution for 1957-58. It would have caused serious difficulties to the States if they had to present budgets without taking into account such devolution and to manage without it. We decided, therefore, to submit an *interim* report so that temporary provision might be made for these purposes. In framing that report, we wished to maintain the then existing position with the minimum readjustments necessitated by new developments. The States Reorganisation Act and the Bihar and West Bengal (Transfer of Territories) Act had already readjusted for the reorganised States the devolution based on the first Finance Commission's recommendations. We had, however, to take into account the financial integration of Jammu and Kashmir with India which had come into effect in 1954. Certain readjustments relating to the merged Part C States were also necessary. The *interim* report is reproduced in Appendix VII.

10. During the period October 1956 to June 1957, we visited all the States and had discussions with their Governments and officers. In all of them we met the Chief Minister and the Finance Minister; in some States we also met either the entire Cabinet or other Ministers who chose to attend the meetings. We had detailed discussions with the Chief Secretary the Finance Secretary and other Secretaries who were assisted by senior departmental officers. These discussions were largely on the basis of the memoranda submitted by the State Governments. Some of us also visited the border and tribal areas in certain States and several institutions connected with development and welfare work. During our visits the State Governments and their officers gave us every assistance and readily met all our requests for information. The arrangements made by the State Governments for our discussions and visits left nothing to be desired and we are very grateful to them and their officers for their assistance and co-operation. We met the representatives of State Governments again in New Delhi from 22nd July to 1st August 1957 to hear their views on the two additional references. We also held discussions with the representatives of certain Central Ministries on matters relating to their departments and for clarification of points that had arisen in the course of our discussions with the State Governments. The dates of our