second five year plan has been formulated after long and detailed consultations between the Planning Commission and the State Governments. The priorities have been determined and schemes included after taking into account the requirements and resources of the States and the disparities in their development. The plan as a whole has been approved by the National Development Council and Parliament. We did not, therefore, consider it proper to assume the role of a revising body. We accordingly made it clear that, while it was open to the States to move the Planning Commission for modification of the plan or for increase in the provision made in it for any scheme, we would accept the allocation as finally made by the Planning Commission.

21. There were doubts regarding the break-up of plan expenditure between revenue and capital. As we were mainly concerned with the revenue position, we requested the States and the Planning Commission to give us an agreed break-up. This was done.

22. In the result, our main investigation has been directed towards obtaining a reasonable forecast of the committed expenditure of the States for the five years from 1st April 1957 and of the revenue during this period at the level of taxation existing at the end of the first five year plan.

III. Planning and Finance Commissions

23. We had some difficulty in dovetailing our work with that of the Planning Commission owing to two factors. First, the second five year plan covers only the first four years of the quinquennium to which our recommendations will apply. Secondly, the plan does not distinguish between revenue expenditure and capital expenditure, while our main function under the Constitution is to make recommendations for the devolution of revenue resources. We, therefore, obtained from the Planning Commission a state-wise break-up of plan provision between revenue and capital.

24. In assessing the needs of the States, we had obviously to take into account the estimates framed by the Planning Commission in consultation with the State Governments. For this purpose, the Planning Commission had made an assessment of the existing resources of each State, its committed expenditure, the expenditure necessary for its second five year plan and the additional resources to be raised

by it for meeting such expenditure. As regards the revenue expenditure on the plan and the resources which, it had been assumed, would be raised by the States by additional taxation, we have generally taken the figures given to us by the Planning Commission.

25. In regard to the estimates of existing resources and committed expenditure, we obtained forecasts from the States. We had to do so for a variety of reasons. First, the forecasts of the Planning Commission were prepared in 1955 on the basis of the revised estimates cf 1954-55, and allowance had to be made for subsequent changes. Secondly, the five year period with which we are concerned coincides with the period of the second plan only for four years. Thirdly, the forecasts of the Planning Commission had, in any case, to be recast for the reorganised States. Having got these fresh forecasts, we fortified ourselves by obtaining the comments of the Planning Commission on them and in our discussions with the State Governments, we made it a point to investigate into any substantial variation between the figures adopted by the Planning Commission and those given to us by the States. In the forecasts agreed to between the Planning Commission and the State Governments, many States had over-estimated the yield from existing sources of revenue and underestimated the committed expenditure. There was also a misunderstanding about the exact scope of the term "committed expenditure" as used in the correspondence between the States and the Planning Commission. We discussed the forecasts of the State Governments with their officers. After consideration of the comments of the Planning Commission and the explanations given to us by State Governments for variations, we attempted to take a realistic view of the revenue and expenditure during the period to be covered by our recommendations. Our scrutiny of the States' forecasts disclosed that not only were the contributions from existing revenues, which were assumed for financing the plan, not available, but also that, in some States, the committed expenditure would absorb part of the resources which they were expected to raise for the plan through additional taxation.

26. We had a further difficulty in making a reasonable forecast of expenditure for the next five years. Apart from the burden of recurring expenditure thrown on the States' budgets by schemes completed under the first five year plan, there were many schemes for which Central assistance was on a matching basis, sometimes tapering off over a short period. This inevitably left a recurring burden on the States, of which no adequate indication could be had from figures of past actuals. In another part of our report, we deal more fully with

matching grants. We mention them here because neither the Planning Commission nor the State Governments nor ourselves have been able to calculate their impact on the finances of the States with any degree of accuracy.

27. Some anomalies inevitably arise where the functions of the two Commissions, the Finance Commission and the Planning Commission, overlap. The former is a statutory body with limited functions, while the latter has to deal comprehensively with the finances of the Union and the States in the widest sense of the term. So long as both these Commissions have to function, there appears to be a real need for effectively co-ordinating their work. It will be an advantage if, in future, the period covered by the recommendations of a Finance Commission coincides with that of a five year plan. Further, it is desirable to eliminate the necessity of making two separate assessments of the needs of the States.

IV. Constitutional Aspects

28. We shall examine briefly the provisions of the Constitution relating to the work of the Finance Commission. The relevant articles are reproduced in Appendix IX.

29. According to article 280, the Finance Commission have to make recommendations to the President on two specific matters and on "any other matter referred to the Commission by the President in the interests of sound finance".

30. The two specific matters are—

(i) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them and the allocation between the States of the respective shares of such proceeds; and

(ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.

31. The Constitution makes it mandatory under article 270 to divide taxes on income other than agricultural income between the Union and the States. For this purpose, taxes on income exclude

corporation tax and any surcharge which may be levied for Union purposes. To the extent that the net proceeds of taxes on income represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, they are retained by the Union. The Constitution also contains in article 272 an enabling provision under which, if Parliament so prescribes by law, Union duties of excise other than duties of excise on medicinal and toilet preparations may be divided.

32. In the case of income tax, the Commission are charged with the duty of making the following recommendations:—

(i) the percentage of the net proceeds of taxes on income, excluding the taxes payable in respect of Union emoluments, which shall be deemed to represent proceeds attributable to Union territories;

(ii) the percentage of the net proceeds in any financial year of taxes on income other than agricultural income, except in so far as those proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, which shall not form part of the Consolidated Fund of India but shall be assigned to the States within which that tax is leviable in that year and the manner in which, and the time from which, such percentage shall be distributed among the States.

33. The President, after considering the recommendations of the Finance Commission, has to prescribe by order the percentages and the manner of distribution. Parliament is not directly concerned with the assignment and distribution of income tax.

34. The position is different in respect of the distribution under article 272 of Union duties of excise. This article does not refer to the Finance Commission. The Commission's jurisdiction to deal with this distribution is derived from the provisions of article 280(3) (a). It is also open to the President to make a specific reference in this matter to the Commission. There is no obligation on the part of the Union to share the excise duties with the States. When it decides to do so, this has to be done by a law of Parliament, which has to prescribe which of the excise duties, and whether the whole or any part of such duties, should be paid out of the Consolidated Fund of India to the States. The principles of distribution among the States have also to be prescribed by law. In the case of excise duties, the