

# **Explanatory Memorandum on the action taken on the Recommendations of the Third Finance Commission in its Report**

**Dated the 14th December, 1961.**

The Report of the Third Finance Commission is being laid on the Table of Parliament. The recommendations of the Commission are summarised in Section VIII of the Report. All the unanimous recommendations of the Commission have been accepted.

The report is not unanimous and there are two recommendations on which there is a minute of dissent from one Member. These are:-

- (a) that a special purpose grant be made to certain States for improvement of communications; and
- (b) that 75 per cent of the revenue component of the State Plans be included in the scheme of devolution recommended by the Commission.

The majority recommendation regarding the special purpose grant for improvement of communications has been accepted, but Government do not consider it either necessary or desirable to accept the other recommendation. The scheme for financing the Plans of States as set out in the Third Five Year Plan provides reasonable assurance to State Governments that, given the necessary effort to mobilise resources and subject to an assessment of the overall financial and economic situation, the necessary Central assistance will be available to State Governments through annual plans. There will be no real advantage in the States receiving assistance for their Plans partly by way of statutory grants-in-aid as recommended by the Commission and partly on the basis of annual reviews made by the Planning Commission at the time of the framing of the annual plans. It is desirable to take an integrated view of the entire financial picture of each State, both on revenue and capital accounts, in relation to the State Plan as a whole. The total amount of Central assistance which the States may expect to receive for their Plans is not likely to be affected either way by the decision taken on this recommendations of the Finance Commission. On the other hand, there are considerable advantages in continuing to work on the basis of annual Plans and yearly assessments of the financial resources of the Centre and the States, so that adjustments, if necessary, can be made from year to year. In view of its large size and the wide range of activities embodied in the Third Plan, annual plans and reviews are an essential means of improving performance in all sectors, ensuring the fullest effort to raise resources, maintaining a satisfactory balance between different types of projects, particularly those which are of high priority and in one way or another inter-dependent. These purposes will be better served through suitable changes, where appropriate, in the existing procedures, rather than by converting any portion of Central assistance for State Plans into statutory grants, which must by their very nature lack flexibility. At the same time, to enable State Governments to make any day-to-day adjustments that may become necessary within the framework of their annual plans, procedure relating to the administration of Central assistance towards Plan expenditure have been already simplified and it is proposed to make them more flexible after consultation with the States.

The Commission's recommendations fall into three categories, those to be implemented by an Order of the President, those to be implemented by law by Parliament and those to be implemented by executive orders. The recommendations under Articles 270(1) of the Constitution fall in the first category and the necessary Order will be submitted to the President for approval. The recommendations relating to the distribution of Union Duties of Excise, including Additional Duties and Estate Duty on property other than agricultural land fall in the second category. Necessary legislation is being promoted in the current session of Parliament to implement them. The recommendation regarding the distribution of the ad hoc grant to the States in lieu of their share of tax on Railway fares will be implemented by executive orders.

The Commission has also made certain general observations in Chapter VII of its Report. These do not require any immediate decision and will be considered in due course in consultation with the State Governments, where necessary.

Sd/-  
(L.K. Jha)  
Secretary to the Government of India

New Delhi.  
Dated the 12th March, 1962.