IX. ACKNOWLEDGEMENTS

105. We should like to express our thanks to Shri G. R. Kamat, Member-Secretary, for the assistance he gave us. We also place on record our appreciation of the work of Shri R. Saran, Deputy Secretary, who brought to bear upon the problems before us his experience with the last Commission. Our thanks are due to Shri S. K. Bose, Deputy Secretary (Research), who produced statistical and other information, very often at short notice. We should also express our appreciation of the hard work cheerfully put in by Shri A. J. A. Tauro, Secretary to the Chairman. Shri B. R. Agnihotri, our Superintendent, the office staff under him, the staff of the Research Division and our personal staff did excellent work. We are grateful to all of them.

A. K. CHANDA
Chairman.

P. GOVINDA MENON
Member.

D. N. ROY
Member.

M. V. MATHUR
Member.

G. R. KAMAT*
Member-Secretary.

NEW DELHI,
December 14, 1961.

*Subject to the appended minute of dissent.

MINUTE OF DISSENT BY SHRI G. R. KAMAT

1. I regret to have to append this minute of dissent to the main report of the Commission.

2. Although I have differed from my colleagues on some other points which are reflected in the scheme of devolution recommended in the main report, in the interests of unanimity, I have not thought fit to express my disagreement on those points. On two points, however, I am constrained to write this minute of dissent.

3. First, I wish to dissociate myself from the recommendation made in paragraph 71 of the report, that we include in our scheme of devolution and grants-in-aid, 75 per cent of the revenue component of the States' Plan. I consider that the measure so recommended is open to serious objections and that it has serious impact on the concept and mechanism of national planning. Any grants that we so recommend, even if accompanied by the indication of the broad purpose for which they are made, are in effect untied and, therefore, virtually unconditional.

4. It has been recommended in paragraph 93 of the main report that certain suggestions as to the manner in which Plan assistance should be made to the States, be examined by a high-powered Commission, which we propose, for making a comprehensive review of the Union-State financial relationship and other connected matters. One would have thought that the more logical course would have, therefore, been to suggest no change in the existing procedures of Plan grants pending such a review. My colleagues, however, think otherwise on this matter.

5. At present, grants for the revenue component of the Plan are made to the States by the Central Government on an yearly appraisal of the requirements of the States and the Centre's ability to meet these requirements. These grants are made under article 282 of the Constitution and they are tied to particular programmes with a view to promoting and supporting planned development in the States in specific directions. Important examples of the programmes to which grants have been tied in recent years are a series of measures for increased agricultural production, community development pro-

grammes, technical education schemes, programmes for village and small-scale industries and a number of health measures. This system of tied grants ensures effective co-ordination of the State Plans as these grants are determined after annual Plan discussions and after taking into account the performance of the States, both in respect of efforts to raise resources, as well as the efficiency with which the schemes are executed. The disbursement of these sanctioned grants is made proportionate to the expenditure incurred by the States on the schemes concerned.

6. This procedure, like most procedures involving Central co-ordination, might be found to be irksome at times by the State Governments and that is why some State Governments have expressed themselves to be in favour of having statutory grants under article 275 of the Constitution in lieu of this system. It is stated that the present system results in undue interference by Central Ministries in the affairs of the State Government and that it involves irksome and needless discussions between the Centre and the States; it has also been stated that grants given in a lump sum instead of scheme-wise may well result in more efficient utilisation of the funds than at present.

7. If there are these defects in the present system, they are capable of being remedied. In fact, during the last three years, there has already been considerable progress towards greater flexibility in the making of these grants and in their re-appropriation from one scheme to another. Within the same group of schemes the States have been free to divert funds from one scheme to another. It is only when the State Governments wish to transfer funds from one group to another that a prior reference to the Central Ministry is now required. Adjustments between different heads have also been fairly frequent after consultation with the Planning Commission.

8. Measures to impart a greater flexibility to the present system have been recently devised by the Planning Commission and the Ministry of Finance of the Union Government and have been communicated to the States. In my view, such defects of the present system as exist are capable of being removed by adjusting procedural details after a joint consultation between the Union and the State Governments. But, to displace that system by a system of statutory grants, is like throwing the baby out with the bath-water.

9. The proposition to make devolution of taxes and statutory grants for the revenue component of the Plan is evidently supported on the following grounds. First, it is pointed out that the second Finance Commission also made grants towards the revenue component of the second Five Year Plan. Secondly, the grants recommended by the Finance Commission, being statutory, would give an assurance to the States that necessary funds would be forthcoming for the revenue component of the Plan. Thirdly, it has been mentioned that this change in the system of grants would give greater autonomy to the States in their administration. Lastly, it has been pointed out that our terms of reference require us to take into account the third Plan requirements of the States.

10. There seems to be some misunderstanding as to what precisely the second Finance Commission recommended when it included in its devolution a part of the revenue component of the second Plan. When that Plan was formulated, the Centre had not undertaken to underwrite the State Plans. Central grants were to be made according to a specified pattern of assistance; but grants, which were to be thus made to the States, were inadequate to enable them to fulfil the targets of the Plan, even after they had fulfilled their own targets of additional taxation. In other words, there was an estimated gap in the revenue plan of the States which was not covered either by its own resources or by the grants proposed by the Centre under article 282. It is this gap that the second Finance Commission took into account in making its recommendations. What the second Finance Commission gave, was not *in lieu* of grants for the revenue component of the Plan but what was needed by the States *over and above* the article 282 grants as then estimated. The coordinating machinery for making the Plan grants, tied to particular projects and after annual Plan discussions, was not impaired by the second Finance Commission's recommendations.

11. The position now is different. In the third Five Year Plan, it has been clearly indicated that for financing State Plans which are estimated to cost Rs. 3847 crores, there would be the States' resources of Rs. 1462 crores and the Central assistance of Rs. 2375 crores (see page 102, paragraph 27 of the Third Five Year Plan). The figures include both revenue and capital. This statement made in the third Five Year Plan is as clear an assurance as the Centre can possibly give to the States to show that the Centre is prepared to support the States' Plans almost fully provided the States did

their part in finding resources as indicated in the Plan and provided the Centre had the resources as foreseen in the Plan. The question as to what part of this amount of Rs. 2375 crores was to be in the shape of grants and what in loans was left over for later discussions.

12. As to the question of autonomy of the States, I suggest that the measure suggested in paragraph 71 of the main report does not make the States any more autonomous than what they are at present. We are precluded from looking into the capital requirements which form the greater part of the State Plans. For these, as well as for that part of the Plan grants which is not covered by our devolution, the system of annual Plan review and annual Plan discussions would have to continue and the States would have to depend on the Centre for assistance. A certain limitation on the States' autonomy is, in any case, inherent in any process of centralised national planning and so long as we pursue the concept of a national plan, such limitations have to be accepted. It may be stated that in other federations, and notably in the United States of America, where the constituent States jealously guard any encroachment on their autonomy even more than the States in India, the federation makes a variety of tied and conditional grants to the States and thereby promotes a number of development measures in the social field. In my view, the correct way to look at our planning process is not that it involves central encroachment on the State autonomy, but, that there is a close and continuous cooperation between the Union and the States at various levels to evolve and execute development programmes which would be of benefit to the country as a whole.

13. In the result, I do not see that the States derive any major advantage from this proposal; it certainly does not add to their resources, nor does it put them in a greater position of autonomy than at present. If, as I consider it to be the case, the poposal to convert the Plan grants into rigid statutory grants is harmful to the planning process and to the execution of the Plan, the mere fact that our terms of reference permit us to recommend such a measure has no significance. These terms can also be so interpreted that we desist from making such a recommendation. Thus we should certainly have had 'regard, among other considerations, to the requirements of the third Five Year Plan', if we take into account the fact that these requirements, insofar as they are not met from States' own resources including additional taxation, will eventually be met from grants that the Central Government makes under article 282 after the annual Plan discussions.

14. Apart from these principal arguments, two other arguments have been stated in the main report in support of this recommendation: first, that some of the States will, as a result of devolution of taxes, as proposed in the report, have a surplus position in the non-Plan sector of their revenue budgets; secondly, that one of the States has represented to us that the Plan contains repetitive schemes of a continuing character.

15. In my view, both these arguments are tenuous. It was within the competence of the Commission to devise a scheme of devolution of taxes in a manner by which no State is left with a significant revenue surplus in its non-Plan budget. In regard to the plea that the Plan contains repetitive schemes, the Commission has not examined the position in regard to the States, other than the one which made this plea. We cannot, therefore, base our conclusions on this argument.

16. In paragraph 63 of the main report, the second Finance Commission has been quoted as recommending that fiscal needs should be considered in a comprehensive sense and that grants-in-aid should subserve the requirements of the planned development. Paragraph 66 of the second Commission's report, from which this view has been quoted, also specifies the following principle as part of its recommendation:

"Grants for broad purposes may also be given........ Where those purposes are provided for in a comprehensive plan, there will be no scope for such grants."

What my colleagues have suggested is precisely a broad purpose grant of this type.

17. Let me now state my objections to the course suggested. As stated in the third Five Year Plan, the Plan itself is flexible. It is translated into actual programmes of work from year to year and by means of annual Plan discussions. At these discussions, are examined each State's performance in the preceding and current year, its programme for the future year and its ability to undertake and carry out that programme, its requirements of finance, its proposals for additional taxation, the amount of finance that the Centre could make available to the States and any other circumstances which would determine the optimum size of the programme for the Centre and the States individually as well as collectively. In this manner, there is an effective co-ordination of the State and the Central Plans. After the annual review, this coordinated annual

Plan is discussed by the National Development Council and receives its approval.

18. Having formulated the annual Plans in this way, it is important that both the Centre and the States implement them in accordance with the accepted priorities and objectives. Under the Constitution, 'Economic and Social Planning' is a concurrent subject. But, many functions undertaken in furtherance of the Plan are entirely in the State field, in respect of which the Centre has no constitutional authority to require the States to execute the programme in any particular manner. The only way it can do so is by providing that at least for that part of the programme which is considered to be of national importance, the States are given a financial inducement in the shape of tied grants to undertake and implement these schemes. It is in this way that it has been possible in the past to introduce under high priority, schemes like 'grow more food', community development, technical education, etc. If a large part of the finances required by the State is automatically assured to them under the law, the Centre would not have the power to ensure that the States did actually utilise the funds for those purposes. I am not suggesting that the State Governments cannot be trusted. But, we cannot overlook the fact that in this large and diverse country of ours, there could be differences as to the most important lines of development, from the national as distinct from the State or regional point of view. Increased food production is a national objective. It is important that the States, that are currently surplus in foodgrains, do not slacken their efforts towards further increases in their agricultural output and that they do not divert funds from 'grow more food' schemes to programmes which, from a strictly regional point of view, may be more important. My main objection to the untied and unconditional grants for Plan purposes is that they will weaken the machinery which now enables the Centre and the States to effectively coordinate the formulation and implementation of their Plans. A system of unconditional lump sum grants from the Centre to the States for Plan purposes will, at its best, reduce this coordination to a little more than making a Central catalogue of States' projects in several fields of development.

19. Let me take an instance. Increase of agricultural production is a programme given national priority both by the Centre and the States. Part of the finance required for this purpose is given as grants by the Centre to the States. If, in lieu of these grants, a lump sum annual grant is given to the States for the Plan as a whole, it

is possible for a State to divert funds which should have been utilised for this nationally important programme to some other schemes of lesser priority, if desired by the local population. As matters stand, there is an unlimited field for social development in the State sector and it cannot be denied that the States may feel compelled to switch over to local schemes of low priority by some local pressures and influence. The overall resources being limited, the programmes, which are considered to be of national importance, may thereby suffer. It is not suggested that this may happen in every State; but even if it happens in a small number of States, there would be difficulties in achieving the nationally accepted targets in the more important fields of development.

20. Another important objection is that finance for making these grants for the revenue component of the Plan is available almost wholly from the yield of additional taxation proposed by the Centre. The non-Plan needs of the States and the Centre, the availability of finance with the Centre and its own Plan requirements are such that if we seek to make grants or devolution for the revenue component of the Plan, it can be done only by drawing upon the yield of additional taxation by the Centre. Only a part of this additional taxation has been imposed; the greater part is yet to be raised. That we should seek to commit the Centre to make these grants in advance of the Centre assuring itself of being able to finance such grants is, to my mind, wholly inappropriate; and, to say the least, unfair to the Union Government.

21. The Plan is not a rigid one; it is wrong to look upon it as a mere list of the financial targets for expenditure; it enjoins the Centre and the States to raise certain resources. Then, certain resources are postulated as coming from abroad as foreign aid and certain margins are left for being spent in excess of the resources in the shape of 'deficit financing'. So far as the States are concerned, provided they make the resources available as promised by them, the Plan itself contains a clear assurance that the Centre would make available to them the remaining amounts to achieve the financial targets of the Plan. These targets again are not rigid. The resources position itself would require a continuous review and such review may, at times, require a review and curtailment of the Plan targets both at the Centre and in the States in circumstances not amounting to an emergency. Our own assessment of the non-Plan needs of the States, as covered by our scheme of devolution for non-Plan requirements, is significantly higher than that which was jointly

worked out last year by the Planning Commission and the State Governments. We have also been told that the Centre's non-Plan liabilities would now appear to be higher than those assumed in formulating the third Five Year Plan. These circumstances may themselves compel an imminent review by the Centre and the State Govenments of the resources available for the Plan and to consider what adjustments, if any, need be made in the Plan targets of expenditure of both the Centre and the States. Further, it is possible from time to time for a State to demonstrate additional needs and, provided there is a saving of resources on some other project in the same State or in other States or at the Centre, adjustments can be made from year to year. Thus, when all other components of the Plan, which are closely connected, are subject to review and variation from time to time, it would seem unwise to introduce statutory rigidity in respect of that component which represents the transfer of revenue resources from the Centre to the States for the Plan schemes.

22. We have reasons to believe that last year, in the hope of getting a substantially large size of the Plan, some States at least had over stated their resources and had given promises of fresh taxation which might be difficult of fulfilment by them without a great deal of effort on their part. Annual Plan discussions, at which the resources, the size of annual Plans and of Central assistance therefor are discussed, indirectly exert a measure of compulsion on the States to make a sustained effort to keep to this taxation programme. Most States will be unable to fulfil these tax targets without getting into the more unpopular field of rural taxation. If the States have an assured amount of Central grant for the Plan, there is a very serious risk that some States will slacken in their tax effort, or just postpone it, and in the latter event, it may become more difficult for them to fulfil their respective tax targets. As the entire Plan is based on the stipulation that the Centre and the States would do their respective parts in raising additional resources and closely controlling their non-Plan expenditure, the entire planning process would, in that event, meet with very great difficulties.

23. My observations, as above, are made on the assumption that these grants, being under article 275, will be untied and unconditional. Devolution of taxes under articles 270 and 272 of the Constitution is, in any case, untied and unconditional. Hitherto, even the grants-in-aid made under article 275 on the recommendation of a Finance Commission have been looked upon both by the Central

and the State Governments as untied and unconditional. Paragraph 72 of the main report, however, states: 'The safeguard in the utilisation of this assistance for the purpose intended is, in our view, provided by article 275 of the Constitution. This being a grant-in-aid for a specific purpose, namely, the Plan, it may be reviewed from year to year, should the necessity arise, by Parliament under article 275(1) or by the President under article 275(2), as the case may be'.

24. If, by these observations, my colleagues wish to imply that their intention is that these grants should be subject to annual review and subject to such conditions as may be stipulated by Parliamentary legislation or Presidential Order, to secure the observance by the States of the priorities of the Plan, it may be pointed out that the procedure suggested would be more onerous and rigid than what it is at present. In effect, this may mean the continuation of present procedures, with the difference that the amounts of grants to be made to each State each year will require to be approved by a special Presidential Order, which may have to be subsequently placed before the Parliament, or by annual Parliamentary legislation, as distinct from a mere vote for the grants. It is not at all certain that any State Government would welcome such a procedure, as it derives no particular advantage from it. Indeed, a review by a legislative process at the Centre may well turn out to be more embarrassing and inconvenient to the States than the more informal annual Plan reviews that are now made jointly by the executive agencies of the Central and State Governments.

25. The second point on which I wish to express my disagreement is the recommendation made in paragraph 74 of the main report that an earmarked and special-purpose grant be made to the States for 'the improvement of communications'. I do not question the importance of a rapid development of road communication all over the country and especially in backward regions; but, I do not consider that this special-purpose grant is necessary for that purpose in the context of overall planning which includes programmes for improvement and development of road communication.

26. The third Five Year Plan has considerably stepped up the financial provision for road development. The total allocation for road development in the third Plan is Rs. 324 crores as against Rs. 224 crores estimated to have been spent during the second Plan period for this purpose. A large part of this road programme is to

be executed by the State Governments, their allocation for this programme being Rs. 218 crores (other than for Union territories) as against Rs. 143 crores estimated to have been spent by them during the second Plan period. The States will also benefit from the Central sector programmes which relate mainly to construction and improvement of National Highways and which are executed through the agency of the State Governments. Paragraphs 33 to 40 of Chapter XXVIII of The Third Five Year Plan show that the special needs of the backward and less developed areas have not been overlooked and that 'a substantial part of the provision for road programmes in the State Plans is intended for improvement of the existing roads' and it 'includes widening the roads and upgrading their surfaces and providing missing links and bridges etc.'.

27. I do not, therefore, see the need for this additional grant for road development; the Plan allocation covers both special maintenance and improvements, besides new construction. As for the ordinary maintenance of existing roads, the devolution of taxes and the grants-in-aid, that we recommend for covering the budgetary gaps, contains, in my opinion, sufficient margin to enable the State Governments adequately to finance the needs of ordinary maintenance.

28. Lastly, I am doubtful if it is right on our part to recommend revenue grants for financing expenditure, which, when it is incurred on special maintenance and improvements, besides new construction, is classified, under the present accounting practice, as capital expenditure.

G. R. KAMAT
Member-Secretary.

NEW DELHI,
December 14, 1961.

OBSERVATIONS ON THE MINUTE OF DISSENT

We are unable to accept the negative interpretation which the Member-Secretary of the Commission has placed on our terms of reference which require us specifically to make recommendations for grants-in-aid under article 275(1), "having regard, among other considerations, to the requirements of the third Five Year Plan". We do not also appreciate the suggestion that we have misunderstood the basis on which the second Commission had included in its scheme of assistance a part of the revenue component of the Plan. Similarly, we consider the vague reference in the dissenting note to disagreements on aspects of devolution to be rather unfortunate.

2. The answer to the points raised by the Member-Secretary is provided in the report itself and does not need any restatement. We need hardly add that we are as anxious as any one else to secure effective implementation of the Plan. We do not consider that our recommendations in any way detract from this purpose.

3. We regret to add that the Member-Secretary does not seem to have appreciated our basic approach to Union-State relations which has been of mutual understanding, trust and confidence, to secure the fuller realisation of the objectives of our welfare State.

A. K. CHANDA
Chairman.

P. GOVINDA MENON
Member.

D. N. ROY
Member.

M. V. MATHUR
Member.

NEW DELHI,
December 14, 1961.