

## VI. GRANTS-IN-AID

57. We now turn to the question of determining the States which are in need of assistance and the amounts of the grants-in-aid to be recommended for them under the substantive portion of article 275 (1) of the Constitution.

58. Article 280 (3) (b) requires us to make recommendations to the President as to the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.

59. Grants-in-aid should obviously be made to meet the residuary fiscal needs of the States, after offsetting the estimated amounts made available by the devolution of taxes. Two questions arise: first, how these needs should be reasonably determined; and secondly, how fiscal needs should be defined. Should it be done in a comprehensive sense, including the requirements of the Plan, or should it be in a limited sense, merely to cover the budgetary gaps of the period of the Plan?

60. The first Commission formulated certain principles which should regulate the assessment of fiscal needs and, in doing so, it defined also their scope. It considered that the budgetary needs of the States should first be estimated by a detailed examination of the forecasts of revenue and expenditure submitted and then these should be reduced to a comparable basis by the exclusion of abnormal, unusual and non-recurring items of expenditure. Adjustments in this analysis should be made to take account of the extent of tax effort made by each State individually; and also the measure of economy it had effected in administration. This would help a broad judgement on the quantum of assistance that would be justified. That Commission, however, felt that this analysis should not, by itself, limit grants-in-aid, but that the level of social services reached in a State and any special disabilities arising out of its constitution should entitle it to a further moiety of assistance. It added that grants should also be made for broad purposes of national importance to bring up deficient States to an acceptable minimum level.

61. These principles are unexceptionable in themselves, but, difficulties as appreciated by the first Commission arise in their

application. The comparative determination of the tax efforts of the States cannot be in absolute terms. It has to be related to their tax potential, and this calls for a special study. Similarly, the assessment of the measure of economy effected or the degree of efficiency reached in a State's administration is a complicated exercise which, in any event, we could hardly undertake with the organisation and time at our disposal. Yet, without reliable and comparable information on these two essential ingredients of grants-in-aid, it is difficult to determine the quantum of assistance that would be necessary and justified. This and other considerations lead us to the suggestion, which we make elsewhere, that an independent Commission should be constituted to review, amongst other things, the financial relations which, in the new situation of planned development, should subsist between the Union and the States.

62. The other principles mentioned by the first Commission are now taken care of in the formulation of the national plan; but, the question remains whether we should not take note of their financial implication in our scheme of devolution and grants-in-aid.

63. In the enumeration of principles, the first Commission acknowledged that it was not sufficient to cover the amount of budgetary needs but also the fiscal needs arising out of development programmes undertaken. The second Commission re-affirmed that fiscal needs should be considered in a comprehensive sense and that grants-in-aid should subserve the requirements of planned development. It added that the priorities and provisions in the Plan itself should determine the fiscal needs for development for the period of the Plan.

64. Consistent with this concept of assistance to which we fully subscribe, which accords also, in our view, with the spirit and provisions of the Constitution, we should not leave out of consideration the fiscal needs of the Plan. Our terms of reference also give recognition to this principle by directing us specifically to take note of the requirements of the third five year Plan. We have, however, to consider whether we should give full coverage to the estimated revenue component of the Plan or should limit it on practical or other considerations.

65. Two points of view have been expressed before us on this question. The first is that the Plan itself is flexible and is subject to adjustments at the annual reviews undertaken and there is the

need to ensure that the States conform to the priorities and provisions laid down. If full financial allocation is made by us, these reviews would be rendered difficult. The other point of view is that the Plan having been endorsed by the National Development Council and approved by Parliament, it is only logical to guarantee the necessary resources to the States to enable them to forge ahead. It is suggested that devolution and grants-in-aid by the Finance Commission would be more in tune with the provisions of the Constitution and that it would inculcate a greater sense of responsibility in the States as the grants-in-aid would then become an integral part of their resources. It has further been urged that it is inconceivable that the scope and targets of the Plan, except in an emergency, could possibly be revised downwards. Further, that, in an emergency, the provisions we make would in any case come to be suspended; and that there should, thus, be no impediment or practical difficulties in the way of our providing for the fiscal needs of the Plan even in full.

66. The considerations on which a judgement can be made are, therefore, somewhat conflicting. While we appreciate that in a planned economy a measure of centralisation and even regimentation is inescapable, it is no less necessary that States should not feel that their autonomy is being unduly frustrated. There seems to be a strong feeling in the States that the restrictions and conditions, which are attached to the grants which they receive for Plan purposes, tie their hands unduly and deprive them of necessary flexibility and room for adjustments.

67. It seems to us that to draw a line necessarily arbitrary on the basis of Plan and non-Plan expenditure in their treatment is not really sound. We see little merit in inducing a State to continue to incur expenditure on objects however desirable, when the rest of its resources are insufficient to meet the basic requirements of its administration and the more pressing needs of other programmes which fall outside the Plan. It has to be remembered that a high proportion of what is classified as non-Plan expenditure is itself due to projects launched in previous Plan periods for which maintenance and upkeep becomes a non-Plan liability of the State. There is yet another reason why we are inclined to regard the entire revenue budget of a State—whether Plan or non-Plan—as an integral whole. Some of the States will, as a result of the devolution, which we are proposing, have a surplus position in the non-Plan sector of their

evenue budget. It is but legitimate that this surplus should be earmarked for the purposes of the Plan. On all these considerations, we see considerable advantage in devising a machinery for taking an integrated view of Plan and non-Plan expenditure of the State as a whole. This issue, which requires a more detailed examination and fuller consideration of many important inter-related questions of Union-State financial relations, should also, in our view, be remitted to the high-powered independent Commission, the constitution of which we suggest elsewhere.

68. In order to ensure that, on the one hand, national priorities are not distorted by the States and, on the other, that through conditional grants and the financial inducements which they provide, States are not made to embark on schemes which they themselves might consider relatively unimportant to their economy and even unsuitable to their environment, it seems advisable to examine whether the assistance made available by the Union to the States towards their Plan expenditure should not be on the following basis:

- (a) assistance which is meant to fulfil what can rightly be described as national purposes, such as power, flood control major irrigation works, agriculture, family planning, etc should continue to be governed by strict conditions regarding their utilisation; and
- (b) grants, which are meant to strengthen the State sector in matters which must necessarily be decided with fullest regard to local rather than national needs, such as, education, health, minor irrigation projects, etc., should be such that the States have the freedom to reappropriate from one head of such allocation to another while adhering to the broad objectives of the Plan.

69. We content ourselves with making these suggestions which the Commission we propose would undoubtedly consider.

70. We consider also that, with a view to have a well co-ordinated approach to Plan and non-Plan programmes, current as well as long-term, the State Governments should develop a compact, efficient machinery for the formulation, execution and evaluation of these programmes.

71. On the considerations placed before us, we recommend that the total amount of grants-in-aid should be of an order which would

enable the States, along with any surplus out of the devolution, to cover 75 per cent of the revenue component of their Plans. In determining the revenue component, we have deducted in full the amount of additional tax to be raised by each State as incorporated in the Plan itself. In making this recommendation, we have been influenced, amongst other things, by the fact that the Plan contains repetitive schemes of continuing character. The expenditure on these is unavoidable and is of the nature of committed expenditure. One State has produced statistics to show that this absorbs 64 per cent of the revenue component of its Plan. A similar position, though possibly in differing degrees, subsists in the Plans of the other States also.

72. The assistance to each State towards the fulfilment of the broad purposes of the Plan, as provided by us, is given in the table appended. 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.

73. Our purpose in making these suggestions and recommendations is twofold; first, to secure the observance of the priorities of the Plan in regard to programmes of national importance, and secondly, to encourage and enable the State Governments to plan their affairs on a sounder and more realistic financial base and to discourage demoralisation which dependence inevitably breeds.

74. We had not intended to make any special-purpose grant, but, in the course of our visits to the States and the discussions we had with their Cabinets, we became convinced that impetus should be given to the development of communications more extensively. There is the pressing need to open up backward areas, to break down barriers of isolation and stagnation, to develop social services and social sense, to mobilise economic resources, and above all, to bring about a feeling of oneness in the minds of the people of these regions with the rest of the community. Due to financial stringency, the State Governments had, we noticed, made inadequate provision for the proper maintenance of existing roads and for new construction. We feel that, in the special circumstances, an earmarked grant should be made for improvement of communications in the interests of national economy and national integration. We consider, therefore, that it would be appropriate if a total sum of Rs. 36 crores being

proximately 20 per cent of the proceeds of the duty on motor  
 irits were to be distributed for this purpose. Keeping in view the  
 lative needs of the different States and the resources available to  
 em, we recommend the special grant of Rs. 36 crores be distributed  
 indicated below:

State	(Rupees in lakhs)	
	Per year	Total for four years 1962-66
Andhra Pradesh	50	200
Assam	75	300
Bihar	75	300
Gujarat	100	400
Jammu and Kashmir	50	200
Kerala	75	300
Madhya Pradesh	175	700
Mysore	50	200
Orissa	175	700
Rajasthan	75	300

75. In addition, we recommend the following grants-in-aid in each  
 f the four years 1962—66 to cover budgetary gaps where needed and  
 5 per cent of the revenue component of the Plan. The assistance  
 towards the Plan made available in our scheme of devolution and  
 grants-in-aid in each of these years is indicated separately.

State	(Rupees in lakhs)	
	Grant-in-aid	Assistance towards Plan included in devolution and grants-in-aid in column 2.
1	2	3
Andhra Pradesh	1200	300
Assam	900	375
Bihar	800	800
Gujarat	950	525
Jammu and Kashmir	325	175
Kerala	850	300
Madhya Pradesh	625	500
Madras	800	500
Maharashtra	...	(675)
Mysore	775	150
Orissa	1600	450
Punjab	275	275
Rajasthan	875	425
Uttar Pradesh	200	(800)
West Bengal	850	850

76. We have every expectation that the provision we make would  
 further the national purpose to consolidate, to unite and to construct.