

II. PROCEDURE ADOPTED

We met in inaugural session on December 15, 1960, and completed our work within the period prescribed and signed our report on this day of December 14, 1961.

2. As a prelude to the constitution of the Commission, the Government of India had taken preliminary steps for the collection of material required for the work of the Commission. Shri G. R. Kamat was placed on special duty in the Ministry of Finance in September 1960 for this purpose. Later, he was appointed Member-Secretary of the Commission. In addition to assembling the staff of the Commission and making other necessary arrangements for its work, he requested the Union and State Governments to prepare for our consideration forecasts of their revenue and expenditure for each of the five years of the third Plan period. The States were requested also to furnish memoranda incorporating their views on the various issues which were likely to be in our terms of reference. Similarly, material was called for on a number of other important points relevant to a study of their cases (Appendix V). Information was also called for from the State Governments on the action taken by them on the various suggestions made by the second Commission as also on the recommendations of the Taxation Enquiry Commission.

3. After assuming office, we decided to adopt the rules of business framed by the second Finance Commission with one or two minor changes to regulate our work. We also decided to conform to the procedure followed by our predecessors in the matter of discussions and consultation with the State Governments and others.

4. To obtain the views of all those interested in the questions before us, we issued a press note on December 15, 1960 (Appendix IV). We received a number of memoranda in response.

5. We considered that, in addition to material already called for, we should obtain the views of the State Governments on the dual allocation of grants, under article 275 of the Constitution on the recommendations of the Finance Commission and under article 282 by the Union Government. Similarly, we requested the State Governments to furnish details of their respective schemes of democratic

decentralization (Panchayati Raj) so that we could study their impact on the revenue estimates of the States (Appendix V).

6. We also requested the Comptroller and Auditor General of India to instruct his principal civil accounts officers to supply such statistical material as we might call for and also to meet us for discussions when we visited their headquarters. We obtained from these officers useful material and information, including the actuals of revenue and expenditure of each State for the year 1960-61. We should like to take this opportunity of thanking the Comptroller and Auditor General of India for the co-operation he extended to us. Similarly, we requested the Central Board of Revenue to instruct the Commissioners of Income Tax and Collectors of Central Excise to meet us and give us such information as we called for. We had useful discussions with these officers at the time of our visits to the States. We should like to thank the Central Board of Revenue and these officers for the assistance they gave us.

7. Though the period to be covered by our recommendations was made co-terminus with the period of the third Plan, the necessity of obtaining a fresh forecast of revenue and expenditure from each State could not be dispensed with. Estimates had been submitted earlier to the Planning Commission but these had been prepared even before the constitution of our Commission. Though these had been taken into account in the formulation of the Plan, we considered it necessary to ascertain the latest position on the basis of trend of actuals and other relevant data which had become available in the intervening period. These involved two separate and independent assessments of needs of the States; but, in the present situation, this appears to be inescapable. Our assessment, to the extent it differs from that of the Planning Commission, has an impact on the resources of the Plan and we suggest that this be taken note of.

8. Though we are required to make recommendations for the four years commencing with 1962-63, we have considered it necessary to examine, as a connected whole, the estimates of the five years covering the period of the current Plan and make our recommendations accordingly.

9. We had expected that the State Government would adhere to the date indicated, namely, December 30, 1960, for the submission of the forecasts, but, we regret to say that these were not made available till much later and mostly during March and April 1961. The State

Governments explained that apart from their pre-occupation with the preparation of the budget estimates for 1961-62, they were anxious to incorporate in their forecasts the latest available information, based on the progress of actuals and other proposals having financial implications embodied in the budget estimates. Unfortunately, this delayed our programme of discussions with the State Governments. We utilised this period in studying material already available and in visiting a convenient few of the major developmental projects in some of the States. We also held discussions during this interregnum with the senior officials of several Union Ministries to ascertain the pattern of assistance afforded by them to the States, the measure of control and co-ordination effected and the extent of their collaboration with the Planning Commission. Similarly, we had general discussions with the two Members of the Central Board of Revenue in charge of income-tax and excise respectively.

10. We were able to commence our round of discussions and consultations with the State Governments only from April 1961. This we concluded in October 1961. These discussions were conducted at the headquarters of State Governments and commenced and concluded with meetings with the Chief Minister, Finance Minister and other Ministers. We had detailed discussions with the senior officials in the intervening period for elucidation and clarification of estimates and for examination of other relevant material. All these discussions, held in private sessions, were frank and informative and gave us a clear picture of their plans and programmes and of their problems and difficulties. We wish to place on record our appreciation of the assistance, co-operation and hospitality we received from the State Governments in an ample measure.

11. In most places, we had occasion to meet the representatives of a number of Chambers of Commerce and Industry and other private bodies and individuals. These included Members of Parliament and State Legislatures, eminent economists and persons conversant with administration of public finance (Appendix VI). These talks were useful in the consideration of alternative solutions to the issues covered by our terms of reference.

12. A delegation of the Inter-University Board of India met us in March 1961 and apprised us of the difficulties of the State Universities arising out of the additional financial liability which had devolved on them as a result of the decision of the University Grants Commission to discontinue after a specified period assistance towards

schemes adopted by them with the encouragement and financial assistance of that Commission. At the suggestion of the delegation, we met, during our stay in the States and in the presence of the States' Education and Finance Secretaries, the Vice-Chancellors of State Universities. We explained to them that while the State Universities being the responsibility of the State Governments, were not eligible for direct assistance from us, we would be prepared to consider in our assessment of assistance, their requirements to the extent they were accepted by the State Governments and incorporated in the forecasts presented to us.

13. Following the practice adopted by the second Commission, we met representatives of the Press on the conclusion of our discussions with each State Government to keep them informed of the progress of our work. These press conferences provided also a medium for eliciting public reactions to the various alternative principles placed before us. We should express our appreciation of the interest shown by the Press in our work and their forbearance in not raising questions which might have proved embarrassing.

14. Towards the conclusion of our labours, we held discussions with the senior officials of the Union Finance Ministry to obtain their assessment of the requirements of the Union Government in the Plan period. The purpose was to enable us to take a view of the resources which must necessarily be left with the Union Government to fulfil its responsibilities and functions adequately. This assisted us in our endeavour to establish a balance between the needs of the Union and the States in the proposals we make in the following chapters on the devolution of taxes and grants-in-aid. We had also a discussion with the Planning Commission.

15. The two earlier Commissions had dealt extensively with the constitutional aspects of our functions, the trends of Federal-State relations and other allied matters. We feel that there is hardly any scope for us to add to the material already presented. We proceed, therefore, to give in the following chapters our recommendations on the terms of reference. In doing so, we propose to follow the sequence of the articles of the Constitution having a bearing on each of them. We have added, however, a chapter embodying our general observations on issues germane to a correct determination of Union-State financial relations in terms of our Constitution.

16. The first task that engaged our attention was the determination of the budgetary needs of the States. This involved a detailed

analysis of the forecasts of revenue and expenditure of each of the States as presented to us, its reconciliation with the forecasts settled with the Planning Commission and an examination of the trends of growth of revenue and expenditure on the basis of past actuals, also of additional demands subsequently placed before us. We undertook this overall review independently, but, obtained full and complete explanations of the State Governments on points of doubt during our visits to the States. Before we completed our work, the actuals of revenue and expenditure for each State for the year 1960-61 were made available to us by the Accountants-General. This facilitated our work of recasting the forecasts on a more reliable basis.

17. In determining the budgetary gap of each State—

- (a) We have maintained the procedure adopted by the second Commission in regard to assistance towards unforeseen expenditure on natural calamities, such as famine, droughts and floods. We have accordingly included in the expenditure estimates of the States the same provision for each year as was made by the second Commission, as given below:

State	(Rupees in lakhs)
Andhra Pradesh	75
Assam	25
Bihar	100
Gujarat	40
Jammu and Kashmir	10
Kerala	15
Madhya Pradesh	50
Madras	40
Maharashtra	30
Mysore	50
Orissa	40
Punjab	40
Rajasthan	50
Uttar Pradesh	80
West Bengal	

TOTAL

655

- (b) We have not included in our assessment the probable loss to the States arising out of introduction or extension of prohibition, as no firm decision on this question was made available to us. We have naturally taken full account of the impact of prohibition on the revenues of the States where this has already been introduced.
- (c) We have excluded from the forecasts the provision for redemption of debt as we consider that there is no purpose in allowing this where the States are in revenue deficit. In the case of Maharashtra, however, which has a revenue surplus, we have allowed a provision for this purpose.
- (d) We have included in our revenue estimates the grants from the Central Road Fund, but have excluded the grants made under the proviso to article 275 (1) of the Constitution.
- (e) In computing the budgetary gaps of the States, we have taken into consideration the liability arising out of the changed pattern of central assistance for post-stage II community development blocks, etc., grants to Universities to meet the committed expenditure on development schemes sponsored by the University Grants Commission and the special requirements of the States as given in their supplementary memoranda and subsequent communications. These include revision of pay-scales in several States, re-organisation of Police and district administration, introduction and extension of Panchayati Raj, continuance of subsidised sale of food grains, special relief measures, etc.

18. We should add that in our scheme of affording assistance, we have adhered to the principle that the budgetary needs of the States, as assessed, should be met as far as possible by the devolution of taxes, and grants-in-aid should be made to provide residuary fiscal aid.