

Explanatory Memorandum on the action taken on the recommendations of the Fourth Finance Commission in its Report

Dated the 12th August, 1965

The Report of the Fourth Finance Commission is being laid on the Table of Parliament. The main recommendations of the Commission are summarised in Chapter 12 of the Report and these have been accepted subject to the modification indicated in paragraph 2 below.

The Commission has excluded from its assessment of revenue expenditure certain increase in pay scales and dearness allowance increases relating to State Government employees and employees of Local Bodies and School teachers effected by the State Governments of Andhra Pradesh, Mysore and Uttar Pradesh through orders issued in July, 1965, and listed in Part 2 of Annexure-1 of the Report. This was because either there was not sufficient time after receipt of these orders to re-assess the estimates already adopted or the proposals were not accompanied by basic particulars and other necessary data. The Commission's recommendation was that the effect of these liabilities might also be taken into account in fixing the Article 275 Grants to be included in the Order of the President. Accordingly, Government requested Prof. D.G. Karve, a Member of the Commission, to undertake an assessment of these liabilities applying thereto the same criteria as were applied to similar liabilities by the Commission. Prof. Karve has recommended additional grant of Rs. 6.29 crores to Andhra Pradesh and of Rs. 2.58 crores to Mysore and a grant of Rs. 9.85 crores to Uttar Pradesh, during each of the years from 1st April, 1966 to 31st March, 1971. The grant in the case of Uttar Pradesh has been recommended after taking into account the surplus of Rs. 17.02 crores otherwise available to the State for the five year period ending 31st March, 1971. These recommendations have been accepted.

The Commission had also excluded from its assessment of revenue expenditure provisions for special requirements of hill districts in Assam, improvement and strengthening of Police Organisation in Madhya Pradesh and grants to Panchayats in Mysore, as final orders on these proposals had not been issued. The Commission has recommended that if these proposals mature into commitments before the President issues Orders under Article 275 of the Constitution and the Union is approached by the State Governments, those requirements might also be taken into account by the President in determining the amounts to be granted under Article 275.

It would not be practicable to keep the Order under Article 275 pending or even open for an amendment later until these liabilities mature into commitments. Such liabilities would, therefore, be taken into account during the computation of the resources for the Plan of the respective States and their needs for purposes of Central assistance.

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 and 275 (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 will be promoted to implement them. The recommendations regarding the distribution of ad hoc grants to States in lieu of their share of tax on Railway fares will be implemented by executive orders.

The Commission has made certain general observations in Chapter 11 of its Report. The Chairman of the Commission and one of the Members have also appended minutes in which some general issues have been raised. These do not require any immediate decision and will be considered in due course in consultation with the State Governments where necessary.

Sd/-
(G. Venkateshwara Ayyar)
Secretary to the Government of India

New Delhi.
Dated 10th September, 1965.