

## ACKNOWLEDGMENTS

158. We wish to place on record our sense of deep appreciation for the energetic and efficient manner in which our colleague, Shri Mathew, organized the whole work of the Commission, while sharing along with us his full responsibility as Member. To Sarvashri D. N. Saxena, V. Vasudevan, K. K. Bhatia and G. H. Bijlani fell the onerous responsibility of collecting, analysing and presenting for the Commission's consideration a large mass of information from several sources without which the deliberations of the Commission could not have progressed as expeditiously and satisfactorily as they did. The team of research officers comprising Sarvashri K. M. Bashir, T. G. Subramanian, K. V. Nambiar, A. Premchand, G. G. Nair and P. S. Herle had to put in an extraordinary effort in getting together the essential preliminary data for our use. To all these, and to other members of the staff, the Commission owes a deep debt of gratitude.

P. V. Rajamannar,  
*Chairman.*

Mohan Lal Gautam,\*  
*Member.*

D. G. Karve,  
*Member.*

Bhabatosh Datta,  
*Member.*

P. C. Mathew,  
*Member Secretary.*

NEW DELHI,  
August 12, 1965.

## MINUTE OF DISSENT BY SHRI MOHAN LAL GAUTAM

I regret to have to append this note to the Report of the Commission.

2. On June 30, 1965, the Commission, after due consideration, agreed that if in the next few weeks a State Government did take some further steps and revised dearness allowance rates or pay scales, and if copies of the relevant orders and other material required by the Commission were received before the 31st July, 1965, it would be necessary to take that liability into account. We have, however, taken into account in our estimates of revenue and expenditure only such liabilities as were created by Government orders up to the end of June 1965. Several States intimated to us the liabilities created by firm Government orders in respect of revision of pay scales and dearness allowance increases of their employees, of employees of the local bodies and of school teachers in July. These have been listed in Annexure I, Part 2 of this Report. We have not included these liabilities in our calculations but have recommended that the effect of these liabilities may also be taken into account in fixing grants under article 275 of the Constitution to be included in the Order of the President.

3. This would mean that before the President issues the Order, fresh calculations have to be made. This would naturally cause delay; and, besides, it means a passing on of an undischarged responsibility which were best discharged by the Commission. Not only were we in possession of the basic data but we had also the additional advantage of knowing the complete background of each case. While reassessing similar liabilities of other States, we found that there was little scope for discrepancy in the estimates furnished by the State Governments. We have practically in all cases accepted the estimates as submitted by the State Governments. The quality of the materials supplied by Andhra Pradesh, Mysore and Uttar Pradesh in the month of July is not much different from that supplied earlier by other States. I, therefore, feel that we should have accepted the estimates of these Governments also and should have, accordingly, included these sums in calculating non-plan gaps in their resources. This, I feel, could easily have been done within the time at our disposal after the receipt of the material.

4. I, therefore, recommend that the Grants as indicated in para. 133 of the Report be increased from Rs. 36.10 Crores to Rs. 73.50

\*Subject to the appended minute of dissent.

Crores in respect of Andhra Pradesh, from Rs. 91.22 Crores to Rs. 105.96 Crores in respect of Mysore, and a Grant of Rs. 83.69 Crores (arrived at by subtracting from Rs. 117.50 Crores as the total liability—not included—, a sum of Rs. 17.02 Crores as the surplus on non-plan account and a sum of Rs. 17.39 Crores as the sum already taken into account) be given to Uttar Pradesh under article 275 of the Constitution.

## II

5. While dealing with the financial relationship between the Union and the States some basic principles have to be borne in mind. There are certain functions which in the interest of the Nation as a whole, have been entrusted to the Central Government while others are the responsibility of the States. Both the Centre and the States are in the nature of agencies for realising the basic objective of maximisation of the welfare of the country as a whole. There need be no question of any unhealthy competition between the Centre and the States, or between one State and another. An ideal Federation would be one in which each unit was endowed with independent sources of revenue sufficiently elastic for discharging its responsibilities. However, this ideal is difficult to achieve. There cannot always be a basic structural balance. A perfect balance between the functions and the resources of each unit, even if achieved at one stage, cannot remain perfect for ever. The Constitution, therefore, visualises the necessity of a Finance Commission to be appointed every five years so that such periodical adjustments can be made in the Federal—State financial relationship as are needed in the light of the emerging situation.

6. In dealing with the subject of Federal—State financial relationship the Finance Commission should be guided by certain fundamental objectives. These are:

- (i) the maximisation of the growth rate of the country as a whole by so arranging the financial relationship that each unit could exploit the growth potential to the maximum possible extent and the nation as a whole march ahead;
- (ii) affording to each State proper and adequate opportunities for attaining a level of development which would not fall too far below the general national level;
- (iii) making each unit self-supporting to the extent possible so that it could discharge its responsibility in its demarcated

sphere of authority and jurisdiction without heavily leaning on the Federal bounty; and

- (iv) bringing, to the extent possible, the comparatively backward States to an average level so that the disparity amongst the States in the matter of development and social progress could be minimised.

7. If these objectives are to be realised, the Finance Commission should prepare an intelligent forecast of the needs of the States for the next five-year period. The assessment of the needs of the States should, in my opinion, therefore, be more comprehensive and should not be confined to the decisions taken and orders issued by the Governments up to June 30, 1965. In this assessment account should be taken of the needs that exist today and that may become admissible during the course of the next five years. To leave a long list of liabilities representing genuine needs of the States to be decided upon by the Union Government will not go to make "each unit self-supporting to the extent possible", so that it could discharge its allotted responsibilities without having to lean heavily on the federal bounty. A number of States have submitted broad outlines of the schemes and some workable estimates to us. These schemes could be examined with the help of the data made available to us and the discussions held with them. For these schemes appropriate criteria could be adopted for these States, as were adopted for similar schemes in other States, where such schemes have already become committed liability for this period.

8. An illustrative list of items which have not been included in the assessment of the gap of the States is given below:

(1) **Sinking Fund for market loans.**—We have allowed the following amounts mentioned against each State as contribution to the Sinking Fund for market loans:

State	Rs. in Crores
1. Andhra Pradesh	4.94
2. Assam	11.19
3. Bihar	9.04
4. Gujarat	28.41
5. Jammu and Kashmir	—
6. Kerala	3.63
7. Madhya Pradesh	7.19
8. Madras	8.90

State	Rs. in Crores
9. Maharashtra	46.85
10. Mysore	15.00
11. Nagaland	—
12. Orissa	31.49
13. Punjab	12.15
14. Rajasthan	16.90
15. Uttar Pradesh	61.97
16. West Bengal	28.56

From the above table it seems that some States like Gujarat, Maharashtra, U.P. and a few others have made full provision for the sinking fund for market loans; while others like Andhra Pradesh, Bihar, Kerala, Madhya Pradesh, Madras, Mysore and Rajasthan have made only a token provision for it. I recommend that we should take into account amounts that can enable the States to make full provision for the sinking fund for market loans for these States also.

**(2) Provision for dearness allowance and revision of pay scales.—**

There is a great disparity between the pay scales and the emoluments of the Government employees, of employees of the local bodies and of the aided educational institutions in different States. We have allowed the liability on this account only to the States which could submit to us firm Government orders by June 30. Others have set up Pay Commission but have not yet been able to issue firm orders. Our taking into account the liability in this regard for some States and leaving out for others would increase disparities that exist today still further. I, therefore, recommend that the claims of the States which have not been able to submit their firm orders to us should also be taken into consideration.

**(3) Police Reorganisation.—**The standards of police organisations differ from State to State. Some States appointed Police Commissions and reorganised their police force on the basis of their recommendations and are not in need of further strengthening the police force. There are other States which are still lagging far behind. In states like Assam, Gujarat, Madras and Orissa, problems have cropped up only recently. These States do need strengthening of their police force. I recommend that we should give due consideration to these factors and accommodate their demands in our forecasts.

**(4) Panchayati Raj Administration.—**The Panchayati Raj Administration and the contribution to it by the State Government

varies from State to State. The Centre is trying to bring the Panchayati Raj Organisation in all States to a certain level so far as the organisation and functions are concerned. In some States the enactments are before the Legislatures. I am, therefore, of the opinion that due account should be taken of these factors in assessing the needs of the individual States.

**(5) Administrative Reorganisation.—**Further, there are particular problems in certain States, e.g. reorganisation of Hill Districts in Assam and District Reorganisation in Bihar. In the interest of efficient administration these States should be enabled to carry out schemes arising out of such problems. This factor, I feel, should also have been taken care of by the Commission in their assessment.

### III

9. Another point on which I have differed with the majority view relates to the distribution of the balance of the net proceeds of additional duties of excise left after disposing of the total guaranteed amounts.

10. The proceeds from additional duties of excise in replacement of the State sales-taxes, in my opinion, should be so distributed as to give to each State the guaranteed amount first and then to distribute the balance on the principle of returning to each State what it would have raised if the scheme of additional duties of excise had not come into operation. But the application of this principle becomes difficult in the absence of firm data either on Statewise consumption of the articles subject to additional duties of excise or on what each State would have been able to raise if the scheme of additional duties of excise had not replaced the sales-tax on these commodities. That being so, the existing arrangement (as formulated by the Third Commission) should be upset only if a clearly more equitable formula could be offered to replace it. That, in effect, is the line the Commission has adopted in regard to the distribution of the income-tax proceeds. The Commission felt "that there could be divergence of opinion as to the relative proportion to be assigned to these two factors", viz., population and collection. But having discussed various proportions the Commission was "eventually impressed by the fact that a sense of certainty and stability as regards the principles to be adopted in the distribution of income-tax should prevail", and felt that it was "not desirable that every time a new Finance Commission is appointed, there

should be a reopening of the basis of distribution. We have therefore decided that the principles of distribution to individual States of their share in the divisible pool of income-tax proceeds should be the same as recommended by the First Finance Commission and the Third Finance Commission....". Reasons of 'certainty' and 'stability' hold good in the present case too, if anything, even more clearly than in the distribution of the income-tax proceeds. In the case of the distribution of the balance over the total of the guaranteed amounts, however, the Commission have recommended an entirely new basis of distribution, viz., the proportion of sales-tax revenue realised in each State to the total sales-tax collections in all the States taken together.

12. It is a matter of common knowledge that the commodities which are subject to the additional duties of excise in lieu of sales-tax form a category by themselves and any increase in the revenues from sales-tax on these commodities cannot be compared with the sales-tax revenue on all commodities. The incidence of the latter varies from State to State and their revenue is subject to several constraints that are not uniform in all the States. The inclusion of Central Sales-tax and sales-tax on motor spirit further vitiates the comparison.

13. Since it has not been possible either to evolve a consumption-based formula or to enunciate any firm and well-based alternative principle, it would be best to continue the distribution of the balance of the proceeds of additional duties of excise after the guaranteed amount on the basis recommended by the Third Finance Commission.

14. In accordance with the views expressed above, I recommend that the sub-para (v) of the para 74 of the Commission's Report be altered as under:

and (v) the difference between 97.45 per cent of the net proceeds in any year and the total guaranteed amount of Rs. 3254 lakhs would constitute the balance which may be distributed among the remaining 14 States as follows:

<i>States</i>	<i>Percentage</i>
1. Andhra Pradesh	7.75
2. Assam	2.50
3. Bihar	10.00

<i>States</i>	<i>Percentage</i>
4. Gujarat	5.40
5. Kerala	4.25
6. Madhya Pradesh	7.00
7. Madras	9.00
8. Maharashtra	10.60
9. Mysore	5.25
10. Orissa	4.50
11. Punjab	5.25
12. Rajasthan	4.00
13. Uttar Pradesh	15.50
14. West Bengal	9.00
<b>TOTAL</b>	<b>100.00</b>

NEW DELHI;

August 12, 1965.

MOHAN LAL GAUTAM.

Member.