



सत्यमेव जयते

REPORT
OF
THE FINANCE COMMISSION

1965

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CHAPTER 1 INTRODUCTION

The Commission was constituted by the President in his Order dated 5th May, 1964 Which is reproduced below:-

"In pursuance of the provisions of article 280 of the Constitution of India and of the Finance Commission (Miscellaneous Provisions) Act 1951 (XXXIII of 1951), the President is pleased to constitute a Finance Commission constitute of Dr. P. V. Rajamannar as the Chairman and the following four other members, namely:-

1. Shri Mohan Lal Gautam, former Minister of U.P. Government.
 2. Shri D. G. Karve, until recently Deputy Governor, Reserve Bank.
 3. Prof. Bhabatosh Datta, Director of Public Instruction, West Bengal.
 4. Shri P. C. Mathew, Member-Secretary.
2. The members of the Commission shall hold office for a period of fifteen months from the date on which they respectively assume office.
 3. The Chairman Dr. P. V. Rajamannar shall render part-time service as Chairman of the Commission until such date as the Central Government may specify in this behalf and thereafter he shall render whole-time service as Chairman of the Commission. of the other members, Shri D. G. Karve would serve as a part-time member, while the other three would render whole-time service.
 4. In addition to the matters on which, under the provisions of sub-clauses (a) and (b) of clause (3) of article 280 of the Constitution, the Commission is required to make recommendations, the Commission should also make recommendations in regard to-
 - (a) the States which are in need of assistance by way of grants-in-aid of their revenues under article 275, and the sums to be paid to those States other than the sums specified in the provisos to clause (1) of that article, having regard, among other considerations, to-
 - (i) the revenue resources of those States for the five years ending with the financial year 1970-71 on the basis of the levels of taxation likely to be reached in the financial year 1965-66;

- (ii) the requirements of those States to meet the committed expenditure on maintenance and upkeep of Plan schemes completed during the Third Plan;
 - (iii) any further expenditure likely to devolve upon those States for the servicing of their debt;
 - (iv) creation of a fund out of the excess, if any, over a limit to be specified by the Commission of the net proceeds of estate duty on property other than agricultural land accruing to a State in any financial year, for the repayment of the State's debt to the Central Government; and
 - (v) the scope for economy consistent with efficiency, which may be effected by the States in their administrative expenditure;
- (b) the changes, if any, to be made in the principles governing the distribution amongst the States under article 269 of the net proceeds in any financial year of estate duty in respect of property other than agricultural land;
 - (c) the changes, if any, to be made in the principles governing the distribution amongst the States of the grant to be made available to the States in lieu of taxes on railway fares;
 - (d) the changes, if any, to be made in the principles governing the distribution of the net proceeds in any financial year of the additional excise duties levied on each of the following commodities, namely:-
 - i. cotton fabrics,
 - ii. silk fabrics,
 - iii. rayon or artificial silk fabrics,
 - iv. woollen fabrics,
 - v. sugar, and
 - vi. tobacco (including manufactured tobacco)
 in replacement of the States' sales taxes formerly levied by the State Governments.

Provided that the share accruing to each State shall not be less than the revenue realised from the levy of the sales tax for the financial year 1956-57 in that State;

- (e) the effect of the combined incidence of a State's sales tax and Union duties of excise on the production, consumption or export of commodities or products, the duties on which are shareable with the States, and the adjustments, if any, to be made in the State's share of Union excise duties if there is any increase in the State's sales

tax on such commodities or products over a limit to be specified by the Commission.

5. The recommendations of the Commission shall, in each of the above cases, cover the period of five years commencing from the 1st day of April, 1966.
2. The Chairman and Shri D. G. Karve served on the Commission on a part-time basis. The other Members served on a whole-time basis. The first meeting of the Commission was held in New Delhi on 18th May 1964.
3. The intention to constitute the Fourth Finance Commission had already been announced in the Finance Minister's budget speech for 1964-65. Soon afterwards, the officer selected for nomination as Member-Secretary of the Commission, was appointed as a Special Secretary in the Ministry of Finance to attend to the preliminary work connected with the constitution of the Commission and the collection of material likely to be required by the Commission. He addressed in advance the Union Ministries, the State Governments and the Accountants General for supply of relevant material. In his letter dated 12th May 1964 [Appendix III(iv)], the State Governments were requested to furnish to the Commission, Forecasts of their revenue and expenditure for each year of the five-year period to be covered by the Fourth Finance Commission (1966-67 to 1970-71), Their views on the existing basis of the devolution of Central taxes and duties and their suggestions, for any changes. they were also requested to supply Information on certain subsidiary points [as set out in Appendix III(iv)]. Similarly, the Union Government was also requested to send to the Commission forecasts of revenue and expenditure for the five-year period Separately the divisible pool of income-tax Share in other Central taxes and duties that was likely to accrue to the States during the Fourth Plan period [Appendix III(ii)]. The Accountants General were also addressed for the supply of information relating to repayments of Central loans due from States to the Central Government during each year of the Fourth Plan period [Appendix III(iii)].
4. The State Governments were requested to send the material so as to reach the Commission by the middle of July 1964. It had been originally planned that on receipt of the material from the State Governments its scrutiny would be completed by the end of August 1964 and that the Commission would visit all the States from September onwards. This time schedule could not be adhered to on account of the

delay in the receipt of the material from the State Governments. Material from some States was received as late as January 1965.

5. On account of the delay in the receipt of the forecasts, the Commission had to abandon the Initial proposal to visit the capital of every State for discussions with the respective State Governments. In order to enable the Commission to submit its report by the prescribed date, the Commission decided to hold discussions with the State Governments at four selected centres, viz., Bombay, Calcutta, Delhi and Madras. The States were given the option to choose any of the Centres according to their convenience. The discussions started in January 1965 and were completed by the end of May 1965¹. Appendix IV gives the dates of the discussions with the different States. The procedure generally adopted by the Commission was that the initial discussions were held with the Chief Ministers, Finance Ministers and other Ministers of the State Governments, on matters of policy and on general principles that should regulate and determine the devolution of resources. The detailed estimates and the States' forecasts were thereafter discussed with the officials of the State Governments. Important policy issues emerging from the discussions with the officials were again taken up with the Ministers at the concluding meetings. By arrangement with the Comptroller and Auditor General of India, the Accountants General of the respective States were present throughout the discussions. After the conclusion of the discussions with the representatives of every State Government, separate discussions were also held with the Accountant General of the State concerned.
6. In the course of our work, we also held discussions with senior officials of the Union Ministries of Finance and Home Affairs. The Ministers of Commerce and Prof. V. K. R. V. Rao, Member, Planning Commission, met us and pressed on us certain points including the necessity of affording relief to States by way of compensation for losses in revenue that might arise if the Tea Finance Committee's recommendations are implemented. We had an opportunity of exchanging views with the Deputy Chairman, Members and senior officials of the Planning Commission. Towards the end of our discussions, we had a meeting with the Comptroller and Auditor General of India.

¹ On Account of a change in the government and the introduction of President's rule in Kerala, the representatives of Kerala were invited to meet the Commission at Bangalore towards the end of May, 1965.

7. A press note was issued on May 19, 1964 Inviting views from persons and institutions interested in the subjects covered by the terms of reference of the Commission. We received a number of Memoranda from Chambers of Commerce and Industry, Members of Parliament and State Legislatures, Universities, Economists and others (list given in Appendix V). Some of them also requested for interviews with the Commission; during the Commission's sittings at Bombay, Madras, Calcutta, Bangalore and Delhi, discussions were held with such individuals and representatives of non-official organisation (list given in Appendix VI) in the respective zones.

CHAPTER 2

UNION-STATE FINANCIAL RELATIONS OUR BASIC APPROACH

8. The history of the financial relations between the Central Government of India and the Governments of the constituent units is a long one; in fact, the final year of the period to be covered by the present Finance Commission will see the completion of a century since the first beginning of devolution under the scheme introduced by Lord Mayo in 1870. It is not necessary to recount the story here—there is a good historical account in the Report of the First Finance Commission—but it is worth noting that all the experiments that have up till now been made in this field proceeded from the experience of increasing gaps between the financial requirements of the functions allocated to the Provinces or States and the finances that these units could raise under their own authority. Except for the short interlude of 'Provincial contributions' under the Meston Settlement of the nineteen-twenties, there has always been the need for substantial transfers of funds from the Government at the Centre to the constituent units.
9. The trend of administrative evolution of the country has been towards the transfer of a widening range of functions—in the field of social services and, more lately, also in the field of economic development—to the Provinces or the States. There has thus been the need for maintaining the financial viability of these units at expanding levels of expenditure. One alternative method for meeting the requirements would be to divide all revenue heads into two water-tight compartments—one for the Centre and the other for the units—in the expectation that the finances and functions would match in every case. Another alternative would be to give concurrent taxing powers to both levels of Government. The first of these alternatives was tried in India under the Government of India Act of 1919, while the second has generally been recognised as economically unsound.
10. The failure of the system of a rigid division between the Central and Provincial heads of revenue introduced by the Government of India Act of 1919 could not be prevented by the Meston award and the ultimate result was unsatisfactory both to the Centre and to the units. The experience of the nineteen-twenties led, however, to the emergence of the idea that the authority most suited for discharging a particular governmental function need not necessarily be the authority most suited to raise the financial resources required to discharge the function. The taxes on income had already been recognised before 1919 as a balancing factor and it

continued to be recognised as such after 1935. But it also came to be recognised that other taxes could appropriately be levied and collected by the Central Government and distributed, wholly or partly, to the Provinces or States. The Government of India Act of 1935 recognised this principle and the Constitution adopted in 1950 made clear provision for (i) the assignment of the taxes raised by the Union Government under article 269 wholly to the States, (ii) for the obligatory division of the income-tax proceeds between the Union and the States, and (iii) for the division, with the approval of Parliament, of the proceeds of the Union excise duties.

11. The principle behind all these provisions is that in regard to some of the major revenue-yielding taxes and also in the case of some other taxes, where a country-wide uniformity of rates is desirable, the best authority for legislating and in most cases also of collecting, is the Union Government. The requirements of the Centre as well as those of the component States could be met in the most equitable and efficient manner, by distributing the proceeds after these have been collected by the Central Government, rather than by dividing powers of tax collection between the Centre and the States as has been done in some federations—which would not only mean high costs of decentralised collection and large scope for evasion, but also varying rates of taxation in different areas and rigidity of distribution in the face of changing requirements. Under this system, the Union Government is the agency for raising certain revenues for the benefit of both the Centre and the States and for distributing the proceeds between the Centre and the States and among the States themselves according to the principles and procedures set out in the Constitution.
12. This makes the problem of determining what part of the divisible revenues should go to the States and what should be the distribution among the States inter se very important. Whatever principles are laid down with regard to these two issues have, however, to be based upon the economic realities of the country and formulated within the framework of the provisions of the Constitution. It is not possible to derive much direct help from the experiences of other Federal Countries, though the course of evolution by which each federation has sought to adapt its system of financial relations to changing political and economic conditions is very instructive.

13. A special feature of importance in India is the introduction of Five-Year Plans and the consequent distinction that has evolved between plan and non-plan expenditure. Many States urged upon the Commission to include expenditure on the Fourth Plan in the estimates for the coming five years. Some States supplied detailed expenditure forecasts on new projects and also on the likely revenue components of their Fourth Plan outlays. The Commission has, however, felt it desirable to leave all such expenditure out of its consideration. This decision is based not on grounds of any Constitutional limitation of the powers of the Finance Commission but on practical considerations consequent on institutional arrangements relating to the Five-Year Plans.
14. When the provisions regarding the Union-State financial relations were incorporated into the Constitution, it was not possible for any one to anticipate the importance and magnitude of our successive Five-Year Plans. There was no reference to Plan expenditure as such in the terms of reference of the First Finance Commission (November 1951-December 1952) and that body did not find it necessary to draw a line of distinction between plan and non-plan expenditure. In fact, it emphasised the need for taking into account development expenditure of various types in determining the transfer of resources from the Centre to the States. The Second Finance Commission (June 1956—September 1957) was, however, specifically asked to take into account both the requirements of the Second Five-Year Plan and the efforts made by States to raise additional revenues. The dimensions of Plan expenditure, however increased rapidly and it became the normal practice to make grants for plan expenditure under the discretionary provisions of article 282 instead of making statutory grants under article 275, on the basis of the pre-determined plan allocations as phased and modified by the annual plan discussions. The Third Finance Commission (December 1960-December 1961) recommended grants under article 275 to cover 75 per cent of the States' revenue expenditure on the Third Plan, but the Government of India did not accept this recommendation.
15. The terms of reference of the Fourth Finance Commission do not expressly mention plan expenditure. The fact that the Commission is to make its recommendations in the light of its estimates of revenue receipts of the States in the coming five years on the basis of taxation levels likely to be reached in 1965-66, takes additional taxation outside its scope. And the fact that the Commission is

specifically asked to take into account the committed expenditure on the maintenance and upkeep of the completed Third Plan schemes may be taken to imply that new outlays on Fourth Plan schemes are not expected to enter into its estimates.

16. The Constitution does not make any distinction between plan and non-plan expenditure, and it is not unconstitutional for the Finance Commission to go into the whole question of the total revenue expenditure of the States. It has been pointed out to us that the reference to “Capital and recurring sums” in the first Provision to article 275(1) of the Constitution suggests that even capital expenditure need not necessarily be outside the scope of the Finance Commission. It is however necessary to note that the importance of planned economic development is so great and its implementation so essential that there should not be any division of responsibility in regard to any element of plan expenditure. The Planning Commission has been specially constituted for advising the Government of India and the State Governments in this regard. It would not be appropriate for the Finance Commission to take upon itself the task of dealing with the States' new plan expenditure.
17. The present Finance Commission has, therefore, confined itself to non-plan revenue expenditure *vis-a-vis* the revenue receipts anticipated in the coming five-year period on the basis of taxation levels in 1965-66. We have not, however, taken the view that the function of the Finance Commission is simply to recommend such devolution and grants-in-aid as would merely fill up the non-plan revenue deficit as reported by the States because such an approach will be extremely mechanical. We have reassessed the States' estimates in the manner detailed in a subsequent Chapter. We have not taken budgetary deficits as a criterion for distribution in the case of divisible taxes and duties.
18. In regard to income-tax, the Constitution does not say that it should be distributed on the basis of budgetary needs. In fact, however great the budgetary needs, a State will not get a share, if for some reason or other, the tax is not leviable in that State. And, even when there is no budgetary need in a particular case, a State cannot be denied some share in the income-tax proceeds if the tax happens to be levied within that State. In the case of the Union excises also, the provisions are almost similar, though the Union Government has in this case the option of not distributing any share among the States. The estate duty on non-agricultural property is in effect a

State tax collected by the Centre—the receipts do not enter the Consolidated Fund of India—and here also the budgetary needs do not come in as a criterion for distribution. The additional excise duties in lieu of sales tax are again States' taxes in substance and the distribution should logically be based on the principle of compensation for loss of revenue.

19. The only article in the Constitution which refers to the need for financial assistance is article 275. The grants-in-aid under this article are to be made only to "such States" as are in the opinion of Parliament "in need of assistance". The obvious implication of this provision is that if any State is in need of assistance, after the taxes to be compulsorily or optionally shared with the States have been distributed on the basis of the principles uniformly applicable to all States, such assistance is to be granted under article 275. Corrective action for residuary deficits can be taken only under the authority of this article.
20. The Third Finance Commission took "the relative financial weaknesses of the States" as one of the criteria for determining the shares of the States in the divisible pool of the Union excises. We have departed from this approach on the ground that if any State is in need of specific financial assistance because of large deficits that cannot be covered by uniformly applied principles of tax-sharing, such assistance should appear explicitly as grant, rather than being disguised as shares of taxes. If in the case of some States, our recommendations appear to involve large grants under article 275, the reason is that the required financial assistance to meet the residual deficit has in each case been shown explicitly as grants. The size of these grants could have been made smaller by devising the sharing of the Union excise receipts in such a way as to incorporate a grant element based on anticipated budget deficits into the shares going to some States. This would not have affected the total transfers from the Centre to the deficit States and it would have reduced somewhat the total amount of transfers from the Centre to the States. It would, however, have had the effect of concealing the fact of their financial deficits.
21. The States for which we have not recommended article 275 grants should have surpluses in their non-plan revenue budgets and in a few cases the surpluses are substantial. The Planning Commission will, we expect, take these surpluses into account when determining the pattern of Central assistance.

22. An attempt has been made in the above paragraphs to state briefly the basic principles adopted in deciding the scheme of sharing of taxes and grants. Further discussion of the issues involved will be found in the subsequent Chapters.

CHAPTER 3

ESTATE DUTY

23. Paragraph 4 (b) of the Order of the President constituting the Fourth Finance Commission requires us to make recommendations in regard to the changes, if any, to be made in the principles governing the distribution among the States under article 269 of the Constitution, of the net proceeds in any financial year of estate duty in respect of property other than agricultural land. We are also required under that article to determine the proceeds attributable to Union territories.
24. A number of suggestions were made by the States in regard to the principles of distribution. The different suggestions were: (i) distribution of estate duty wholly on the basis of population, (ii) distribution partly on the basis of collection and partly on the basis of location, (iii) distribution on the basis of population with weightage to Scheduled Castes and Scheduled Tribes, (iv) distribution on the basis of 80 per cent population and 20 per cent location, and (v) continuance of the existing scheme of distribution. We are in agreement with the principles laid down by the earlier Commissions and recommend the continuance of the following principles. We recommend; however, that the share of Union territories may be raised to two per cent, taking into account population and the value of immovable property assessed in these territories in recent years.
- (i) Out of the net proceeds of the duty in each financial year, a sum equal to two per cent be retained by the Union as proceeds attributable to Union territories;
 - (ii) The balance be apportioned between immovable property and other property in the ratio of the gross value of all such properties brought into assessment in that year ;
 - (iii) The sum thus apportioned to immovable property be distributed among the States in proportion to the gross value of the immovable property located in each State; and
 - (iv) The sum apportioned to property other than immovable property be distributed among the States in proportion to their population.

25. On the basis of the 1961 Census figures, the percentage will be as follows:

States	Percentage
Andhra Pradesh	8.34
Assam	2.75
Bihar	10.76
Gujarat	4.78
Jammu & Kashmir	0.83
Kerala	3.92
Madhya Pradesh	7.50
Madras	7.80
Maharashtra	9.16
Mysore	5.46
Nagaland	0.09
Orissa	4.07
Punjab	4.70
Rajasthan	4.67
Uttar Pradesh	17.08
West Bengal	8.09
Total	100

26. One of the considerations which the Commission is required to take into account in determining the sums to be paid to the States in need of assistance by way of grants-in-aid of their revenues under article 275 is the creation of a fund out of excesses, if any, over a limit to be specified by the Commission, of the net proceeds of estate duty on property other than agricultural land accruing to a State in any financial year, earmarked for the repayment of the State's debt to the Central Government. As the total annual net proceeds of estate duty assignable to the States are only about Rs. 7 crores at the current levels of taxation, it would not be of any practical value to create a fund by contributing a part of these proceeds. The whole question of making provision for amortisation of the debts owed by all the States both to the public and to the Central Government has been dealt with elsewhere in this report.

CHAPTER 4

GRANT IN LIEU OF TAXES ON RAILWAY FARES

27. According to paragraph 4 (c) of the Order of the President, the Commission has to make recommendations in regard to "the changes, if any, to be made in the principles governing the distribution among the States of the grant to be made available to the States in lieu of taxes on railway fares".
28. The tax on railway passenger fares was imposed under the Railway Passenger Fare Act, 1957 and the Second Finance Commission was, for the first time, requested to make recommendations as to the principles which should govern the distribution under article 269 of the Constitution of the net proceeds in any financial year of the tax. The Second Finance Commission decided that the proceeds of the tax should be distributed among the States in the ratio of passenger earnings which may be determined with reasonable accuracy by allocating passenger earnings among States on the basis of railway route mileage within each State with due allowance for variation in density of traffic between the various railway zones and as between the various gauges in each zone. Thus the earnings from passenger traffic of each zonal railway (excluding earnings from suburban services) were allocated by route mileage located in each State separately for each gauge. The Second Commission recommended that the proceeds of the tax be distributed in the ratio of Statewise earnings so worked out and indicated each State's share as a fixed percentage applicable for five years from 1957-58.
29. The Railway Passenger Fares Act, 1957 was repealed by Act VIII of 1961 and the tax was merged in the basic fares. The Union Government, however, decided to make an *ad hoc* grant of Rs. 12.50 crores per annum to the States in lieu of the tax for a period of five years from 1961-62 to 1965-66. The Third Finance Commission which was asked to recommend the principles on which the *ad hoc* grant should be distributed, recommended that the distribution should be on the principle of compensation to place the States broadly on the same footing as before and accordingly worked out the distribution of the sum of Rs. 12.50 crores per year.
30. We agree that the distribution of this grant should be on the basis of compensation and that the percentage share of each State in which the tax is leviable should be worked out on the principles enunciated by the Second Finance Commission. In our term of reference on the subject, while we have been asked to make recommendations regarding changes, if any, to be made in the principles governing

distribution among States of the grant to be made available to the States in lieu of taxes on railway passenger fares, the actual amount of grant to be distributed has not been indicated. Therefore, instead of recommending the sums payable to each State, we consider it desirable to express the States' shares in percentages. In determining the percentage share as stated below, we have utilized the latest available statistics of railway route length in each State under each gauge and the average annual earnings from passenger traffic (excluding earnings from suburban traffic) for three years ending 1964 for which actuals were available:

Percentage share of each State in grant in lieu of tax on railway passenger fares

States	Percentage Share
Andhra Pradesh	9.05
Assam	2.79
Bihar	9.99
Gujarat	7.11
Jammu & Kashmir	-
Kerala	1.85
Madhya Pradesh	9.85
Madras	5.81
Maharashtra	8.98
Mysore	3.98
Nagaland	0.01
Orissa	2.12
Punjab	7.43
Rajasthan	6.40
Uttar Pradesh	18.23
West Bengal	6.40
Total	100

31. In view of the fact that the tenure of the present *ad hoc* grant of Rs. 12.50 crores per year expires at the end of 1965-66 and the recommendation of the Railway Convention Committee about the future quantum of grant would be available only by the end of this year, we have adopted the only practical course of recommending each State's share in terms of percentages. However, for calculating the residuary

revenue deficit of the States to be covered by grants-in-aid under article 275 of the Constitution, some assumption had to be made about the likely amount of grant to be made available to the States in lieu of taxes on railway fares. In this regard, we considered that the best course would be to adopt the present level of annual grant *viz.*, Rs. 12.50 crores. If, as a result of any increase in the grant the States were to receive larger amounts, such amounts would be available to the States as surplus.

32. While the determination of the quantum of the grant does not lie within our jurisdiction, we feel that it is desirable to place on record the views of the States on this subject. The States have almost unanimously represented to us that fixation of the grant at a particular level has deprived them of a potentially elastic source of revenue and have urged that the level of grant should be raised in the proportion in which the railway passenger earnings have increased since the merger.

CHAPTER 5 INCOME TAX

33. Article 280 (3) (a) read with article 270 (1) of the Constitution provides that it shall be the duty of the Commission to make recommendations to the President as to the allocation between the Union and the States and the distribution among the States themselves of the "net proceeds" of taxes on income other than agricultural income levied and collected by the Government of India. Corporation tax, the proceeds attributable to Union territories and taxes payable in respect of Union emoluments are excluded from the divisible pool. Accordingly, we have to make recommendations in regard to three matters namely:—
- (a) the percentage of the "net proceeds" of income-tax to be assigned to the States;
 - (b) the manner of distribution among the States of their share; and
 - (c) the percentage of the "net proceeds" which shall be deemed to represent proceeds attributable to Union territories.
34. Before we deal with them, we give below a brief account of the claims advanced before us by the State Governments on the aforesaid matters affecting them. Practically all the States have urged for an increase in the share to be assigned to them and have pointed out that as a result of the change in the classification of the income-tax paid by companies brought about by the Finance Act, 1959, the rate of growth of the divisible pool has been adversely affected. It was further argued that what the framers of the Constitution had intended to be a flexible and expanding source of revenue to the States had ceased to have the significance that was once contemplated. While the collections from corporation tax have increased by well over 600 per cent in the course of the last 12 years, the corresponding growth in the divisible pool of income tax was less than 50 per cent. Some of the States have reiterated the views placed by them before the previous Commissions that though the Government of India was competent to levy any surcharge, wholly for the purposes of the Union under article 271, such a levy in the very nature of things, was intended to be a temporary measure to serve a particular situation. It was, therefore, urged that during normal times there should be no need for any surcharge exclusively for the Union. However, if at all such a surcharge was levied, it should as a matter of course be merged with the basic rates after a period of three years.
35. On the question of the percentage of the States' share, while some States did not suggest any change in the existing percentage, some others suggested that the entire

net proceeds be assigned to the States. The suggestions by other States fell between these two views. One State proposed that 50 per cent of the proceeds of both income-tax and corporation tax should be assigned to the States. Another view was that the permanent solution to the shrinkage in the divisible pool was suitably to amend the Constitution so as to provide for inclusion of the proceeds from corporation tax in the divisible pool; alternatively, the Centre should make good to the States by way of grants the loss on account of non-inclusion of corporation tax in the divisible pool.

36. We have considered the claims put forward by the States. We are in general agreement with the observation of the Third Finance Commission that in the case of a divisible tax in which there was obligatory participation between the Union and the States, a sound maxim to observe would be that all participating Governments, more particularly the one responsible for levy and collection, should have a significant interest in the yield of that tax. Due note should also be taken of the States' representation about the need for abating in some measure the loss sustained by them, consequent upon the reclassification of income tax paid by companies.
37. The fixation of the States' share should take into account the present level of yield of this source of revenue and its likely future rate of growth; on these points we have accepted the forecasts as supplied to us by the Ministry of Finance. Considering the various facts placed before us, we are of the view that some further increase in the States' share is justified. We accordingly recommend that 75 per cent of the divisible pool of income-tax should be allocated to the States for distribution among them.
38. As regards the principles of distribution of the States' share inter se, the views expressed by the States were widely divergent. While some States wanted the share to be distributed entirely on the basis of population, another view was that the distribution should be solely on the basis of collection. The other suggestions made were that the distribution should be made on: (i) 80 per cent on population and 20 per cent on area; (ii) 85 per cent on population and 15 per cent on area and 10 per cent on collection and urban population; (iii) 70 per cent on total population, 20 per cent on collection and 10 per cent on urban population; (iv) population with proper weightage to Scheduled Castes and Tribes, by counting twice over, the Tribal population; (v) population, relative financial weakness and economic

backwardness; (vi) 50 per cent on population and 50 per cent on inverse ratio of per capita income; and (vii) 50 per cent on population and 50 per cent on collection. Some States were in favour of the continuance of the existing principle, namely, 80 per cent on the basis of population and 20 per cent on the basis of collection.

39. We have no hesitation in rejecting some of the factors, put forward by the States, like area, backwardness and financial weakness and proportion of Scheduled Castes and Tribes in the population as proper bases for a scheme of distribution of the proceeds of income tax among the States. There remain only two factors which we were convinced are relevant, namely, population and contribution. Though contribution is not synonymous with collection, in the absence of data necessary for a correct determination of the contribution of each State, collection must be taken as the only available indicator of contribution. Taking these two factors of population and collection, there can be divergence of opinion as to the relative proportion to be assigned to these two factors. Though we discussed various proportions, we were 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. It is not desirable that every time a new Finance Commission is appointed, there should be reopening of the basis of distribution. We have therefore decided that the principle 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 by the Third Finance Commission, that is to say, 80 per cent on the basis of population and 20 per cent on the basis of collection.
40. As regards the actual manner of distribution of the States' share in each year, we feel that it will be convenient both to the States and to the Union if the shares are expressed as fixed percentages. Taking, therefore, the average of the collections of the three years ending with 1963-64, and the population figures according to the 1961 Census, the percentage share of each State in the distributable amount would work out as given in the table below. We accordingly recommend that 75 per cent of the net proceeds in any financial year of taxes on income other than agricultural income, except in so far as those proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, be assigned to the States and distributed among them in the following manner:

Percentage share of States in Income Tax

States	Percentage
Andhra Pradesh	7.37
Assam	2.44
Bihar	9.04
Gujarat	5.29
Jammu & Kashmir	0.73
Kerala	3.59
Madhya Pradesh	6.47
Madras	8.34
Maharashtra	14.28
Mysore	5.14
Nagaland	0.07
Orissa	3.40
Punjab	4.36
Rajasthan	3.97
Uttar Pradesh	14.60
West Bengal	10.91
Total	100

41. As regards the percentage to be fixed under clause (3) of article 270 which shall be deemed to represent proceeds attributable to Union territories, we recommend that this should be prescribed as two and a half per cent of the net proceeds of the tax. We have arrived at this figure by allocating to the Union territories taken together, the share which would have accrued to them collectively, had they been entitled to a share of income-tax, on the same basis, namely, 80 per cent population and 20 per cent collection, as that recommended by us in respect of the States.

CHAPTER 6

UNION EXCISE DUTIES

42. Under sub-clause (a) of clause (3) of article 280 of the Constitution, the Finance Commission is required to make recommendations to the President as to the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be divided between them under the provisions of Chapter I of Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds. Union excise duties, which are referred to in the Constitution in article 272 and entry No. 84 in List I (Union List) of the Seventh Schedule, fall in the category of taxes which 'may be' distributed between the Centre and the States and hence the entire subject of their division between the Centre and the States on the one hand and as between different States on the other, comes within the purview of the Commission.
43. The first question we had to consider was whether the States should at all be given a share out of Union excises. We note that under the Constitution the distribution of proceeds of Union excise duties between the Centre and the States is merely permissive and does not stand on the same footing as the compulsory assignment to the States of proceeds of taxes enumerated under article 269 of the Constitution or compulsory distribution between the Centre and the States of the proceeds of income tax under article 270 of the Constitution. The States thus do not have a constitutional right to claim a share out of the proceeds of Union excises. It is for Parliament to decide if the States should at all be given a share. In taking a decision however, Parliament is required to take into account the recommendations of the Finance Commission on this subject made available to it under sub-clause (a) of clause (3) of article 280 of the Constitution. The factual position is that ever since 1952-53, the States have been getting a share out of Union excise proceeds. The first three Finance Commissions had taken the view that having regard to the growing requirements of funds by the States for developmental and other essential services, recourse to permissive sharing contemplated under article 272 of the Constitution was not only justified but even necessary. We endorse this view.
44. The next question that we had to consider was: Which of the excisable commodities should be selected for the distribution of proceeds between the Centre and the States and what percentage of the total proceeds on those commodities should be made over to the States? Before giving our recommendations on this aspect, we

would state the legal and constitutional position in regard to the excise levy. Articles 246 and 272 of the Constitution empower the Union Government to levy and collect excise duties on all goods manufactured or produced in India, excepting alcoholic liquors for human consumption and opium, Indian hemp, and other narcotic drugs and narcotics. This power is exercised by the Union Government through certain enactments, the most important of them being the Central Excises and Salt Act, 1944. The Union excise levies which are currently in operation could be grouped under the following categories:

- (i) Basic excise duties on a large number of items levied under the Central Excises and Salt Act 1944 as amended from time to time by the Finance Acts of each year;
- (ii) Cesses or excise duties levied on certain goods under special Acts², the proceeds of the duty being earmarked for specified uses, for example, excise duty or cess on the production of copra, oil extracted from oilseeds, salt, coal, iron ore, rubber, mill-made cloth, etc.
- (iii) Additional duties of excise in lieu of sales taxes on sugar, tobacco and textiles under the Additional Duties of Excise (Goods of Special Importance) Act, 1957;
- (iv) Additional duties of excise on motor spirit, kerosene, refined diesel oils and vaporising oil, diesel oil not otherwise specified and furnace oil under the Mineral Oils (Additional Duties of Excise and Customs) Act, 1958;
- (v) Special duties of excise on certain goods levied for the first time in March 1963 in the form of surcharges on basic duties on certain items under the Finance Act of 1963 and later amended by subsequent Finance Acts; and
- (vi) Regulatory duties of excise levied under the Finance Acts, the purpose of the provision being to give to the Executive, powers to vary rates of duties on any item within certain limits.

² Some of the special Acts are listed below:

1. The Indian Coconut Committee Act, 1944.
2. The Indian Oilseeds Committee Act, 1946.
3. The Coal Mines Labour Welfare Fund Act, 1947.
4. The Coal Mines (Conservation and Safety) Act, 1952.
5. The Rubber Act, 1947.
6. The Rubber (Amendment) Act, 1960.
7. The Iron Ore Mines Labour Welfare Cess Act, 1961.
8. Khadi and other Handloom Industries Development (Additional Excise Duties on Cloth) Act, 1953.
9. Dhoties (Additional Excise) Act, 1953.
10. Cotton Fabrics (Additional Excise Duty) Act, 1957.

All the above levies are imposed in exercise of the legislative power given to the Union Government under article 246 of the Constitution, read with item 84 in List I of the Seventh Schedule and therefore fall within the scope of article 272.

45. The additional duties of excise in lieu of sales taxes on sugar, tobacco and textiles levied under the Additional Duties of Excise (Goods of Special Importance) Act, 1957 fall in a distinct category as the net proceeds of these levies are wholly paid to the States after retaining a small portion representing the share attributable to Union territories. We discuss the issues connected with these duties in a separate chapter.
46. The special duties of excise levied under the Finance Acts are of recent origin. These were introduced in 1963 in the context of the National Emergency and the present position is that the proceeds of these duties are earmarked exclusively for Union purposes and are not sharable with the States. It has been contended that the proceeds of special duties of excise should also be made sharable with the States. We take the view that it is open to us to suggest that proceeds of special excises should also be shared with the States. This would not at all be repugnant to the constitutional position as the Constitution nowhere lays down, as indeed it does in article 271 for taxes falling under articles 269 and 270, that surcharges on excises would be exclusively for the use of the Union. So far as the legal ban under the Finance Acts is concerned, that is something that can always be reviewed by Parliament, particularly in the light of such recommendations as the Finance Commission may make. On practical considerations, however, we think that it would be desirable to keep the proceeds of special duties of excise outside the sharing scheme. These duties are renewed on a year to year basis and are not on the same footing as the basic duties of excise under the Central Excises and Salt Act, 1944. Further, if the object of including these duties in the sharing scheme is to enable the States to have larger resources, this can equally well be achieved by suggesting a larger share to the States out of the basic duties.
47. The regulatory duties of excise which were for the first time introduced in 1961 have not yet become important; no collections were made upto 1964-65. The imposition of these duties is essentially a regulatory measure and we do not think that it is necessary to bring the proceeds of these duties into the sharing scheme.
48. The cesses, or the additional excise duties on items like copra, salt, iron ore, coal, oilseeds, mill-made cloth, fabrics, dhoties, etc. referred to as item (ii) in paragraph

44 above have special objects in view and the proceeds are utilized for only earmarked purposes enumerated in the relevant legislations pertaining to each of these levies. In view of this, the sharing of the proceeds of these levies between the Centre and the States would not be desirable.

49. Under the Mineral Oils (Additional Duties of Excise and Customs) Act, 1958, additional duties are levied on certain mineral oil products. These duties are levied to give effect to the price reductions enforced on the oil distributing companies from time to time and to adjust the benefits accruing to these companies as a result of fluctuations in the "posted prices" of bulk refined products in the Persian Gulf and variations in freights therefrom the Indian ports—ceiling selling prices in the country being built up on the basis of import parity linked with the Persian Gulf. These price reductions and cost and freight accumulations are mopped up and credited to the Government exchequer through the mechanism of these additional duties. The duties are recovered from the oil companies and the benefit of the reduction in cost is not passed on to the consumers. These levies are basically in the nature of excise duties under the Central Excises and Salt Act, 1944. We suggest that for the purpose of distribution of the proceeds between the Centre and the States the yield of the two levies, *viz.*, the basic and the additional may be taken together and the total made sharable in the same manner as the proceeds of the basic excise duties.
50. The first two Finance Commissions confined the sharing scheme to a few selected items: the First Finance Commission to three, *viz.*, tobacco, matches and vegetable products and the Second to eight, *viz.*, tobacco, matches, vegetable products, sugar, tea, coffee, paper and vegetable non-essential oils. The Third Finance Commission's approach to the question of selection of items for sharing was different from that of the earlier Commissions. It accepted in principle the reasonableness of the demand of the States for participation in the proceeds of all Union excises; for purposes of distribution, however, it included only the commodities on which duties collected in 1960-61 amounted to Rs. 50 lakhs or more. The duty on motor spirit was excluded from the sharing scheme as that Commission had recommended a separate special purpose grant of a corresponding amount for the development of communications. In their representations to us, the States have almost unanimously argued that whatever reservations the last Finance Commission's distribution scheme had should now go and that they should be

entitled to a share out of the proceeds of excise duties on all commodities, including the commodities which might be taken up for the levy in the coming quinquennium.

51. The arguments advanced by the States in favour of extending the sharing scheme to all commodities run on the following lines:
- I. If a coordination between the excise policy of the Union Government and the sales tax policies pursued in the States is at all to be achieved, it would be necessary to put the States in a position in which they have and continue to have a substantial interest in the collection and levy of Union excises. One method of achieving this object would be to make Union excise duties on all commodities sharable with the States;
 - II. The larger the number of commodities brought within the divisible pool, the greater would be the evenness in the flow of resources to the States, as fluctuations in the yield on certain items would be neutralised by fluctuations in the yield of some other items. The States' requirements are growing and, therefore, an elastic source of revenue like a share in excises on all commodities would go to strengthen their position;
 - III. As the commodities covered by the Union excise duties are of country-wide consumption, there is no justification for selecting only a few of the commodities for sharing;
 - IV. The system of sharing only selected commodities suffers from the defect that if, for one reason or another, the excise duty on a shared commodity is reduced or abolished and substituted in part or whole by a levy on a related product not included in the sharable list, the States stand to lose. For example, the excise duty on steel ingots was one of the sharable items listed by the Third Finance Commission. For various reasons, the Union Government later substituted the duty on steel ingots by a levy on iron and steel products, but the States did not get any share out of the new levy although it was in replacement of a levy, proceeds of which were sharable; and
 - V. In any economy where industry is getting diversified, new lines of production will emerge continuously and any formula for the sharing of excise duties should therefore cover such new products.

We find considerable force in the above arguments and therefore, recommend that all Union excise duties currently levied as also those that might be levied in the coming five years should be shared between the Centre and the States.

52. As to the question of sharing special excises, our attitude, as already explained, is that no sharing need be provided. We, however, suggest that in future the resort by the Union Government to special excises should not be the rule but the exception. Any departure from the normal levy of basic excises should be on the basis of provisions expressly inserted by Parliament in the Acts levying the special excises.
53. On the question of the percentage of the proceeds of distributable excises, it has been suggested to us by practically all the States that in order to impart viability to States' finances and to introduce in them a measure of elasticity, a higher proportion than the one recommended by the last Finance Commission should be prescribed for distribution to the States. Some have suggested as high a proportion as 50 per cent. of the net yield from basic and special excises on all commodities. We take the view that in determining the over-all share of the States, due regard has to be given to the requirements of the States on the one hand and the needs of the Union Government on the other. Having considered the issue in this light and keeping in mind the estimates of yield from the existing excise duties in the coming quinquennium as also the requirements of the States, we have come to the conclusion that the States' share out of the distributable excises may be fixed at 20 per cent. of the net proceeds. We would like to stress that the financial significance of the figure of 20 per cent recommended by us is not comparable with that of the same figure recommended by the Third Finance Commission, in as much as we visualize the sharing of the duties on all commodities, including the commodities that might be taken up in the coming quinquennium, whereas the last Finance Commission had confined the sharing scheme to 35 selected commodities. It appears from the data available before us that if we had confined the sharing to the 35 commodities, we would have fixed the proportion at around 30 per cent, so as to keep the transfer to the States at about the same level as visualized in our present scheme.
54. In regard to the principles for the distribution of the total of the States' share as between different States, the views placed before us are divergent. Some States have argued that the most relevant factor for determining the state-wise allocation would be not 'population' or 'needs', as measured by any other indicator or

indicators, but consumption of excisable commodities in each State. Some others have advocated the use of population as the sole criterion. Then, some others have argued that the factor of economic backwardness should be brought in for determining the distribution. And finally there is a suggestion from certain States that following the principles adopted by the last Finance Commission, the factor of 'relative financial weakness' should also be taken into account for determining the State-wise share.

55. The logic behind the proposal for distributing excises on the basis of consumption of excisable commodities is that such a distribution would be in accordance with the 'contribution' that each State has made to the total proceeds. Then it is also pointed out that if ever a large scale substitution of sales taxes by Union excises were to take place, the resistance from the States to this substitution would be less if the distribution of excises took into account the 'contribution' factor. It appears to us that there is no case for the adoption of 'contribution' as the sole criterion. One may, however, argue that 'consumption' or 'contribution' should be taken into account by combining this factor with other factors like population and economic and social backwardness. We wish we were in a position to give our considered judgment on this issue, but in the absence of reliable state-wise data regarding consumption of excisable commodities, we find ourselves unable to use 'consumption' or 'contribution' as a factor in the distribution scheme. Some States suggested to us that in the absence of reliable consumption data we could use such factors as the ratio of urban and rural population. We have avoided using such indirect data and we think that it would be more desirable to devise the distribution scheme on the basis of ascertainable factors than on the basis of uncertain indicators. Elsewhere in this report we have emphasized the need for a systematic collection of data bearing on consumption, particularly consumption of commodities subject to Union excise duties.
56. The proposal for devising the distribution scheme entirely on the basis of 'population' is supported on the ground that population of a State represents the 'needs' of the State and since the sharing of excises with the States is not compulsory under the Constitution and is only permissive, the proceeds of excises should be so distributed between the States that each gets according to its needs. It may also be argued that in the case of some commodities, population is a rough index of total consumption. There is some substance in both these arguments but

we do not agree with the view that population is the index of the needs of a State. There are other factors which are equally relevant. In our view while population should be the major factor for determining the distribution, relative economic and social backwardness of States should also be taken into account.

57. Before we go to define the factors that we have taken into account for determining the relative backwardness of each State, we would like to deal with the suggestion of certain States that following the lead given by the last Finance Commission, we should also take into account the factor of relative financial weakness as measured in terms of revenue deficits. We have stated at the very beginning of our Report that we do not think that it is proper to bring in the element of grant into the distribution scheme of divisible taxes. In our view such non-plan revenue deficits as are left in certain States, after taking into account the share of central taxes on the basis of general and uniform principles applicable to all States, should be covered by explicit grants under article 275 rather than by adjustments in the formulae for distribution of taxes. Another point on which we wish to clarify our stand is that we distinguish between economic and social backwardness of a State and its financial weakness. It is possible that a State may be economically backward and poor in social services and yet it may have fairly comfortable position on revenue account. There are States of this type. In the distribution of proceeds of excise duties we have not taken financial weakness but have taken economic and social backwardness as indicated by the following factors:

- (i) Per capita gross value of agricultural production;
- (ii) Per capita value added by manufacture;
- (iii) Percentage of workers (as defined in the Census) to the total population;
- (iv) Percentage of enrolment in Classes I to V to the population in age group 6-11;
- (v) Population per hospital bed;
- (vi) Percentage of rural population to total population; and
- (vii) Percentage of the population of Scheduled Castes and Tribes to total population.

58. We consider that it would be adequate if the factor of relative economic backwardness is given weight equivalent to 20 per cent. For the other factor, namely population, we would recommend weight equivalent to 80 per cent. We have worked out a schedule of distribution on this basis, which is set out in the following paragraph.

59. We recommend that under Article 272 of the Constitution, in each of the years 1966-67 to 1970-71, a sum equal to 20 per cent of the net proceeds of the Union duties of excise on all articles levied and collected in that particular year, excepting regulatory duties, special excises and duties and cesses earmarked for special purposes, should be paid out of the Consolidated Fund of India to the States and distributed among them in the following proportion:

SCHEDULE OF DISTRIBUTION

States	Percentage
1. Andhra Pradesh	7.77
2. Assam	3.32
3. Bihar	10.03
4. Gujarat	4.80
5. Jammu and Kashmir	2.26
6. Kerala	4.16
7. Madhya Pradesh	7.40
8. Madras	7.18
9. Maharashtra	8.23
10. Mysore	5.41
11. Nagaland	2.21
12. Orissa	4.82
13. Punjab	4.86
14. Rajasthan	5.06
15. Uttar Pradesh	14.98
16. West Bengal	7.51
TOTAL	100.00

60. We deal in a later Chapter with the topic covered by para. 4(e) of the Order of the President. The scheme of distribution outlined in this Chapter is in consonance with our views expressed there.

CHAPTER 7
ADDITIONAL DUTIES OF EXCISE IN LIEU OF SALES TAX ON
SUGAR, TOBACCO AND TEXTILES

61. Paragraph 4 (d) of the Order of the President requires us to examine the present distribution scheme in regard to the proceeds of additional duties of excise in lieu of sales tax on cotton fabrics, silk fabrics, rayon or artificial silk fabrics, woollen fabrics, sugar and tobacco (including manufactured tobacco) and to recommend changes, if any, in the principles of distribution. We have, however, to ensure that whatever distribution scheme we suggest does guarantee to each State an amount, in each of the financial years 1966-67 to 1970-71, which shall not be less than the revenue realized from the levy of sales tax on these items in the financial year 1956-57 in that State.
62. Before going into the principles of distribution, we would like to state briefly the background and the rationale of the scheme of additional excises. This is important because several non-official organizations and individuals have urged that we should on our own recommend an extension of the scheme of substitution of sales taxes by additional duties of excise to several other commodities, important ones being paper and related items, rubber goods, glass and glassware, steel products and mineral oils and related items.
63. Under the Constitution, the power to levy Union excise duties is vested in the Union Government and that to levy tax on the sale or purchase of goods, except those in the course of inter-State trade and newspapers, in the State Governments. There is, however, no bar in the Constitution to the Union and the States extending to a larger number of commodities the scope of the present agreement that the Union Government would levy additional duties of excise in lieu of State sales tax.
64. The present arrangement, under which the State Governments do not levy any sales tax on textile, sugar, and tobacco owes its origin to the consensus of opinion that emerged at a meeting of the National Development Council held in December 1956. In anticipation of the Council's decision being implemented by an Act of Parliament, the President asked the Second Finance Commission to make recommendations as to the principles which should govern the distribution among the States of the net proceeds of the additional duties and the amounts which should be assured to each one of them as the income derived by them from such taxes

during the financial year 1956-57. The Council's decision and the recommendations of the Second Finance Commission were implemented through the Additional Duties of Excise (Goods of Special Importance) Act, 1957. The first schedule of the Act prescribed the rates of additional duties of excise and the second the scheme of the distribution of the net proceeds among the States. The Act does not state that the States shall not levy sales taxes on the specified commodities, but merely provides that if in any year any State levies and collects a tax on the sale or purchase of such commodities, no sums shall be paid to that State in that year by way of share out of the net proceeds of the additional duties of excise, unless the Central Government by special order otherwise directs.

65. A scheme of centrally levied additional duties of excise in replacement of States' sales taxes combined with a distribution scheme is essentially in the nature of a tax rental agreement. It can come into operation or be expanded in coverage only if the Union and the States agree amongst themselves. The Finance Commission comes into the picture only for the purpose of determining the principles of distribution of the net proceeds. The present scheme has been in operation for almost eight years. During this period certain merits and disadvantages of the scheme have come to light. At present, on the one hand there is a demand from the trade and other interests that the scheme be expanded so as to cover some additional items and on the other almost all the States have argued before us that the operation of the scheme has not benefited them to the extent they initially hoped and that they would be disinclined to get the scheme expanded in coverage unless certain safeguards are provided to protect not only their existing revenues but also the prospective increases in their revenues. Some States have second thoughts even about the continuance of the existing arrangements. We deal with these aspects later in this Chapter.
66. The rationale behind the currently operative scheme of additional excises in lieu of sales taxes is that if the tax is levied at the first point, the chances of evasion would be minimized and that a uniform levy at the point of production of such mass consumption items as sugar, tobacco and textiles would be welcome to the trade, industry, and the consumer as it would save them from the administrative complexities involved in the collection and payment of sales tax. It was recognized from the very beginning that no State should suffer because of the centralization of the levy, and hence each State was assured that it would continue to get annually

from the Centre, by way of its share out of the proceeds of additional duties of excise, at least that amount which it raised in 1956-57 in the form of sales tax on commodities brought within the scheme of additional duties of excise. Our terms of reference as well as those of the Second and the Third Finance Commissions refer specifically to this assurance.

67. It has been suggested to us that the assurance of the guaranteed amounts is an indirect recognition of the logic that in the distribution of the net proceeds, the accent should be on compensating each State for the loss that it has suffered in its revenue by surrendering its right to levy sales tax on certain commodities. The distribution formula should be so devised that each State gets almost the same amount as it would have got, had sales taxes on these commodities been in operation with the same order of incidence as the additional excise duties. Wider considerations such as needs of the States, relative economic and social backwardness and population, it has been emphasized, have absolutely no relevance so far as the determination of a distribution scheme relating to proceeds of additional duties of excise is concerned.
68. We first deal with the question of guaranteed amounts. In our terms of reference, it has been clearly stated that the share accruing to each State shall not be less than the revenue realized by that State in the year 1956-57 from the levy of the sales tax on the commodities which are currently subject to these additional duties of excise. We have thus to estimate the yield in each State in 1956-57 on such commodities.
69. The Second Finance Commission adopted an elaborate procedure for working out estimates of yield for the year 1956-57. It obtained from each State figures of collection of sales taxes for the years 1954-55 to 1956-57 in respect of the commodities brought within the additional excise scheme. It also explored the possibility of working out the estimates from the consumption data as available from the Fourth Round of the National Sample Survey, the estimates prepared by the Textile Commissioner, the statistics of the clearance or off-take of sugar prepared by the Sugar and Vanaspati Directorate and the statistics of consumption of tobacco contained in the report on the marketing of tobacco prepared by the Agricultural Marketing Directorate of Government of India. Taking all the relevant statistics into account, that Commission worked out its own estimates of the likely revenue. These were primarily based on consumption estimates but a corrective on the basis of population was also applied. It was the view of that Commission that

the figures taken by it, which were a mixture of consumption-based yield and population, were the nearest possible approximation to the income of each State from sales taxes on the relevant commodities during the financial year 1956-57. The Third Finance Commission accepted the estimates worked out by the Second Finance Commission but added to the figure of each State marginal sums representing the estimated yield in 1956-57 on account of sales taxes on silk fabrics.³ We have not attempted to work out a fresh set of estimates for the year 1956-57, as we feel that because of lapse of time a task of this nature will be even more difficult now than it was at the time when the Second Finance Commission framed its estimates. We, therefore, accept the estimates worked out by the Second Finance Commission, and later adjusted by the Third Finance Commission to take into account the bifurcation of the old Bombay State as also imposition of additional excise duty on silk fabrics.

70. We examined the issue whether out of the net proceeds of additional duties of excise, the total of the guaranteed amounts should first be set apart and then the balance be distributed in a certain manner, or the entire net proceeds should first be distributed in a particular manner and then the question of guaranteed amounts brought in. We feel that the latter procedure might create difficulties inasmuch as under certain circumstances it might happen that some States' share may fall short of the guaranteed amount. We have taken the view that the appropriate course would be the first and the more direct one, namely that of giving to each State the guaranteed amount first and then distributing the balance between different States on the basis of certain uniform principles.
71. In regard to the principles for the distribution of the balance of the net proceeds over the total of the guaranteed amounts, the Third Finance Commission considered that it would be equitable to distribute the excess collections partly on the basis of the percentage increase in the collection of sales tax in each State since the year 1957-58 when the additional excise duties were imposed and partly on the basis of population. There is no indication as to the relative weightage given to these factors. In our opinion, figures for collections of all sales taxes in a State are a more direct indicator of the contribution made by each State to the divisible surplus than population. Therefore, we recommend that the distribution of the

³ On silk fabrics the substitution of sales taxes by additional duties of excise was made in 1961.

balance over the total of guaranteed amounts may be made on the basis of the proportion of sales tax revenue realised in each State to the total sales tax collections in all the States taken together. For the purpose of determining the proportion for each State, we have utilized the data relating to actual collections of sales taxes over the years 1961-62 to 1963-64.

72. During the year 1956-57 the State of Jammu and Kashmir did not have any sales tax and, therefore, the question of giving any guaranteed amount to that State does not arise. The Second Finance Commission had taken the view that since the incidence of the additional duties of excise would fall as much on the people of this State as on the people of other States, Jammu and Kashmir should be given a share out of the net proceeds. That Commission had fixed the share of Jammu and Kashmir at $1\frac{1}{4}$ per cent of the net proceeds. The Third Finance Commission increased it to $1\frac{1}{2}$ per cent. We do not consider it necessary to change the Third Finance Commission's figure.
73. Both the Second and the Third Finance Commissions had taken the view that an appropriate share of the total net proceeds should be retained by the Union Government as being attributable to Union territories, the figure recommended by both the Commissions being 1 per cent. With the establishment of Nagaland as a separate State, the President by an Order made under Section 23 of the State of Nagaland Act, 1962, assigned for the year 1964-65 and thereafter 0.05 per cent. of the net proceeds to that State. Since this percentage was taken out of the share of 1.00 per cent attributable to Union territories, in effect the share attributable to Union territories has got reduced to 0.95 per cent. We are of the view that the amount attributable to Union territories may be taken at 1.00 per cent of the total net proceeds.
74. On the basis of the principles outlined above, we recommend that in each of the years 1966-67 to 1970-71, the net proceeds of additional duties of excise on cotton fabrics, silk fabrics, rayon or artificial silk fabrics, woollen fabrics, sugar and tobacco including manufactured tobacco, may be distributed among the States on the following basis:
 - (i) A sum equal to 1.00 per cent of the net proceeds of these duties in any year may be deemed as being attributable to Union territories and may, therefore, be retained by the Centre;

- (ii) A sum equal to 1.50 per cent of the net proceeds in any year be paid to the State of Jammu and Kashmir;
- (iii) A sum equal to 0.05 per cent of the net proceeds in any year may be paid to the State of Nagaland as its share;
- (iv) Out of the remaining 97.45 per cent of the net proceeds, the following sums representing the revenue realised in 1956-57 by each respective State on account of sales taxes on the six commodities be first paid annually to the following States:

States	Rs. in lakhs
Andhra Pradesh	235.24
Assam	85.08
Bihar	130.16
Gujarat	323.45
Kerala	95.08
Madhya Pradesh	155.17
Madras	285.34
Maharashtra	637.77
Mysore	100.10
Orissa	85.10
Punjab	175.19
Rajasthan	90.10
Uttar Pradesh	575.81
West Bengal	280.41
Total:	3,254.00

and (v) the difference between 97.45 per cent. of the net proceeds in any year and the total guaranteed amount of Rs. 3,254 lakhs would constitute the balance which may be distributed among 14 States, namely all States other than Jammu and Kashmir and Nagaland, as follows:

States	Percentage
Andhra Pradesh	7.42
Assam	1.98
Bihar	6.17
Gujarat	7.43

Kerala	5.65
Madhya Pradesh	4.62
Madras	11.13
Maharashtra	19.87
Mysore	5.21
Orissa	2.58
Punjab	5.01
Rajasthan	3.17
Uttar Pradesh	7.83
West Bengal	11.93
Total	100

75. Before we leave this subject, we would like to mention that the States in their representations to us have been critical of the way that the scheme of substitution of sales tax by additional duties of excise has so far been operated. Their main point of criticism is that whereas over the period 1957-58 to 1965-66, the rates of basic duties of excise on some of the items brought within the scheme have been raised, and even special duties of excise introduced, the rates of additional duties of excise have remained unchanged. If the substitution had not taken place, so runs the argument, the States would have had the opportunity of raising sales tax rates on these items and would have also benefited from the rise in prices, sales tax being an ad valorem levy. It is further argued that over the past eight years, sales tax revenues have shown a much higher rate of growth than the yield from the additional duties of excise and that if the scheme had not been introduced, the rate of increase in sales tax revenues from these items would have been closer to the rate for sales tax revenue on other items.
76. As against the above views of the States, it has been pointed out to us that over the period 1958-59 to 1965-66, the yield from additional duties has increased by as much as 45 per cent, the increase in the yield from basic duties of excise on these commodities (excluding the yield from special duties of excise which fall in a distinct category) being hardly 21 per cent. The items covered under the scheme of additional duties of excise are essential consumer items; and it is not as if the States could have just gone on increasing the rates. Indeed on items of comparable nature like matches, kerosene, coal and vegetable products, the sales tax rates between 1958-59 and 1963-64 have either remained altogether unchanged or shown very

little increase. An important reason why the Union Government had not revised the additional duties of excise rates with every change in basic rates is that sugar and textiles are items in the case of which often downward adjustments had to be made and the Union Government did not want that the States' revenues should be adversely affected by these downward adjustments. It is only in the case of tobacco that basic duties have been increased and never lowered. The increase in sales tax revenue in the States is *inter alia* due to enhancement of rates in the case of luxury and semi-luxury items and coverage of new items. It is argued that it would therefore not be correct to assume that the States would have managed to realize the same rate of increase in the sales tax revenue from these items as they have realized in the case of the total sales tax yield.

77. We have not thought it necessary to go into the validity of the arguments for or against the manner of the implementation of the scheme by the Union Government. We feel that if some sort of institutional arrangement existed and both the Union and the State Governments had the opportunity of explaining each other's views, the implementation of the scheme would have been considerably better and misunderstandings less.

CHAPTER 8

COORDINATION BETWEEN SALES TAXES AND UNION EXCISE DUTIES

78. This Chapter deals with paragraph 4 (e) of the Order of the President in which we have been asked to make recommendations in regard to (a) the effect of the combined incidence of a State's sales tax and Union duties of excise on the production, consumption or export of commodities or products, the duties on which are sharable with the States, and (b) the adjustments, if any, to be made in the State's share of Union excise duties, if the sales tax rates levied by the State exceed certain specified ceilings.
79. This term of reference involves the determination of two issues:
- (i) Measurement of the impact of the two levies on production, consumption or export of various commodities and a finding as to the cases in which the combined incidence has an inhibiting effect on consumption, production or export; and
 - (ii) in the light of the finding on (i), construction of an adjustment formula under which the share of the States out of Union Duties of excise could be reduced if the States exceeded certain specified ceilings in regard to sales tax rates.
- The first issue concerns economic aspects of commodity taxation, while the second concerns devolution of taxes from the Union to the States.
80. Before going into the problems of measurement of the incidence of these two levies and their economic consequences, it may be useful to explain briefly the nature and import of these levies. Both the Union duties of excise and the sales taxes levied by the States are taxes on commodities. Although from the point of view of the incidence on the consumer, there is no essential difference between the two levies, the two taxes are not identical or interchangeable. An excise is a levy at the production point whereas a sales tax touches a commodity at one or more points of sale or purchase between the stages of production and final consumption. For each given commodity, there can be only one stage at which the commodity completes the production process, and so an excise levy should theoretically be only at one point. Since, however, the component parts might themselves have been the subject of excise levy, an excise duty on the final product may in practice involve multiple duty on the components unless the duty is based on the value added by manufacture, as is done in some countries. In the case of sales, however, the same commodity may pass through different stages of sales, thereby exposing itself for

taxation at more than one point, depending upon the system of the sales tax levy. An excise levy ends at the production point and does not take into account, even indirectly, elements of cost that are incurred after the production stage, e.g. freight, insurance, distribution charges, etc. whereas a sales tax is on a more comprehensive concept of cost and touches not merely the cost at the production point, but also subsequent elements, including profits and the excise duty itself. An excise duty in India, being a Union levy, does not differentiate between one region and another and is uniform throughout the country. On the other hand the sales tax system and the rates of sales tax differ from State to State. Again, while most of the excise duties are specific, sales taxes are ad valorem levies. In a phase of rising prices, other things remaining the same, the sales tax yield automatically goes up.

81. In some countries where excise duties are exclusively reserved for the Centre, the levy of sales tax by States has been held to be unconstitutional on the ground that they are substantially the same as excise duties. Similarly the question has been raised whether ad valorem excise duties are not really sales-taxes. But the point that needs to be noted is that although on the surface sales taxes and excises may appear to be similar in nature, they have distinguishing features. Both have a positive place in a comprehensive system of taxation and are expressly mentioned in our Constitution.
82. In the wake of developmental planning and the search for resources over the last fifteen years, both Union excise and sales tax systems have expanded considerably, in depth as well as range. In 1950-51, the aggregate yield from the two levies was roughly Rs. 128 crores, representing 1.3 per cent of the national income in that year. By 1963-64, the level had risen to Rs. 998 crores, accounting for 5.8 per cent of the national income. On the basis of 1965-66 budget estimates, the total of the receipts comes to Rs. 1135 crores. The growth rate in the case of excises has, however, been higher than in the case of sales taxes.
83. In 1950-51, the aggregate excise revenue amounted to Rs. 83 crores. Only 15 items were subject to levy at that time. For the year 1965-66, the level of receipts, including additional duties of excise in lieu of sales tax and the special excise, is estimated at Rs. 819 crores. Among the tax receipts of the Union Government, the excise revenue occupies the most dominant position and accounts for as much as 42 per cent of the total.

84. As regards the yield of sales taxes, the growth rate over the past fifteen years differs from State to State. Taking all the States together the yield in 1950-51 was around Rs. 60 crores, accounting for 27.5 per cent of the aggregate State taxes. According to the budget estimates for 1965-66, the sales tax revenue is expected to be Rs. 316 crores, representing roughly 41 per cent of the total yield from State taxes. In the structure of States' finances, sales taxes occupy about the same position as excises in the Union finances, although the relative importance of sales tax differs from State to State.
85. We have been called upon to measure the combined incidence of these two taxes and the effect of the incidence on production, consumption or export of the commodities taxed. The incidence of a tax refers to the burden that the tax imposes on the tax payer. The incidence can be measured in terms of either 'formal' or 'effective' incidence. It is comparatively easier to measure the former than the latter. The Taxation Enquiry Commission of 1953-54 was asked to examine the incidence of Central, State and Local taxation on the various classes and in different States. That Commission worked out only the formal incidence and did not find it possible to measure the effective incidence. The study made by that Commission was carried forward by the Tax Research Unit of the Union Ministry of Finance and the latest year for which findings are available is 1958-59. Both these studies estimate the incidence of all the Central excises taken together as also of sales taxes on different classes of consumers. There is no commodity-wise analysis and hence these studies do not have much bearing on our work.
86. We examined the possibility of determining the proportion that the combined money burden of excises and sales taxes bears to the sale price of each taxed commodity, with the help of data given in the Central Excise Tariff and information on the rates of sales taxes obtained from the States. We found that even this limited study bristles with many difficulties. As stated earlier, while excises are mostly in terms of specific rates, sales taxes are ad valorem levies. This creates the problem of converting the excise rates to ad valorem rates. For the same commodity the excise rates differ for different categories, whereas generally in the case of sales tax there is no such differentiation. Further, there is so much diversity in the system of sales tax levy from one State to another that the question of bringing them to a uniform scale is a job in itself. Wherever the sales tax rates are on the basis of single-point levy, the problem is simple. But where these rates are in terms of multi-

point, double-point or a combination of various systems, the conversion of these levies into a single-point rates creates many problems. As per proforma given at Appendix III (v) we tried to obtain from each State the data regarding total value of sales and total sales tax collections under each item. If these data had become available to us, the problem of converting multi-point and other levies into single-point levies would have been easier, but we found that most States were not in a position to supply these data. Finally, the total incidence of the excise duty and sales taxes on manufactured commodities may also have to include the incidence of excise duty and sales tax on their components; the determination of this multiple incidence is not always easy. In view of all these reasons, we found it difficult to pursue even the limited study of the proportion that the money burden bears to the price in the case of each excisable commodity.

87. Even if we were able to determine the proportion that the money burden of the two taxes bears to the total price of a commodity, it would not have taken us far in relation to the main task before us. We have to assess the effect that that money burden has on production, consumption or export of a commodity. Admittedly, the factor of taxation has a bearing on the price of a commodity and yet this is no more than one out of a host of important factors. Unless we are in a position to undertake for each excisable item detailed cost-analysis studies of the type that are usually undertaken by the Tariff Commission, we would not be able to determine whether its production, consumption or export is being hampered because of the excessive burden of these two taxes or because of some other factors. In order to recommend any ceilings on sales taxes we have not only to determine the combined incidence of the two taxes, but also the separate incidence of each. Even if data were available, it would be analytically impossible to be precise about the effect of one or two variables when the number of variables is so large. We have found ourselves unable to undertake these detailed studies.
88. In the course of their representation to us, certain States have pointed out that in judging the reasonableness of the restraint that a tax imposes on production and consumption, one has to keep many factors in mind. In the case of certain commodities. it may well be the objective of Government policy to limit the growth of consumption and production. In the case of such commodities no corrective action is called for. If the combined incidence of the two levies goes to inhibit consumption of essential consumer items to the detriment of the living standards,

corrective action has to be taken. Similarly if taxation has an inhibiting effect on the production of intermediate and capital goods, it is definitely a matter for concern. Apart from the quantum of the tax there is also the manner of imposition and collection. If the taxes are levied or collected in a manner which will stand in the way of the efficient organisation and development of industry if it will prevent the diversification or location of industry on rational lines or the organisation of procurement of raw materials or distribution of products in the most economic manner—there is a case for overhaul of the taxation scheme. In our present context, the question is also important from the point of view of promotion of exports. Most States have assured us that so far as this aspect is concerned, they themselves are very conscious of the need for exports and are devising suitable adjustments in sales tax levies with a view to reducing any disincentive effect that the sales taxes might have on exports.

89. We now turn to an examination of the manner in which a better coordination between Union excise duties and sales taxes levied by the States can be brought about. All the States concede the point that unrestricted and un-coordinated taxation might affect production as also exports and that, therefore, there is need for coordination between the tax policies of the Union and the States. As to whether this coordination can be achieved through a system of ceilings on sales tax rates on certain commodities, combined with a financial sanction in the form of the possibility of a cut in the State's share out of Union excises in case a State exceeded the ceilings, is a matter on which the States have expressed strong views.
90. The States have pointed out that sales tax is the only elastic source of revenue left with them. Any attempt to place restrictions on their freedom in this field of taxation would affect their capacity to raise resources and would thus handicap them in relation to the requirements of the Fourth Plan. Sales tax is essentially of regional application and is almost the only major instrument left with them for shaping their economic and industrial policy. States have been using it, along with power tariffs, for giving incentive to industry and trade and any dilution of their power in this respect would mean setback to their efforts for encouraging the growth of industry and trade within their respective areas. Any ceiling on sales tax rates determined by the Finance Commission for a period of five years, it has been emphasized, will remove the element of flexibility from the taxation system of the States and would cut at the very root of the principle of States' autonomy, thereby

weakening the federal structure. It has also been contended that the mechanism of adjustments in the share out of an item of devolution, depending on the observance of specified conditions by the States, might well be inconsistent with the constitutional provisions regarding sharing of taxes. Union excises are not compulsorily divisible, but, it is argued, once a tax is made divisible according to a certain formula, it acquires all the elements of a devolution item and any conditions imposed on the sharing scheme may not be legally valid. It has also been pointed out that the linking of the shares of excise duties with the rates of sales taxes might run counter to the principles that a Finance Commission may decide for distributing excises.

91. Certain States have expressed the view that between sales taxes and Union excises, it is the latter category of levies which in the case of most of the commodities impose a higher money burden. According to them, if at all any restrictions were necessary, the proper course would be to put ceilings on excise duties.
92. Out of the 68 items that are currently on the excise list, the problem of coordination between excises and sales taxes does not arise in 19 items, accounting for over 45 per cent of the aggregate excise revenue. Eight of these items, namely (i) cotton fabrics, (ii) silk fabrics, (iii) rayon or artificial silk fabrics, (iv) woollen fabrics, (v) sugar, (vi) tobacco (unmanufactured) (vii) cigars and cheroots and (viii) cigarettes are exempt from the levy of sales tax under the scheme of additional excise duties in lieu of sales tax. In respect of four other items common to excise and sales tax lists, namely, (i) cotton yarn, (ii) jute, (iii) steel ingots, and (iv) pig iron, there is already a ceiling of 2 per cent on sales tax rates under the Central Sales Tax Act, 1956. Then there are certain other items known as 'special goods' in respect of which all the States are at present uniformly levying a sales tax at the rate of 10 per cent. The suggestion for this uniform levy was given by the Union Government and the States have accepted it. There are in all 15 items in this category out of which 7 items, namely (i) motor vehicles, (ii) tyres and tubes, (iii) cycles and parts thereof, (iv) refrigerators and air conditioners, (v) wireless receiving sets, (vi) gramophones and (vii) certain iron and steel products are now in the excise list. In the case of these items, no upward revision is likely in the near future; at any rate, since the current rates have been fixed after consultation with the Centre, in future also the revision would be after mutual consultation. Thus out of the 68 commodities, it is in the case of 49 commodities that the question of coordination

between excise and sales tax arises. The States' view generally is that if on a proper study of the facts, it is found that in the case of a few selected items out of these 49, a coordinated tax policy is called for, that could certainly be effected. But the proper course, they point out, for such coordination is not the mechanism of a financial sanction in the form of reduction in the share out of a devolution item but a periodic exchange of views between the Union and the State Governments on problems of taxation and related subjects, with a view to evolving coordinated lines of action.

93. It has been pointed out to us that there is no need to resort to a scheme of linking the share out of Union excises with sales tax rates as the existing powers with the Union Government under article 286(3) of the Constitution together with Section 14 of the Central Sales Tax Act, 1956 are adequate for controlling the upper limit of sales taxes in the case of such items as might be deemed to be of special importance. If such action is necessary and the States agree, so runs the argument, the Union Government could further enlarge the existing list, after providing for compensation to the States for loss of revenue, rather than resort to a financial sanction of the type contemplated in the term of reference.
94. Certain States have argued that a scheme of ceilings on sales tax rates would be inequitable as between industrially and commercially advanced States with a fairly large urban sector and the States which are predominantly agricultural. In the case of the former, the sales tax yield occupies a much more pivotal position in their finances than in the latter; if ceilings are imposed, their finances would be more adversely affected than the finances of agricultural States. As against this argument, the commercially backward States point out that the sales tax revenue on inter-States sales accruing to the advanced States is largely paid by consumers in other States and that in the distribution of Central Sales Tax—a source of revenue which the Central Government should have distributed on some equitable basis—the backward States have been discriminated against, under the present arrangements according to which each State keeps what it collects on behalf of the Central Government.
95. We feel that in view of the fact that adequate data for determining the combined incidence of the two taxes and their economic effects are not available, the question of proceeding to the next stage *viz* that of fixing the ceiling and devising a formula for adjustment in the share out of excises does not arise. The procedure for framing

a scheme of ceilings on sales tax rates and for its implementation should be the same as in the case of additional duties of excise in lieu of sales tax. Both can be evolved by mutual agreement; their successful functioning again depends on mutual understanding.

96. In view of what we have stated above, we do not recommend any scheme of ceilings on the sales tax rates of any of the excisable commodities and the question of suggesting a formula for adjustments in the share of the States out of Union excises does not, therefore, arise.

CHAPTER 9

PRINCIPLES GOVERNING GRANTS-IN-AID OF REVENUES

97. Article 280 (3) (b) of the Constitution requires us to make recommendations as to the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.
98. The First Finance Commission considered the matter in detail and recommended that budgetary needs of the States should be an important criterion for determining the assistance required by the States but in arriving at the needs, appropriate allowances have to be made based on a number of considerations. The first consideration was that the budgets should be reduced to a standard form by eliminating non-repetitive items. Second, due consideration should be given to the tax effort by the State and the extent to which the State itself had made efforts to raise resources in relation to its tax potential. Third, allowance should be made for the scope for economy in expenditure. Fourth, the system of grants-in-aid should be designed to avoid large disparities in the standards of basic social services. Fifth, grants-in-aid may be given to help individual States to meet their special burdens, if such burdens are of national concern and if they are likely to cause undue strain on the States' finances. Sixth, grants-in-aid may be given for broad national purposes with a view 'to further any beneficent service of primary importance in regard to which it is in the national interest to assist the less advanced States to go forward'.
99. The Second Finance Commission considered these principles unexceptionable. It, however, added that the eligibility of a State to grants-in-aid and the quantum of such aid should depend upon its fiscal need in a comprehensive sense. That Commission also felt that the gap between the ordinary revenue of a State and its normal revenue expenditure should as far as possible be met by sharing of excises and that grants-in-aid should be the residuary form of assistance. Although it recognised that specific purpose grants may be given, no such grants were given by that Commission.
100. The Third Finance Commission also was in agreement with the general principles enunciated by the earlier Commissions. It, however, felt that the 'fiscal needs' as assessed by the Commission should take into account not only non-plan expenditure but also plan expenditure; it also felt that it would be advisable to attach strict conditions of utilisation to any grants-in-aid given for activities meant

to serve national purposes but that States should have freedom to reappropriate funds from one allocation to another in respect of grants meant generally to strengthen the State sector.

101. The above principles laid down by the previous Commissions are still valid and we agree with them except to the extent that we do not recommend the inclusion of plan grants and special purpose grants in grants-in-aid, for reasons which are given elsewhere in this report. In applying these principles and working out the grants-in-aid admissible to States, our terms of reference require us to have due regard to certain special considerations which were not specifically mentioned in the terms of reference to the earlier Commissions. Among these considerations are the expenditure devolving on the States for servicing of their debt, the creation of a fund out of part of the proceeds of estate duty, and the scope for economy consistent with efficiency which may be effected by the States in their administrative expenditure. We have dealt with some of these considerations in other parts of this Report. The procedure followed by us to work out the fiscal needs of the States is also discussed in the following chapter in connection with the determination of the quantum of the grants-in-aid under article 275 (1) of the Constitution.

CHAPTER 10
FORECAST OF REVENUE AND EXPENDITURE - ARTICLE 275
GRANTS

102. Paragraph 4 of the Order of the President requires us to make recommendations in regard to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 and the sums to be paid to those States other than the sums specified in the proviso to clause (1) of that article. In making our recommendations, we are required to have regard, among other considerations, to a number of factors specified in the terms of reference.
103. For the purposes of the scheme of devolution including the grants under article 275 recommended by us, we have accepted the estimate of yield of Central taxes and duties as furnished to us by the Ministry of Finance. We have also assumed that the grant in lieu of the tax on railway passenger fares will remain at the present level of Rs. 12.5 crores per year.
104. The Third Finance Commission considered that 'the total amount of grant-in-aid should be of an order which would enable the States, along with any surplus out of devolution, to cover 75% of the revenue component of their plans'. Such a procedure may help to avoid a situation in which, as a result of the Commission's award, while certain States will have just sufficient means to meet specified revenue commitments, other States will be left with considerable surpluses. Although we agree that it would be within our province to recommend that the grants-in-aid of the revenues of the States should also take into account part or whole of the cost of the revenue component of the State plans, for several reasons, we doubt whether in present circumstances it will be desirable for us to do so.
105. Certain States pleaded for grants for special purposes. The Third Finance Commission suggested in its report that the utilisation of a grant of this kind for a special purpose could be reviewed year to year by Parliament under article 275 of the Constitution. We have been unable to find any sanction for such an annual review by Parliament under article 275 of the Constitution. Even if a special grant could be made under article 275 such a grant would get merged with the general revenues of the States. A review by the subsequent Finance Commission of the utilisation of the grant may be possible, but cannot be of any practical value. We have, therefore, not made any special purpose grants but have included certain special requirements in our forecasts of expenditure.

106. In October 1964 we were informed by the Government of India that the question had been under consideration for some time, whether the expenditure incurred by the State Governments on Police forces maintained for the security of their border with foreign countries should be the liability of the Central Government and that the Government of India had since decided that the entire expenditure incurred by the States on such forces as have been maintained for this purpose with the approval of the Central Government would be met by them. No expenditure on this account will therefore have to be met by the States during the Fourth Plan period out of their own revenues and we have accordingly excluded this expenditure from our assessment of the forecast. The Government of Assam have claimed that the Government of India should, as a special case, extend a similar treatment to the expenditure incurred by them on their border with Nagaland. The decision communicated to us by the Government of India is not applicable to this claim and we have included in our assessment of Assam Government's police expenditure the cost of maintaining law and order on Assam's border with the neighbouring State of Nagaland.
107. Although it would constitute part of the States' normal revenue expenditure, we have excluded from our assessment the cost of participation by States in the new all-India services which are proposed to be created for the Education, Medical, Agriculture, Forest and other Departments in the States. The main reason for its exclusion was that decision had so far not been taken by all States on the actual number and grades of posts to be included from each Department and there was no sufficiently firm decision or material on the basis of which reasonably reliable estimates of additional cost could be made. Not all States had given estimates and the estimates which had been received did not show a reasonable degree of consistency.
108. The Second and Third Finance Commissions took into account, in their assessment the likely expenditure on the cost of relief measures, necessitated by unforeseen natural calamities like famine, floods and droughts. The amounts so included were estimated by the Second Finance Commission roughly on the basis of the average annual expenditure incurred over a decade. We have reassessed the amounts likely to be required by each State for this item on the basis of the figures of gross expenditure for eight years ending with 1964-65 (RE). Where the reassessed figure was lower than the figure adopted by the Second and Third Finance Commissions,

we have retained the latter figure. Since eight years' figures were not separately available for Maharashtra and Gujarat, the amounts asked for by them have been adopted for these States. The annual amounts included by us in our estimates of expenditure are given below:

(Rs. lakhs)

S. No.	States	Annual estimated expenditure on relief from natural calamities included in our assessment
1	Andhra Pradesh	75
2	Assam	40
3	Bihar	140
4	Gujarat	80
5	Jammu and Kashmir	28
6	Kerala	10
7	Madhya Pradesh	30
8	Madras	50
9	Maharashtra	60
10	Mysore	33
11	Orissa	123
12	Punjab	197
13	Rajasthan	93
14	Uttar Pradesh	75
15	West Bengal	535
	TOTAL	1,569

FOOTNOTE:

(1) West Bengal's expenditure under head "64-Famine Relief" included some expenditure which was not normally included under this head in other States. The figure of West Bengal is, therefore, not strictly comparable with those of the other States.

(2) No provision is made for Nagaland since no expenditure has been incurred under the head "Famine Relief".

109. We have included in our assessment estimated expenditure on the continuance of any existing schemes for the subsidised distribution of milk and foodgrains and for rural electric supply.
110. In March 1965, after we had received the forecast from the States and concluded our discussions with the representatives of most States, the Government of India sent us a copy of their communication to the State Governments suggesting an increase in the upper monetary limits adopted for debiting the expenditure on individual works or schemes to revenue. From the commencement of the Fourth Plan, it was proposed to increase the existing monetary limits, i.e., Rs. 20,000 for individual works and Rs. 1 lakh for works of the same character forming part of a scheme to Rs. 1 lakh and Rs. 5 lakhs respectively. The State Governments were requested by us to indicate the increases in their estimated revenue expenditure during the Fourth Plan period occasioned by this enhancement of limits. The States

reported varying amounts. Since we have not been able to get any reliable and consistent basis for the increases claimed by the States as a result of this letter of the Government of India, we have not taken into account for any State, the effect of this change of classification on the revenue during the Fourth Five-Year Plan.

111. For the purpose of our estimates, we have not taken into account as expenditure, the estimated loss that will be incurred during the Fourth Plan period by enterprises (including electricity schemes) departmentally managed by the State Governments.
112. We have added in our estimates of expenditure the requirements of the States for payment of annual interest on loans outstanding at the end of the Third Plan period (public loans, Central loans and other loans) on the basis of annual outstanding amounts as at the end of each year (i.e., net of repayments) as reported by the State Governments and the Accountants-General. Interest liability on account of other non-plan loans likely to be raised during the Fourth Plan period has also been allowed in our estimates of expenditure, on the basis of information obtained from the State Governments. The interest liability during the Fourth Plan period on account of the above two classes of loans is as follows:

(Rs. crores)

S. No.	States	Amount
1	Andhra Pradesh	76.95
2	Assam	30.20
3	Bihar	86.08
4	Gujarat	50.81
5	Jammu and Kashmir	20.14
6	Kerala	40.48
7	Madhya Pradesh	73.53
8	Madras	79.13
9	Maharashtra	97.81
10	Mysore	58.66
11	Orissa	62.37
12	Punjab	75.53
13	Rajasthan	58.01
14	Uttar Pradesh	104.21
15	West Bengal	73.73
	TOTAL	987.64

113. We have also included in our assessment of expenditure the requirements for payment of full interest on Fourth Plan loans that will be raised by the States during 1966-71. We have not allowed for capitalisation of any portion of the interest. We

have utilised for the data obtained from the Planning Commission for our estimates of borrowings by the individual States. For Central loans we have not provided any interest for the year of borrowing while for other loans we have provided for interest for half a year, in the year of borrowing. The amounts estimated by us on this account for each State, for interest payments on the gross Fourth Plan loans are as follows:

(Rs. crores)

S.No.	States	Amount
1	Andhra Pradesh	43.48
2	Assam	16.10
3	Bihar	41.31
4	Jammu and Kashmir	8.90
5	Gujarat	25.30
6	Kerala	22.00
7	Madhya Pradesh	37.97
8	Madras	41.61
9	Maharashtra	51.15
10	Mysore	29.92
11	Orissa	31.58
12	Punjab	29.99
13	Rajasthan	29.46
14	Uttar Pradesh	68.38
15	West Bengal	45.14
	TOTAL	522.29

114. Paragraph (4(a)(iii)) of the Order of the President requires us to take into account, for the purpose of determining the needs of States for assistance under article 275(1) of the Constitution, the expenditure likely to devolve upon the States for the servicing of their debt. Elsewhere in this report we have expressed our opinion that the service and amortisation of the market borrowings of the State Governments must form part of the revenue liabilities of the State Governments. We have accordingly included in our assessment expenditure on these items estimated on the basis of the existing practices adopted by the State Governments. This has resulted in allowing provisions only at nominal rates for some States and for other States at adequate rates which will enable full repayment of the loans on maturity. We feel that the entire question of indebtedness of the States and the soundness of the existing borrowing, interest payment, repayment and accounting practices in this respect should be reviewed on the basis of detailed study and report by a competent body to be set up for the purpose. The rate at which contributions to the

sinking fund should be charged to the revenue account by States and the steps necessary to make the accumulations available for the purposes for which they are intended should constitute part of the terms of reference to that body about which we have made further recommendations in a later chapter of this report. We consider it proper to include in our estimates of revenue expenditure, provision for contribution to sinking funds for public loans on the basis in force at present. The amounts included for the five years for the various States on account of sinking fund provision for public loans (including Fourth Plan loans) are as below:

S. No.	States	Amount (Rs. 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
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
	TOTAL	286.22

115. The instructions in our letter requesting for forecasts of revenue and expenditure from the State Governments required that expenditure on schemes financed by non-plan grants from the Centre should be included under expenditure and that an explanatory note indicating the Central grants likely to be received should also be furnished. Some States furnished such information but certain other States provided expenditure estimates after deducting the Central grants expected by them. In forecasting their expenditure, State Governments have assumed the continuance of non-plan grants on the existing basis for the following items: (i) labour and employment schemes, (ii) implementation of gold control rules, (iii)

rehabilitation of displaced persons, (iv) subsidy in respect of interest on loans for flood control schemes, (v) civil defence expenditure, (vi) expenditure on outside police force borrowed in connection with emergency (in respect of Assam), Additional Punjab Armed Police Battalion deployed in Lahul and Spiti (in respect of Punjab), (vii) Administration of Lahul and Spiti (in respect of Punjab), and (viii) expenditure on Uttar Khand Division (in respect of Uttar Pradesh). The deficits and surpluses arrived at by us are, therefore, derived after taking credit for the non-plan grants expected to be received by the States for such schemes.

116. The Third Plan schemes, more especially in the social service sectors, create liability for 'committed expenditure' during the Fourth Plan period. The expenditure on this account in 1966-67 has been calculated by us on the basis of the estimated level of revenue plan expenditure in 1965-66 in each State as ascertained from the Planning Commission and its composition as assessed on the basis of information furnished by the States. Provision was also made for an annual growth rate of 3.5 per cent in the committed expenditure. The total amount included in our estimates on account of committed expenditure of Third Plan Schemes for all States for the five-year period comes to about Rs. 1,230 crores.
117. In scrutinizing the forecasts of revenue and expenditure presented by the States, we have taken into account the normal caution with which estimates relating over a large variety of items and over a long period of time have to be prepared in the interest of sound finances. States produced successive revised forecasts after revising the original figures on the basis of further information including fresh items of expenditure not included in the original forecasts. We have accepted the revisions wherever they were justified on the basis of the latest actuals. While revising expenditure estimates on account of inclusion of such new items, the Commission has taken into account the possibility of accommodating part of the expenditure on these new items by means of marginal reappropriations in the large aggregate amount of the expenditure budget.
118. Paragraph 4(a)(v) of the Order of the President requires us, while recommending grants under article 275 of the Constitution, to have regard to the scope for economy consistent with efficiency which may be effected by States in their administrative expenditure. In examining the forecasts of revenue and expenditure we have kept this aspect in mind. We have excluded from our assessment of

expenditure items such as loss in the working of public enterprises. We have also assumed full realisation of current interest dues from States corporations.

119. Our terms of reference specify that in making recommendations for assistance to States by way of grants-in-aid, we should have regard, among other considerations, to the creation of a fund out of the excess, if any, of the net proceeds of estate duty (over a limit to be specified by the Commission), for repayment of States' debt to the Central Government. We have given our views elsewhere in this report why we do not think there would be an advantage of any consequence in adopting a scheme of the kind suggested by implication in this part of our terms of reference; in view of that position, we have not allowed any transfers of revenue from the proceeds of estate duty for creation of the proposed fund. We have, however, independently considered the subject of States' indebtedness to the Union Government in another part of our report.
120. It was represented to us by almost all States that their present levels of expenditure for maintenance of public works, more especially roads were grossly inadequate and that application of past growth rates for forecasting the non-plan expenditure on public works during the Fourth Plan period would not meet the need for improving the existing conditions of roads. Some States have, therefore, urged the continuation of the special purpose communications grant while some others have made substantial additions in arriving at the base figure of 1966-67 expenditure on public works in their forecasts. We agree that there is need for improving the standards of public works maintenance in States but for reasons given elsewhere we have not recommended any specific purpose grants. However, to meet the needs of the situation and for according a uniform treatment to the different States, we have estimated the 1965-66 expenditure on public works with reference to past trends over actuals of 1963-64 and have made due allowance for the enhanced standards of maintenance.
121. On the receipts side, we have not included any transfer from Central Road Fund since the amounts are intended to be utilised for financing developmental outlays in the Plan. These receipts may, therefore, be counted as resources for financing the Fourth Plan. We have also excluded any expenditure which was proposed in the States' forecasts to be financed out of Central Road Fund grants.
122. We have allowed transfer to Zamindari/Jagir Abolition Fund from the revenue account in the case of States which have been making such provision from the

revenue account. We have taken the view that land reform measures were largely in the nature of basic social reform and that as such the net burden falling on the States' exchequer on account of this reform might appropriately be met out of the revenue budget itself. Even if the Zamindari Abolition Bonds were treated as public loans, some provision for their amortization would have to be made in the revenue budget on the same basis as amortization provision for public loans. Further, increases in land revenue receipts on account of Zamindari Abolition measures accrue in the revenue budget. In view of all this, we felt that it would be proper to make provision in the revenue budget for payment on account of Zamindari/Jagir abolition operations.

123. We have included in the revenue receipts the proceeds of betterment levies and of sale of State property.
124. In the assessment of non-tax revenues of the States we could take into account only the revenues likely to accrue from schemes completed by the end of the Third Plan period. Receipts arising from the Fourth Plan schemes, including interest on fresh landings, have been left out since the size of the Fourth Plan and its distribution among various sectors for each State are yet to be finalised. These receipts may, therefore, be counted as resources for financing the Fourth Plan.
125. While examining the forecast of receipts and expenditure, we found that some States have shown transfer of proceeds from certain taxes like tax on motor vehicles, sales tax on motor spirit, sugar cane cess, education cess, electricity duty and toll on bridges to funds set apart for meeting specific items of expenditures. Some of these items formed part of non-plan revenue expenditure already included in the forecast while others constituted Fourth Plan expenditure or capital expenditure outside the plan with which we are not concerned. We took the view that we should allow for such transfer of tax revenues not only where the Fund is meant for financing the non-plan revenue expenditure but also when it is specifically earmarked for a particular purpose outside the non-plan revenue account. This would have the effect of making the balance in these funds which is not being used for non-plan purposes, available for plan expenditure.
126. For determining the needs of the States for assistance under article 275(1) of the Constitution, it was necessary to examine in detail the forecasts of revenue and expenditure furnished by each State, taking into account the trends of growth of revenue and expenditure in the past and the facts and arguments produced in

support of the detailed items in the discussion and correspondence with the State Governments.

127. The interest receipts from Electricity Boards and other autonomous enterprises had been estimated by several States on the assumption that they would be unable to pay the entire amount due under this head and that there would be a further increase in arrears, over the levels existing at the end of the Third Plan. In our assessment for the purpose of determining the revenue gap and the requirements of grants under article 275, we have assumed that the States must treat as resource their entire interest dues—excluding interest on Fourth Plan loans. We have not assumed any reduction in the arrears of interest as outstanding at the end of the Third Five-Year Plan, except where expressly indicated otherwise, in the States' own forecast.
128. Many States included in the forecast demands for large increases over present levels and past trends under police expenditure, grants to local bodies and pay and allowance of State employees. These demands by the States were not always supported by firm decisions and detailed data. The Commission therefore decided to include only those increases in expenditure, which were based on firm decisions of the State Government incorporated in orders which committed the Government to liability on that account. As a consequence of this decision we had to leave out a few cases on which proposals calculated to involve commitments are at various advanced stages of consideration and action has been held up awaiting the report of a Commission or the passing of an Act by the Legislature. These are listed in Annexure 1, Part I. We recommend that in case 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 may also be taken into account by the President in determining the amounts to be granted under article 275.
129. Our estimates of revenue and expenditure take into account all firm Government orders (including orders granting interim reliefs in pay and D.A.) and enactments up to the end of June 1965. We had hoped to take into account all revisions of estimates of States' expenditure on account of pay and allowances of employees of State Governments and local bodies and school teachers intimated to us by the Governments upto the end of July, 1965 on the basis of firm Government orders creating the liabilities but we have not been able to do so in respect of the liabilities created by the orders listed in Annexure 1, Part 2 either because there was not sufficient time after their receipt to reassess the estimates, or the proposals were

not accompanied by the basic particulars and other data necessary to enable us to determine the need for additional grants-in-aid. We recommend that the effect of these liabilities may also be taken into account in fixing the article 275 grants to be included in the Order of the President.

130. An assessment of needs of the type undertaken by us cannot obviously take into account various items of requirements which might emerge during the next five years and which cannot be foreseen at this time. An appropriate procedure will have to be evolved to take such needs into account and to afford Central assistance wherever necessary.
131. Our assessment of revenue receipts and non-plan revenue expenditure of different States for the five-year period 1966-67 to 1970-71 made in the manner explained in the preceding paragraphs works out to the following estimates of non-plan revenue gap:

(Rs. crores)

S. No.	States	Non-Plan revenue gap during 1966-71
1	Andhra Pradesh	202.73
2	Assam	144.96
3	Bihar	108.21
4	Gujarat	113.55
5	Jammu and Kashmir	66.10
6	Kerala	188.61
7	Madhya Pradesh	162.03
8	Madras	207.32
9	Maharashtra	44.72
10	Mysore	202.52
11	Nagaland	58.46
12	Orissa	231.85
13	Punjab	75.03
14	Rajasthan	130.41
15	Uttar Pradesh	306.75
16	West Bengal	183.44
	TOTAL	2426.69

132. After meeting the revenue deficits estimated for the five-year period, the amounts accruing to the following States as their shares of the various taxes and duties (i.e., shares of income-tax, estate duties, Union excise duties, additional excise duties and grants in lieu of tax on railway passenger fares) result in the surplus noted

against each State for the five-year period. We do not recommend any grants under article 275 for them:

(Rs. crores)

S. No.	States	Surplus
1	Bihar	89.25
2	Gujarat	8.00
3	Maharashtra	215.66
4	Punjab	29.83
5	Uttar Pradesh	17.02
6	West Bengal	13.97
	TOTAL	373.73

133. The revenue deficits for the five-year period are in excess of the amounts accruing to the following 10 States as their shares of the various taxes and duties (i.e., shares of income-tax, Union excise duties, additional excise duties, estate duty and grants in lieu of tax on railway passenger fares) by the sum shown against each and we recommend that annual grants equal to one fifth of the sum may be given to each of them under article 275 of the Constitution:

(Rs. crores)

S. No.	States	Deficit (5 times annual grant)
1	Andhra Pradesh	36.10
2	Assam	82.60
3	Jammu and Kashmir	32.85
4	Kerala	104.10
5	Madhya Pradesh	13.50
6	Madras	34.20
7	Mysore	91.20
8	Nagaland	35.35
9	Orissa	145.90
10	Rajasthan	33.65
	TOTAL	609.45

CHAPTER 11

GENERAL OBSERVATIONS AND SUGGESTIONS

134. We now deal with certain questions of a general nature which are of importance in connection with the topics constituting our terms of reference and the recommendations made by us on these topics.

I. Institutional Provision for Inter-Governmental Consultation

135. While we were considering the requests of several States in regard to the sharing of centrally levied taxes, and in particular when we discussed with them the implications of our term of reference contained in para 4(e) of the Order of the President—i.e. adjustment of a State's share of Union Excise Duties if the State's sales tax exceeds a specified limit—we noticed that a very widespread misunderstanding about the Union Government's policy is prevalent among them. The general charge is that the Union Government has a tendency to neglect shared revenues, even shared parts of one and the same item, in favour of non-shared revenues and that there had not been adequate exploitation of the assigned taxes mentioned in article 269 of the Constitution. Each State illustrated this view with what it thought was an apt case. Some States had a feeling that as the Constitution now stands, a temptation on the part of the Union Government to neglect the State's needs is inescapable. A general review of inter-governmental financial relations to be followed by constitutional amendment, if necessary, was also urged. A more general feeling, however, favoured more frequent consultations among the State Governments, and between State Governments and the Union Government on all matters of common financial interest.

136. It was neither necessary nor possible for us to go into the merits of these opinions except in so far as they appeared to affect the prospects of a cooperative and coordinated policy in regard to complementary and alternative sources of revenue such as Union excises on the one hand and sales taxes of States on the other. Article 274 of the Constitution would appear to have been purposefully framed to forestall and to remedy misunderstandings such as these. This article provides in effect that no proposal which in any way affects existing or prospective financial interest of a State shall be presented to Parliament except on the recommendation of the President. An explicit provision for a recommendation by the President should normally entail some mechanism other than the usual briefing and advice from the

concerned Ministry at the Centre. While on several important subjects of common financial interests, consultations with individual States and groups of States have been held in the past there is no regular provision or convention about preliminary consultation with concerned States before the President makes a recommendation to Parliament.

137. Thus, though procedural requirements of article 274 have all along been observed, such observance may be capable of further improvement in such manner as would more fully carry out the purpose of this article and would convey greater reassurance to the States. Contacts among States, and between the States and the Union Government, for discussion of matters of common financial interest ought to be much more regular than they have been in the past. Zonal meetings and meetings of the National Development Council are concerned with such a large number of important questions that they cannot always be expected to give to specific financial issues the close and detailed attention which they deserve. The real intention of article 274, namely that all aspects of the impact on State governments of financial proposals to be made to Parliament should have been previously studied and approved by the President of the Union can be better served if regular meetings at policy, as well as implementation, levels are held among representatives of the Union and State Governments. The proceedings of such meetings will be helpful to all concerned, including the President, in promoting clearer understanding and firmer approval of common financial policies. Once the practice of regular consultation is established it will tend to cover a growing area of common financial interest, not confined to tax-sharing, but extending to exchange of experiences which may lead to greater and greater co-ordination in policy and procedure, the need for which appears to have been pointed out by the Taxation Enquiry Commission even a decade ago. In countries having comparable financial relationships between a Central and several State Governments the functioning of similar institutional devices of regular consultation has produced valuable results. It would appear that the time is ripe in India to make at least a beginning in this respect.

II. Establishment of an Organisation in the Ministry of Finance for continuing the Commission's work.

138. The First Finance Commission had recommended the establishment of a small organisation preferably as part of the Secretariat of the President, for making a continuous study of the finances of the State Governments, the rates of taxes in operation, the effects of the further measures of taxation undertaken by them, the working of their commercial enterprises and their effect on the State finances and cognate matters. It was intended that this organisation should also obtain direct from the State Governments periodical information in regard to the progress of various social services such as education, medical and public health and other material and data, tabulate them and make available the results of these studies in the form of papers to the successive Finance Commissions. Although this recommendation was accepted by the Government, only a small Cell was established, initially in the President's Secretariat and subsequently transferred to the Finance Ministry following the recommendations of the Taxation Enquiry Commission.
139. The Second Finance Commission also recommended that a nucleus staff with experience of the work of the Finance Commission should be retained within the Finance Ministry and made available to future Commissions. It also suggested that arrangements may be made by the Finance Ministry for the necessary statistical and other research work likely to be of assistance to the future Commissions. The Third Finance Commission also stressed the importance and necessity of arranging for the compilation of reliable statistics relevant for the determination of the needs of the States, their taxable capacity and the efficiency of their administration.
140. The Cell maintained in the Finance Ministry, however, consists of only some ministerial staff. No data except the Conspectus of Central and State Budgets has been made available to us by the Cell. The work of the Finance Commissions could be facilitated, if adequate arrangements are made to make a continuous study of State revenues and expenditure. For instance the result of such studies would probably have enabled us to deal more satisfactorily with our terms of reference relating to an examination of the scope for economy in administrative expenditure and a study of the combined incidence of States' sales tax and Union excise duties on production, consumption or exports than we have been able to do. We, therefore, suggest that the present Cell maintained in the Finance Ministry may be re-organised and strengthened by the addition of personnel with suitable research

experience who would be able to continue to collect and analyse the relevant material.

III. Natural Calamities

141. The Government of India has a scheme for assistance to States to meet expenditure on natural calamities in excess of the provision made by the Second and Third Finance Commissions in their schemes of devolution on the basis of the past average annual expenditure. In the course of their discussions with us, many States have urged that the conditions governing the grant of assistance under the scheme were too stringent and that the scheme should be liberalised so as to meet more adequately the needs of the States. The complaints related in particular to certain items of relief expenditure which were held to be ineligible for assistance under the scheme, the provision necessitating local inspection by officers of the Government of India, and the manner in which the excess of expenditure over the fixed amounts provided by the Finance Commission was shared between the Centre and the States. We have refixed the amounts included in the expenditure forecast on the basis of actual expenditure for eight years. We suggest that the working of the existing scheme may be reviewed and modifications made wherever required in consultation with the States.

IV. Transfer to Local Bodies

142. The forecasts of State expenditure accepted by us include large amounts by way of transfer of resources and grants to local bodies. These involve a large step-up over current levels of transfers. Although the amounts admitted by us are what are payable according to commitments incurred by the State Governments on the basis of existing laws or orders, most States were unable to supply us statements showing the break-up of the amounts among different heads of expenditure. We have admitted the amounts on the basis that the expenditure will have to be incurred exclusively on items which are ineligible for inclusion in the Plan, but it should be easy to take this reservation into account while finalising plan arrangements with each State.

V. Borrowing

143. The subject of borrowings by State Governments has come before the Commission in two contexts. By its terms of reference the Commission has been asked to do, pay regard among other things, to any further expenditure for the servicing of their debt likely to devolve upon States, which are in need of assistance by way of grant-in-aid of their revenues under article 275, and to the creation by them of a fund out of the excesses, if any, over a limit to be specified by the Commission, of the net proceeds of estate duty on property other than agricultural land accruing to a State in any financial year, for the repayment of the States' debt to the Central Government. Even the total net proceeds of estate duty on property other than agricultural land accruing to States are so small in relation to the existing and prospective burden of borrowing by States from the Government of India, that unless the approach underlying this part of the Commission's terms of reference is carried substantially forward a satisfactory solution to the problem will not be found. On their side the State Governments have as a rule expressed grave concern at the mounting burden of their debts, and they have in effect requested the Commission either to provide them with enough resources for the service and amortization of their debts or to find some other way out of what many of them feel is an impasse.
144. The Commission must, therefore, squarely face the whole problem of the budgetary implications of borrowings by State Governments. In one specific respect, namely the service and amortization of the market borrowings of State Governments, the Commission is definitely of opinion that both these must form part of the revenue liabilities of State Governments. While interest liability has in the past been readily accepted as a revenue liability, amortization provision has been allowed as a legitimate charge on revenue only in the case of States which are not in need of grants in support of their revenues under article 275. The acceptance of the item of amortization as a legitimate part of revenue expenditure is, in our opinion, unaffected by the source from which the revenues are derived—revenues levied and collected by States, revenues accruing to States under the scheme of devolution, and grants out of the Consolidated Fund of India made in support of revenues of States as recommended by the Finance Commission. While almost all States have urged a claim for adequate strengthening of their revenues to enable them to make a suitable provision for amortization of their market borrowings, only

a few among them have made any substantial provision for the same in their budget.

145. It is likely that this lack of adequacy and of uniformity of budget provision has been at least partly due to the view taken so far that provision for amortization of market borrowings is admissible only to the extent to which a State's revenue resources, other than grants to which they are entitled under article 275, can bear the financial burden. We have accepted as legitimate items of revenue expenditure the provision already included in the budgets of State Governments on account of amortization of their market borrowings. We recommend that an early inquiry through a representative and expert body should be undertaken to decide the principles of a scheme of amortization of public borrowings by the States. The recommendations of this body should form the basis on which all State Governments should be given an opportunity to recast their expenditure forecasts of the next five years. As the programme of public borrowings by State Governments is normally formulated in consultation with the Government of India there should be no difficulty in ascertaining the factual position of each State in regard to its amortization needs under an approved scheme. As the several guarantees given by a State Government to third parties constitute a contingent liability which it owes to the public the soundness of the practices currently followed in this respect should also be examined by the body to be set up to consider the question of public indebtedness of State Governments.
146. By far the more important in regard to amounts involved, and more complicated in regard to underlying policies is the problem of borrowings by States from the Government of India. The Central Government as a creditor of State Governments is in a peculiar position. Cases in which a State Government approaches the Centre with a request for a loan for a purpose which it decides by its unaided judgment as being in need of such finance are becoming very few. As a rule most of the objects of expenditure and investment by State Governments are determined by joint consultation either directly or through the Planning Commission. At least in some cases the Centre is keen on offering an inducement to a State Government to undertake a fresh responsibility. While the ultimate judgment of the State Government is in no way fettered, over a growing area of public expenditure, the relations between the two authorities are developing into an unlimited partnership. Whatever may be the position in law—the Government of India cannot appraise

the credit of a State Government, and certainly not of a number of State Governments, differently from its own credit. A survey of the soundness of the present system of inter-governmental borrowing is necessary as much in the interests of the States, as that of the Government of India.

147. It is necessary to be clear about the purpose and nature of a loan before its service and amortization can be put on a sound basis. When borrowing was largely confined to meeting either distress expenditure or the provision of a public amenity no serious doubt existed as to the burden both of interest and repayment being borne by revenues over an appropriate number of years. The mere fact that certain items of expenditure resulted in the creation of durable assets did not alter the fact that the expenditure had to be finally met out of revenue. Only items of expenditure which created a productive asset, bringing in a net revenue which would pay for interest and repayment, could be classified as investments and kept out of the revenue budget. A number of items fell between the two clearly defined classes, as being partly a revenue amenity and partly a capital investment. The extent to which each such item constituted a burden on general revenues had to be determined by the extent of its being an amenity and not an investment. This in substance was the prevailing practice of State and Central Governments till the developmental functions of both the State and Central Governments became increasingly important.
148. In 1955 the Government of India advised the State Governments that all expenditure on capital assets, that is durable or fixed though not necessarily productive or self-liquidating assets, should be held eligible for being serviced out of loans, and that the amortization of such loans need not be treated as a charge on revenue except to the extent that the State Governments were bound to provide in accordance with any law or with any specific undertaking given in the case of any loan [Appendix III (xi)]. In its initial stages this practice, which ran counter to the more discriminating policy of the earlier period of keeping out of the revenue budget only productive and self-liquidating items of capital expenditure, did not produce serious results, though it appears that some at least among the State Governments had repeatedly urged the claims of the more orthodox policy. The diversion of large items of unproductive or inadequately productive capital expenditure from the revenue to capital budgets made it possible to show a balanced revenue budget and to go on balancing the capital budgets also by fresh

borrowings. As the sources and purposes of borrowings were numerous and ever on the increase, no serious question about the soundness of the new system projected itself for some time on the attention of Governments. But as the burden of Central loans began to pile up and as the unproductive, i.e., non-revenue earning nature of a large part of it, e.g., education, health, protective irrigation, etc., became clear, the States felt that any further continuance of this policy by the Government of India could only mean that the Centre would ultimately take care not only of the interest, but also of the repayment liability of the debt, at least of that part of it which was not clearly productive of a net revenue return equal to these costs. As we have noted above more than one State has urged this view of their indebtedness to the Centre.

149. As recently as March of this year the classification of expenditure as between capital and revenue accounts as received the attention from the Finance Ministry of the Government of India [Appendix III (x)]. While it is recognized that only clearly productive items of capital expenditure can be kept out of the revenue budget no definite provision has yet been made to ensure the observance of this salutary principle. Even when the general principle is accepted its application, or rather its reapplication in a developmental pattern of expenditure is found to raise a number of difficult procedural and financial issues. Apart from the current and prospective application of a more rational principle, the scrutiny, classification and treatment of accumulated indebtedness would need an elaborate, expert and representative deliberation. We are convinced, however, that in the interest of financial soundness such an inquiry ought not to be delayed any further. In regard to periods, rates of interest and other terms of each loan made by the Government of India to a State Government a much more specific and discriminating approach than it has been possible to adopt in recent years appears to be called for. It is only in the light of a thoroughgoing investigation of the past commitments and of future borrowings that the exact impact of Central loans on State budgets can be measured and incorporated in the scheme of devolution and grants which it is the function of the Finance Commission to recommend.
150. The overshadowing of current budgets by plan budgets and generally of maintenance by developmental objectives has naturally created a ready acceptance of higher expenditure targets and of continued borrowing. State Governments readily admitted that their budgeting was optimistic in regard to revenue they had

budgeted for higher figures of revenue than they hoped to receive. This unusual attitude was sought to be defended partly as a target for achievement and partly as an apparent justification for higher expenditure budgets than were justified. Somehow this was thought to be consistent with a welfare State. Even with this leavening of optimism budgets were not balanced in every case. Such situations, it was claimed would be met by ways and means overdraft. While as yet such attitudes and occurrences are rare, the very fact that they are beginning to come to the surface indicates that a thorough revision of the policy underlying borrowing by States, especially from the Centre, is urgently called for. In their turn borrowers from State Governments are developing attitudes which reflect similar ideas of optimism and complaisance. A sounder and more rational arrangement between the purposes and the terms of loans must be reinstated to secure and enhance the strength of the fiscal system.

VI. Statistical Data Required by the Commissions

151. The earlier Finance Commissions had emphasised the need for collecting reliable statistical data on a continuous basis and making them available to Finance Commissions at the very commencement of their work. We have mentioned elsewhere that very little information had already been collected and compiled. We had to make our own arrangements for collection and analysis of the statistical data required by us. We issued a questionnaire to the State Governments requesting them to furnish information on 30 subsidiary points which were relevant to the work of the Commission. The questionnaire will be found in Appendix III(iv).
152. The task of the Commission involved the assessment of revenue receipts and expenditure of the States over the Fourth Plan period. This in turn required the estimation of the past and current growth rates of a number of components of receipts and expenditure. The data available in the budget papers could not be used for trend analysis without adjustment. There were many elements which made it difficult to compare the data over time. Changes introduced from time to time in budget classifications and accounting practices, step-up in receipts on account of additional taxation measures and take-over by corporations of departmentally run industrial and commercial enterprises are some of the major causes of non-comparability in the statistics of revenue receipts and expenditure of the States. Some of the items of statistics that should be collected are the following:

- i. Information on additional taxation and other elements necessary for adjustments to make budget figures comparable over time;
- ii. Rates of the principal taxes, duties and fees levied and the changes made from time to time in the rates;
- iii. Details of schemes outside the plan financed partly or wholly by the Central Government or commodity committees;
- iv. Regular comparable data on arrears of taxes in different States;
- v. Loans advanced by State Governments to corporations, electricity boards etc.; rate of interest and other terms and conditions;
- vi. Debt position of the States—Central and Public Debts—interest rates, terms of repayment and provision for appropriation;
- vii. Number and pay ranges of State Government employees and employees of local bodies including Panchayat institutions and teachers in aided schools;
- viii. Data on financial and economic results of irrigation (commercial), multipurpose river schemes and departmentally run commercial and industrial enterprises; and
- ix. Details of transfer of resources to local bodies in each State and the manner of utilisation of these funds.

153. It has been stated in the Chapter on Income-tax that we have been obliged to accept collection as the only available measure of contribution for the distribution of income tax proceeds amongst the States. It may be said that a better indicator of contribution would be provided by measures of income originating in an area or accruing to the residents of an area but adequate data are not available. An early attempt should be made to collect such information in future.

154. Successive Commissions have felt the need to have reliable data on State's contribution to excise duties, on the basis of consumption. The commodities concerned fall under two categories: (i) excisable goods consumed by households, and (ii) producer and intermediate goods. There is no readily available information in respect of the second category. As regards the first category, the National Sample Survey collects information on household consumer expenditure annually, but State-wise information is not available for any round except for the 13th round (1957-58); the 13th round data were considered by the Third Commission and found not usable for the purpose of distribution of excise duties. We urge that

information on consumption data, both household and non-household, on excisable articles should be collected and maintained on an up-to-date basis.

155. Our terms of reference include the study of the effect of the combined incidence of States' Sales tax and Union duties of excise on the production, consumption or export of commodities or products, the duties on which are shareable with the States. We have said elsewhere that due to lack of statistics, we are not in a position to study the problem. Only one or two States have made any real attempt to collect information on commodity-wise yield of Sales tax. Even in those States, the information collected is far from satisfactory. We recommend that immediate steps should be taken to collect commodity-wise information on Sales tax and excise duties. This information would be useful to the State Governments themselves.
156. Some States urged that per capita income should be taken as a criterion for the distribution of excise duty and income-tax. We examined the available data on State income and found that they are not comparable from State to State and therefore not usable for the purpose. We urge that the process of building up reliable and comparable estimates of State income should be accelerated.

CHAPTER 12

SUMMARY OF RECOMMENDATIONS

157. Our recommendations to the President in regard to devolution and grants-in-aid are set out below:

Under article 269 of the Constitution:

I. Estate Duty.- In each of the five years commencing from 1st April, 1966:-

- (i) Out of the net proceeds of the duty in each financial year, a sum equal to two per cent be retained by the Union as proceeds attributable to Union Territories;
- (ii) The balance be apportioned between immovable property and other property in the ratio of the gross value of all such properties brought into assessment in that year;
- (iii) The sum thus apportioned to immovable property be distributed among the States in proportion to the gross value of the immovable property located in each State; and
- (iv) The sum apportioned to property other than immovable property be distributed among the States as follows:

State	Percentage
Andhra Pradesh	8.34
Assam	2.75
Bihar	10.76
Gujarat	4.78
Jammu and Kashmir	0.83
Kerala	3.92
Madhya Pradesh	7.50
Madras	7.80
Maharashtra	9.16
Mysore	5.46
Nagaland	0.09
Orissa	4.07
Punjab	4.70
Rajasthan	4.67
Uttar Pradesh	17.08
West Bengal	8.09
Total	100

II. Grant in lieu of taxes on Railway Fares. - In each of the five years commencing from 1st April 1966, the amount of grant made available on the basis of the

recommendations of the Railway Convention Committee be distributed among the States as follows:

State	Percentage
Andhra Pradesh	9.05
Assam	2.79
Bihar	9.99
Gujarat	7.11
Jammu and Kashmir	—
Kerala	1.85
Madhya Pradesh	9.85
Madras	5.81
Maharashtra	8.98
Mysore	3.98
Nagaland	0.01
Orissa	2.12
Punjab	7.43
Rajasthan	6.40
Uttar Pradesh	18.23
West Bengal	6.40
Total	100

Under article 270 of the Constitution:

III. Income-tax. - In each of the five years commencing from 1st April, 1966—

- (i) the percentage of the net proceeds in any financial year of taxes on income other than agricultural income, except in so far as these proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments to be assigned to the States be 75 (Seventy Five) per cent;
- (ii) the percentage of the net proceeds of taxes on income which shall be deemed to represent proceeds attributable to Union territories be 2.5 (Two and a half) per cent; and
- (iii) the percentage of the net proceeds assigned to the States be distributed among them as follows:

State	Percentage
Andhra Pradesh	7.37
Assam	2.44
Bihar	9.04
Gujarat	5.29
Jammu and Kashmir	0.73
Kerala	3.59

Madhya Pradesh	6.47
Madras	8.34
Maharashtra	14.28
Mysore	5.14
Nagaland	0.07
Orissa	3.40
Punjab	4.36
Rajasthan	3.97
Uttar Pradesh	14.60
West Bengal	10.91
Total	100

Under article 272 of the Constitution:

IV. Union Excises.- In each of the five years commencing from 1st April, 1966, a sum equal to 20 (twenty) per cent of the net proceeds of the Union duties of excises on all articles levied and collected in that particular year, excepting regulatory duties, special excises and duties and cesses earmarked for specific purposes be paid out of the Consolidated Fund of India to the States and distributed among them as follows:

State	Percentage
Andhra Pradesh	7.77
Assam	3.32
Bihar	10.03
Gujarat	4.80
Jammu and Kashmir	2.26
Kerala	4.16
Madhya Pradesh	7.40
Madras	7.18
Maharashtra	8.23
Mysore	5.41
Nagaland	2.21
Orissa	4.82
Punjab	4.86
Rajasthan	5.06
Uttar Pradesh	14.98
West Bengal	7.51
Total	100

V. Additional Duties of Excise. - In each of the five years commencing from 1st April 1966, out of the total net proceeds of additional duties of excise on cotton fabrics, silk fabrics, rayon or artificial silk fabrics, woollen fabrics, sugar and tobacco including manufactured tobacco:

- i. a sum equal to 1.00 (one) per cent of the net proceeds be retained by the Union as proceeds attributable to Union territories;
- ii. a sum equal to 1.50 (One and a half) per cent of the net proceeds be paid to the State of Jammu and Kashmir;
- iii. a sum equal to 0.05 (one twentieth) per cent of the net proceeds be paid to the State of Nagaland; and
- iv. out of the balance (i.e., 97.45 per cent) of the net proceeds of the duties, i.e., after the deduction of the amounts mentioned in sub-paragraphs (i) to (iii) above, the following sums representing the revenue realised in 1956-57 by each State on account of Sales Taxes on the six commodities, be first paid to the following States:

State	(Rupees in lakhs)
Andhra Pradesh	235.24
Assam	85.08
Bihar	130.16
Gujarat	323.45
Kerala	95.08
Madhya Pradesh	155.17
Madras	285.34
Maharashtra	637.77
Mysore	100.10
Orissa	85.10
Punjab	175.19
Rajasthan	90.10
Uttar Pradesh	575.81
West Bengal	280.41
TOTAL	3254.00

- (v) The remaining sum, if any, be distributed among the 14 (fourteen) States, as specified below:

State	Percentage
Andhra Pradesh	7.42
Assam	1.98
Bihar	6.17
Gujarat	7.43
Kerala	5.65
Madhya Pradesh	4.62
Madras	11.13
Maharashtra	19.87
Mysore	5.21
Orissa	2.58

Punjab	5.01
Rajasthan	3.17
Uttar Pradesh	7.83
West Bengal	11.93
TOTAL	100

Under article 275(1) of the Constitution:

VI. Grants-in-aid. - Under the substantive portion of article 275(1) of the Constitution, in each of the five financial years commencing from 1st April 1966, the sums specified below be charged on the Consolidated Fund of India as grants-in-aid of the revenues of the States mentioned against them:

State	Rs. Crores
Andhra Pradesh	7.22
Assam	16.52
Jammu and Kashmir	6.57
Kerala	20.82
Madhya Pradesh	2.70
Madras	6.84
Mysore	18.24
Nagaland	7.07
Orissa	29.18
Rajasthan	6.73
TOTAL	121.89

ACKNOWLEDGMENTS

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 Gautam⁴
Member.
D. G. Karve,
Member.
Bhabatosh Datta,
Member.
P. C. Mathew,
Member Secretary.

NEW DELHI,
August 12, 1965.

⁴ Subject to the appended minute of dissent.

MINUTE OF DISSENT BY SHRI MOHAN LAL GAUTAM

1. 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 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
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, Madhya Pradesh, 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 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:

States	Percentage
1. Andhra Pradesh	7.75
2. Assam	2.50
3. Bihar	10.00
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
Total	100

MOHAN LAL GAUTAM,
Member.

NEW DELHI,
August 12, 1965.

OBSERVATIONS ON THE MINUTE OF DISSENT

The Minute of dissent by Shri Mohan Lal Gautam relates to the following points:

(i) Omission to include in the expenditure estimates, liability consequent on revision of dearness allowance and pay scales effected by the State Governments of Andhra Pradesh (on 1st July 1965), Mysore (on 22nd July 1965) and Uttar Pradesh (on 27th and 29th July 1965).

(ii) Omission to include in the expenditure estimates of the States, liabilities which may accrue during the course of the next five years, though no decisions have been taken by the States. For example (1) Sinking fund for market loans (2) Provision for revision of dearness allowance and pay scales (3) Police re-organisation (4) Panchayat Raj Administration and (5) Administrative re-organisation.

(iii) Distribution of the balance of the proceeds of additional excise duties in excess of the guaranteed amounts.

2. These points have been dealt with by us in appropriate paragraphs in the report, namely, para 129 for (i), paras 114, 128, 130 and 142 for (ii) and para 71 for (iii).
3. As has been explained in the relevant paragraphs, we have taken the view that each major item of contingent expenditure should be taken up with the Government of India as it arises and the Government of India should deal with it along lines of similar items specifically included in the Commission's award. We refused to act in a hurry over accepting financial implications of large policy measures arrived at by States themselves in a hurry and we contented ourselves with recommending that while a particular item of expenditure is in our opinion eligible for inclusion in the estimates of State expenditure, the accuracy of the financial provision asked for must be tested by more careful scrutiny than the Commission could give it. The number of States coming forward with fresh schemes appeared to be almost unending. We felt that it would be difficult to make a fair and reasonable assessment taking all the relevant factors into account within the few days available to us after the receipt of these additional claims. Indeed even if our tenure had been extended and we had decided these particular cases after such further discussions with the State Governments as were necessary, that would merely have resulted in some other States being in a similar position.

4. When all the resources of the country including those of the Union and the State Governments are being mobilised both for efficient administration and planned development, we do not feel justified either in providing large sums for contingent liabilities of the States or in making large financial provisions without adequate scrutiny for measures presented at the fag end of our work.
5. We are, therefore, unable to agree with the recommendations made by Shri Mohan Lal Gautam.

New Delhi,
August 12, 1965.

P. V. RAJAMANNAR.
D. G. KARVE.
BHABATOSH DATTA
P. C. MATHEW.

MINUTE BY DR. P. V. RAJAMANNAR

[This Supplemental Note which I have decided to add to the main Report separately does not strictly relate to the terms of reference contained in the President's Order appointing the Commission. It follows that whatever is found in this Note does not in any manner affect the recommendations made by the Commission as a whole. It contains my own thoughts on certain topics which are intimately connected with the Union-State financial relations. The views expressed and suggestions made in this Note are entirely mine.]

The Federal principle requires that the general and regional governments of a country shall be independent each of the other within their respective spheres and shall be not subordinate one to the other, but co-ordinate with each other. Now, if this principle is to operate in practice, both the general and regional governments must each have independent control of financial resources sufficient to perform their respective functions. "It is, therefore, as necessary that the State Governments should be able to command the means of supplying their wants, as that the national government should possess the like faculty in respect to the wants of the Union" (Federalist).

2. The problem is a difficult one, for it is a hard task to allot resources in such a way that resources and functions are harmoniously adjusted.

3. In practice, ideal distribution has not been possible under any Federal Constitution. In almost every one of the Federations, inadequacy of provincial finances is being met by discretionary grants made by the Federal Government to the Provinces. In every Federation there are regions or States which have not been able to afford to provide for the social services which pertain to their functions. Such regions and States are compelled to ask for assistance from the Federal or the Central Government.

4. Under the Indian Constitution, there has been a distribution of functions and allocation of tax-raising powers embodied in the lists in the Seventh Schedule. But it is clear that the allocation of the financial resources consequent on the powers conferred by the lists has not corresponded with the allocation of functions. In India, the problem is met in a two-fold way. Firstly, by the provision for a distribution of certain revenues between the Union and the States. This distribution is quite distinct from the distribution of the subjects contained in the Lists. The distribution from article 268 onwards relates to taxes and duties levied by the Union in exercise of the powers conferred on it by the subject matter of such duties and taxes being included in the Union List. Articles 268, 269, 270

and 272, all relate to such duties and taxes which only the Union has the power to levy. Whether or not in respect of some of these duties and taxes, their inclusion in the Union List was on ground of convenience and the need for uniformity it does not matter. As the lists stand, these several taxes and duties mentioned in the section are Union levies. Some of these are only levied by the Government of India but are collected by the States and the proceeds are assigned to the States. Others are both levied and collected by the Government of India but are assigned to the States. Yet others are levied and collected by the Government of India but compulsorily distributed between the Union and the States. There are yet others which are levied and collected by the Government of India, in respect of which there is no obligation for distribution between the Union and the States; but Parliament may direct payment to the States of any part of the net proceeds of such duties.

5. Article 275 provides for money grants by the Centre which are not referable to any particular taxes or duties, but which are directed to be made over to such States as Parliament may determine to be in need of assistance. Ex facie, there is nothing in this article which confines its operation to filling up of any gap. Actually, this article has been construed as a residuary provision for grants to help the revenue gap of particular States to be covered if the amounts payable to such States in accordance with the scheme of distribution of taxes and duties were not adequate.

6. On a plain reading of the relevant articles of the Constitution, dealing with the distribution of revenues, and the functions of the Finance Commission, without being influenced by the events which have happened and circumstances which have prevailed subsequent to the Constitution, two things appear to me to be clear; namely (i) The assignment of certain taxes and duties in their entirety, and the obligatory and permissive division regarding other taxes and duties, were intended to augment the resources of the States. The amounts allotted to each State in accordance with this scheme of devolution would form part of the revenues of that State. They would be included in the Consolidated Fund of the State along with its ordinary revenues, i.e., revenues to which it would be entitled as of right. (ii) Nowhere in these articles is there an express or implied indication that the total revenues of a State should be utilised only for revenue expenditure. It may be said that the more or less arbitrary division of expenditure into Capital and Revenue does not find a place as such in the Constitution, though the Constitution draws a distinction between grants of Capital and recurring sums and also between grants and loans. There is no indication either that the function of the Finance Commission is to be confined to the revenue part of the budgetary needs of a State. Article 275, which occurs in the same

section relating to distribution of revenues between the Union and States, speaks of States which may be determined to be in need of assistance. It does not say 'assistance for revenue gap'. On the other hand the two provisos to clause (i) of article 275 expressly refers to "sums to be paid as grants-in-aid of the revenues of a State." The first proviso unequivocally includes the costs of schemes of development as may be undertaken by the State. It is abundantly clear to my mind that the reference in the main part of clause (i) of article 275 to grants-in-aid of the revenues of States is not confined to revenue expenditure only.

7. It follows from a construction of the relevant articles of the Constitution, as they stand, that the Finance Commission is concerned with the total assistance to be given to a State, other than by way of loans, whether classified as capital or revenue. There is no legal warrant for excluding from the scope of the Finance Commission all capital grants, even the capital requirements of a State may be properly met by grants-in-aid under article 275(1), made on the recommendations of the Finance Commission.

8. It is the setting up of the Planning Commission that has in practice restricted the scope and functions of the Finance Commission. I say, in practice because there has been no amendment of the Constitution to confine the functions of the Finance Commission to merely ascertain and cover the revenue gap of each State, on a review of the forecast of Revenue and Expenditure furnished by the State Authorities. Even the view taken by the Government of India is not that it is beyond the power of the Finance Commission to provide for the requirements of the Plan. The third Finance Commission made a recommendation by a majority 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. This recommendation, from which the Member-Secretary dissented, was not accepted by the Government of India, but not for the reason that the Finance Commission travelled beyond its sphere. The reason was more practical than legal. In their explanatory Memorandum on the action taken on the recommendations of the third Finance Commission, the Government of India only say that they do not consider it either necessary or desirable to accept the recommendation, to include 75 per cent of the revenue component of the State plans in the scheme of devolution recommended by the Commission, because there will be no real advantage in the States receiving assistance for their plans, partly by way of statutory grants-in-aid by the Finance Commission and partly on the basis of annual reviews by the Planning Commission.

9. The legal position, therefore, is that there is nothing in the Constitution to prevent the Finance Commission to take into consideration both Capital and Revenue requirements of the States in formulating a scheme of devolution and in recommending grants under article 275 of the Constitution. But, the setting up of the Planning Commission inevitably has led to a duplication and overlapping of functions to avoid which, a practice has grown up, which has resulted in the curtailment of the functions of the Finance Commission.

10. Evidently, the terms of reference to the Fourth Finance Commission have been formulated with the object of eliminating duality of functions between the Finance Commission and the Planning Commission. This is based apparently on the Government's decision that the two bodies should have separate and well-defined spheres of work. Unlike the terms of reference to the third Finance Commission (and the second Finance Commission also), there is no reference to the requirements of the Fourth Plan except in the matter of servicing of debt.

11. The grants for financing plans would be given on the basis of recommendations made by the Planning Commission and will not be left to be determined by the Finance Commission.

12. There is no provision in the Constitution for a body like the Planning Commission. It was established by a resolution of the Government of India. Neither the strength of the Commission nor the qualification of its members was prescribed. The Government retained complete freedom to vary its strength at will and to appoint any one as a Member of the Commission. There was a limit to the duration of the Commission. When it was constituted, possibly it was meant to be a temporary body and obviously it has come to stay. The composition of the Commission is unusual. It has, as its Chairman, the Prime Minister and among its Members, there are Cabinet Ministers. When compared to a statutory body like the Finance Commission, which is quite independent of the Government, the Planning Commission may be described as a quasi-political body. There has been from time to time variation in the strength of the Commission and in the appointment of its Members. Though its role is advisory, it has come to occupy a very significant and important place in the economic development of the country. Vis a vis the government, It is not easy to describe its status in spite of its importance; it remains to this day a body without any constitutional or legislative sanction. As the entire plan, both as regards policy and programme, comes within the purview of the Planning Commission and as the assistance to be given by the Centre for plan projects either by way of grants or loans is practically dependent on the recommendations of the Planning Commission it is

obvious that a body like the Finance Commission cannot operate in the same field. The main function of the Finance Commission now consists in determining the revenue gap of each State and providing for making up the gap by a scheme of devolution, partly by a distribution of taxes and duties and partly by grants-in-aid. Personally I have no comment to make on such a dichotomy of functions. But I think that the relative scope and functions of two commissions should be clearly defined by amending the Constitution and the Planning Commission should be made a statutory body independent of the Government.

13. As capital grants for plan projects came to be excluded from the purview of the Finance Commission it was necessary to find a constitutional provision to enable the Centre to make grants to the States to assist them in the implementation of their plan projects. Recourse was made to article 282 of the Constitution, because grants under article 275 (1) were to be made only for the purpose of closing the revenue gap.

14. I do not go to the extent of saying that article 282 does not confer power on the Union Government to make grants to the States for implementation of their Plan. The language is wide enough to cover such grants. But I have only one comment to make on the form of such grants. Article 282 contemplates a grant for a public purpose. I doubt if grants under article 282 can be made without such grants being tied to a specific public purpose.

15. In my opinion article 282 was never intended for the purpose for which it is now being used. It is a substantial reproduction of Section 150 (2) of the Government of India Act, 1935, except that while the Act of 1935 simply mentioned 'any purpose', the Constitution says 'any public purpose'.

16. In Chapter I, Part XII of the Constitution dealing with 'Finance', article 282 is the first of a series of miscellaneous financial provisions. There can be little doubt as to the purpose for which this article and the corresponding provision in the Govt. of India Act, 1935 were enacted. In this connection, it is important to notice that article 282 of the Constitution (and section 150 of the Government of India Act, 1935) mention both the Centre and the States. The language is singularly inappropriate for a special provision to enable the Union to make grants to the States. For a proper construction of article 282, reference must be made to article 266(3) of the Constitution, which says:-

"No moneys out of the Consolidated Fund of India or the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in this Constitution".

17. It is a well recognised concept that the spending power of a State is co-terminus with its legislative power. It will be ultra vires for the Union to expend any money for a purpose not covered by the Union List or the Concurrent List and it will be equally ultra vires for a State to spend any money on a matter which is exclusively within the Union List. The real purpose of article 282 is to validate such expenditure either by the Union or a State. The Union or a State is of course entitled to make a grant for any purpose, provided it is a purpose which would fall within the respective sphere of either of them. But article 282 specifically empowers the Union or a State to make a grant for any public purpose, though that purpose is one which does not fall within the legislative ambit of the Union or the State respectively. Article 282 confers on the Union or a State a spending power without conferring legislative power. The marginal note gives a clue to the proper construction of the Article. It runs thus:-

"Expenditure defrayable by the Union or a State out of its revenues".

18. It is clear to my mind that article 282 was not intended to enable the Union to make a grant to a State as such. I venture to say that while article 282 may continue to stay for the purpose for which it was originally intended, a specific constitutional provision may be added to enable the Union Government to make conditional grants to States for implementation of any project, whether falling within or without the Plan scheme on terms and conditions which will ensure a proper utilisation of the grants.

19. After fifteen years of working the provisions of the Constitution, during which period four Finance Commissions have been appointed, I think the time is ripe to have a review of the Union-State financial relationship, particularly in view of the setting up of the Planning Commission. This review should be made by a special Commission who can approach the several problems that have arisen in the past and that are likely to arise in the future objectively and realistically. Some of the questions which may fall to be decided by this Commission I shall mention briefly:

- a. The scope and purpose of grants under articles 275 and 282 of the Constitution may be clarified and defined. A dual scheme of transfer of resources from the Centre to the States should completely avoid duplication and overlapping. If need be, a separate provision in the Constitution may be added, apart from article 282, which I pointed out, earlier on, was not intended for that purpose, to enable the Central Government to make grants for implementation of plan and non-plan schemes, imposing terms and conditions to ensure a proper utilisation of the

grants. Such grants may be made after considering the recommendation of a body like the Planning Commission. I only venture to suggest that the Planning Commission may be given the status of an independent permanent statutory body.

- b. A scheme may be devised to avoid uncertainty and speculation as to the allocation of divisible taxes and duties like Income-tax and excise duties. Several States have pleaded before successive Finance Commissions for varying proportions of allocation, some going to the extent of an allocation of 100 per cent. to the States in the case of income-tax proceeds. A definitive allocation by way of percentages of shares of the Union and States respectively may be fixed by the Constitution itself.

20. As regards distribution inter se among the several States, the general principles and criteria may be laid down by the Constitution. Here again, there has been a great divergence in the suggestions put forward by the States before the Finance Commissions. Population, contribution, collection, relative financial weakness, social and economic backwardness, per capita income are some of the different criteria urged by one or other of the States. In respect of such an important matter as the determination of the resources which will be available to each State as a result of a scheme of devolution, there should not be a gamble on the personal views of five persons, or a majority of them. I say this without intending any disparagement of the eminence, equipment and impartiality of the Members of the Commissions. After all these provisions are made in the Constitution what remains is an examination of the forecasts of Revenue and Expenditure made by the States to determine the grants-in-aid of the revenues to such States as may be necessary under article 275(1). This task may be assigned to a Finance Commission, or to a consultative institution, such as we have recommended in the Report, or to a wing of the Planning Commission itself. Periodical reviews by an independent Commission would guarantee justice to the States and the continuation of such a Commission is an essential feature of our Constitution.

21. A suggestion similar to mine for a review of the constitutional provisions dealing with financial relations between Union and States is to be found in the reports of both the second and third Finance Commissions.

22. There is one other matter which is not directly covered by the terms of reference, but on which I would like to express my personal view. Representations have been made to us that with reference to a number of commodities subject to Union excise duties, additional excise duties in lieu of sales tax may be substituted. It was pointed out that this

would simplify the problem of collection and make the incidence of tax burden uniform and may have the effect of stepping up production and distribution. Such a course may not find favour with the States on the ground that sales tax is their only available elastic source of revenue. This objection may, however, be met by giving the States a larger share of the receipts from the basic excise duties and any special duties of excise or surcharges on the duties. A view has been expressed that if it were possible to make a constitutional amendment, placing the yield of excise duties on the same footing as income-tax, there might be just a possibility of the States agreeing to the merger of sales taxes and excise duties.

NEW DELHI,
Dated August 12, 1965

P. V. RAJAMANNAR,
Chairman.

MINUTE BY PROF. F. BHABATOSH DATTA

The Report we have presented recommends an integrated scheme of devolution and grants-in-aid based upon the general principles we have formulated in Chapter II. The field covered by these recommendations is defined by the relevant provisions in the Constitution and our terms of reference. I have felt, however that there are certain allied questions which deserve urgent consideration at the present stage, in view of the changes that have been taking place in our economic and financial situation since the introduction of the present system of Union-State financial relations. The following paragraphs seek to indicate some of the very important problems that have already arisen and are likely to become crucial in the not very distant future.

2. The principles of devolution of taxes adopted in this Report and the resulting scheme of distribution have led to surpluses for some States and deficits for others. In a few cases the surpluses are substantial and consequently, the details are neutral for those States by grants under article 275. In other cases there are cases in which the deficits are quite large.
3. The surpluses do not create any problem, because these amounts will be taken into account in determining the sizes and patterns of the State Plans. In the case of the deficit States, however, while there should be no difficulty regarding the Plan outlays if the Central assistance for plan purposes is appropriately adjusted, there will remain the difficulties and problems arising from the dependence of their normal revenue budgets on large grants-in-aid. Apart from the adverse psychological effects of such large grants both to the donor and to the taker, there is the fact that a relatively large grant to one State deprives that State, relatively to others, from the benefit arising from the buoyancy of the Central revenues.
4. The position created by the devolution recommended by us is the unavoidable result of the constitutional provisions as they stand now. The position would not have been very much different even if any other alternative principle of devolution (within the framework of the existing Constitutional provisions, including the schemes recommended by the earlier Finance Commissions) had been adopted. In fact, there is one State which would have got a large surplus, even if the shares of income tax and Union excises allotted to it were only nominal. At the other extreme, there is another State which would still have experienced a large deficit

(requiring a large grant-in-aid) even if disproportionately large transfers were made to it out of the income tax and Union excise receipts.

5. If a change in the distribution of functions between the Union and the States is ruled out, the situation can be remedied by widening the base of tax-sharing, i.e. by including a larger number of items in the devolution scheme. With a number of sharable taxes, it will be possible to devise a scheme which will involve a uniform principle for each sharable tax but different principles for different taxes, making the whole scheme of distribution more flexible than it is now. Many States suggested that the receipts from the Corporation Tax should be divided between the Centre and the States. Some of them argued, with some force, that if estate duty receipts from property other than agricultural land are divisible, the same logic should make the receipts from the gift tax also sharable. A plea has often been made to include expenditure tax in the divisible pool, because, basically, this tax and income tax together represent an integrated method for securing progressive contributions from rising incomes.
6. We could not recommend any positive step in this regard within our terms of reference which, in their turn, are circumscribed by the provisions of the Constitution as they exist now. It is, however, difficult to ignore the fact that the fifteen years that have elapsed since the adoption of the Constitution have seen very large changes in the economic and financial background on which the original provisions regarding the Union-State financial relations were based. It is time now to re-examine the whole scheme of devolution without excluding from the purview of such re-examination the possible need for changes in the Constitution.
7. The need for widening the base of devolution is imperative not only for enabling the Finance Commission and the Government of India to devise and adopt a more flexible scheme of devolution than is possible now, but also because of the rate of increase in the financial requirements of the States vis-à-vis the prospects of revenues from the two major divisible taxes under the present Constitution. The requirements of the State Governments are increasing rapidly because of the increasing numbers that have to be served by the social services (particularly Education and Health) the widening of the range of their functions in the economic field and the rapidly growing commitments for the maintenance of the completed Plan schemes. One can, of course, anticipate a high rate of growth in the States' receipts from Sales Tax and a few other taxes of a similar nature, but it is the

elasticities of the aggregate revenue receipts and expenditures that will be really important.

8. The contribution of the divisible taxes other than income tax and Union excise duties to the meeting of these requirements of the States has been very small up till now and is not likely to increase appreciably in future. What is more disturbing is that even the two major heads in the present scheme of devolution cannot be necessarily expected to expand at the rate at which the States' normal expenditures are increasing.
9. This is already patent in the way in which the role of income tax in the devolution scheme has changed. Income tax was a divided head before 1919, and even in the rigidly demarcated separation of heads under the Government of India Act of 1919, a marginal provision was made for returning to the provinces a small fraction of the receipts in excess of a base-year figure. The Government of India Act of 1935 gave the Provinces a statutory share of the income tax receipts. It was, however, indicated that a fifty per cent share would be sufficient and that, in the initial years, the provinces would be able to afford the retention by the Centre of a further amount out of the fifty per cent to be transferred. The linking of the total effective Central share of the income tax proceeds with the Railways' contribution to the general revenues under the Niemeyer Award was the direct result of this. Income tax was taken as the major balancing factor and it was thought that a sum of five or six crores of rupees out of its proceeds would adequately balance the provinces' budgets.
10. The provision made in the Constitution of 1950 regarding the allocation of income tax was in line with the ideas that had been evolved earlier. It was still regarded as the major balancing factor. The provision regarding the sharing of the Union excises was only permissive and not mandatory and the taxes specified under article 269 were clearly State taxes—not entering at all into the Consolidated Fund of India—which, in the interests of uniformity and convenience, the Centre would raise on behalf of the States.
11. It has by now become obvious that the importance of income tax proceeds as a balancing factor has declined, partly because of the changes in the structure of this and other allied taxes and partly because of the changes in the dimensions of the problem of devolution. The change introduced in the income tax law in 1959 regarding the classification of the tax on the incomes of joint stock companies

seriously affected the rate of growth of the distributable income tax receipts. There have recently been other inhibiting factors like the introduction of new imposts like Compulsory Deposits and Annuity Deposits which are directly based on the incomes of the tax-payers and which, therefore, compete with the ordinary income tax. It is not implied that these imposts are undesirable, but one has to note the present and potential effects of such imposts on the revenues from the income tax proper and, therefore, on the States' revenue receipts.

12. The relative decline in the importance of the income tax proceeds as a balancing factor, vis-à-vis the expanding requirements of the States compelled the successive Finance Commissions to bring the excise duties on an increasing number of commodities into the divisible group. We have recommended that all commodities on which excises are levied by the Government of India should be included in the devolution scheme and this was also the principle behind the recommendation of the Third Finance Commission. Even in the case of the Union excises, however, one can discern factors which are likely to lead to a decline in the rate of growth of receipts. The actual experience up till now has been that of a very high rate of growth, but this has been due to a combination of factors all of which cannot be expected to continue to operate equally actively in the coming years.
13. The very high rate of growth in the Union excise receipts in the last fifteen years has been due to, first, increases in the number of commodities taxed; secondly, increases in rates; thirdly, rise in prices; and fourthly, increases in the outputs of the taxable commodities. The growth of excise revenues on account of increase in the number of commodities taxed cannot continue at a rapid rate, when practically all the commodities likely to yield large revenues have already been brought under the scope of this levy. There are, in fact, certain excise duties yielding very small revenues, and it may become desirable to eliminate some of them from the excise schedule.
14. To the extent that the growth of revenues results from changes in the rates of taxation, one notes that the rates on most of the commodities are already fairly high and it is doubtful whether any substantial increase in these rates will be practicable in the future. One also notes that one of the items in our terms of reference indicates that the Union Government is disturbed over the combined incidence of the Central excise duties and the States' sales taxes on production, consumption and export. We have stated in the Report that we do not find it possible to apportion the effects

of these two categories of taxes on production, consumption or export and we accordingly do not recommend the linking-up of the States' shares of the Union excise proceeds with the levels of their sales taxes. But if the Centre wants at all to persuade the States to keep their sales tax rates at a moderate level, it will have to be cautious about increasing the Union excise duties.

15. Increase in the Union excise revenues resulting from rise in prices will be naturally small, because most of the duties are, and have to be, specific, rather than ad valorem.
16. The only dependable growth factor in the future Union excise revenues is the prospective increase in the outputs of the excisable commodities. While it should be expected that the outputs will increase—presumably at higher rates than in the past—it would appear that the growth of excise revenues on account of this factor alone cannot continue to be as great as the past growth rates which were brought about by a combination of this factor with certain other very active factors which are not likely to continue with equal effectiveness in the future.
17. The conclusion that emerges is that the total receipts from income tax and the Union excises are not likely to increase at a rate fast enough to match the rate of increase of the States' normal essential expenditures. It may be argued that the percentage shares allocated to the States out of these two sources may be increased further in the future years. It should however be realised that in the case of income tax, if the States' share in the divisible pool is raised to 75 per cent as recommended by us, the scope for further increase in the share will be very limited under the present provisions of the Constitution defining the divisible pool. In the case of the Union excises, there would theoretically be a large scope to increasing the share of the States above the 20 per cent recommended by us. But any set of uniform principles adopted for all the States will mean that the additional amounts to be shared will go largely not to those States which will require financial assistance, but to those which even otherwise will have large surpluses.
18. All this emphasizes the suggestion made earlier that it is now time to re-examine the provisions of the Constitution with a view to ensuring a more flexible devolution scheme than is possible now. In this connection one might also refer to the existing provisions in article 269 regarding certain specified taxes which are to be levied and collected by the Union Government, but the proceeds of which are to be wholly assigned to the States. At present, the only tax in this category that is

being levied and collected by the Union is the estate duty on property other than agricultural land (The Central Sales Tax also comes under article 269, but it belongs in effect to a different category). The total receipts from the estate duty are still small, but the potentialities are large, though not large enough to compensate for the relative decline in the importance of income-tax proceeds. A railway fare tax introduced in 1957 was merged with the fares four years later, with the result that the States ceased to have a statutory claim on the receipts. As things stand now, a mere terminological change can prevent the division of the receipts from a particular source between the Centre and the States, or can make a purely Central revenue a divisible one. A ten per cent increase in the amounts payable by railway passengers for their tickets will create divisible resources, if designated as a "tax on fares", and will create resources for the Centre only, if designated as an "increase in fares". The distinction between a tax on the output of a Government enterprise and an increase in its price is extremely tenuous, and it is desirable that in such cases action should be taken on the lines which are consistent with the spirit of the Constitution, unless the constitutional provision itself is changed. This is particularly important because article 269 has been very inadequately exploited up till now and because if it has to be exploited at all to produce significant revenues for the States, the only two items that have a good potentiality are the terminal taxes on goods and passengers and the taxes on railway fares and freight.

19. It is necessary to emphasize here that the suggestions made above need not necessarily mean a larger total of transfers to the States than under the present arrangements. But, in view of the expanding requirements of the States, it is desirable to be prepared for larger transfers. The justification for the widening of the base of devolution arises from this as well as from the need for a system which would make the distribution scheme more flexible and would make it possible for the future Finance Commissions to devise their schemes in such a way as to avoid at least very large deficits and very large grants in the case of some States.
20. There is one other point to which I would draw attention before concluding. This relates to the expenditure which may become necessary from time to time for the revision of pay scales or dearness allowances of State Government employees and of those private employees whose salaries and dearness allowances are largely paid out of the State Governments' funds. The most important class of employees coming under the latter category are teachers in private schools and colleges. There

are substantial inter-State disparities in pay scales and allowances and the State scales are generally lower than those of the comparable Central Government employees. There is, besides, the very important problem of the adjustments that may be required periodically to neutralise the effects of increases in the cost of living.

21. The resources of the State Governments have not generally proved adequate for the revisions and adjustments they have considered necessary. The forecasts submitted to the Finance Commission by practically all States included the estimated expenditure on a number of proposals for revision both for State Government employees and for teachers. It was, however, difficult for the Finance Commission to constitute itself into a pay revision body and it could therefore take into account only those revisions which had actually been accomplished and on account of which a financial commitment had already been created before the finalisation of its Report. This position which, in the circumstances, was the only one that the Commission could take, resulted in the unedifying experience of several State Governments racing against time to present their finalised decisions before the expiry of the term of office of the Commission.
22. It will not be surprising if there are complaints from those States which could not or did not enter the race. What is more important is that this is an entirely unsatisfactory way for dealing with a problem of great importance. The problem of the salaries of the State Government employees and of teachers and others who are largely paid out of the State Government funds is part of a bigger problem, involving not only the question of inter-State parity or parity with the incomes of the Central Government employees, but also the general incomes policy for the country as a whole. This is becoming increasingly important on account of the pressures that are operating on the economy on the one hand and the need for at least maintaining the real value of the incomes of all types of employees on the other.
23. It is essential, therefore, to have some arrangement for a continuous examination of the problem of incomes, both in its inter-regional and inter-temporal aspects. Such examination would in the very nature of things cover the question of the incomes of Government employees and of those who are paid partly or wholly out of Government funds. There should similarly be some arrangement by which the financial requirements of the State Governments in this regard would be examined

jointly by the Centre and the States at frequent intervals. The Finance Commission cannot itself undertake the task of determining what should be the appropriate rates of pay and allowances, but revision by hectic spurts at five-yearly intervals with the Finance Commission playing a passive role, may produce results which are unsatisfactory to the employees, inequitable as between States and injurious for the economy as a whole. A permanent and continuously operating machinery is needed for the purpose.

NEW DELHI;

Dated August 12, 1965.

BHABATOSH DATTA,

Member.

ANNEXURES

Annexure 1.

ITEMS NOT INCLUDED IN THE ASSESSMENT OF EXPENDITURE

Part 1: Proposals on which final orders have not been issued pending the reports of a Commission or Committee or passing of an Act by the Legislature

(Vide para. 128, Chapter 10.)

States	Scheme or item of expenditure	Remarks
1. Assam	Special requirements of hill districts.	The proposals are under consideration of the State Government and the report of a Committee appointed by the Government of India is awaited.
2. Madhya Pradesh	Improvement and strengthening of Police organisation.	The Commission appointed by the State Government is yet to make its recommendations.
3. Mysore	Grants to Panchayats	A Panchayat Bill providing for the grants introduced in the legislature in January 1965 has been referred to a Joint Select Committee.

Part 2: Government Orders not taken into account in the assessment

(vide para. 129, Chapter 10).

States	Government order, date of issue and subject.	Liability estimated by State Government.
1. Andhra Pradesh	G.O.MS. No. 169 dated 1st July 1965 revising the rates of Dearness Allowance on the basis of an interim report by one man Pay Commission.	Rs. 6.80 crores for the first year and Rs. 37.40 crores for the Fourth Plan period.

2. Mysore	G.O. No. FD 76 SRP (1) 65, dated 22nd July 1965 revising the rates of dearness allowance.	Rs. 2.74 crores for the first year and Rs. 14.76 crores for the Fourth Plan period.
3.Uttar Pradesh	G.O. No. G-I-1474/X-137-1965 dated July 29, 1965 regarding rationalization of pay scales of Govt. servants effective from 1-4-1965 and revision of City Compensatory allowance and other allowances effective from 1-8-1965.	Rs. 15.12 crores for the first full year.
3.Uttar Pradesh (contd.)	Orders No. C-II/4787-91/XV, dated 27th July 1965 regarding <i>Ad hoc</i> increase in emoluments to the teaching and non-teaching staff, staff of educational institutions and Universities; Revision of pay of teachers and grant of D.A. to employees of non-Government Training Colleges and schools.	Rs. 6.40 crores for the first full year.

Annexure 2.
**SPECIAL POINTS IN REGARD TO ASSESSMENT OF REVENUE AND
 EXPENDITURE OF STATES**

State	Notes
1. Assam	<p>The loss in Agricultural income-tax on account of the proposed implementation of the Tea Finance Committee's Report through Union Finance Act, 1965, was estimated by the State Government as Rs. 3 crores. This has been taken into account in the assessment.</p> <p>No receipts have been assumed under carriage tax On Tea, the re-imposition of which was under consideration.</p> <p>The liability for the statutory grant to the Dibrugarh University under Section 33 (2) of the Dibrugarh University Act, 1965 has been taken into account.</p>
2. Bihar	<p>No credit has been taken for any payment by the Damodar Valley Corporation out of its profits during the Fourth Plan period</p> <p>Net receipts from Kosi Project have been worked out after allowing for working expenses and interest liabilities on completion of schemes taken up during the Third Plan period.</p> <p>No provision has been allowed for the reorganisation of districts which is still under contemplation.</p>
3. Jammu and Kashmir	<p>The assessment includes the complete liability in respect of losses on food grains including element of subsidy.</p>
4. Kerala	<p>The anticipated loss in revenue consequent on the implementation of the recommendations of the Tea Finance committee has been taken into account.</p> <p>The additional expenditure devolving on the State Government as a result of the implementation of the recommendations of the Municipal Grants Committee has been taken into account.</p> <p>The estimated expenditure of Rs. 46 14 crores for the period of five years on account of the revision in the scales of pay and rates of Dearness Allowance of Government employees and school teachers carried out by the State Government in June 1965 in pursuance of the recommendations in the First Report of the State Pay Commission has been taken into account.</p>
5. Madhya Pradesh	<p>The State Government anticipates that the Government of India would make an ex-gratia payment of Rs. 45 lakhs in 1965-66, in lieu of the royalty on coal extracted by the National Coal Development Corporation (Budget Speech of</p>

	<p>the State Finance Minister) This payment has not been included on the receipt side in assessing the revenue gap</p>
6.Madras	<p>No grant from the Centre has been assumed for meeting expenditure of Rs 12.5 crores over the five-year period on mid-day meal scheme. This was covered by Plan period. by a non-plan grant during the Third Plan period.</p> <p>The estimated liability of Rs. 17:00 crores for the five-year period arising from revision in Dearness Allowance rates of Government Employers, School Teachers and employees of Local Bodies announce in June 1965 has been taken into account.</p>
7.Mysore	<p>The State Government requested the Commission to take into account in its assessment the loss in receipt on account of the non-payment of electricity duty by the Kolar Gold Field which had become a Government of India Undertaking. The Commission agreed to the request.</p> <p>Expenditure of Rs. 8.0 crores on account of continuing schemes relating to West Coast Roads, Ore Roads and Roads of economic importance has not been taken into account.</p> <p>Government of Mysore issued orders revising Dearness Allowance etc. with effect from 1st April 1965. An estimated expenditure of Rs. 36-28 crores for the Fourth Plan period was taken into account while working out the non-plan revenue gap of the State.</p>
8. Rajasthan.	<p>It is assumed that Rajasthan Canal Project will be transferred from the State Government to a separate authority.</p>
9.Uttar Pradesh	<p>The Commission has included in its assessment the liability of Rs. 23.89 crores for the five-year period on account of the interim relief granted by the State Government to its employees in pursuance of the recommendations submitted on 10-2-1965 by the U. P. Pay Rationalisation Committee and on account of the interim relief granted to school teachers in the budget for 1965-66.</p>
10.West Bengal	<p>The loss in revenue on account of the implementation of the Tea Finance Committee's recommendations has been taken into account.</p> <p>An annual credit of Rs. 2.15 crores (Rs 10.75 crores for the five-year period) has been taken into account on the basis of the State's own forecast, as receipts from Entry Tax on tea.</p> <p>The additional annual liability of Rs. 250 lakhs estimated by the State Government on account of the opening of the revenue account for D.V.C. (under Section 37 of the D.V.C. Act) has not been taken into account.</p>

APPENDICES

APPENDICES

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APPENDIX I

Provisions of The Constitution Bearing on The Work of The Finance Commission

Article 268-

(1) Such stamp duties and such duties of excise on medicinal and toilet preparations as are mentioned in the Union List shall be levied by the Government of India but shall be collected-

(a) In the case where such duties are leviable within any Union territory, by the Government of India, and

(b) In other cases, by the States within which such duties are respectively leviable.

(2) The proceeds in any financial year of any such duty leviable within any State shall not form part of the Consolidated Fund of India but shall be assigned to that State.

Article 269-

(1) The following duties and taxes shall be levied and collected by the Government of India but shall be assigned to the States in the manner provided in clause (2), namely: -

(a) duties in respect of succession to property other than agricultural land.

(b) estate duty in respect of property other than agricultural land.

(c) terminal taxes on goods or passengers carried by railway, sea or air.

(d) taxes on railway fares and freights.

(e) taxes other than stamp duties on transactions in stock-exchanges and futures markets.

(f) taxes on the sale or purchase of newspapers and on advertisements published therein.

(g) taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce.

(2) The net proceeds in any financial year of any such duty or tax, except in so far as those proceeds represent proceeds attributable to Union territories, shall not form part of the Consolidated Fund of India but shall be assigned to the States within which that duty or tax is leviable in that year and shall be distributed among

those States in accordance with such principles of distribution as may be formulated by Parliament by law.

(3) Parliament may by law formulate principles for determining when a sale or purchase of goods takes place in the course of inter-State trade or commerce.

Article 270-

(1) Taxes on income other than agricultural income shall be levied and collected by the Government of India and distributed between the Union and the States in the manner provided in clause (2).

(2) Such percentage, as may be prescribed, of the net proceeds in any financial year of any such tax, except in so far as those proceeds represent proceeds attributable to Union emoluments shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that tax is leviable in that year, and shall be distributed among those States in such manner and from such time as may be prescribed.

(3) For the purposes of clause (2), in each financial year such percentage as may be prescribed of so much of the net proceeds of taxes on income as does not represent the net proceeds of taxes payable in respect of Union emoluments shall be deemed to represent proceeds attributable to Union territories.

(4) In this article-

(a) "taxes on income" does not include a corporation tax;

(b) "prescribed" means-

(i) until a Finance Commission has been constituted prescribed by the President by order, and

(ii) after a Finance Commission has been constituted prescribed by the President by order after considering the recommendations of the Finance Commission;

(c) "Union emoluments" includes all emoluments and pensions payable out of the Consolidated Fund of India in respect of which income-tax is chargeable.

Article 271-

Notwithstanding anything in articles 269 and 270, Parliament may at any time increase any of the duties or taxes referred to in those articles by a surcharge for purposes of the Union and the whole proceeds of any such surcharge shall form part of the Consolidated Fund of India.

Article 272-

Union duties of excise other than such duties of excise on medicinal and toilet preparations as are mentioned in the Union List shall be levied and collected by the Government of India, but, if Parliament by law so provides, there shall be paid out of the Consolidated Fund of India to the States to which the law imposing the duty extends sums equivalent to the whole or any part of the net proceeds of that duty, and those sums shall be distributed among those States in accordance with such principles of distribution as may be formulated by such law.

Article 274-

(1) No Bill or amendment which imposes or varies any tax or duty in which States are interested, or which varies the meaning of the expression "agricultural income" as defined for the purposes of the enactments relating to Indian income-tax, or which affects the principles on which under any of the foregoing provisions of this Chapter moneys are or may be distributable to States, or which imposes any such surcharge for the purposes of the Union as is mentioned in the foregoing provisions of this Chapter, shall be Introduced or moved in either House of Parliament except on the recommendation of the President.

(2) In this article, the expression "tax or duty in which States are interested" means-

- a) a tax or duty the whole or part of the net proceeds whereof are assigned to any State; or
- b) a tax or duty by reference to the net proceeds whereof sums are for the time being payable out of the Consolidated Fund of India to any State.

Article 275

(1) Such sums as Parliament may by law provide shall be charged on the Consolidated Fund of India in each year as grants-in-aid of the revenues, of such States as Parliament may determine to be in need of assistance, and different sums may be fixed for different States:

Provided that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of a State such capital and recurring sums as may be necessary to enable that State to meet the costs of such schemes of development as may be undertaken by the State with the approval of the Government of India for the purpose of promoting the welfare of the Scheduled Tribes in that State or raising the level of administration of the Scheduled Areas therein to that of the administration of the rest of the areas of that State:

Provided further that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of the State of Assam sums, capital and recurring, equivalent to-

- (a) the average excess of expenditure over the revenues during the two years immediately preceding the commencement of this Constitution in respect of the administration of the tribal areas specified in Part A of the table appended to paragraph 20 of the Sixth Schedule; and
- (b) the cost of such schemes of development as may be undertaken by that State with the approval of the Government of India for the purpose of raising the level of administration of the said areas to that of the administration of the rest of the areas of that State.

(2) Until provision is made by Parliament under clause (1), the powers conferred on Parliament under that clause shall be exercisable by the President by order and any order made by the President under this clause shall have effect subject to any provision so made by Parliament:

Provided that after a Finance Commission has been constituted no order shall be made under this clause by the President except after considering the recommendations of the Finance Commission.

Article 279-

(1) In the foregoing provisions of this Chapter, "net proceeds" means in relation to any tax or duty the proceeds thereof reduced by the cost of collection, and for the purposes of those provisions the net proceeds of any tax or duty, or of any part of any tax or duty in or attributable to any area shall be ascertained and certified by the Comptroller and Auditor-General of India, whose certificate shall be final.

(2) Subject as aforesaid, and to any other express provision of this Chapter, a law made by Parliament or an order of the President may, in any case where under this Part the proceeds of any duty or tax are, or may be, assigned to any State, provide for the manner in which the proceeds are to be calculated, for the time from or at which and the manner in which any payments are to be made for the making of adjustments between one financial year and another, and for any other incidental or ancillary matters.

Article 280-

(1) The President shall, within two years from the commencement of this constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance

Commission which shall consist of a Chairman and four other members to be appointed by the President.

(2) Parliament may by law determine the qualifications which shall be requisite for appointment as members of the Commission and the manner in which they shall be selected.

(3) It shall be the duty of the Commission to make recommendations to the President as to-

(a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds.

(b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;

(c) any other matter referred to the Commission by the President in the interests of sound finance.

(4) The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them.

Article 281

The President shall cause every recommendation made by the Finance Commission under the provisions of this Constitution together with an explanatory memorandum as to the action taken thereon to be laid before each House of Parliament.

Article 282-

The Union or a State may make any grants for any public purpose, notwithstanding that the purpose is not one with respect to which Parliament or the Legislature of the State, as the case may be, may make laws.

APPENDIX II

The Finance Commission (Miscellaneous Provisions) Act, 1951, As Amended by The Finance Commission (Miscellaneous Provisions) Amendment Act No. XIII of 1955.

AN ACT

to determine the qualifications requisite for appointment as members of the Finance Commission and the manner in which they shall be selected, and to prescribe their powers.

Be it enacted by Parliament as follows:-

1. **Short title.**- This Act may be called the Finance Commission (Miscellaneous Provisions) Act, 1951 (Act XXXIII of 1951).
2. **Definition.**- In this Act, "the Commission" means the Finance Commission constituted by the President pursuant to clause (1) of article 280 of the Constitution.
3. **Qualifications for appointment as, and the manner of selection of, members of the Commission.**- The Chairman of the Commission shall be selected from among persons who have had experience in public affairs, and the four other members shall be selected from among persons who
 - (a) are, or have been, or are qualified to be appointed as Judges of a High Court; or
 - (b) have special knowledge of the Finances and accounts of the Government; or
 - (c) have had wide experience in financial matters and in administration; or
 - (d) have special knowledge of economics.
4. **Personal interest to disqualify members.**- Before appointing a person to be a member of the Commission, the President shall satisfy himself that that person will have no such financial or other interest as is likely to affect prejudicially his functions as a member of the Commission; and the President shall also satisfy himself from time to time with respect to every member of the Commission that he has no such interest and any person who is, or whom the President proposes to appoint to be a member of the Commission shall, whenever required by the President so to do, furnish to him such information as the President considers necessary for the performance by him of his duties under this section.
5. **Disqualifications for being a member of the Commission.**- A person shall be disqualified for being appointed as, or for being a member of the Commission-

- (a) if he is of unsound mind.
- (b) if he is an undischarged insolvent.
- (c) if he has been convicted of an offence involving moral turpitude; and
- (d) if he has such financial or other interest as is likely to affect prejudicially his functions as a member of the Commission.

6. **Terms of office of members and eligibility for re-appointment.**- Every member of the Commission shall hold office for such period as may be provided for in the order of the President appointing him, but shall be eligible for re-appointment:

Provided that he may, by letter addressed to the President, resign his office.

7. **Conditions of service and salaries and allowances of Members.**- The members of the Commission shall render whole time or part time service to the Commission as the President may in each case specify and there shall be paid to the members of the Commission such fees or salaries and such allowances as the Central Government may by rules made in this behalf, determine.

8. **Procedure and powers of the Commission.**-(1) The Commission shall determine their procedure and in the performance of their functions shall have all the powers of a civil court under the Code of Civil Procedure, 1908 (Act V of 1908) while trying a suit in respect of the following matters, namely:-

- (a) summoning and enforcing the attendance of witnesses.
- (b) requiring the production of any documents; and
- (c) requisitioning any public record from any court or office.

(2) The Commission shall have power to require any person to furnish such information on such points or matters as in the opinion of the Commission may be useful for or relevant to, any matter under the consideration of the Commission and any person so required shall, notwithstanding anything contained in sub-section (2) of section 54 of the Indian Income-tax Act, 1922, or in any other law for the time being in force be deemed to be legally bound to furnish such information within the meaning of section 176 of the Indian Penal Code.

(3) The Commission shall be deemed to be a civil court for the purposes of sections 480 and 482 of the Code of Criminal Procedure, 1898 (Act V of 1898).

Explanation.- For the purposes of enforcing the attendance of witnesses, the local limits of the Commission's jurisdiction shall be the limits of the territory of India.

APPENDIX III

Correspondence with The Union and State Governments

- (i) Letter (dated 15th April 1964) to all Accountants-General regarding Statewise collections of income-tax.
- (ii) Note (dated 15th April 1964) to Ministry of Finance (Deptt. Of Economic Affairs), New Delhi regarding forecast, revenue and capital grants, plan schemes and loan repayments.
- (iii) Letter (dated 30th April 1964) to all Accountants-General regarding repayment of loans.
- (iv) Letter (dated 12th May 1964) to all State Governments regarding Memorandum on Commission's terms of reference, forecast and information on Subsidiary Points.
- (v) Letter (dated 9th July 1964) to all State Governments (except Nagaland) regarding questionnaire relating to terms of reference I and supplementary information.
- (vi) Letter (dated 5th August 1964) to Secretary, Deptt. Of Economic Affairs, Ministry of Finance, Government of India.
- (vii) Letter (dated 11th August 1964) from the Secretary, Deptt of Economic Affairs, Ministry of Finance, Government of India, to Member-Secretary, Finance Commission.
- (viii) Letter (dated 28th November 1964) to Secretary, Deptt. Of Economic Affairs, Ministry of Finance, Government of India.
- (ix) Letter (dated 4th December 1964) to all States regarding details of committed expenditure.
- (x) Letter (dated 9th March 1965) from Secretary, Deptt. Of Economic Affairs, Ministry of Finance, Government of India with enclosures.
- (xi) Letter (dated 11th January 1955) from Shri M. V. Rangachari, Deptt. Of Revenue and Expenditure, Ministry of Finance, Government of India, to Finance Secretaries of all Part A and Part B States except J. & K.

APPENDIX III

Correspondence with The Union and State Governments

(i) D.O. letter No. EC 4(1)-B/64, dated the 15th April, 1964, from Shri P. C. Mathew, Special Secretary, Ministry of Finance (Department of Economic Affairs), New Delhi, to all the Accountants General.

(Vide para 3 of Report)

The Fourth Finance Commission is expected to be set up shortly as required by article 280 of the Constitution. For the purposes of making recommendations to the President as to the distribution between the Union and States of the net proceeds of taxes on income, the Commission will require state-wise figures of actual collections of income-tax forming the divisible pool during each of the years 1961-62, 1962-63 and 1963-64 (preliminary actuals). I shall be grateful if the required information is compiled and furnished to the Commission by 1st June, 1964. A copy of the proforma showing the heads under which the figures may be furnished, is enclosed. The sub-heads shown in the proforma may please be compared with the heads under which figures are compiled in your office; and where there is any difference in nomenclatures, or if any other heads are opened in your books, these may be indicated in the statements furnished by you and appropriate figures of collections shown against them so that the Commission will have a complete picture of the State-wise collections of taxes which form the divisible pool. If there are any Centrally administered territories included in your circle, the figures relating to them may be given in a separate statement.

2. ⁵ In addition to the figures relating to Assam State, you are requested kindly to send the figures in respect of the State of Nagaland also. The latter figures for the past years, will be those pertaining to the Naga Hills and Tuensang Area.

Copy forwarded to-

(1) The A.G.C.R., New Delhi, with the request that similar information in respect of the Union Territories of Delhi, and Andaman and Nicobar Islands may be furnished so as to reach here by 1st June 1964.

(2) Director of Accounts, Goa, Daman and Diu, Panjim.

⁵ For Accountant-General, Assam and Nagaland only.

(3) Pay and Accounts Officer, Pondicherry.

It is requested that the information, to the extent available in respect of income tax collections in the Union Territories of Goa, Daman and Diu and Pondicherry, including those which were formerly being credited to the Head "L-II-Miscellaneous" may be furnished so as to reach here by 1st June 1964.

Enclosure to Appendix III (i)

IV-Taxes on income other than Corporation Tax for the State of.....
(excluding Central surcharge, income-tax on Union emoluments, advance payments and miscellaneous items).

(In thousands of Rs.)

	Accounts,	Accounts,	Preliminary
	1961-62	1962-63	Actuals,
			1963-64
Income-Tax			
1. Ordinary collections:			
I. Income Tax on companies			
II. Other collections			
2. Deductions from salaries and pensions:			
I. Taxes in respect of other Government employees			
II. Taxes in respect of persons other than Government employees			
3. Deductions from interest on Securities			
4. Deductions from dividends and other incomes (excluding salaries and interest on securities)			
<i>Deduct-Refunds</i>			
(i) Payment on account of Double Income Tax relief granted to companies.			
(ii) Other income-tax refunds granted to companies			
(iv) Other refunds			
Super-Tax			
1. Deduction from salaries and pensions			
(ii) Super-tax in respect of other Government employees			
(iii) Super-tax in respect of persons other than Govt. employees.			
2. Deductions from interest on securities			

3. Deductions from dividends and other income (excluding salaries and interest on securities).			
5. Other collections			
Deduct-Refunds			
(ii) Other Refunds			
Surcharge (Special)			
1. Ordinary collections			
2. Deduct-Refunds			
Excess Profits Tax			
(1) Ordinary collections			
(2) Deduct-Amount transferred to the Deposit Account of Excess Profits Tax refundable to assesses under Indian Finance Act, 1942.			
(3) Deduct-Refunds			
I. Double Excess Profits Tax relief			
II. Other refunds			
Business Profit Tax			
(i) Ordinary collections			
(ii) <i>Deduct-Refunds</i>			
Net-Grand Total			

Appendix III (ii)

(ii) Note No. FC 1(1)-B/64 dated the 15th April, 1964 from Shri P. C. Mathew, Special Secretary, Ministry of Finance (Department of Economic Affairs), New Delhi, to the Joint Secretary (Budget), Ministry of Finance (Department of Economic Affairs), New Delhi.

(vide para 3 of Report)

Will the Budget Division kindly arrange to collect the following material for the information and use of the Finance Commission:

(a) A forecast, in the attached form, of the Revenue and expenditure of the Central Government by major heads of account for the years 1965-66 to 1970-71 together with the corresponding data for the four-year period 1961-62 to 1964-65. In working out the forecast of expenditures for the years 1966-67 to 1970-71, due provision may please be made for maintenance expenditure on account of the schemes taken up in the Third Plan and likely to be completed by 1965-66. It will be a great help if the estimates of this type of maintenance expenditure are shown separately.

(b) A statement showing for each of the four years ending 1964-65 estimates of grants to the States from current revenues. Brief notes explaining the basis on which each grant was calculated and the purpose of the grant may also be furnished. The breakup of these grants between plan and non-plan items may also be indicated. In case it is possible to give State-wise estimates, that may also be done. (For the purpose of this Statement, the payment of the States' share of income tax and Union excise, and the allocation to the States of Estate Duty and additional duties of excise in lieu of sales tax should not be treated as a grant).

(c) A statement showing capital grants (but not loans) to the States over the four years 1961-62 to 1964-65. The nature of these grants and their distribution between plan and non-plan heads may also be indicated. Here again, in case it is possible to give State-wise figures, that may also please be done.

(d) A statement showing centrally sponsored schemes of the Third Plan under each of the developmental heads with brief explanatory notes.

(e) A statement showing repayments of loans due from each State in each of the years 1966-67 to 1970-71 under the three broad categories:

(i) Repayments in respect of loans for plan schemes paid to the States up to 1963-64.

(ii) Repayments on account of loans given to States on account of small savings collections up to 1963-64; and

(iii) Repayments in respect of other loans given to the States up to 1963-64.

In respect of the last category, brief notes regarding the nature, terms and duration of the loans may be indicated.

2. Ten copies of the material assembled may be kept ready and sent to the Commission by 1st June 1964 by which time it is expected that the Commission would have been set up.

Enclosure to Appendix III (ii)

(Rs. In lakhs)

I. Revenue Receipt												
1961-62 (Accts)	1962-63 (Accts)	1963-64 (R.E.)	1964-65 (B.E)	1964-65 (Estimates)	Total 1961- 62 to 1965- 66	Head	1966-67	1967-68	1968-69	1969-70	1970-71	Total 1966-67to 1970-71
1	2	3	4	5	6	7	8	9	10	11	12	13
						Total						
II. Revenue Expenditure												
1961-62 (Accts)	1962-63 (Accts)	1963-64 (R.E.)	1964-65 (B.E)	1964-65 (Estimates)	Total 1961- 62 to 1965- 66	Head	1966- 67	1967-68	1968-69	1969-70	1970-71	Total 1966-67to 1970-71
1	2	3	4	5	6	7	8	9	10	11	12	13
						Total						
						Net Surplus Deficit						

Notes:**Enclosure to Appendix III (ii)**

1. As mentioned in the U.O. note, figures are to be shown by major heads of account. Details may, however, be given under Major heads like "Miscellaneous" of special items of significant magnitudes.
2. In working out the forecast for the years 1966-67 to 1970-71, following points may please be kept in mind:
 - (a) In the Section dealing with revenue, no deductions should be made on account of the States share of income tax or estate duty; but a separate statement should be furnished giving an estimate for each year of the divisible pool of income tax and the total of the distributable amount of estate duty. The contribution receivable from the railways in lieu of tax on railway fares should be shown separately from other contribution from railways.
 - (b) Brief explanations should be given of any large variations in the revenue estimates from year to year.
 - (c) Details of the estimates relating to Union excise duties may be given by major articles.
 - (d) In the expenditure estimates, details of the provision included in each year for grants to States should be given.
 - (e) Grants' payable to the States in lieu of tax on railway fares should be shown separately from other grants.
 - (f) The share of the divisible excises (including additional duties of excise) payable to the States, if included in the expenditure estimates, should be shown separately.
 - (g) As on the revenue side, variations in the estimates of expenditure from year to year should be briefly explained.
 - (h) Both the revenue and the expenditure estimates should be on the existing levels of taxation and the present scales of expenditures; they should, however, take into account the normal growth of revenue and expenditures. Provision should also be made for any foreseeable measures of important non-developmental expenditures, showing the amounts separately with suitable explanations to indicate obligatory character of such measures.

(i) In the statement relating to revenue expenditure for the years 1961-62 to 1965-66, under such heads of accounts as have plan expenditures, the breakup of total expenditure between plan and non-plan may please be indicated. For the years 1966-67 to 1970-71, no provision should be included in the estimates for such developmental expenditures as will be included in the Fourth Plan; these are to be shown in a separate statement. For these years the estimates to be included in the Statement should refer to:

- a. maintenance expenditure on account of the Third plan schemes, both revenue and capital.
- b. such new developmental expenditure as for one reason or the other is not going to be included in the Fourth Plan; and
- c. all such normal continuing expenditure as was not included in the Third Plan and as would not be included in the Fourth Plan either.

Appendix III (iii)

(iii) D.O. letter No. FC2(1)-B/64, dated the 30th of April, 1964, from Shri P. C. Mathew, Special Secretary, Ministry of Finance, (Department of Economic Affairs), New Delhi, to all the Accountants General.

Will you please refer to my D.O. letter No. 4(1)-B/64, dated the 15th April 1964 regarding information about income tax collections in each State?

2. The Commission would also like to have information about the repayments of various loans due from the States to the Central Government during the period 1966-67 to 1970-71.
3. I request that information in the proforma enclosed may be sent in respect of the State (s) with which you are concerned, so as to reach the Commission by the 1st of June, 1964.
 - (a) A statement showing repayments of loans due from the State in each of the years 1966-67 to 1970-71 under the three broad categories:
 - (i) Repayments in respect of Loans for Plan Schemes paid to the States up to 1963-64;
 - (ii) Repayments in respect of loans given to States on account of small savings collections up to 1963-64; and
 - (iii) Repayments in respect of other loans given to the States up to 1963-64.

[The repayments should include repayment of loans advanced from Funds such as the Special Development Fund.]

(b) In respect of the last category i.e. '(iii) other loans', brief notes indicating the nature, terms and duration of the loans may be furnished.

Enclosure to Appendix III (iii)**Repayment of outstanding loans due to the Government of India from**

.....State

(In Thousands of Rupees)

Category of Loans	1966-67	1967-68	1968-69	1969-70	1970-71	Total
Loans for Plan Schemes paid to the State up to 1963-64						
Loans given to State on account of Small Savings Collections up to 1963-64						
1[1]Other loans given to State up to 1963-64						

[1] Brief notes regarding nature, terms and duration of the loans may be attached in respect of category (iii) of the loans viz. 'other loans.'

Note: Repayments should include those in respect of loans advanced from Special Development Fund and other Funds.

Appendix III (iv)

(iv) Letter No. FC 1(2)-B/64, dated the 12th of May 1964, from Shri P. C. Mathew, Special Secretary, Ministry of Finance (Department of Economic Affairs), New Delhi, to the Finance Secretaries of all the States.

(vide para 3 of Report)

I send herewith copy of the Notification, dated May 5, 1964, containing the Presidential Order setting up the Fourth Finance Commission. It will be seen from the terms of reference that the Commission has to make recommendations to the President inter alia in regard to the following

- (i) the allocations of income-tax and other divisible taxes under Articles 270 and 272 of the Constitution; and
- (ii) the sums to be paid as grants-in-aid of the revenues of the States under the substantive part of Article 275 (1) of the Constitution to such States as are found to be in need of them.

2. As regards the allocation and distribution of income-tax, the Commission will have before it the considerations which have influenced the past settlement. But it will assist the Commission if each State Government prepares a self-contained memorandum expressing its views on the existing basis for the division of proceeds of the income-tax and setting forth the modifications, if any, which it would urge and the reasons in support thereof.
3. As regards the allocation of Union excise duties, including additional excise duties levied in lieu of sales tax, the Commission would welcome the comments of the State Governments on the existing division and their suggestions in regard to future allocation. Here again a self-contained memorandum will be useful.
4. For determining the States in need of assistance and grants-in-aid under the substantive part of Article 275(1), the Commission will require from all States a forecast, year by year, of the estimated revenue and expenditure for 1965-66 and for the subsequent five years ending 1970-71. This forecast may please be prepared in the forms appended as Annexure I to this letter. It is necessary to point out that the data for the five years ending 1970-71 to be given in Annexure I should exclude:

(i) receipts from any additional taxation that might be undertaken during the period 1966-67 to 1970-71; and

(ii) expenditure on schemes to be undertaken as part of the Fourth Plan.

On both these points it is proposed to address the Planning Commission to supply the necessary data.

5. Both the Second and the Third Finance Commissions had asked for detailed notes on several subsidiary points relating to financial and economic matters. The points on which similar detailed notes are likely to be required by the Fourth Finance Commission are listed in Annexure II. I shall be glad if you kindly arrange to send a detailed note on each of these points.

6. One of the terms of reference of the present Finance Commission is to make recommendations to the President in regard to the following:

“the effect of the combined incidence of a State’s sales tax and Union duties of excise on the production, consumption or export of commodities or products, the duties on which are shareable with the States, and the adjustments, if any, to be made in the State’s share of Union excise duties, if there is any increase in the State’s sales tax on such commodities or products over a limit to be specified by the Commission”.

The Commission would naturally like to have data which might assist it in a proper study of the above question. A detailed questionnaire on this may be sent later but, in the meantime, whatever data State Governments feel might be of use to the Commission on this point, may please be sent along with a memorandum setting out the views of the State Governments on this subject.

7. Some of the items asked for in Annexures I and II may not be directly related to the questions referred to in Article 280 (3) (a) and (b) of the Constitution but information on such related matters is likely to be of help to the Commission to weigh alternative claims and arguments on the terms of reference and to understand the real basis for the States’ plans and forecasts.

8. I shall be grateful if the memorandum and the statements asked for in this letter (with ten spare copies) are sent to the Commission by the middle of July 1964. In case the Commission decides to ask for further material, I will write to you accordingly.

9. If there is any point on which you require any clarification or further information, will you kindly write to me?

Enclosure to Appendix III (iv)
Annexure I

NAME OF THE STATE: _____

STATEMENT ONE
RECEIPTS ON REVENUE ACCOUNT

(Rs. In lakhs)

1961-62 (Accts)	1962-63 (Accts)	1963-64 (R.E.)	1964-65 (B.E.)	1965-66 (Estimates)	Total for five years 1961- 62 to 1965- 66	Heads of Account / Year	1966- 67	1967- 68	1968- 69	1969- 70	1970- 71	Total for five years 1966-67 to 1970- 71
						A. TAXES, DUTIES & OTHER PRINCIPAL HEADS OF REVENUE —						
						IV. Taxes on income other than Corporation tax						
						Information asked for each Major Head of Revenue (not repeated)						
						TOTAL- RECEIPTS						

In this statement, for the period 1966-67 to 1970-71, credit may be taken for non-plan non statutory grants, a separate note may however, be furnished indicating the precise basis and the amount anticipated during the fourth plan period.

Enclosure to Appendix III (iv)**Annexure I—(contd.)****EXPLANATORY NOTE REGARDING STATEMENT ONE**

1. For the period 1966-67 to 1970-71 no estimates need be given in regard to the States' share of income-tax, divisible duties of excise collected by the Centre in lieu of Sales Tax and estate duty in respect of non-agricultural properties.
2. For the period 1966-67 to 1970-71, grants received by the States under the substantive provision of article 275(1) of the Constitution, grant in lieu of tax on railway fares and all such grants as are linked with the Fourth Plan schemes should not be taken credit for. Full details should be given of any other grants from the Centre including the major heads of account under which they are shown.
3. As regards various items of State taxes like land revenue, sales tax etc., the estimates of receipts for the Third Plan period should be inclusive of receipts from additional taxation undertaken during this period. The forecast for the Fourth Plan period should be on the basis of the tax rates likely to be reached in the financial year 1965-66. In working out the forecast, account should be taken not only of the past trends, but also of the impact that the growth of the economy and production increases in the Fourth Plan period would have on tax and non-tax items. It would be useful if assumptions made in this respect are clearly spelt out. It is well known that receipts under all taxes do not respond uniformly to the growth of the economy. Some taxes are linked with agricultural production while others with industrial production. In working out the estimates such structural relations might be borne in mind.
4. While working out estimates of various taxes, account should be taken of the possible realisation of outstanding arrears. It would be useful if the amounts representing arrear collections in respect of various items from year to year both for the Third as well as the Fourth Plan periods, are explained suitably. A separate statement indicating the likely outstanding arrears as at end of the Third Plan and the progress in regard to their realisation during the Fourth Plan period may please be furnished.
5. Under items of non-tax revenues like forest, irrigation etc. the figures should exclude all grants from the Centre and transfers from funds as these are required

to be shown separately. In working out the estimates for the period of the Fourth Plan, the assumption might be made that the present rates or prices charged by various enterprises like irrigation, industrial projects, transport scheme, etc. will continue. The question of making changes in rates or prices charged will have to be considered separately. In working out the estimates, allowance should be made for increases in production as a result of the growth of the economy or of expansion programmes in various sectors contemplated under the Fourth Plan.

6. In the case of interest, credit should be taken for only such receipts as are likely to be realized on account of loans disbursed up to the end of the Third Plan period or on non-plan loans likely to be disbursed in the Fourth Plan period. Interest receipts on account of plan loans to be disbursed in the Fourth Plan period are not to be shown in this statement; these are to be indicated in Statement Three.
7. In case under any of the items, credit has been taken for transfers from any Funds maintained in the Public Account, this may please be indicated along with details. Similarly, if in Statement Two, there are entries relating to transfers to Funds, those may also be shown separately. It would be best to incorporate the information relating to operation of Funds in a self-contained Memorandum.

Enclosure to Appendix III (iv)

Annexure I – Contd.

NAME OF THE STATE _____

STATEMENT TWO
EXPENDITURE MET FROM REVENUE

Third Plan period					Total for five years 1961- 62 to 1965- 66	Head of Account	1966-67	Fourth Plan period 1966-67					Total for five years 1966- 67 to 1970- 71
1961- 62	1962- 63	1963- 64	1964- 65	1965- 66				1967- 68	1968- 69	1969- 70	1970- 71		
1	2	3	4	5	T.		1	2	3	4	5	T.	
						A. COLLECTION OF TAXES, DUTIES AND OTHER PRINCIPAL REVENUES:							
						28. Education:							
						(a) Plan expenditure							
						(i) State							
						(ii) Central Plan							
						Non-Plan expenditure –							
						(i) Third Plan maintenance							
						(ii) Other expenditure							
						Information asked for under each Major Head of Expenditure (Not repeated)							
						TOTAL – EXPENDITURE MET FROM REVENUE							

EXPLANATORY NOTES REGARDING STATEMENT TWO

1. This statement calls for data on revenue expenditure not connected with the Fourth Plan. In working out the estimates for the period 1966-67 to 1970-71, due account should be taken of such liability as the maintenance expenditure on account of the Third Plan schemes would throw on the State budget. Each of the items of developmental nature like education, irrigation etc., has been divided in this statement into two sub-heads, namely (a) Plan expenditures, and (b) Non-Plan expenditures. Sub-head (a) has been further divided into two, viz., (a)(i) expenditure on State Plan schemes, and (a) (ii) expenditure on Central Plan schemes. For the Third Plan period, Plan expenditure is to be shown against items (a) (i) and (a) (ii). However, for the Fourth Plan period, no estimates are to be given in this statement under these items. The total committed expenditure for the Fourth Plan period, under each main item has to be shown against sub-head (b). The estimates shown under (b) for the Fourth Plan period should provide for expenditure which is essential for maintaining the level of development expected to be reached by the end of the Third Plan including maintenance expenditure on Third Plan schemes. Sub-head (b) has also been broken into two, namely (b) (i) expenditure connected with the maintenance of Third Plan schemes and (b) (ii) the remaining expenditure. The estimates of expenditure on the maintenance of Third Plan Schemes—whether they are State schemes or Central schemes and whether they are on capital account or revenue account—to be shown against (b) (i) should include maintenance expenditure of a recurring nature. The basis of the figures shown against (b) (i) may please be explained. While projecting committed expenditure during the Fourth Plan period care has to be taken to eliminate all expenditures of a non-recurring nature incurred in the Third Plan period—whether as part of the Plan or outside it. In the case of maintenance expenditure relating to Centrally sponsored schemes, explanatory notes may please be furnished indicating the likely Central grants that are anticipated over the Fourth Plan period. Credit for these grants is not to be taken in Statement One, but the relevant information has in any case to be furnished.
2. In regard to 'interest on debt and other obligations', estimates for the Fourth Plan period should relate to only such interest payments as will be required on account of loans outstanding as on 31st March 1966. No provision should be

made here for interest on account of borrowings that may have to be resorted to in the period of the Fourth Plan; estimates for these are to be given in Statement Three. It may be noted that interest payments on account of loans debited to commercial enterprises, such as electricity schemes, road transport schemes, irrigation schemes, multi-purpose river valley schemes and industrial schemes are also to be included here and shown separately.

3. Estimates in regard to appropriation for reduction or avoidance of debt should not include any provision for depreciation, amortisation or repayment of loans. These should include only: (i) provision for any obligatory sinking fund or depreciation charges in respect of public loans and (ii) the transfer of the proceeds of the betterment levy towards reduction of the capital cost of the project and/or repayment to the Centre. A self-contained note on the present position with regard to the maintenance of sinking fund for avoidance of debt or any modification proposed in this regard may please be furnished.
4. Estimates of non-development expenditure like general administration, police, etc., during the period of the Fourth Plan should take into account the likely scope of economy consistent with efficiency. An attempt should be made to give a realistic picture of the State's claims of non-development expenditure.
5. In the case of multi-purpose river valley schemes, irrigation schemes and road and water transport schemes, electricity schemes, details of working expenses, interest charges etc. should be indicated separately for each year.
6. If the estimates include any special item of expenditure, this should be indicated in explanatory notes; particularly any major increase in the non-plan expenditure due to reasons such as administrative reorganisation, general revision of emoluments etc., should be explained in detail.

Enclosure to Appendix III (iv)

Annexure I (contd.)

STATEMENT THREE

Interest Receipts and Liability on Account of Borrowings and Related Operations during the Fourth Plan Period

(Not taken into account in Statements ONE and TWO)

(Rs. in lakhs)

	1966- 67	1967- 68	1968- 69	1969- 70	1970- 71	Total for five years
	1	2	3	4	5	T
1. Interest receipts on account of loans and advances given by the State Government during the years 1966-67 to 1970-71.						
2. Interest payments to the public on account of loans to be raised in the Fourth Plan period.						
3. Interest payments to the Centre on account of loans likely to be received in the Fourth Plan period:						
(i) on loans for plan schemes						
(ii) on loans under the Small Savings sharing formula						
(iii) on other loans						
4. Appropriation for reduction or avoidance of debt on loans raised during the Fourth Plan period:						
(i) on account of public loans						
(ii) on account of the loans from the Centre						

Enclosure to Appendix III (iv)
Annexure I (concl.)

EXPLANATORY NOTE REGARDING STATEMENT THREE

Precise basis of the estimates may please be given. For example, in the case of interest liability on account of loans from the public in the Fourth Plan period it would be necessary to get the following data for each of the years—

- (i) Outstandings as at the end of 1966-67.
- (ii) Borrowing from the public in 1967-68.
- (iii) Repayments during the year 1966-67.
- (iv) Outstandings as at the end of 1966-67.
- (v) Rate of interest.

-
- (i) Outstandings as at the end of 1966-67.
 - (ii) Borrowing from the public in 1967-68.
 - (iii).....
 - (iv).....
 - (v).....

Similar information in the case of (i) loans and advances from the State Government to third parties as also (ii) loans to the State Governments from the Centre, would be useful.

It is realised that the estimates involve various assumptions and that these assumptions will have to be checked with estimates that emerge in connection with the Fourth Plan.

Enclosure to Appendix III (iv)
Annexure II

List of Subsidiary Points

1. Rates of principal taxes/duties/fees:—
 - (i) Agricultural income tax
 - (ii) Stamp duties
 - (iii) Registration fees
 - (iv) Motor vehicles tax
 - (v) Taxes on passengers and goods
 - (vi) Sales tax on motor spirit and General Sales Tax
 - (vii) Entertainment tax, Cinema show tax and Betting Tax
 - (viii) Electricity duty, and
 - (ix) Other taxes

in 1960-61 and the changes made therein during the period up to 1963-64. Any changes that may be or may have been made in 1964-65 may also be indicated.
2. Basis and rates of land revenue assessment including surcharge, special rates, etc. in 1960-61 and changes during 1961-62, and onwards. The rates of land revenue assessment may be given:—
 - (i) for each district and
 - (ii) minimum and maximum rates for dry, wet or garden lands.
3. Details of excise revenue for the years 1960-61 to 1964-65. A self-contained note giving factual information in regard to prohibition, the State Government's views on the subject and the future plans in that regard.
4. Particulars of cesses levied by the State, their purposes, the total proceeds of each cess, the amounts, if any, thereof transferred to local bodies or spent directly by the State Governments during 1960-61 and onwards.
5. The nature of economy measures, if any, carried out by the State Government in the years 1960-61 to 1963-64 inclusive and their results.
6. Revisions of pay and allowances of—
 - (i) State employees,
 - (ii) Employees of local authorities, and
 - (iii) Employees of quasi-government bodies.

financed by the State Government in each of the years from 1960-61 onwards and the consequent increase in expenditure.

7. Important measures of administrative reorganisations, if any, carried out during the years 1960-61 and onwards, the purpose of these reorganisations and their impact on the revenue budget of the State Government.
8. Financial results of the working of the State commercial and industrial undertakings like road transport, electricity schemes, industries etc. for which commercial accounts are maintained, during each of the years beginning 1960-61.
9. New State enterprises established or addition to, and expansion of, existing enterprises during 1960-61 to 1963-64 and those proposed to be established during 1964-65 and 1965-66 and from 1966-67 to 1970-71 (only schemes costing Rs. 10 lakhs and over need be given).
10. Debt position of the State showing separately the total outstanding debt to (i) the public, (ii) the Central Government and (iii) any other institution on 1st April 1952, 1st April 1957, and on the 1st April of each of the years beginning 1961, and the interest yielding assets held against such debt (as per illustrative proforma).
11. Position of Takavi and land improvement loans—advances, recoveries and remissions and writes-off during each of the years beginning 1960-61 and total outstandings and overdue arrears at the end of each of these years. The action taken on the Report of the Committee on Takavi loans and Cooperative Credit may kindly be indicated in detail.
12. Revenue (indicating separately grants from State Government) of local bodies and expenditure incurred by them on roads, education, medical and health services in each of the years beginning 1960-61 (in this connection, the action taken on the Report of the Study Team on Panchayati Raj Finances, 1963 may kindly be indicated).
13. Mileage of National highways and A, B and C class roads on 1st April 1948, 1st April 1951, 1st April 1956 and 1st April 1961, 1962, 1963, 1964 and 1965. In this connection, the mileage of highways, District Board roads, famine roads etc. may kindly be given separately. The amounts of grants-in-aid made under article 275 (1) in pursuance of the recommendations of the Third Finance

Commission and the utilisation thereof and the consequent improvement in communications may also be stated.

14. Strength of establishment under Police (with separate figures for border police where such police is maintained separately, Home Guards, Prantiya Raksha Dal etc.), General Administration, Justice, Jails on 1st April 1948, 1st April 1951, 1st April 1956 and in each of the years beginning April 1960.
15. Number of primary schools, pupils and teachers therein on 1st April 1948, 1st April 1952, 1st April 1956 and in each of the years beginning April 1960. In this connection the additional strength of pupils in these schools together with the age-groups may kindly be given.
16. Number of hospitals and dispensaries, total number of beds, nurses, doctors and midwives, rural and urban separately, on 1st April 1948, 1st April 1952, 1st April 1956 and in each of the years beginning 1st April 1960.
17. Programme of agrarian reforms in the State, their effect on revenue and expenditure, production of food-grains and commercial crops, during the years 1960-61 and onwards.
18. Grow More Food Schemes, 1960-61 to 1964-65. Give for each year particulars of—
 - (i) gross expenditure,
 - (ii) loans,
 - (iii) grants received from the Centre.
 Also give increase in food production over this period.
19. Details of the programme of Community Development, giving specially the progress so far in regard to opening of Community Development and National Extension Service blocks in each of the years beginning 1960-61, as well as the programmes for the extension of the scheme during the rest of the Third Plan period and the programme for the Fourth Five Year Plan period. In this connection, the strength and work of the Village Volunteer Force may please be given.
20. Kilowatt hours of energy generated in 1948, 1952, 1956, and in each of the years beginning 1960, by—
 - (i) State undertakings (excluding purchases from D.V.C.) and
 - (ii) private undertakings.

In this connection, the progress of rural electrification programme since 1956 may be indicated, together with the programme for each of the years upto 1965-66, and for the Fourth Five Year Plan period.

21. Financial and other details of each of the major irrigation and hydro-electric projects, relating to the period 1956-57 to 1960-61 and in each of the subsequent years, indicating capital outlay, running costs and the revenue derived each year and other tangible benefits of the project.
22. The progress made in the reorientation of the economy towards defence, and the consequent impact on the budget.
23. Preparation and compilation of statistics relating to State income, collection of consumption data regarding commodities subject to Union Excise duties. (An explanatory note on the subject may be given).
24. The amounts included in the forecasts by way of transfers to and from any reserve funds with explanations as to the nature of those funds.
25. A statement showing the recommendations of the Taxation Enquiry Commission which have been implemented, the resulting increase in revenue and the estimated additional revenue if the remaining recommendations are implemented.
26. A statement giving the details of additional taxation which the State Government had proposed at the time of the formulation of the Third Five Year Plan and the taxation measures actually implemented with their yields during the period of that Plan and their expected proceeds during future years.
27. The position of arrears in the collection of land revenue and of sales tax, during the years 1960-61 to 1963-64 with a detailed statement showing for each year, and in respect of each of these two sources of revenue (i) the arrears outstanding at the beginning of the year; (ii) the demand for the year, (iii) the amounts collected, (iv) the amounts remitted or written off, and (v) the balance carried forward to the subsequent year.
28. Matching or ad hoc grants received or expected to be received from the Central Government and other statutory or non-statutory bodies, e.g., the National Cooperative Development and Warehousing Board, the Indian Council of Agricultural Research, the Indian Central Cotton Committee, the Indian Central Jute Committee, the Handloom Board etc. during the year 1960-61 to 1964-65 showing separately:

(i) the gross expenditure on account of plan and non-plan schemes financed by such grants;

(ii) the pattern and duration of the grants.

29. Receipts, payments and balances in the State Road Fund, and the famine and natural calamities fund, if established (vide para 184 of the second Finance Commission's report and para 17 of the Third Finance Commission's Report), for each of the years 1960-61 to 1964-65.

30. Total expenditure in connection with famine and natural calamities in each of the last 10 years and the amount of assistance received from the Centre towards such expenditure, by way of supply of foodgrains at concessional prices or otherwise.

Enclosure to Appendix III (iv)
Annexure II (contd.)

PROFORMA FOR ITEM NO. 10

NAME OF THE STATE: _____

FINANCIAL POSITION OF THE STATE GOVERNMENT
(The position of liabilities and assets under some important heads)

(Rs. in lakhs)

	Outstanding as on							
	31st March 1952	31st March 1957	31st March 1961	31st March 1962	31st March 1963	31st March 1964	31st March 1965	31st March 1966
A. Indebtedness:								
1. Loans from the public								
2. Loans from the Centre								
3. Loans from R.B.I.								
4. Loans from L.I.C.								
5. Loans from the National Cooperative Development Corporation								
6. Floating debt ^[1]								
7. Unfunded debt								
8. Any other loans								

[1] This should include outstanding ways and means advances from RBI and cash credit advances from the State Bank of India, if any.

	Outstanding as on							
	31st March 1952	31st March 1957	31st March 1961	31st March 1962	31st March 1963	31st March 1964	31st March 1965	31st March 1966
B. Cash Balances and Holdings of Securities:								
1. Cash balance								
2. Securities held in Cash Balance Investment Account								
3. Securities held in Sinking Fund Investment Account								
4. Securities held on account of other Reserve Funds								
C. Loans and Advances by the State								
1. To local bodies								
2. To agriculturists for various purposes								
D. Holdings of Stocks of * Essential Commodities on Government Account								

*Value and not the quantity as such has so be indicated

Appendix III(v)

(v) Letter No. FC 14(1)-B/64, dated the 9th July, 1964, from Dr. D. N. Saxena, Joint Secretary, Finance Commission, Church Road Hutments, New Delhi, to the Finance Secretaries of all the States (except Nagaland).

(vide para 86 of the Report)

I am directed to invite a reference to paragraph 6 of the Ministry of Finance letter No. FC 1(2)-B/64, dated May 12, 1964, dealing with supply of material for the use of the Fourth Finance Commission. In paragraph 6 of that letter, it was stated that on the subject of co-ordination between sales taxes and Union excise duties, which is covered by part (e) of the terms of reference of this Commission, a detailed questionnaire would be sent later. Herewith I send five copies of a proforma setting out the items in respect of which information is needed.

2. The information to be furnished in the proforma may please be supplemented with—
 - (i) Six copies of General Sales Tax Act and the Act dealing with Sales Tax on Motor Spirits as applicable to your State (these should be up-to-date i.e. should include all amendments carried out recently);
 - (ii) a brief note indicating such salient features of the sales tax system as the minimum turnover at which the tax becomes applicable, the system of levy i.e. whether it is single point, multi point or double point or a combination, exemptions etc; and
 - (iii) a self-contained memorandum setting out the views of the State Government on part (e) of the terms of reference of the Commission.
3. It is requested that the Acts asked for vide item (i) above may please be sent by the end of this month and the remaining information alongwith the Memorandum by the middle of August, 1964.

PROFORMA ATTACHED TO FINANCE COMMISSION LETTER

NO.14(1)-B/64 DATED JULY 9, 1964

Rates of Sales Tax on Commodities/Products bearing Union Excise Duties

Commodities / Products	System of levy – whether single point, multi point or double point	1961-62			
		Rate of sales tax	Sales tax yield (Rs. lakhs)	Total value of sales at the final stage	Total effective of sales tax rate on each commodity $4/5*100$
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Note: Similar information to be furnished for each year up to 1964-65.

Enclosure to Appendix III(v)**EXPLANATORY NOTE TO PROFORMA ATTACHED TO FINANCE COMMISSION LETTER NO. FC 14(1)-B/64, DATED JULY 9, 1964**

This proforma is intended to collect information in regard to rates of sales taxes in different States on commodities that are subject to Union excise levies.

2. At present there are as many as 68 commodities on the Union excise tariff list. Out of these, the following eight are exempt from sales taxes in all the States in terms of the arrangement regarding additional excises in lieu of sales taxes.

These are:

- (i) Cotton fabrics;
- (ii) Silk fabrics;
- (iii) Rayon or artificial silk fabrics;
- (iv) Woollen fabrics;
- (v) Sugar;
- (vi) Tobacco (unmanufactured);
- (vii) Cigars and Cheroots; and
- (viii) Cigarettes.

The above commodities are, therefore, not to be included in the proforma. It is only in respect of the remaining 60 commodities that the information asked for in the proforma has to be given. These 60 commodities are as follows:

- 1. Motor spirit.
- 2. Motor vehicles.
- 3. Tyres and tubes.
- 4. Cycles and parts thereof.
- 5. Gramophones.
- 6. Wireless receiving sets.
- 7. Refrigerators and Air conditioners.
- 8. Electric motors.
- 9. Electric batteries.
- 10. Electric bulbs and tubes.
- 11. Electric fans.
- 12. Electric wires and cables.
- 13. Internal Combustion engines.
- 14. Rubber Products.

15. Iron and steel products.
16. Refined Diesel oils and vaporizing oils.
17. Diesel oils n.o.s.
18. Furnace oil.
19. Soap.
20. Cosmetics and Toilets.
21. Petroleum Products n.o.s.
22. Paper.
23. Plywood.
24. Rayon or synthetic fibres and yarn.
25. Plastics.
26. Asphalt and bitumen.
27. Pigments and colours.
28. Soda Ash.
29. Caustic Soda.
30. Glycerine.
31. Synthetic organic dye stuff.
32. Patent and proprietary medicines.
33. Acids.
34. Gases.
35. Sodium silicate.
36. Cellophane.
37. Cement.
38. Glass and glassware.
39. Chinaware.
40. Asbestos cement products.
41. Coffee.
42. Tea.
43. Kerosene.
44. Matches.
45. Vegetable products.
46. Vegetable non-essential oils.
47. Footwear.
48. Cinematograph films.

- 49. Copper and copper alloys.
- 50. Zinc.
- 51. Aluminium.
- 52. Tin plates.
- 53. Pig iron.
- 54. Steel ingots.
- 55. Cotton yarn.
- 56. Woollen yarn.
- 57. Jute manufactures.
- 58. Mechanical lighters.
- 59. Silver.
- 60. Salt.*

*There is no excise on this item.

3. In presenting the information it would perhaps be convenient to re-arrange the above list so that items bearing the same rate are brought within a single group. For example, all items which bear a 10 per cent. single point sales tax levy could be put in one group; the second group could then show all such items which bear a 5 per cent. levy; a third group could include all such commodities which bear a 2 per cent. levy and so on and so forth. The suggestion for grouping the commodities should not, however, be taken to mean that rates for individual commodities are not to be shown. In fact, the entire presentation has to be in terms of each of the 60 commodities set out above. For the sake of convenience, however, these may be shown under different groups formed on the basis of the rates of levy.
4. Columns 2 and 3 dealing with system of levy and with rates of sales taxes are simple and will not create any difficulty. The same cannot, however, be said about the rest of the columns. Two types of difficulties are likely to crop up.
 - (i) commodity-wise details may not be available; and
 - (ii) even if one ignored the difficulty regarding commodity-wise details, one may not get from the available records precise information in regard to total value of sales at the final stage, namely, at the retail stage.

The sole objective of seeking information in regard to total value of sales at the final stage is to arrive at a reasonable estimate of total effective sales tax rate on each commodity. For example, assuming that in case of, say, vegetable products

one has the data regarding the total value of sales at the final stage, i.e. at the retail stage, and that one also knows how much sales tax was collected from this item, one can then work out the effective sales tax rate on the vegetable products. In the case of a single point tax, the effective sales tax rate would be the same as the rate of the single point levy, but in the case of multi-point levies, the effective rate may be different from the rate as per the Act, because the effective rate would depend upon the number of points through which the commodity has passed before reaching the final consumer.

5. The intention of the proforma is to elicit information in regard to effective sales tax rates on each commodity. In other words, the rate of sales tax which should have been devised if the intention was to collect the same yield through a single point levy. In case it is found that precise information in regard to total value of sales at the final stage and yields from sales tax in respect of each commodity cannot be had, perhaps the best thing would be to give a rough estimate of the effective sales tax rate on each commodity. The basis of the estimate may please be explained in detail.
6. The information to be given in the proforma has to be confined to State sales taxes; Central sales tax is not to be brought in the picture.
7. Supplementary point No. 23 vide Annexure II to Ministry of Finance letter No. FC 1(2)-B/64, dated May 12, 1964, seeks information from each State in regard to preparation and compilation of statistics relating to State income and collection of consumption data regarding commodities subject to Union excise duties. It is hoped that the note to be furnished with reference to this supplementary point would deal in some detail with regard to the estimate of consumption in regard to commodities subject to Union excise.

Appendix III (vi)

(vi) D.O. letter No. MS/688/64, dated the 5th August, 1964, from Shri P. C. Mathew, Member-Secretary, Finance Commission, Church Road Hutments, New Delhi, to Shri S. Bhoothalingam, Secretary, Department of Economic Affairs, Ministry of Finance, New Delhi.

(vide para 124 of the Report)

Please see paragraph 4(a) (iii) of the terms of reference to the Fourth Finance Commission which requires it to take into account, on the requirements side of

the non-plan revenue accounts of the States, the expenditure likely to devolve upon the States for the servicing of their debt. A question has been raised whether the receipts to the States resulting from the Fourth Plan schemes during the Fourth Plan period should be credited on the receipt side of the non-plan account or whether these receipts will be included on the receipts side in the plan account, while estimating the resources available to the States for the Fourth Plan. For example, on page 6 of their publication "West Bengal Third Five Year Plan", the West Bengal Government have taken credit for Rs. 7.00 crores on account of Receipts from Third Plan Schemes (excluding major industrial schemes). Apart from the fact that it would be difficult for the States and the Finance Commission to estimate the magnitude of these receipts at this stage when there is little information available regarding the specific Fourth Plan schemes from which these receipts may be expected, there is also risk of double counting or complete omission of this item of resources from both the Plan and the non-Plan accounts. I shall be grateful if you would let the Commission know whether this item is being included in the receipts side of the plan account, in estimating resources for the Fourth Plan.

Appendix III(vii)

(vii) D.O. letter No. 3028-SCDN/64, dated the 11th August, 1964, from Shri S. Bhoothalingam, Secretary, Ministry of Finance (Department of Co-ordination), New Delhi, to Shri P. C. Mathew, Member-Secretary, Finance Commission, New Delhi.

(vide para 124 of the Report)

Your D.O. No. MS/688/64, dated 5th August, 1964 regarding the reckoning of receipts accruing to the States from the Fourth Plan Schemes.

2. Expenditure for the servicing of the debt is always treated as a non-plan item. That is why para 4(a) (iii) of the terms of reference of the Finance Commission specifically refers to the burden devolving upon the States for the servicing of their debt which would also include interest payments relating to the debt likely to be incurred by the States in the Fourth Plan. On the other hand, receipts accruing to the States from the Fourth Plan Schemes cannot appropriately be reckoned as a non-plan receipt since the expenditure on those schemes would

form part of the Plan. These receipts have, therefore, to be excluded in the computations to be made by the Finance Commission.

Appendix III (viii)

(viii) D.O. letter No. MS-132264, dated 28th November, 1964, from Shri P. C. Mathew, Member-Secretary, Finance Commission, New Delhi, to Shri S. Bhoothalingam, Secretary, Ministry of Finance (Department of Economic Affairs), New Delhi.

(vide paras 148 and 149 of the Report)

In assessing the requirements of the State Governments the Finance Commission has to decide whether the State Governments should be allowed to make provision for annual contribution to the Sinking Funds for market borrowings and/or loans from the Central Government and if so at what rates. This question was considered by the Ministry of Finance (Economic Affairs Department) who issued instructions in January 1955 advising the State Governments that provision for Sinking Funds in the Revenue Budget may be restricted to what the State Government was bound to provide in accordance with any law or with any specific undertakings given in the case of any loan. It will be recalled that the Second and the Third Finance Commissions, however, did not allow any provision (not even the obligatory ones) for reduction or avoidance of debt in assessing the non-plan gaps, except in the case of Maharashtra which had revenue surplus.

2. It is understood that there has been some rethinking about the earlier decision of the Government of India preventing the States from making contribution to the Sinking Funds, and that this question was considered in the Finance Ministers' Conference held in November 1963. The Central Government has also expressed anxiety about the mounting debt of the State Governments, vide para 31 of the Finance Minister's Speech while presenting the Budget for 1964-65. Before the Finance Commission takes a final decision in this regard, we shall be grateful to know the views of the Finance Ministry on the subject, so far as the period of the Fourth Plan is concerned.

Appendix III(ix)

(ix) Letter No. FC 1(2)-B/64, dated 4th December, 1964, from Dr. D. N. Saxena, Joint Secretary, Finance Commission, to Secretary, Finance Departments of all State Governments.

(vide para 116 of the Report)

I am to state that from the forecasts of revenue and expenditure received from the State Governments, it is observed that the provision proposed by them for maintenance expenditure on Third Plan schemes during the Fourth Plan period shows large variations between one State and another and as between one major head and another in the same State.

2. In order to enable the Commission to make realistic assessment of the committed expenditure, the State Government are requested to furnish following details of the Plan expenditure on revenue account during the last year of the Third Plan proposed by them under each major head:¹

Major Head	Plan Expenditure in 1965-66	expenditure would become committed on the non-plan side during each year of the Fourth Plan period (1966-67 to 1970-71)
(i) Salaries and Establishment expenditure		
(ii) Contingency expenditure—		
(a) Recurring		
(b) Non-recurring		
(iii) Grants-in-aid to Institutions and local bodies		
(iv) Minor Works		
TOTAL		

¹ Only such heads may be covered as have plan items in them.

In addition, it may be indicated on what amount of gross capital outlay on the completed schemes of the Third Plan, maintenance and repair charges have to be provided on the non-plan side in the Fourth Plan period on the items "public works and irrigation."

3. It is requested that the above information may be furnished so as to reach before the 1st of January, 1965.

Appendix III(x)

(x) D.O. letter No. 785-SEA/65, dated the 6th/9th March, 1965, from Shri S. Bhoothalingam, Secretary, Ministry of Finance (Department of Economic Affairs), New Delhi, to Shri P. C. Mathew, Member-Secretary, Finance Commission, New Delhi.

(Vide para 149 of the Report)

Please refer to your D.O. No. MS-1322/64, dated the 28th November, 1964 regarding the amortisation of Public Debt from Revenue in the States. A copy of a communication sent to the State Governments in this connection, which is self-

explanatory, is enclosed for the information and Guidance of the Fourth Finance Commission.

Enclosure to Appendix III(x)

Letter No. F 1(9)-B/65, dated the 9th March, 1965 from Shri A. R. Shirali, Joint Secretary, Ministry of Finance (Department of Economic Affairs), New Delhi, to the Finance Secretaries of all State Governments.

(Vide paras 110 and 149 of the Report)

(Enclosure to letter dated 9th March, 1965 from Finance Secretary Government of India)

I am directed to say that some State Governments have enquired about the views of the Government of India on the question of the amortisation of Public Debt from Revenue. While the Government of India are satisfied that the decision communicated in Shri Rangachari's D.O. letter No. 41/SF/55, dated the 11th January, 1955 to the Finance Secretaries of all State Governments continues to be valid, the matter has nevertheless been carefully examined and the conclusions reached are set forth below:—

2. The utilisation of borrowed moneys for expenditure on productive assets which are capable of paying at least the interest charges on the capital invested is fully justified and raises no problem of amortisation from Revenue. It is only where such moneys are utilised for expenditure on non-productive assets or insufficiently productive works such as flood protection works, irrigation works, school buildings, hospitals and dispensaries, rural roads etc. that the doubt arises whether the related expenditure is an appropriate charge on borrowed moneys. While it is possible to argue that such outlays too represent permanent assets which could be validly shown against the borrowed moneys, the view could be urged that such charges should ultimately be met from Revenue even if for budgetary convenience they are initially met from borrowed moneys. However, the procedure for writing back to Revenue over a period of years the expenditure incurred out of borrowed moneys as a matter of budgetary convenience has not been extended to expenditure incurred on non-productive or insufficiently productive assets. The more convenient arrangement in such cases would be to adjust initially under Revenue such part of expenditure incurred on non-productive or insufficiently productive assets as is considered appropriate,

instead of meeting it from borrowed moneys in the first instance, and then writing it back to Revenue over a period of years. This would necessitate a reconsideration of the existing criterion for meeting expenditure of a capital nature from borrowed moneys or in other words, for allocation of expenditure between Revenue and Capital.

3. The reconsideration of the criterion for allocation of expenditure between Revenue and Capital could have reference either to the objects of expenditure or to the monetary limits adopted for the purpose. It would be appreciated that the more practicable arrangement would be not to disturb the essential basis of the existing arrangement for debiting expenditure resulting in creation of assets to Capital, but to increase the monetary limit adopted for debiting the expenditure on individual works or schemes to Capital. For this purpose, the present limits for meeting from Revenue the expenditure on new works satisfying the definition of capital expenditure, viz., Rs. 20,000 in the case of individual works and Rs. 1 lakh for works of same character and forming part of a scheme, having a continuity of time, purpose and space, might, having regard to the present day conditions, be increased to Rs. 1 lakh and Rs. 5 lakhs respectively. This modification will result in expenditure of a Capital nature being met from Revenue to a larger extent than at present and thus serve essentially the same object as the amortisation of a part of the Public Debt from Revenue.
4. The modification in the existing arrangement of the allocation of expenditure between Revenue and Capital referred to in the preceding paragraph is proposed to be given effect to at the Centre from the commencement of the Fourth Plan period. It would of course apply not only to new works or schemes but also works or schemes in progress and carried over to 1966-67. The expenditure which would be transferred to the Revenue Section as a result, would be debited to distinct Capital heads within the Revenue account following the procedure which obtained prior to 1956-57. If the State Governments agree, they may initiate necessary action to implement the proposal in respect of their expenditure during the Fourth Plan period. The Comptroller and Auditor General who has been consulted is in agreement with these views.
5. The receipt of this communication may be acknowledged. A copy of this is also being sent to the Fourth Finance Commission.

Appendix III(xi)

Letter No. 41/SR/55, dated 11th January, 1955, from Shri M. V. Rangachari, Government of India, Ministry of Finance (Deptt. of Revenue & Expenditure), to Finance Secretaries of all Part A & Part B States except J. & K.

(Vide para 148 of Report)

Some of the State Governments have brought up the difficulty experienced in balancing their revenue budgets, due among other things to the progressive increase in debt charges arising out of the implementation of the Plan. While it is obvious that interest and obligatory sinking fund charges must be fully met from current revenues, in the present context, when all the resources at the Centre and the States are mobilised for financing development and no real revenue surplus is available for repayment of debt or debt redemption, there is no reason why the revenue budget should be distorted by including provision for repayment of loans or for non-obligatory sinking funds. Provision for the repayment of loans may be made in the capital budget and the provision for sinking funds in the revenue budget restricted to what the State Government is bound to provide in accordance with any law or with any specific undertaking given in the case of any loan. If you agree, the budget for the coming year may be framed on the above basis.

2. It would perhaps also be an advantage if the procedure in the matter of meeting capital expenditure from the revenue budget is made as uniform as possible. The practice probably varies from State to State, and I shall be glad if you would kindly let me know urgently the procedure adopted in this matter by your State in some detail. We shall then consider the extent to which standardisation is possible or desirable and process the matter with you and the other States.

APPENDIX IV

Dates and Venues of discussions with the representatives of the State Governments and Central Ministries; the Planning Commission; the Comptroller & Auditor General of India and the Accountants General.

(vide para 5 of the Report)

(A) Dates of discussions with State Governments

State	Dates of discussions	Venue
1. Gujarat	16th and 18th January, 1965	Bombay
2. Maharashtra	20th and 21st January, 1965	Bombay
3. Rajasthan	3rd and 4th February, 1965	New Delhi
4. Bihar	5th and 6th February, 1965	New Delhi
5. Nagaland	9th and 10th February, 1965	New Delhi
6. Mysore	5th and 6th March, 1965	Madras
7. Madras	9th and 10th March, 1965	Madras
8. Uttar Pradesh	23rd and 24th March, 1965	New Delhi
9. Punjab	25th and 26th March, 1965	New Delhi
10. West Bengal	5th, 6th and 7th April, 1965	Calcutta
11. Assam	8th and 9th April, 1965	Calcutta
12. Jammu & Kashmir	21st and 22nd April, 1965	New Delhi
13. Andhra Pradesh	23rd and 24th April, 1965	New Delhi
14. Orissa	26th and 27th April, 1965	New Delhi
15. Madhya Pradesh	28th and 29th April, 1965	New Delhi
16. Kerala	28th and 29th May, 1965	Bangalore

(B) Dates and Venues of discussions with Central Ministries, Planning Commission and Comptroller and Auditor General of India

Ministry etc.	Date of discussion	Venue
1. Minister of Commerce and Prof. V. K. R. V. Rao, Member, Planning Commission	4th February, 1965	New Delhi
2. Secretary, Ministry of Home Affairs	27th March, 1965	New Delhi
3. Secretaries and other officers in the Ministry of Finance	30th April, 1965	New Delhi
4. Comptroller & Auditor General of India	30th April, 1965	New Delhi
5. Planning Commission	1st May, 1965	New Delhi

APPENDIX IV-concl.**(C) Dates of discussions with the Accountants General**

Accountant General	Date of discussion	Venue
1. Gujarat	18th January, 1965	Bombay
2. Maharashtra	22nd January, 1965	Bombay
3. Rajasthan	4th February, 1965	New Delhi
4. Bihar	6th February, 1965	New Delhi
5. Nagaland	10th February, 1965	New Delhi
6. Mysore	6th March, 1965	Madras
7. Madras	10th March, 1965	Madras
8. Uttar Pradesh	24th March, 1965	New Delhi
9. Punjab	27th March, 1965	New Delhi
10. West Bengal	7th April, 1965	Calcutta
11. Assam	9th April, 1965	Calcutta
12. Jammu & Kashmir	22nd April, 1965	New Delhi
13. Andhra Pradesh	24th April, 1965	New Delhi
14. Orissa	27th April, 1965	New Delhi
15. Madhya Pradesh	29th April, 1965	New Delhi
16. Kerala	29th May, 1965	Bangalore

APPENDIX V

Names of organisations, universities and individuals who submitted Memoranda to the Commission

(vide para 7 of the Report)

(a) Organisations which submitted Memoranda to the Commission

1. Mill Owners' Association, Bombay.
2. The Paper Traders Association, Bombay.
3. Federation of Gujarat Mills and Industries, Baroda.
4. Federation of Paper Traders Association, Bombay.
5. Bharat Chamber of Commerce, Calcutta.
6. Maharashtra Chamber of Commerce, Bombay.
7. The United Planters Association of South India, Coonoor.
8. Bihar State Cooperative Bank Ltd., Patna.
9. Federation of Indian Chamber of Commerce and Industry, New Delhi.
10. Saurashtra Mill Owners' Association, Surendranagar.
11. Bihar State Small and Medium Newspapers Association, Patna.
12. Iron, Steel & Hardware Merchants and Manufacturers' Chamber of India, Bombay.
13. Indian Chambers of Commerce, Calcutta.
14. All India Iron & Steel Merchants' Federation, New Delhi.
15. Bengal National Chamber of Commerce and Industry, Calcutta.
16. Gujarat Vepari Mahamandal, Ahmedabad.
17. The Indian Merchants' Chamber, Bombay.
18. a. Burmah Shell Oil Storage & Distributing Company of India Ltd., Bombay.
- b. M/s ESSO Standard Eastern Inc., Bombay.
- c. M/s Caltex (India) Ltd., Bombay.
- d. Indian Oil Corporation Ltd., Bombay.
- e. Burmah Oil Company (India Trading) Ltd., Bombay.

19. Maharashtra Chamber of Commerce and Industry, Poona.
20. Gujarat State Road Transport Corporation, Ahmedabad.
21. The Federation of Andhra Pradesh Chambers of Commerce and Industry, Secunderabad.
22. Rajasthan Chamber of Commerce, Jaipur.
23. Merchants' Chamber of Commerce, Kanpur.
24. Rajasthan Vyapar Udyog Mandal, Jaipur.
25. All India Council of Mayors, Bombay.
26. Planning Forum, H. L. College of Commerce, Ahmedabad.
27. Institute of Chartered Accountants of India, New Delhi.
28. Gokhale Institute of Public Affairs, Bangalore.
29. Bharatiya Jana Sangh, Delhi.
30. Samyukta Socialist Party, Kerala.
31. Committee of Members of Parliament, Madhya Pradesh, New Delhi.
32. Chimanlal Mehta and Company, Bombay.
33. Gauhati Economic Association, Gauhati.
34. J. N. Singh & Co. (P) Ltd., Patna.

(b) Universities which submitted Memoranda to the Commission

1. Visva-Bharati University, Santiniketan.
2. Lucknow University, Lucknow.
3. Sri Venkateswara University, Tirupati.
4. Osmania University, Hyderabad.
5. Patna University, Patna.
6. Madras University, Madras.
7. University of Jodhpur, Jodhpur.
8. Sardar Vallabha Vidyapeeth, Vallabh Vidyanagar.
9. Gujarat University, Ahmedabad.

10. University of Jabalpur, Jabalpur.

11. University of Gorakhpur, Gorakhpur.

12. Joint Board of Vice-Chancellors of the Universities of the State of Maharashtra, Bombay.

(c) Individuals who submitted Memoranda to the Commission

1. Shri Vavilala Gopalgrishnaiah, M.L.A., Sattenapalli (A.P.).

2. Mrs. Ursula Hicks, Nuffield College, Oxford, England.

3. Shri B. P. N. Registani Bikaner.

4. Shri G. N. Sahi, New Delhi.

5. Shri Chhabildas Mehta, M.L.A., Mahura (Gujarat).

6. Shri Ramjibhai R. Chaudhri, M.L.A., Ahmedabad.

7. Prof. Gyan Chand, Delhi.

8. Shri P. R. Panchmukhi, Bombay.

9. Dr. K. V. S. Sastri, Waltair.

10. Dr. P. S. Muhar, Kurukshetra.

11. Shri Monaranjan Sinharay, Santiniketan.

12. Dr. Kedarnath Prasad, Patna.

13. Shri A. R. Desai, Surat.

APPENDIX VI**Individuals and organisations whose representatives appeared
before the Commission and gave oral evidence**

(vide para 7 of the Report)

1. All India Council of Mayors, Bombay.
2. Gujarat Vepari Mahamandal (Gujarat Chamber of Commerce), Ahmedabad.
3. Burmah Shell, ESSO, Caltex, B.O.C. and I.O.C.
4. Federation of Paper Traders' Association, Bombay.
5. Bombay Paper Traders' Association, Bombay.
6. All-India Iron & Steel Merchants' Federation, New Delhi.
7. The United Planters' Association of Southern India, Coonoor.
8. Bharat Chamber of Commerce, Calcutta.
9. Dr. K. V. S. Sastri, Andhra University.
10. Shri V. Gopalakrishnaiya, M.L.A., Sattenapalli, Andhra Pradesh.
11. Institute of Chartered Accountants of India, New Delhi.

APPENDIX VII
STATISTICAL TABLES

APPENDIX VII

Statistical Tables

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Note the following symbols have been used throughout in the tables

.. Not available

_ Nil or negligible

RE Revised Estimates

BE Budget Estimates

TABLE 1: Area and Population of States and Density
(1961 Census)

S. No.	States	Area			Population		Density	
		In Sq. Miles	In Sq. Km.	Percentage to all States Area	In thousands	Percentage to all States Population	persons per Sq. Mile	persons per Sq. Km.
1	2	3	4	5	6	7	8	9
1	Andhra Pradesh	1,06,286	2,75,281	8.84	35,983	8.34	339	131
2	Assam	47,091	1,21,966	3.92	11,873	2.75	252	97
3	Bihar	67,196	1,74,031	5.59	46,456	10.76	691	267
4	Gujarat	72,245	1,87,115	6.01	20,633	4.78	286	110
5	Jammu and Kashmir	(1) 86,023	(1) 2,22,800	7.17	3,561	0.83	—	—
6	Kerala	15,002	38,855	1.25	16,904	3.92	1,127	435
7	Madhya Pradesh	1,71,217	4,43,452	14.24	32,372	7.50	189	73
8	Madras	50,331	1,30,357	4.19	33,687	7.80	669	258
9	Maharashtra	1,18,717	3,07,477	9.88	39,554	9.16	333	129
10	Mysore	74,210	1,92,204	6.18	23,587	5.46	318	123
11	Nagaland	6,366	16,488	0.53	369	0.09	58	22
12	Orissa	60,164	1,55,825	5.01	17,549	4.07	292	113
13	Punjab	47,205	1,22,261	3.93	20,307	4.70	430	166
14	Rajasthan	1,32,152	3,42,273	11.00	20,156	4.67	153	59
15	Uttar Pradesh	1,15,654	2,94,364	9.46	73,746	17.08	639	251
16	West Bengal	33,829	87,617	2.82	34,926	8.09	1032	399
	All States	12,01,688	31,12,373	100	4,31,663	100	383(2)	148(2)
	Union Territories	60,569	1,56,916	—	7,410	—	122	47

Source: Census of India, 1961.

Notes: (1) Area of Jammu and Kashmir has not been reported in 1961 Census; the figure given represents latest estimate of the Surveyor General of India as on 31st March, 1959 relating to total area of the State vide Statistical Abstract of the Indian Union 1963-64 (Page 1). Population data exclude population of territory under military occupation of Pakistan.

(2) Excluding Jammu and Kashmir.

TABLE 2: Rural and Urban Population
(1961 Census)

S. No.	States	Total Population (000)	Rural Population (000)	Urban Population (000)	Percentage distribution of urban population	Urban Population as percentage of State's population
1	2	3	4	5	6	7
1	Andhra Pradesh	35,983	29,709	6,274	8.24	17.45
2	Assam	11,873	10,960	913	1.20	7.69
3	Bihar	46,456	42,542	3,914	5.14	8.43
4	Gujarat	20,633	15,317	5,316	6.98	25.76
5	Jammu and Kashmir	3,561	2,968	593	0.78	16.66
6	Kerala	16,904	14,350	2,554	3.35	15.11
7	Madhya Pradesh	32,372	27,745	4,627	6.08	14.29
8	Madras	33,687	24,696	8,991	11.81	26.69
9	Maharashtra	39,554	28,391	11,163	14.66	28.22
10	Mysore	23,587	18,320	5,267	6.92	22.33
11	Nagaland	369	350	19	0.02	5.19
12	Orissa	17,549	16,439	1,110	1.46	6.32
13	Punjab	20,307	16,218	4,089	5.37	20.13
14	Rajasthan	20,155	16,874	3,281	4.31	16.28
15	Uttar Pradesh	73,746	64,267	9,479	12.45	12.85
16	West Bengal	34,926	26,385	8,541	11.23	24.45
	All States	4,31,663	3,55,532	76,131	100.00	17.64

Source: Census of India, 1961.

NOTES: Urban population relates to persons living in cities and towns having—

(a) density not less than 1000 per sq. mile (391 per sq. km.);

(b) population not less than 5000;

(c) three fourths of the occupations of working population outside agriculture; and

(d) some pronounced urban characteristics.

TABLE 3: Population of Scheduled Castes and Scheduled Tribes
(1961 Census)

S. No.	State	Scheduled Castes Population (000)	Scheduled Castes % of State's population	Scheduled Tribes Population (000)	Scheduled Tribes % of State's population	Total (SC + ST) Population (000)	Total (SC + ST) % of State's population	Percentage distribution of total SC & ST population
1	Andhra Pradesh	4,974	13.8	1,324	3.7	6,298	17.5	6.80
2	Assam	733	6.2	2,068	17.4	2,801	23.6	3.02
3	Bihar	6,537	14.1	4,205	9.0	10,742	23.1	11.60
4	Gujarat	1,367	6.6	2,754	13.4	4,121	20.00	4.45
5	Jammu and Kashmir	268	7.5	–	–	268	7.5	0.29
6	Kerala	1,422	8.4	208	1.2	1,630	9.6	1.76
7	Madhya Pradesh	4,253	13.1	6,678	20.6	10,931	33.8	11.80
8	Madras	6,073	18	253	0.8	6,326	18.8	6.83
9	Maharashtra	2,227	5.6	2,397	6.1	4,624	11.7	4.99
10	Mysore	3,117	13.2	192	0.8	3,309	14.0	3.57
11	Nagaland	–	–	344	93.1	344	93.1	0.37
12	Orissa	2,764	15.7	4,224	24.1	6,988	39.8	7.54
13	Punjab	4,139	20.4	14	0.1	4,153	20.5	4.48
14	Rajasthan	3,360	16.7	2,309	1.5	5,669	28.1	6.12
15	Uttar Pradesh	15,417	20.9	–	–	15,417	20.9	16.64
16	West Bengal	6,951	19.9	2,064	5.9	9,015	25.8	9.74
	All States	63,601	14.7	29,035	6.7	92,636	21.4	100

Source: Census of India, 1961.

Notes: Scheduled Castes: Such castes, races or tribes or parts of or groups within such castes, races or tribes as are deemed under Article 341 of the Constitution to be scheduled castes.

Scheduled Tribes: Such tribes or tribal communities or part of or groups within such tribes or tribal communities as are deemed under Article 342 of the Constitution to be Scheduled Tribes.

TABLE 4: Workers in different States and their percentage to population
(1961 Census)

S. No.	States	Total Population (000)	Number of Workers (000)	Percentage of Workers to State's Population
1	2	3	4	5
1	Andhra Pradesh	35,983	18,663	51.87
2	Assam	11,873	5,137	43.26
3	Bihar	46,456	19,235	41.40
4	Gujarat	20,633	8,475	41.07
5	Jammu and Kashmir	3,561	1,524	42.80
6	Kerala	16,904	5,630	33.31
7	Madhya Pradesh	32,372	16,929	52.30
8	Madras	33,687	15,352	45.57
9	Maharashtra	39,554	18,948	47.90
10	Mysore	23,587	10,726	45.47
11	Nagaland	369	219	59.35
12	Orissa	17,549	7,661	43.65
13	Punjab	20,307	7,101	34.97
14	Rajasthan	20,156	9,584	47.55
15	Uttar Pradesh	73,746	28,850	39.12
16	West Bengal	34,926	11,580	33.17
	All States	4,31,663	1,85,614	43.00

Source: Census of India, 1961.

NOTES: Worker connotes a person employed during any of the 15 days preceding Census enumeration in case of regular employment in any trade, profession, service etc. and a person having some regular work for more than one hour a day in case of seasonal work like cultivation etc. Also includes apprentices (with or without stipends), adult women engaged in productive work for wages and social workers actively engaged in public service.

TABLE 5: Agriculture, Irrigation and Forests

S. No.	States	Cropped area per 1000 population (1959-60) (Acres)	Net area irrigated as percentage to net area sown (1959-60)	Percentage distribution of food grain production in States (Average 1958-59 to 1962-63)	Per Capita gross value of Agricultural production (1958-59) Rs.	Value of forest produce per thousand population (1960-61) Rs.
1	2	3	4	5	6	7
1	Andhra Pradesh	841	27.1	8.45	114.1	920
2	Assam	575	28.1	2.14	145.5	1,318
3	Bihar	604	22.6	9.15	82.6	391
4	Gujarat	1,245	6.7	2.80	82.1	1,425
5	Jammu and Kashmir	562	45.1	0.76	55.0	28,216
6	Kerala	350	18.7	1.36	75.2	1,729
7	Madhya Pradesh	1,458	5.8	11.93	123.2	2,885
8	Madras	525	38.6	6.83	93.3	597
9	Maharashtra	1,218	5.7	8.32	82.1	1,729
10	Mysore	1,146	7.9	5.02	74.9	2,124
11	Nagaland	—	—	0.09	—	—
12	Orissa	889	17.4	4.75	62.9	1,622
13	Punjab	1,231	40.1	7.94	104.3	591
14	Rajasthan	1,859	10.9	6.44	90.0	1,111
15	Uttar Pradesh	750	30.1	17.69	103.7	1,159
16	West Bengal	454	25.8	6.33	99.5	422
	All States	892	18.1	100	102	—

Sources: Cols. (3), (4) and (7): Directorate of Economics and Statistics, Ministry of Food and Agriculture.
 Col. 5: Bulletin on Food Statistics February, 1964, Dite. of Economics and Statistics, Ministry of Food and Agriculture.
 Col. 6: Planning Commission.

NOTES: Col. (3): Cropped area: If different crops are raised in a year successively on a portion of land, the same area is accounted more than once.
 Col. (4): In computing the net area sown: Area sown more than once is counted only once and similarly in respect of net area irrigated.
 Col. (5): Food grains include:—
 Cereals (Rice, Jowar, Bajra, Maize, ragi, small millets, wheat and Barley) and pulses (gram, tur and other pulses).
 Col. (6): Figures against Gujarat and Maharashtra relate to old Bombay State.

TABLE 6: Industry and Mining

S. No.	States	Value added by Manufacture (Census Sector) 1961		Average daily employment in factories per 1000 population	Per Capita annual earnings of factory workers 1962 (P) (Rs.)	Value of mineral production per capita of population 1963 (P) (Rs.)
		Per Capita population (Rs.)	Pre Worker (Rs.)			
1	Andhra Pradesh	7.68	1,947	6.4	1,077	3.15
2	Assam	22.97	4,455	6.7	1,054	2.07
3	Bihar	14.46	3,823	4.3	1,385	17.14
4	Gujarat	48.82	3,273	17.7	1,666	3.51
5	Jammu and Kashmir	2.89	1,325	...	...	(a) 0.03
6	Kerala	14.11	1,707	10.1	1,124	0.20
7	Madhya Pradesh	8.80	2,791	5.2	(b) 1,252	7.45
8	Madras	23.93	3,547	10	1,488	1.47
9	Maharashtra	67.35	4,100	20.9	1,696	1.48
10	Mysore	14.47	2,943	7.9	1,210	3.18
11	Nagaland	...	...	...	...	...
12	Orissa	6.87	4,921	2.6	1,309	6.90
13	Punjab	11.93	3,200	6.9	1,193	0.10
14	Rajasthan	5.22	2,409	3.1	1,310	1.84
15	Uttar Pradesh	8.44	2,468	4.7	1,277	0.05
16	West Bengal	58.24	2,994	22.1	1,325	12.20
	All States	22.47	3,227	9.2	...	4.70

P) Provisional.

(A) Excludes Coal and Lignite.

(B) Relates to 1961.

Sources: Cols. 3 and 4 : Annual survey of Industries (1962)

Col. (5): Indian Labour journal

Col. (6): Indian Labour Year Book

Col. (7): Statistical summary of mineral production (December '63)

NOTES: Cols. (3) and (4): Value added by manufacture: represents that part of the value of products which is created in the factory, i.e., Gross Ex-factory value minus (Value of raw material + fuels consumed + services purchased + depreciation). Figures refer to the census sector of the Annual Survey of Industries conducted by the Central Statistical Organization.

Col. (5): Data relates to the employment in factories as defined in Sec. 2(m) of Factories Act, 1948.

Col. (6): Data relates to all employees drawing below Rs. 200 p.m.; excludes workers employed in Railway Workshops and in the industrial groups of seasonal nature.

Col. (7): Total value of mineral production includes estimated value of minor minerals, but excludes value of petroleum and minerals prescribed under the Atomic Energy Act, 1948.

TABLE 7: Electricity—Installed capacity and generation (1961-62)

S. No.	States	Installed capacity per 1000 population (K.W.)	Electricity generated per capita of population (Kw.H)
1	2	3	4
1	Andhra Pradesh	7.148	29.91
2	Assam	2.213	3.63
3	Bihar	7.577	32.52
4	Gujarat	17.028	65.71
5	Jammu and Kashmir	6.154	20.21
6	Kerala	8.883	40.74
7	Madhya Pradesh	8.304	20.92
8	Madras	16.481	74.78
9	Maharashtra	19.344	91.33
10	Mysore	8.454	46.39
11	Nagaland	...	...
12	Orissa	7.766	33.87
13	Punjab	33.14	90.98
14	Rajasthan	3.542	7.00
15	Uttar Pradesh	6.767	18.38
16	West Bengal	21.356	75.68
	All States	11.787	44.60

Source: Public Electricity Supply All-India Statistics 1961-62 (CWPC).

NOTES:

(1) Installed Capacity: Figures relate to public utility electricity supply undertakings whether owned by Govt., local authorities or companies.

(2) Electricity generated: Figures relate to generation by public utility electricity supply undertakings including purchases for public supply from non-public utilities. However, power purchased from adjoining State is not included under the purchasing State as this is accounted for in the corresponding generation figure of the selling State.

TABLE 8: Railway Route Length in India by states and Zones (as on 31.3.1963)

(Kilometres)

S. No.	States and Railway Zones	Broad Gauge	Metre Gauge	Narrow Gauge	Total (Kilometres)
1	2	3	4	5	6
1	Andhra Pradesh Central	837	540	-	1377
	Southern	1616	1170	-	2786
	South-Eastern	384	-	37	421
2	Assam North-East Frontier	-	1916	-	1916
3	Bihar Eastern	2075	-	-	2075
	North-Eastern	53	1695	-	1748
	North-East Frontier	54	261	-	315
	South-Eastern	787	-	68	855
	Non-Government	-	-	215	215
4	Gujarat Northern	-	59	-	59
	Western	903	3268	1156	5327
5	Jammu and Kashmir	-	-	-	-
6	Kerala Southern	554	333	-	887
7	Madhya Pradesh Central	1785	70	406	2261
	South-Eastern	1148	-	644	1792
	Western	704	428	67	1199
8	Maharashtra Central	2115	936	671	3722
	Southern	-	370	-	370
	South-Eastern	245	-	452	697
	Western	351	-	-	351
9	Madras Southern	862	2713	-	3575
10	Mysore Central	307	-	-	307
	Southern	151	2040	154	2345
11	Nagaland South-East Frontier	-	6	-	6
12	Orissa South-Eastern	1281	167	-	1448
13	Punjab Central	72	-	-	72
	Northern	2637	723	226	3586

1	2	3	4	5	6
	Western	-	99	-	99
14	Rajasthan Central	35	-	87	122
	Northern	6	2489	-	2495
	Western	608	2067	-	2675
15	Uttar Pradesh Central	960	-	2	962
	Eastern	186	-	-	186
	Northern	4080	-	-	4080
	North-Eastern	-	3219	-	3219
	Western	68	37	-	105
	Non-Government	-	-	144	144
16	West Bengal Eastern	1635	-	28	1683
	North-East Frontier	124	576	84	784
	South-Eastern	632	-	36	668
	Non-Government	-	-	298	298

Source: Railway Board

TABLE 9: Railway Earnings from passenger carriage on non-suburban routes during 1961-62 to 1963-64

Railway Zone	Year	Broad Gauge	Metre Gauge	Narrow Gauge	Total
1	2	3	4	5	6
1. Central	1961-62	2300	183	81	2564
	1962-63	2528	202	77	2807
	1963-64	2851	230	82	3163
	Total	7679	615	240	8534
2. Eastern	1961-62	1446	—	1	1447
	1962-63	1665	—	1	1666
	1963-64	1765	—	1	1766
	Total	4876	—	3	4879
3. Northern	1961-62	2243	363	21	2627
	1962-63	2569	408	24	3001
	1963-64	2797	441	26	3264
	Total	7609	1212	71	8892
4. North-Eastern	1961-62	—	1020	—	1020
	1962-63	—	1162	—	1162
	1963-64	—	1321	—	1321
	Total	—	3503	—	3503
5. North-East Frontier	1961-62	3	487	2	492
	1962-63	9	630	2	641
	1963-64	7	733	2	742
	Total	19	1850	6	1875
6. Southern	1961-62	1122	1329	6	2457
	1962-63	1214	1359	6	2579
	1963-64	1376	1393	6	2775
	Total	3712	4081	18	7811

1	2	3	4	5	6
7. South-Eastern	1961-62	965	—	49	1014
	1962-63	1122	—	54	1175
	1963-64	1253	—	61	1314
	Total	3340	—	164	3504
8. Western	1961-62	1125	953	74	2152
	1962-63	1270	1069	80	2419
	1963-64	1361	1097	89	2547
	Total	3756	3119	243	7118
9. Grand Total	1961-62	9204	4335	234	13773
	1962-63	10377	4830	244	15451
	1963-64	11410	5215	267	16892
	TOTAL	30991	14300	745	46116

Source: Statistical Supplement to Railway Board Reports , 1962-63 and 1963-64.

TABLE 10: Road Mileage in various States, total and in relation to area and population (as on 31-3-1961)

(Miles)

Sl. No.	States	Surfaced Road Mileage	Un-surfaced Road Mileage	Total Road Mileage	Per 100 Sq. miles area (Surfaced)	Per 100 Sq. miles area (Un-surfaced)	Per lakh population (Surfaced)	Per lakh population (Un-surfaced)
1	Andhra Pradesh	16,370	17,266	33,636	16	16	45	48
2	Assam	1,740	16,403	18,143	4	35	15	138
3	Bihar	8,262	42,085	50,347	12	63	18	90
4	Gujarat	7,410	7,805	15,215	10	11	36	38
5	Jammu & Kashmir	1,275	5,263	6,538	2	6	3	15
6	Kerala	5,003	7,136	12,139	34	48	30	42
7	Madhya Pradesh	14,958	14,560	29,518	9	8	46	45
8	Madras	17,426	12,115	29,541	35	24	52	36
9	Maharashtra	15,200	16,525	31,725	14	13	38	42
10	Mysore	16,616	22,306	38,922	22	30	71	95
11	Nagaland	..	..	..	..	..	..	..
12	Orissa	5,077	14,369	19,446	8	24	29	81
13	Punjab	6,428	12,441	18,869	14	26	32	61
14	Rajasthan	8,263	17,351	25,614	6	13	41	86
15	U.P.	12,919	48,521	61,440	11	43	17	66
16	West Bengal	8,491	31,816	40,307	25	94	24	91
	Union Territories	1,075	8,151	9,226	4	33	16	134
	All India	1,46,513	2,94,113	4,40,626	12	24	31	63

Source: Basic Road Statistics of India
Twelfth (1961) Supplement
Note: 1 Mile = 1.609 Km

TABLE 11: Number of motor vehicles* in States as on 31-3-1961

Sl. No.	States	Total number of vehicles	Per 100 sq. miles of area	Per lakh of population	Per 100 miles of roads
1	Andhra Pradesh	35,441	33	99	105
2	Assam	28,377	60	239	156
3	Bihar	26,244	39	56	52
4	Gujarat	44,423	62	215	292
5	Jammu & Kashmir	4,766	6	132	73
6	Kerala	21,225	141	126	175
7	Madhya Pradesh	39,685	23	123	134
8	Madras	55,356	110	165	187
9	Maharashtra	1,07,035	90	271	337
10	Mysore	39,354	53	167	101
11	Nagaland	..	..	..	..
12	Orissa	11,667	19	66	60
13	Punjab	22,784	48	112	121
14	Rajasthan	33,195	25	165	130
15	U.P.	49,671	44	67	81
16	West Bengal	1,15,096	339	329	286
	Union Territories	40,902	675	552	443
	TOTAL	6,75,221	53	155	153

Source: Basic Road Statistics of India Twelfth (1961) Supplement

* Includes motorcycles, auto-rickshaws, jeeps, private motor cars, motor cabs, other public service vehicles, goods vehicles and Miscellaneous Vehicles as Municipal water carriers, garbage vehicles, fire-fighting vehicles, etc. Figures relate to motor vehicles taxed and tax-exempted during the last quarter of the financial year.

TABLE 12: Education in States

Sl. No.	States	Students on roll 1961-62 (000)	Expenditure per student (Revenue Account) 1961-62 (Rs.)	Expenditure per capita (Revenue Account) 1962-63 (Rs.)	Enrolment in Classes I to V as % of age group 6-11 1961-62	Literacy rate 1961 Census (No. of literate persons to 1000 population)
1	Andhra Pradesh	42,35	50.3	5.98	72.5	212
2	Assam	16,72	46.6	7.19	70.6	274
3	Bihar	47,89	31.5	3.22	57	184
4	Gujarat	32,46	40	6.39	82.2	305
5	Jammu & Kashmir	3,64	63.7	7.65	46.4	110
6	Kerala	35,34	52.4	10.88	98.9	468
7	Madhya Pradesh	28,54	63.7	6.16	52.2	171
8	Madras	49,33	47.5	7.53	87.3	314
9	Maharashtra	69,52	35.2	5.5	79.1	298
10	Mysore	28,94(a)	43.1(a)	6.87	70	254
11	Orissa	17,75	38	4.27	64.4	217
12	Punjab	27,32	46.4	6.75	71.1	242
13	Rajasthan	17,81	65	6.17	45.8	152
14	Uttar Pradesh	66,12	36	3.39	50.4	176
15	West Bengal	43,83	48.5	6.48	72.1	293
	All States	527,55	44.4	5.66	67.4	239

Source: Education in States 1961-62.

(a) Relates to 1960-61 only. Data for 1961-62 not available.

TABLE 13: Medical Services, 1963 (P)

(Numbers)

Sl. No.	States	Hospitals	Dispensaries	Beds	Doctors	Nurses
1	Andhra Pradesh	369	567	20,296	2,913	3,710
2	Assam	61	669	4,316	(a)	1,217
3	Bihar	(a)	1,238(b)	10,161	7,469	1,851
4	Gujarat	118	1,185	11,952	4,035	1,263
5	Jammu & Kashmir	16	130	2,250	206	213
6	Kerala	94	211	14,413	2,612	886
7	Madhya Pradesh	157	419	10,308	557	1,817
8	Madras	326(c)	619(c)	24,756(c)	13,019	10,557
9	Maharashtra	405	775	22,558	12,723	14,155
10	Mysore	195	783	17,717	1,530	1,375
11	Nagaland	..	..	..	..	..
12	Orissa	171	255	6,108	1,848	629
13	Punjab	173	467	14,139	6,914	3,959
14	Rajasthan	323	344	11,831	1,142	614
15	Uttar Pradesh	504(d)	1072(d)	25,803(d)	9,221	3,143
16	West Bengal	862	568	30,236	22,436	6,154

Source: Central Bureau of Health Intelligence.

(P) Provisional

(a) Not available ;(b) Including hospitals

(c) Relates to the year 1962; (d) Relates to the year 1961

TABLE 14: Distribution of State Government Employees by Pay Ranges

Pay ranges (Rs.)	Assam	Bihar	Gujarat	Kerala
	(As on 31-3-62)	(As on 1- 6-58)	(As on 31- 3-62)	(As on 31-3-61)
Below 51	35948	96207	55129	66540
51—101	20010	31223	38128	59487
101—151	—	7822	10437	15298
151—201	9849	3163	3366	4698
201—251	—	1776	1709	1727
251—301	895	1161	1062	1073
301—351	—	877	644	914
351—501	1022	734	665	828
501—751	—	597	332	642
751—1001	357	236	148	73 *
1001—1501	65	138	97	
1501—2001	11	20	34	
2001—2501	—	8	17	
2501—3001	10	16		
3001 and over	—	17	8	
TOTAL	68167	143995	111776		151280
No. of persons for which particulars are not available	—	—	—	—
TOTAL	68167	143995	111776	151280

**TABLE 14: Distribution of State Government Employees by Pay Ranges-
contd.**

Pay ranges (Rs.)	Madhya Pradesh	Maharashtra	Uttar Pradesh	Rajasthan
	(As on 31-3-1963)	(As on 1-6-1960)	(As on 31-3-61)	(As on 30-6-61)
Below 51	41830	107035	2,33,281	84001
51—101	161556	65789	92,598	46342
101—151	54114	16884	31,478	15497
151—201	14474	6028	11,386	4145
201—251	9070	3231	5,795	5174
251—301		1876	2,670	
301—351	4054	1039	1,832	957
351—501			3,067	928
501—751	841	650	1,306	726 (1)
751—1001	285	277	586	202 (2)
1001—1501	165	234	462	133
1501—2001	67	56		26
2001—2501	10	32		26
2501—3001	5	16		
3001 and above	—	—		—
TOTAL	286471	204485	3,84,461	158167
No. of persons for which particulars are not available	24463	—	—	—
TOTAL	310934	204485	3,84,461	158167

NOTE: upper limit of pay ranges do not belong to the group.

(1) Belongs to pay Range Rs.501—700.

(2) Belongs to pay Range Rs.700--1001.

**TABLE 14: Distribution of State Government Employees by Pay Ranges -
Concl'd**

Pay Ranges (Rs.)	Mysore (As on 31-3-63)	West Bengal (As on 31-3-63)
Below 75	69,876	84,120
75—100	52,579	35,481
100—150	23,144	68,670
150—200	11,101	17,509
200—300	7,767	15,415
300—400	2,361	4,224
400—500	806	2,015
500—750	905	1,387
750—1000	234	746
1000—1500	111	370
1500—2000	20	145
2000—2500	11	56
2500—3000	—	
3000 and above	1	28
Total	1,68,915	2,30,166
No. of persons for which details are not available	472	—
GRAND TOTAL	1,69,387	2,30,166

Source: Census of Government Employees; State Governments.

Information available for only IO states.

Note: Upper limit of pay ranges do not belong to the group.

TABLE 15: Budgetary position of Government of India

(Rupees in crores)

Serial No.	Period	Revenue Account			Capital Account				Overall surplus
		Revenue (a)	Expenditure (c)	Surplus (+) or deficit (-)	Receipts (d)	Disbursements	Surplus (+) or deficit (-)	Miscellaneous (Net) (g)	(+) or deficit (-)
1	TOTAL First Plan period	2232	1983	+249	1054	1698	-644	-8	-403
	1950-51 to 1955-56 (Actuals)								
2	Total Second Plan period	3563	3343	+220	3076 (e)	4232 (f)	-1156	+18	-918
	1956-57 to 1960-61 (Actuals)								
3	Third Plan period :								
	1961-62 (Actuals)	1037	912	+125	957	1172	-214	-25	-115
	1962-63 (Actuals)	1428	1314	+113	1204	1454	-250	-19	-156
	1963-64 (Actuals)	1846	1659	+188	1381	1760	-379	+25	-167
	1964-65 (R.E.)	2079	1850	+229	1791	2080	-289	-20	-80
	1965-66 (B. E.)	2183(b)	1952	+230	1929	2100	-172	-55	+4
	Total Third Plan period	8572	7687	+885	7262	8566	-1304	-95	-514

Source: Reserve Bank of India Bulletin March 1965.

Notes on compilation: Accounts are provisional. Budget Estimates for 1965-66 relate to those presented to the Lok Sabha.

(a) Excluding States' share of Excise duties and other taxes.

(b) Including the effect of budget proposals.

(c) Excluding the payment of States' share of excise duties and additional excise duties.

(d) Excluding Treasury bill receipts.

(e) Excludes the conversion of ad-hoc Treasury bills of Rs. 300 crores into 4 per cent loan, 1973 which was taken over by the Reserve Bank in July, 1958 and is not intended to be placed on the market but includes sale of Treasury Bills of Rs. 25.5 crores through public auction.

(f) Excludes an amount of Rs. 17.9 crores representing ad-hoc issued to the Reserve Bank for purchase of gold for part payment of India's increased subscription to the I.M.F.

(g) Includes remittances, transfer of cash between England and India and Reserve Bank Deposits.

1	2	3	4	5	6	7	8	9	10
	<i>(of which additional Excise Duties)</i>	(—)	(80.65)	(38.96)	(44.75)	(43.11)	(44.31)	(47.01)	(218.14)
	<i>Less States' Share</i>	64.06	281.23	80.65	124.91	135.99	127.34	135.83	604.72
2	Net Receipts	453.2	1272.8	408.66	473.92	593.59	645.71	678.34	2800.22
3	Tax on Railway Passenger Fares (Net of States' share)	..	2.46	..	..	..	..	..	..
4	Other Taxes and Duties	4.02	32.82	11.41	12.56	14.96	17.08	18.72	74.73
IV.	<i>Total Tax Revenue (I + II + III)</i>	1973.57	2994.73	875.37	1061.98	1374.33	1554.00	1682.76	6547.44
V.	<i>Administrative Receipts</i>	69.58	226.05	53.92	63.44	48.13	50.54	43.75	259.78
VI.	<i>Net Contribution of Public Undertakings (I+2+3+4)</i>	115.06	210.93	65.69	56.07	70.25	68.70	79.20	339.91
1	Railways	33.47	28.81	20.66	20.37	24.82	24.51	27.16	117.52
2	Posts and Telegraphs	13.77	22.04	0.77	0.77	1.22	1.41	1.84	6.01
3	Currency and Mint	66.31	159.86	42.75	32.21	40.68	36.75	45.29	197.68
	<i>(Profits of the Reserve Bank of India)</i>	(65.84)	(160.00)	(42.50)	(43.50)	(40.68)	(40.00)	(48.00)	(214.00)
4	Others (a)	1.51	0.23	1.51	2.72	3.53	6.03	4.91	18.70
VII.	Other Revenue (b)	74.24	131.16	41.81	247.04	353.43	405.96	376.98	1425.22
VIII.	Total Revenue (IV + V + VI + VII)	2232.5	3562.9	1036.8	1427.53	1846.14	2079.20	2182.69	8572.35

Source: Reserve Bank of India Bulletin, March 1965

Notes on compilation—

(1) The figures of total revenue and expenditure as given in the table differ from those in the Budget papers as receipts from forests, opium and currency and mint are shown on a net basis and States' share of Union excise duties and additional duties of excise are excluded. Owing to changes in the accounting classification, the figures from 1962-63 onwards, particularly in respect of items VII, X, XII and XVI are not comparable with those for earlier years. Budget estimates for 1965-66 relate to those presented to the Lok Sabha.

(2) From 1957-58, figures under revenue and expenditure include self-balancing items in respect of grants under P.L. 480 and Steel Equalization Funds; for 1962-63 and 1963-64 figures also include Emergency Risks (Goods and Factories) Insurance Funds.

(a) Including forests, opium, irrigation, electricity, road and water transport schemes and from 1962-63, dividends due from Commercial and other undertakings.

(b) Includes recoveries of interest from State Governments and Commercial departments, adjusted as reductions of interest charges till 1961-62.

TABLE 17: State wise collection of Income tax forming the Divisible Pool

(Rs. lakhs)

Sl. No.	State	1961-62 (Actuals)	1962-63 (Actuals)	1963-64 (Actuals)
1	Andhra Pradesh	448.61	466.01	635.34
2	Assam	151.29	164.76	207.31
3	Bihar	245.45	312.05	397.34
4	Gujarat	982.10	1022.79	1235.59
5	Jammu and Kashmir	33.64	50.49	56.95
6	Kerala	260.01	357.59	378.89
7	Madhya Pradesh	288.20	370.05	379.66
8	Madras	1271.71	1548.39	1811.76
9	Maharashtra	4473.46	5294.63	5592.31
10	Mysore	452.63	579.57	672.12
11	Nagaland	0.58	1.38	2.31
12	Orissa	99.41	96.31	117.61
13	Punjab	292.66	509.71	516.43
14	Rajasthan	132.30	195.95	194.15
15	Uttar Pradesh	563.75	774.97	733.82
16	West Bengal	3424.01	3241.43	3141.62
	All States	13118.81	14986.12	16072.21
	Union Territories	695.25	900.69	1106.72
	GRAND TOTAL	13814.06	15886.81	17178.93

Source: Combined Finance and Revenue Accounts for 1961-62. Accountants General for 1962-63 and 1963-64

TABLE 18: Revenue from Union Excise Duties*(Rs. lakhs)*

Sl. No.	Commodities	1961-62* (A) Basic	1962-63* (A) Basic	1962-63* (A) Total†	1963-64* (A) Basic	1963-64* (A)Total†	1964-65 (RE)Basic	1964-65 (RE)Total†	1965-66 (BE)Basic	1965-66 (BE)Total†
Basic Duties:										
1	Motor Spirit	4551	5115	5156	6188	6755	6680	7230	6800	7400
2	Kerosene	1284	1655	1655	3574	3574	4080	4080	4500	4500
3	Sugar	4723	6018	6018	5211	5211	5072	5072	5365	5365
4	Matches	1848	2191	2191	2084	2084	2250	2250	2350	2350
5	Steel Ingots	1551	461	461	20	20	25	25	25	25
6	Tyres and Tubes	1450	1685	1704	1992	2382	2100	2520	2200	2650
7	Tobacco	5645	6389	6443	6913	8066	7169	8604	7359	8832
8	Vegetable products	606	770	781	1234	1454	1100	1320	1296	1546
9	Coffee	192	182	183	176	207	200	240	200	240
10	Tea	1057	1020	1021	1416	1576	1315	1528	1450	1700
11	Cotton Fabrics	4751	5837	5837	5736	5736	5483	5483	5850	5850
12	Artificial Silk fabrics	291	111	112	154	180	145	164	160	181
13	Cement	1832	2109	2138	2261	2662	2150	2580	2200	2640
14	Footwear	174	213	213	243	243	245	245	260	260
15	Soap	246	295	302	415	501	365	438	385	462
16	Woollen Fabrics	135	192	193	176	210	130	155	160	190
17	Electric Fans	120	149	152	125	150	125	150	135	162
18	Electric Bulbs	88	128	129	154	169	155	165	170	182
19	Electric Batteries	179	220	223	251	287	260	300	275	317
20	Paper	1151	1318	1333	1597	1808	1600	1815	1675	1900

*Provisional. The accounts have not been finally closed.

† Includes Special Excise.

TABLE 18: Revenue from Union Excise Duties—contd.

(Rs. lakhs)

Sl. No.	Commodities	1961-62* (A) Basic	1962-63* (A) Basic	1962-63* (A) Total†	1963-64* (A) Basic	1963-64* (A) Total†	1964-65 (RE) Basic	1964-65 (RE) Total†	1965-66 (BE) Basic	1965-66 (BE) Total†
	Basic Duties contd.									
21	Paints and Varnishes	212	257	262	341	409	375	450	400	480
22	Vegetable Nonessential Oils	1047	1054	1054	142	142	100	100	100	100
23	Refined Diesel Oils and Vaporising Oil	4336	4660	4699	6152	6723	6930	7530	7550	8250
24	Diesel Oil N.O.S.	651	964	975	1528	1677	1250	1360	1300	1420
25	Furnace Oil	798	914	914	1056	1056	1250	1250	1375	1375
26	Rayon and synthetic fibres and yarn	558	958	971	1147	1516	1550	1850	1550	1850
27	Motor Vehicles	1030	1099	1122	1246	1486	1275	1625	1350	1715
28	Asphalt and Bitumen	252	240	240	292	292	300	300	330	330
29	Aluminium	104	167	169	210	257	240	288	275	330
30	Tin Plate	161	196	196	199	211	165	182	180	198
31	Pig iron	111	136	136	166	166	350	350	450	450
32	Silk fabrics	4	4	4	5	6	6	8	6	8
33	Cycles, parts thereof	134	161	161	172	172	200	200	225	225
34	Internal combustion engines	134	126	127	170	186	200	220	220	242
35	Electric Motors	103	124	126	161	191	175	210	185	222
36	Cinematograph films	70	73	74	103	122	90	108	100	120
37	Soda Ash	30	41	41	49	49	50	50	55	55
38	Caustic soda	41	51	51	65	65	72	72	80	80
39	Glycerine	13	12	12	12	12	12	12	12	12
40	Synthetic Organic Dyestuff	215	202	203	176	193	230	230	250	250
41	Patent and proprietary medicines	419	506	506	562	562	650	650	700	700
42	Cosmetics	121	132	134	142	171	150	180	160	192
43	Cotton yarn	498	829	838	1028	1267	2170	2365	2300	2500
44	Woollen yarn	102	188	191	287	352	250	333	300	400
45	Glass and glassware	201	271	272	288	312	285	292	295	304

*Provisional. The accounts have not been finally closed.

† Includes Special Excise.

TABLE 18 : Revenue from Union Excise Duties—Contd.

(Rs.Lakhs)

Sl. No.	Commodities	1961-62* (A) Basic	1962-63* (A) Basic	1962-63* (A) Total†	1963-64* (A) Basic	1963-64* (A) Total†	1964-65 (RE) Basic	1964-65 (RE) Total†	1965-66 (BE) Basic	1965-66 (BE) Total†
	Basic Duties contd.									
46	Chinaware	84	110	111	124	133	130	130	140	140
47	Copper	175	183	183	211	211	175	175	200	200
48	Zinc	13	15	15	16	16	17	17	19	19
49	Refrigerators and Airconditioning Machinery	86	146	149	128	177	180	240	210	280
50	Wireless Receiving sets	125	119	121	146	192	165	220	175	233
51	Plastic	111	153	157	206	248	400	480	425	510
52	Cellophane	31	39	39	50	59	45	45	50	50
53	All petroleum products NOS	—	62	62	40	40	60	60	65	65
54	Nitric etc. acids	—	90	90	108	108	95	95	110	110
55	Gases	—	170	170	214	214	55	55	60	60
56	Rubber Products	26	157	158	58	76	125	150	135	162
57	Plywood	—	98	98	116	116	110	110	115	115
58	Sodium Silicate	—	—	—	5	5	70	70	80	80
59	Jute manufacture	—	524	528	593	650	600	660	620	682
60	Asbestos Cement Products	—	89	89	130	130	145	145	160	160
61	Iron and Steel Products	—	2429	2429	3813	3813	4050	4050	4900	4900
62	Electrical Wires and Cables	—	257	257	359	359	475	475	525	525
63	Gramophone and records	—	20	20	23	23	9	9	10	10
64	Salt Cess	84	84	84	87	87	87	87	91	91
65	Coal Cess	998	1226	1226	1415	1415	1400	1400	1450	1450

*Provisional. The accounts have not been finally closed.

† Includes Special Excise.

TABLE 18: Revenue from Union Excise Duties—concl'd.

(Rs. lakhs)

Commodities	1961-62* (A) Basic	1962-63* (A) Basic	1962-63* (A) Total†	1963-64* (A) Basic	1963-64* (A) Total†	1964-65 (RE) Basic	1964-65 (RE) Total†	1965-66 (BE) Basic	1965-66 (BE) Total†
Basic Duties—concl'd.									
66. Cess on Copra	12	12	12	12	12	10	10	10	10
67. Cess on oils and oilseeds	30	28	28	32	32	20	20	21	21
68. Cess on Iron Ore	—	—	—	9	9	50	50	60	60
69. Rubber Cess	—	—	—	92	92	110	110	116	116
70. Miscellaneous	371	199	199	315	315	58	58	58	58
TOTAL GROSS REVENUE	45365	55635	55948	63921	69402	67615	73500	72368	78667
Deduct—Refunds and Drawbacks	-330	-540	-540	-755	-755	-626	-626	-651	-651
TOTAL—NET REVENUE	45035	55095	55408	63166	68647	66989	72874	71717	78016
Additional Duties:									
Sugar	1122	1503	1503	1490	1490	1450	1450	1560	1560
Textiles	1946	2034	2034	2078	2078	2133	2133	2253	2253
Tobacco	828	938	938	767	767	872	872	912	912
TOTAL GROSS REVENUE	3896	4475	4475	4355	4335	4455	4455	4725	4725
Deduct—Refunds etc.	—	—	—	-24	-24	-24	-24	-24	-24
TOTAL NET REVENUE	3896	4475	4475	4311	4311	4431	4431	4701	4701
GRAND TOTAL—UNION EXCISE DUTIES	48931	59570	59883	67477	72958	71420	77305	76418	82717

* Provisional.

† Includes Special Excise

The accounts have not been finally closed.

Source: Explanatory Memorandum on the Budget of the Central Government for 1965-66.

TABLE 19: Resources transferred from Centre to States*(Rs. Crores)*

Item	First 5year Plan (A)	Second 5year Plan (A)	Third Plan 1961-62 (A)	Third Plan 1962-63 (A)	Third Plan 1963-64 (A)	Third Plan 1964-65 (RE)	Third Plan 1965-66 (BE)	Third Plan Total
I. Share of Divisible Taxes and Duties								
1. Income Tax	278	375	94	95	119	124	123	555
2. Union Excise								
(a) Basic	46	153	41	79	92	86	95	393
(b) Additional Duties	—	128	40	46	44	41	46	217
3. Tax on Railway Passenger Fare	—	43	—	—	—	—	—	—
4. Estate Duty	2	13	4	4	4	7	7	76
TOTAL—I	326	712	179	224	259	258	271	1191
II. Grants met from Revenue								
A. STATUTORY GRANTS:								
1. Grants under Art. 273 of the Constitution	14	13	—	—	—	—	—	—
2. Grants under provision of Art. 275(1)	27	153	39	61	62	64	64	290
3. Grants under Proviso to Art. 275(1)	13	34	4	7	7	12	13	43
4. Grants under Art. 278	49	—	—	—	—	—	—	—
5. Grants under Section 74 of the S.R. Act	—	7	—	—	—	—	—	—
<i>Subtotal Statutory Grants</i>	<i>103</i>	<i>207</i>	<i>43</i>	<i>68</i>	<i>69</i>	<i>76</i>	<i>77</i>	<i>333</i>
B. OTHER GRANTS:	145	461	156	132	136	180	211	815
TOTAL—II	248	668	199	200	205	256	288	1148
III. Grants from Central Road Fund	16	19	2	3	4	4	5	17
IV. Grants met from Capital	24	59	16	19	22	29	51	137
V. Loans	799	1411	452	524	624	691	693	2984
GRAND TOTAL	1413	2869	848	970	1114	1238	1308	5478

Source: Explanatory Memorandum on the Budget of the Central Government for 1965-66.

TABLE 20: Revenue Receipts of States*(Rs. lakhs)*

S. No.	State	Year	State taxes	Nontax revenues	Share of Central taxes	Grants from the Centre:				Total revenues
						Statutory grants	Non-plan non-statu-tory grants	Plan grants	Total grants	
1	2	3	4	5	6	7	8	9	10	11
1	Andhra Pradesh	1961-62	4210	2601	1632	510	24	698	1232	9675
		1962-63	5130	2665	1781	1061	—	651	1712	11288
		1963-64	6487	2973	2034	1061	102	979	2142	13636
		1964-65 (R.E.)	6236	3435	1993	1061	25	1519	2605	14269
		1965-66 (B.E.)	6543	3686	2095	1061	25	2043	3129	15453
2	Assam	1961-62	1503	388	481	524	465	345	1334	3706
		1962-63	1531	593	729	..	..	..	1610	4463
		1963-64	1761	680	850	674	318	673	1665	4956
		1964-65 (RE)	2129	694	839	674	1272	804	2750	6412
		1965-66 (BE)	2497	733	885	674	1442	847	2963	7078
3	Bihar	1961-62	3478	1329	1588	562	346	946	1854	8249
		1962-63	4265	1608	2094	192	37	1141	1370	9337
		1963-64	4656	1746	2338	192	11	1057	1260	10000
		1964-65 (RE)	4783	1857	2564	192	123	1344	1659	10863
		1965-66 (BE)	5007	2316	2684	192	29	1706	1927	11934
4	Gujarat	1961-62	2710	1359	1801	69	277	353	699	6569
		1962-63	3447	2259	1373	593	150	414	1167	8246
		1963-64	3916	2488	1572	593	156	372	1121	9097
		1964-65 (RE)	4174	2522	1533	593	287	580	1460	9689
		1965-66 (BE)	4408	2757	1578	593	621	700	1914	10657

1	2	3	4	5	6	7	8	9	10	11
5	Jammu & Kashmir	1961-62	195	766	298	300	487	161	948	2207
		1962-63	386	1050	327	200	435	133	768	2531
		1963-64	464	1014	355	200	461	158	819	2652
		1964-65 (RE)	319	1243	319	200	387	329	916	2797
		1965-66 (BE)	340	1291	344	200	368	474	1042	3017
6	Kerala	1961-62	2313	1612	617	198	98	455	751	5293
		1962-63	2498	1964	930	648	76	486	1210	6602
		1963-64	2924	2029	1095	648	54	476	1178	7226
		1964-65 (RE)	3406	2143	1056	648	56	690	1394	7999
		1965-66 (BE)	3698	2182	1121	648	59	846	1553	8554
7	Madhya Pradesh	1961-62	2923	2078	1305	404	—	1120	1524	7830
		1962-63	3259	1865	1558	404	—	1056	1460	8142
		1963-64	3967	3229	1809	404	—	1061	1465	10470
		1964-65 (RE)	4684	2713	1892	404	—	1685	2089	11378
		1965-66 (BE)	5149	2852	1942	404	—	1698	2102	12045
8	Madras	1961-62	4370	3066	1473	81	1001		1082	9991
		1962-63	5234	3395	1682	381	1133		1514	11825
		1963-64	6261	3648	1943	381	1314		1695	13502
		1964-65 (RE)	6644	4200	2059	381	1447		1828	14731
		1965-66 (BE)	7234	4661	2142	381	1955		2336	16373
9	Maharashtra	1961-62	6678	2511	1445	135	1106		1241	11875
		1962-63	7808	3276	2539	135	1202		1337	14960
		1963-64	10041	4383	2875	135	1291		1426	18725
		1964-65 (RE)	10729	4117	2921	135	2113		2248	20015
		1965-66 (BE)	11050	4467	3011	135	2884		3019	2154

1	2	3	4	5	6	7	8	9	10	11
10	Mysore	1961-62	2704	4039	901	656	162	640	1458	9102
		1962-63	3219	3364	1137	731	232	498	1461	9181
		1963-64	3969	3318	1334	731	245	612	1588	10209
		1964-65 (RE)	4170	3802	1333	731	296	624	1651	10956
		1965-66 (BE)	4303	4094	1395	731	296	1333	2360	12152
11	Nagaland	1964-65 (RE)	7	18	21	250	611	..	861	907
		1965-66 (BE)	7	26	21	275	814	..	1089	1143
12	Orissa	1961-62	1034	2684	652	372	125	398	895	4613
		1962-63	1335	2940	1034	1347	72	533	1952	6227
		1963-64	1660	3056	1214	1347	98	768	2213	6929
		1964-65 (RE)	1832	3449	1193	1347	138	955	2440	7721
		1965-66 (BE)	1882	3539	1265	1347	77	1290	2714	8135
13	Punjab	1961-62	2998	2959	818	349	317	549	1215	7990
		1962-63	3403	3659	1214	101	95	658	854	9130
		1963-64	4459	4335	1401	101	236	788	1125	11320
		1964-65 (RE)	4930	4451	1384	101	244	1112	1457	12222
		1965-66 (BE)	5000	4725	1463	101	116	1560	1777	12965
14	Rajasthan	1961-62	2119	809	711	335	56	597	982	4621
		1962-63	2531	1198	1002	610	39	476	1125	5856
		1963-64	2842	1405	1174	610	25	747	1382	6803
		1964-65 (RE)	3148	1432	1233	610	200	926	1736	7549
		1965-66 (BE)	3374	1640	1271	610	38	1035	1683	7968
15	Uttar Pradesh	1961-62	5889	5100	3273	235	400	1376	2011	16273
		1962-63	7038	6546	3081	234	379	1722	2335	19000
		1963-64	7753	7534	3532	234	632	1663	2529	21348
		1964-65 (RE)	7528	8766	3519	234	355	2758	3347	23160
		1965-66 (BE)	8277	8410	3677	234	801	3375	4410	24774
16	West Bengal	1961-62	5271	1451	1620	554	647	627	1828	10170

1	2	3	4	5	6	7	8	9	10	11
		1962-63	6086	1708	1978	79	212	688	979	10751
		1963-64	7184	1944	2300	79	199	885	1163	12591
		1964-65 (RE)	7501	2208	2337	79	172	1558	1809	13855
		1965-66 (BE)	7725	2661	2416	79	604	1715	2398	15200

Source: State Budgets

Note: Figures under col. 7 include grants under substantive provision of Article 275 and grants in lieu of tax on Railway fares.

TABLE 21: Receipts from selected State Taxes.

(Rs. lakhs)

Sl. No.	State	Year	Land revenue	State excise	Sales taxes	Motor vehicles tax	Tax on passenger & goods	Stamps
1	2	3	4	5	6	7	8	9
1	Andhra Pradesh	1961-62	1012	873	1431	276	83	235
		1962-63	1649	904	1536	332	104	244
		1963-64	2018	1186	1903	681	—	336
		1964-65 (RE)	1526	1249	2050	630	—	350
		1965-66 (BE)	1540	1312	2200	670	—	365
2	Assam	1961-62	286	204	345	77	—	47
		1962-63	320	213	415	76	21	55
		1963-64	315	200	541	119	45	66
		1964-65 (RE)	498	225	633	121	47	89
		1965-66 (BE)	548	227	736	145	60	97
3	Bihar	1961-62	911	631	1134	60	1	337
		1962-63	1541	637	1245	72	56	308
		1963-64	1252	677	1675	105	109	370
		1964-65 (RE)	1142	701	1751	133	84	383
		1965-66 (BE)	1192	701	1856	134	92	381
4	Gujarat	1961-62	464	31	1382	240	99	213
		1962-63	620	37	1539	287	140	266
		1963-64	511	39	1960	321	234	291
		1964-65 (RE)	501	41	2127	326	255	298
		1965-66 (BE)	503	43	2253	354	268	304
5	Jammu and Kashmir	1961-62	63	55	28	12	..	16
		1962-63	69	66	41	13	..	18
		1963-64	60	67	74	21	11	20
		1964-65 (RE)	82	75	83	29	15	20
		1965-66 (BE)	87	75	85	32	15	20
6	Kerala	1961-62	158	327	1056	268	..	172
		1962-63	112	359	1201	302	..	208
		1963-64	77	391	1452	375	63	251
		1964-65 (RE)	173	410	1662	400	90	282
		1965-66 (BE)	355	430	1745	430	100	270
7	Madhya Pradesh	1961-62	878	571	806	211	65	174
		1962-63	963	578	960	218	116	188

1	2	3	4	5	6	7	8	9
15	Uttar Pradesh	1961-62	2111	842	1437	343	—	419
		1962-63	2513	953	1634	371	67	457
		1963-64	2519	1109	2069	384	201	537
		1964-65 (RE)	1992	1167	2163	392	250	600
		1965-66 (BE)	2183	1141	2257	403	335	620
16	West Bengal	1961-62	620	696	2145	235	—	420
		1962-63	784	769	2468	270	—	488
		1963-64	642	881	3218	489	—	551
		1964-65 (RE)	676	904	3401	506	—	568
		1965-66 (BE)	677	927	3569	529	—	580

Source: State Budgets

TABLE 22: Receipts from selected items of nontax revenue*(Rs. lakhs)*

Sl. No.	State	Years	Admin. services	Social & Developmental services:		Irrigation (Comm) . (Gross)	Multiple river schemes (Gross)	Forests
				Total	Industries			
1	2	3	4	5	6	7	8	9
1	Andhra Pradesh	1961-62	88	462	96	17	—	411
		1962-63	129	494	74	15	—	438
		1963-64	143	427	82	16	—	423
		1964-65 (RE)	158	444	57	274	—	406
		1965-66 (BE)	164	449	54	274	—	421
2	Assam	1961-62	13	82	7	—	—	166
		1962-63	15	79	3	—	—	205
		1963-64	17	104	10	—	—	234
		1964-65 (RE)	17	135	4	—	—	240
		1965-66 (BE)	19	135	5	—	—	253
3	Bihar	1961-62	96	428	54	103	—	260
		1962-63	135	532	42	127	—	248
		1963-64	160	539	21	110	2	247
		1964-65 (RE)	149	746	27	126	2	261
		1965-66 (BE)	149	878	27	151	38	266
4	Gujarat	1961-62	64	209	54	28	—	177
		1962-63	90	292	69	59	—	175
		1963-64	124	309	112	65	—	190
		1964-65 (RE)	87	335	122	74	—	195
		1965-66 (BE)	89	483	193	74	—	195
5	Jammu & Kashmir	1961-62	14	241	221	—	—	373
		1962-63	18	282	255	—	—	374
		1963-64	12	187	145	—	—	371
		1964-65 (RE)	16	50	23	—	—	400
		1965-66 (BE)	9	53	24	—	—	425
6	Kerala	1961-62	51	428	126	6	—	392
		1962-63	52	506	148	10	—	480
		1963-64	56	573	152	12	—	484
		1964-65 (RE)	82	480	6	13	—	495
		1965-66 (BE)	58	510	20	14	—	475

1	2	3	4	5	6	7	8	9
7	Madhya Pradesh	1961-62	59	286	44	—	—	1038
		1962-63	67	268	34	—	—	1074
		1963-64	67	308	21	—	—	1205
		1964-65 (RE)	79	255	16	—	—	1272
		1965-66 (BE)	72	325	14	—	—	1407
8	Madras	1961-62	180	621	185	143	—	252
		1962-63	201	749	296	157	—	223
		1963-64	198	970	347	167	—	259
		1964-65 (RE)	201	978	411	227	—	240
		1965-66 (BE)	205	1081	438	222	—	259
9	Maharashtra	1961-62	162	756	151	134	—	542
		1962-63	231	808	57	200	—	621
		1963-64	256	1364	66	225	—	665
		1964-65 (RE)	230	949	64	253	—	676
		1965-66 (BE)	236	1047	77	256	—	703
10	Mysore	1961-62	140	1983	1719	57	—	805
		1962-63	143	1444	1035	52	—	879
		1963-64	154	1211	800	47	—	934
		1964-65 (RE)	197	1465	968	61	—	925
		1965-66 (BE)	170	1753	1198	127	—	940
11	Nagaland	1964-65 (RE)	1	2	—	—	—	10
		1965-66 (BE)	3	3	—	—	—	12
12	Orissa	1961-62	14	296	11	10	170	310
		1962-63	34	268	21	11	172	424
		1963-64	30	303	24	12	193	377
		1964-65 (RE)	46	293	11	30	260	414
		1965-66 (BE)	23	334	13	40	287	417
13	Punjab	1961-62	77	421	17	419	130	2
		1962-63	142	394	28	518	218	—
		1963-64	120	421	32	547	237	—
		1964-65 (RE)	156	486	28	436	332	—
		1965-66 (BE)	116	563	34	482	354	151
14	Rajasthan	1961-62	59	285	24	72	9	81
		1962-63	62	337	17	56	20	80
		1963-64	64	337	22	58	29	86
		1964-65 (RE)	86	389	18	56	42	87

1	2	3	4	5	6	7	8	9
		1965-66 (BE)	60	442	20	63	47	91
15	Uttar Pradesh	1961-62	233	765	326	980	—	744
		1962-63	207	1172	642	1055	—	895
		1963-64	268	1291	706	1270	—	1007
		1964-65 (RE)	377	1312	727	1298	—	1064
		1965-66 (BE)	180	1561	814	1338	—	1102
16	West Bengal	1961-62	165	673	154	7	21	170
		1962-63	142	595	155	31	64	195
		1963-64	141	708	158	28	59	212
		1964-65 (RE)	154	834	224	16	105	208
		1965-66 (BE)	149	891	208	16	128	215

Source: State Budgets.

TABLE 23: Revenue expenditure in States.*(In lakhs)*

Sl. No.	State	Years	Non-developmental (a)	Developmental			Total revenue expenditure
				Plan (b)	Non-plan	Total Developmental expenditure	
1	2	3	4	5	6	7	8
1	Andhra Pradesh	1961-62	3516	1537	5109	6646	10162
		1962-63	3844	1636	5354	6990	10834
		1963-64	4633	1887	6051	7938	12571
		1964-65 (RE)	5245	2942	6836	9778	15023
		1965-66 (BE)	5038	3535	7550	11085	16123
2	Assam	1961-62	1291	808	1937	2745	4036
		1962-63	1345	1151	1948	3099	4444
		1963-64	1891	1083	2461	3544	5435
		1964-65 (RE)	2426	1435	2406	3841	6267
		1965-66 (BE)	2537	1547	2955	4502	7039
3	Bihar	1961-62	3065	1831	3476	5307	8372
		1962-63	3228	1656	3465	5121	8349
		1963-64	3450	1938	3344	5282	8732
		1964-65 (RE)	4063	2588	3438	6026	10089
		1965-66 (BE)	4515	3131	3718	6849	11364
4	Gujarat	1961-62	2654	903	3127	4030	6684
		1962-63	3087	915	3043	3958	7045
		1963-64	4017	1406	3101	4507	8524
		1964-65 (RE)	4513	2197	2958	5155	9668
		1965-66 (BE)	4586	2945	3658	6603	11189
5	Jammu & Kashmir	1961-62	513	238	1153	1391	1904
		1962-63	914	306	1288	1594	2508
		1963-64	1096	321	1173	1494	2590
		1964-65 (RE)	1488	535	1215	1750	3238
		1965-66 (BE)	1367	789	1437	2226	3593
6	Kerala	1961-62	1551	931	3452	4383	5934
		1962-63	1826	1091	3717	4808	6634

1	2	3	4	5	6	7	8
		1963-64	1917	1309	3866	5175	7092
		1964-65 (RE)	2068	1753	4119	5872	7940
		1965-66 (BE)	2311	2105	4357	6462	8773
7	Madhya Pradesh	1961-62	2762	6111	3676	5287	8049
		1962-63	2858	1832	3854	5686	8544
		1963-64	3628	2053	4062	6115	9743
		1964-65 (RE)	3724	2537	4376	6913	10637
		1965-66 (BE)	4222	3115	4782	7897	12119
8	Madras	1961-62	3984	1475	4018	5493	10952
		1962-63	4293	1954	4008	5962	12209
		1963-64	4482	2173	4697	6870	13525
		1964-65 (RE)	5167	2735	4570	7305	15207
		1965-66 (BE)	5581	3146	5197	8343	17070
9	Maharashtra	1961-62	6240	1386	5001	6387	12627
		1962-63	7812*	2081	4745	6826	14638
		1963-64	8545	3174	5139	8313	16858
		1964-65 (RE)	9973	4556	6258	10814	20787
		1965-66 (BE)	10586	5513	6383	11896	22482
10	Mysore	1961-62	2704	918	5947	6865	9569
		1962-63	2826	1087	5477	6564	9390
		1963-64	3102	1222	5555	6777	9879
		1964-65 (RE)	3612	1505	6179	7684	11296
		1965-66 (BE)	3791	2110	6642	8752	12543
11	Nagaland	1964-65 (RE)	495	151	261	412	907
		1965-66 (BE)	620	231	292	523	1143
12	Orissa	1961-62		1063	2632	3695	6135
		1962-63	2487	1444	2668	4112	6599
		1963-64	2610	1780	2811	4591	7201
		1964-65 (RE)	3077	2200	2903	5103	8180
		1965-66 (BE)	3412	2494	3232	5726	9183
13	Punjab	1961-62	2704	995	3228	4223	6927
		1962-63	3450	1217	3516	4733	8183
		1963-64	4283	1601	4159	5760	10043

1	2	3	4	5	6	7	8
		1964-65 (RE)	4914	2173	4530	6703	11617
		1965-66 (BE)	4919	2834	4980	7814	12733
14	Rajasthan	1961-62	2286	907	2007	2914	5200
		1962-63	2367	988	2324	3312	5679
		1963-64	3038	1325	2517	3842	6880
		1964-65 (RE)	3251	1566	2629	4195	7446
		1965-66 (BE)	3533	1982	3099	5081	8614
15.	Uttar Pradesh	1961-62	5765	2481	7738	10219	15984
		1962-63	5244	3252	8371	11623	18867
		1963-64	7708	3496	9010	12506	20214
		1964-65 (RE)	8313	5439	9408	14847	23160
		1965-66 (BE)	8993	6583	10689	17272	26265
16.	West Bengal	1961-62	4685	1462	4101	5563	10248
		1962-63	5221	1944	4188	6132	11353
		1963-64	5434	2106	4181	6287	11721
		1964-65 (RE)	5933	3265	5296	8561	14494
		1965-66 (BE)	7127	3683	6173	9856	16983

Source: State Budgets.

Note- *Non-developmental Sector* comprises heads enumerated in Table 24 and also such miscellaneous heads as contribution to Local Bodies, Displaced persons, Printing and Stationery, extraordinary charges and expenditure connected with National Emergency.

Developmental Sector comprises heads enumerated in Table 25 and also other heads such as Scientific Deptts., Cooperation, Industries, Community Development, Labour & Employment and Miscellaneous Social and Developmental organizations.

(a) Plan expenditure on non-developmental heads such as land revenue, General Administration etc. is excluded.

(b) Includes revenue Plan expenditure under 'non-developmental' heads also.

*Includes grant to Zila Parishads and Village Panchayats which was reflected under Developmental heads in 1961-62.

TABLE 24: Expenditure under selected non-developmental heads**(Rs. lakhs)*

Serial No.	State	Years	Cost of tax collection	General Administration	Police	Famine Relief	Pensions & other retirement benefits	Debt. services
1	2	3	4	5	6	7	8	9
1	Andhra Pradesh	1961-62	558	656	632	26	215	763
		1962-63	413	777	633	21	227	892
		1963-64	299	768	644	..	246	1537
		1964-65 (RE)	334	828	686	67	265	1904
		1965-66 (BE)	350	866	703	23	290	1732
2	Assam	1961-62	136	137	430	16	67	216
		1962-63	129	141	465	55	72	190
		1963-64	139	151	653	39	67	527
		1964-65 (RE)	147	146	799	30	73	617
		1965-66 (BE)	146	144	872	26	73	651
3	Bihar	1961-62	504	316	606	128	99	814
		1962-63	431	324	630	166	107	990
		1963-64	541	338	663	27	108	1182
		1964-65 (RE)	529	355	741	91	110	1496
		1965-66 (BE)	539	361	685	74	118	2126
4	Gujarat	1961-62	116	342	495	47	108	977
		1962-63	119	343	535	13	119	1425
		1963-64	119	357	533	159	122	1754
		1964-65 (RE)	135	298	590	71	158	1685

1	2	3	4	5	6	7	8	9
		1965-66 (BE)	144	318	623	25	143	1829
5	Jammu & Kashmir	1961-62	55	63	204	20	36	3
		1962-63	64	55	202	12	41	168
		1963-64	61	62	204	38	42	251
		1964-65 (RE)	68	69	167	31	44	325
		1965-66 (BE)	72	75	190	10	45	345
6	Kerala	1961-62	176	160	261	16	149	161
		1962-63	202	168	316	13	177	283
		1963-64	203	179	314	8	240	181
		1964-65 (RE)	217	161	347	9	253	313
		1965-66 (BE)	242	177	403	10	269	329
7	Madhya Pradesh	1961-62	358	385	766	3	142	501
		1962-63	357	402	746	9	167	627
		1963-64	372	405	778	18	157	1349
		1964-65 (RE)	425	428	825	27	141	1163
		1965-66 (BE)	437	451	833	9	159	1522
8	Madras	1961-62	275	667	660	25	192	882
		1962-63	238	664	683	10	258	1011
		1963-64	258	682	676	8	356	1253
		1964-65 (RE)	283	821	731	6	370	1508
		1965-66 (BE)	315	930	744	6	376	1678
9	Maharashtra	1961-62	309	881	1120	235	292	1366
		1962-63	306	845	1211	107	307	1774
		1963-64	337	832	1423	63	293	1992

1	2	3	4	5	6	7	8	9
		1964-65 (RE)	373	1109	1665	75	303	2346
		1965-66 (BE)	417	978	1604	63	302	2627
10	Mysore	1961-62	435	269	392	30	186	857
		1962-63	226	264	414	24	230	944
		1963-64	268	282	446	25	217	1136
		1964-65 (RE)	316	306	524	47	257	1312
11	Nagaland	1964-65 (RE)	82	101	313	—	24	—
		1965-66 (BE)	182	167	388	—	9	—
12	Orissa	1961-62	190	262	233	291	33	1103
		1962-63	250	250	271	199	36	1009
		1963-64	271	316	287	110	42	1228
		1964-65 (RE)	346	299	400	73	51	1379
		1965-66 (BE)	417	331	466	55	48	1623
13	Punjab	1961-62	199	291	528	460	189	365
		1962-63	205	305	664	66	208	1210
		1963-64	209	335	806	148	183	1758
		1964-65 (RE)	216	392	880	245	191	1928
		1965-66 (BE)	246	409	962	208	200	2249
14	Rajasthan	1961-62	289	245	507	42	91	563
		1962-63	299	253	522	11	104	785
		1963-64	316	252	543	187	100	1074
		1964-65 (RE)	351	267	565	413	145	1132
		1965-66 (BE)	397	293	616	10	145	1521
15	Uttar Pradesh	1961-62	739	661	1147	76	197	1617
		1962-63	785	918	1289	70	284	2529
		1963-64	747	854	1347	38	310	2873

1	2	3	4	5	6	7	8	9
		1964-65 (RE)	926	729	1323	44	326	3256
		1965-66 (BE)	1075	819	1506	46	354	3368
16	West Bengal	1961-62	523	423	896	556	167	934
		1962-63	578	408	1023	488	189	1209
		1963-64	590	370	1058	540	183	1349
		1964-65 (RE)	652	413	1276	500	186	1504
		1965-66 (BE)	693	442	1417	519	256	2222

Source: State Budgets

*Plan expenditure if any is excluded.

TABLE 25: Expenditure under selected developmental heads*(Rs. lakhs)*

S. No.	State	Years	Education	Medical & public health	Agriculture animal husbandry	Industries	Irrigation (Com)	Multipurpose river schemes	Public works	Forests
1	2	3	4	5	6	7	8	9	10	11
1.	Andhra Pradesh	196162	2123	733	479	166	503	229	617	112
		196263	2197	879	525	150	496	282	701	122
		196364	2311	1082	607	163	567	350	711	139
		196465 (RE)	2699	1097	1070	166	663	418	1114	178
		196566 (BE)	3114	1266	1149	172	725	510	1202	187
2.	Assam	196162	780	309	132	88	—	—	687	92
		196263	881	437	146	93	—	—	752	61
		196364	1010	415	227	85	—	—	854	81
		196465 (RE)	1148	475	299	115	—	—	851	93
		196566 (BE)	1207	509	337	121	—	—	1290	88
3.	Bihar	196162	1507	766	583	210	156	4	467	133
		196263	1533	684	533	189	159	2	452	121
		196364	1571	843	628	256	151	3	220	125
		196465 (RE)	1779	903	806	282	174	8	337	115
		196566 (BE)	1957	997	893	307	187	275	257	119
4.	Gujarat	196162	1296	417	331	86	297	3	411	70
		196263	1361	410	256	105	345	28	331	62
		196364	1658	492	383	96	373	42	433	68
		196465 (RE)	1839	672	439	136	417	53	695	83
		196566 (BE)	2009	821	579	165	456	68	895	87
5.	Jammu & Kashmir	1961-62	232	118	71	303	—	—	386	76
		1962-63	276	146	72	286	—	—	382	91

1	2	3	4	5	6	7	8	9	10	11
		1963-64	308	152	88	122	—	—	347	97
		1964-65 (RE)	372	208	120	47	—	—	323	126
		1965-66 (BE)	441	261	163	57	—	—	444	163
6.	Kerala	1961-62	1855	536	205	204	71	—	521	124
		1962-63	1914	650	256	225	87	—	564	119
		1963-64	2109	674	291	284	90	—	468	125
		1964-65 (RE)	2555	744	420	122	103	—	511	132
		1965-66 (BE)	2874	873	494	73	111	—	528	134
7.	Madhya Pradesh	1961-62	1820	950	364	135	—	—	550	382
		1962-63	2054	908	402	133	—	—	670	396
		1963-64	2351	777	495	115	—	—	701	410
		1964-65 (RE)	2657	838	654	120	—	—	622	494
		1965-66 (BE)	3081	924	734	134	—	—	734	537
8.	Madras	1961-62	2346	868	446	360	356	—	889	84
		1962-63	2576	958	583	536	396	—	923	91
		1963-64	2741	1061	734	481	439	—	1000	106
1	2	3	4	5	6	7	8	9	10	11
		1964-65 (RE)	3216	1173	863	646	477	—	911	121
		1965-66 (BE)	3693	1321	942	659	513	—	996	124
9.	Maharashtra	1961-62	2449	989	623	143	—	—	628	199
		1962-63	2241	1145	662	151	356	—	550	230
		1963-64	3045	1241	906	166	424	—	483	260
		1964-65 (RE)	3368	1651	893	195	495	—	1076	324
		1965-66 (BE)	3715	1551	1172	182	603	—	1254	385
10.	Mysore	1961-62	1440	516	285	1879	291	—	1044	370
		1962-63	1662	767	319	1147	254	—	1172	444
		1963-64	1826	642	419	940	411	—	1253	442
		1964-65 (RE)	2193	673	508	1107	540	—	1221	545
		1965-66 (BE)	2499	826	735	1212	542	—	1230	565

1	2	3	4	5	6	7	8	9	10	11
11.	Nagaland	1964-65 (RE)	94	48	44	3	—	—	137	29
		1965-66 (BE)	149	66	71	5	—	—	132	33
12.	Orissa	1961-62	673	271	243	119	62	721	431	110
		1962-63	768	412	346	125	52	461	569	151
		1963-64	831	593	409	87	77	463	692	124
		1964-65 (RE)	1001	539	574	108	76	541	628	141
		1965-66 (BE)	1116	667	720	116	83	582	504	158
13.	Punjab	1961-62	1268	444	255	160	371	230	371	154
		1962-63	1414	496	303	199	440	301	425	162
		1963-64	1544	561	455	251	485	598	434	186
		1964-65 (RE)	1839	629	655	207	584	539	405	225
		1965-66 (BE)	2012	838	832	257	631	546	454	250
14.	Rajasthan	1961-62	1158	578	170	55	38	40	233	79
		1962-63	1284	587	188	43	65	41	230	81
		1963-64	1384	818	237	34	80	275	240	88
		1964-65 (RE)	1531	865	423	43	84	292	247	100
		1965-66 (BE)	1792	937	551	51	85	302	317	116
15.	Uttar Pradesh	1961-62	2379	887	631	563	1351	—	592	321
		1962-63	2554	1042	713	778	1520	—	756	396
		1963-64	2808	1159	838	894	1644	—	768	450
		1964-65	3361	1359	1085	1027	1762	—	892	525
		1965-66 (BE)	4336	1811	1310	989	1912	—	1009	568
16.	West Bengal	1961-62	2130	1022	575	324	22	120	516	126
		1962-63	2336	1152	611	344	57	134	458	144
		1963-64	2412	1236	709	361	62	149	291	150
		1964-65 (RE)	2647	1348	1178	458	55	557	641	184
		1965-66 (BE)	2883	1472	1471	486	59	555	1058	214

Source : State Budgets.

TABLE 26: Outstanding debt of States*(As on 31st March)**(Rs. lakhs)*

S. No.	States & Period	Loans from the Centre	Permanent debt*	Unfunded debt	Floating debt	Other loans	Total
1	2	3	4	5	6	7	8
1.	Andhra Pradesh						
	1952	..	..	..	..	..	..
	1957	10671	500	698	611	17	12497
	1961	15823	4083	928	1358	606	22798
	1964	25843	5738	1089	—	843	33513
	1966	33769	7950	1285	—	891	43895
2.	Assam						
	1952	190	24	155	—	—	369
	1957	2359	..	257	—	..	2616
	1961	4574	276	434	20	68	5372
	1964	9848	578	584	465	74	11549
3.	Bihar						
	1952	937	..	262	10	..	1209
	1957	6818	280	419	..	34	7551
	1961	15846	1653	802	241	181	18723
	1964	25576	3294	1289	552	428	31139
	1966	34173	4798(a)	1709	390	753	41823
4.	Gujarat						
	1961	7719	2927	496	—	293	11435
	1964	14554	3812	702	—	443	19511
	1966	19234	5351	857	—	476	25918
5.	Jammu and Kashmir						
	1952	503	—	100	—	—	603
	1957	2305	—	131	—	—	2436
	1961	3612	—	189	61	20	3882
	1964	6177	—	333	235	67	6812
	1966	8818	—	478	235	62	9593
6.	Kerala						

1	2	3	4	5	6	7	8
	1952	240	550	770	..	..	1497
	1957	2289	1268	854	..	..	4411
	1961	5328	2274	841	229	252	8924
	1964	10114	2669	1060	405	371	14619
	1966	14505	3535	1295	405	512	20252
7.	Madhya Pradesh						
	1952	1425	607	248	..	..	2280
	1957	4442	789	342	138	26	5737
	1961	11536	1956	515	64	388	14459
	1966	29265	3595	1101	—	767	34728
8.	Madras						
	1952	2021	2241	707	80	..	5049
	1957	6302	3736	669	170	26	10903
	1961	12764	5892	955	—	455	20066
	1964	20469	7285	1344	—	1112	30210
	1966	27190	9511	1845	380	1381	40307
9.	Maharashtra						
	1952	2289	2323(b)	775	190	—	5577
	1957	11883	5223(b)	1730	36	72	18944
	1961	15847	8002(b)	2176	52	449	26526
	1964	25573	8983	2955	15	1067	38593
	1966	33518	11548	3695	—	1503	50264
10.	Mysore						
	1952	513	1576	..	..	..	2089
	1957	4915	2511	..	..	25	7451
	1961	9061	3868	..	..	864	13793
	1964	15493	4060	..	1950	1155	22658
	1966	..	..	..	..	..	..
11.	Nagaland	..	..	..	..	..	..
12	Orissa						
	1952	1953	..	..	..	..	1953
	1957	8748	309	..	..	31	9088
	1961	14359	1461	..	..	164	15984

1	2	3	4	5	6	7	8
	1964	19301	2820	..	..	375	22496
	1966	..	..	..	..	..	..
13	Punjab						
	1952	5907	..	359	59	—	6325
	1957	19480	204	492	59	—	20235
	1961	25419	423	682	—	276	26800
	1964	31207	1101	906	—	641	33855
	1966	36754	601	1147	79	1090	40671
14	Rajasthan						
	1952	397	..	153	910	..	1460
	1957	4645	313	336	1132	10	6436
	1961	11361	1487	507	2213	202	15770
	1964	22880	2431	808	—	2171	28290
	1966	25355	3413	1066	—	2961	32813
15	Uttar Pradesh						
	1952	3547	1571	616	25	—	5759
	1957	12734	8395	1032	—	—	22161
	1961	22749	14233	1738	—	441	39161
	1966	46820	15854	2978	—	1334	66986
16	West Bengal						
	1952	3705	175	438	—	—	4318
	1957	16101	2205	683	—	—	18989
	1961	25403	4191	1019	—	364	30977
	1964	34861	5090	1362	—	550	41863
	1966	43583	6590	1663	—	841	52677

Source: State Governments

* Comprises market loans and bonds issued in connection with abolition of Zamindari, Jagirdari, etc.

(a) Includes Rs. 17.72 crores on account of Zamindari Abolition Compensation bonds.

(b) Includes the amount raised by the erstwhile State of Bombay.

(x) Figures include those for Vidarbha.

TABLE 27: Outstanding loans and advances by State Governments*(As on 31st March)**(Rs. lakhs)*

Sl. No.	State	Period	Local bodies	Agriculturists	Others	Total
1	2	3	4	5	6	7
1.	Andhra Pradesh	1952	...	...	...	...
		1957	286	1250	1387	2923
		1961	661	1431	2754	4846
		1964	928	1832	5193	7953
		1966	1326	2561	12452	16339
2.	Assam	1952	28	92	135	255
		1957	89	117	749	955
		1961	151	275	1923	2349
		1962	199	270	2502	2971
		1963	224	301	3231	3756
		1964	..	..	..	5195
3.	Bihar	1952	97	647	234	978
		1957	239	1626	771	2636
		1961	461	1526	2768	4755
		1964	479	1072	5897	7448
		1966	495	1150	10000	11645
4.	Gujarat	1961	524	233	1358	2115
		1964	904	401	5339	6644
		1966	1136	497	7463	9096
5.	Jammu & Kashmir	1952	..	..	55	55
		1957	11	..	204	215
		1961	80	..	416	496
		1964	89	..	555	653
		1966	112	..	652	764
6.	Kerala	1952	126	2	178	306

1	2	3	4	5	6	7
		1957	122	36	318	476
		1961	178	89	1688	1955
		1964	210	207	6183	6600
		1966	..	..	..	9586
7.	Madhya Pradesh	1952	205	602	1110	1917
		1957	155	1050	3055	4260
		1961	371	1221	5244	6836
		1966	501	2871	14549	17921
8.	Madras	1952	591	1082	505	2178
		1957	783	847	1343	2973
		1961	1839	917	13199	15955
		1964	3015	1278	17099	21392
9.	Maharashtra	1952	574	849	802	2225
		1957	1766	1536	4012	7314
		1961	1909	2438	7585	11932
		1964	1901	2845	12280	17026
10.	Mysore	1952	..	..	..	95
		1957	..	..	..	987
		1961	..	..	..	3212
		1964	..	..	..	8407
11.	Nagaland		..	..	..	..
12.	Orissa	1952	4	94	94	192
		1957	153	323	273	749
		1961	171	288	463	922
		1964	195	303	897	1395
13.	Punjab	1952	..	..	..	1141
		1957	..	..	..	2428
		1961	..	..	..	4496
		1964	..	..	..	7770

1	2	3	4	5	6	7
		1966	..	..	..	12694
14.	Rajasthan	1952	12	569(a)	..	581
		1957	159	1102(a)	..	1261
		1961	842	3894(a)	..	4736
		1964	1497	5358(a)	..	6855
		1966	1585	7415(a)	..	9000
15.	Uttar Pradesh	1952	566	320	707	1593
		1957	1352	755	1565	3672
		1961	1257	642	11265	13164
		1966	2504	3105	27444	33053
16.	West Bengal	1952	202	116	1238	1556
		1957	218	339	3968	4525
		1961	283	533	5954	6770
		1964	290	361	10900	11551
		1966	..	..	..	14689

a) Includes others.

Source: State Governments.

TABLE 28: Arrears of land revenues, sales tax revenues and all revenues in States*(Rs. lakhs)*

Sl. No.	State/Particulars	As at the end of				
		1960-61	1961-62	1962-63	1963-64	1964-65
1	2	3	4	5	6	7
1.	Andhra Pradesh					
	Land Revenue	576	589	928	513	..
	Sales tax Revenue	371	332	363	331	..
	All Revenues	..	..	..	1642	..
2.	Assam					
	Land Revenue	169	183	207	218(P)	..
	Sales tax Revenue	70	68	71	83(P)	..
	All Revenues	..	..	..	573	..
3.	Bihar					
	Land Revenue	658	641	772	432	360
	Sales tax Revenue	159	153	163	168	265
	All Revenues	..	..	..	1028	..
4.	Gujarat					
	Land Revenue	..	534	264	185	127
	Sales tax Revenue	..	78	79	91	102
	All Revenues	..	..	..	544(c)	..
5.	Jammu and Kashmir					
	Land Revenue	..	..	..	..	..
	Sales tax Revenue	..	..	..	..	..
	All Revenues	..	..	..	667	..
6.	Kerala					
	Land Revenue	47	49	19	390(a)	..
	Sales tax Revenue	305	368	343	387	..
	All Revenues	..	..	..	1018	..
7.	Madhya Pradesh					
	Land Revenue	252	277	322	329	360
	Sales tax Revenue	79	90	111	130	156
	All Revenues	..	..	..	470	..
8.	Madras					
	Land Revenue	248	208	202	204	178

1	2	3	4	5	6	7
	Sales tax Revenue	200	260	296	279	357
	All Revenue	..	..	..	680	..
9.	Maharashtra					
	Land Revenue	120	76	161	137	212
	Sales tax	487	587	647	767	..
	All Revenue	..	..	..	1448	..
10.	Mysore					
	Land Revenue	168	218	261	428	..
	Sales tax	175	179	182	184	..
	All Revenue	..	..	..	801	..
11.	Nagaland					
	Land Revenue	..	..	..	..	..
	Sales tax	..	..	..	..	..
12.	Orissa					
	Land Revenue	107	109	92	82	..
	Sales tax	170	189	254	249	..
	All Revenue	..	..	..	357	..
13.	Punjab					
	Land Revenue	117	154	91	82	..
	Sales tax	52	81	58	61	..
	All Revenue	..	..	..	339	..
14.	Rajasthan					
	Land Revenue	..	377	444	353	342
	Sales tax	..	36	53	80	103
	All Revenue	..	..	..	902	..
15.	Uttar Pradesh					
	Land Revenue	485	599	554	458	396
	Sales tax	686	792	964	1081	1172
	All Revenue	..	..	..	2842	..
16.	West Bengal					
	Land Revenue	445	514	372	369	..
	Sales tax	1130	1393	1496	1574	..

Source: Land Revenue and Sales Tax—State Governments. All Revenues unreconciled figures furnished by Comptroller and Auditor General.

(P) Provisional

(a) These represent mainly the arrears on account of suspension of land revenue collections in 1962-63 and 1963-64 due to striking down of the Kerala Land Tax Act. The Act has since been revalidated.

(b) Includes arrears on account of Surcharge on Land Revenue levied with effect from 1962-63 which was repealed in 1964-65.

TABLE 29: General Sales Tax Rates in States on commodities subject to Central Excise

(In per cent)

Serial No.	Commodities	Andhra Pradesh		Bihar		Gujarat		Kerala	
		System	Rate 1962-63	System	Rate 1963-64	System	Rate 1964-65	System	Rate 1964-65
1	2	3	4	5	6	7	8	9	10
1	Petrol (Paise per litre)	S	9	S	9	S	2	S	15%
2	Motor Spirit other than petrol (Paise per litre)	S	5	S	5	S	10 (Max)	S	20%
3	Diesel Oil (Paise per litre)	S	5	S	2	S	5 %	S	20%
4	Motor Vehicles	S	7	S	10	S	10	S	10
5	Tyres and Tubes (Motor)	S	7	S	10	..	..	S	10
6	Gramophones	S	7	S	10	D	3	S	10
7	Wireless Receiving Sets	S	7	S	10	S	10	S	10
8	Refrigerators and Air Conditioners	S	7	S	10	S	10	S	10
9	Cinematographic Films	S	7	S	10	S	10	S	10
10	Electric Motors	S+M	3+2	S	7	S	3	S	7
11	Electric Batteries	S+M	3+2	S+M	7 ½	S	10 (Max)	S	7
12	Electric Bulbs and Tubes	S+M	3+2	S+M	7 ½	S+D	10 (Max)	S	7
13	Electric Fans	S+M	3+2	S+M	7 ½	M	3	S	7
14	Electric Wires and Cables	S+M	3+2	S+M	7 ½	S	6	S	7
15	Cosmetics and toilets	M	2	S+M	7 ½	D	3	S	7
16	Pigments and colours	M	2	S+M	4 ½	S	4	S	7
17	Cement	S	5	S	6	S	7	S	7
18	Rubber Products	M	2	S	7	D	7	S	7
19	Glass and Glass Ware	M	2	S+M	7 ½	S	10 (Max)	S	7
20	China Ware	M	2	S+M	7 ½	..	..	S	7
21	Coffee	M	2	S+M	4 ½	S	7	S	5
22	Tea	M	2	S	6	S	5 (Max)	S	5

1	2	3	4	5	6	7	8	9	10
23	Cycles and Parts thereof	S	3	S	5	S	7	S	5
24	Paper	M	2	S	6	S	5 (Max)	S	5
25	Soap	M	2	S+M	4 ½	S	5	S	5
26	Plywood	M	2	S+M	4 ½	S	5	S	5
27	Vegetable Products	M	2	S	6	S	8	S	5
28	Kerosene	M	3	S	4	S	3	S	4
29	Internal Combustion Engines	M	2	S	7	S	3	S	10
30	Iron and Steel Products	M	2	S+M	4 ½	M	3	M	3

Note: In respect of Commodities at Sl. Nos. 1-3, the rates are specific (Paise per litre) unless otherwise indicated.

TABLE 29 (Contd.): General Sales Tax Rates in States on commodities subject to Central Excise

(In per cent)

Serial No.	Commodities	Madhya Pradesh		Madras		Maharashtra		Mysore	
		System	Rate 1964-65	System	Rate 1964-65	System	Rate 1964-65	System	Rate 1964-65
1	2	11	12	13	14	15	16	17	18
1	Petrol (Paise per litre)	S	10	S	9	S	11	S	9
2	Motor Spirit other than petrol (Paise per litre)	S	5	S	8	S	5	S	5
3	Disel Oil (Paise per litre)	S	5	S	8	S	5	S	10
4	Motor Vehicles	S	10	S	10	S	10	S	10
5	Tyres and Tubes (Motor)	S	10	S	10	S	10	S	10
6	Gramophones	S	10	S	10	S	10	S	10
7	Wireless Receiving Sets	S	10	S	10	S	10	S	10
8	Refrigerators and Air Conditioners	S	10	S	10	S	10	S	10
9	Cinematographic Films	S	7	S	10	S	10	S	10
10	Electric Motors	S	7	S	6	S	5	S	6
11	Electric Batteris	S	7	S	6	S	10	S	6
12	Electric Bulbs and Tubes	S	7	S	6	S	5	S	6
13	Electric Fans	S	7	S	6	D	10+2	S	6
14	Electric Wires and Cables	S	7	S	6	S	5	S	6
15	Cosmetics and Toilets	S	7	M	2	D	10+2	S	8
16	Pigments and Colours	S	6	S	6	S	10	M	2
17	Cement	S	6	S	5	S	6	S	6
18	Rubber Products	S	7	M	2	S	3+2 12	S	2
19	Glass and Glass Ware	S	7	M	2	D S	8(Max)	M	2
20	China Ware	S	7	S	6	S	8(Max)	M	2

1	2	11	12	13	14	15	16	17	18
21	Coffee	S	7	S	5	S	6	S	5
22	Tea	S	6	M	2	S	5	M	2
23	Cycles and Parts thereof	S	6	S	5	S	6	S	5
24	Paper	S	6	M	2	S	5	M	2
25	Soap	S	6	S	5	S	5	M	2
26	Plywood	S	6	M	2	D	3+2	S	3
27	Vegetable products	S	6	S	6	S	6	S	6
28	Kerosene	S	7	S	5	S	3	S	2
29	Internal Combustion Engines	S	7	M	2	D	3+2	S	4
30	Iron and Steel Products	S	7	M	2	S D	10 3+2	M	2

Please see note on previous page.

TABLE 29—.: General Sales Tax Rates in States on commodities subject to Central Excise conclud.

(In percent)

Sl. No.	Excisable commodities	Orissa		Punjab		Uttar Pradesh	
		(System)	(Rate 1964-65)	(System)	(Rate 1964-65)	(System)	(Rate 1964-65)
1	2	19	20	21	22	23	24
1	Petrol (Paise per litre)	S	9	S	6%	S	7
2	Motor Spirit other than petrol (Paise per litre)	S	9	S	7	S	7
3	Diesel Oil (Paise per litre)	S	9	S	6%	S	7
4	Motor Vehicles	S	10	S	10	S	10
5	Tyres and Tubes (Motor)	S	10	S	10	S	10
6	Gramophones	S	10	S	10	S	10
7	Wireless Receiving Sets	S	10	S	10	S	10
8	Refrigerators and Air Conditioners	S	10	S	10	S	10
9	Cinematographic Films	S	10	S	10	S	10
10	Electric Motors	S	7	S	6	S	7
11	Electric Batteries	S	7	S	6	S	7
12	Electric Bulbs and Tubes	S	7	S	6	S	7
13	Electric Fans	S	7	S	6	S	7
14	Electric Wires and Cables	S	7	S	6	S	7
15	Cosmetics and toilets	S	7	S	6	S	7
16	Pigments and Colours	S	5	S	6	S	6
17	Cement	S	5	S	6	S	7
18	Rubber Products	S	5	S	6	M	2
19	Glass and Glass Ware	S	7	S	6	S	7
20	China Ware	S	7	S	6	S	7

1	2	19	20	21	22	23	24
21	Coffee	S	5	S	6	M	2
22	Tea	S	5	S	6	M	3
23	Cycles and Parts thereof	S	7	S	6	S	5
24	Paper	S	5	S	6	M	2
25	Soap	S	5	S	6	S	7 (Max.)
26	Plywood	S	5	S	6	M	2
27	Vegetable Products	S	5	S	6	S	7
28	Kerosene	S	5	S	1/2	S	7
29	Internal Combustion Engines	S	7	S	6	S	7
30	Iron and Steel Products	S	5	S	2		3

TABLE 29: General Sales Tax Rates in States on commodities subject to Central State—contd.

(In per cent)

Sl. No.	Commodities	Andhra Pradesh		Bihar		Gujarat		Kerala	
		(System)	(Rate 1962-63)	(System)	(Rate 1963-64)	(System)	(Rate 1964-65)	(System)	(Rate 1964-65)
1	2	3	4	5	6	7	8	9	10
31	Furnace Oil	M	2	S+M	4 ½	S	2	M	3
32	Rayon & Synthetic Fibre Yarn	M	2	..	..	S	2	M	3
33	Plastics	M	2	S+M	7 ½	D	3	M	3
34	Asphalt & Bitumen	M	2	S+M	4 ½	S	5	M	3
35	Soda Ash	M	2	S+M	4 ½	S	5	M	3
36	Caustic Soda	M	2	S+M	4 ½	S	5	M	3
37	Glycerine	M	2	S	4	S	2	M	3
38	Synthetic and Organic Dye Stuff	M	2	S+M	4 ½	S	2	M	3
39	Patent & Proprietary Medicines	M	2	S	4	S	3	M	3
40	Acids	M	2	S+M	4 ½	S	2	M	3
41	Gases	M	2	S+M	4 ½	S/D	12/3	M	3
42	Sodium Sylicate	M	2	S	4	S	2	M	3
43	Cellophane	M	2	S+M	4 ½	S	2	M	3
44	Asbestos and Cement Products	M	2	S+M	4 ½	D	3	M	3
45	Vegetable nonessential oils	M	2	S+M	4 ½	M	4	M	3
46	Footwear	M	2	S+M	4 ½	S	5	S	5
47	Copper & Copper Alloys	M	2	S+M	4 ½	S	5	M	3
48	Zinc	M	2	S+M	4 ½	S	5	M	3
49	Aluminium	M	2	S	5	S	5	M	3

1	2	3	4	5	6	7	8	9	10
50	Tin Plates	M	2	S+M	4 ½	S	5	M	3
51	Woollens Yarns	M	2	..	..	M	2	M	3
52	Jute Manufactures	M	2	S+M	4 ½	S	2	M	3
53	Mechanical Lighters	M	2	S	10	..	..	S	10
54	Matches	S	5	S	5	S	10	S	2
55	Pig Iron	S	2	S	2	S	2	S	2
56	Steel Ingots	S	2	S	2	S	2	S	2
57	Petroleum Products	M	2	S+M	4 ½	S	12 (Max.)	S	15
58	Cotton Yarn	S	½	..	..	S	2	S	1
59	Silver	M	½	S	2	M	½	S	½
60	Salt	..	..	..	..	..	..	..	..

S = Single Point.

D = Double Point.

M = Multi Point.

S+M/S+D indicates that the commodity is subject to both Single and Multi-point (or Double point) tax at different rates shown.

Max. = Maximum.

TABLE 29: General Sales Tax Rates in States on commodities subject to Central Excise - contd.

(In per cent)

Sl. No.	Excisable commodities	Madhya Pradesh		Madras		Maharashtra		Mysore	
		(System)	(Rate 1964-65)	(System)	(Rate 1964-65)	(System)	(Rate 1964-65)	(System)	(Rate 1964-65)
1	2	11	12	13	14	15	16	17	18
31	Furnace Oil	S	7	M	2	S	5	M	2
32	Rayon & Synthetic Fibre Yarn	S	7	S	2	S	2	S	1
33	Plastics	S		M	2	D	3+2	M	2
34	Asphalt & Bitumen	S	7	M	2	S	5	..	..
35	Soda Ash	S	6	M	2	S	5	M	2
36	Caustic Soda	S	6	M	2	S	5	S	3
37	Glycerine	S	6	M	2	D	3+2	M	2
38	Synthetic and Organic Dye stuff	S	6	M	2	D	3+2	M	2
39	Patent & Proprietary Medicines	S	7	M	2	D	3+2	S	3
40	Acids	S	7	M	2	D	3+2	S	3
41	Gases	S	7	M	2	S	10 (Max.)	M	2
42	Sodium Sylicate	S	6	M	2	S	5	S	3
43	Cellophane	S	6	M	2	S	6	M	2
44	Asbestos and Cement Products	S	7	M	2	D	3+2	S	3
45	Vegetable nonessential oils	S	2	M	2	S	3	M	2
46	Footwear	S	7	M	2	S	5	M	2
47	Copper and Copper Alloys	S	6	M	2	S	5	M	2
48	Zinc	S	6	M	2	S	5	M	2
49	Aluminium	S	6	M	2	S	2	M	2

1	2	11	12	13	14	15	16	17	18
50	Tin Plates	S	6	M	2	S	2	M	2
51	Woollen Yarns	S	7	M	2	S	1	S	1
52	Jute Manufactures	S	6	S	2	S	2	M	1
53	Mechanical lighters	S	10	S	10	S	10	S	7
54	Matches	S	7	M	2	S	2	S	2
55	Pig Iron	S	2	S	2	S	2	S	2
56	Steel ingots	S	2	S	2	S	2	S	2
57	Petroleum Products	S	7	M	2	S	5	M	2
58	Cotton Yarn	S	1	S	2	S	2	S	1
59	Silver	S	½	S	½	D	¼+¼	S	½
60	Salt	..	..	..	..	..	..	..	..

S = Single Point Tax.
D = Double Point Tax.
M = Multi Point Tax.

TABLE 29: General Sales Tax Rates in States on commodities subject to Central Excise concld.

(In per cent)

Sl. No.	Commodities	Orissa		Punjab		Uttar Pradesh	
		(System)	(Rate 1964-65)	(System)	(Rate 1964-65)	(System)	(Rate 1964-65)
1	2	19	20	21	22	23	24
31	Furnace Oil	S	5	S	6	S	6
32	Rayon & Synthetic Fibre Yarn	S	5	S	6	S	4
33	Plastics	S	5	S	6	M	2
34	Asphalt & Bitumen	S	5	S	6	S	6
35	Soda Ash	S	5	S	6	S	3
36	Caustic Soda	S	5	S	6	S	7
37	Glycerine	S	5	S	6	S	7
38	Synthetic and Organic Dye stuff	S	5	S	6	S	6
39	Patent & Proprietary Medicines	S	5	S	6	S	7
40	Acids	S	5	S	6	S	7
41	Gases	S	5	S	6	S	7
42	Sodium Sylicate	S	5	S	6	S	7
43	Cellophane	S	5	S	6	S	7
44	Asbestos and Cement Products	S	5	S	6	S/M	7/2
45	Vegetable nonessential oils	S	5	S	6	S	6
46	Footwear	S	7	S	6	M	2

1	2	19	20	21	22	23	24
47	Copper and Copper Alloys	S	5	S	6	M	½
48	Zinc	S	5	S	6	M	½
49	Aluminium	S	5	S	6	M	2
50	Tin Plates	S	2	S	2	M	2
51	Woollen Yarns	S	7	S	6	S	4
52	Jute Manufactures	S	7	S	6	S	4
53	Mechanical Lighters	S	7	S	10	S	10
54	Matches	S	2	S	½	S	7
55	Pig Iron	S	2	S	2	S	2
56	Steel Ingots	S	2	S	2	S	2
57	Petroleum Products	S	5	S	6	..	..
58	Cotton Yarn	S	2	S	1	S	2
59	Silver	S	1	S	½	M	½
60	Salt	..	..	..	..	..	..

Source: Material furnished by the State Governments.

S = Single Point.

D = Double Point.

M = Multi Point.

Note: Information for Assam, Jammu & Kashmir, Rajasthan and West Bengal is not readily available.

TABLE 30: Growth of Union Excise and Sales Tax revenue

Year	Revenue from Union Excises (Rs. crores)	Revenue from Sales Tax (Rs. crores)	Total Revenue from Union Excise and Sales Tax (Rs. crores)	National income at current prices (Rs. crores)	Excise revenue as percentage of National Income	Sales tax revenue as percentage of National Income	Aggregate excise and sales tax revenue as percentage of National Income
1950-51	67.5	60.0	127.5	9530	0.7	0.6	1.3
1951-52	85.8	59.0	144.8	9970	0.9	0.6	1.5
1952-53	83.0	55.6	138.6	9820	0.8	0.6	1.4
1953-54	95.0	62.6	157.6	10480	0.9	0.6	1.5
1954-55	108.2	71.6	179.8	9610	1.1	0.7	1.8
1955-56	145.3	78.0	223.3	9980	1.5	0.7	2.2
1956-57	190.4	84.6	275.0	11310	1.7	0.7	2.4
1957-58	273.6	117.3	390.9	11390	2.4	1.0	3.4
1958-59	312.9	123.9	436.8	12600	2.5	1.0	3.5
1959-60	360.7	136.8	497.5	12950	2.8	1.1	3.9
1960-61	416.4	158.8	575.2	14140	2.9	1.1	4.0
1961-62	489.3	181.4	670.7	14800	3.3	1.2	4.5
1962-63	598.8	208.9	807.7	15400	3.8	1.4	5.2
1963-64	729.6	268.3	997.9	17200	4.2	1.6	5.8
1964-65 (RE)	773.1	297.5	1070.6	..	..	..	..
1965-66 (BE)	819.2	315.9	1135.1	..	..	..	..

Sources:-

(a) Revenue from Union Excise—Budget documents of the Union Government.

(b) Revenue from Sales tax—Budget documents of the State Governments.

(c) National Income—White Paper published by the C.S.O.— (Estimate for 1963-64 is preliminary).

TABLE 31: Sales tax revenue as proportion of Tax Revenues of the States

States	1965-66 (Budget Estimates)		
	Total revenue from sales taxes* (Rs. crores)	Total tax revenues of the States (excluding share of the Central taxes) (Rs. crores)	Sales tax revenue as percentage of total tax revenue
Andhra Pradesh	22.0	65.4	34
Assam	7.4	25.0	30
Bihar	18.5	50.1	37
Gujarat	22.6	44.4	51
Jammu and Kashmir	0.9	3.4	25
Kerala	17.4	37.0	47
Madhya Pradesh	18.9	51.5	37
Madras	34.8	72.2	48
Maharashtra	60.9	110.5	55
Mysore	17.2	43.0	40
Orissa	8.3	18.8	44
Punjab	17.0	50.0	34
Rajasthan	11.7	33.7	35
Uttar Pradesh	22.6	82.8	27
West Bengal	35.7	77.2	46
All States	315.9	764.7	41

Source: Budget documents of the State Governments (1965-66)

*Includes General Sales Tax, Central Sales Tax and Sales Tax on Motor Spirit.

TABLE 32: Revenue expenditure on Natural Calamities*(Rs. lakhs)*

	States	1957-58	58-59	59-60	60-61	61-62	62-63	63-64	64-65
		Accts.	Accts	Accts	Accts	Accts	Accts	Accts	R.E.
1	Andhra Pradesh	4	7	36	148	31	95	97	86
2	Assam	46	16	47	61	55	16	39	30
3	Bihar	180	389	54	58	128	166	27	91
4	Gujarat	..	..	..	18	47	17	163	71
5	Jammu and Kashmir	35	34	80	33	21	12	38	38
6	Kerala	3	6	5	4	16	13	8	9
7	Madhya Pradesh	52	112	4	8	3	10	18	27
8	Madras	32	7	21	24	25	10	8	33
9	Maharashtra	23*	70*	45*	5	235	107	63	75
10	Mysore	38	10	28	57	30	25	25	45
11	Nagaland	..	..	..	..	..	..	..	..
12	Orissa	6	18	36	214	391	186	105	31
13	Punjab	8	75	16	557	460	66	148	245
14	Rajasthan	18	25	6	17	67	12	156	472
15	Uttar Pradesh	87	122	76	84	76	70	38	44
16	West Bengal	290	724	592	756	556	488	540	500

Source: State Government Budgets (Amounts booked under the head Famine Relief)

*Expenditure incurred by the erstwhile State of Bombay.