

## CHAPTER XV GRANTS-IN-AID

Paragraph 4(b) of the President's Order requires us to make recommendations on the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and also to recommend the sums to be paid to the States which are in need of assistance by way of grants-in-aid of the revenues under Article 275 of the Constitution. In proposing the grants-in-aid, we have been also asked to have regard among other things to some of the specific considerations listed in that paragraph.

2. All the earlier Finance Commissions have felt that grants-in-aid of the revenues of the States should be related to the fiscal needs of the States. A close and critical scrutiny of the forecasts of receipts and expenditure of State Governments for the period covered by our award is an essential first step in the determination of such fiscal needs. We have spelt out in detail in Chapter IX the criteria with reference to which we have reassessed the forecasts of the State Governments presented to us.

3. In estimating the receipts of the States from both tax and non-tax revenues, we have adopted realistic but varying rates of growth with reference to the considerations set out in detail in Chapter IX. We have, in an attempt to enforce fiscal discipline, assumed reduction of arrears of taxes outstanding to more reasonable limits. We have also reassessed the receipts by way of interest on loans advanced to Electricity Boards, Road Transport Undertakings and third parties according to certain minimum standards of performance considered appropriate by us. In the case of major and medium irrigation projects, we have stipulated that at least the charges for maintenance should be fully covered by the terminal year of our award. In other words, while we have made every effort to assure the States adequate resources to maintain budgetary equilibrium, we have not adopted the approach of mechanical filling up of the gap between receipts and expenditure on present levels of efficiency in the collection of revenue and management of public enterprises. Our proposals envisage determined and purposeful efforts on the part of the States at reduction of arrears of taxes and improvement of returns from investments in quasi-commercial and commercial projects.

4. Like earlier Finance Commissions, we have also been asked to take into account committed liabilities of the States on account of the Plan in assessing the need for grants-in-aid. On the completion of every Plan, there is a significant increase in committed liabilities devolving on the States. Unless the normal growth of tax revenues of State Governments and returns from commercial projects can generate the additional resources to absorb a sizeable part of such

committed expenditure, Central devolution for covering the same will soon rise to a level at which resources available for sustaining further development would be seriously eroded. While some States have done well in strengthening the resource base and are in a position to meet their committed liabilities, many others are now constrained to rely almost wholly on increased grants-in-aid under Article 275 for meeting their committed expenditure. This cannot be considered a healthy trend in federal finance.

5. We have adopted a normative approach also in reassessing the demands of the States for funds for raising emoluments of Government employees, teachers in aided institutions and employees of local bodies. Our approach in this regard has been delineated in detail in Chapter X. We have taken these requirements into account in determining the revenue gaps/surpluses of the States. We are aware that in the process States which have observed a policy of restraint in revision of emoluments become entitled to higher grants than warranted by the existing levels of emoluments of Government employees, teachers in aided institutions and employees of local bodies. The course we have adopted would not only reward the States for their fiscal prudence but also bring about, over a period of time, a greater measure of equality in levels of scales of pay and other allowances among the States.

6. We have sought to redress to the extent possible legitimate grievances of the States about inadequacy of funds for maintenance of existing assets such as buildings, irrigation works and roads at satisfactory levels. We have made reasonably adequate provision for maintenance of these assets on the lines indicated in detail in Chapter XI. It is at the same time necessary to ensure that the allocations made for the maintenance of these assets, particularly irrigation works and roads, are utilised for the purpose for which they are intended and that they are not diverted to other uses. Accordingly, we propose that the provisions allowed by us for maintenance of roads should be assessed together with the outlays to be provided in the Fifth Plan for construction of roads. For purposes of regulating Central assistance for the Annual Plan, only the aggregate expenditure on roads in excess of the provisions allowed by us for maintenance should be reckoned as Plan expenditure qualifying for assistance. Likewise, the provisions we have made for maintenance of irrigation works should be taken in conjunction with the outlay in the Plan for irrigation and the same procedure followed for regulating the release of Central assistance for the Annual Plan. In order to enable the Planning Commission and the Ministry of Finance to apply these checks, we have set

out the Statewise outlays of the provision we have made for maintenance of (i) roads, and (ii) irrigation and flood protection works.

7. As we have explained elsewhere, by far the most significant departure we have made from the approach of the earlier Finance Commissions is in the process we have initiated of enabling the States that are backward in standards of general administration to come up to a certain national minimum. For this purpose, we have identified certain administrative and social services as to be of crucial importance and have proposed that the States whose expenditure in per capita terms is below the all-States average should be enabled to come up to such an average by the last year of our award. The provisions we have so embodied in our recommendations for upgradation of standards have been indicated in Chapter XII. Among these services, we consider primary education, medical and public health and welfare of Scheduled Castes, Scheduled Tribes and other backward classes to be of critical importance for the well being of the people and particularly the weaker sections. We have, therefore, thought it essential to devise suitable special safeguards against diversion of the funds so provided for improvement of these services to other purposes. It may be recalled that the special grants-in-aid provided by the First Finance Commission for promoting primary education in backward States and the grants provided by the Third Finance Commission for improvement of communications in certain States were not utilised for the purposes for which they were intended. In the light of the experience, we cannot over-emphasize the need for effective and purposeful monitoring of the special grants earmarked for administrative upgradation. To this end, we make an important suggestion. The concerned administrative Ministry at the Centre and the Planning Commission should, as part of their scrutiny of the Annual Plans

of the States, take special care to verify whether the funds provided by us for primary education, medical and public health and welfare of Scheduled Castes, Scheduled Tribes and other backward classes have been utilised on these services. We would suggest that only such expenditure on these services, as is in excess of the provisions indicated by us under these heads, should alone be treated as Plan expenditure qualifying for Central assistance. Thus, for example, in the case of Uttar Pradesh the provisions adopted by us for Primary Education under "28-Education" for each of the five years covered by the award are as follows :

	(Rs. crores)
1974-75	66.12
1975-76	77.39
1976-77	88.81
1977-78	100.43
1978-79	112.24

For purposes of determining the expenditure in the Plan on primary education in Uttar Pradesh only amounts in excess of the figures indicated above should be reckoned as Plan expenditure and Central assistance for the Annual Plan regulated accordingly. We hope that with this safeguard the special funds we are now allocating as part of grants-in-aid for improvement of social services, will not run the risk of being diverted to other heads.

8. We indicate in the Table below the provisions we have assumed for these essential services in our re-assessment of the forecasts of the States :

States	Primary Education					Medical and Public Health					Welfare of Scheduled Castes/Tribes and other back ward classes				
	1974-75	1975-76	1976-77	1977-78	1978-79	1974-75	1975-76	1976-77	1977-78	1978-79	1974-75	1975-76	1976-77	1977-78	1978-79
	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Andhra Pradesh	41.52	44.75	48.14	51.64	55.29	28.49	30.86	33.33	35.85	38.49	13.80	14.49	15.21	15.98	16.77
2. Assam	16.05	16.95	17.89	18.88	19.93	9.45	10.15	10.88	11.63	12.43	0.66	1.20	1.78	2.33	2.88
3. Bihar	50.36	55.45	60.71	66.12	71.70	27.16	30.80	34.55	38.33	42.23	6.05	7.31	8.59	9.86	11.13
4. Gujarat	38.10	40.22	42.46	44.82	47.33	21.84	23.00	24.21	25.48	26.84	4.51	5.16	5.82	6.49	7.17
5. Haryana	7.26	8.58	9.94	11.30	12.71	6.81	7.30	7.80	8.34	8.89	0.28	0.56	0.83	1.11	1.39
6. Himachal Pradesh	4.60	4.86	5.15	5.44	5.75	4.85	5.11	5.39	5.68	6.00	0.43	0.45	0.47	0.49	0.52
7. Jammu & Kashmir	3.35	3.97	4.59	5.23	5.86	7.74	8.15	8.57	9.00	9.48	0.37	0.39	0.41	0.43	0.45
8. Kerala	50.24	53.10	56.08	59.22	62.55	21.03	22.18	23.39	24.67	26.03	4.66	4.89	5.13	5.39	5.66
9. Madhya Pradesh	41.69	44.32	47.09	49.98	53.00	25.27	27.69	30.18	32.73	35.37	13.58	14.58	15.57	16.61	17.67
10. Maharashtra	66.47	70.20	74.14	78.32	82.72	40.19	42.39	44.73	47.17	49.77	5.47	5.96	6.44	6.96	7.48
11. Manipur	3.66	3.86	4.07	4.30	4.53	1.61	1.69	1.76	1.87	1.95	0.39	0.41	0.43	0.46	0.48
12. Meghalaya	1.44	1.53	1.61	1.71	1.80	1.91	2.01	2.12	2.23	2.35	negl.	negl.	negl.	negl.	negl.
13. Mysore	36.10	38.11	40.25	42.51	44.90	21.48	22.67	23.93	25.25	26.63	3.92	4.12	4.32	4.54	4.76
14. Nagaland	2.52	2.65	2.79	2.93	3.10	2.44	2.58	2.72	2.87	3.03	0.60	0.63	0.66	0.69	0.72
15. Orissa	16.96	19.61	22.30	25.04	27.84	13.39	14.56	15.76	16.99	18.27	4.63	5.33	6.05	6.76	7.50
16. Punjab	12.37	13.52	14.67	15.90	17.16	12.36	13.02	13.72	14.46	15.26	0.47	0.92	1.38	1.84	2.31
17. Rajasthan	24.10	26.16	28.28	30.50	32.79	27.38	28.87	30.47	32.14	33.90	2.37	3.30	4.26	5.21	6.17
18. Tamil Nadu	58.64	61.98	65.50	69.24	73.20	38.26	40.29	42.45	44.73	47.10	13.08	13.73	14.41	15.13	15.89
19. Tripura	3.10	3.34	3.59	3.86	4.12	1.66	1.76	1.87	1.97	2.10	0.26	0.27	0.29	0.30	0.31
20. Uttar Pradesh	66.12	77.39	88.81	100.43	112.24	46.56	52.41	58.35	64.46	70.68	8.68	9.93	11.21	12.47	13.76
21. West Bengal	35.22	40.32	45.54	50.85	56.29	39.18	41.31	43.58	45.97	48.50	3.38	4.74	6.10	7.49	8.85
<b>All States</b>	<b>579.87</b>	<b>630.87</b>	<b>683.60</b>	<b>738.22</b>	<b>794.81</b>	<b>399.06</b>	<b>428.80</b>	<b>459.76</b>	<b>491.82</b>	<b>525.30</b>	<b>87.59</b>	<b>98.37</b>	<b>109.36</b>	<b>120.54</b>	<b>131.87</b>

9. The procedure we have outlined will ensure parity of treatment between surplus States and States qualifying for grants-in-aid. Among the deficit States themselves it will ensure equality of treatment as between, for example, Andhra Pradesh and West Bengal, which get the whole of the amounts needed to raise the levels of essential services to all-States average through grants-in-aid and States such as Uttar Pradesh and Bihar, in whose case part of the amounts so needed are in effect set off against the revenue surplus computed, according to the requirements of the existing level of services. All States, whether in receipt of grants-in-aid or not under Article 275, will be subject to same degree of discipline of having to spend the minimum amounts assumed under essential services. It is necessary to impose such discipline even on surplus States, because a few of them, for instance Punjab, are neglecting some of these essential services. In the case of States qualifying for grants-in-aid under Article 275, we have considered it appropriate to indicate separately grants-in-aid for filling up gaps in resources for maintaining institutions and services at existing levels, or what may be called 'conventional revenue gap grants' and the grants for upgradation of essential administrative and social services.

#### Non-Plan Grants

10. Apart from the statutory grants made under the substantive provision of Article 275(1) of the Constitution, States are also receiving from the Centre non-Plan grants for other purposes, the more important being, (i) relief and rehabilitation of displaced persons (ii) relief and other measures necessitated by hostilities (iii) construction and maintenance of border roads (iv) labour and employment (v) development of border areas (vi) assistance to Jammu & Kashmir for transport of rice and wheat (vii) incentive bonus for higher procurement of foodgrains (viii) modernisation of Police Force (ix) education (x) social welfare, and (xi) Central Road Fund.

11. We gave careful consideration to the question of the treatment to be accorded to these grants and the corresponding or relatable expenditure met from revenue in the forecasts furnished by the State Governments. In respect of Central assistance for schemes which are not uniformly applicable to all States, such as payment of bonus for procurement of foodgrains, development of border areas and construction of roads from Central Road Fund, we have omitted both revenue receipts on account of Government of India's grants to the State Governments and the related expenditure in the State forecasts. Consequently, the non-Plan grants will have to be continued by the Central Government if these schemes are to be continued by the State Governments. As regards schemes of continuing nature which are being implemented generally in most of the States, we have allowed after necessary scrutiny the non-Plan expenditure of the State Governments but the corresponding grant from the Central Government has been omitted in the reassessment of revenue receipts. Grants to States for purposes such as small savings schemes, labour and employment schemes, (craftsmen training

and employment exchanges), social welfare homes, infirmaries and doles, National Sample Survey fall within this category. In these cases, Central Government will not have to sanction any non-Plan grant, as the expenditure on these schemes should be met from their own resources as reassessed by us.

12. In Table 12 in Appendix VII we have indicated the non-Plan grants which we have assumed, in our reassessment of the forecasts of the States, would be continued and for which corresponding expenditure provisions have also been allowed. We have also indicated in Appendix VII the grants which, in our opinion, need not be continued. As we have taken into account in our reassessment of the States' forecast the corresponding expenditure, the same should be met from the States' own resources. We have in particular taken into account the committed liability on account of teachers already appointed in the States under the special Central Scheme and there will therefore be no need to continue Central grants for this purpose separately. In Appendix VII we have indicated the grants for which we have assumed no credit in our reassessment of the forecasts of the States and where the corresponding expenditure has also not been taken into account. In these cases, if the schemes continue, specific grants-in-aid should have to be continued to be given.

13. In our reassessment of the forecasts of expenditure of the State Governments, we have not treated the expenditure on the staff or any other recurring expenditure under the Family Planning Programme as committed liability of the States arising out of the Fourth Plan schemes. In view of this, Central assistance for Family Planning schemes should continue to be given to the States on the present pattern.

14. The issue whether provision for amortisation of public debt—open market loans or loans obtained from the Government of India and financial institutions or both—should be considered a legitimate charge on revenue account has engaged the attention of successive Finance Commissions and divergent views have been expressed by them. Some of the State Governments have urged that even repayment of Government loans to the Government of India should be provided for fully in the revenue account. In the context of the proposals we have formulated for affording adequate debt relief to the States during the Fifth Plan period, we have not considered it necessary to allow for any element of amortisation of debt in the revenue accounts of the State Governments. The provisions sought by the State Governments in this regard have, therefore, been excluded for purposes of reassessment of their budgetary requirements.

15. In Chapter XVII we are dealing with the request of the State Governments for financial assistance within the framework of our award, for the implementation of land reform measures. We have explained therein in some detail our reasons for leaving out of account the requirements of the State Governments for this purpose. For the same reasons, we have also excluded the provisions for implementation of land reforms sought by some of the

State Governments on revenue account, except to the extent needed for meeting the cost of staff that have already been appointed and has become a committed liability.

16. In Chapter XVII, we examine the question of the treatment of Central Government loans to the State Governments outstanding on 31st March, 1974. For reasons set out in that Chapter, we have kept small savings loans out of our scheme of revision of the terms of repayment. We have given careful consideration to the question of the rate of interest to be charged on the loans which we have recommended for consolidation into a few distinct categories and for which we have suggested different periods of repayment. The incidence of interest charges on outstanding loans now works out to an average rate of a little over 4.75 per cent. Currently, the Centre is charging 4.75 per cent on the bulk of the loans advanced to the State Governments. We therefore consider that it would be appropriate for the State Governments to pay interest on the loans recommended for consolidation by us at 4.75 per cent. We have not consolidated loans for Bhakra Nangal and Hirakund (Stage I). Besides small savings loans, we have also kept out of our scheme of consolidation of debt, loans obtained by State Governments as their share in Centralised market borrowings. For these loans, existing rates of interest should be continued. We have recommended that the States may retain half of the principal and full interest on loans for relief of displaced persons, repatriates from Burma, Sri Lanka etc., goldsmiths and loans given under the National Loan Scholarship Scheme. We have not assumed any interest payments by State Governments in respect of these loans. Nor have we provided for interest on pre-autonomy debt and other categories of loans recommended by us for write-off. The interest liabilities of the State Governments on Central loans outstanding at the end of 1973-74 have been computed on these assumptions and allowed for the five year period 1974-75 to 1978-79.

17. The earlier Finance Commissions had allowed for the provisions likely to be needed by the State Governments for payment of interest on fresh borrowings during the forecast period while taking credit for interest receipts of fresh lendings. The estimates furnished by the State Governments of their interest liabilities on fresh borrowings—from open market, from financial institutions and from the Government of India for Plan and non-Plan purposes—and the interest receipts assumed by them on fresh lendings have been set out in Appendix VIII. We requested the Planning Commission to let us have a broad idea of the likely Plan outlays of the different State Governments for the Fifth Plan period and how the same was proposed to be financed. We requested them in particular to furnish us with information on the probable magnitude of borrowings of State Governments and the likely Central assistance in the form of grant and loan during the Fifth Plan period. The Planning Commission has replied that no firm view has yet been taken on the quantum of Central assistance to the States for the Fifth Plan

period and that a view in this regard would emerge only after our Report is submitted to the President and decisions thereon become available. The Planning Commission has thus made it clear that it is not possible for them at this stage to indicate either the figures of Central assistance for the State Plans or its apportionment between grants and loans. As regards market borrowings of State Governments also, the Planning Commission has not yet taken a definite view. We have been informed that decisions in this regard would also be taken only after the submission of our Report. We reproduce in Appendix III of our Report the full text of correspondence exchanged between us and the Planning Commission in this regard. In the circumstances, we have no alternative but to leave the interest liabilities on fresh borrowings of State Governments out of account in computing their requirements for the forecast period. For the same reason, we have excluded out of our reckoning also interest receipts on fresh lendings by State Governments during the forecast period. Whatever net commitment by way of interest charges devolves on the State Governments, as a result of the Government of India's decision on Central assistance for State Plans, borrowings from the open market and negotiated loans of State Governments, will have to be computed separately by the Ministry of Finance. The President should be moved to raise to the extent required the grants recommended by us under Article 275 of the Constitution. In the case of the States which do not qualify for grants-in-aid in terms of our award, the net commitment on account of interest liabilities on fresh borrowings and lendings should be set off against the surpluses as assessed by us and the net deficit, if any, should be given as grant-in-aid under Article 275 of the Constitution by a Presidential Order.

18. We now indicate briefly our views on some of the issues special to certain State Governments which have a bearing on their revenue surpluses or deficits. After the submission of the forecast of receipts and expenditure to us and our discussions with them based on these forecasts, the Government of Tamil Nadu communicated to us on 21st June, 1973 their decision to reintroduce prohibition in the State and requested us to take into account the loss of revenue arising from this decision during the forecast period. The Government of Tamil Nadu had also sought to make up partially the loss of revenue resulting from the decision to reintroduce prohibition through enhancement of taxes on motor spirit, stamps and entertainment. They urged that the additional revenues accruing from these levies should be excluded in estimating their revenue gap, as they were intended specifically for financing the Fifth Plan. We have given careful consideration to these issues raised by the Government of Tamil Nadu. We are required under our terms of reference to estimate the revenues of the State Governments at levels of taxation obtaining at the end of 1973-74. In view of this we felt constrained to allow for the financial implications of the decision of the Government of Tamil Nadu already implemented to close down toddy shops. We did not, however, consider it proper to allow for the further loss of revenue anticipated from the closure of shops for sale of arrack and other

liquors subject to State excise duties, as these decisions have not yet come into force. We could not also accept the request of the State Government to exclude the revenues estimated to accrue from the additional taxation on motor spirit, stamps and entertainment levied by them because these levies have already come into force. Consequently the net downward adjustment we had to effect in the forecasts of revenues of the Government of Tamil Nadu was of the order of only Rs. 18.16 crores for the five year period as against Rs. 165.45 crores indicated by them.

19. The Government of Rajasthan also brought to our notice the pressures building up in their State for introduction of total prohibition and the resultant loss of revenue, if the demands are conceded. In the absence of any specific decision to reintroduce prohibition in the State, we have projected the revenues from excise duties adopting the rates of growth indicated in Chapter IX. As, however, the late Chief Minister of Rajasthan in his letter to Chairman of the Commission had specifically requested us to indicate whether or not we have allowed in our award for the possible loss of revenue from excise duty in the event of introduction of prohibition, we have considered it appropriate to refer to this communication and clarify that we have assumed in our forecast the continuance of revenues from State excise duties on the basis of the present policy in force in the State.

20. A few of the State Governments, notably West Bengal, have in the forecasts submitted to us included large provisions for payments to the Government of India on account of Central Reserve Police deployed in their States for maintenance of law and order. We consider it difficult to concede in principle that the deployment of Central Reserve Police would be needed as a permanent measure in any State. We have also no means of estimating accurately the commitments likely to devolve on the State Governments by the requisitioning of Central Reserve Police in accordance with the needs of the law and order situation in future. From the point of view of parity of treatment among the States also we do not consider it possible to concede the request of only some of the State Governments for possible expenditure arising from enlistment of the services of the Central Reserve Police to support their own regular police forces. While we have left out of consideration the provisions sought by State Governments, such as West Bengal, for payments likely to be made for the services of the Central Reserve Police during the forecast period, we would strongly urge that the Government of India should modify the present policy and waive payment alto-

gether for the services of Central Reserve Police personnel made available to the State Governments for maintenance of law and order. As the Central Government would continue to have a decisive voice in determining whether or not the law and order situation in a State warrants supplementary support in the form of Central Reserve Police, there is no reason to apprehend that State Governments may invoke the assistance of the Central Reserve Police on a larger scale if payment for the same is waived. After all, the Governments of India have an equal stake with State Governments in the maintenance of law and order throughout the country. The present system of insistence on payment for services of the Central Reserve Police does not seem to make sense particularly when most of the States are in effect paying for the same through grants-in-aid under Article 275 of the Constitution from the Government of India. In the case of the States, which were Union Territories till recently, namely, Tripura and Manipur, we have allowed the provision in full for payment of Central Reserve Police. They were, till quite recently, not paying for the services of the Central Reserve Police and would need time to raise and strengthen their own police force.

21. The Government of Jammu and Kashmir have proposed a special provision of Rs. 10.55 crores for strengthening and reorganisation of the police force. After satisfying ourselves, about the demands of the State Governments in this regard in consultation with the Ministry of Home Affairs, we have allowed the provision asked for by them in full. But we propose that the grant in this regard under Article 275 of the Constitution be tied specifically to programmes of expenditure for the strengthening and reorganisation of the police force in the State. Jammu and Kashmir Government have also included in their forecast a sum of Rs. 56.77 crores towards food subsidy. It should be remembered that this subsidy is over and above the element of subsidy in the issue price of foodgrains released from the Central stocks. The Commission feels that the commitment on the State budget on this account can and should be gradually reduced. Only 50 per cent of the provision sought by the State Government has therefore been allowed.

22. On the basis of the reassessment of revenue receipts and non-plan revenue expenditure of the State Governments, taking into account the principles and general considerations explained earlier and after setting off the resources estimated to accrue to them from devolution of taxes and duties and grants in lieu of tax under the repealed Railway Passengers Fares Tax Act, 1957, the surpluses and deficits of

the State Governments during the five-year period would be as indicated in the Table below :

(Rs. Crores)

States	Non-Plan revenue surplus/deficit on the basis of the existing standards of essential administrative and social services		Provision allowed for upgradation of the standards of essential administrative and social services	Net Revenue deficit after devolution of revenues	Net Revenue surplus after devolution of revenues
	Without devolution* of revenues	After devolution* of revenues			
1	2	3	4	5	6
1. Andhra Pradesh . . . . .	723.39	153.31	52.62	205.93	..
2. Assam . . . . .	421.60	236.51	18.02	254.53	..
3. Bihar . . . . .	677.93	(-) 60.51	166.79	106.28	..
4. Gujarat . . . . .	23.99	(-)344.65	9.19	..	335.46
5. Haryana . . . . .	(-)124.14	(-)244.80	21.45	..	223.35
6. Himachal Pradesh . . . . .	204.06	160.96	..	160.96	..
7. Jammu & Kashmir . . . . .	214.95	156.16	17.33	173.49	..
8. Karnataka . . . . .	124.45	(-)259.19	26.45	..	232.74
9. Kerala . . . . .	473.44	202.40	6.53	208.93	..
10. Madhya Pradesh . . . . .	383.05	(-)160.52	50.34	..	110.18
11. Maharashtra . . . . .	(-) 40.52	(-)752.05	3.63	..	748.42
12. Manipur . . . . .	126.91	113.43	1.10	114.53	..
13. Meghalaya . . . . .	86.02	73.17	1.50	74.67	..
14. Nagaland . . . . .	135.01	128.18	0.66	128.84	..
15. Orissa . . . . .	520.26	247.67	57.06	304.73	..
16. Punjab . . . . .	(-)186.45	(-)355.42	13.94	..	341.48
17. Rajasthan . . . . .	536.49	203.10	27.43	230.53	..
18. Tamil Nadu . . . . .	354.04	(-)184.53	..	..	184.53
19. Tripura . . . . .	130.19	110.50	2.00	112.50	..
20. Uttar Pradesh . . . . .	1058.89	(-) 91.33	290.16	198.83	..
21. West Bengal . . . . .	750.70	162.63	72.23	234.86	..
TOTAL . . . . .	6594.26	(-)504.98	838.43	2509.61	2176.16

NOTE : Negative sign indicates surplus.

\* Devolution for this purpose has been taken to cover the States' share of Income-tax, Union duties of excise, Additional Excise Duties, Estate Duty on property other than agricultural land, grant in lieu of tax on passenger fares and grant on account of wealth tax on agricultural property.

23. In the light of the foregoing, we recommend that the following State Governments be paid the sums specified against each of them as grants-in-aid of their revenues under the substantive part of

Clause (1) of Article 275 of the Constitution for each of the five years covered by our recommendations :

(Rs. Crores)

States	Total amount to be paid in the five years	Grants-in-aid to be paid in				
		1974-75	1975-76	1976-77	1977-78	1978-79
1. Andhra Pradesh . . . . .	205.93	42.83	43.47	41.89	39.45	38.29
2. Assam . . . . .	254.53	49.66	51.33	50.60	51.35	51.59
3. Bihar . . . . .	106.28	18.78	23.92	21.12	21.53	20.93
4. Himachal Pradesh . . . . .	160.96	31.72	32.02	32.15	32.42	32.65
5. Jammu & Kashmir . . . . .	173.49	34.57	34.65	34.73	34.83	34.71
6. Kerala . . . . .	208.93	43.85	43.46	41.19	40.92	39.51
7. Manipur . . . . .	114.53	21.05	21.97	22.85	23.84	24.82
8. Meghalaya . . . . .	74.67	13.61	14.23	14.90	15.63	16.30
9. Nagaland . . . . .	128.84	23.77	24.68	25.72	26.77	27.90
10. Orissa . . . . .	304.73	56.97	60.11	61.00	62.56	64.09
11. Rajasthan . . . . .	230.53	49.30	48.57	46.05	44.30	42.31
12. Tripura . . . . .	112.50	20.66	21.53	22.44	23.45	24.42
13. Uttar Pradesh . . . . .	198.83	21.61	33.91	39.23	49.10	54.98
14. West Bengal . . . . .	234.86	53.29	49.27	46.57	44.55	41.18
TOTAL . . . . .	2,509.61	481.67	503.12	500.44	510.70	513.68

## CHAPTER XVI

### ASSESSMENT OF NON-PLAN CAPITAL GAP OF STATES

#### I-Methodology

The assessment of non-Plan capital gaps of States has been referred to the Finance Commission for the first time. It is clear from the terms of reference that determination of the non-Plan capital gaps of States is considered an essential prelude to the formulation of proposals for revision of the terms of outstanding Central loans. As the survey of non-Plan capital gaps has been brought within the ambit of enquiry of the Finance Commission for the first time, we did not have the benefit of the views of the earlier Commissions on the conceptual and other problems involved in this exercise. We, therefore, thought it fit to begin with an analysis of the nature and scope of the different categories of transactions relating to both receipts and disbursements generally figuring in capital account and to indentify, in the light of such analysis, which of them could be considered to be of non-Plan nature. We had also to take a view on treatment of items like contribution of State enterprises and their borrowings which, though not directly reflected in State budgets, are reckoned as resources for the Plan. The question whether cash balances and negotiable securities held by State Governments should also be taken in reduction of their non-Plan capital gap, also came up for consideration.

2. The capital transactions of the States are recorded in the budget against the various heads indicated in Annexure I to this Chapter. In the light of our analysis of the scope of receipts and disbursements accommodated under these various heads of account, we indicate below briefly which of them, in our judgment, should be taken into account in computing the non-Plan capital gap and which of them should be left out.

**\*92. Payment of compensation to landholders, etc. on the abolition of zamindari system.**

3. The bulk of the compensation payments to landholders is met out of the zamindari abolition fund created by various State Governments. Provision under this major head on capital account is now rather insignificant except in a few States such as West Bengal. But it is a legitimate non-Plan capital liability, as most of the compensation payable for the abolition of intermediaries has already been disbursed and the residual amounts shown in the forecasts presented to us are needed to complete the reforms. While the provision sought for completion of the

processes of abolition of intermediaries such as zamindaries and jagirdaris posed no problems in view of the firm basis of the commitments already entered into, our approach to similar estimates of financial implications of the recent land reform measures had to be defined with care, in view both of the tentative character of the estimates presented to us and the widely varying requirements of the States.

4. Many of the State Governments have invited our attention to the legislation for imposition of ceilings on agricultural holdings, which has either been enacted or is on the anvil, and have urged that the compensation likely to be needed for payment in cash or in bonds to the landholders for the excess lands to be taken over in pursuance of such legislation should be treated as non-Plan capital liability. Since it is not possible for us to make any firm judgment on the extent of surplus land likely to be available or satisfy ourselves on the extent of compensation likely to be paid for the excess lands thus taken over, we are not in a position to estimate the resources likely to be needed by the States to implement the various proposals already indicated or under consideration for the imposition of ceilings. As we have been asked to assess the non-Plan gap of the States on as uniform and comparable a basis as possible, it will obviously not be correct for us to discriminate between States that have already completed all the legislative measures connected with the ceilings on land holdings and those in which the process is still in a preliminary stage.

5. Past experience indicates that estimates of surplus land may prove wide off the mark and that the pace of take over of surplus land cannot also be predicted in advance. Whatever financial assistance is necessary for payment of compensation for surplus land, should, therefore, be provided only on the basis of close and critical review of the progress of implementation of land reforms. Such tied assistance cannot be visualised within the framework of any scheme of debt relief. We would, therefore, suggest that Government of India should, in consultation with States, assess their net financial requirements for smooth implementation of land reforms and arrange to meet them. In computation of the non-Plan capital gap, we have left out of consideration the requirements for land reforms for the various reasons indicated above.

\*References are to Heads of Account as in force in 1973-74.