

## CHAPTER I INTRODUCTION

Our Commission was constituted by the President in his Order dated 28th June, 1972 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 (33 of 1951), the President is pleased to constitute a Finance Commission consisting of Shri K. Brahmananda Reddi, former Chief Minister of Andhra Pradesh, as the Chairman and the following four other Members, namely :—

- (1) Shri Justice Syed Sadat Abul Masud, Judge, Calcutta High Court.
- (2) Dr. B. S. Minhas, Member, Planning Commission.
- (3) Dr. I. S. Gulati, Senior Fellow, Centre for Development Studies, Trivandrum.
- (4) Shri G. Ramachandran, Member-Secretary.

2. The Chairman and other Members of the Commission shall hold office from the date on which they respectively assume office upto the 31st day of October, 1973.

3. The Chairman and Members of the Commission except Dr. B. S. Minhas and Dr. I. S. Gulati shall render whole-time service to the Commission. Dr. B. S. Minhas shall render part-time service as Member of the Commission. Dr. I. S. Gulati shall render part-time service as Member of the Commission until such date as the Central Government may specify in this behalf and thereafter he shall render whole-time service to the Commission.

4. The Commission shall make recommendations as to the following matters :

- (a) the distribution between the Union and States of the net proceeds of taxes which are to be, or may be divided between them under Chapter I of Part XII of the Constitution 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 and the sums to be paid to the States which are in need of assistance by way of

grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article having regard, among other considerations, to —

- (i) the existing practice in regard to determination and distribution of Central assistance for financing State Plans ;
  - (ii) the revenue resources of those States for the five-years ending with the financial year 1978-79 on the basis of the levels of taxation likely to be reached at the end of the financial year 1973-74 ;
  - (iii) the requirements on revenue account of those States to meet the expenditure on administration taking also into account such provision for emoluments of Government employees, teachers and local body employees as obtaining on a specified date as the Commission deem it proper in the light of the States' capacity and needs, interest charges in respect of their debt, transfer of funds to local bodies and aided institutions and other committed expenditure ;
  - (iv) adequate maintenance and upkeep of capital assets and maintenance of Plan schemes completed by the end of 1973-74, the norms, if any, on the basis of which specified amounts are allowed for the maintenance of different categories of capital assets being indicated by the Commission ;
  - (v) the requirements of States which are backward in standards of general administration for upgrading the administration with a view to bringing it to the levels obtaining in the more advanced States over a period of ten years ; and
  - (vi) the scope for better fiscal management and economy consistent with efficiency which may be effected by the States in their administrative, maintenance, developmental and other expenditure ;
- (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 tax under the repealed Railway Passenger Fares Tax Act, 1957 ;

(d) the changes, if any, to be made in the principles governing the distribution amongst the States under article 269 of the Constitution of the net proceeds of any financial year of estate-duty in respect of property other than agricultural land ;

(e) 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 leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, on each of the following commodities, namely :—

- (i) cotton fabrics,
- (ii) woollen fabrics,
- (iii) rayon or artificial silk fabrics,
- (iv) sugar, and
- (v) 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 sales tax for the financial year 1956-57 in that State ; and

(f) the principles governing the distribution among the States of the grant to be made available to the States on account of wealth tax on agricultural property.

5. The Commission may make an assessment of the non-Plan capital gap of the States on a uniform and comparable basis for the five years ending with 1978-79. In the light of such an assessment, the Commission may undertake a general review of the States' debt position with particular reference to the Central loans advanced to them and likely to be outstanding as at the end of 1973-74 and suggest changes in the existing terms of repayment having regard *inter alia* to the overall non-Plan gap of the States, their relative position and the purposes for which the loans have been utilised, and the requirements of the Centre.

6. The Commission may review the policy and arrangements in regard to the financing of relief expenditure by the States affected by natural calamities and examine *inter alia* the feasibility of establishing a National Fund to which the Central and State Governments may contribute a percentage of their revenue receipts.

7. The Commission in making its recommendations on the various matters aforesaid shall have regard to the resources of the Central Government and the demands thereon on account of the expenditure on civil administration, defence and border security, debt servicing and other committed expenditure or liabilities.

8. The Commission shall make its report by 31st October, 1973 on each of the matters aforesaid and covering a period of five years commencing from the 1st day of April, 1974, indicating the basis on which it has arrived at its findings and make available the State-wise criteria adopted in making modifications, if any, in the States' forecasts of receipts and expenditure".

2. Dr. B. S. Minhas served the Commission on a part-time basis throughout. Dr. I. S. Gulati served the Commission part-time upto 31st December, 1972 and thereafter as a full-time Member. The Chairman and other Members served on a whole-time basis. The first meeting of the Commission was held in New Delhi on 14th July, 1972. We adopted rules of procedure similar to those followed by the earlier Finance Commissions subject to minor modifications. We also approved of the issue of a Press Note indicating the terms of reference of the Commission and inviting written Memoranda setting out views and specific suggestions from those interested in the matter. A circular letter inviting their views on matters covered by our terms of reference was sent to all Members of Parliament, Members of State Legislatures, Vice-Chancellors of Universities and leading economists.

3. Even prior to the formal constitution of the sixth Finance Commission, an Officer appointed on Special Duty in the Ministry of Finance to attend to the preliminary work connected with the setting up of the Commission, wrote to the State Governments and Accountants General for supply of material on matters likely to be of relevance to our work. In the light of our discussions at the first meeting of the Commission, a further letter was addressed by our Member-Secretary to the State Governments asking them to furnish us with forecasts of receipts and expenditure on revenue and capital accounts for the five years period to be covered by our award (1974-75 to 1978-79). We also requested the State Governments to supply information on certain subsidiary points which have been set out in Appendix III. Likewise, we also wrote to the Union Ministry of Finance to furnish the Commission with forecasts of revenue and expenditure for the five year period indicating separately the divisible pool of income-tax and share in other Central taxes and duties likely to accrue to the States during the period of our award.

4. At our request, the Comptroller and Auditor General was good enough to instruct the State Accountants General to assist us with whatever information

that may be needed by us from time to time in connection with our work. We are grateful to the State Accountants General for complying with all our requests for information promptly, despite the fact that this time the range of information on which we sought verification through them was far wider than needed by the earlier Commissions in view of the inclusion of non-Plan capital accounts of State Governments also within the purview of our enquiry. The State Accountants General also readily complied with our request for verification of figures regarding the debt position of the States. But for the co-operation extended by them, it would not have been possible for us to complete our work in time.

5. We could initiate our round of discussions with the State Governments only from January, 1973 in view of the considerable time taken by most of the State Governments in compiling and submitting the forecasts on revenue and capital accounts in the form prescribed by us. We thought that it would be an advantage, if the forecasts were first discussed between the Officers of the Commission and the State Governments. Accordingly the Member-Secretary of the Commission held discussions on various dates with State Finance Secretaries and other officials deputed by the State Governments at which clarification was obtained on a number of points of detail relating to the forecasts. This preliminary exercise considerably facilitated the subsequent discussions which the full Commission held with State Chief Ministers and their colleagues and senior officials at State headquarters.

6. The dates of the Commission's discussions with State Chief Ministers and officials are indicated at Appendix IV. It will be seen that we were able to visit all State headquarters except Imphal. The Manipur State representatives kindly complied with our request to come to Shillong for their discussion with us. At these meetings with the State Chief Ministers, other Ministers and senior officials of the State Governments, there was a full and frank exchange of views on matters pertaining to our terms of reference and the requirements of the States and we are glad to report that these discussions enabled us to gain a clear appreciation of the special problems and the needs of the States. We would like to acknowledge gratefully the help and co-operation we received in unstinted measure from State Governments in all aspects of our work. We would also like to thank them specially for the hospitality extended to us during our visits to the States.

7. During our discussions with State Governments and their officials, State Accountants General were also generally present. In most States we also had a brief session with the Accountants General separately. These discussions enabled us to form a fair judgment on the general state of fiscal management in different States.

8. In many of the State headquarters visited by us, the representatives of the Press also met the Chairman and other Members of the Commission.

These meetings proved helpful to us in appreciating in a wider perspective some of the local problems and needs, though obviously we could not indicate to the Press our response to the several points in the Memoranda submitted by the State Governments. We would like to thank the Press for the keen interest shown by them in our work.

9. In response to the Press Note issued by the Commission, we received a number of memoranda from economists, chambers of commerce, some Members of Parliament and State Legislatures and other men of public affairs. A list of the organisations and individuals who sent memoranda is given in Appendix IV. Some of the economists and other individuals and organisations also met us either in New Delhi or in the State headquarters during our visits and gave us the benefit of their views. A list of individuals and organisations who met us is given in Appendix VI. We wish to record our appreciation of the trouble and time taken by them in preparing and submitting memoranda to us and for giving us the benefit of their valuable advice on several issues of great importance in Union-State financial relations.

10. After completing our round of discussions with the States and analysing the material presented to us, we held consultations with officials of the Ministry of Finance led by Shri M. R. Yardi, Finance Secretary and Shri H. N. Ray, Secretary (Expenditure) on the forecasts of receipts and expenditure of the Central Government presented to us by the Ministry of Finance and on other matters pertaining to our terms of reference. This meeting proved helpful in obtaining elucidation on several issues having a bearing on the resource position of the Central Government and other matters relevant to our enquiry.

11. We also thought that it would be useful to have similar discussions with the Deputy Chairman and Members of the Planning Commission. We sent them in advance a short note setting out some of the more important issues on which we felt that the views of the Planning Commission might prove of benefit to us. But, unfortunately, that meeting could not take place.

12. The Chairman and other Members of the Commission wish to place on record the deep sense of appreciation for the utmost devotion of our Member-Secretary, Shri G. Ramachandran, in the discharge of his very onerous duty. But for his untiring efforts, the Commission would have found it difficult to complete its work in time. It has to be remembered in this connection that the terms of reference of our Commission are far wider than those of the earlier Commissions involving, among other things, the assessment of non-Plan capital gaps of the States and revision of the terms of repayment of Central loans outstanding against the States. We wish to acknowledge the very useful and efficient work done by the

officers and members of our staff. The main brunt of handling the voluminous correspondence with State Governments and Central Ministries and of providing guidance to the research staff was borne by the two Deputy Secretaries—Sarvashri A. G. Krishnan and R. K. Mukherji and we thank them for their exemplary devotion and dedication to work. Shri S. D. Srivastava who was Joint Secretary of the Commission for about six months in the initial stages of our work played a notable part in the preparation of background papers for the reference of the Commission and in organising the work of the Commission on proper lines. Dr. K. N. Reddy, our Joint Director, whose services we specially obtained from the University of Baroda, was of great help to us in analysing the economic issues having a bearing on our terms

of reference. Our team of Senior Research Officers consisting of Sarvashri M. L. Sastry, B. L. Bansal, P. B. Dhawan, R. D. Gupta and Research Officers, Sarvashri B. R. Kharbanda, S. P. Sharma, K. D. Kaushik and Manohar Lal, did excellent work in the collection and processing of the voluminous data on the basis of which alone we could make a proper assessment of the needs of the States on revenue and capital account. We owe a special debt of gratitude to them for the diligence and care with which they attended to this important area of our work. Our Superintendents—Sarvashri M. N. Bajpai and J. P. Kapoor—and the staff under them provided efficient secretarial assistance. Our personal staff also carried out the duties assigned to them to our entire satisfaction.