CHAPTER X

REVISION OF PAY AND DEARNESS ALLOWANCE OF EMPLOYEES OF STATE GOVERNMENTS

In assessing the requirements of State Governments on account of expenditure on administration, we are required to take into account, under paragraph 4(b)(iii) of our terms of reference, 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. It is significant that the Presidential Order delimiting the field of enquiry of the earlier Commissions did not make any explicit reference to the problems of emoluments of Government employees or teachers or local body employees. This does not, of course, imply that earlier Commissions had, for purposes of their award, left out of account the needs of the States in regard to emoluments of their employees. On the contrary, the Commissions considered it both necessary and proper to provide in their schemes of devolution for all the requirements of the States arising from such increases in dearness allowance and scales of pay as had been implemented and brought to their notice. Thus, for example, the Fourth Finance Commission which was faced with a spate of proposals from State Governments for revision of the emoluments of their employees considered in detail the requests of the State Governments. The Commission took into account all firm Government orders sanctioning increases in emoluments upto the end of June 1965. The Commission recommended that the revision upto the end of July, 1965 should also be taken into account and suitable adjustments in grants-in-aid under Article 275 made if the States concerned had passed firm orders by them. Accordingly, after the submission of the report by the Fourth Commission, Government of India asked Prof. Karve, a member of the Commission, to examine the requirements of the States excluded by the Commission and listed by them in their report. The grants-in-aid recommended by the Fourth Commission were suitably enhanced with reference to the amounts needed by such States for revision of emoluments of their employees. The procedure followed by the Fifth Commission, in assessing the reasonableness of the demands made by the State Governments, for revision of the emoluments of their employees, has been indicated by them in para 6.13 of their report. Briefly stated, the Commission allowed in full for the likely expenditure on increased dearness allowance in all cases where such increases had already been sanctioned by the State Governments. They also allowed for arrear payments relating to the period prior to 1-4-1969 in all cases where commitments had already been made or payment had already commenced. They did not, however, make any allowance for possible increases in dearness allowance in future. With regard to pay revisions, the Fifth Commission took the line that only such proposals as had been implemented prior to 1-4-1969 should be recognised by them. In other cases, the Commission felt that the question of making provision for revision of scales of pay would arise only where the level of expenditure in any State fell short of all States average after taking into account also the scope for greater tax effort in relation to the all States average. It is not, however, clear how precisely final adjustments in this regard were made in determining grants-in-aid of the States under Article 275.

2. On the question of provisions for revisions of dearness allowance and scales of pay, the States would seem to have two main grievances. Firstly, the practice, which has come into vogue of Finance Commissions taking into account only such revisions as have already been implemented, places at a serious disadvantage States which, on considerations of financial prudence or on account of constraint of resources or even administrative delay in the appointment of Pay Commissions and processing of their recommendations, could not implement revisions of dearness allowance or pay in time for consideration by the Finance Commissions. Secondly, the wide disparities in emoluments between employees of State Governments and those of Central Government on the one hand and among employees of various State Governments themselves on the other hand create a situation in which most State Governments are under continual pressure for upward revision of emoluments.

3. The scales of pay of Central Government employees were revised in pursuance of the recommendations of the Second Central Pay Commission in 1959 and since then there have been as many as eighteen revisions in the form of dearness allowance or interim relief. Understandably, these revisions have triggered demands for similar increases from employees of State Governments. These successive increases in rates of dearness allowance have caused enormous strain on the resources of the State Governments and may be said to be at the root of the ways and means difficulties of many of them. It is tragic that the bulk of the additional resources raised by them for financing the Plan has been eroded by the payment of higher emoluments to employees. This is not a situation which can be viewed with equanimity by any one interested in economic and social development, though we appreciate that, given the continuous spurt in prices, the State Governments had perhaps no other alternative. Reference has also been made to this problem in the reports of the earlier Commissions. With the appointment of the Third Pay Commission by the Central Government, in April, 1970, States became aware that its report and Government of India's decision thereon would further upset their budgetary calculations. One of the main themes urged by State Governments in their memoranda and

per annum. The same rate has been adopted for projecting the requirements on account of committed liabilities of the Fourth Plan Schemes.

22. There are a few heads of expenditure to which it will be inappropriate to apply a uniform rate of growth. The requirements of the States under "16-Interest" have necessarily to be determined with reference to debts outstanding. Likewise, the major head "76—Other Miscellaneous Compensations and Assignments" includes payments to local bodies of their share of tax collections at present level of expenditure and the future pattern of growth varies from State to State. The major head "71-Miscellaneous" comprises a large number of miscellaneous transactions that cannot be conveniently accommodated within any other group. The composition and quantum of expenditure under this head varies considerably from year to year. In some of the States, this head also accommodates grants to local bodies for functions transferred to them. The forecast of expenditure under these heads has, therefore, been determined in each case separately with reference to past trends and other relevant factors urged by the State Governments.

23. As regards the base level to which these rates of growth are to be applied, we are constrained to adopt the actuals of 1971-72, because the preliminary actuals of 1972-73 furnished by the Accountants-General for most of the States, unlike similar figures on the receipt side, are liable to numerous adjustments that may not be completed in time for our report. However, this decision is not expected to affect adversely the interests of the States because the assumed rates of growth on the expenditure side are generally a little more generous than what most of the State Governments have been able to provide for in the recent past, if increases on account of pay and dearness allowance are excluded.

during their discussions with us has therefore been that the repercussions of the Central Pay Commission's recommendations on the scales of pay and allowances of employees of State Governments should necessarily be allowed for by us fully in our award.

4. At our very first meeting, we addressed ourselves to the extremely complex and delicate issue of determining a reference date for purposes of consideration of the requirements of the State Governments in regard to emoluments of their employees. We realised that the fixing of any prospective date would bring the State Governments under relentless pressure for further revision of emoluments of their employees. It might not also have proved fair to States anxious to conserve their limited resources for implementation of developmental programmes in the remaining period of the Fourth Plan. We therefore strongly felt that the date chosen should be such as would guarantee that whatever decisions were actually taken by the State Governments on revisions of emoluments would be based on their own merits and without reference to the pendency of the award of the Finance Commission. In view of this consideration we proposed to adopt 1st January, 1972 as the reference date. The State Governments were informed accordingly in Member-Secretary's letter of 17th July, 1972 and they were requested, in furnishing their projections of non-development expenditure for the years 1974-75 to 1978-79, to take into account only scales of pay, dearness allowance and other allowances as obtaining on 1st January, 1972 on the basis of orders issued and implemented on or before that date. We would like to state even at this stage that in choosing a date anterior to our appointment as the reference date, we were motivated solely by the consideration that the whole question of additional provisions needed for revision of scales of pay and dearness allowance should be settled to the extent possible on the basis of certain objective norms and not as would seem to have been the case in the past, only with reference to the actual commitments made by the State Governments on or before a particular date falling within the last phase of the labours of the Finance Commission. The most serious criticism of the approach followed by earlier Commissions has been that it gave the States an almost irresistible incentive to rush ahead with implementation of proposals for enhancement of emoluments in the certain knowledge that all such increases would invariably be taken note of by the Commission. At the same time, States which refrained from doing so either for want of resources or on considerations of sound fiscal management or even sheer administrative delay felt that they had been dealt with unfairly. In fixing 1-1-1972 as the date of reference, we hoped to get a clear picture of the relative position of different States in respect of scales of pay as on a date when the State Governments' judgment was least likely to have been clouded by the implications of the impending appointment of a Finance Commission. However, it was not our intention that the needs of the States on account of emoluments of their employees should be frozen as on 1-1-1972. Rather, our intention was that no State should gain or lose only because it had implemented its proposals for revision of pay and allowances on a particular date after we had embarked on our work. It was also our intention to put the State Governments on clear notice that whatever revision of scales of pay and allowances they chose to implement would be at their own risk and that their proposals in this regard would be evaluated on merits and with reference to certain yardsticks.

5. Many Chief Ministers have written to us protesting against the choice of a date as far back as 1-1-1972. During the discussions with the Commission too, all the State Governments pressed hard for a reconsideration of the reference date of 1-1-1972. They have argued that it would neither be realistic nor fair for the Finance Commission to ignore the financial implications of the proposals implemented by the State Governments after 1-1-1972. The choice of 1-1-1972 as the date of reference has not deterred most of the State Governments from going ahead with revisions of pay and dearness allowance. All State Governments, with the exception of Meghalaya, have proposed additional provisions on account of increases in pay and/or dearness allowance including interim relief—Table No. 1 in Appendix X to our report sets out details of provisions proposed by the State Governments for such revisions implemented by them after 1-1-1972. The additional provisions demanded by the State Governments for revision of emoluments amount to about Rs. 2827 crores over the Fifth Plan period. Even this estimate is incomplete because only a few of the State Governments have chosen to indicate liabilities of a contingent nature. A broad picture of the estimates of additional provisions is presented below while Statewise details will be found in Table Nos. 1, 4 and 5 in Appendix X appended to our report :

(Rs. crores)

	Increases already given effect to	Contingent liability	Total
Revision of pay, dearness allowance and interim relief	1,563.27	1,144.85	2,708.12
Other increases	68.11	51.10	119.21
TOTAL	1,631.38	1,195.95	2,827.33

6. The arguments of State Governments in seeking a change in the reference date run on the following lines :

In accordance with the terms of reference, the Finance Commission is required to take levels of taxation likely to be reached at the end of 1973-74. The estimates of revenue-receipts for the forcast period are not with reference to accruals of revenue as on 1st January, 1972. As such, there would be an asymmetary in the Commission's estimation of the needs of the States. Most of the State Governments are committed to maintenance of parity with Central Government in rates of dearness allowance and the revision by the Central Government of the rates of dearness allowance of their employees sets in motion a chain reaction which cannot be ignored. In this context, the State Governments also drew our attention to the disparities already existing between emoluments of employees of most of the State Governments and those of Central Government and urged that it was becoming increasingly difficult to sustain such disparities. They were working side by side in many places and their work was identical. The State Governments also referred to the likely repercussions of the report of the Central Pay Commission and the pressures that would be generated for further revision of the emoluments of their employees. The State Governments, therefore, urged strongly that a date such as 31-3-1973 or 31-3-1974 should be adopted as the reference date.

7. We have already indicated briefly the reasons that weighed with us in choosing 1-1-1972 as the date of reference. We reiterate that it was our intention right from the outset to evolve, to the extent possible, certain principles for proper assessment of the requirements of the States on account of pay and dearness allowances. In formulating these principles, we have given the most careful consideration to the points urged by representatives of State Governments and also representatives of employees of some of the State Governments who met us during our visits to State capitals. In our view, any assessment of the requirements of the States for revision of scales of pay and dearness allowance for their employees should subserve certain objectives which we delineate in some detail in succeeding paragraphs.

8. The appointment of a Finance Commission now becomes a signal for State Governments to hurry through the proposals for revision of scales of pay and dearness allowance. We should not be taken to imply that the revisions that have been implemented in recent months have been motivated solely by the desire to take advantage of our impending award. Nevertheless it is clear that the State Governments do become specially vulnerable to the demands of their employees when the Finance Commission is in session. At the same time, the approach hitherto followed by the Finance Commissions does impose a disability on States which, for want of resources, are unable to implement in time revisions of emoluments of their employees even though there may be a pressing need for the same. It would be conducive to sound fiscal management and rational decision making if it becomes clear that a Finance Commission is not bound to take note of all the increases in emoluments that may be given effect to. At the same time, States which have observed a measure of restraint in pay revisions, should have the assurance that their minimum requirements in this regard would not go unnoticed. An approach somewhat on these lines alone will be fair to the State Governments *inter se* and their employees.

9. The Finance Commission cannot, however, arrogate to itself the responsibilities of a Pay Commission and pronounce on the reasonableness or otherwise of the scales of pay in force in different States. It will take us far from our field of enquiry to go into such questions as to whether disparities between State and Central Government employees or among the States themselves are justified or not. These are larger issues which can best be examined in the context of an overall national policy on wages and incomes. We should also remember in this connection that inter-State comparisons on scales of pay and allowances can be undertaken with any degree of assurance only in respect of certain common and well-defined categories of staff at lower levels, such as Peons, Clerks, Police Constables and Teachers in Primary Schools. The structure of departments, opportunities for promotions, as also qualifications and responsibilities attached to the several posts at higher levels, vary from State to State. It would, therefore, be risky to attempt any kind of approach towards standardisation of pay and allowances at these levels.

10. At the same time we recognise that very wide disparities in emoluments at the lower levels, where duties and qualifications are easily comparable, are bound to generate discontent and impair maintenance of reasonable standards of efficiency in administration. It is relevant to mention here that we have also been specifically asked to make reasonable provision for enabling the States that are now backward in standards of general administration to come up to the levels of the more advanced States within a period of ten years. While we deal with this problem of upgradation of standards of administration in backward States at some length in another chapter, we would only like to observe at this stage that improvement of standards of administration cannot be viewed in isolation from scales of pay. The level of emoluments has an important bearing both on standards of recruitment and the performance of employees of different ranks.

11. State Governments are united in demanding that the likely repercussions of the Government of India's decisions on the recommendations of the Third Pay Commission should not be left out of our reckoning. They have also laid stress, in the light of their past experience, on the inevitability of further revision of rates of dearness allowance of their employees in the forecast period. They have urged that our schemes of devolution should provide for all such possible increases over the next five years. In our view, it would be difficult, and wrong in principle, to provide for expenditure of a contingent nature. In the event of rise in prices, increases in rates of dearness allowance may become necessary. We have made our estimates of revenues and expenditure at constant prices. Any rise in prices, which may call for an upward revision of rates of dearness allowance of employees, will also bring in additional revenues to the States under heads such as Sales Tax, Motor Vehicles Tax and Stamp Duty, and also in the form of their share of Central taxes. This assumption is, by and large, borne out by past experience. In view of this, we have not considered it necessary to incorporate in our forecast of requirements of State Governments any provisions for enhancement of rates of dearness allowance in future.

12. Keeping in view various considerations set out above, we felt that the provisions indicated by the State Governments for revision of scales of pay, dearness and other allowances of their employees should be dealt with in the following manner :

(1) 1st January, 1972 should be taken as the date of reference.

(2) Though there were wide disparities in scales of pay and dearness allowance among States even as on 1-1-1972, full provision should be made for the actual requirements of the States on the basis of scales of pay and allowances as on 1-1-1972. We need not go into the reasonableness or otherwise of the scales of pay as obtaining on the date of reference.

(3) While complete elimination of the disparities as between different States is not feasible, it has to be conceded that in some of the States scales of pay and allowances as on 1-1-1972 were relatively low. The States, in which emoluments of employees as comprising pay, dearness allowance, interim relief and dearness pay, if any, were below the all-States average as on 1-1-1972, should, therefore, be enabled to come upto the average. Requirements of additional funds in this regard have been taken into account. It is not possible to make a meticulously accurate computation of the requirements of the States with reference to scales of pay of all the numerous grades in existence and the number of employees in each grade. We, therefore, concluded that the ends of justice would be substantially met if the requirements of the States were worked out with reference to the disparities in respect of select common and numerically large categories of posts such as (1) Peon (2) Lower Division Clerk (3) Upper Division Clerk (4) Police Constable (5) Head Constable (6) Trained Primary School Teacher (7) Revenue Inspector (8) Trained Graduate Teacher (9) Naib/Deputy Tehsildar (10) Tehsildar and (11) Deputy Collector/Sub Divisional Officer. The order of increases needed with reference to these posts having been determined, the actual provision needed could be settled on a reasonably accurate basis with reference to the total number of employees falling more or less within the pay ranges corresponding to those of the categories mentioned above.

(4) As regards States whose scales of pay were above the all-States average on 1-1-1972, it would be sufficient if further increases actually given by them were allowed for with reference to rise in cost of living since 1-1-1972. For this purpose, we took into account the rise in cost of living from 1-1-1972 to 1-5-1973. In view of the fact that our projections of revenues of States from 1973-74 onwards have been made on the assumption of constant prices, we have left out of account the rise in prices after 1-5-1973. The All India average Consumers' Price Index for Industrial workers (1960 = 100), which stood at 195 in December 1971 rose to 221 in April 1973, indicating an increase of 13.33 per cent. As regards the degree of neutralisation against rise in the cost of living, we felt that it would be both fair and appropriate to regulate it on the basis of the recommendations of the Third Pay Commission in regard to employees of Central Government as set out in paragraph 17 of Chapter 55 of their Report. In assessing the requirements of the States which were above the national average in terms of scales of pay and emoluments as on 1-1-1972, we, therefore, took into account the increases given effect to by them subsequent to 1-1-1972 only to the extent needed for neutralisation in cost of living in the manner indicated above. We have taken the view that any excess over the provisions, as computed in the manner indicated above, should be met by the State Governments from their own resources and should not qualify for grants-in-aid. In the case of surplus States, we have computed their non-Plan revenue surplus on the same basis.

(5) In the case of States whose scales of pay and dearness allowance were below the national average as on 1-1-1972, the amount needed to bring them up to the national average was computed first. On the amounts so arrived at, a further increase to compensate for the rise in cost of living from 1-1-1972 to 1-5-1973 was worked out in the same manner as indicated in the last paragraph and allowed for.

13. The precise manner in which we have worked out the entitlements of the States on the basis of these principles is explained at length below :

14. For computing the approximate cost of increases in emoluments of employees of State Governments since 1-1-1972, we ascertained from them the number of employees by various pay ranges and the details of revisions in pay and allowances undertaken by them together with their own estimates of costs during the Fifth Plan period. The State Governments were also requested to indicate the number of employees of local bodies and teachers of aided institutions in respect of whom they are liable to meet the expenditure on salary and allowances. It was seen that the State Governments had not followed a uniform procedure in estimating the financial implications of their decisions. While some of the State Governments had adopted a constant figure for each year during the Fifth Plan period, others had in addition allowed for certain annual rates of growth. It should be remembered that the bulk of tht further increase in the number of employees would normally be for Plan schemes, expenditure on which will form part of the Fifth Plan. We, therefore, considered a growth rate of 2 per cent per annum to be ample in projecting the cost of the revisions already implemented by the State Governments since 1-1-1972. Necessary adjustments were accordingly made in the estimates furnished by the State Governments. The financial implications of the revisions as estimated by the State Governments and the modifications made by us are indicated in Table No. 2 in Appendix X which also shows the number of employees in each State according to the information furnished by State Governments.

15. As indicated above, in the case of States whose scales of pay and allowances were below the national average as on 1-1-1972, necessary allowance has been made to bring them up to the all-States average and also a further increase to compensate for the rise in the price level between 1-1-1972 and 1-5-1973. The upgradation of the emoluments of the employees of these States to all-States average will naturally call for the formulation of a revised pay structure and the 'fitment' of the employees in new scales of pay. It needs no great argument to show that in this process, the maximum benefit as measured

by the difference between the minimum of the old and new scales of pay will accrue only to the new entrants who generally constitute only a small proportion of the total number of employees. Those already in service would benefit to a much smaller extent depending upon the pay actually drawn by them in the old scale and the formula prescribed for fitting them into new scales. Having regard to this fact, it would not be wide off the mark to assume that the aggregate cost of enhancement of scales of pay up to the national average in these States would at best be about half the cost worked out on the basis of the difference between the minima of the old and new scales of the numerically significant categories.

16. Our estimate of the cost thus arrived at for compensating the States for increase in the price level between 1-1-1972 and 1-5-1973 and for raising the emoluments of employees of the States, whose scales were below the all-States average up to the average, together amount to Rs. 1414.15 crores. The same has been taken into account for purposes of reassessment of forecasts. In the case of the States where the emoluments were generally below the all-States average on 1-1-1972, the provision allowed by us naturally exceeds the provisions needed for the commitments already made. In effect, they secure additional resources amounting to Rs. 221.80 crores over the five year period to cope with the demand for the future increase in the emoluments of their employees. In the case of the remaining States, viz., Bihar, Gujarat, Haryana, Jammu & Kashmir, Mysore, Punjab, Tamil Nadu and Uttar Pradesh, the aggregate cost of the revisions carried out by them after 1-1-1972 exceeded the provision arrived at by us on the basis indicated by Rs. 244.99 crores. In their case, the provision for revision of emoluments has, therefore, been limited to the cost arrived at by us. The total provision allowed by us for each State is indicated in Table No. 3 in Appendix X.

17. Some of the State Governments have sought substantial additional allocation in anticipation of revision of pay scales likely to be necessitated by the decisions of the Central Government on the recommendations of the Third Central Pay Commission. These requests have not been taken into account by us.

18. In addition to revision of pay and dearness allowance, some of the State Governments have also either undertaken or have proposed enhancement of house rent and other allowances and certain fringe benefits such as medical aid, increase in pension and gratuity, travelling alowance leave travel concesions, encashment of leave, etc. Table No. 4 in Appendix X indicates the provisions proposed by the various State Governments in this regard. Increase in pension and gratuity, travelling allowance, special pay, etc., are in the nature of normal growth in departmental expenditure and these have been taken care of by the fairly liberal growth rates that we have allowed in the expenditure estimates. No additional provision for these items was, therefore, considered necessary. One of the States has sought substantial provision for grant of encashment benefits of leave to its employees. This concession should not in our judgment entail any appreciable extra expenditure as there would ordinarily be no need to appoint substitutes in leave vacancies when the employees are allowed encashment of leave. It may be added that the Third Pay Commission which considered a similar claim for encashment of leave by employees of Central Government has rejected the same. We do not, therefore, see any justification for the provision sought by the State Government. The claims in respect of other items have been accepted by us after suitable adjustments for errors arising from overestimation of costs by the State Governments concerned. The provisions so allowed by us are indicated in Table No. 3 in Appendix X.

19. The approach that we have adopted in this chapter has the following advantages :

(i) States whose scales of pay were distinctly above the all-State average as on 1-1-1972, would get the benefit of additionan provisions needed to compensate their employees for rise in the cost of living since that date up to 1-5-1973.

(ii) States, which had observed restraint in revisions of pay and allowances and thus conserved their resources for development, would not be penalised for their past prudence.

(iii) Our approach embodies a line of policy in terms of which demands for addtional provision for pay or dearness allowance can be dealt with by the Finance Commissions in future. States will be relived of the compulsion to hustle through pay revisions and present the Finance Commission with fait accompli, if it is brought home to them that their requests for additional allocation of funds for enhancement of pay and allowances would be regulated on a normative basis.