

CHAPTER 6ADDITIONAL DUTIES OF EXCISE

Clause (b) of paragraph 6 of the Presidential Order authorises this Commission to suggest changes, if any, in the principles governing the distribution among the States 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 cotton fabrics, woollen fabrics, rayon or artificial silk fabrics, sugar and tobacco including manufactured tobacco. The proviso to clause (b), however, lays down that the share accruing to each State shall not be in any case less than the revenue realised from the levy of sales tax on these articles for the financial year 1956-57 in that State.

2. The additional duties of excise are levied by the Central Government in pursuance of a unanimous agreement recorded by the National Development Council in December 1956. That agreement was that sales taxes levied in the States on mill-made textiles, tobacco including manufactured tobacco and sugar should be replaced by a surcharge on the Central excise duties on these articles and that the income derived therefrom should be distributed among the States on the basis of consumption. It also provided that the distribution among the States should assure to them the income derived by them at that time from their respective sales taxes. The Council had also agreed that the sharing and distribution among the States should be referred to the Finance Commission. The additional duties of excise have since then been levied and collected by the Centre. The aforesaid arrangement was in the nature of tax rental as noted by the earlier Commissions. Though the States have the constitutional right to levy sales tax on any of these articles, but by virtue of Sections 14 and 15 of the Central Sales Tax Act, which has declared these articles to be goods of special importance in inter-State trade and commerce, the rate of the tax cannot exceed 4 per cent. Further, in the event of a State Government levying a sales tax on any of these items, it forfeits its share of the additional excise duty.

3. The earlier Finance Commissions which recommended the principles for distribution of the net proceeds of additional excise duties among the States found that the most appropriate basis of distribution would be that of consumption of the articles in each State, since such a basis ensured to the States shares more or less equivalent to what they would have obtained if they had continued to levy and collect sales taxes. The Commissions had, however, faced the difficulty arising from lack of reliable statistics of consumption of these articles in each State. Each of them had therefore devised formulae which it considered would most closely approximate to the basic principle.

4. The amounts which each State had derived from sales taxes on the articles in the year 1956-57 have generally been referred to by the earlier Commissions as the guaranteed amount. Such guaranteed amount was first estimated by the Second Commission. The later Commissions accepted the Second Commission's estimations. Except the Sixth Commission the other Commissions had first set apart and distributed the guaranteed amount from the net proceeds of each year covered by their reports. The balance of the net proceeds was then recommended to be shared among the States in accordance with the formulae which, as mentioned above, each Commission evolved.

5. In their memoranda to us, the State Governments have expressed their views not only on the principles for distribution of the net proceeds of the duties but also on the manner in which the scheme of replacement of sales tax by additional duties of excise has been operated by the Central Government. We shall deal with this second aspect later. Only Gujarat,

considering that the net proceeds of the duty likely to be available for the five-year period would be of the order of about Rs. 60 crores for the 21 States, as indicated by the Government of India. We have not taken these amounts into account in the receipts of the States in the period covered by our Report. The share which each State may get in each year would therefore be available for its Plan.

10. We do not deem it necessary to determine now the portion of the net proceeds of estate duty attributable to the Union territories, for the years covered by our Report. This portion, for each year, should be determined in the same manner and on the same principles as for the determination of the shares of each State, taking the Union Territories as one unit for the purpose.

11. Section 52 of the Estate Duty Act gives power to the Central Government to accept from the person accountable for estate duty, in satisfaction of the whole or part of such duty, any property passing on the death of the deceased. We are not aware of any occasion when the whole or part of the estate duty in any particular case has been collected in this manner. But such cases may arise in future. In such cases the amount of the duty involved should be treated as having been collected in cash for the purpose of our recommendation above.

12. The net proceeds of the estate duty in any year are required to be certified by the Comptroller & Auditor General of India under article 279 of the Constitution. We understand that the net proceeds of estate duty for the years after 1971-72 have not been so certified. We cannot but note this with concern. It is expected by all concerned that after the recommendations of a Finance Commission are accepted by the Government of India, the work of the departmental and other authorities would proceed in the normal course of business smoothly in accordance with the law and the Constitution so as to give effect completely and without serious delay to the scheme of transfer of resources to the States. We hope that the difficulties of the Comptroller & Auditor General and the Department in the certification of the net proceeds will be overcome and steps will be taken to ensure that such delays do not occur in future. We do not see why the certification process cannot be completed within a few months after the close of a financial year.

13. We have also noticed that for the years for which the net proceeds have not been certified by the Comptroller & Auditor General, the Central Government is making provisional payments to the States on account of their shares on the basis of the revised estimates of collections of the respective years, distributed in the population ratio of the States. This is being done under Rule 4 of the Estate Duty (Distribution) Rules 1963, made under Section 4 of the Estate Duty (Distribution) Act, 1962, which invokes the use of the population ratio only for duty attributable to property other than immovable property. We suggest that the provisional distribution of the shares of the States, which would be made on the basis of the revised estimates for a year till the certified net proceeds are known, should be done on the same principles as the final distribution. For this purpose, the previous year's shares of the States could be used provisionally.

Maharashtra and U. P. have taken the position that the guaranteed amount should be first set apart. As far as the principles of distribution are concerned, Andhra Pradesh and Assam have suggested no change in the formula of distribution adopted by the Sixth Commission. West Bengal has expressed no view. Bihar has suggested that the entire proceeds should be distributed on the population ratio of the States. Gujarat and U. P. have proposed distribution in the same ratio as that of the guaranteed amount of each State. Haryana has proposed that 10 per cent of the proceeds should be distributed on the population ratio and the balance in the proportion of the sales tax in each State to the total sales tax of all States. Kerala, Maharashtra and Tamil Nadu have proposed the same basis as Haryana, except that they would give no weight to population. Himachal Pradesh, Manipur and Meghalaya have discounted the sales tax collection criterion and have suggested weightages of 70 per cent to population, 20 per cent to backwardness and 10 per cent to production. While Manipur and Meghalaya would apply this formula to the entire net proceeds, Himachal Pradesh has suggested first setting apart 20 per cent of the proceeds for the hill areas which, according to it, consume these articles more than the plains. Nagaland has proposed weightage of 65 per cent to population, 25 per cent to backwardness and 10 per cent to production, while Punjab has suggested, for the same factors, 50 per cent, 40 per cent and 10 per cent respectively. While Punjab and Orissa have both stated that consumption is the best basis of distribution, Orissa has suggested that the entire proceeds should be distributed in the population ratio. Rajasthan follows Orissa but has suggested as an alternative distribution of the net proceeds of the duties from the 3 groups of articles in proportion to the average consumer expenditure on each of them as worked out from the National Sample Survey. Jammu & Kashmir has pointed out that the growth in receipts from the additional excise duties has not kept pace with that in sales tax revenues of the State and has suggested that this imbalance should be corrected and the State adequately compensated in the sharing of the proceeds of the duties. Karnataka has proposed 90 per cent weightage to population and 10 per cent to backwardness measured by the distance of the per capita income from the maximum per capita income of any State. Madhya Pradesh has suggested a slight variation in these percentages, namely, 95 and 5. Tripura has proposed that 50 per cent of the net proceeds should be distributed on the basis of density of population, 25 per cent on backwardness, 15 per cent on the basis of State income and 10 per cent on production.

6. We have at the outset considered the question whether the guaranteed amounts should first be set apart and the balance of the net proceeds of additional duties of excise be distributed according to the formula of such distribution agreed upon by us. If that were done, there is no doubt that some States would receive in the period covered by our Report shares slightly larger than the shares they would receive if the guaranteed amounts were not so set apart. While it is true that under the N.D.C. resolution earlier agreed to, a State is entitled to have a share which should not be less than the guaranteed amount, the agreement does not assure to any State any extra benefit what it would receive were the guaranteed amount first set apart. The agreement when properly read cannot necessarily bear such an interpretation. The principle of distribution which we recommend hereinafter would therefore apply to the entire net proceeds, since the share due to each State will be more than the guaranteed amount.

7. We agree with the earlier Commissions that the appropriate basis for distribution is that of consumption in each State of the articles subject to the additional excise duties. We have examined whether the household consumer expenditure surveys of the National Sample Survey would provide an adequate and reliable measure of the consumption of these articles in each State. At our request that organisation did a special compilation for us from the consumer expenditure survey of 1972-73 (27th Round). The Survey included a large variety of items of household consumption of sugar, tobacco and textiles. The description of these items is different from that of articles subject to additional duties of excise. In consultation

with the Central Board of Excise and Customs, the items covered by the consumer expenditure survey were classified to conform as closely as possible, first, with categories which are totally exempt from additional excise duties, and secondly with those on which these duties are leviable. The rest did not clearly fall in the exempt or dutiable categories. At our request the N.S.S.O. was good enough to tabulate for these categories total as well as per capita consumer expenditure and also the quantities purchased by households for rural and urban areas separately and in each State. The aggregate results are shown in the table below:

	Total	On category (i), i.e. entirely exempt items.	Distribution of expenditure net of Col. 3		
			Excluding category (i) items.	On category (ii) items i.e. those entirely subject to addl. Excise duty.	On category (iii) i.e. all other items, not in (i) or (ii).
1	2	3	4	5(a)	5(b)
Sugar	1074.61 (100)	409.21 (38.08)	665.40 (62.92)	628.49 (59.49)	36.91 (3.43)
Tobacco	543.55 (100)	13.51 (2.49)	530.04 (97.51)	94.02 (17.30)	436.02 (80.21)
Textiles	2269.13 (100)	262.04 (11.55)	2007.09 (88.45)	1351.19 (59.55)	655.90 (28.90)

Note 1: Figures in brackets are percentages.

Note 2: The totals in Col.2 relate only to expenditure incurred in purchase, excluding the value of home grown products.

We consulted the Director of the Central Statistical Organisation in regard to the comparability of that organisation's estimates with the estimates compiled for us by the NSSO. The NSSO's aggregates of household consumer expenditure are lower than the CSO's estimates of private final consumption at current prices, by 47.93 per cent in the case of tobacco, 47.74 per cent in the case of sugar and 19.59 per cent in the case of textiles. We have found it difficult to find adequate explanations for these differences. We have also compared the NSSO estimates with data on production of sugar, tobacco and textiles and found discrepancies which are again difficult to comprehend. The total quantity of sugar purchased in 1972-73 (July - June) according to the NSSO estimate is 29 per cent more than the production of sugar in that year (October- September) as officially estimated by the Department of Food of the Central Government. The NSSO compilation for us shows the total consumption of cigarettes at 15810 million in that year as against the production figure of 61093 million as intimated to us by the Central Board of Excise & Customs. In the case of cloth, the Indian Cotton Mills Federation has estimated the production and availability for home consumption, excluding export and other purposes, at 8500 million metres for 1972 and 8001 million metres for 1973, which includes production in the mill sector as well as the decentralised sector, blended and mixed fabrics and man-made fibre fabrics. The NSSO compilation shows only 5174 million metres as total purchases of textiles which represented about 65 per cent of the availability estimated by the I. C. M. F. Even adding purchases of ready made garments, the total value of household purchases comes to 73 per cent of the availability estimated by the I. C. M. F. These differences between production and household consumption are difficult to explain even if allowances were made for inventory levels, trade flows, non-reporting by producers and

non-household consumption. We have noticed further from the NSSO compilation that while the unit prices paid for sugar do not differ very much as between the States, there are wide variations in the unit prices at which tobacco and textiles were purchased in the different States. This again is difficult to comprehend. We may perhaps note here that the NSSO consumer expenditure surveys, as we have been given to understand, do not fully capture the expenditure of the higher income groups and therefore are not likely to reflect adequately the consumption of varieties of tobacco and textiles which contribute in a large measure to the revenues from additional excise duties.

8. In view of these difficulties we are unable to rely on the NSSO data for our present purpose of directly estimating the consumption in each State of the articles subject to additional excise duties. We must also observe that the NSSO's surveys in any case cover only household expenditure, whereas both in the case of sugar and textiles non-household consumption is also significant and relevant for us. Besides, it appears to us somewhat doubtful to use NSSO data which relates to the year 1972-73 for distribution of additional excise duties for the period which would commence 7 years later. While sugar consumption possibly may not radically change over a few years, being a common item of need, the same cannot be said in regard to all the varieties of tobacco and textiles. In the case of tobacco, roughly 80 per cent of the additional excise duties is derived from cigarettes, the duties thereon being different for different slabs of value of the article. Similarly, the duties on textiles fall differently on diverse classes of textiles. The information furnished to us by the Central Board of Excise and Customs discloses that the contribution of man-made fabrics, which are relatively high priced among the textiles, to the total proceeds of the duties on textiles has been increasing rapidly in the last few years and is now about two-thirds or more.

9. We would like to suggest to the Government of India, in the light of the above, that they should give renewed consideration to the question of collecting suitable statistics for reliable estimates of consumption of these articles in each State for the benefit of the future Finance Commissions.

10. Before we proceed to consider the principles of distribution among the States of the net proceeds of the additional duties of excise, we would like to refer to the case of Sikkim. Sikkim became a State only in 1975 and was therefore not one of the participant States when the scheme of replacement of State sales taxes by additional excise duties was agreed upon in 1956. Additional excise duties are also not leviable in Sikkim. It may not be unreasonable to assume that had Sikkim been a part of the Union when the replacement of sales tax on certain commodities by additional excise duties was agreed upon, it too would have been a party to the overall agreement. The essential pre-requisite is that the State Government should keep in abeyance its right to charge a sales tax in order to qualify for a share in the additional excise duties. We have been informed by the State Government that a sales tax is being charged presently on cotton fabrics, woollen fabrics, and rayon or artificial silk fabrics, but no sales tax is levied on sugar and tobacco including manufactured tobacco. Thus, Sikkim should have a share in the net proceeds of the additional excise duty on the last two items and also on textiles in the event of its withdrawing sales tax on that item. The further consideration is that additional excise duties would in any case be chargeable on these items at the production and clearance stage, when brought into Sikkim from the rest of the country. The consumers in Sikkim would have been charged a price which took into account the additional excise duty already levied and would have borne the same burden in this regard as consumers in the rest of the country. It, therefore, seems equitable to us that Sikkim should have a share in the net proceeds of these duties except, of course, in the case of textiles till such date as the State continues to levy a sales tax on textiles.

11. We have obtained, from the Department of Food of the Government of India, statistics of despatches of sugar to each State and the Union Territories during the last few years ending with 1976-77. The Department has also informed us that we could safely take the despatches of sugar to each State in each year as the measure of consumption. We believe that it would be in order if we were to use despatches as a fair approximation of consumption and to take the average of the despatches to each State in the 3 years ending 1976-77. The share of the Union Territories and of each State in the total of the average despatches in these 3 years to all the States should be taken as the share in the proceeds of the duties. Accordingly, we recommend that 3.271 per cent of the net proceeds of the additional duties of excise on sugar in each of the years from 1979-80 to 1983-84 should be retained by the Central Government as attributable to the Union Territories and the balance should be distributed among the States in the percentages shown below:—

<u>State</u>	<u>Percentage</u>
Andhra Pradesh	5.245
Assam	2.408
Bihar	5.933
Gujarat	8.742
Haryana	2.666
Himachal Pradesh	0.860
Jammu & Kashmir	0.831
Karnataka	4.901
Kerala	3.783
Madhya Pradesh	6.019
Maharashtra	17.082
Manipur	0.143
Meghalaya	0.029
Nagaland	0.115
Orissa	2.178
Punjab	6.220
Rajasthan	4.729
Sikkim	0.057
Tamil Nadu	6.449
Tripura	0.172
Uttar Pradesh	13.184
West Bengal	8.254

12. In the case of textiles and tobacco we have been unable to find a similar method as in the case of sugar for estimating consumption in each State. We are unable to agree with the suggestion of some of the States that the sales tax collections in a State would be a reliable guide for the estimation of the consumption of the articles subject to additional excise. Sales taxes fall on all varieties of articles and exemptions for sales tax are given by different States for different articles. Sales tax revenues seem to depend also on the extent to which the economy of a State is diversified. Besides, actual collections are influenced by the structures of the sales tax systems in and the rates adopted by different States as well as by the vigour or otherwise of the administration from time to time. In our view, therefore, the sales tax collections in the different States would be a doubtful measure of the relativities between them in the matter of consumption of textiles and tobacco. We prefer to go by the generally accepted proposition that the higher the income the higher also the consumption of textiles and tobacco, particularly the varieties which contribute the major part of the revenue from additional excise duties. We believe that the relativities in the consumption of these articles as between the States would be reflected adequately in the product of the

population and the per capita State Domestic Product. We have obtained from the Central Statistical Organisation a comparable series of per capita State Domestic Product at State current prices for each State for the years 1970-71 to 1975-76. The CSO's comparable estimates of the per capita State Domestic Product are given in Annexure VII.3. We have multiplied the average per capita State Domestic Product of each State for the 3 years ending 1975-76 by the population of the State according to the 1971 census, and worked out the percentage shares of this product of each State in the corresponding all-States' total figure. The proceeds attributable to the Union Territories has been worked out in the same manner. We recommended that 2.192 per cent of the net proceeds of the additional duties of excise on textiles and on tobacco in each year from 1979-80 to 1983-84 should be retained by the Central Government as attributable to the Union Territories and the balance be distributed among the States in the percentages shown below:—

<u>TEXTILES</u>		<u>TOBACCO</u>	
<u>State</u>	<u>Percentage</u>	<u>State</u>	<u>Percentage</u>
Andhra Pradesh	8.020	Andhra Pradesh	8.018
Assam	2.298	Assam	2.297
Bihar	7.221	Bihar	7.219
Gujarat	6.015	Gujarat	6.013
Haryana	2.790	Haryana	2.789
Himachal Pradesh	0.734	Himachal Pradesh	0.734
Jammu & Kashmir	0.744	Jammu & Kashmir	0.744
Karnataka	6.083	Karnataka	6.081
Kerala	4.020	Kerala	4.019
Madhya Pradesh	6.422	Madhya Pradesh	6.419
Maharashtra	13.510	Maharashtra	13.506
Manipur	0.185	Manipur	0.185
Meghalaya	0.171	Meghalaya	0.171
Nagaland	0.084	Nagaland	0.084
Orissa	3.457	Orissa	3.456
Punjab	4.270	Punjab	4.268
Rajasthan	4.366	Rajasthan	4.365
Sikkim	-	Sikkim	0.034
Tamil Nadu	7.710	Tamil Nadu	7.707
Tripura	0.257	Tripura	0.256
Uttar Pradesh	12.549	Uttar Pradesh	12.544
West Bengal	9.094	West Bengal	9.091

13. No share has been shown for Sikkim in the case of textiles as that State levies a sales tax thereon. Should the State Government at any time in the period covered by our Report give up its tax on textiles, it would be entitled simultaneously to a proportionate share in the net proceeds of the additional duties of excise thereon. The State-wise percentages shares should in that event be as shown below:—

<u>State</u>	<u>Percentage</u>
Andhra Pradesh	8.018
Assam	2.297
Bihar	7.219

<u>State</u>	<u>Percentage</u>
Gujarat	6.013
Haryana	2.789
Himachal Pradesh	0.734
Jammu & Kashmir	0.744
Karnataka	6.081
Kerala	4.019
Madhya Pradesh	6.419
Maharashtra	13.506
Manipur	0.185
Meghalaya	0.171
Nagaland	0.084
Orissa	3.456
Punjab	4.268
Rajasthan	4.365
Sikkim	0.034
Tamil Nadu	7.707
Tripura	0.256
Uttar Pradesh	12.544
West Bengal	9.091

14. As would be seen from above, we are specifically recommending the shares of the States separately in the net proceeds for additional excise duties on sugar, textiles and on tobacco, and would also expect that when the Additional Duties of Excise (Goods of Special Importance) Act is amended in order to give effect to our recommendations as may be accepted by the President, the shares of the States would be shown separately for each of these articles. We are doing so in order to avoid any doubt as to the entitlement of a State in its share of the proceeds of the duties on the articles other than any of them on which it may levy a sales tax in the period covered by our Report. In the Act as it stands after it was amended in 1974, the provisions of the Second Schedule would seem to mean that if a State were to levy sales tax on any one of these articles it would forfeit its share in the proceeds of the duties on the other articles also. It cannot be that such was the intention of those who evolved the scheme of replacement of sales tax by additional excise duties. We are glad to find from our enquiry from the Union Ministry of Finance that it was never the intention of the Central Government to deprive a State of its share in the proceeds of the duties on all the three articles were it to levy sales tax but not on all of them. We are informed that the intention of the Central Government is that in such a case it would use its power to pay the State its appropriate share by a special order. The communication dated September 20, 1978, which we have received from the Union Ministry of Finance, is reproduced in Appendix III.1.

15. We now turn to the complaints from most of the States about the manner in which the Central Government has implemented the scheme of replacement of sales taxes by additional duties of excise. Strong complaints had been voiced before the Fifth Commission was constituted. That Commission was asked to review the matter. It recommended that unless the Central Government and the States jointly considered the matter afresh and arrived at a fresh agreement, the scheme need not continue. Accordingly, the Central Government in March 1970 arranged to have the matter discussed in the National Development Council. As a result of the deliberations which followed, an agreement was arrived at between the Central Government and the States in December that year, under which the States consented to the continuance of the scheme and the Government of India agreed to the following - first, that specific duties would be converted into ad valorem duties except in regard to unmanufactured tobacco, secondly, that the incidence of additional excise duties

as a percentage of the value of clearance would be raised to 10.8 per cent in a period of 2 or 3 years and, thirdly, that the ratio of 2.1 between the yields of basic and special excise duties on the one hand and the additional excise duties on the other would be achieved and maintained, though no rigidity for this ratio was envisaged. It was also agreed that a standing review committee, on which the Government of India and the State Governments should be represented, would be set up with the Economic Adviser, Planning Commission, as the convenor. The agreed conclusions of December 1970 in the NDC Committee are found in the letter dated February 10, 1971 from the Secretary, Planning Commission to the Union Finance Secretary reproduced in Appendix III.2.

16. The Government of India has replaced specific duties by ad valorem duties progressively, except in the case of unmanufactured tobacco, bidis and man-made fabrics of certain varieties. In regard to the revenue from additional excise duties being brought up to 10.8 per cent of the value of clearances, the Union Finance Minister announced in Parliament in 1972 that this ratio would be achieved by the end of 1973-74 when the Fourth Five-Year Plan was to end. However, we find from the information we have obtained from the Union Ministry of Finance that this ratio has not been achieved. The percentage was 8.66 in 1973-74 and has thereafter come down to the figure of 6.82 estimated for 1977-78. In these two years the corresponding percentages for the basic, special, regulatory and auxiliary duties in force from time to time were 24.35 and 16.13. As regards the ratios between the Union excises and the additional duties, it was 4.14:1 in 1971-72, 2.62:1 in 1976-77 and is estimated to have been 2.37:1 in 1977-78. The following table discloses the picture:

Years	Value of clearances (approx.) (Rs. crores)	Basic including special, regulatory auxiliary duties		Additional duties of excise		Ratio between Col.(2) and Col.(4)
		(Rs. crores)	% to Col. (1)	(Rs. crores)	% to Col. (1)	
(0)	(1)	(2)	(3)	(4)	(5)	(6)
1972-73	1732.83	440.00	25.39	135.62	7.83	3.24 : 1
1973-74	2007.38	488.85	24.35	173.75	8.66	2.81 : 1
1974-75	2409.49	553.65	22.98	187.89	7.80	2.95 : 1
1975-76	3417.77	623.67	18.25	223.43	6.54	2.79 : 1
1976-77	4061.65	673.74	16.59	257.13	6.33	2.62 : 1
1977-78(RE)	4295.67	693.02	16.13	292.76	6.82	2.37 : 1

We have given in Appendices III.3(i) and (ii) the details received from the Ministry of Finance.

17. We cannot but take note of the tardy progress made by the Government of India in implementing the agreement reached between them and the State Governments in 1970. When the Finance Secretary and the Secretary, Economic Affairs, of the Ministry of Finance and the Chairman of the Central Board of Excise and Customs were confronted with this position, it was pointed out by them that fulfilment of both the conditions would have implied a substantial increase in the rates of duty and it may not have been feasible to do so in the then prevailing conditions, particularly during the period of acute inflation. We trust that the Government of India would take urgent steps to implement the agreement fully as it is basic to the scheme for the replacement of sales tax by additional excise duties. In the alternative, if the prevailing state of the economy makes it impracticable to abide by these conditions, then it is only fair that the terms of the agreement should be re-negotiated. Non-fulfilment of the terms of the agreement has led some of the States even to suggest that the total proceeds of Union excise and additional duties should be pooled and notionally divided in keeping with the ratios agreed upon in 1970 for the purpose of determining the shareable proceeds of additional excise duties.

18. Nonetheless we do believe that the discontent evident among the States would not perhaps have grown as it has over the last few years, if the Review Committee mentioned earlier had been regularly convened to provide an opportunity for full and frank discussions between the Central Government and the State Governments. No meeting of the Review Committee has been convened so far, though it was intended that it would meet at least once a year to consider the working of the new arrangement and make such recommendations as may be necessary for its further implementation. We are informed that the Ministry of Finance proposed, for the first time in 1975, that a meeting of the Committee may be convened but the Planning Commission felt otherwise as seen from their communication to us reproduced in Appendix III.4. We urge that regular meetings of the Review Committee should be held.