CHAPTER 4

FINANCING OF RELIEF EXPENDITURE

We now turn to the topic of financing of expenditure for relief of distress caused by natural calamities. Paragraph 9 of the Presidential Order requires us to review the existing policy and arrangements in regard to the financing of relief expenditure and also to suggest such modifications therein as we consider appropriate, having regard, *inter alia*, to the need for avoidance of wasteful expenditure.

2. It is a well accepted proposition that the primary responsibility for relief measures for people affected by natural calamities is that of the State Government concerned. However, it often happens that the seriousness of a calamity calls for relief measures and consequent expenditure which may be of an order beyond the means of a State in a particular year. In such a case, the State Government calls upon the Centre for financial assistance. The Central Government has from time to time laid down its policy for such assistance.

3. Measures for relief of distress on the occurrence of a natural calamity differ in the case of floods, cyclones, earthquakes, and the like from those in the case of serious droughts. In the former case, immediate succour has to be extended to the people affected on a large scale and within a relatively short time. For instance, considerable numbers of people have to be moved to safe place, temporary accommodation for them has to be found, arrangements for their clothing and feeding have to be made, and as soon as they can go back to their homes, they may have to be assisted with small grants to set up their households again. In the process, the State Government has to incur substantial expenditure on transportation, drinking water arrangements, medicines, etc. At the same time, emergency arrangements have to be made for restoring road communications where they are disrupted and embankments and other protective works have to be strengthened. Arrangements also have to be made to help flooded areas drain quickly, etc. Following such an emergency phase, assistance has to be given to the affected people to rehabilitate themselves by repairing or rebuilding their houses and clearing their lands for a new crop, as also for seed and other inputs. Works have to be taken up by the Government Departments concerned for repairing flood-damaged public works and restoring them to the original condition. These could last for some months and even spill into the next financial year. Ordinarily, the situation does not call for the Government providing relief employment to the affected people as a specific measure. The agricultural operations which are taken up again provide employment, as do the normal Plan schemes and the Government works for repairs and restoration of public assets. In the case of droughts, the problems faced by the State Governments and the people are somewhat different. There is usually adequate warning of distress conditions likely to develop, their extent and intensity. Estimates can, therefore, be made and reviewed from time to time as to the number of people likely to be affected, those likely to need gratuitous relief and the measures necessary for providing them relief by way of drinking water, and so on. The requirements of fodder and other steps for movement of useful cattle can similarly be assessed and planned for. Some time is also available for planning relief works. The standing procedures usually require a shelf of schemes to be kept ready in each district after adequate investigation so that they can be taken up when necessary. The Plan works which are distributed generally all over the State also provide employment and these could be specially accelerated in times of such need.

procurement prices and issue prices of foodgrains. We are also aware of the importance to the country of having an adequate buffer stock of foodgrains involving substantial costs. At the same time, we believe it is necessary to restrain and reduce gradually the expenditure on food subsidies. Accordingly we have projected this item of expenditure in such a manner that by 1983-84 the amount of subsidy would be reduced by 25 per cent from the level of 1979-80.

4. We also looked into the returns to the Central budget from the investments of the Government in its industrial and commercial undertakings drawing upon material from the Bureau of Public Enterprises. As on the 1st April 1977 the total investment (equity and loans) in 145 enterprises was Rs. 11,097 crores. Of this total, the paid-up capital was Rs.5,413 crores and the loans and deferred credit Rs.5,684 crores. This excluded investments of Rs.78.18 crores in insurance corporations, Rs.241.29 crores in the National Textile Corporation and Rs.10.79 crores in 3 enterprises registered under Section 25 of the Companies Act, 1956. Undertakings under construction accounted for Rs.532 crores i.e. 4.79 per cent of the total investment. Enterprises producing and selling goods accounted for an investment of Rs. 8,624 crores, and service enterprises for Rs.1,940 crores.

5. The gross profit earned by running concerns in 1976-77 was Rs. 1,054 crores, which was 9.7 per cent on the capital employed. Gross profit is the excess of income over expenditure after providing for depreciation and charges pertaining to previous years but before providing for interest on loans, taxes and appropriations to reserves. Capital employed is the gross block less accumulated depreciation thereon plus working capital. Enterprises producing goods earned gross profits at 9 per cent on the capital employed. The service enterprises gave a return of 10.8 per cent on the capital employed.

6. Of the total investment of Rs.11,097 crores mentioned above, that of the Central Government was Rs. 9,569 crores, including Rs.5,368 crores paid-up capital, and Rs. 4,201 crores by way of loans. The total return to Government on equity and by way of interest on the loans amounted to 4.43 per cent in 1976-77. On equity alone the return as calculated comes to 4.4 per cent. There appears to be an improving trend in the past few years in the performance of the Central public enterprises. It has however to be noted that, as compared to the enterprises of the State Governments, the Centre has few promotional undertakings. The bulk of the investments are in production and service enterprises, which have a large command of the markets, advantages of scale, the scope for attracting management talent, and so on, unlike the enterprises of the States. The Central enterprises also have readier access to finance compared to most of the enterprises of the States.

7. Taking these factors into account we have assumed that in the forecast period the return on equity investment by the Central Government in its enterprises should increase from 4.4 per cent in 1976-77 to 7.5 per cent by 1983-84. The receipts on account of interest on loans advanced to the enterprises have been taken as calculated according to the terms applicable to such loans and included in the forecast of revenue receipts. The return on equity has been calculated on the investments likely to be made by the end of 1978-79, as estimated from the Central budget. We have not taken into account, as in the case of States also, investments likely to be made from 1979-80 onwards.

8. The re-assessment of the forecast of the Central Government which we have made as above has resulted in an overall improvement of Rs.4,626 crores in the five-year period 1979-84 compared to the resource position indicated in the forecast.

4. It is in the light of the experience of relief operations of the nature described that the financing of relief expenditure has to be considered. All the Finance Commissions from the Second onwards have recognised the necessity of providing an amount referred to as the margin for relief expenditure in the expenditure forecasts of each State. When a calamity occurs necessitating expenditure on relief measures, the States have this margin to draw upon immediately. It is easier for them to do so if the unspent amount out of the margin for any year is not merged in the general resources of the State for normal expenditure but is kept invested in easily encashable form. Though very few States follow this practice, it is well understood that they, as well as the Central Government whose assistance is sought by them, should take into account the unspent amounts available in the margin in any year while computing the Central assistance which may be decided upon

5. It has been the practice of the past Commissions to take the average of expenditure booked in the accounts under the head accommodating Relief Expenditure for a few years and adopt the average as the margin for each State. The Second, Fourth and Fifth Commissions took respectively the average of this expenditure for 10 years, 8 years and 9 years, while the Sixth Commission took the average of this expenditure for the period 1956-57 to 1971-72. The actual expenditures which they took into account not only included items of direct relief like gratuitous relief, drinking water arrangements, fodder arrangements, emergent expenditure immediately after a calamity, but also expenditure on relief works. However the margins did not provide for any element of repairs and restoration of public assets which become necessary on a fairly extensive scale following floods, cyclones and the like. This was because the actuals booked under the relief head usually do not include such expenditure. We have considered the matter afresh. Since the expenditure on public works which are damaged by a natural calamity does not create new assets and yet constitutes quite a heavy burden on the finances of the States, we feel that the margin which we propose to allow for each State should include an element on this account. In regard to expenditure on relief employment in drought, however, in the light of the modifications which we propose later in the policy of Central assistance towards relief expenditure, we believe that the relief employment expenditure need not be included in the margin. We have, accordingly, estimated the average annual expenditure for each State for the years from 1969-70 to 1977-78 on direct relief other than relief employment, and on repairs and restoration of public properties damaged by floods, cyclones and earthquakes. We have drawn upon the finance accounts, as well as estimates approved by the Central Government for the purpose of computing Central assistance. We have made an adjustment in the figures for 1977-78 to moderate the effect of the extraordinarily large expenditure necessitated by the unprecedented cyclone in Andhra Pradesh and Tamil Nadu in 1977. Where appropriate, we have also taken into account the commissioning of major projects in recent years which would have the effect of controlling or moderating floods. On the 9-year averages which we have thus derived, we have added an incremental 15 per cent, on the consideration that the averages are somewhat depressed on account of the price levels before they rose steeply in the middle of the period we have taken. The margins thus worked out for each State for each year of the period covered by our Report, and included in the reassessed forecasts of expenditure, are shown below:-

	(Rs. lakhs)
1. Andhra Pradesh	858
2. Assam	346
3. Bihar	1308
4. Gujarat	956
5. Haryana	147
6. Himachal Pradesh	51

		(Rs. lakhs)
7.	Jammu & Kashmir	130
8.	Karnataka	200
9.	Kerala	159
10.	Madhya Pradesh	183
11.	Maharashtra	457
12.	Manipur	8
13.	Meghalaya	7
14.	Nagaland	14
15.	Orissa	871
16.	Punjab	268
17.	Rajasthan	774
18.	Sikkim	1
19.	Tamil Nadu	859
20.	Tripura	18
21.	Uttar Pradesh	1080
22.	West Bengal	1360
	Total:	10055

6. We believe that these margins would enable the States to bear the burden of relief expenditure better than has parhaps been the case so far, even in calamities of more than moderate severity. We may add that the States should invest the unspent balances out of the margin in any year in easily encashable securities so that these can be drawn upon in a year of need and the purpose of providing the margins is fully served.

7. We have already referred to the policy of the Central Government pronounced from time to time for assisting States to meet the burden of relief expenditure on occasions when it is beyond their means to do so. According to the policy decisions following a review in 1953, the Central Government gave 50 per cent of the expenditure of gratuitous relief as a grant and 50 per cent of expenditure on test relief works as a loan besides concessional supplies of foodgrains. In February 1955 the assistance policy was revised. The State Governments could then expect grants to cover half the total expenditure on gratuitous relief upto Rs.2 crores and 3/4ths of the expenditure above that limit. Expenditure on relief works taken up as a preferable alternative to gratuitous relief, and which did not create assets or when the value of assets created was less than the expenditure, was also deemed to be expenditure on gratuitous relief. So too was the expenditure on distress loans given as a substitute for gratuitous relief where subsequent recovery proved impossible. The Centre also agreed to give grants equal to half the expenditure on the repairs of Government roads, bridges,etc. where no new assets were created and half the cost of repairs to administrative and other Government buildings. In the case of roads and buildings of local bodies which did not have sufficient resources, the Centre provided a grant equal to $37\frac{1}{2}$ per cent of the cost of repairs in cases where the States could not assist the local bodies fully. The Centre also provided ways and means loans depending on the financial position of the States. Further, where the States were compelled because of the relief expenditure burdens to divert resources from the implementation of the Plan, the Centre provided development loans. Not only did the Central assistance policy of 1955 thus cover the different components of relief expenditure, but it was also envisaged that the resources for a State's Plan outlay should be kept intact. After the Second Finance Commission recommended, for the first time, a margin for each State towards relief expenditure, the Central Government informed the States that the margin would be set off against the total relief expenditure before Central assistance under

the policy of February 1955 was given. The assistance policy was revised again with effect from 1961-62. This was done to simplify the procedure and also to define clearly the circumstances in which Central assistance would be considered justified. The States were required to inform the Centre when they felt that the expenditure would be in excess of Rs. 1 crore. Thereafter the Centre constituted a Team of officers to undertake an on-the-spot assessment of the impact of the calamity and to consider whether any of the relief measures could be dovetailed within the Plan schemes through minor adjustments in the schemes or in the financial provisions for the Plan. The Central assistance was normally limited to half the expenditure on relief items, including works undertaken as a preferable alternative to gratuitous relief, where new assets were either not created or were of a value less than the expenditure. It was also indicated to the States that in calamities of very considerable magnitude, the Centre would consider additional ad hoc grants.

8. The Fourth Finance Commission suggested that the scheme of Central assistance and its working might be reviewed following representations made to it by the States. The review by the Central Government led to changes in the Central Assistance policy which were communicated to the States in September 1966. These continued to operate till March 1974. Under this scheme the States were to inform the Centre when they felt, on the occurrence of a natural calamity, that the relief expenditure would exceed the margin. While doing so, the States were also required to furnish details of the damage or losses caused by the calamity, the relief programme and expenditure contemplated by the State Government and the extent to which Plan schemes could be taken up in the affected areas to provide employment. The Centre then deputed a Team of officers for an on-the-spot assessment of the situation and an estimation of the expenditure. The Team also assessed the extent to which the expenditure could be met from the Annual Plan provisions, the additional expenditure necessary and fixed ceilings on items of relief expenditure within which the actual expenditure would be shared by the Centre. The shareable items included relief works expenditure. The Central assistance, in accordance with the new policy, was limited to 75 per cent of the actual expenditure in excess of the margin, 2/3rds of which were given as grant and 1/3rd by way of loan. The balance of 25 per cent of the expenditure was to be borne by the State. Expenditure on repairs and restoration of public properties damaged in the calamity and on loans to third parties was not eligible for assistance but the States could obtain ways and means advances depending on their financial position.

9. In 1972-73 this policy underwent a major modification in practice, when the Central Government ceased fixing ceilings of expenditure on relief works, which was by far the largest component of relief expenditure in a drought. The change contributed largely to the enormous increases in relief expenditure in the closing years of the Fourth Plan. As observed by the Sixth Commission, a considerable proportion of the expenditure was probably wasteful. With better planning and organisation the works executed would perhaps have given enduring benefits. The Sixth Commission also observed that the scale of relief works expenditure and of the Central assistance in effect bypassed and eroded the fair and rational transfer of Central resources to the States evolved by the Finance Commission and the Planning Commission from time to time. The Supplementary Report of the Comptroller & Auditor General of India for 1973-74 noted that in most States lists of relief works which could be taken up on short notice had not been prepared even in districts which were drought-prone or had been repeatedly visited by droughts, floods and cyclones in the past. Some works which were selected were such that they could not possibly be completed within the period of relief operations. Works left incomplete from earlier years were not taken up in preference to new works. Many were started without adequate technical preparation such as investigations and approval of estimates.

10. Following the Report of the Sixth Commission, the Central Government gave up its relief assistance policy of 1966 and adopted the procedure recommended by that Commission. Under the new policy, assistance given to a State for relief expenditure is to be adjusted within the ceiling of Central assistance for the State's Plan. The Sixth Commission felt that such a procedure would give the States an incentive for economy in expenditure and for maximising the results from the expenditure actually incurred. The Sixth Commission also envisaged that the schemes for providing relief should be integrated with the overall development Plan of the State. Under the present policy also, when a State reports the occurrence of a calamity and presents its assessment of the impact and the expenditure requirements, a Central Team of officers is deputed to make an on-the-spot assessment. The report of the Team is considered by a high-level Committee headed by a Member of the Planning Commission. The high-level Committee's recommendations as to the amounts and purposes of advance Plan assistance are placed before the Union Finance Minister for approval before the allocations are finalised.

11. In their memoranda to us, the State Governments have expressed their views on the present policy of Central assistance to the States towards relief expenditure. Andhra Pradesh has pointed out that if the advance Plan assistance is given without due regard to the total Plan assistance that the State is entitled to and the impact that any advance assistance would have on the annual Plans of later years when it is adjusted, the implementation of the Plans might well be in serious jeopardy. Assam has referred to the peculiar severity of the calamities caused by floods in the rivers in that State and has suggested that the bulk of the relief expenditure should be covered by Central assistance, though the State Government admits that expenditure on relief could, as far as possible, be utilised for creating assets as is the premise in the present scheme of Central assistance. Bihar has referred to the vast areas in the State susceptible to floods and drought, and has pointed out that the non-Plan expenditure incurred for such calamities since 1974-75 has far exceeded the margin allowed by the Sixth Commission. Since the excess of non-Plan expenditure over the margin is not covered by the Central assistance under the present policy, the State has not been able to find enough resources to repair and restore its assets after they suffered severe damage from floods. The State Government has also observed that the dovetailing of relief expenditure with Plan schemes has, in effect, reduced the real content of the State Plan. It has urged that the expenditure in excess of the margin should be fully provided for by the Central Government in the shape of grants. Gujarat also feels that the present scheme of Central assistance is not suitable for meeting the situation arising from wide-spread droughts to which that State is prone, and which affect not only the State budget but also have a major impact on the economy of the State. It feels that the premise of the last Commission that a massive time-bound development programme can substantially reduce and perhaps eliminate the effects of drought was impractical. The State has also pointed out that when the Annual Plan outlays are predominantly for the capital intensive irrigation and power sectors, there is little flexibility for drawing upon the Plan for providing employment for vast numbers in areas of poor or no rainfall which are affected by droughts. The State has suggested that the relief expenditure should be met by way of grants under article 275, regardless of non-Plan revenue surpluses, if any. The relief expenditure needs should be determined on objective criteria like areas and population prone to droughts, floods etc., the percentage of cropped areas provided with assured irrigation facilities, areas under forests, and such other considerations. Five-year ceilings of assistance may be fixed by the Central Government after assessment by Central Teams. Haryana has also suggested that the assistance for relief expenditure should be provided as grants by the Centre irrespective of any non-Plan revenue surplus, and has commented that the present policy of advance Plan assistance is not of any real help to the State. Himachal Pradesh has observed that the State Government has little room

to adjust any substantial relief expenditure within the size of its Plans or total budget. Jammu & Kashmir has made the same point and has asked for revival of the Central assistance policy of 1966 even in a limited way. Karnataka considers it illogical to link relief expenditure with assistance for the State Plan. It has pointed out that very large areas in the State are drought-prone, and in practice it is not possible for Plan outlays to absorb the burdens of providing relief employment. Kerala has referred to the cyclonic disasters in the Southern States in 1977 and has pointed out that the scheme of the Central Government sharing relief expenditure through advance Plan assistance is totally inadequate for such calamities. It has suggested a national relief fund to which the States as well as the Centre should contribute equally, and an autonomous national relief body with representation from the States to administer the fund. Madhya Pradesh has observed that the present Central policy is unsatisfactory, and that diverting the outlays in a current annual Plan from areas not affected by drought was not practical. It has also observed that adjustments of the advance Plan assistance in subsequent years would seriously affect the Plan outlays in those years. The State Government has suggested that the Centre should set up a relief assistance fund out of its own resources, and in addition one per cent each from income tax, corporation tax and Union excise duties from the divisible pool may be credited into the fund. It has also suggested that the Central Teams should include representatives of at least two of the States. Maharashtra feels that the present Central assistance policy is unworkable and has suggested the revival of the 1966 scheme with additional safeguards, if necessary. Orissa has made suggestions more or less on the same lines, requesting also that the entire relief expenditure in excess of the available margin should be covered by Central grants in the case of the deficit States. Punjab has pointed out that the present policy of Central assistance, which is intended to curb undue expenditure on relief works, is not apt for natural calamities like cyclones, hail-storms etc. where the bulk of the expenditure is non-Plan and on items other than works. In its view, the present policy has resulted in upsetting the State budgets and affecting the Plans adversely. It feels that the 1966 policy was more equitable and realistic, and that the Centre should provide outright grants for relief expenditure, irrespective of non-Plan revenue surpluses, if any. Rajasthan has also stressed the limitations of the present assistance policy of the Centre and has suggested that a national fund may be set up, fed by contributions by the Centre as well as the States. The assistance to be given from the fund, entirely by way of a grant, should be determined after an assessment by a Central Team. If no such fund is set up, the Finance Commission should provide for an amount to each State for transfer to a famine relief fund every year, and relief expenditure in excess of such annual transfers should be covered by the Centre by way of grants subject to ceilings set by Central Teams. Tamil Nadu has found the present scheme of assistance unrealistic and inequitable. It has suggested that the relief expenditure requirements assessed by the Central Teams may be provided by the Centre on the same basis as Plan assistance, but to be adjusted against the Plan assistance, so that the development efforts of the States are not jeopardised only for the reason of the occurrence of a natural calamity. Uttar Pradesh has suggested that the assistance given by the Centre should not be treated as advance Plan assistance to be adjusted against the State's entitlement of assistance for the State Plan, but should be wholly by way of grant except for amounts re-lent by the State. West Bengal has also urged that additional outlays on relief expenditure over the margins should be fully met by the Centre and no part of the assistance should be adjusted against the State's entitlement of Central assistance for its Plan.

12. We have obtained from the States their figures of Plan and non-Plan expenditure incurred by them in each year from 1974-75 on relief measures following droughts, floods and cyclones. Appendix II.1 shows the figures reported by the States, which may be taken as indicative of the orders of magnitude of expenditure on the Plan and non-Plan

side. We have also obtained from the Union Ministry of Finance the amounts of advance Plan assistance given by the Central Government to each State from 1974-75 to 1977-78 for specified purposes, and the expenditure reported by the States for those items. Appendix II.2 shows the figures. The advance Plan assistance for the four years, amounting to Rs.307 crores, was less than 50 per cent of the total expenditure of Rs.680 crores intimated to us by the States. These figures certainly support the view of the Union Finance Ministry that the present policy of Central assistance has led to restraint in relief expenditure and also to minimising the burden on the Central budget. On the other hand, it does seem that the non-Plan expenditure on relief account has been substantial in many States, and this could have been met only by economies in maintenance expenditure and in Plan expenditure as well as through budgetary deficits, which we consider undesirable. We note here that on such occasions the State economy often suffers a setback, and the State budget some loss of normal revenue. It is also worth noting that the Central Government, as we were informed by the Union Ministry of Finance in our discussion with them, have in recent years included repairs and restoration expenditure in the items eligible for advance Plan assistance though it does not create any new assets. To our mind this is a recognition of the fact that the present policy does not quite meet the needs of a situation created by serious floods or cyclones. We also note that, of the total expenditure covered by advance Plan assistance, over 90 per cent was on reconstruction and replacement of roads, buildings, flood control and irrigation works and other public assets, in 1975-76; while the same items accounted for over 33 per cent in 1976-77 and about 55 per cent in 1977-78.

13. Our scheme of transfer of resources from the Centre to the States is intended to place the latter in such a position that they can maintain financial equilibrium in the years covered by our Report. We have considered the present Central scheme of assistance towards relief expenditure from the point of view of how it is likely to affect the finances of the States when they are visited by serious natural calamities. We have already noted the possible undesirable effects of dislocation in the finances of a State on this account. We have also, on the other hand, kept in mind the necessity of minimising any tendency for wasteful expenditure on the part of the States. From this point of view, we feel that the States should bear a significant share of the total relief expenditure burden. Thirdly, it seems clear to us that the burden of non-Plan expenditure, which does not create any new assets, following serious damage caused to public assets by floods, cyclones and the like, cannot be properly or adequately taken care of in the present scheme of Central assistance. A clear indication of this is the inclusion in recent years, already referred to, of expenditure of non-Plan nature in items taken into account for advance Plan assistance which, by definition, should be available only for expenditure which creates new assets. A fourth aspect we have borne in mind is the fact that the Central Government has not found it possible to adjust advance Plan assistance given after 1976-77 against Plan ceilings of the States concerned. This leads one to the inference that this adjustment is not a matter of mere arithmetic, but there are real limitations in the scope for such adjustment when the amount of the advance assistance is too large, in relation to the minimum Plan outlays for the years following a calamity, and in relation to the total entitlement of a State to Central assistance for its Plan. We feel therefore that it would be appropriate and necessary to introduce modifications in the present arrangements. It would also be useful, while doing so, to distinguish between relief expenditure necessitated by droughts on the one hand, and floods, cyclones, earthquakes and the like on the other.

14. In our view the present scheme of Central assistance to States for relief expenditure could be continued but in a somewhat modified form. For expenditure in excess of the margin we have provided, in any year, as estimated by the Central Team,

the State Government should make a contribution from its Plan for providing relief employment mostly to mitigate the effects of drought. We would expect that such relief works would be specially selected in order to improve the capability of the affected area and the people to withstand drought conditions better in future. The extent to which the State Government should contribute from its Plan in this manner should be assessed by the Central Teams and approved by the high-level Committee headed by the Member of the Planning Commission mentioned earlier, but the contribution should not exceed about 5 per cent of the Annual Plan outlay. The Plan outlay thus to be taken as a contribution from the State Government should be treated as an addition to the Plan outlay in that year and covered by advance Plan assistance as in the present scheme. The adjustment of the advance Plan assistance against the ceiling of the Central assistance for the Plan of the State should be effected within five years following the end of the drought. We have suggested that the State Plan contribution should not exceed 5 per cent of the Annual Plan, after taking into account broadly the sizes of the Plan outlays and the amounts of the Central assistance for the Plan in the current year, and keeping in mind the relative inflexibility in the outlays for irrigation and power, industry and mining, road transport, land reforms, investments in agricultural financing institutions, and the like. We would, of course, expect that the Central Teams and the high-level Committee would take into account the provisions not only in the State Plans, but also in the Central or Centrally-sponsored sector, for schemes which have a high employment content. In this connection, we understand that in the new five-year Plan, the outlays for drought-prone area programmes and other area development programmes, as well as for minimum needs like roads, drinking water, etc. are likely to be very substantial and can be drawn upon for relief employment purposes. We hope that the Planning Commission and the State Governments would also give importance in the Plans to the completion of works taken up for providing relief, after the calamity is past. If the expenditure requirement, as assessed by the Central Teams and the high-level Committee cannot be adequately met in a particular case even after the State Plan contribution is taken into account, the extra expenditure should, in our view, be taken as an indication of the especial severity of the calamity which would justify the Central Government assisting the State to the full extent of the extra expenditure. This assistance should be made available half as grant and half as loan. We feel that the loan burden which a State would take on in such circumstances would act as a factor to discourage extravagance.

15. In regard to expenditure on relief and on repairs and restoration of public works following floods, cyclones and other calamities of this nature, we feel that the Central assistance should be made available as a non-Plan grant, not adjustable against the Plan of a State or against the Central assistance for the Plan, to the extent of 75 per cent of the total expenditure in excess of the margin. The remaining 25 per cent should be borne by the State, which would discourage wasteful expenditure.

Where a calamity is of rare severity, it may be necessary for the Central Government to extend assistance to the State concerned even beyond the schemes we have suggested.

16. We would like to reiterate that the Central Teams should do their assessments with great care, particularly in the interest of the States themselves. A relaxed view of the expenditure needs would possibly leave room for expenditure of doubtful value, and needlessly add to the burden of the States who, in the schemes of relief we have suggested above, would have to bear a sizeable part of the expenditure. It is necessary, in our view, that the Central Teams and the high-level Committee should fix the ceilings on all items of expenditure. Incidentally, it would follow from the above that the teams would have to make estimates of both non-Plan and Plan expenditure.

17. We have mentioned earlier that we would expect the States to invest unutilised balances out of the margin in any year in easily encashable securities, to be drawn upon as need arises. The Central Teams should take into account the availability of accumulated balances of such funds while they make their assessments.

18. We believe that with the modifications in the policy of Central assistance for relief expenditure, which we have suggested above, such of the grievances of the States as have substance would be largely removed.

CHAPTER 5

ESTATE DUTY IN RESPECT OF PROPERTY OTHER THAN AGRICULTURAL LAND

In paragraph 6(a) of the Presidential Order we have been asked to suggest changes, if any, to be made in the principles governing the distribution among the States of the net proceeds in any financial year of estate duty on property other than agricultural land. This is one of the taxes and duties which, under Article 269 of the Constitution, are levied and collected by the Government of India. The Article provides that the net proceeds shall be assigned to the States within which the duty is leviable in a year, and distributed among them in accordance with such principles as may be formulated by Parliament by law.

2. The duty is levied under the Estate Duty Act, 1953. The Second Finance Commission examined for the first time the principles which should govern the distribution of the net proceeds of the duty among the States. That Commission held that the most appropriate principle of distribution would be the location of the property assessed to duty. That Commission also observed that it would not be possible to apply the principle of location in the case of duty attributable to movable property, in respect of which, therefore, that Commission considered some general principle, such as population, inescapable. The latter Finance Commissions generally endorsed the principles recommended by the Second Finance Commission. Each of the Commissions had also specified the percentage of the net proceeds of the estate duty in a financial year to be retained by the Central Government as being the proceeds attributable to the Union Territories.

3. The existing principles laid down by the Sixth Commission are:

(i) Out of the net proceeds of the estate duty during each financial year, a sum equal to 2.5 per cent thereof be retained by the Union as being the proceeds attributable to Union Territories;

(ii) The balance of net proceeds be distributed among the States in accordance with the following principles:

(a) Such balance be first apportioned between immovable property and other property in the ratio of the gross value of all such properties brought into assessment in that year;

(b) The sum thus apportioned to immovable property be distributed among the States in proportion to the gross value of the immovable property located in each State and brought into assessment in that year; and

(c) The sum apportioned to property other than immovable property be distributed among the States in proportion to the population of each State.

4. In their memoranda to us, most of the States have suggested continuance of the existing principles of distribution. Himachal Pradesh has added that the share attributable to the Union territories should be reduced to 1.5 per cent. Jammu & Kashmir has proposed that the principles of distribution should take into account backwardness and genuine needs of the States. Madhya Pradesh, while suggesting the continuance of the existing principles, has observed that receipts attributable to Union territories need not be a pre-determined

fixed percentage but should be worked out for each year on the same basis as in the case of the States taking all the Union territories as one unit. Maharashtra has suggested the modification in the existing principles that the proceeds apportioned to property other than immovable property should be distributed on the basis of collections in a State, as being the nearest approximation to the proceeds attributable to such property. Tripura and West Bengal have expressed no view , nor has Sikkim, where the duty is not leviable.

5. We are in agreement with the views of the earlier Commissions that in the distribution of the proceeds of estate duty, which is one of the taxes and duties leviable under Article 269, each State should get, as near as may be, a share equivalent to what it would have obtained if it had the power to levy and collect the duty. It would also be incorrect, in our view, to determine the shares of the States in proportion to the collections of the duty in each State, since collections may take place in a State on account of duty assessed on properties situated in other States.

6. We had a discussion with the Union Ministry of Finance and the Central Board of Direct Taxes to elicit their views in regard to the difficulties, if any, which they had in the compilation of statistics of location of properties brought to assessment. We were informed that the Statewise statistics furnished to us by the Central Board of Direct Taxes in regard to the value of property brought to assessment, the demands raised, etc., did not represent location of the assessed property but only the States in which the assessments had been made. We were also informed that the system of compilation of statistics could be re-organised so as to determine the values of the properties assessed to duty each year by their location in different States, but that this would involve additional costs and some administrative difficulties. While we recognise that the Department may have problems to solve in this regard, we cannot agree that these difficulties should be allowed to frustrate the principle that the States should get in respect of a tax or duty under article 269 what they would have obtained if they had the power to levy and collect it themselves. This can best be ensured if Statewise location of the property subjected to tax or duty is taken into account.

7. We have examined also the question whether it would be possible to determine the location of properties other than immovable property subjected to estate duty. We find that the rules framed under the Estate Duty Act lay down the manner in which properties other than immovable property, which are held abroad, should be treated for the purpose of determining location. These are principles which are well established, and can equally be applied for the determination of the location of such properties in India.

8. We accordingly recommend that the net proceeds of estate duty in respect of property other than agricultural land brought to assessment in each of the years from 1979-80 to 1983-84, should be distributed among the States in proportion to the gross value of the immovable property as also property other than immovable property taken together located in each State, excepting in regard to property located abroad. We have noticed, in the statistics furnished by the Central Board of Direct Taxes, that there is a small element of duty collected in respect of property held abroad. We recommend that this element of the net proceeds of the duty in any year should be included in the share of the States where the relevant assessment was done. Sikkim will also be entitled to a share in the net proceeds of this duty, determined in accordance with these recommendations, if and when the duty becomes leviable in that State in the period covered by our report.

9. We have every reason to think that the Government of India will issue instructions to the authorities concerned to ensure that statistics are compiled to enable the share of each State being computed in accordance with our recommendations. Obviously, it is not possible for us to estimate what the share of each State would be in each year, for computing its revenue receipts on this account. The amounts involved are not likely to be substantial,