CHAPTER 12

GENERAL OBSERVATIONS

During our discussions with the State Governments, other non-official bodies and academics interested in the work of the Finance Commission, a view was expressed in emphatic terms that the Finance Commission, to fulfil its role effectively as contemplated by the Constitution, should be a permanent body instead of one constituted once in five years. This view was sought to be fortified by more than one consideration. Some thought that a permanent Finance Commission would reduce the scope for the Central Government to make discretionary transfers in an ad hoc manner to the States. It was pointed out that with the diversities which have emerged in the political complexion of the Governments at the Centre and in the States, it would be in consonence with sound and smooth Centre-State fiscal relations if there was a permanent Finance Commission to advise continuously on fiscal transfers, taking note of developments in the finances of the States from time to time. It was urged that this was not possible if the Finance Commissions were appointed once in about five years. In consequence of the Finance Commission coming into existence at intervals of five years the scope for making discretionary grants by the Centre automatically grew. It was suggested that if the Central Government had a large scope for discretionary fiscal transfers, there was scope for some States being favoured unduly, and their improvidence or lack of effort in the matter of good fiscal management condoned or even rewarded. Those who held such a view believed that the Finance Commission, being an impartial body, would be able to ensure that Central transfers were not made to particular States on considerations which may not be fair or acceptable to the rest of the States.

2. Another consideration put forward was that when a Finance Commission is appointed, it has to start on a clean slate, collect the material required for its work from the State Governments and the Central Government, and then initiate such studies and analyses as it requires. The feeling is that within the time available to a Commission it is often handicapped in its work. It has been urged that if the Finance Commission were permanent, like the Australian Grants Commission, its task would be easier, since it would be able to keep under continuous review various aspects of the finances of the Central and State Governments, special features of particular States, and the factors which affect their finances. An alternative suggestion in this context has also been made that there should be a permanent agency with functions similar to those of the Commission's Secretariat, which would act as the Secretariat for a new Commission as and when that is constituted. Similar suggestions have also been made by the Commissions in the past.

3. One of the most important advantages of the present system, under which the entire Finance Commission is constituted afresh, is that all the Members can be expected to function impartially. One might doubt whether it would be possible to preserve this cardinal feature if the Commission were a permanent body. If it were, there might well be a tendency for Members to be regarded as full-time employees of the Central Government, and this would be unhealthy from the point of view of the Commission's functions vis-a-vis the State Governments. Besides, we see advantage also in the present system which allows for the induction of persons with a fresh approach and unbiased minds as Members. We would not, therefore, favour the idea that the Finance Commission needs to be permanent. In regard to the discretionary transfers of fiscal resources by the Central Government to the States, we cannot conceive of a system which can altogether eliminate such transfers in the widely varying conditions and circumstances in which the State Governments may find themselves from time to time. The scope for

38. The estimated relief of Rs. 2155.80 crores in the States' loan repayment liability to the Centre during the five years 1979-84, in accordance with the above recommendations, will convert the non-Plan capital gaps of Nagaland and Tripura assessed by us for that period into surpluses amounting to Rs. 4.96 crores taking both the States together. The other 20 States will have their non-Plan capital gap for the five years 1979-84, as assessed by us, reduced to a total of Rs. 1361.34 crores, which is about 39.03 per cent of the assessed gap in relation to those States.

39. This position cannot be compared to the relief given by the Sixth Commission in regard to the non-Plan capital gaps of the States for the quinquennium 1974-79. As mentioned earlier, unlike that Commission, in our computation of the non-Plan capital gap, we have left out net accretions to provident funds and civil deposits, and have also provided for repayments of loans fully, including repayments of small savings loans to the Centre. Since we have recommended coversion of small savings loans into loans in perpetuity, the States' efforts at small savings collections should receive a great fillip and augment their capital receipts.

40. Our recommendations in relation to loan repayments to the Centre as well as the rates of interest to be charged on the 30-year and 15-year loans into which the loans outstanding at the end of 1978-79 would be converted, would also increase the interest liability in the case of 10 States by an amount of Rs. 158.52 crores in all, but will reduce the liability of the remaining 12 States, by a total of Rs. 172.19 crores during the five years 1979-84. These modifications in the States' liability towards payment of interest to the Centre, during the five years 1979-84, have been taken into account in our assessment of their surplus or gap on non-Plan revenue account. We have ignored, in these calculations, the changes in the amounts to be consolidated into 30-year and 15-year loans consequent on the treatment we have proposed for the rehabilitation loans.

41. Finally we would urge, as the Sixth Finance Commission did, that our recommendations for debt relief should be viewed in their totality and accepted as a 'package' both by the Government of India and the State Governments. Simultaneously we strongly recommend that while making financial assistance available to the States from 1979-80, whether for Plan or for non-Plan purposes, the Government of India and the Planning Commission should determine the loan and grant components thereof with due regard to the end-use to which the assistance is likely to be put by each State, and that, having so determined the loans component, the terms of repayment thereof should be prescribed consistently with the terms that we have recommended in relation to the loans that would be outstanding against the States at the end of 1978-79.

discretionary transfers, however, could be minimised if the States, particularly those who are financially weaker, are left by the Commissions in a position where they do not have to look to the Centre for help even in trifling matters.

4. The position which prevails now is that once a Commission completes its work, a small and ineffective cell comes into being in the Union Ministry of Finance, and this cell is merged in the Secretariat of the next Commission. This arrangement, in our view, is inadequate, we do, however, feel that it will be extremely useful to future Finance Commissions and greatly facilitate their work, if an expert non-political agency were to be established by the Central Government and were to perform such functions as the Secretariat of the Commission is expected to perform. In addition, it would be expected to play a watching and advisory role with regard to Centre-State financial relations generally. As and when a full-fledged Finance Commission is appointed, this agency could get merged into the Commission and its Secretariat. It should have the authority to call for whatever information may be required from the Central and State Governments and their institutions and should analyse and prepare the data based upon which a Finance Commission when appointed can act without further loss of time. It should carefully oversee the implementation of the recommendations of a Finance Commission as accepted by the Central Government and its advice should be sought by the various Ministries of the Central Government on matters which may require follow-up action. Thus, in our report, there are some items where an element of discretion is involved in the release of further funds e.g. additional grants to certain State Governments on account of interest liabilities on fresh loans which will be taken during the period covered by our report, monitoring of expenditure incurred for upgradation of the administrative services and releases of additional funds, grants for compensating the loss of excise revenue with the progressive introduction of prohibition. In our report, we have assumed certain returns from Electricity Boards and public sector undertakings etc. both under the Central Government and the State Governments. Similarly, we have drawn attention to the losses being incurred in irrigation projects, whether major, medium or small and have suggested not only a reduction in the loss but also a nominal return on the invested capital. It may be useful to see how far these expectations are being achieved and where we have suggested a progressive improvement over the years, this agency could draw attention to any deviations that are occuring and, perhaps, may suggest remedial measures. It is not unlikely that future Commissions, too, would be leaving similar matters in a somewhat inchoate stage, which would, therefore, call for further follow-up action preferably by an agency which inspires confidence on the part of all concerned. This agency could thus be an expert body which would be concerned with Centre-State financial relations generally and the proper implementation of the accepted recommendations of the Finance Commission. Whether it should be located in the Finance Ministry or in the Planning Commission, or preferably perhaps as an independent unit, is a matter of detail which can be considered later, taking into account the necessity of making it active and effective.

5. It has been brought to our notice that there has not been much of competent research work in the field of public finance for quite some years now. In our view, it would be very fruitful if academic and professional interest in this are is stimulated. We understand that one of the reasons for the present situation is that it is very difficult for interested persons to get access to the necessary material, concerning not only the Central Government but all the States. Senior officials of many State Governments have also indicated that it would be worthwhile if some at least of the papers of the Finance Commission are published. We have no doubt that a beginning can be made in this area. We would therefore suggest that the Central Government should publish, as early as possible with the consent of the State Governments concerned, the memoranda furnished to us by the

State Governments containing their views on matters covered by our terms of reference. The Central Government should also publish after consulting the State Governments information furnished to us by them on:

(i) taxation rates and tariffs,
(ii) additional resource mobilisation,
(iii) revenue and expenditure of local bodies,
(iv) economy measures and administrative reorganisation,
(v) standards of administration,
(vi) agrarian reforms,
(vii) working of State Electricity Boards, State Road Transport Undertakings and other commercial and industrial undertakings, and
(viii) emoluments of employees of State Governments.

Similarly the Central Government should publish the analysis done for us by the National Institute of Public Finance and Policy, New Delhi.

7. The Central Government should also consider allowing access to the records of the Finance Commissions, other than those which are classified as confidential or secret, to *bona fide* research workers.

CHAPTER 13

SUMMARY OF RECOMMENDATIONS

Our recommendations to the President in regard to the devolution of taxes and grants-in-aid of the revenues of the States are set out below:

I. Estate Duty

(1) The net proceeds of Estate Duty in respect of property other than agricultural land attributable to Union territories in each of the years 1979-80 to 1983-84 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.

(2) The balance of the net proceeds of Estate duty in each year should be distributed among the States in proportion to the gross value of the immovable property and property other than immovable property taken together located in each State and brought into assessment. For this purpose property located abroad should be deemed to be located in the State where it is brought to assessment.

(3) Sikkim will also be entitled to a share in the net proceeds of this duty, calculated in the same manner as for the other States, as from the date the duty may become leviable in that State in the period covered by our Report.

II. Additional Duties of Excise in lieu of sales tax.

(1) There is no need to set apart any guaranteed amounts to the States out of the net proceeds of additional duties of excise as in our view there is no risk of the share of any States falling short of the revenue realised in the financial year 1956-57 in a State from the levy of the sales tax on the commodities subject to additional duties of excise in lieu of sales tax.

(2) Sikkim should have a share in the net proceeds of these duties except the duties on textiles on which the State levies sales tax;

(3) A sum equal to 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 of 96.729 per cent of the net proceeds should be distributed among the States in the percentages shown below:

States	Percentages
1. Andhra Pradesh	5.245
2. Assam	2.408
3. Bihar	5.933
4. Gujarat	8.742
5. Haryana	2.656
6. Himachal Pradesh	0.860
7. Jammu & Kashmir	0.831
8. Karnataka	4.901
9. Kerala	3.783
10. Madhya Pradesh	6.019
11. Maharashtra	17.082

States	Percentages
12. Manipur	0.143
13. Meghalaya	0.029
14. Nagaland	0.115
15. Orissa	2.178
16. Punjab	6.220
17. Rajasthan	4.729
18. Sikkim	0.057
19. Tamil Nadu	6.449
20. Tripura	0.172
21. Uttar Pradesh	13.184
22. West Bengal	8.254

(4) A sum equal to 2.192 per cent of the net proceeds of additional duties of excise on textiles and on tobacco in each of the years from 1979-80 to 1983-84 be retained by the Central Government as attributable to the Union territories.

(5) The balance of 97.808 per cent of such net proceeds of the additional duties of excise on textiles and tobacco be distributed among the States in the percentages shown below:

States	Textiles	Tobacco
1. Andhra Pradesh	8.020	8.018
2. Assam	2.298	2.297
3. Bihar	7.221	7.219
4. Gujarat	6.015	6.013
5. Haryana	2.790	2.789
6. Himachal Pradesh	0.734	0.734
7. Jammu & Kashmir	0.744	0.744
8. Karnataka	6.083	6.081
9. Kerala	4.020	4.019
10. Madhya Pradesh	6.422	6.419
11. Maharashtra	13.510	13.506
12. Manipur	0.185	0.185
13. Meghalaya	0.171	0.171
14. Negaland	0.084	0.084
15. Orissa	3.457	3.456
16. Punjab	4.270	4.268
17. Rajasthan	4.366	4.365
18. Sikkim	-	0.034
19. Tamil Nadu	7.710	7.707
20. Tripura	0.257	0.256
21. Uttar Pradesh	12.549	12.544
22. West Bengal	9.094	9.091

(6) In any year in which the State Government of Sikkim gives up its sales tax on textiles, it would be entitled to a share,, as from the date such sales tax is given up, in the net proceeds of the additional duties of excise thereon. The State-wise