CHAPTER XVI

GENERAL OBSERVATIONS

16.1 In this chapter we will call attention to some of the difficulties we encountered, and make suggestions as to the ways in which these can be avoided.

16.2 Article 280(1) of the Constitution requires that a Finance Commission be constituted at the expiration of every fifth year or at such earlier time as the President considers necessary. The following table indicates the periods covered by each of the Finance Commissions set up so far, together with the corresponding period covered by the Five Year Plans:—

Finance Commission	Period covered	Five Year Plan	Period covered
First	1952-57	First	1951-56
Second	1957-62	Second	1956-61
Third	1962-66	Third	1961-66
Fourth	1966-69	Three Annual Plans	1966-69
Fifth	1969-74	Fourth	1969-74
Sixth	1974-79	Fifth	1974-79
Seventh	1979-84	Annual Plan	1979-80
		Sixth	1980-85
Eighth	1984-89	Seventh	1985-90

The recommendations of a Finance Commission have an important bearing on the resources position for the Five Year Plan. It was in recognition of this fact that the Third Finance Commission was asked to give its recommendations for a 4-year period to cover the remaining period of the Third Year Plan. The Fourth Finance Commission was asked to report for the 5-year period 1966-71 but its recommendations were terminated after three years when it was decided to treat 1966-69 as a period of three Annual Plans and take up the Fourth Plan covering the period 1969-74. The period covered by the recommendations of the Fifth and Sixth Finance Commissions coincided with the Fourth and Fifth Plans respectively.

16.3 The Seventh Finance Commission made recommendations for the period 1979-84. While it was still in the course of its proceedings, the Fifth Plan was terminated in 1977-78 and the concept of a Rolling Plan was adopted. This disrupted the synchronization between the period for which the Finance Commission was to make its recommendations and the Five Year Plans. With the subsequent decision to treat 1979-80 as an annual Plan period and to reformulate the Sixth Plan for the period 1980-85, the synchronization of the recommendations of the Seventh Finance Commission with the Five Year Plan was still not restored. This has had its inevitable effect on our work and has given rise to several problems.

16.4 The non-synchronization referred to above has now been continued for another plan period because our terms of reference require us to make recommendations for the five-year period 1984-89, which overlaps the last year of the Sixth Plan and the first four years of the Seventh Plan. Some of the difficulties we had to face stem from the fact that our recommendations will relate to parts of two Plan periods. For example, in making our recommendations, we are required under paragraph 5 of the President's Order to take 1983-84 as the base year even though it is not the last year of the Sixth Plan and then:

(a) to assess the revenue resources of various States for the five years ending with the financial year 1988-89 on the basis of the levels of taxation likely to be reached at the end of the financial year 1983-84 and the targets set for additional resource mobilisation for the Plan;

(b) to provide for adequate maintenance and upkeep of capital assets and maintenance of Plan schemes completed by the end of 1983-84; and

(c) to make an assessment of the non-Plan capital gap of the States on a uniform and comparable basis for the five years ending with 1988-89.

All these matters raised difficult issues for which no simple solutions could be found.

15.84 The Ministry of Information & Broadcasting has stated to us that a tax on advertisements published in newspapers could be levied without directly affecting the economies of newspapers, if it were stipulated that the advertisers would be responsible for paying the tax, and the newspapers or periodicals publishing the advertisements would not have to share any part of the tax. It has, however, suggested that suitable exemptions should be considered, for instance, in favour of small and medium newspapers, advertisements by individuals and those in the classified columns.

15.85 The Ministry of Finance has estimated that the revenue from advertisements to newspapers and periodicals might be of the order of Rs.400 to 500 crores per annum. This, in its view, offers good scope for raising sizeable revenues by a tax on advertisements. Moreover, the Ministry does not envisage any administrative problems and difficulties in the levy and collection of such a tax, unlike a sales tax on newspapers and periodicals. It has, however, pointed out that the companies which advertise in newspapers and periodicals would claim a deduction in respect of the tax paid by them, and, hence, the receipts from corporation tax would go down to that extent. This however, in its opinion, need not inhibit imposition of such a tax.

15.86 Of the fourteen States which, in their memoranda to us, have given their views on this tax, twelve are in favour of such a levy with suitable exemptions to small newspapers.

15.87 We agree that such a levy does have potential for exploitation. We are, however, of the opinion that a tax on advertisements, if levied, should be borne by the advertisers themselves and not passed on to the newspapers and journals. We hope that suitable steps would be taken to ensure this. Suitable exemption could also be considered for advertisements inserted in small newspapers and periodicals. We, therefore, consider that there is scope for raising revenue from such a levy. We, however, leave it to the Government of India to work out the extent and modalities of such a levy as we do not possess sufficient data or information to make specific recommendations on this issue.

15.88 To sum up, after a detailed consideration of all the taxes and duties mentioned in Article 269 of the Constitution, but not levied at present, we have come to the conclusion that: —

(a) There is scope for levying tax on railway passenger fares, but, no such tax should be levied so long as the present arrangement by which the Centre gives grants to the States in lieu of such a tax continues to exist; and

(b) there is scope for raising revenues by levying a tax on advertisements published in newspapers and journals.

16.5 The end of a Plan is a convenient cut-off point for assessing the resources and requirements of both the Centre and the States. When the Sixth Plan terminates in 1984-85, the cumulative yield from additional resource mobilisation measures undertaken in each of the years 1980-85 would, in the ordinary course, get merged in the current revenues for the period of the Seventh Plan. That Plan will have an entirely new target of additional resource mobilisation. Likewise, on the expenditure side, the level of expenditure on the Plan schemes completed by 1984-85 would become committed after 1984-85, and become non-Plan expenditure for the period of the Seventh Plan. This is in accordance with well established practices.

16.6 Paragraph 5(iii) of the President's Order requires us to take note of the targets of additional resource mobilisation set for the Plan while determining the levels of taxation likely to be reached at the end of 1983-84. The Sixth Plan ends with 1984-85 and, therefore, this term of reference raised the question whether the targets of which note would have to be taken are those for 1983-84 or 1984-85, and whether the word 'Plan' denotes five year Plan or annual Plan. We were, thus, compelled to struggle with this question.

16.7 Again, we had to take a view on the question whether we are required to provide for committed liabilities from 1984-85 onwards in respect of the Plan schemes completed by 1983-84, even though such schemes would form part of the Annual Plan for 1984-85. Normally, the provision for maintenance of the Sixth Plan schemes should be made from 1985-86 onwards, and include the liability on account of the Plan schemes completed by 1984-85. We were also faced with the question as to how the resources which accrue in 1983-84, as a result of the fresh measures taken between 1980-81 to 1983-84, i.e. the first four years of the Sixth Five Year Plan, should be dealt with. In other words, whether they should be treated as part of the current revenues or as an additional revenue earmarked as a Plan resource for the last year of the Sixth Five Year Plan viz. 1984-85. There would have been no occasion for a difference of opinion amongst us if the period covered by our report had synchronized with a full Five Year Plan.

16.8 The non-synchronization of the period covered by our recommendations with the span of a Five Year Plan also made our task difficult in another respect. The Commission was constituted in June, 1982 – about three years before the Seventh Plan was due to commence. Since the profile of the Seventh Plan would take time to emerge, we had to function under an additional handicap, for unlike earlier Commissions, we could not draw upon the data base and the expertise of the Resources Working Group for the next Plan. We had to make our own assumptions regarding the growth in the national economy, the behaviour of prices and production targets, etc. In our view these are important parameters in respect of which there should be a similarity of approach by the two Commissions. This can be possible only if the two Commissions report for the same 5-year period. A similar conclusion was reached by the Administrative Reforms Commission, though for different reasons.

16.9 In view of the foregoing, we would suggest that the period covered by the recommendations of the Finance Commission should be synchronized with that of the Five Year Plan and that this may be kept in view while constituting the next Commission.

16.10 In their Memoranda to us and, also, during discussions, some States have urged that the Finance Commission should be made a permanent body which functions continuously so that it can deal with the financial problems between the Centre and the States as and when they arise. We think, that this is a large question, going much beyond our terms of reference and, in any case, we would not like to venture any opinion on such a question, without having had the benefit of a very full debate and a presentation of all the pros and cons of the matter.

16.11 However, we do think that there should be a permanent Secretariat which should continue to function during the interregnum between one Commission and the next. Such a Secretariat should be headed by a senior officer, and may function as a Division in the Ministry of Finance during the period intervening between two Finance Commissions. We are not satisfied by the present arrangement under which a small Cell consisting of a few officials functions as a part of the Ministry of Finance.

16.12 The Division, which we propose, should have the following functions:—

(i) to watch the implementation of the recommendations of the Finance Commission;

(ii) to watch closely and analyse the trends in the non-Plan receipts and expenditure of the State Governments and identify the reasons for variation between actuals and estimates made by the Finance Commission;

(iii) to monitor and evaluate the utilization of upgradation grants;

(iv) to preserve the records of the previous Commissions, and take such necessary action to obtain further information as might be of use to the future Commissions;

(v) to continuously collect and keep uptodate information on all aspects of State finances, including the financial working of the State enterprises; and

(vi) to conduct studies and publish papers and data having a bearing on States' finances.

The Division should be actively associated with the annual exercises of the Planning Commission, so that the maintenance of the assets already created does not suffer from either lack of attention or lack of resource-allocation because of the anxiety of the States to have progressively larger Plans.

16. 13 Looking to the enormous demands for funds made by the State Governments for upgradation of standards of administration we feel, that it would be more useful if comprehensive proposals are framed for achieving progressive equalisation of the standards of administrative and social services within a definite period. This would entail detailed exercises and studies in regular consultation with the State Governments, technical bodies and the Central Ministries, on the basis of which a well defined programme in order of priorities could be formulated. We think that the Division proposed by us, should collect requisite data about the non-developmental sectors so that meaningful comparisons may be made about the levels of services obtaining in various States for determining the apprppriate levels of upgradation.

16. 14 For effective discharge of the responsibilities by the proposed Division, we recommend that the staff strength may be suitably augmented. We also wish to suggest that professional assistance should be made available to the proposed Division for the purpose of conducting research studies. We also think that the proposed Division should provide the nucleus for the Secretariat of a new Finance Commission when constituted.

16. 15 We also consider it necessary that the State Governments should have similar permanent Divisions in their Finance Departments to cater to the requirements of the Finance Commission, as and when a Commission is constituted, as also to handle the problems that might emerge in the interregnum. Since the level of expertise for furnishing relevant data in the prescribed form to the Finance Commission is notuniform among the States, we suggest that the proposed Division in the Union Finance Ministry may organise suitable training workshop for the benefit of the States which may be in need of such assistance.

16. 16 We have a few comments to offer as to the administrative/financial powers delegated to the Finance Commission. Our experience has been that for a large number of matters the Commission had to approach the Finance Ministry for sanctions. We recommend that the Commission should be vested with the financial and administrative powers of a Ministry of the Government of India, and the Secretary should have all the powers of a Head of Department.

Further, sufficient incentives in terms of deputation allowance should be given to the staff drawn from various Ministries in order to attract the best talent. The Commission should also have the necessary powers to engage Consultants, commission studies and employ retired officials without further reference to the Government. A Finance Commission has to complete its work within a limited time and should therefore have these powers to facilitate its smooth working.

16. 17 Our experience impels us to make one important recommendation about the advance action to be taken prior to the constitution of the Commission. We think that an Officer on Special Duty should be appointed six months in advance of the constitution of the Finance Commission and, on its constitution, he should take over as its Member-Secretary. He should be vested with the necessary powers to select officers and staff and organise all the needed facilities like accommodation, vehicles, telex, telephones, etc. for the Finance Commission's Secretariat. This would also enable him to take advance action for the collection of data from States, like their estimates of revenue/expenditure etc. in the forecast period. The Commission would then be able to commence its work immediately after its appointment. We also wish to emphasise that it is essential that the Secretary should be a Member of the Commission, so that in dealing with the States and the Centre on behalf of the Commission he can command the status of a Member.