

## CHAPTER I

### INTRODUCTION

1.1 This Finance Commission, the eighth since the commencement of the Constitution, was constituted by the President by his Order dated the 20th June, 1982, which is reproduced below:

"In pursuance of the provisions of article 280 of the Constitution of India and of the Finance Commission (Miscellaneous Provisions) Act, 1951 (33 of 1951), the President is pleased to constitute a Finance Commission consisting of Shri Y. B. Chavan, Member of Parliament as the Chairman and the following four other Members namely:-

1. Shri Justice Sabyasachi Mukherjee, Judge, Calcutta High Court.
2. Dr. C. H. Hanumantha Rao, Member, Planning Commission.
3. Shri G. C. Baveja, Secretary, Ministry of Finance.
4. Shri A. R. Shirali, Deputy Comptroller & Auditor General of India.

2. The Chairman and other Members of the Commission shall hold office from the date on which they respectively assume office upto the 31st day of October, 1983.

3. The Chairman shall render part-time service to the Commission. Shri Justice Sabyasachi Mukherjee and Dr. C. H. Hanumantha Rao shall render part-time service as Members of the Commission. Shri G. C. Baveja shall render part-time service upto 30th June, 1982 and full-time service thereafter. Shri A. R. Shirali shall render full-time service.

4. The Commission shall make recommendations as to the following matters:-

- (a) The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I of Part XII of the Constitution and allocation between the States of the respective shares of such proceeds;
- (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article.

5. In making its recommendations, the Commission shall have regard, among other considerations, to:-

- i) the resources of the Central Government and the demands thereon on account of the expenditure on civil administration, defence and border security, debt servicing and other committed expenditure or liabilities;
- ii) the existing practice in regard to determination and distribution of Central assistance for financing State Plans;
- iii) the revenue resources of those 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;
- iv) the requirements on revenue account of those States to meet the expenditure on administration and other non-Plan commitments or liabilities, keeping however in view national policies and priorities. In assessing such requirements, the Commission shall take into account:-
  - a) such provision for emoluments and terminal benefits of Government employees, teachers and employees of local bodies as obtaining on a specified date as the Commission deems it proper and with reference to appropriate objective criteria rather than in terms of actual increases that may have been given effect to; and
  - b) commitments in regard to interest charges on their debt, transfer of funds to local bodies and aided institutions;

- v) adequate maintenance and upkeep of capital assets and maintenance of Plan schemes completed by the end of 1983-84, the norms, if any, on the basis of which specified amounts are allowed for the maintenance of different categories of capital assets and the manner in which such maintenance expenditure could be monitored, being indicated by the Commission;
- vi) the requirements of States for upgradation of standards in non-developmental sectors and services particularly of States which are backward in general administration with a view to bringing them to the levels obtaining or likely to obtain in the more advanced States, the manner in which such expenditure could be monitored, being also indicated by the Commission;
- vii) the scope for better fiscal management and economy in expenditure consistent with efficiency; and
- viii) the need for ensuring reasonable returns on investments in irrigation and power projects, transport undertakings, industrial and commercial enterprises and the like.

6. The Commission may suggest changes, if any, to be made in the principles governing the distribution among the States of:-

- a) the net proceeds in any financial year of estate duty in respect of property other than agricultural land;
- b) 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, in replacement of the sales tax levied formerly by the State Governments on each of the following commodities, namely:-
  - i) cotton fabrics;
  - ii) woollen fabrics;
  - iii) rayon or artificial silk fabrics;
  - iv) sugar; and
  - v) tobacco including manufactured tobacco. Provided that the share accruing to each State shall not be less than the revenue realised from the levy of sales tax for the financial year 1956-57 in that State.
- c) the grant to be made available to the States in lieu of the tax under the repealed Railway Passenger Fares Tax Act, 1957; and
- d) the grant to be made available to the States on account of wealth tax on agricultural property.

7. In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 1971 in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.

8. The Commission may examine the scope for raising revenue from the taxes and duties mentioned in article 269 of the Constitution but not levied at present and the scope for enhancing revenue from the duties mentioned in Article 268.

9. The Commission may 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. In the light of such an assessment, the Commission may undertake a general review of the States' debt position with particular reference to the Central loans advanced to them and likely to be outstanding as at the end of 1983-84 and suggest appropriate measures to deal with the non-Plan capital gap, having regard inter-alia to the overall non-Plan gap of the States, their relative position and the purposes for which the loans have been utilised and the requirements of the Centre.

10. The Commission may review the policy and arrangements in regard to the financing of relief expenditure by the States affected by natural calamities and suggest such modifications as it considers appropriate, in the existing arrangements, having regard, among other considerations, to the need for avoidance of wasteful expenditure.

11. The Commission shall make its report by the 31st October, 1983 on each of the matters *aforsaid and covering a period of five years commencing from the 1st day of April, 1984. The Commission shall indicate the basis on which it has arrived at its findings and make available the State-wise criteria adopted in making modifications, if any, in the States' forecasts of receipts and expenditure.* "

1.2 On his appointment as a Judge of the Supreme Court, Shri Justice Sabyasachi Mukherjee resigned his Membership of the Commission and his resignation was accepted by the President with effect from the 28th April, 1983. The President, by his Order dated the 2nd June, 1983, appointed Shri Justice T. P. S. Chawla, Judge, Delhi High Court, as a Member of the Commission. Shri Justice T. P. S. Chawla assumed charge as a Part-time Member with effect from 3rd June, 1983.

1.3 Shri Y. B. Chavan, Chairman, Shri Justice Sabyasachi Mukherjee (upto 28.4.1983), Shri Justice T. P. S. Chawla, Member and Dr. C. H. Hanumantha Rao, Member, rendered part-time service. Shri G. C. Baveja, Member, rendered part-time service upto 30.6.1982 and full-time thereafter and Shri A. R. Shirali, Member, rendered full-time service. By a separate Order dated 24th June, 1982, Shri N. V. Krishnan, Joint Secretary in the Department of Expenditure, Ministry of Finance, was appointed as Secretary to the Eighth Finance Commission.

1.4 Para 11 of the Order reproduced in para 1.1 supra (hereinafter referred to as the President's Order) required the Commission to make its report by the 31st October, 1983. On a request by the Commission for extension of time for reasons stated hereinafter, the President by his Order dated the 29th October, 1983 directed the Commission to make an interim report by the 15th November, 1983 and the final report by the 29th February, 1984. The Order is reproduced in Annexure I-1.

1.5 The Commission submitted its Interim Report to the President on the 14th November, 1983. The text of the Interim Report is reproduced in Annexure I-2.

1.6 A review of the progress of our work was made in early February, 1984, and it was felt that because of the initial delays caused by circumstances beyond our control, it would not be possible to complete our Report by 29th February, 1984. Consequently, we were compelled to seek a further extension of time upto 30th April, 1984. This request was accepted by the President in his Order dated 29th February, 1984. The Order is reproduced in Annexure I-3.

1.7 The first meeting of the Commission was held on 22nd July, 1982, after the Chairman and all Members had assumed charge. At that meeting, the Commission decided to issue a Press Note inviting the views of the public on the tasks entrusted to the Commission. Letters to the like effect were addressed to Members of Parliament and Members of State Legislatures and to Vice Chancellors of Universities, Heads of Department of Economics of various Universities and Institutes of Higher Learning, eminent economists, Chairmen and Members of the previous Finance Commissions, senior administrators and former Finance Ministers. Chairman also wrote personal letters to Chief Ministers and other eminent persons in various walks of life inviting their opinion. Letters were also addressed to the editors of economic journals and newspapers.

1.8 The Commission could only make a slow start in its work, primarily due to the fact that no Officer on Special Duty was appointed in advance of the constitution of the Commission as was done in the case of previous Commissions. No accommodation had been arranged for the Commission before its constitution and the process of sanctions for creation of posts and recruitment of suitable personnel to fill those posts continued for a long time after its constitution. The Commission functioned from a few rooms in the Vigyan Bhawan Annexe, which also had to be vacated soon afterwards, on account of the requirements of an international Conference. The Commission was then allotted accommodation in two separate buildings about 2 km. away from each other and could move into them only towards the end of September, 1982. Procurement of office equipment, creation of posts and selection of suitable persons took time and it was only towards the end of 1982 that the office of the Commission could begin functioning in a reasonable fashion. We have dwelt on these problems so as to focus attention on the need for advance action to save the time of the Commission, after it is constituted.

1.9 The initial response of the States for data required by the Commission was also slow, even though they had been requested by the Centre-State Finances Cell of the Ministry of Finance in March/April, 1982 to take advance action for preparing the forecasts. They, apparently, were not geared to meet the requirements of the Commission at that stage.

1.10 The appointment of a Finance Commission is not an unexpected event and we think there is no reason why both the Centre and the States should not ready themselves in advance before its coming into existence. In this connection it is pertinent to refer to our Chapter on "General Observations" in which we have made some suggestions which would ensure that the Finance Commission is able to proceed with its work without loss of time.

1.11 We requested the State Governments to send, before 31st August, 1982, their Memoranda containing their views on the various matters included in the terms of reference as well their forecasts of receipts and expenditure on revenue and capital account. The first Memorandum was received by us from Sikkim on 24th September, 1982 and the last from Bihar on 13th September, 1983, i.e. about a month before we were required by the President to submit our Report. The first forecast on revenue account was received in early October, 1982 from Tripura and the last in early April, 1983 from Tamil Nadu. Because of this delay in the receipt of the Memoranda from the States and also because of the changes in Government in some States as a result of elections, we had to reschedule our visit to the States much beyond the dates we had originally envisaged. We started our round of discussions with the State Governments beginning with the Government of Gujarat on 18th March, 1983, and ended with Bihar towards the end of September, 1983. Annexure 1.4 gives the dates of our discussions with various States.

1.12 As in the case of some of the States, the Centre's forecast also reached us late. The Chairman requested the Union Finance Minister, on 26th July, 1982, to send the forecast of receipts and expenditure of the Government of India and also indicate their views on the various terms of reference given to the Commission. The forecasts of the Centre were received by us on 19th August, 1983. The examination of the forecast of the Central Government is a time-consuming exercise requiring detailed discussions at various levels. In the short time left for the Commission to submit its Report by 31st October, 1983, it was impossible to properly scrutinise the Centre's forecast and, consequently, the Commission was left with no other alternative but to request the President for an extension of time for submitting its Report.

1.13 The Commission had a round of discussions with the Finance Secretary, Revenue Secretary and Expenditure Secretary during which clarifications were sought concerning Centre's receipts as well as expenditure. Discussions were also held with the Secretaries to the Government of India in the Ministries/Departments of Power, Health, Irrigation, Education, Defence, Home Affairs, Petroleum and with the Secretary, Planning Commission. The Governor, Reserve Bank of India also met the Commission. All these discussions provided us with an insight into some of the problems relevant to our work. We are obliged to various Ministries and Departments for providing us the required information.

1.14 During our visits to the States, we met the Chief Ministers and their Cabinet colleagues and had extensive discussions with them in which the senior officials of the State Governments also participated. We also met some Members of Parliament and Members of the State Legislatures as well as representatives of various political parties, educationists, economists, eminent personalities, representatives of Chambers of Commerce, trade unions and the representatives of State Employees' Associations and Pensioners' Associations. We met the Chairman of the last Finance Commission and also its Member-Secretary to have a fuller understanding of the approach of that Commission to the problems relating to devolution.

1.15 The Press in general took a keen interest in our work and a number of stimulating articles on the subject of Centre-State financial relations were published. At various places the Press also informally met the Chairman of the Commission.

1.16 During our visit to the States, several State Governments arranged field visits for the Members and senior officers to backward areas, major projects, important public enterprises and other institutions. We are grateful to the State Governments for the excellent arrangements made for our visits to the States and for the cooperation extended by them to the Commission and its Secretariat.

1.17 Our Secretary had a round of discussions regarding the State forecasts with the Chief Secretaries/Finance Secretaries, Heads of Departments and Senior Officers of various State Governments, both at New Delhi and State Headquarters. These discussions were very useful and enabled the Commission to be as objective as possible in making its assessment on a uniform basis for all States.

1.18 At our request, the Comptroller & Auditor General of India issued instructions to the State Accountants General to render all assistance to the Commission. The State Accountants General have

supplied the Commission with a variety of information which facilitated our work. We are grateful to them for the utmost cooperation extended by them to the Commission.

1.19 The total number of Memoranda received by the Commission from various individuals and organisations was 255. The list of those who submitted the Memoranda is given in Annexure 1.5. The names of the individuals and organisations which met us during our visits to the States headquarters is given in Annexure 1.6.

1.20 The Commission considered it useful to obtain the views of the National Institute of Public Finance & Policy on certain aspects relating to forecasting. The following studies were specifically carried out by the Institute on behalf of the Commission:-

- (1) Revenue and Expenditure Projections: Evaluation and Methodology.
- (2) Relative Taxable Capacity and Tax Effort of Indian States.
- (3) Revenue and Expenditure Projections: Union Taxes.
- (4) Forecasting Major subsidies of the Central Government.

Pursuant to a suggestion made by the Seventh Finance Commission regarding the need for a comprehensive study on the resources and levels of services of local bodies, the National Institute of Urban Affairs, New Delhi carried out a study on "Financial Resources vis-a-vis level of Services of the Local Bodies in India". Miss A. Rangasami, who has been studying the problems associated with natural calamities was engaged as a Consultant by us to undertake a study on the financing of relief expenditure. All these studies proved useful to us.

1.21 We have great pleasure in acknowledging our deep appreciation of the painstaking and patient work put in by our Secretary, Shri N.V. Krishnan. He ably guided both the technical and administrative staff and on our behalf held discussions with the State Governments for purposes of reassessment of their forecasts. He carried out the onerous responsibilities of collecting, analysing and placing for our consideration various issues along with relevant data. With his rich background of financial and administrative matters, both in the Centre and State, he was of great assistance to us in our deliberations.

1.22 The Commission was fortunate to have on its staff a team of knowledgeable and dedicated officers but for whose cooperation and help it would have been difficult for us to do full justice to the tasks assigned to us. Dr. Atul Sarma, Economic Adviser, gave the Commission valuable advice, specially on matters relating to forecasting. Shri G. Ranga Rao, Joint Secretary ably organised the administrative work and handled all the work relating to upgradation of standards of administration. Shri N. Valluri, Director and Kumari A.K. Ahuja, Deputy Secretary shared the responsibilities of examining in detail the States' forecasts and coordinating the research work on subjects entrusted to them. Shri G.H. Bijlani, Consultant assisted us on matters relating to the Centre's forecast. We are grateful to all these officers for their notable contribution to the work of the Commission.

1.23 Shri P.B. Dhawan, Officer on Special Duty to the Chairman was of great assistance to the Chairman and to the Commission in the discussions we had at the State Capitals with the Chief Ministers. He also handled ably the subject of non-Plan capital gap. Shri N.I. Vyas, Officer on Special Duty provided very useful assistance to Dr. C.H. Hanumantha Rao, in the day to day work and did considerable amount of original research work, particularly on various aspects of Plan financing. Shri K. Venkataraman, functioning as Private Secretary to Shri Justice Sabyasachi Mukherjee and Shri Justice T. P. S. Chawla, rendered valuable assistance to them in analysing various issues. On Shri R.D. Gupta, Officer on Special Duty fell the difficult task of coordinating the research work and providing a link between the last Commission and us. The brunt of work relating to the estimation of the non-Plan capital gap and the interest liabilities of States as well as organising the work relating to the forecasting was shouldered by him.

1.24 While all senior officers in the Commission helped the Secretary in preparing the drafts of the Report, special mention has to be made of the contribution of Shri N. Valluri, Director and Shri P.B. Dhawan, Officer on Special Duty, in this regard.

1.25 We had an efficient team of Deputy Directors - Sarvashri R.K. Juneja, Manohar Lal, S. P. Rastogi, V. P. Bhatia and B. N. Singh and Research Officers - Sarvashri P. L. Gambhir, B.S. Mussania, G. P. Sahni and M. R. Verma, who had the painstaking task of sifting the voluminous data contained in

the State forecasts and presenting a comparable picture of the resources position of various States. All of them did their work cheerfully, and we are grateful to them for their cooperation. Shri T. C. Nanda, Administrative-cum-Accounts Officer, did commendable work in the efficient discharge of the house keeping functions, including the detailed arrangements for the Commission's tours to the States. The Commission had in Shri B. K. Agarwal a reliable and efficient Economic Investigator who was quick in preparing the various calculations which the Commission wanted from time to time when they were considering the formula of devolution.

1.26 We had very competent officers on our personal Staff: Sarvashri M. N. Sharma, B. R. Puri and M. L. Bhatia. Shri B. M. Vedi provided very useful assistance to our Secretary.

1.27 While we have acknowledged, by name, only a few officers, we would like to say that this in no way, means that we are oblivious to the contribution of other members of our staff who had often to put in extra-long hours at considerable personal inconvenience to themselves, to make the work of the Commission run smoothly. We thank these officers and members of the staff consisting of Superintendent, Economic Investigators, Personal Assistants, Technical Assistants, Stenographers and Typists and others for their full help and cooperation.