

INTRODUCTION

1.1 This Finance Commission, the ninth since the commencement of the Constitution, was constituted by the President by his Order (SO No.581(E) dated the 17th June, 1987), 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 N.K.P. Salve, Member of Parliament, as the Chairman and the following four other Members, namely:-

1. Shri Justice Abdus Sattar Qureshi,
Judge, Gujarat High Court - Member
2. Dr. Raja J. Chelliah,
Member, Planning Commission - Member
3. Shri Lal Thanhawla
Former Chief Minister of Mizoram. - Member
4. Shri Mahesh Prasad - Member Secretary

2. The Chairman and the other Members of the Commission shall hold office from the date on which they respectively assume office upto the 30th day of June, 1989.

3. 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 the 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 proviso to clause(1) of that article.

4. In making its recommendations, the Commission shall-

- (i) adopt a normative approach in assessing the receipts and expenditures on the revenue account of the States and the Centre and, in doing so, keep in view the special problems of each State, if any, and the special requirements of the Centre such as defence, security, debt servicing and other committed expenditure or liabilities;
- (ii) have due regard to the need for providing adequate incentives for better resource mobilisation and financial discipline as well as closer linking of expenditure and revenue-raising decisions;
- (iii) take into account the need for speed, efficiency and effectiveness of Government functioning and of delivery systems for Government programmes; and
- (iv) keep in view the objective of not only balancing the receipts and expenditure on revenue account of both the States and the Centre, but also generating surpluses for capital investment.

5. 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 the additional duties of excise leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957), and
- (b) the grants to be made available to the States in lieu of the tax under the repealed Railway Passenger Fares Tax Act, 1957 (25 of 1957).

6. 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.

7. The Commission may examine the feasibility of the merger of additional duties of excise in lieu of sales tax with basic duties of excise and evolve a suitable formula for allocating a part of the duties of excise in respect of the goods described in column (3) of the First Schedule to the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957) for distribution among the States, in lieu of sales tax.

8. The Commission may make an assessment of the debt position of the States as on the 31st day of March, 1989 and suggest such corrective measures as deemed necessary keeping in view the financial requirements of the Centre. The corrective measures will be with particular reference to investments made in infrastructure projects and shall have linkage with improvements in financial and managerial efficiency.

9. 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. The Commission may examine, inter-alia, the feasibility of establishing a national insurance fund to which the State Governments may contribute a percentage of their revenue receipts.

10. On the matters aforesaid, the Commission shall make two reports, the first report covering a period of one year commencing on the 1st day of April, 1989, by the 30th June, 1989, and the second report covering a period of five years commencing on the 1st day of April, 1990, by the 30th June, 1989.

11. The Commission shall indicate the basis on which it has arrived at the findings and make available the State-wise estimates of receipts and expenditures."

1.2 On his taking over as Chief Minister of Mizoram Shri Lal Thanhawla resigned his membership of the Commission and his resignation was accepted by the President with effect from the 24th day of January, 1989. Shri S. Venkitaraman, Adviser to the Prime Minister, was appointed as a Member of the Commission, in place of Shri Lal Thanhawla, vide the President's Order of the 3rd May, 1989. Shri S. Venkitaraman resigned his membership

of the Commission on his appointment as Adviser to the Governor of Karnataka. On his appointment as Secretary, Ministry of Environment and Forests, Shri Mahesh Prasad resigned his membership of the Commission and Shri K.V.R. Nair was appointed the Member Secretary of the Commission from the 13th July, 1989. Shri R. Keishing, former Chief Minister of Manipur, assumed charge as part-time Member of the Commission on Saturday the 25th November, 1989.

1.3 Shri N.K.P. Salve, Chairman, and Dr. Raja J. Chelliah, Member, continued to render part-time service. Shri Justice A.S. Qureshi, Member, rendered part-time service upto the 3rd August, 1989, whereafter he became a full-time Member.

1.4 Paragraph 10 of the Order dated 17th June, 1987, required the Commission to make two reports, the first report covering a period of one year commencing on the 1st day of April, 1989, and the second report covering a period of five years commencing on the 1st day of April, 1990. The President having accepted our request to extend the date for its submission to 31st July, 1988, our first report for 1989-90 was presented to the President on 29th July, 1988. Although the work on both the reports was taken up concurrently, it was possible to attend to the major issues and undertake the detailed exercises relating to the second report only after the presentation of the first report. A review of the progress of work made by us in April/May, 1989, convinced us that it would not be possible to submit the second report by 30th June, 1989. We sought extension of time upto 31st December, 1989. Our request was accepted by the President in his Order dated 13th June, 1989. This Order is reproduced in Annexure I.1.

1.5 The Commission attached great importance to its detailed interaction with the State Governments. The Commission further felt that it would benefit from consultations with experts in the fields of public finance and econometrics. A meeting was held on 24th February, 1988, at New Delhi with some eminent economists and econometricians (list in Annexure I.2). This was followed by another meeting on 22nd April, 1988, with the State Finance Secretaries and representatives of the Union Finance Ministry in which certain conceptual and methodological issues relating to the normative assessment of receipts and expenditures for the period 1990-95 were discussed. The Chairman wrote to all the State Chief Ministers and some eminent economists (list in Annexure I.3) on 11th November, 1988, requesting them for their views and suggestions about the feasibility of formulating a suitable composite index of backwardness. With a view to bringing greater clarity on some of these issues, meetings were held with economists and experts on 23rd June, 1989, (list in Annexure I.4) and 16th October, 1989, (list in Annexure I.5). We also convened an all-State Finance Ministers' meet at New Delhi on 24th July, 1989, to involve them in the examination of some of these important issues and to seek their advice and guidance before finalising our views. We thank all those who replied to our letters and attended these meetings and willingly gave us their valuable advice.

1.6 While most of the exercises were done in-house, some studies were also commissioned. The National Institute of Public Finance and Policy, New Delhi, submitted the results of the study assigned to it by the Commission on "Estimation of Relative Taxable Capacities of the States" using the "Representative Tax System Approach". Prof. B.B. Bhattacharya of the Institute of Economic Growth, Delhi, who was engaged as a Consultant, gave his report on government borrowing with special reference to States' indebtedness to the Centre. The Institute of Public Enterprises, Hyderabad, undertook a study for us on the investments made by the State Governments in the various State Public Enterprises and their financial performances. The National Institute of Urban Affairs prepared for us a report on Municipal services and Municipal finances.

1.7 The Commission was able to visit almost all the States at least once during its entire term except Mizoram, Nagaland,

Sikkim and Tripura (Annexure I.6). We had programmed a visit to Sikkim on 20th and 21st September, 1989. The Commission, however, could not proceed beyond Siliguri, despite all its effort, because of inclement weather in Sikkim and land-slides en route to Gangtok. The Chief Ministers of Tripura, Mizoram and Nagaland were kind enough to make it convenient to visit Delhi and have detailed discussions with the Commission on the 8th, 17th and 29th November, 1989, respectively. We found visits to the States of immense value specially because of the open and free discussions with the State Chief Ministers, their Cabinet colleagues and officials. During these visits the State Governments also arranged some field visits and we could avail of the opportunity to gain first hand knowledge of the ground conditions and other factors affecting delivery of social and economic services and consequently expenditure needs of the State. These discussions and visits enabled us to have a better understanding and appreciation of the problems of the States. During these visits to the States, the Commission also had some very useful meetings with Leaders of the Opposition, Members of Parliament, Members of State Legislatures, representatives from Chambers of Commerce and Industry, Associations and Federations of State Employees, economists and other eminent personalities. We are grateful to all the State Governments we visited for having made meticulous arrangements for our visits and for the cooperation extended by them in full measure to the Commission and its secretariat. We deeply regret the inconvenience caused to some of the States when the programme of our visit had to be called off more than once at short notice, invariably for reasons beyond our control.

1.8 The Commission had useful rounds of discussions with the Secretaries incharge of various Ministries and Departments of the Government of India (Annexure I.7). This gave us valuable insight into the perceptions of the Government of India on several issues having a bearing on the resources of the Centre.

1.9 At our request, the Comptroller and Auditor General of India issued instructions to all the State Accountants-General to render such assistance as was required by us in the course of our work. The State Accountants-General cooperated in full measure and supplied the required information and clarifications. We record our appreciation for the services rendered to the Commission. We would also like to thank four eminent jurists, namely, Shri N.A. Paikivala, Shri K.K. Venugopal, Shri A.G. Noorani and Prof. B. Errabli, whom we consulted to ascertain the implications and scope of Articles 275 and 282 of the Constitution.

1.10 We would like to acknowledge the efficient and painstaking work put in by the officers and members of our staff. The terms of reference of our Commission were far wider than those of any previous Commission and we had to submit two separate reports relating to two separate periods. All this called for greater effort and work on the part of our secretariat as voluminous data and information had to be collected and studies conducted. (The list of the names and the designation of officers who constituted our secretariat is given in Annexure I.8).

1.11 The Commission is thankful to the National Informatics Centre which provided the computer facilities in the Commission's office. This facilitated the handling and an in-depth analysis of the mass of data compiled by the Commission.

1.12 It is not possible to give the names of all those in our Secretariat who worked and contributed to the completion of the task assigned to us. We are fully aware of the long hours put in by them and several times, at considerable personal inconvenience to themselves. We thank the Superintendent, Programme Assistants, Economic Investigators, Technical Assistants, Personal Assistants, Stenographers, Typists and others for their cooperation and help extended to us in full measure. Each of us would also like to add that our personal staff performed their duties to our entire satisfaction.