GRANTS - IN - AID

7.1 Article 280 of the Constitution lays down that it shall be the duty of the Finance Commission to make recommendations as to the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India. In responding to this mandate, the first task of the Commission is to assess the dimensions of the aid required by each State to supplement its revenues including its share in shareable Central taxes.

7.2 In Chapter III, we have narrated in some detail the manner in which the States' non-Plan revenue receipts and non-Plan revenue expenditures for the period between 1.4.1990 and 31.3.1995 have been assessed. In Chapter V, we have formulated our recommendations regarding devolution of shares of Central taxes to States and amongst States. The non-Plan revenue account position of States for the period 1990-95 emerging from these two exercises is summarised in Table 1.

TABLE 1

Net Non-Plan Revenue Surplus(+)/Deficit(-) : 1990-95

(Rs. Crore)

States	Net Non-Plan Revenue Position Without Devolution Of Taxes And Duties	Net Non-Plan Revenue Surplus After Devolution Of Taxes And Duties	Net Non-Plan Revenue Deficit After Devolution Of Taxes And Duties
1. Andhra Pradesh	(-) 2286.25	4289.22	
2. Arunachal Pradesh	(-) 827.38		302.79
3. Assam	(-) 3529.89		560.32
4. Bihar	(-) 7095.38	2575.15	
5. Goa	(-) 505.12		166.58
6. Gujarat	(+) 563.26	3957.94	
7. Haryana	(+) 1374.00	2506.06	
8. Himachal Pradesh	(-) 1792.52		523.09
9. Jammu and Kashmir	(-) 3300.44		1083.12
10. Karnataka	(+) 708.77	4670.79	
11. Kerala	(-) 2916.81	2.29	
12. Madhya Pradesh	(-) 5306.50	1227.98	
13. Maharashtra	(+) 5489.20	11525.56	
14. Manipur	(-) 1081.72		371.65
15. Meghalaya	(-) 814.39		256.18
16. Mizoram	(-) 1017.26		379.79
17. Nagaland	(-) 1240.55		458.67
18. Orissa	(-) 4792.29		528.48
19. Punjab	(-) 114.77	1400.45	
20. Rajasthan	(-) 5100.22		486.39
21. Sikkim	(-) 240.93		84.68
22. Tamil Nadu	(-) 1712.12	4296.04	
23. Tripura	(-) 1422.67		466.01
24. Uttar Pradesh	(-)14225.14		348.60
25. West Bengal	(-) 4678.98	1581.77	
Total	**(-)64001.33 (+)8135.23**	**38032.25**	**6016.35**

Note- *Surplus/Deficit of each year has been netted to arrive at the five-year position.*

7.3 If our assessment of the needs of States for grants-in-aid of revenues is to be confined to the non-Plan revenue account, we could determine the amount required to fill the gross deficit of each year and recommend those amounts as grants. But that would leave the entire Plan revenue account outside the scope of the exercise, thereby depriving the needy States of the full benefit of Article 275 of the Constitution. That would also make it impossible to work towards the objective of balancing the revenue account and generating surpluses for investment, as indicated in our terms of reference.

7.4 However, we have severe limitations in assessing the Plan expenditure on revenue account. The Eighth Plan is still in the stage of formulation and neither the Central Government, nor the State Governments could give us a clear idea of the likely Plan expenditure for the period 1990-95. We, therefore, had to attempt determination of this item of need based on available data, past trends and our normative approach. For this purpose, we have taken all non-Special Category States other than Goa as one group and Special Category States and Goa as another group.

7.5 For the first group we have already assessed, on a normative basis, their non-Plan revenue expenditure till 1994-95. In regard to social and economic services, we have projected expenditure needs to conform to the standards of services already achieved at justifiable costs. That exercise revealed the wide disparity among states in respect of the levels (standards) of expenditure of those services. While all the States have to improve on those services from existing levels, those who are relatively backward in this respect should move at a faster pace. Based on this premise, we have worked out the ratios of expenditure in each non-Special Category State. The methodology is explained in Appendix 7.

7.6 The next stage is to determine what amount can be set apart for fresh expenditure on social and economic services during the 1990-95 period for this group of States. In 1989-90 these fourteen States together have a Plan outlay of around Rs.7,200 crore in the revenue account (This includes State Plan schemes expenditure as well as States' share of Centrally-sponsored schemes). A part of this expenditure is tied to externally aided projects, hill area development, etc. Excluding those items on a rough assessment, we have taken the base as Rs.6,500 crore in 1989-90. Allowing a growth rate of 7 per cent per annum on that base, we have assessed that the revenue Plan expenditure that can be provided to attempt a moderate correction of the disparities in social and economic services will be Rs. 40,000 crore during 1990-95 in the fourteen States of the first group (non-Special Category States other than Goa). That level of expenditure should cover not only such expenditure during the Eighth Plan period but also the committed expenditure on Seventh Plan schemes. (Our analysis of the question of committed liability has been given in paragraph 3.78 in Chapter III). This amount of Rs. 40,000 crore is distributed among the fourteen States in the ratio (vide paragraph B7.8 of Appendix 7) worked out by us. For the purpose of our recommendations, we take these amounts as the *minimum* revenue Plan expenditure of each of the States. The outlay for each State is given in Table 2.

TABLE 2

Minimum Revenue Plan Expenditure: 1990-95

(Rs. crore)

States	Amount
1. Andhra Pradesh	3345.20
2. Bihar	5045.60
3. Gujarat	1779.20
4. Haryana	844.40
5. Karnataka	2206.40
6. Kerala	1312.00
7. Madhya Pradesh	3528.80
8. Maharashtra	3555.60
9. Orissa	1602.00
10. Punjab	926.00
11. Rajasthan	2472.80
12. Tamil Nadu	2454.00
13. Uttar Pradesh	7664.00
14. West Bengal	3264.00
Total	**40000.00**

7.7 For the Special Category States and Goa, we are not in a position to follow the same methodology and assess the minimum revenue Plan expenditure. Non-Plan expenditure estimates of the Special Category States have not been done on a normative basis and so the ratios worked out for reducing inter-State disparities cannot be applied in their case. Further, their problems as well as their stage of development are such that, even for the limited purpose of evolving a total financing scheme for the revenue account, it will not be safe to apply a general formula. So in respect of these States we have made the assessment of Plan expenditure on the basis of 1989-90 revenue Plan expenditure and projected it at the rate of growth of 7 per cent per annum. The total five year expenditure for these eleven States so projected comes to Rs. 6,570 crore. As in the case of the first group of States this should include committed liability of the Seventh Plan schemes also.

7.8 At this stage we should make it quite clear that we are not determining the Plan (revenue) outlay of the States. We are only estimating the likely minimum revenue expenditure in the Eighth Plan of each State and that too on an overall basis. In doing so, the only targeting we have attempted is a moderate correction of the disparities in social and economic services expenditure in the different non-Special Category States. For other States we are simply going by the base year (1989-90) figures as determined by the Planning Commission. This would adequately serve our limited purpose of assessing the total revenue expenditure and determining the needs of each State for grants under Article 275. The actual determination of each State's Plan outlay including the outlay on the revenue account, its distribution among the different Sectors will all have to be done, as before, by the Planning Commission.

7.9 Coming to the determination of each State's need for aid under Article 275, we must make it clear that under this Article, the Finance Commission is obliged to recommend the grants-in-aid of revenue to States and, therefore, the grants for financing the State Plans are very much within the purview of the Commission under the said Article. In fact there is a view that all grants to the States could be channelled through Article 275 only. Mr. K.K. Venugopal, an expert on Constitutional law opined before us that Article 282 is clear and unambiguous and unless the Article is re-written with the addition and substraction of words it would not be possible to arrive at the conclusion that Article 282 is an independent source of power vesting in the Central Government a discretion to make grants to States for special purposes. As against this, Mr. N.A. Palkhivala opined -

"Article 282 is not intended to enable the Union to make such grants as fall properly under Article 275. Article 282 embodies merely a residuary power which enables the Union or a State to make any grant for any public purpose, irrespective of the question whether the purpose is one over which the grantor has legislative competence."

Thus, according to Mr. Palkhivala residuary power of grants for public purposes vests under Article 282 in the Union and the State Governments. We may also refer to the commentary of Dr. D.D. Basu on Constitution of India, 6th Edition, Volume 'K' page 312-

"There is no limit to the grants which can be made by the Union under Article 282 and, in fact, the volume of grants to the States under Article 282 vie with those made under Article 275. Thus, in 1979-80, while the States received Rs. 375 crore through the Finance Commission, the sum received through the Planning Commission amounted to Rs. 3159 crore. This is striking in view of the fact that Article 282 is a residual provision regarding Grants-in-aid".

Thus opinions on this issue differ widely. The Commission considers it unnecessary to involve itself in the controversy relating to the precise limits on the scope of Article 282 vis-a-vis Article 275. But we are quite certain that if our Constitutional obligations under Article 280 read with Article 275 require us to enlarge the scope of grants beyond the non-Plan account limitations, we should not hesitate to do so. We are convinced that such a situation exists now. This is the result of a combination of two major factors. The first is the vast disparity among States in the size of the non-Plan revenue account position. The other is the fact that the Gadgil formula has no linkage to the non-Plan revenue account position or the overall financial position of State Governments. As yet, there is no formal channel through which additional assistance could be extended to those States whose non-Plan revenue accounts have no surplus and whose shares of Gadgil formula grants are substantially less than their approved Plan revenue expenditures. Such States have to divert their borrowings to meet a good part of their revenue Plan requirements and this sets in motion a vicious circle which, ultimately, may invalidate the very concept of balanced regional development. We propose to introduce a mechanism to correct this basic flaw in the present system of federal fiscal transfers. We are clear in our mind that Article 275 provides full Constitutional support for such a new arrangement.

Shri Justice A.S. Qureshi, Member, has opined that Article 275 is the only source for giving grants-in-aid to States. He has elaborated his view on this issue in his Note of Dissent.

7.10 Our assessment of non-Plan revenue account leaves net deficits in some and net surpluses in other States, after accounting for their share of Central taxes. It is obvious that the surplus will be used for financing their Plans. It is also clear that both types of States will get assistance as per the Gadgil formula. Our scheme for additional help to non-Special Category States takes into account these two facts. We assume that Gadgil formula assistance (total for all the 14 States) will grow at least at 10 per cent per annum from the 1989-90 base of Rs. 1,450 crore. We have calculated that on that basis, these States can be expected to get Rs. 10,000 crore grant under Gadgil formula (excluding ad-hoc items like grant portion of additionality for externally aided schemes, hill area programmes etc.) in the Eighth Plan period. We have divided that amount among the 14 States in the same ratio as the Gadgil formula ratio as applied to Seventh Plan allocation (excluding the weight of 10 per cent) given to special problems). We have taken the amounts so arrived at as approximate receipts available for the States' revenue Plan. To that we have added 40 per cent of the non-Plan revenue surplus of each of the States having such surpluses. The total of these two amounts (only the Gadgil formula amount for deficit States) is set off against the minimum revenue Plan expenditure share of each State in the total Plan revenue expenditure of Rs. 40,000 crore. The difference between the two shares is each State's deficit in the Plan revenue account. Fifty per cent of that deficit will, in our scheme, be given as grants under Article 275 (For States which have non-Plan deficits also, the total grant under Article 275 will be the amount to meet the net five year non-Plan revenue account gap and half of the Plan revenue account gap). Annexure VII.1 gives the financing pattern for revenue Plan expenditure of the 14 non-Special Category States determined accordingly.

7.11 We have already explained how, in assessing the revenue Plan expenditure, we have adopted a method for Special Category States (and Goa) different from what we adopted for the 14 non-Special Category States. Some difference is unavoidable in the matter of financing also. Here the basic factor is that special category States other than Assam and Jammu and Kashmir get their Plan assistance in the ratio of 90:10 as grant and loan. So their Plan grants go to meet capital expenditure also. During the discussions we had with them, these States have requested that the Finance Commission's recommendations regarding Plan grants may not be allowed to adversely affect this facility of a higher grant portion of Central assistance. We concede this point. We do not propose to link the likely revenue Plan expenditure of these States to their Plan grants. So we are not recommending any grants under Article 275 for Plan financing for Special Category States other than Assam and Jammu and Kashmir. In order to ensure that they continue to enjoy the special treatment as regards Plan grants, we have built into our estimates of the Central Government's revenue expenditure adequate amounts at a growth rate of 15 per cent per annum (as against 10 per cent growth in other cases) for providing Plan grants to these eight

Special Category States. The amounts are given below.

(Rs. Crore)

1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1990-95
891	1025	1179	1355	1559	1792	6910

As in respect of other States, these do not include assistance for externally aided projects, etc.

7.12 For Assam, Goa and Jammu and Kashmir we have followed the same pattern as for the 14 non-Special Category States. The scheme of financing their revenue account Plan is at Annexure VII.2.

7.13 Previous Finance Commissions determined the gap grants under Article 275 equal to each State's deficit each year so that all States' non-Plan revenue accounts were balanced (or left with a surplus) every year. This was necessary as those Commissions were dealing only with the non-Plan revenue account. This Commission is not only dealing with the total revenue account but is also expected to work towards eliminating deficits in revenue account. Keeping these aspects in view, the net deficit (after adjustment of deficits and surpluses of different years) has been taken for assessing the need for grants. Similarly, the actual payment of grants under Article 275 is also proposed to be phased in a manner not necessarily linked to each year's deficit in the revenue account. The total grants have been distributed as follows in the case of non-Special Category States other than Goa.

Year	(Per cent)
1990-91	13.5
1991-92	16.0
1992-93	19.5
1993-94	23.0
1994-95	28.0

7.14 Consequent on the assessment detailed so far in this Chapter we recommend grants-in-aid to States in each of the five years from 1990-91 to 1994-95, as shown in Table3.

TABLE 3

Grants-In-Aid To States: 1990-95

(Rs. Crore)

States	1990-91	1991-92	1992-93	1993-94	1994-95	Total 1990-95
	(1)	(2)	(3)	(4)	(5)	(6)
1. Andhra Pradesh	46.07	54.60	66.54	78.49	95.55	341.25
2. Arunachal Pradesh	57.65	59.45	60.76	61.48	63.45	302.79
3. Assam	205.61	179.68	172.87	161.42	154.65	874.23
4. Bihar	185.53	219.88	267.98	316.08	384.80	1374.27
5. Goa	33.66	33.31	33.06	32.88	33.67	166.58
6. Himachal Pradesh	113.75	109.67	104.50	98.32	96.85	523.09
7. Jammu and Kashmir	210.99	213.60	224.35	220.87	226.61	1096.42
8. Kerala	55.69	66.01	80.45	94.88	115.51	412.54
9. Madhya Pradesh	141.45	167.65	204.32	241.00	293.39	1047.81
10. Manipur	74.92	74.90	74.40	73.32	74.11	371.65
11. Meghalaya	58.88	50.32	51.27	48.54	47.17	256.18
12. Mizoram	74.75	76.22	76.16	76.43	76.23	379.79
13. Nagaland	92.26	92.48	93.88	90.54	89.51	458.67
14. Orissa	146.20	173.28	211.18	249.09	303.23	1082.98
15. Punjab	7.28	8.63	10.51	12.40	15.09	53.91
16. Rajasthan	195.32	231.49	282.12	332.76	405.10	1446.79
17. Sikkim	17.59	17.37	17.03	16.50	16.19	84.68
18. Tamil Nadu	5.91	7.01	8.54	10.07	12.26	43.79
19. Tripura	101.19	101.27	96.52	87.25	79.78	466.01
20. Uttar Pradesh	436.74	517.62	630.84	744.07	905.83	3235.10
21. West Bengal	134.82	159.78	194.74	229.69	279.62	998.65
Total	2396.26	2614.22	2962.02	3276.08	3768.60	15017.18

7.15 Grants towards meeting relief expenditure as recommended in Chapter VI will be in addition to the grants indicated in Table 3. Total estimated transfers to States during the five year period are given in Table 4.

TABLE 4

Total Transfers To States: 1990-95

(Rs. Crore)

States	Share Of Taxes And Duties: Income Tax	Basic Excise Duties	Additional Duties Of Excise	Tax On Railway Passenger Fares	Total	Grants-In-Aid: Non-Plan Deficit	Plan Deficit	Total	Total (Col.5+8)	Grants Towards Meeting Relief Expenditure	Total Transfer (Col.9+10)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1 .Andhra Pradesh	1717.52	3976.81	824.99	56.15	6575.47	-	341.25	341.25	6916.72	322.50	7239.22
2 .Arunachal Pradesh	15.28	497.76	11.50	0.05	524.59	302.79	-	302.79	827.38	7.50	834.88
3 .Assam	550.54	2113.07	294.66	11.30	2969.57	560.32	313.91	874.23	3843.80	112.50	3956.30
4 .Bihar	2598.47	6116.65	893.41	62.00	9670.53	-	1374.27	1374.27	11044.80	131.25	11176.05
5 .Goa	23.02	290.01	24.51	1.00	338.54	166.58	-	166.58	505.12	3.75	508.87
6 .Gujarat	952.09	1765.43	634.31	42.85	3394.68	-	-	-	3394.68	318.75	3713.43
7 .Haryana	260.31	609.56	248.89	12.30	1131.06	-	-	-	1131.06	63.75	1194.81
8 .Himachal Pradesh	124.50	1077.48	66.70	0.75	1269.43	523.09	-	523.09	1792.52	67.50	1860.02
9 .Jammu and Kashmir	145.43	1968.20	99.79	3.90	2217.32	1083.12	13.30	1096.42	3313.74	45.00	3358.74
10 .Karnataka	1031.18	2276.27	630.02	24.55	3962.02	-	-	-	3962.02	101.25	4063.27
11 .Kerala	780.29	1712.19	399.92	26.70	2919.10	-	412.54	412.54	3331.64	116.25	3447.89
12 .Madhya Pradesh	1712.71	4006.76	769.56	45.45	6534.48	-	1047.81	1047.81	7582.29	261.00 *	7843.29
13 .Maharashtra	1713.97	2875.85	1276.79	169.75	6036.36	-	-	-	6036.36	165.00	6201.36
14 .Manipur	35.78	651.31	22.88	0.10	710.07	371.65	-	371.65	1081.72	3.75	1085.47
15 .Meghalaya	43.52	493.98	20.41	0.30	558.21	256.18	-	256.18	814.39	7.50	821.89
16 .Mizoram	15.28	614.88	7.31	-	637.47	379.79	-	379.79	1017.26	3.75	1021.01
17 .Nagaland	20.09	747.68	12.89	1.25	781.88	458.67	-	458.67	1240.55	3.75	1244.30
18 .Orissa	905.21	2972.03	374.47	12.10	4263.81	528.48	554.50	1082.98	5346.79	176.25	5523.04
19 .Punjab	356.98	755.43	379.51	23.30	1515.22	-	53.91	53.91	1569.13	105.00	1674.13
20 .Rajasthan	1011.93	3063.87	503.68	34.35	4613.83	486.39	960.40	1446.79	6060.62	465.00	6525.62
21 .Sikkim	6.28	144.34	5.58	0.05	156.25	84.68	-	84.68	240.93	11.25	252.18
22 .Tamil Nadu	1659.56	3538.09	758.81	51.70	6008.16	-	43.79	43.79	6051.95	146.25	6198.20
23 .Tripura	63.40	863.09	29.87	0.30	956.66	466.01	-	466.01	1422.67	11.25	1433.92
24 .Uttar Pradesh	3512.68	8673.61	1574.45	115.80	13876.54	348.60	2886.50	3235.10	17111.64	337.50	17449.14
25 .West Bengal	1668.98	3660.68	877.09	54.00	6260.75	-	998.65	998.65	7259.40	150.00	7409.40
Total	20925.00	55465.00	10742.00	750.00	87882.00	6016.35	9000.83	15017.18	102899.18	3137.25	106036.43

**Includes Rs.122.25 crore for Bhopal Gas Leak Tragedy*

7.16 As per our terms of reference, we have to assess the Centre's revenue receipts and expenditure. In Chapter IV we have assessed its revenue receipts and non-Plan pre-devolution expenditure for 1990-95. We have also recommended transfers to States as indicated in Table 4. Now, we proceed to assess the Centre's Plan expenditure including assistance to States and Union Territories for their Plans as well as grants for Central schemes and Centrally sponsored schemes.

7.17 For reasons explained earlier in the report, we have not provided for committed liability on the Seventh Plan schemes in our non-Plan expenditure projections. Therefore, we are projecting all Plan expenditure using 1989-90 (BE) as the base year figure so that our projections, though shown fully as Plan expenditure, will contain reasonable provision for the committed liability of Seventh Plan schemes also. The rate of growth adopted in our projections is 7 per cent per annum for Centre's own Plan expenditure on revenue account (other than Central schemes and Centrally sponsored schemes expenditure) and for Union Territory Plans. For Central assistance to States, we have first made a projection at 10 per cent growth per annum after excluding the grant portion of advance Plan assistance from the base year figure (as our scheme for relief expenditure does not involve such a commitment for the Centre). To the assessment so made, we have added the amount required for an extra five per cent growth (Rs. 925 crore) in the basic Central assistance grant to Special Category States other than Assam and Jammu and Kashmir. For assistance to Union Territories, the growth rate is 10 per cent. For Central schemes and Centrally sponsored schemes we are providing a growth rate of 7 per cent per annum over 1989-90 (BE). We are, however, of the view that the present level of provision for Centrally sponsored schemes is too high and that determined efforts should be made to gradually reduce the proportion of this type of expenditure and add the savings to the amount of Central assistance for States and Union Territory Plans.

7.18 Table 5 gives the revenue account position of the Central Government for the five year period. (Year-wise projections are given in Annexure VII.3).

TABLE 5

Revenue Account Position Of The Central Government:1990-95

(Rs. Crore)

I	Non-Plan Revenue Surplus	149271
II	Transfers By Finance Commission	106062
	1. States' share of Income Tax	20925
	2. States' share of Excise Duties	66207
	3. Grant in lieu of Tax on Railway Passenger Fares	750
	4. Grants under Article 275(1)	18180
III.	Plan Expenditure on Revenue Account	73847
	1. Centre's own Plan	20046
	2. Union Territory Plans	1742
	3. Grants to States for State Plans	25285
	4. Grants for Union Territory Plans	248
	5. Grants to States for Central and Centrally sponsored schemes	26350
	6. Grants to Union Territories for Central and Centrally sponsored schemes	176
IV.	Surplus (+)/Deficit(-) on Revenue Account (I-II-III)	(-)30638

7.19 We have attempted an assessment of the impact of our recommendations regarding transfers to States on the revenue account of the Central budget. Table 6 gives the percentages of each major item to Central Government's revenue receipts for the five years from 1985-86 to 1989-90 and the corresponding estimated transfers for the period 1990-95.

TABLE 6

Transfers To States

(Rs. Crore)

		1985-90	1990-95
1.	Total Revenue Receipts	249419	466502
2.	States' share of Taxes	49145	87882
3.	Grants under Article 275(1) except margin money grant and net interest liability grant.	4199	15030
4.	Net Interest Liability Grant	1333	-
5.	Total (2 to 4)	54677	102912
6.	a) Margin Money	651	
	b) Grant for relief expenditure	1163	
	Total (6)	**1814**	**3150**
7.	Total Transfers	56491	106062
8.	Item 5 as percentage of item 1	21.92	22.06
9.	Item 6 as percentage of item 1	0.73	0.68
10.	Item 7 as percentage of item 1	22.65	22.74

Note - *Difference in figures in this table and those in table 4 is due to rounding.*

7.20 It will be seen from Table 6 that as percentages of total revenue receipts of the Centre, the transfers to States recommended by us do not involve any substantial difference.

7.21 We now come to the question whether the transfers recommended by us result in a situation where the Centre cannot have a reasonable outlay on the Eighth Plan. Our projections show that the total budget support to Central Plan in the revenue account will be Rs. 46572 crore at current prices. (For reasons we have explained earlier in the report, we have not provided separately for committed liability on Seventh Plan schemes). Our projections of interest payments imply net borrowings adequate to finance 10 per cent per annum growth in capital expenditure (adjusted for recovery of loans). Centre's capital expenditure includes non-Plan expenditure, capital portion of Central assistance to States as well as Centre's own Plan in the capital account. When Centre's total capital expenditure increases by 10 per cent per annum over 1989-90 base, the capital portion of budget support to Central Plan should increase at least at the same rate. On that basis we have worked out that the total budget support to Central Plan in the capital account during 1990-95 can be Rs. 63,097 crore. Including the revenue component of Rs. 46,572 crore mentioned above, the total budgetary support to Central Plan at current prices for the Eighth Plan is estimated at Rs. 1,09,669 crore. Adjusted for 5 per cent price rise assumed by us the total budgetary support to Plan at 1989-90 prices works out to Rs. 94,191 crore as indicated in Table 7.

TABLE 7

Budgetary Support To Central Plan : 1990-95

(Rs. Crore)

1.	Capital Expenditure on - (Plan)	107767
2.	Loans to States out of 1 for State Plans	41051
3.	Loans to Union Territories for Union Territory Plans	3619
4.	Balance (Capital part of Budgetary Support to Central Plan)	63097
5.	Revenue Expenditure (Plan)	73847
6.	Plan Grants to States and Union Territories and Union Territory Plans.	27275
7.	Balance (i.e. Revenue Part of Budgetary Support to Central Plan)	46572
8.	Total Budgetary Support to Central Plan (4+7)	109669
9.	Total Budgetary Support to Central Plan at 1989-90 Prices	94191

7.22 Around Rs. 94,200 crore of budget support to Central Plan at 1989-90 prices should be possible during 1990-95 with revenue deficit contained within reasonable level as projected by us. To limit Centre's revenue deficit at such a level, it is necessary that the remaining part of Centre's Eighth Plan resources are raised by and invested in the public sector unless the Centre can raise net revenue resources at levels higher than what we have projected. The policy implications of this approach have been indicated in our concluding remarks in Chapter X.

7.23 On the States' side, we have provided for a minimum Plan expenditure of Rs. 40,000 crore on the revenue account including committed liability. States' total Plan expenditure on revenue account will obviously be higher as we have left out of our assessment the revenue Plan expenditure on externally aided schemes, hill area programmes, etc. Further, States with surpluses available may spend more on their revenue account Plan. However, these types of additions to outlay in the revenue account need not add to revenue deficit as they are matched by grants or revenue surplus available. As we have fully provided grants for Centrally sponsored schemes in the Centre's forecast, on that item also there should be no additional revenue deficit. (States' share of Centrally sponsored schemes is included in the base year 1989-90 figure we have adopted for projecting the minimum Plan expenditure of Rs. 40,000 crore). As we have stated earlier, determining each State's Plan including its revenue component as well as the allocation of sectoral outlays is obviously the task of the Planning Commission and we do not enter into that area at all.

7.24 Before we proceed to assess the final revenue account position of the States and the Centre, we would like to see whether the overall result of our recommendations is consistent with the objective of helping all States in general and the relatively more needy States in particular. Table 8 gives per capita transfers recommended by us to non-Special Category States (other than Goa) and the ratio of each State's per capita transfers to its per capita income.

TABLE 8

Per Capita Transfer And Its Ratio With Per Capita Income-Non-Special Category States: 1990-95

States	Per Capita Transfers (Rs.) * Based On 1981 Population	Based On 1982-85 Average Population	Per Capita SDP (New Series) Average 1982-85(Rs.)	Ratio Of Per Capita Transfer And Per Capita Income @
	(1)	(2)	(3)	(4)
1. Andhra Pradesh	1292	1229	2053	0.5986
2. Bihar	1580	1495	1323	1.1300
3. Gujarat	996	943	2919	0.3231
4. Haryana	875	814	3043	0.2675
5. Karnataka	1067	1008	2461	0.4096
6. Kerala	1309	1250	2144	0.5830
7. Madhya Pradesh	1453	1373	1860	0.7382
8. Maharashtra	961	909	3384	0.2686
9. Orissa	2028	1936	1728	1.1204
10. Punjab	935	886	4013	0.2208
11. Rajasthan	1769	1647	1820	0.9049
12. Tamil Nadu	1250	1198	2142	0.5593
13. Uttar Pradesh	1544	1461	1713	0.8529
14. West Bengal	1330	1263	2230	0.5664

** Excluding grants for Relief Expenditure*

@ Based on per capita transfers as in col. 2 and average of per capita income as in col. 3.

7.25 The per capita shares of transfers to Special Category States (and Goa) are indicated in Table 9.

TABLE 9

Per Capita Transfers To Special Category States And Goa 1990-95

(Rupees)

States	Per Capita Transfers * Based On 1981 Population	Based On 1982-85 Average Population
1. Arunachal Pradesh	13091	12158
2. Assam	1932	1815
3. Goa	5016	4715
4. Himachal Pradesh	4187	3983
5. Jammu And Kashmir	5535	5230
6. Manipur	7612	7125
7. Meghalaya	6096	5667
8. Mizoram	20592	18519
9. Nagaland	16007	14368
10. Sikkim	7624	6894
11. Tripura	6930	6476

** Excluding grants for Relief Expenditure*

7.26 As we have mentioned in different contexts earlier in this report, our terms of reference require that we keep in view the objective of not only balancing the receipts and expenditure of both the States and the Centre, but also generating surpluses for capital investment. No specific time-frame for achieving this objective has been indicated in the terms of reference. We have tried to determine how much improvement can be reasonably achieved during the five-year period 1990-95. While our assessment does assume an effort on the part of both the States and the Centre, we have taken care to make reasonable adjustments in our normative assessment so that the revenue account position we have assessed is not too difficult to reach.

7.27 The following table gives the net result of the overall revenue account position of States as assessed by us.

Each State's position is given in Annexure VII.4.

TABLE 10

Overall Revenue Account Position of States: 1990-95

(Rs. Crore)

	1990-91	1991-92	1992-93	1993-94	1994-95	Total 1990-95
I. Non-Special Category States						
a) Gross Surplus	2107.59	3089.09	4268.72	5978.71	7807.76	23251.87
b) Gross Deficit	2424.18	1742.41	1095.53	690.81	593.07	6546.00
c) NetSurplus (+) or Deficit(-)	(-)316.59	(+)1346.68	(+)3173.19	(+)5287.90	(+)7214.69	(+)16705.87
II. Three Special Category States (Assam, Jammu and Kashmir, Goa)						
a) Gross Surplus	0.74	1.78	2.99	7.00	16.10	28.61
b) Gross Deficit	92.80	82.92	68.54	55.28	40.33	339.87
c) Net Surplus(+) or Deficit(-)	(-)92.06	(-)81.14	(-)65.55	(-) 48.28	(-)24.23	(-)311.26
III. Other Special Category States						
a) Gross Surplus	427.87	539.80	671.87	827.34	1009.93	3476.81
b) Gross Deficit	-	-	-	-	-	-
c) Net Surplus(+) or Deficit(-)	(+)427.87	(+)539.80	(+)671.87	(+)827.34	(+)1009.93	(+)3476.81
IV. Total						
a) Gross Surplus	2536.20	3630.67	4943.58	6813.05	8833.79	26757.29
b) Gross Deficit	2516.98	1825.33	1164.07	746.09	633.40	6885.87
c) Net Surplus(+) or Deficit(-)	(+)19.22	(+)1805.34	(+)3779.51	(+)6066.96	(+)8200.39	(+)19871.42

7.28 We have already indicated (vide Tables 8 and 9) that our scheme of transfers gives special consideration to weaker States. This may raise the question whether the other States have been given a less than fair treatment. Table 11 gives the per capita surplus/deficit in the overall revenue account of each non-Special Category State (except Goa) emerging from our assessment and recommendations.

TABLE 11

Per Capita Revenue Surplus/Deficit After Transfers In Non-Special Category States (Excluding Goa) : 1990-95

(Rupees)

States	Surplus/Deficit
1. Andhra Pradesh	(+) 417
2. Bihar	(+) 24
3. Gujarat	(+) 767
4. Haryana	(+)1454
5. Karnataka	(+) 792
6. Kerala	(-) 162
7. Madhya Pradesh	(-) 60
8. Maharashtra	(+)1389
9. Orissa	(-) 210
10. Punjab	(+) 468
11. Rajasthan	(-) 280
12. Tamil Nadu	(+) 523
13. Uttar Pradesh	(-) 260
14. West Bengal	(-) 9

Note : *Based on 1981 population.*

7.29 The assessment of the Centre's revenue account position, year-wise, is given in Annexure VII.3. The deficit of the Centre each year is given in Table 12.

TABLE 12

Revenue Deficit of Central Government: 1990-95

(Rs. crore)

Year	Revenue Deficit
1990-91	8520
1991-92	7600
1992-93	6480
1993-94	4935
1994-95	3103
Total	**30638**

7.30 The overall (States and Centre together) position is given in Table 13.

TABLE 13

Overall Revenue Position Of States And Centre : 1990-95

(Rs. Crore)

	1990-91	1991-92	1992-93	1993-94	1994-95	Total 1990-95
1. States' Gross Surplus (+)	2536	3631	4943	6813	8834	26757
2. States' Gross Deficit (-)	2517	1825	1164	746	633	6885
3. Centre's Deficit (-)	8520	7600	6480	4935	3103	30638
4 Net Total	(-)850	(-)5794	(-)2701	(+)1132	(+)5098	(-)10766

Both in the States and the Centre, deficit levels are estimated to come down steadily. In the last two years of the Eighth Plan, there will be net surplus in the overall revenue account. In 1994-95, the net surplus consists of gross surplus of Rs. 8834 crore in 21 States, gross deficit of Rs. 633 crore in 4 States, and a deficit of Rs. 3,103 crore in the Centre's revenue account.

7.31 It may be seen that the net overall revenue deficit in the States and the Centre together for the five-year period (1990-95) is Rs. 10,766 crore. We have noted the fact that the States which have deficits will have to divert their borrowings to meet their part of the revenue deficit. However, the position that emerges from our recommendations (particularly regarding developmental grants to partly meet Plan deficit) is substantially better than the position those States would find themselves in if, as before, only non-Plan deficits were tackled by the Finance Commission. Therefore, it is reasonable to expect the deficit States to make some extra efforts to fill their remaining overall revenue account gap. If they do that and reduce their revenue deficits substantially from the levels assessed by us, the Planning Commission may consider giving them special long-term loans to cover a part of the remaining revenue deficit so that only a minor part of the overall revenue deficits of those States will have to be met by diverting their normal borrowings.