INTERIM REPORT

OF THE

FINANCE COMMISSION

(OCTOBER 1968)

CONTENTS

CHAPTER 1

INTRODUCTORY

This Finance Commission is the fifth Commission to be appointed under Article 280 of the Constitution, and was constituted by an Order of the President dated the 29th February, 1968, which is reproduced below. We assumed office on the 15th March, 1968.

"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 with effect from the 15th March, 1968, a Finance Commission consisting of Shri Mahavir Tyagi, former Union Minister of Rehabilitation, as the Chairman and the following four other members, namely:

(1) Shri P. C. Bhattacharyya, former Governor, Reserve Bank of India.

(2) Shri M. Seshachalapathy, retired Judge, Andhra Pradesh High Court.

(3) Dr. D. T. Lakdawala, Professor, Department of Economics, Bombay University.

(4) Shri V. L. Gidwani, former Chief Secretary, Government of Gujarat, Member-Secretary.

2. The members of the Commission shall hold office until the 31st day of July, 1969.

3. Shri Mahavir Tyagi shall render part-time service as Chairman of the Commission until such date as the Central Government may specify in this behalf and thereafter, he shall render whole-time service as Chairman of the Commission. Of the other members, Shri P. C. Bhattacharyya shall render part-time service as member of the Commission until such date as the Central Government may specify in this behalf and, thereafter, he shall render whole-time service as member of the Commission. The other three members will render whole-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 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 for purposes other than those specified in the provisos to clause (1) of that article and other than the requirements of the Five Year Plan, having regard, among other considerations, to—

(i) the revenue resources of those States for the five years ending with the financial year 1973-74 on the basis of the levels of taxation likely to be reached at the end of the financial year 1968-69;

(ii) the requirements on revenue account of those States to meet the expenditure on administration, interest charges in respect of their debt, maintenance and upkeep of Plan schemes completed by the end of 1968-69, transfer of funds to local bodies and aided institutions and other committed expenditure;

(iii) the scope for better fiscal management as also for economy consistent with efficiency which may be effected by the States in their administrative, maintenance, developmental and other expenditure;

(c) the changes, if any, to be made in the principles governing the distribution amongst the States of the grant to be made available to the States in lieu of the repealed tax on railway passenger fares;

(d) the changes, if any, to be made in the principles governing the distribution amongst the States under article 269 of the net proceeds in any financial year of estate duty in respect of property other than agricultural land;

(e) the desirability or otherwise of maintaining the existing arrangements under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, in regard to the levy of additional duties of excise on sugar, textiles and tobacco in lieu of the States' sales taxes thereon, with or without any modifications and the scope for extending such arrangements to other items or commodities;

(f) irrespective of the recommendation made under item (e) above, the changes, if any, to be made in the principles governing the distribution of the net proceeds in any financial year of the additional excise duties leviable under the 1957 Act aforesaid on each of the following commodities, namely,

(i) cotton fabrics,

(ii) silk fabrics,

(iii) woollen fabrics,

(iv) rayon or artificial silk fabrics,

(v) sugar, and

(vi) tobacco including manufactured tobacco,

in replacement of the States' sales taxes formerly levied by the State Governments:

Provided that the share accruing to each State shall not be less than the revenue realised from the levy of the sales tax for the financial year 1956-57 in that State.

(g) the principles which should govern the distribution of the net proceeds of such additional items or commodities as may be recommended under item (e) above for levy of additional excise duties in lieu of the States' sales taxes thereon;

(h) the scope for raising revenue from the taxes and duties mentioned in article 269 of the Constitution but not levied at present;

(i) the scope for raising additional revenue by the various State Governments from the sources of revenue available to them; and

(j) the problem of unauthorised overdrafts of certain States with the Reserve Bank and the procedure to be observed for avoiding such overdrafts.

5. The Commission in making its recommendations on the various matters aforesaid shall have regard to 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 expenditures or liabilities.

6. The Commission shall make an interim Report by the 30th September, 1968 covering as many of the matters mentioned in para 4 above as possible and in particular, in respect of the financial year 1969-70; and make the final Report by the 31st July, 1969 on each of the said matters and covering a period of five years commencing from the 1st day of April, 1969, indicating in its Reports the basis on which it has arrived at its findings and making available the relevant documents."

Under paragraph 6 of the Order we were required to make an interim Report by the 30th September, 1968 covering as many as possible of the matters mentioned in paragraph 4 of the Order, and in particular, in respect of the financial year 1969-70. The date for submission of the interim Report was extended to 31st October, 1968, by the President's subsequent Order dated 24th September, 1968.

2. We decided that in the interim Report we should deal with items (c), (d) and (j) of paragraph 4, and make interim recommendations in respect of the financial year 1969-70. For this purpose, we obtained from the State Governments Memoranda containing their views on those items and their forecasts of revenue receipts and

expenditure for that year. We had detailed discussions with the representatives of each State Government at New Delhi during the period from June to August, 1968. The Accountants-General of the respective States were present at these discussions. We also had discussions with representatives of the Central Government in regard to the forecast for 1969-70 furnished by them, and with the Deputy Chairman, Planning Commission, and the Governor of the Reserve Bank of India. Some other persons also appeared before us at our request to explain and elucidate their views on some of the matters in our terms of reference. The dates of discussions held with representatives of the State Governments, the Central Government and others are given in Appendix I.

3. In Chapters 2 to 4 of this interim Report, we have made our final recommendations regarding items (c), (d) and (j) of paragraph 4 of the Presidential Order. In Chapter 5, we have made interim recommendations for the devolution of taxes and duties and for grants under Article 275 of the Constitution for the financial year 1969-70. We wish to make it clear that except so far as the distribution of the proceeds of estate duty and the grant in lieu of the tax on railway passenger fares is concerned, these recommendations for the year 1969-70 have been made provisionally on an interim basis and they are subject to such readjustment as may be necessary on the basis of our final Report. We have still to have further discussions with the State Governments and other parties and to examine carefully the material already with us and the further information and memoranda which we shall receive regarding all the items of our terms of reference. The interim recommendations in this Report should not, therefore, be regarded as indicating our final views or recommendations or as committing us in any way regarding the principles of devolution of taxes or duties, other than estate duty, or grants under Article 275 of the Constitution or any other matters referred to us under the Presidential Order.

CHAPTER 2

GRANT IN LIEU OF TAX ON RAILWAY PASSENGER FARES

4. Under paragraph 4(c) of the Order of the President, we are required to make recommendations as to the changes, if any, to be made in the principles governing the distribution amongst the States of the grant to be made available to the States in lieu of the repealed tax on railway passenger fares.

5. A tax on railway passenger fares was imposed under the Railway Passenger Fares Act 1957. This Act was repealed with effect from the 1st April, 1961, and the tax was merged in the basic fares. The Government of India decided to make an *ad hoc* grant of Rs. 12·5 crores per annum to the States in lieu of the tax for a period of five years from 1961-62. The amount of the grant has been revised to Rs. 16·25 crores per annum from 1966-67 for a period of five years.

6. The grant made available at present is being distributed among the States according to percentage shares recommended by the Fourth Finance Commission. These had been worked out by allocating among the States the passenger earnings of each railway zone (exclusive of earnings of suburban services) on the basis of the route length of railway located in each State separately for each gauge, on the basis of the statistics for the three years ending March, 1964.

7. We have received various suggestions regarding the principles for distribution of the grant. These are:

(i) Continuance of the existing principles;

(ii) Distribution on the basis of estimated collections in each State;

(iii) Distribution on the basis of population of each State;

(iv) Distribution taking into account factors such as the volume of traffic relatable to a State having a short route length but a large number of visitors, and treating of important feeder roads as extensions of the railway for this purpose;

(v) Taking into account important railway routes likely to be opened in the next few years;

(vi) Distribution of the grant along with the States' shares of all divisible taxes and duties, solely on the principle of relative need of each State;

(vii) Taking into account intensity of traffic on particular routes within a railway zone; and

(viii) If intensity of traffic in States cannot be directly computed, distribution on the basis of route length and population in equal measure.

8. We have carefully considered all these suggestions. We think that the present principles which are based on those enunciated by the Second Finance Commission for the distribution of the proceeds of the railway passenger fares tax are quite suitable and proper. That Commission was of the view that the principle should be such as to secure for each State, as nearly as possible, the share of the net proceeds on account of the actual passenger travel on railways within its limits. It considered that such proceeds may be determined with reasonable accuracy by allocating the passenger earnings for each gauge of each railway zone separately among the States covered by it according to the route length in each State. The Fourth Finance Commission applied the same principles to the distribution of the grant on the ground that it was of a compensatory character, being in lieu of the repealed tax. We think that the adoption of any other criteria, such as population or collections, would not be appropriate. The criterion of collection would give undue weight to States having important terminal stations. As passenger traffic includes a large volume of inter-State travel, it is not reasonable to adopt population as a measure of the passenger travel within a State; nor can population be taken as an indicator of relative traffic intensity. It is also not possible to assess the railway passenger traffic 'relatable' to a particular State as envisaged in the suggestion (iv) in paragraph 7; nor would it be a fair basis for distributing the grant. Further, it would not be correct to treat any road as a railway for the purpose of distribution of this grant; nor would it be possible to take into account likely changes in the railway route lengths in working out the State shares. We have also carefully considered the suggestion that this grant, along with the States' shares of all taxes, should be distributed on the uniform principle of relative need, and we think that the principle suggested cannot provide a proper basis for distribution of this grant, as it is being given specifically in lieu of the tax on railway passenger fares leviable under Article 269, and the needs of different States cannot be regarded as relevant for its distribution.

9. As regards intensity of traffic on particular routes in different zones and gauges, we have been informed by the Railway Board that the necessary statistics for determining such intensity of traffic are not available. In view of this, it is not possible to take into account the relative traffic intensity of particular routes. The principles enunciated by the Second Finance Commission do make reasonable allowances for variations in the intensity of traffic.

10. We therefore recommend that no change be made in the existing principles for distribution of the grant.

11. We have worked out the percentage share of different States in the manner indicated in paragraph 6 on the basis of statistics of railway route lengths and actual passenger earnings from non-

suburban traffic for the three years ending 1966-67 (*vide* Appendix II). They are as follows:—

State	*Percentage share*
Andhra Pradesh	8·56
Assam	2·88
Bihar	10·86
Gujarat	6·91
Haryana	2·46
Jammu & Kashmir	0·01
Kerala	1·78
Madhya Pradesh	9·92
Madras	5·54
Maharashtra	9·12
Mysore	3·83
Nagaland	0·01
Orissa	2·36
Punjab	4·76
Rajasthan	6·43
Uttar Pradesh	19·06
West Bengal	5·51
TOTAL	100·00

We recommend that the grant to be made available to the States in lieu of the repealed tax on railway passenger fares be distributed in accordance with these percentages.

12. Practically all the States have represented to us, as they did to the Fourth Finance Commission, that the system of a fixed annual grant has deprived them of a potentially elastic source of revenue and they have urged that the quantum of the grant should be suitably increased each year having regard to the growth in railway earnings from passenger fares. Some States have suggested, as an alternative, that the tax should be re-introduced. These suggestions go beyond the scope of item (c) of our terms of reference, with which we are dealing at present. We propose to consider them in our final Report when dealing with item (h) of paragraph 4 of the President's Order, relating to the scope for raising revenue from taxes and duties mentioned in Article 269 of the Constitution.

CHAPTER 3

ESTATE DUTY

13. Paragraph 4(d) of the Order of the President requires us to make recommendations as to the changes, if any, to be made in the principles governing the distribution among the States, under Article 269 of the Constitution, of the net proceeds in any financial year of estate duty in respect of property other than agricultural land.

14. Article 269 provides that the net proceeds of estate duty, except in so far as they represent proceeds attributable to Union territories, are to be assigned to the States and distributed among them in accordance with the principles formulated by Parliament by law.

15. The existing scheme of distribution is as follows:—

(i) Out of the net proceeds of the duty in each financial year, a sum equal to two per cent is retained by the Union as proceeds attributable to Union territories;

(ii) The balance is apportioned between immovable property and other property in the ratio of the gross value of all such properties brought into assessment in that year;

(iii) The sum thus apportioned to immovable property is distributed among the States in proportion to the gross value of the immovable property located in each State; and

(iv) The sum apportioned to property other than immovable property is distributed among the States in proportion to their population.

16. Most of the States have suggested the continuance of the present scheme of distribution. Suggestions made by some other States are—

(i) Distribution of the entire net proceeds of estate duty, along with the States' shares of all other divisible taxes and duties, solely on the basis of needs of each State;

(ii) Distribution of the entire net proceeds on the basis of population; and

(iii) Distribution of the entire net proceeds on the basis of collection.

17. The existing principles of distribution were enunciated by the Second Finance Commission, and they were fully endorsed by the subsequent Commissions, with only a minor change in respect of the portion attributable to Union territories. These Commissions were of the view that the levy and collection of the taxes and duties specified in Article 269 of the Constitution had been placed under the Union Government so as to ensure uniformity of taxation and convenience of collection. They considered that although that Article

did not rule out any principle of distribution, the principles to be laid down should be such as to secure for each State, as nearly as possible, the amounts which it would have itself collected if it had the power to levy and collect such tax or duty. The basis of location of the property subject to estate duty was considered by them to be the most appropriate principle of distribution. However, as this basis of location could not be applied to movable property, they felt it necessary to have some general principle of distribution for the part of proceeds of the duty relating to such property; and for this purpose they adopted the basis of population.

18. We have carefully considered the various suggestions made by the State Governments. We are of opinion that the view taken by the earlier Commissions is reasonable and sound. The proceeds of taxes and duties specified in Article 269 are wholly assigned to the States in which they are levied, unlike the proceeds of income-tax and excise duties which are divisible between the Centre and the States under Articles 270 and 272. It would not, therefore, be appropriate to treat the taxes under Article 269 as part of a common pool of resources to be distributed on a uniform principle, such as relative needs of States. We also think that the factor of location of immovable property cannot be disregarded in distributing the part of the duty relating to such property. Nor can the collection of duty in a State be taken as a general basis to indicate what the State would have realised on such property as it could have taxed if it had the power to do so.

19. We also considered a suggestion that the *pro rata* share of immovable property in the estate duty assessed under each estate, should be initially apportioned to the States where such property is located. This would take into account the large variations in rates of duty assessed on estates of different sizes, distributed unevenly among the States. We do not, however, think it correct to accept this procedure, as the net proceeds of the duty in any year are not strictly relatable to the particular properties which may be brought into assessment in that year, the amount of duty assessed being payable in instalments over a number of years. The Central Board of Direct Taxes have also pointed out certain practical difficulties in the acceptance of this suggestion.

20. In view of the foregoing considerations, we have come to the conclusion that no change is called for in the existing principles governing the distribution of the duty among the States.

21. The principles of distribution to be formulated under clause (2) of Article 269 relate to the distribution of the net proceeds remaining after excluding proceeds attributable to the Union territories. The determination of the proceeds attributable to the Union territories is thus a necessary step preceding the application of the principles of distribution formulated for the purpose of distribution among the States. The Fourth Finance Commission had recommended that a sum equal to two per cent of the net proceeds be retained by the Union as attributable to the Union territories. Taking into account the population of the Union territories as now constituted following the changes under the Punjab Reorganisation Act, 1966,

and the gross values of immovable property located therein and brought into assessment in the five years ending with 1966-67, we consider that a sum equal to three per cent of the net proceeds should be determined as the proceeds attributable to the Union territories.

22. Accordingly, we recommend that—

(1) Out of the net proceeds of the estate duty in each financial year, a sum equal to three per cent thereof be retained by the Union as being the proceeds attributable to Union territories; and

(2) The balance of net proceeds be distributed among the States in accordance with the following principles:—

(a) Such balance be first apportioned between immovable property and other property in the ratio of the gross value of all such properties brought into assessment in that year;

(b) The sum thus apportioned to immovable property be distributed among the States in proportion to the gross value of the immovable property located in each State and brought into assessment in that year; and

(c) The sum apportioned to property other than immovable property be distributed among the States in proportion to the population of each State.

23. On the basis of figures of population according to the 1961 Census the percentage shares of the States for the purpose of Clause (2)(c) of para 22 will be as under:—

States	*Percentage*
Andhra Pradesh	8·37
Assam	2·76
Bihar	10·80
Gujarat	4·80
Haryana	1·76
Jammu and Kashmir	0·83
Kerala	3·93
Madhya Pradesh	7·53
Madras	7·83
Maharashtra	9·20
Mysore	5·48
Nagaland	0·09
Orissa	4·08
Punjab	2·59
Rajasthan	4·68
Uttar Pradesh	17·15
West Bengal	8·12
TOTAL	100·00

CHAPTER 4

UNAUTHORISED OVERDRAFTS

24. Paragraph 4(j) of the Order of the President requires us to make recommendations regarding the problem of unauthorised overdrafts of certain States with the Reserve Bank of India and the procedure to be observed for avoiding such overdrafts.

Nature and magnitude of the problem

25. We shall first set out the present arrangements between the State Governments and the Reserve Bank of India and indicate how unauthorised overdrafts arise. All the States except Jammu and Kashmir have entered into agreements with the Bank under Section 21-A of the Reserve Bank of India Act to enable it to handle their monetary transactions. Section 17(5) of the Act provides that the Reserve Bank may make advances to State Governments repayable in each case not later than three months from the date of the advance. The limits of such advances are specified in the letters exchanged in pursuance of the agreements. Upto 1953, the limits laid down were equal to the minimum cash balances that the State Governments were required to maintain with the Reserve Bank, and since then they have been fixed as a multiple of such balances. Besides the normal ways and means advances for which no cover is necessary, the Reserve Bank gives special advances to the State Governments against Central Government securities. Table 1 gives the position regarding the limits as obtaining since the 1st March, 1967, under which the States can obtain normal ways and means advances upto Rs. 18·75 crores in all and special advances of a further amount of Rs. 37·5 crores. The Reserve Bank also sanctioned additional *ad hoc* limits for secured advances. Such limits as on the 10th August, 1968 stood at Rs. 12·7 crores. "Unauthorised overdrafts" arise either because the limits agreed to between the States and the Reserve Bank are exceeded or because the ovrdrafts are not repaid within the period of three months.

26. The monetary transactions of State Governments go on simultaneously at over 2,000 treasuries, sub-treasuries and banks. Owing to this large number of places it is not possible for the Bank to ensure beforehand that payments on behalf of a State Government do not exceed the balance held by it by more than the limit specifically agreed to. The Government transactions occuring at all such places are allowed to proceed without any reference to the actual position of a State Government's cash balance, the accounts of which are maintained only at the Central Accounts Section of the Reserve Bank. The agency Banks transfer the net amount of debit or credit to the State's cash balance account every day. The non-Banking treasuries have separate balances belonging to the State Governments outside the cash balances maintained with the Reserve Bank. Such treasuries are permitted to draw on currency chests kept with them

by the Reserve Bank as a resource for making payments whenever the State's own balance at the treasury gets depleted, as well as to deposit surplus receipts in the currency chests from time to time. The net transfers of funds to or from the currency chests are taken to the credit or debit of the cash balances of the States. When on the compilation of accounts each day it is found that the debit against a State Government exceeds the limit of the ways and means advance, an unauthorised overdraft results. This happens unobstrusively and the Reserve Bank comes to know of it only after the event. At that point the agreement entered into by the State Government under the Reserve Bank of India Act is contravened. Further, in view of the fact that all the State Governments are indebted to the Centre, there is also a contravention of Article 293(3) of the Constitution, which provides that a State Government may not, except with the consent of the Government of India, raise any loan if there is outstanding any part of a loan to the State by the Government of India or a loan guaranteed by it. When the fact of an unauthorised overdraft comes to the knowledge of the Reserve Bank, it issues a notice to the State to make arrangements to clear the overdraft within three weeks with a warning that in case of default the Bank will consider itself free to stop payments without any further notice. Some State Governments have taken these notices seriously and have complied with their requirements, mostly with the help of the Central Government. Others have just ignored them. Where the overdraft is not cleared, it is open to the Reserve Bank to refuse to honour any further cheques of the State Government. It is, perhaps, incumbent on it to do so, as a body constituted for securing monetary stability. The Reserve Bank has, however, desisted from this course in the past, in view of the extremely adverse effect that such action may have on the credit and financial stability of the State Government with all its serious implications including the possible emergence of a situation envisaged in Article 360 of the Constitution. To avert such a crisis, the Central Government has been giving *ad hoc* loans or other form of assistance to the State Governments to enable them to clear their unauthorised overdrafts before the end of the year.

27. The prevalance and magnitude of these overdrafts have become serious in recent years. Upto about 1950, the State Governments were able to manage their financial transactions within the specified limits of their ways and means advances. The first overdraft of an appreciable size arose in that year. In April, 1953, in order to meet the increasing requirements of the States, the Reserve Bank increased the limits of ways and means advances for all the States from Rs. 1·85 crores to Rs. 7·88 crores in all. Special ways and means advances of Rs. 2 crores for each State were also permitted against Government of India securities. In spite of these increased limits, the Government of India had to provide during the Second Plan period *ad hoc* loan assistance aggregating to Rs. 128 crores to seven State Governments to clear their unauthorised overdrafts. Eleven States had to be given such assistance amounting to Rs. 286 crores during the Third Plan period. The problem has become even more serious since the end of the Third Plan period. During 1966-67, the Central Government had to sanction *ad hoc* loans amounting

to Rs. 149 crores. Although there was a further upward revision in the limits of ways and means advances in March, 1967, *ad hoc* loans amounting to Rs. 128 crores had to be given during 1967-68 (*vide* Table 2).

28. Of the seventeen States, six or seven States have been having persistent unauthorised overdrafts. As ranked by the *per capita* incomes of their inhabitants, such States were not those with the lowest ranks. Some of the less prosperous States did not get into unauthorised overdrafts while some relatively better-off States had done so.

Consequences

29. The persistence and large size of unauthorised overdrafts are a matter of very serious concern. Apart from the contravention of Article 293(3) of the Constitution and the agreements entered into under Section 21-A of the Reserve Bank of India Act, the occurrence of such overdrafts and their practically automatic clearance by the Centre through *ad hoc* loans have grave effects on the national economy. In all federations, it is the sole responsibility of the Central Government to take decisions regarding the need for and the extent of deficit financing in the context of overall economic considerations. No country with a unified currency system can afford to have more than one independent authority taking measures which result in increase of money supply. Unauthorised overdrafts violate this fundamental principle of sound monetary management. The benefits of this violation go to a few States which draw on the national resources at their own will without any scrutiny of their needs at the national level, while the burdens are borne by all, including the States which are less prosperous. There is a serious danger that the example of having recourse to such unauthorised overdrafts by certain States, followed by their almost routine clearance by the Centre, may prove infectious. The States which have avoided such overdrafts by prudent fiscal management are very critical of this practice. They strongly represented to us that this extremely undesirable state of affairs should be immediately ended.

30. In our discussions with the State Governments we found that all of them, including those which had got into unauthorised overdrafts, were agreed that such overdrafts are untenable in principle and undesirable in practice and that there is an urgent need of stopping them. There is thus general unanimity that the practice of unauthorised overdrafts is harmful and undesirable, and that effective measures should be taken to put an end to it in the interest of national economy. The Commission agrees with this view.

States' difficulties

31. We shall now examine the reasons given by the States for the emergence of unauthorised overdrafts. The State Governments which have had persistent overdrafts have explained to us that they have been forced to have recourse to them due to various difficulties which they have to face. The State Governments have to strive to meet the ever growing needs of the people in a welfare State, parti-

cularly for social and economic development, and many of them have special problems and difficult situations to deal with. The steep rise in prices in the last few years has also added considerably to their financial difficulties. If the problem is to be tackled at its source, these difficulties must be considered in their proper context and, to the extent they are genuine, removed.

32. We may classify the difficulties explained by the States into two groups according to their nature:

(a) Temporary difficulties arising from the uneven flow of receipts or expenditure and the inadequacy of limits of ways and means advances with which they could be met; and

(b) Relatively more chronic imbalances between their resources and functions, inadequate devolution and the absence of suitable mechanism to deal with unforeseen difficulties.

The first group can only explain temporary unauthorised overdrafts which should get cleared as soon as progressive receipts reach up to progressive expenditure. The second group of difficulties can lead to persistent unauthorised overdrafts. It is the latter which we shall consider first.

Imbalance between resources and functions

33. The States have complained of the great disparity between their resources and functions under the Constitution. The distribution of resources and functions between Central and State Governments varies from one federal Constitution to another. Recent technical and economic developments leading to integration of the national economy have, however, resulted in an effective centralisation of a number of more productive taxes. A growing degree of imbalance between the revenues of State Governments and the expenditure needed for the efficient discharge of their functions has, therefore, proved to be inescapable in most federations. The Indian Constitution, drawing upon the experience of the working of other federations and recognising the need of the times, has given the Central Government the exclusive power to levy and collect some important direct taxes. On the other hand, it has left a considerable field of direct taxation, such as land revenue, taxes on agricultural income and duties in respect of succession to agricultural land, entirely to the States. The power to levy taxes on commodities, excluding customs duties, is divided between the Centre and the States. Besides, the Constitution has assigned to the States the entire proceeds of some taxes levied and collected by the Central Government under Article 269 and a share in the proceeds of income tax under Article 270. The proceeds of Union Excise duties may also be shared under Article 272. Article 275 provides for grants-in-aid of the revenues of States which may be in need of assistance. The shares of these taxes and the amount of grants are decided on the recommendations of the Finance Commissions which are appointed at least every fifth year. The recommendations of the Finance Commissions have been

making provision for the requirements of States for non-Plan revenue expenditure. Revenue grants as well as loan assistance for the Plan are disbursed by the Central Government on the recommendation of the Planning Commission. The Central Government generally accepts the recommendations of these Commissions and large and increasing amounts are being transferred to the States accordingly. The State Governments have a full opportunity to state their cases and explain their requirements to the two Commissions. In the nature of things it cannot be expected that the States will be fully satisfied with the decisions. However, once the decisions are taken, it is the duty of the States to manage their affairs within the resources available to them including the devolution and assistance from the Centre. They must regard it as a matter of necessary fiscal discipline to balance their budgets, and to take in their stride the normal vicissitudes in their financial position.

Difficulties due to changed circumstances

34. Many States have drawn our attention to the fact that while the size of State Plans and Central Plan assistance are reviewed and revised from year to year, the recommendations of Finance Commissions remain in force for longer periods without any such review If due to changed circumstances, such as increase in prices requiring provision for dearness allowance to their employees, the States have to incur substantially larger non-Plan expenditure there is no machinery at present for providing increased devolution of resources to them. They have represented to us that it is necessary to have some reviewing agency like a permanent Finance Commission which could look into their difficulties on such occasions and recommend suitable additional assistance. We have given very careful thought to the demand of the States for such a mechanism. We are, however, of opinion that it would not be very useful to set up any standing arrangements for this purpose. We think that the case for a permanent Finance Commission has to be judged on grounds much wider than the occasional need for providing additional non-Plan assistance to States during the period covered by the existing devolution arrangements. Having regard to the nature of its functions it would be inappropriate to require a Finance Commission to look only into the requirements arising from some isolated causes affecting the States' revenue or expenditure, or to look into the financial needs of a few States only. In considering any modification of the scheme of devolution of resources from the Centre to the States or their distribution among the States, the Finance Commission would have to take into account the overall needs and resources of the Central and State Governments in the changed circumstances, including the commitments already made on the basis of the existing scheme of devolution. Such a review would not be practicable for the purpose of dealing only with the additional needs of States due to particular reasons.

35. When a State Government finds itself unable to balance its budget, having regard to its existing resources including the proceeds of additional taxation undertaken after the last Plan period, its difficulties may be either due to circumstances beyond its control, such

as natural calamities, or due to other new developments necessitating substantial additional expenditure. We note that the Central Government already has a scheme for assistance to States in case of natural calamities under which, after obtaining the report of a team of Central officers, it provides assistance by way of grants and loans as well as necessary ways and means advances to cover the entire approved expenditure required to meet such calamities. We consider that in all cases where a State Government experiences difficulties due to unforeseen developments, it should make serious efforts to raise further resources or to reduce its expenditure as far as possible instead of incurring unauthorised overdrafts. If, in spite of all possible measures, the State finds itself unable to meet the additional expenditure which is immediately necessary, it may apply to the Centre for temporary assistance to tide over the difficulty by a short-term loan on suitable terms. We recommend that in such cases the Central Government should provide necessary assistance to the State after satisfying itself regarding the need of the State, the efforts made by it to adjust its resources and expenditure and the steps it is prepared to take to provide for repayment of the loan.

36. After the immediate requirements have been provided for in this manner, the State should be able to devise suitable measures for balancing its budget in the succeeding year. The Planning Commission which annually reviews the estimated non-Plan receipts and expenditure of the States, should take into account the adverse effect of the new developments, and if necessary, modify the size of the annual Plan of the State concerned. This may result in some States having to curtail their annual Plans, but we think that proper fiscal discipline requires that they should make such necessary adjustments in their Plan programmes until the whole question of devolution is reviewed by the next Finance Commission.

Plan finance

37. Some State Governments have represented to us that they have been led to overestimate their resources and underestimate their non-Plan expenditure in their eagerness to have larger Plans and to secure greater Plan assistance which has been allocated on a basis of matching resources. We consider that both resources and expenditure should be estimated in a realistic manner. At the same time we recognise that to some extent the States have to be prevailed upon to maximise their resources and to economise on non-essential expenditure. We understand that the Planning Commission is engaged in revising the principles for distribution of Plan assistance in future, and that it is likely to give less importance to the basis of matching resources. We consider it fundamental that there should be no deficit financing at the State level, and that the size of the State Plans should be regulated strictly within the States' own resources and such Central assistance as may be available. For this purpose, ways and means advances should not be considered as a resource.

Repayment of Central loans

38. Besides the requirements of unforeseen circumstances which have led to difficulties in the States' revenue budgets, the volume of

repayment of loans has in recent years resulted in a considerable strain on the capital side. In this respect there is a serious lacuna in the present arrangements for fiscal assistance to States to which we would like to draw the attention of the Central Government. The repayments of loans by States have been growing very steeply (*vide* Table 3) while non-Plan capital receipts have not shown any such growth. It has not been possible for us to consider the various items of capital receipts and expenditure individually, but taken together they have resulted in substantial non-Plan capital deficits (*vide* Table 4) which have been largely responsible for unauthorised overdrafts in several States. At present, there is no arrangement for dealing with the problem of these capital deficits. In order that unauthorised overdrafts are avoided, we suggest that whenever such deficit is anticipated, the State Government should carefully consider how far its non-Plan capital expenditure can be reduced, and also make efforts to increase its capital receipts including better recovery of loans given by it. If in spite of such efforts, the capital budget for the year cannot be balanced, the State may represent its case to the Central Government which may, if satisfied that the State needs relief in order to avoid unauthorised overdrafts, consider deferring the repayment of Central loans falling due during the year to the necessary extent.

Deprivation of States' share of taxes

39. Some of the State Governments have represented to us that the inadequacy of their resources has been accentuated by the unilateral actions taken by the Central Government which have deprived them of their legitimate shares out of proceeds from advance collection of income-tax, income-tax on companies and tax on railway passenger fares. We may point out that while the Constitution gives the States a right to share in certain taxes when they are levied by the Centre, it is the responsibility of the Central Government to decide what taxes are to be levied as well as the manner in which and the rates at which they should be levied. The machinery of Finance Commissions has been provided to ensure that the States receive an equitable share of the proceeds of divisible taxes and duties after periodical review. A cause for complaint regarding deprivation of the States' due share can therefore arise only if the Central Government made a change adversely affecting the States without providing for suitable compensation during the period between two Finance Commissions. Such has not been the position in any of the cases mentioned by the States in this connection. Whatever view might be taken as to the correctness of the procedure for determining the net proceeds of income-tax, the fact is that the present practice of excluding advance collection of income-tax from the divisible pool pending finalisation of assessments has been in existence since a time prior to the appointment of the first Finance Commission and even before the commencement of the Constitution. All the Finance Commissions have framed their recommendations regarding devolution of taxes and grants after having due regard to the size of the divisible pool of income-tax estimated on the basis of the existing procedure. The change in the Income-tax Act whereby the income-tax paid by companies was brought into the category of cor-

poration taxes was made in 1959. This resulted in contraction of the divisible pool immediately, but the Central Government gave the States a compensatory grant to make good the loss. When this matter was dealt with by the Third Finance Commission, it pointed out that there were other measures available for taking account of the shrinkage in the divisible pool. On this and other considerations it increased the States' share in the proceeds of income-tax to 66-2/3 *per cent* and also made other recommendations to increase the volume of devolution. The Fourth Finance Commission also took due note of the States' representations in this regard and eventually increased the States' share of income-tax to 75 *per cent*. An *ad hoc* grant was provided by the Centre in lieu of the repealed tax on railway passenger fares. We do not therefore consider that the contention of some States that these measures have led to unauthorised overdrafts is justified.

Delays in receipt of devolution and Plan assistance

40. We now come to temporary difficulties arising from fluctuations in the flow of receipts and expenditure. In this connection the States have complained of delays in the receipt of their shares of tax devolution, statutory grants and Plan assistance. We have gone into this question in some detail. We find that the States' shares of the Union Excise and Additional Excise Duties are paid to them in monthly instalments and grants under Article 275 are disbursed quarterly in advance. The States' share of income-tax is paid quarterly—10 *per cent* in July, 20 *per cent* in October, 25 *per cent* in January and the rest in March. It is seen that the income-tax collections follow the same pattern (*vide* Table 5), and obviously the Central Government cannot be expected to pay the States' share in advance. Since, however, large portions of this share involving considerable sums are at present being paid to the States in January and March, we suggest that the Central Government may consider whether the releases could be made more frequently during the last two quarters.

41. Under the existing arrangement for release of Plan assistance, except for expenditure on multi-purpose river projects where quarterly payments are made on the basis of estimated expenditure, monthly ways and means advances are made to State Governments during the first ten months of the year on the basis of annual budget estimates and the residual amount is released in March on the basis of departmental figures of actuals for nine months and departmental estimates of expenditure for the last quarter. The Plan assistance actually due for the year is finally adjusted on the basis of audited figures which generally become available long after the close of the year. This procedure, we understand, follows a recommendation of the Central Public Accounts Committee. We think that the delay in the final adjustment of Plan assistance should not normally result in any ways and means difficulty, unless there have been large increases in Plan expenditure actually incurred as compared with the departmental actuals for nine months and estimated expenditure for the last quarter. The disparity between the two could be substantially narrowed down, if the State Governments arrange for

speedy reconciliation of departmental actuals with the accounts maintained by the Accountants-General during the course of the year. Efforts should also be made to reduce the time taken for completion of audit.

Payments on behalf of Central and other State Governments

42. Some State Governments have suggested a change in the existing accounting arrangements for transactions in a State on behalf of the Central Government and other State Governments which are initially met from State balances. The Central Government transactions at banking treasuries and sub-treasuries do not affect the cash balance of a State as they are met directly from the Central Government's cash balance. Central transactions at non-banking treasuries are initially met from the State's own balances, but they are adjusted on a weekly basis. Transactions of other State Governments at all treasuries and banks are met from the cash balance of the State where they occur and they are settled monthly. Their effect on the ways and means position of most States is, however, small and the States have also the benefit of their own transactions in other States being met from the balances of those States. We therefore think that no change in the present arrangements is called for.

Consolidation of Plan loans

43. According to existing arrangements large repayments of Central loans have to be made by the States in the month of October. This results in ways and means difficulties for some States during that month and the succeeding few months. It has been represented to us that the repayments falling due in October may be evenly spread over the last six months of the financial year. We think that such modification would not be helpful since in most cases the repayments due in March are also substantial (*vide* Table 6). In view, however, of the difficulties experienced by the States, we suggest that the Central Government may consider the possibility of suitably modifying the procedure for consolidation of loans to States so that their repayment may be in instalments which correspond generally with release of Central funds to the States and the usual time of flotation of their market loans.

Inadequacy of limits of advances

44. Several State Governments represented to us that in view of large increases in their revenue receipts and expenditure in recent years, the limits of ways and means advances allowed to them are no longer sufficient and they should be suitably increased. At this stage, we wish specially to emphasise that the facility of ways and means advances from the Reserve Bank is intended only for enabling the States to meet their temporary day to day requirements and it is not meant to be used as a resource for financing their general budgetary needs. It is vitally important that this basic position is accepted. Difficulties have often arisen because some States have been taking advantage of this facility to incur expenditure beyond their resources with the result that such advances are no longer available to them as a cushion for meeting temporary imbalances.

45. As an authority responsible for monetary management the Reserve Bank has to determine the overall limits of ways and means advances for the States having regard to the prospect of timely repayment and their general effect on monetary expansion. The limits have been revised recently in March 1967 when they were substantially enhanced. Besides, the States are authorised to meet their requirements on account of trading schemes, such as purchase of foodgrains and fertilizers, by taking separate advances from the State Bank of India and other commercial banks. The adequacy of the limits of ways and means advances from the Reserve Bank can be judged only with reference to the seasonal disparities between the inflow of revenue receipts and outflow of revenue expenditure, assuming that the budget for the year as a whole is balanced. The States have not been able to show that the temporary dispariy between their revenue receipts and expenditure, with balanced budgets, could not have been covered by the size of advances allowed to them. The Reserve Bank has assured us that it is always prepared to agree to an additional limit to meet any special difficulties of a State Government, provided that the Bank is satisfied that resources would be available for clearing the advance within the statutory period of three months. The State Governments can avail of this facility, and if need be, the Central Government can also be approached for temporary ways and means advances. We are, therefore, of the view that the present position regarding the limits of advances does not call for any immediate change. The Reserve Bank has stated that a periodical re-examination of the position will be possible. Having regard to the likely rapid development in the fiscal situation, we suggest that such periodical reviews should be made.

46. Some States have referred to the difficulty which they experience in fully availing of special advances from the Reserve Bank due to their not having sufficient Central Government securities. They have stated that their ways and means position would be eased if securities of other State Governments held by them could also be accepted by the Reserve Bank as cover for special advances. The Bank has stated that under the Reserve Bank of India Act, securities of only the Central Government can be reckoned as an asset in its Issue Department. Such special treatment of Central Government securities is inherent in any federal system. The position of such securities is therefore totally different from that of State Government securities. Further, we understand that in the last few years a practice has grown among the States of subscribing to one another's securities on a reciprocal basis. Securities created in this manner do not reflect any net investment, and they cannot afford satisfactory cover to the Reserve Bank for advances to State Governments. Their acceptance for such purpose is also likely to encourage this financially unsound practice. Besides, from the viewpoint of meeting the needs of the State Governments, what is more important is the adequacy of the limits of advances rather than the cover against which they can be obtained. Section 17(5) of the Reserve Bank of India Act does not require any cover to be taken against advances to the States, and even now clean ways and means advances are given to them upto specified limits. While the

Reserve Bank normally requires Central Government securities as cover against special advances, the Governor of the Bank told us that he did not see any difficulty in providing additional accommodation to States in special difficulties whenever necessary, by allowing further clean advances in cases where they did not have sufficient Central Government securities, subject to the Bank's being satisfied about repayment of the advances in time. We suggest that the State Governments may avail themselves of this facility which should meet their requirements.

Advances continuing beyond three months

47. In the preceding paragraphs we have examined the various difficulties explained by the State Governments and have made some suggestions which should help in removing these difficulties. We shall now proceed to consider more fully the question as to the measures which are necessary for avoiding unauthorised overdrafts and for dealing with such cases of overdrafts as may arise inspite of the measures we have suggested.

48. We may first consider the overdrafts which continue beyond the period of three months specified in section 17(5) of the Reserve Bank of India Act. We find that in fact a number of States have been having this type of overdrafts. The prolonged continuance of substantial ways and means advances is likely to reult in their exceeding the permissible limits when there is a small time-lag in the inflow of receipts or unanticipated increase in expenditure. The Reserve Bank has been allowing such advances to continue beyond three months without renewal and without calling for their repayment, on the view that the continuance of advances in this manner does not contravene section 17(5) of the Reserve Bank of India Act. We think that it is necessary to review such advances instead of allowing them to continue automatically. We suggest that the Reserve Bank should keep a continuous watch over the ways and means position of each State, and whenever any advance is found to continue beyond the period of three months, the Bank should examine whether it is due to a long-term imbalance in the State's budgetary position or any temporary reasons. Where the continuance of the advance is not due to a long term imbalance, it should be formally renewed by the Bank and treated as a fresh advance. In other cases the Bank should call upon the State Government to repay the advance, and in case of default, it should be dealt with as an unauthorised overdraft.

Balanced budgets and expenditure control

49. In the context of over-all shortage of financial resources available to the Central and State Governments and rising demands for expenditure in a welfare State, it is inevitable that the State Governments, even after receiving all possible devolution of tax shares and grants as well as Plan assistance from the Centre, will not find themselves in a position to meet their needs in full. If the evil consequences of unauthorised overdrafts are to be avoided, it is a matter of vital importance that, inspite of the relative inadequacy of their resources, the State Governments must have balanced

budgets and they should not embark upon any expenditure in excess of their available resources. Where, after the adoption of a balanced budget, there are fresh developments likely to result in lower receipts or higher expenditure, the responsibility for restoring the budgetary balance must necessarily lie on the State Government and it should take timely steps to mobilise sufficient additional resources or curtail its expenditure to the necessary extent. Table 7 gives the overall budgetary position of the States for the years 1965-66 to 1968-69. It shows that several States had substantial deficits at the initial stage of budget estimates and in many cases the deficits continued even at the time of revised estimates. In some cases, though the budgets had been balanced initially, the revised estimates showed considerable deficits. This practice of unbalanced budgets has inevitably led to persistent overdrafts. We therefore recommend that every State should adopt the policy of having overall balanced budgets both at the beginning of the year and at the time of revised estimates.

50. Even when there is a balanced budget, it is necessary that a careful watch is maintained on the flow of receipts and expenditure throughout the year. We consider it an indispensable ingredient of sound financial administration that every State should have an effective ways and means section in its Finance Department. Such sections already exist in several States, and we recommend that all States should have them. They should evolve a system of preparing every month a forecast of the ways and means position for at least three months ahead. On the basis of such forecasts, corrective measures should be taken where necessary and suitable directions issued to controlling officers for restricting expenditure, so as to ensure that the total disbursements do not exceed anticipated resources during each period. The States may also consider the introduction of a system in the nature of "letters of credit" in the case of major spending departments, such as Public Works, Irrigation, Electricity, Forests, etc., which generally draw money by cheques on the treasuries and banks. The monetary limit upto which each disbursing officer can incur expenditure may be fixed periodically and any withdrawal in excess of such limit should be refused by the treasury or bank. We understand that a system on these lines has been introduced in one State and has led to a definite improvement in its overdrafts position. This system may be adopted by other States with advantage.

51. With the adoption of balanced budgets and an effective system of control over expenditure, the States should be able to avoid any difficulties in their ways and means position. We have already dealt with the question of unforeseen developments requiring heavy expendtiure or reduction of revenues, while considering the question of imbalance between the States' resources and functions. We consider that if the suggestions we have made in that regard are properly followed, the States should be able to arrange for meeting the essential expenditure on such occasions. Where necessary, they should represent their case to the Central Government in good time for obtaining suitable assistance. We have no doubt that the Central Government would give careful consideration to the difficulties

experienced by the States due to unforeseen circumstances and would give them such assistance as is possible, instead of allowing them to get into unauthorised overdrafts and having to clear them later.

Procedure for dealing with unauthorised overdrafts

52. If the arrangements envisaged in the preceding paragraphs are implemented and worked in their proper spirit, there should not be any occasion for a State to run into an unauthorised overdraft. If, however, any such overdraft still occurs, it could only be due to lack of fiscal discipline on the part of the State. We consider that it would not be proper for the Reserve Bank to treat its notice to a State Government for clearing its overdraft as a routine measure. It should be the duty of the State Government to take all possible steps for clearing the overdraft, failing which the Reserve Bank must proceed to stop payment of the State's cheques.

53. In view of the serious consequences which would ensue from the stoppage of payment of a State's cheques, we are of opinion that in such a situation it is the duty of the Central Government to help the State to regain a position of budgetary balance and to achieve fiscal discipline. To do so, it would be necessary for the Central Government to assist the State to clear its overdraft. It must, however, be recognised that this would be possible only where the State does not persistently follow policies resulting in financial difficulties and that the Central Government cannot be expected to clear unauthorised overdrafts of the State Government repeatedly. The Central Government would therefore have to consider, whenever an unauthorised overdraft occurs, whether the situation resulting from stoppage of cheques should be allowed to take place or whether the State should be given necessary assistance to clear the overdraft. For this purpose we suggest that the Reserve Bank, whenever it issues a notice to the State Government, should also bring the matter to the attention of the Central Government. The Central Government should take up the matter with the State Government and ascertain what steps it proposes to take to clear the overdraft. If the State Government is not in a position to do so, it should urgently approach the Central Government for special assistance. The Central Government should, where it decides to assist the State, release as a matter of urgency so much of the share of devolution or Plan assistance payable to the State during the remaining part of the year as may be needed for covering the portion of the overdraft which the State Government is not able to clear by itself. If the amount due to the State during the year is not sufficient for this purpose, the Central Government should provide further assistance to the State by giving an *ad hoc* loan to be adjusted against its share of devolution or Plan assistance falling due during the next year.

54. The Central Government should at the same time initiate necessary consultations with the State Government with a view to finding out the causes responsible for its difficulties and the measures necessary to ensure that a similar situation does not recur. The Central Government should for this purpose depute a

team of its officers, including a nominee of the Planning Commission, to visit the State for assessing the situation and to make suitable recommendations, after consulting the State Government, regarding the measures necessary for removing the disparity between the State's resources and expenditure, and for ensuring an effective system of control over expenditure. The team may also examine whether any further temporary loan assistance would be required by the State for tiding over its immediate difficulties. The Central Government should, after considering the recommendations of the team of officers, call upon the State to adopt such measures as the Central Government may deem necessary. In this connection it should be open to the Central Government to arrange for the association, in an advisory capacity, of an officer nominated by it with the Finance Department of the State, to secure effective control over expenditure so as to keep it within actual receipts. The State Government should comply with these requirements as they are part of the arrangements for getting special assistance from the Centre. We have carefully considered whether such requirements could be regarded as an infringement of the State's autonomy. We consider that in view of the fact that such measures would be required only for the purpose of giving assistance to the State for clearing its unauthorised overdraft, they cannot be regarded as in any way affecting the State's autonomy. We discussed this point with the State Governments and many of them expressed agreement with this view. In fact, some of them stated that such action would be nothing more than the fulfilment of the Cenre's responsibility.

55. If a State Government persists in incurring an unauthorised verdraft, we are of opinion that it would not be proper that the Central Government should clear it. The consequences of the State's failure to clear the overdraft will then have to be faced. If a persistent overdraft occurs, or if it is not found possible to clear an overdraft in accordance with the procedure that we have suggested, the Central Government would have to take a view within the period of notice given by the Reserve Bank whether the crisis resulting from the stoppage of payments of the State's cheques should be allowed to develop or it would be expedient to forestall it by the invocation of its constitutional powers. It is obvious that such an important decision would be taken by the Central Government only after full consideration of all the facts and circumstances of a particular situation. It would not be proper for us to make any suggestion in this regard.

Summary of recommendations

56. We therefore recommend the following measures for avoiding unauthorised overdrafts:

(1) The State Governments must accept the basic position that the facility of ways and means advances is meant only for meeting temporary requirements and not for financing general budgetary needs. (Para 44)

(2) The States should, as a matter of necessary fiscal discipline, balance their budgets and manage their affairs within the resources available to them. They should adopt the policy

of having overall balanced budgets both at the beginning of the year and at the time of revised estimates. (Paras 33 and 49)

(3) There should be no deficit financing at the State level and the size of the State Plans should be regulated strictly within the States' own resources and available Central assistance. Ways and means advances should not be considered as a resource. (Para 37)

(4) While the present position regarding limits of ways and means advances does not call for any immediate change, periodical reviews of the limits should be made by the Reserve Bank. (Para 45)

(5) The State Governments which do not have sufficient Central Government securities may, in special difficulties, avail themselves of such further clean advances as the Reserve Bank can allow subject to being satisfied about repayment in time. (Para 46)

(6) The Central Government may consider more frequent releases of the States' share of income tax during the last two quarters. (Para 40)

(7) To avoid ways and means difficulty due to delay in the final adjustment of Plan assistance, the State Governments should arrange for speedy reconciliation of departmental actuals with the accounts maintained by the Accountants General during the course of the year. Efforts should also be made to expedite completion of audit. (Para 41)

(8) The Central Government may consider suitably modifying the procedure for consolidation of loans to States so that their repayment in instalments may correspond with release of Central funds to States and the usual time of flotation of their market loans. (Para 43)

(9) Where a State Government experiences difficulties due to unforeseen developments, it should make efforts to raise further resources or to reduce expenditure, instead of incurring unauthorised overdrafts. If in spite of all possible measures it cannot meet the additional expenditure which is immediately necessary, it may apply to the Central Government for a short-term loan to tide over the difficulty. The Central Government should in such cases provide the necessary assistance to the States. (Para 35)

(10) The Planning Commission should, in their annual Plan review, take into account the adverse effect of the new developments and if necessary modify the size of the annual Plan of the State concerned. (Para 36)

(11) Whenever a deficit on non-Plan capital account is anticipated, the State Government should consider reducing its non-Plan capital expenditure and make efforts to increase its capital receipts including better recovery of louns.If

the capital budget cannot be balanced in spite of such efforts, the Central Government may consider deferring the repayment of Central loans falling due during the year to the necessary extent. (Para 38)

(12) Every State should have an effective ways and means section in its Finance Department. Forecasts of the ways and means position should be prepared, on the basis of which necessary corrective measures should be taken. (Para 50)

(13) The States may consider the introduction of a system in the nature of 'letters of credit' in the case of major spending departments and a monetary limit of expenditure may be fixed for each disbursing officer. (Para 50)

(14) The Reserve Bank should keep a continuous watch over the ways and means position of each State and the ways and means advances should not be allowed to continue beyond three months automatically. The Bank should formally renew an advance only where it is satisfied that its continuance is not due to a long-term imbalance in the State's budgetary position. In other cases the State should be called upon to repay the advance and in case of default it should be dealt with as an unauthorised overdraft. (Para 48)

(15) Where an unauthorised overdraft takes place, the Reserve Bank should issue a notice to the State Government as at present, and at the same time inform the Government of India. It should be the duty of the State Government to take immediate steps for clearing the overdraft within the notice period, failing which the Reserve Bank must proceed to stop payments. (Paras 52 and 53)

(16) In view of the serious consequences which would ensue from stoppage of payments, the Government of India should help the State to regain a position of budgetary balance and to achieve fiscal discipline. To do so it should assist the State to clear the overdraft. It must be clearly recognised that this would be possible only where the State does not persistently follow policies resulting in financial difficulties and that the Central Government cannot clear unauthorised overdrafts repeatedly. (Para 53)

(17) For this purpose the Government of India should, as soon as it is informed by the Reserve Bank about issue of notice to the State, ascertain from the State what steps it proposes to take to clear the overdraft. If the State Government is not in a position to clear the overdraft it should urgently approach the Central Government for special assistance. The Central Government should, where it decides to assist the State, release in advance the State's share of devolution or Plan assistance payable during the year. When the amount due to the State during the year is not sufficient for the purpose, further assistance should be

given as an *ad hoc* loan to be adjusted against the devolution or Plan assistance falling due during the next year. (Para 53)

(18) The Central Government should also have consultations with the State Government to ascertain the causes of its difficulties and to ensure that the situation does not recur. It should depute a team of its officers, including a nominee of the Planning Commission, to visit the State for assessing the situation and recommending remedial action, and also considering whether any further temporary loan assistance is necessary for tiding over the immediate difficulties of the State. (Para 54)

(19) The Central Government should call upon the State to adopt such measures as it may deem necessary. For the purpose of securing effective control over expenditure so as to keep it within actual receipts, it should be open to the Central Government to nominate an officer to be associated with the Finance Department of the State. The State Government should comply with these requirements. (Para 54)

(20) If a State Government persists in incurring an unauthorised overdraft it would not be proper that the Central Government should clear it and the consequences of failure to clear it will have to be faced. In such a case, or where an overdraft cannot be cleared in accordance with the procedure we have suggested, the Central Government would have to take a view whether the crisis resulting from stoppage of payments of the State's cheques should be allowed to develop or it would be expedient to forestall it by invoking its Constitutional powers. (Para 55)

CHAPTER 5

DEVOLUTIONS AND GRANTS FOR 1969-70

57. The Commission has been asked in paragraph 6 of the Presidental Order to make an interim Report, in particular in respect of the financial year 1969-70. In that connection, we obtained from the State Governments forecasts of their revenue receipts and expenditure for that year. We requested them to furnish particulars of their revenue receipts on the basis of the levels of taxation likely to be reached at the end of 1968-69, exclusive of devolutions of taxes and grants. On the expenditure side, we requested them to furnish details of their expenditure on revenue account including the maintenance of Plan schemes completed by the end of 1968-69, but exclusive of the requirements of the Fourth Five Year Plan.

58. After a preliminary scrutiny of the forecasts furnished by the State Governments, we had discussions with their representatives on various dates from the 17th June to the 23rd August, 1968. These discussions revealed the necessity for obtaining additional information on a number of points, which the representatives of the State Governments were asked to furnish. We have not yet received complete information on these points from all the States.

59. In respect of devolutions of taxes and duties, we decided that for the purpose of the interim Report we would take up, for making final recommendations, only the distribution of the net proceeds of estate duty and the grant in lieu of the repealed tax on railway passenger fares. Our discussions with the States in regard to distribution of taxes and duties were confined to these two matters. Our recommendations on them are given in Chapters 2 and 3 of this Report and they cover the period from 1969-70 to 1973-74.

60. In their forecasts for the year 1969-70 the States have shown that on the basis of their own revenue receipts, they would have revenue deficits aggregating to Rs. 1,283·69 crores. If the transfer of funds to the States by way of devolutions of taxes and duties and grants under Article 275(1) of the Constitution are continued during 1969-70 on the existing basis, the States would still have uncovered deficits of about Rs. 650 crores, and every State would continue to have a deficit. Obviously, it is not possible to make additional transfers of funds of this magnitude to the States. It is, therefore, necessary to examine the forecasts furnished by the State Governments very carefully in order to assess their reasonable requirements.

61. The States' forecasts vary considerably in the methods and patterns adopted in regard to matters like reduction or avoidance of debt, earmarking of funds for special purposes, treatment of items like trading profits or losses, and classification between non-Plan and

Plan expenditure and between revenue and capital accounts. These forecasts, therefore, require to be suitably adjusted so as to put them on a comparable basis. Our terms of reference also require us to have regard to the scope for better fiscal management and for economy consistent with efficiency in State expenditure. Several States represented to us that it would be highly inequitable to disallow items of fresh expenditure, only on the ground that the relevant decisions were not made before a particular date. Some States have urged that their tax efforts and measures adopted for effecting economy should be given due consideration by the Commission in framing its recommendations. Some of them have represented that they should not be made to suffer in comparison with other States which have shown larger deficits due to adoption of policies resulting in reduction of their revenues or large increases in their non-Plan expenditure. They have, therefore, urged that some suitable norms should be evolved regarding tax effort, administrative expenditure, levels of services and the economic working of commercial undertakings. Some States have, on the other hand, suggested that the Commission should take into account the actual levels of taxation in 1968-69 and should give due consideration to all their commitments of expenditure as well as their requirements for fresh expenditure, in determining their need for assistance. These questions require careful consideration before a proper assessment of the needs of the States can be attempted.

62. The Fourth Finance Commission had, in their assessment of revenue expenditure, included provision for amortisation of market loans to the extent to which various States were actually making such provision in their annual budgets. This resulted in varying benefits to the States, as they were not making such provisions on a uniform basis. We understand that a proposal to provide additional assistance to such States as were not making adequate provision to amortise their market borrowings, is under the consideration of the Government of India in order to place all the States on a uniform basis. From the material furnished to us it appears that the sums provided for amortisation in the States' budgets were in many cases not being kept invested in a suitable form so as to be available for meeting the repayment of the loans, but were being utilised for other expenditure. The State Governments have, in their forecasts for 1969-70, included larger provisions under amortisation of market borrowings and loans from the Central Government than what they have been making in their budgets hitherto. The question regarding the basis on which amortisation of different types of loans should be made and the extent to which it should be provided for in the revenue budget, requires detailed examination.

63. The Fourth Finance Commission had assessed the needs of the States after disallowing losses from enterprises managed departmentally by the State Governments and assuming full receipt of interest on loans to autonomous corporations. Some State Governments represented to us that the costs of generation and distribution of electricity were so high that it was not practicable to make the working of their State Electricity Boards economic on the basis of any reasonable tariffs. Further, they stated that rural electrification

schemes could not be expected to be self-supporting for a number of years and they had to be subsidized meanwhile. It was also stated that in view of the low priority assigned to payment of interest on loans from the State Government under the provisions of the Electricity (Supply) Act, 1948, substantial amounts of investment made on power schemes could not bring actual receipts of interest to the States for a long time. The State Governments, therefore, criticised the assumptions made by the Fourth Finance Commission in this regard as being unrealistic and unfair to them. Further, there is the question of returns from irrigation projects and investments in other commercial enterprises. These matters have an important bearing on the finances of the States, and have to be carefully considered.

64. Under the Presidential Order, we have been asked to have due regard to the resources of the Central Government and demands thereon on account of expenditure on civil administration, defence and border security, debt servicing and other committed expenditure and liabilities. For this purpose, we asked the Ministry of Finance to send us the forecast of the Central Government's receipts and expenditure on revenue account for the year 1969-70. We find that the estimated surplus on revenue account falls very much short of the total estimated deficits of the States on non-Plan revenue account.

65. In view of the overall inadequacy of the total revenue resources in relation to the aggregate requirements of expenditure of the States as well as the Centre, as estimated by them, the question of determining the size of total transfer of funds from the Centre to the States as well as the assessment of the needs of the States on a reasonable and equitable basis, become matters of great importance. We consider that it would not be proper to take any final view on these matters on the basis of forecasts for the year 1969-70 only. Any view taken on such matters for that year will inevitably have far-reaching effects on the assessments relating to subsequent years regarding which we have to make recommendations.

66. We have not received the forecasts for the period of five years from all the States or from the Centre. We have also not yet taken up for detailed consideration the question of sharing of proceeds of income-tax and Union excise duties between the Centre and the States, or the principles of distribution of the States' shares of these taxes as well as proceeds of additional excise duties. We can, therefore, for the present only make interim recommendations for meeting the immediate requirements of the States for 1969-70 on a provisional basis.

67. In any interim recommendations to be made for the year 1969-70, pending the final assessment of the States' requirements, it would be necessary to continue provisionally the devolutions of taxes and duties as well as the grants under Article 275 on the existing basis. The estimated amount of transfer of funds to the States on this basis would exceed the amount included in their budget estimates for 1968-69 by about Rs. 55 crores. We proceeded to examine whether the immediate requirements of all the States would be met thereby.

68. We find that the States have to meet substantial additional expenditure on account of certain factors which have arisen during the last three years. The grants given by the Central Government for Plan schemes completed during the years 1966-67 to 1968-69 will cease with effect from the 1st April, 1969. But large amounts will have to be provided by the States as 'committed' expenditure for the continuance of such schemes as well as the maintenance of capital works completed under the Plan during these three years. Further, the increases in dearness allowance which the States have had to give to their employees during this period have placed substantial burdens on their revenue budgets. The interest charges have also increased more than anticipated.

69. We considered carefully the basis on which we could proceed to determine the immediate requirements of the States for the year 1969-70. The basis that we decided to adopt was the assessment of the States' requirements for cash expenditure on revenue account. The only exception made in this regard was to allow for provision for expenditure relating to natural calamities, to the same extent as was allowed by the Fourth Finance Commission. We then made a preliminary examination of the States' forecasts for 1969-70 and compared them with the budget estimates for 1968-69. For this purpose, the forecasts for 1969-70 as well as the budget estimates for 1968-69 were first adjusted by excluding certain non-comparable items. After making these adjustments we found that the remaining non-Plan revenue expenditure provided for in the States' forecasts exceeded the corresponding expenditure in the budget estimates for 1968-69 by about 14 per cent for all the States taken together. On the other hand, in regard to the revenue receipts, after adjustment on a comparable basis, the States' forecasts for 1969-70 were lower than the corresponding receipts shown in their budget estimates for 1968-69 by about 3 per cent. In view of this position, we considered that the budget estimates for 1968-69 with suitable adjustments would provide a more appropriate basis for making our assessment of the States' cash requirements on revenue account during 1969-70.

70. The States' budget estimates for 1968-69 required suitable adjustments before they could be adopted as the basis for projection for the purpose of arriving at the assessed estimates for 1969-70. On the expenditure side, we decided to make an addition to the budget estimates of an amount of 5 per cent of the provision for expenditure of a standing nature. The remaining provisions which were not of a standing nature were dealt with separately. For this purpose the provisions for Plan schemes were deducted and the estimates were reduced to cash basis by excluding the provisions for amortisation of debt assumed by the State Governments. The estimated expenditure on natural calamities was also reduced to the level assumed by the Fourth Finance Commission. In the case of certain items where provision had been made in the budget estimates for 1968-69 and where the expenditure has been or is likely to be discontinued during the current year, such provision was excluded. Suitable provisions were added in respect of committed expenditure, additional liability for interest on public debt including the interest on likely fresh public

borrowings during 1969-70, and increases in dearness allowance over the levels provided for in the budget estimates for 1968-69.

71. In regard to the committed expenditure, the forecasts given by the States were adopted as the basis. But where the State's forecast of such expenditure in 1969-70 worked out to a higher percentage of the revenue Plan outlay for 1968-69 than the percentage of the committed expenditure in 1966-67 to the revenue Plan outlay in 1965-66, the provision was limited to the latter percentage after increasing it by 20 per cent thereof. This increase was provided to cover any variations in the pattern of completed Plan schemes. The States' forecasts in respect of interest on loans advanced by the Central Government were adjusted to correspond to the estimates furnished by the Central Government. In regard to interest on other loans, we adopted the estimates in the States' forecasts.

72. On the receipts side, the States' budget estimates for 1968-69 were first adjusted by deducting the estimates of the States' shares of taxes and duties, grant in lieu of the tax on railway passenger fares, grants under Article 275 and Plan grants. In the case of States which had proposed taxation measures during 1968-69 but had not included the estimated receipts in the budget estimates, we added the estimated annual yield from such measures on the basis of the latest information furnished by the States. We also added 5 per cent of the receipts from the States' own resources for the purpose of projecting the estimates to the year 1969-70. The projected estimates of the States' own resources together with non-Plan grants at the same level as in 1968-69 were taken as the assessed revenue receipts for 1969-70.

73. While making our provisional assessment of the revenue receipts as well as expenditure for 1969-70, we have projected the estimated figures for 1968-69 by adding 5 per cent in each case after excluding certain non-comparable items. We wish to make it clear that this rate has been adopted only as a reasonable working basis for making the provisional projection for 1969-70 and it does not represent our final view regarding the rates of growth which may be apropriate for different categories of receipts or expenditure.

74. In their forecasts for 1969-70, the States have included provisions for incurring fresh expenditure on several items like increase in pay and allowances of their employees due to general schemes of pay revision, strengthening their administrative machinery including the Police, improvement of educational and medical facilities and better maintenance of roads, buildings and other public works. We appreciate that many of these requirements for increased expenditure are *prima facie* reasonable, and all the States may not be able to provide for them from their existing resources. However, the nature of these requirements and their magnitude show considerable variations as between different States and they have to be examined from the view-point of existing levels of expenditure in different States, for which further discussions with the States are necessary. They have further to be considered in the perspective of the requirements of the whole period of five years, having regard to the limited overall resources available on the present basis and the scope for

additional efforts by the States themselves to increase their resources. We have not, therefore, at this stage taken into account any proposals for fresh expenditure, except additional requirements for dearness allowance and interest on market loans to be raised in 1969-70.

75. On this basis we find that after taking into account the States' own resources as well as the estimated transfer of funds to them in accordance with our recommendations in Chapters 2 and 3, and the continuance of devolutions of taxes and duties and the grants under Article 275 on the existing basis, some of the States will still be in need of further assistance in the year 1969-70. In making our recommendations regarding the sums to be provided as grants-in-aid of the revenues of the States under Article 275(1), we have taken into consideration the needs of such States for further assistance.

76. Accordingly, we make the following recommendations in respect of the financial year 1969-70:—

(a) The percentage of the net proceeds of income-tax assigned to the States as prescribed at present be continued in that year and be distributed among the States in the same manner as at present;

(b) The sums payable to the States in respect of their shares of the net proceeds of Union duties of excise be determined in the same manner as at present and be distributed among the States in accordance with the existing law;

(c) The net proceeds of additional excise duties leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, on the following commodities be distributed among the States in accordance with the existing law:—

(i) cotton fabrics
(ii) silk fabrics
(iii) woollen fabrics
(iv) rayon or artificial silk fabrics
(v) sugar, and
(vi) tobacco including manufactured tobacco.

(d) The sums specified below be paid in that year as grants-in-aid of the revenues of the following States under Article 275(1) of the Constitution:—

State	*Sum to be paid as grant-in-aid* (Rs. crores)
Andhra Pradesh	16·81
Assam	19·90
Bihar	3·42
Jammu & Kashmir	12·02
Kerala	20·82

State	*Sum to be paid as grant-in-aid* (Rs. crores)
Madhya Pradesh	9·36
Madras	6·84
Mysore	20·82
Nagaland	10·88
Orissa	29·18
Rajasthan	9·67
Uttar Pradesh	9·35
West Bengal	7·24
TOTAL	176·81

and (e) The amounts payable to the States in accordance with the recommendations contained in clauses (a) to (d) of this paragraph be treated as provisional and subject to re-adjustment on the basis of such recommendations as may be made in our final Report.

77. The position regarding the estimated amounts of transfer of funds to the States by way of their share of taxes and duties and grants under Article 275(1) in the year 1969-70 in accordance with the recommendations made in this Report, as compared with the amounts of such transfers in 1968-69 based on the State Governments' budget estimates, is shown in Appendix IV.

MAHAVIR TYAGI,
Chairman

P. C. BHATTACHARYYA,
Member

M. SESHACHELAPATI,
Member

D. T. LAKDAWALA,
Member

V. L. GIDWANI,
Member—Secretary.

NEW DELHI,
October 31, 1968.

APPENDICES


सत्यमेव जयते

APPENDIX

(*See* Paragraph 2)

(*a*) DATES OF DISCUSSIONS WITH STATE GOVERNMENTS

State	*Dates of Discussions*
1. Andhra Pradesh	17th and 18th June, 1968.
2. Assam	24th and 25th June, 1968.
3. Jammu and Kashmir	1st July, 1968*
4. Kerala	2nd and 3rd July, 1968.
5. Gujarat	9th and 10th July, 1968.
6. Madhya Pradesh	12th and 13th July, 1968.
7. Madras	18th and 19th July, 1968.
8. Mysore	22nd and 23rd July, 1968.
9. Nagaland	25th July, 1968.
10. Orissa	29th and 30th July, 1968.
11. Punjab	1st and 2nd August, 1968.
12. Haryana	5th and 6th August, 1968.
13. Uttar Pradesh	8th and 9th August, 1968.
14. West Bengal	12th and 13th August, 1968.
15. Bihar	16th and 17th August, 1968.
16. Maharashtra	19th and 20th August, 1968.
17. Rajasthan	22nd and 23rd August, 1968.

*The discussion with the Chief Minister of Jammu and Kashmir was held on 11th July, 1968.

(*b*) DATES OF DISCUSSIONS WITH REPRESENTATIVES OF CENTRAL GOVERNMENT PLANNING COMMISSION AND GOVERNOR, RESERVE BANK OF INDIA.

	Dates of Discussion
Finance Secretary, Secretary, Department of Expenditure and other officers of the Ministry of Finance.	26th August and 10th September, 1968.
Governor, Reserve Bank of India	27th August, 1968.
Deputy Chairman and officers of the Planning Commission	29th August, 1968.
Chairman and other officers of the Central Board of Direct Taxes	6th September, 1968.

(*c*) INDIVIDUALS WHO APPEARED BEFORE THE COMMISSION AND GAVE ORAL EVIDENCE

	Dates of Disscussion
Shri K. Santhanam, ex-Chairman of the Second Finance Commission	7th August, 1968.
Mr. W. Prest, Professor of Economics, University of Melbourne, Australia	21st August, 1968.

	South Eastern	1,148.52	...	643.95	1,792.47	1,150.94	...	643.95	1,821.16	1,157.86	...	664.22	1,822.08
	Western	794.45	427.62	66.92	1,198.99	795.57	427.62	66.92	1,200.11	795.57	427.62	66.92	1,200.11
9.	*Madras*												
	Southern	858.24	2,737.52	...	3,595.76	867.17	2,726.10	...	3,593.27	863.49	2,722.07	...	3,585.56
10.	*Maharashtra*												
	Central	2,116.14	935.75	670.92	3,722.81	2,175.75	935.75	670.92	3,733.42	1,732.25	312.87	300.74	2,395.86
	Southern	...	369.85	...	369.85	...	369.85	...	369.85	...	...	...	...
	South Central	...	...	...	...	...	...	...	...	409.47	994.64	370.18	1,774.29
	South Eastern	244.45	...	452.29	696.74	245.00	...	432.02	677.02	244.50	...	432.02	676.52
	Western	346.30	...	...	346.30	346.30	...	...	346.30	346.30	...	...	346.30
11.	*Mysore*												
	Central	307.10	...	...	307.10	307.10	...	...	307.10	...	...	...	...
	Southern	163.83	2,053.45	156.76	2,374.04	243.09	2,053.45	156.76	2,453.30	239.10	1,121.63	156.76	1,517.49
	South Central	...	...	...	...	...	...	...	...	306.95	921.02	...	1,227.97
12.	*Nagaland*												
	Northeast Frontier	...	9.35	...	9.35	...	9.35	...	9.35	...	9.35	...	9.35
3.	*Orissa*												
	South Eastern	1,543.00	...	167.36	1,710.36	1,543.21	...	167.35	1,710.56	1,543.75	...	143.03	1,686.78
14.	*Punjab*												
	Central	72.21	...	...	72.21	72.21	...	...	72.21	...	...	...	...
	Northern	2,623.24	723.45	224.99	3,571.68	2,653.97	723.45	224.99	3,602.41	1,909.28	194.79	11.90	2,115.97
	Western	...	98.97	...	98.97	...	98.97	...	98.97	...	...	...	...
15.	*Rajasthan*												
	Central	35.28	...	87.21	122.49	35.28	...	87.21	122.49	35.26	...	87.21	122.47
	Northern	5.87	2,488.62	...	2,494.49	5.87	2,488.62	...	2,494.49	5.43	2,494.44	...	2,499.87
	Western	608.04	2,087.62	...	2,684.66	608.04	2,225.87	...	2,833.91	608.04	2,225.85	...	2,833.89
16.	*Uttar Pradesh*												
	Central	960.16	...	2.01	962.17	960.16	...	2.01	962.17	962.08	...	2.01	964.09
	Eastern	227.00	...	...	227.00	227.00	...	...	227.00	227.00	...	...	227.00
	Northern	4,100.16	0.13	...	4,100.29	4,100.16	0.13	...	4,100.29	4,101.27	0.13	...	4,101.40
	North Eastern	...	3,218.95	...	3,218.95	...	3,220.99	...	3,220.99	...	3,220.52	...	3,220.52
	Western	68.06	37.43	...	105.49	68.06	37.43	...	105.49	68.06	37.43	...	105.49
17.	*West Bengal*												
	Eastern	1,271.01	...	27.58	1,298.59	1,271.01	...	27.58	1,298.59	1,271.01	...	79.84	1,350.85
	Northeast Frontier	278.48	522.94	87.48	888.90	431.42	525.31	87.48	1,044.21	431.42	525.31	87.48	1,044.21

	Western . . .	704.45	427.62	66.92	1,198.99	705.57	427.62	66.92	1,200.11	705.57	427.62	66.92	1,200.11
9.	*Madras*												
	Southern . . .	858.24	2,737.52	...	3,595.76	867.17	2,726.10	...	3,593.27	863.49	2,722.07	...	3,585.56
10.	*Maharashtra*												
	Central . . .	2,116.14	935.75	670.92	3,722.81	2,175.75	935.75	672.92	3,733.42	1,732.25	312.87	300.74	2,395.86
	Southern . . .	...	369.85	...	369.85	...	369.85	...	369.85	...	...	...	...
	South Central . .	...	...	...	...	...	...	...	...	409.47	994.64	370.18	1,774.29
	South Eastern . .	244.45	...	452.29	696.74	245.00	...	432.02	677.02	244.50	...	432.02	676.52
	Western . . .	346.30	...	...	346.30	346.30	...	...	346.30	346.30	...	...	346.30
11.	*Mysore*												
	Central . . .	307.10	...	...	307.10	307.10	...	...	307.10	...	...	...	...
	Southern . . .	163.83	2,053.45	156.76	2,374.04	243.09	2,053.45	156.76	2,453.30	239.10	1,121.63	156.76	1,517.49
	South Central . .	...	...	...	...	...	...	...	...	306.95	921.02	...	1,227.97
12.	*Nagaland*												
	Northeast Frontier .	...	9.35	...	9.35	...	9.35	...	9.35	...	9.35	...	9.35
3.	*Orissa*												
	South Eastern . .	1,543.00	...	167.36	1,710.36	1,543.21	...	167.35	1,710.56	1,543.75	...	143.03	1,686.78
14.	*Punjab*												
	Central . . .	72.21	...	...	72.21	72.21	...	...	72.21	...	...	...	...
	Northern . . .	2,623.24	723.45	224.99	3,571.68	2,653.97	723.45	224.99	3,602.41	1,909.28	194.79	11.90	2,115.97
	Western . . .	...	98.97	...	98.97	...	98.97	...	98.97	...	...	...	...
15.	*Rajasthan*												
	Central . . .	35.28	...	87.21	122.49	35.28	...	87.21	122.49	35.26	...	87.21	122.47
	Northern . . .	5.87	2,488.62	...	2,494.49	5.87	2,488.62	...	2,494.49	5.43	2,494.44	...	2,499.87
	Western . . .	608.04	2,087.62	...	2,684.66	608.04	2,225.87	...	2,833.91	608.04	2,225.85	...	2,833.89
16.	*Uttar Pradesh*												
	Central . . .	960.16	...	2.01	962.17	960.16	...	2.01	962.17	962.08	...	2.01	964.09
	Eastern . . .	227.00	...	...	227.00	227.00	...	...	227.00	227.00	...	...	227.00
	Northern . . .	4,100.16	0.13	...	4,100.29	4,100.16	0.13	...	4,100.29	4,101.27	0.13	...	4,101.40
	North Eastern . .	...	3,218.95	...	3,218.95	...	3,220.99	...	3,220.99	...	3,220.52	...	3,220.52
	Western . . .	68.06	37.43	...	105.49	68.06	37.43	...	105.49	68.06	37.43	...	105.49
17.	*West Bengal*												
	Eastern . . .	1,271.01	...	27.58	1,298.59	1,271.01	...	27.58	1,298.59	1,271.01	...	79.84	1,350.85
	Northeast Frontier .	278.48	522.94	87.48	888.90	431.42	525.31	87.48	1,044.21	431.42	525.31	87.48	1,044.21
	South Eastern . .	648.30	...	35.60	683.90	654.83	...	35.60	690.43	637.83	...	35.60	673.43

APPENDIX II (*b*)

RAILWAY EARNINGS FROM PASSENGERS CARRIED ON NON-SUBURBAN ROUTES DURING 1964-65 TO 1966-67

(See paragraph 11)

(Rs. in lakhs)

S. No.	Railway Zones	Broad Gauge	Metre Gauge	Narrow Gauge	Total
(1)	(2)	(3)	(4)	(5)	(6)
1.	Central :				
	1964-65	3085	240	93	3418
	1965-66	3367	266	103	3736
	1966-67*	2848	20	51	2919
2.	Eastern :				
	1964-65	1939	...	1	1940
	1965-66	2111	...	2	2113
	1966-67	2117	...	8	2125
3.	Northern :				
	1964-65	2934	465	28	3427
	1965-66	3261	517	31	3809
	1966-67	3488	553	33	4074
4.	North Eastern :				
	1964-65	5	1446	...	1451
	1965-66	6	1610	...	1616
	1966-67	10	1837	...	1847
5.	Northeast Frontier :				
	1964-65	14	761	2	777
	1965-66	22	800	3	825
	1966-67	18	780	3	801
6.	Southern :				
	1964-65	1464	1434	6	2904
	1965-66	1655	1609	4	3268
	1966-67*	1132	1335	3	2470

*Data for 1966-67 are not comparable with those for 1964-65 and 1965-66 due to transfer of some sections to the South Central Railway on its formation on 2nd October 1966.

(1)	(2)	(3)	(4)	(5)	(6
7.	South Central :				
	1964-65				
	1965-66				
	1966-67*	1054	767	28	1849
8.	South Eastern :				
	1964-65	1413	...	64	1477
	1965-66	1422	...	65	1487
	1966-67	1449	...	65	1514
9.	Western :				
	1964-65 . . .	1455	1196	85	2736
	1965-66	1693	1277	87	3057
	1966-67	1778	1328	91	3197
10.	TOTAL :				
	1964-65	12309	5542	279	18130
	1965-66	13537	6079	295	19911
	1966-67	13894	6620	282	20796

*The South Central Railway was formed on 2nd October, 1966, but the data for that year 1966-67 have been specially worked out as if the Zone had been formed from 1st April, 1966.

Source : Statistical Supplement to Railway Board Reports, 1965-66 and 1966-67.

APPENDIX III

(Tables referred to in Chapter 4)


सत्यमेव जयते

TABLE 1 : *Limits of ways and means advances for different States from* 1-3-1967

(Rs. in lakhs)

S.No.	States	Minimum balance	Limits for normal ways and means advances	Limits for special ways and means advances (twice the normal ways and means advances)	Additional ad hoc limits for special ways and means advances as on 10-8-1968
(1)	(2)	(3)	(4)	(5)	(6)
1.	Andhra Pradesh	50	150	300	200
2.	Assam	20	60	120	140
3.	Bihar	35	105	210	140
4.	Gujarat	35	105	210	...
5.	Haryana	15	45	90	...
6.	Kerala	30	90	180	195
7.	Madhya Pradesh	40	120	240	40
8.	Madras	55	165	330	...
9.	Maharashtra	75	225	450	...
10.	Mysore	40	120	240	65
11.	Nagaland	5	15	30*	...
12.	Orissa	30	90	180	...
13.	Punjab	30	90	180	...
14.	Rajasthan	30	90	180**	...
15.	Uttar Pradesh	85	255	510	490
16.	West Bengal	50	150	300†	...
	TOTAL	625	1875	3750	1270

*No advances are granted for want of holdings of Central Government securities.

**Special ways and means advances are granted upto a limit of Rs. 41 lakhs only for want of adequate additional holdings of Government securities.

†Special ways and means advances are at present granted upto a limit of Rs. 85 lakhs only for want of adequate additional holdings of Central Government securities.

Source : Reserve Bank of India.

TABLE 2 : *Overdraft position of States* (1965-1966 *to* 1967-68)

Year	Months during which the States were free from unauthorised overdrafts	Maximum number of States which were in unauthorised overdrafts in any particular month	Maximum amount of overdraft (Rs. in crores)	Ad hoc loans for clearing overdrafts		
				Payment	Repayment	Net
				(Rs. in crores)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1965-66 . .	June	10	120	285·72*	215·72*	70·00*
1966-67 . .	June & September	7	111	149·25	41·25	108·00
1967-68 . .	June	7	75	128·43	10·00	118·43

*Figures for the Third Plan period : 1961-62 to 1965-66.

Source : Reserve Bank of India and Central Government.

TABLE 3 : *Loan repayments and receipts of States*

(Rs. in crores)

	1951-52	1956-57	1961-62	1965-66	1966-67	1967-68	1968-69
I. *Loan Receipts*							
(*a*) Permanent Market Loans .	11·8	66·9	93·0	106·8	94·2	127·2	112·9
(*b*) Central Loans .	74·0	205·0	451·3	816·1	918·1	829·3	713·7
(*c*) Other Loans .	..	2·0	16·1	64·2	57·6	50·5	53·7
TOTAL . .	85·8	273·9	560·4	987·1	1069·9	1007·0	880·3
II. *Repayments* . .	12·4	41·7	169·0	313·9	346·2	489·0	561·7
III. *Net Receipts* . .	73·4	232·2	391·4	673·2	723·7	518·0	318·6

Source : State Budgets and Finance Accounts of States.

TABLE 4 : *Capital receipts and disbursements (Non-Plan) of State Governments during 1967-68 ((Latest Estimates).*

(Rs. in crores)

S. No.	States	Receipts					Disbursements			Net capital Deficit(−) Surplus(+)
		Market loan (Net)	Small Savings	Repayment of loans advance by State Govern-ments.	Public Account Net)	Total Capital receipts	Repayment of Debt *	Mis-cellaneous capital payments	Total capital expendi-ture.	
1	2	3	4	5	6	7	8	9	10	11
1.	Andhra Pradesh	5.50	2.00	10.88	4.66	23.04	39.33	9.34	48.67	−25.63
2.	Assam	2.57	3.50	1.02	0.45	7.54	41.54	4.90	46.44	−38.90
3.	Bihar	1.91	9.00	20.41	10.32	41.64	49.24	−0.43	48.81	−7.17
4.	Gujarat	6.30	7.00	5.27	28.73	47.30	17.50	29.27	46.77	+0.53
5.	Haryana	2.81	3.00	6.05	7.54	19.40	14.71	2.76	17.47	+1.93
6.	Jammu and Kashmir	...	1.30	1.59	2.03	4.92	1.34	2.30	3.64	+1.28
7.	Kerala	3.18	2.50	3.57	8.73	17.98	14.20	13.46	27.66	−9.68
8.	Madhya Pradesh	3.87	4.00	19.27	9.14	36.28	40.76	−3.63	37.13	−0.85
9.	Madras	9.20	6.00	11.10	12.23	38.53	29.41	21.49	50.90	−12.37
10.	Maharashtra	12.04	15.00	15.72	39.18	81.94	25.97	35.69	61.66	+20.28
11.	Mysore	2.91	3.00	13.63	14.55	34.09	32.00	18.78	50.78	−16.69
12.	Orissa	4.40	2.60	3.24	8.50	18.74	17.57	−3.08	14.49	+4.25
13.	Punjab	3.00	5.00	8.87	19.51	36.38	16.05	16.83	32.88	+3.50
14.	Rajasthan	4.10	2.75	13.88	13.13	33.86	47.91	−4.98	42.93	−9.07
15.	Uttar Pradesh	2.70	16.00	23.63	41.07	83.40	40.80	21.58	62.38	+21.02
16.	West Bengal	0.53	14.00	4.70	12.32	31.55	11.21	18.58	29.79	+1.76
	TOTAL	65.02	96.65	162.83	232.09	556.59	439.54	182.86	622.40	−65.81

*Includes repayment of Central loans, *ad hoc* loans by Central Government for clearing overdrafts and ways and means advances by the Reserve Bank of India.

NOTE :—Information relating to Nagaland is not available.

Source : Planning Commission and State Budgets.

TABLE 5 : *Monthly collections of Income-tax* 1966-67 & 1967-68

(Rs. in Lakhs

Month	Proceeds after deduction of cost of collections		Average of Columns 2 & 3	Percentage of Col. 4 of the total	Progressive percentage	Progressive percentage paid by the Centre
	1966-67	1967-68				
1	2	3	4	5	6	
April . . .	367	385	376	1·78	1·78	
May . . .	459	685	572	2·70	4·48	
June . . .	900	901	901	4·25	8·73	
July . . .	1437	864	1150	5·43	14·16	10
August . . .	1379	1178	1279	6·04	20·20	
September . .	1335	2097	1716	8·10	28·30	
October . .	1844	1870	1857	8·77	37·07	30
November . .	1872	1842	1857	8·77	45·84	
December . .	1904	2115	2009	9·48	55·32	
January . .	1583	2155	1869	8·82	64·14	55
February . .	2100	2540	2320	10·95	75·09	
March . . .	4947	5607	5277	24·91	100·00	100
TOTAL	20127	22239	21183	100·00		

Source : Central Government.

TABLE 6 : *Monthly repayment of Central Government loans* 1967-68.

(Rs. in Lakhs)

	Andhra Pradesh	Assam	Bihar	Gujarat	Jammu and Kashmir	Kerala	Madhya Pradesh	Madras.	Maharashtra	Mysore	Orissa	Punjab.	Rajasthan.	Uttar Pradesh	West Bengal	Total*
April	160	...	76	3	...	8	274	244	52	...	16	...	57	20	...	910
May	12	...	...	6	...	7	4	41	7	17	34	...	82	305	113	628
June	72	...	758	9	...	69	77	94	41	45	72	250	9	146	9	1651
July	891	...	164	17	...	2	413	119	133	203	86	187	398	237	13	2863
August	225	...	412	5	...	44	156	107	12	15	38	...	69	221	318	1622
September	429	165	...	121	...	97	197	449	47	37	150	3	447	72	5	2219
October	1057	...	897	710	...	707	1165	1079	643	1049	107	80	569	1658	23	9744
November	44	488	677	11	...	50	103	26	469	72	280	202	36	204	...	2662
December	292	604	103	1	...	16	167	42	354	121	158	...	146	61	25	2090
January	194	...	240	216	...	92	142	58	164	60	356	91	263	...	...	1876
February	195	24	64	188	...	43	65	168	26	38	183	...	178	98	190	1460
March	363	N.A.	387	466	4	285	529	514	643	403	2727	...	2231	1056	425	10033
TOTAL	3934	1281	3778	1753	4	1420	3292	2941	2591	2060	4207	813	4485	4078	1121	37758

*Material in respect of Haryana an Nagaland not available.

Source : Accountants General.

TABLE 7 : *Budgetary position of the State Governments*

Surplus (+), *Deficit* (−)

(Rs. in Lakhs)

States		1965-66			1966-67			1967-68		1968-69
		B. E.	R. E.	Actuals	B. E.	R. E.	Actuals	B. E.	R. E.	B.E.
1		2	3	4	5	6	7	8	9	10
Andhra Pradesh	Revenue	−670	−1351	−778	+31	−841	−1242	−1276	−258	−567
	Capital	−160	−1564	−674	+1103	−3271	−4652	−300	−283	−984
	Overall	−830	−2915	−1452	+1134	−4112	−5894	−1576	−541	−1551
Assam	Revenue	+38	−676	−1585	+85	−383	−1389	−134	−13	−138
	Capital	+39	−356	−398	−80	+1245	−481	−809	+104	−236
	Overall	+77	−1032	−1983	+5	+862	−1870	−943	+91	−374
Bihar	Revenue	+570	+117	+267	+1587	−331	−1354	−987	−1468	−249
	Capital	−865	−960	−175	−2659	−56	+805	−290	−568	−2384
	Overall	−295	−843	+92	−1072	−387	−549	−1277	−2036	−2633
Gujarat	Revenue	−368	+326	+719	+368	+378	+583	+687	+403	+1300
	Capital	−195	+394	−401	−514	−19	−578	−1062	−18	−1442
	Overall	−563	+720	+318	−146	+359	+5	−375	+385	−142
Haryana	Revenue	...	...	...	...	+359	+519	−152	+478	+164
	Capital	...	...	...	...	−556	−638	−441	−492	−163
	Overall	...	...	...	...	−197	−119	−593	−14	+1
Jammu and Kashmir	Revenue	−133	−582	−80	−219	−372	+670	−561	−677	−470
	Capital	+63	+322	−88	+219	+408	−391	+561	+420	+470
	Overall	−70	−260	−168	...	+36	+279	...	−257	...
Kerala	Revenue	−218	−107	+27	+381	+419	+1015	+135	+334	−1368
	Capital	+136	−635	−32	−476	−1621	−2095	−693	−229	−468
	Overall	−82	−742	−5	−95	−1202	−1080	−558	+105	−1836

1		2	3	4	5	6	7	8	9	10
Madhya Pradesh	Revenue	−73	−310	−261	−185	−1459	−1775	−2411	−916	−569
	Capital	−163	−3317	−1102	+2525	+186	+1224	+3042	+148	+1143
	Overall	−236	−3627	−1363	+2340	−1273	−551	+631	−768	+576
Madras	Revenue	−697	−787	−786	+31	−745	−688	−112	−45	+74
	Capital	+557	+92	+786	−31	+50	+553	−848	−630	−109
	Overall	−140	−695	...	...	−695	−135	−960	−675	−35
Maharashtra	Revenue	−935	−2201	−1373	+53	−134	−1181	+1046	+57	+1692
	Capital	−2634	+2475	+729	−4955	−1551	+1071	−1720	−561	−3185
	Overall	−3569	+274	−644	−4902	−1685	−110	−674	−504	−1493
Mysore	Revenue	−391	−764	−498	+253	+527	+496	+859	+1086	+1198
	Capital	−269	−1546	−691	−91	−1453	−1324	−1209	−3210	−1359
	Overall	−660	−2310	−1189	+162	−926	−828	−350	−2124	−161
Nagaland	Revenue	...	−16	+164	+43	+144	+190	...	+74	−46
	Capital	+2	+263	+340	−43	−351	−638	+30	+227	−9
	Overall.	+2	+247	+504	..	−207	−448	+30	+301	−55
Orissa	Revenue	−1003	−676	−1092	+4	+1	+238	−56	−204	+89
	Capital	+1019	+1564	+1287	−49	−45	−1197	+743	+817	−39
	Overall	+16	+888	+195	−45	−44	−959	+687	+613	+50
Punjab	Revenue	+232	+742	+1454	+528	+476	+553	+474	+842	−202
	Capital	−602	−813	−806	−472	−175	+381	−1273	−1385	−935
	Overall	−370	−71	+648	+56	+301	+934	−799	−543	−1137
Rajasthan	Revenue	−646	−409	−351	−193	−1904	−1963	−1140	−1125	−1409
	Capital	+434	+44	−279	−114	−336	−321	+1087	−582	+1346
	Overall	−212	+5	−630	−307	−2240	−2284	−53	−1707	−63

Uttar Pradesh	Revenue	−1491	...	+429	−31	...	+379	+55	+104	+77
	Capital	+1481	−377	+160	+50	−937	−322	−55	−1068	−73
	Overall	−10	−377	+589	+19	−937	+57	...	−964	+4
West Bengal	Revenue	−1783	−431	+228	−762	−408	−334	−1821	−1029	−118
	Capital	+1078	+264	+1090	−1049	+707	+633	−1820	−1492	+133
	Overall	−705	−167	+1318	−1811	+299	+299	−3641	−2521	+15
TOTAL All States	Revenue	−7568	−7125	−3516	+1974	−4273	−5283	−5394	−2357	−540
	Capital	−79	−3780	−254	−6636	−7775	−7970	−5057	−8802	−8294
	Overall	−7647	−10905	−3770	−4662	−12048	−13253	−10451	−11159	−8834

NOTE : The estimates and the actuals exclude

(*i*) *Adhoc* loans advanced by the Central Government to the States to clear overdrafts ; and

(*ii*) Ways and means advances (net) from the Reserve Bank of India in excess of the normal (clean advances) limits.

Source : State Budgets, Reserve Bank of India
and Ministry of Finance, Government of India.

APPENDIX IV

(See paragraph 77)

TRANSFER OF FUNDS TO THE STATES BY WAY OF SHARE OF TAXES AND DUTIES AND GRANTS UNDER ARTICLE 275

(Rs. in crores)

S.No.	States	1968-69			1969-70		
		Share of Taxes and duties*	Grants under Article 275	Total	Share of Taxes and duties*	Grants under Article 275	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Andhra Pradesh	33·62	13·51	47·13	37·87	16·81	54·68
2.	Assam	12·68	16·52	29·20	14·29	19·90	34·19
3.	Bihar	41·12	...	41·12	45·32	3·42	48·74
4.	Gujarat	24·39	...	24·39	27·31	...	27·31
5.	Haryana	7·97	...	7·97	8·94	...	8·94
6.	Jammu & Kashmir	6·72	6·57	13·29	7·67	12·02	19·69
7.	Kerala	16·95	20·82	37·77	19·16	20·82	39·98
8.	Madhya Pradesh	30·20	2·70	32·90	34·06	9·36	43·42
9.	Madras	34·61	6·84	41·45	38·88	6·84	45·72
10.	Maharashtra	51·54	...	51·54	57·87	...	57·87
11.	Mysore	22·52	20·82	43·34	25·36	20·82	46·18
12.	Nagaland	4·92	7·07	11·99	5·54	10·88	16·42
13.	Orissa	17·46	29·18	46·64	19·75	29·18	48·93
14.	Punjab	11·66	...	11·66	13·07	...	13·07
15.	Rajasthan	19·72	6·73	26·45	22·23	9·67	31·90
16.	Uttar Pradesh	65·52	9·85	75·37	73·74	9·85	83·59
17.	West Bengal	39·14	...	39·14	44·41	7·24	51·65
	TOTAL	440·74	140·61	581·35	495·47	176·81	672·28

*Includes share of grant in lieu of tax on railway passenger fares.

NOTE :—The figures relating to 1968-69 are based on the State Governments' budget estimates while those relating to 1969-70 are estimated in accordance with the recommendations in this interim Report on the basis of the forecast furnished by the Central Government.

GMGIPND—T.S.S.—119 Fin.—20-11-68—1,600

(See paragraph 11)

(Kilometres)

Sl.No.	States and Railway Zones	As on 31st March, 1965				As on 31st March, 1966				As on 31st March, 1967			
		Broad Gauge	Metre Gauge	Narrow Gauge	Total	Broad Gauge	Metre Gauge	Narrow Gauge	Total	Broad Gauge	Metre Gauge	Narrow Gauge	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1.	*Andhra Pradesh*												
	Central	836.91	539.98	...	1,376.89	836·91	539·98	...	1,376·89	...	...	...	...
	Southern	1,646.48	1,166.43	...	2,812.91	1,637·55	1,166·43	...	2,803·98	660·96	531·40	...	1,192·36
	South Central	...	...	...	...	...	...	...	...	1,818·32	1,187·02	...	3,005·34
	South Eastern	377.74	...	36.93	414.67	377·77	...	36·94	414·71	377·76	...	36·94	414·70
2.	*Assam*												
	Northeast Frontier	...	1,931.38	...	1,931.38	105·22	2,085·21	...	2,190·43	105·22	2,088·58	...	2,193·80
3.	*Bihar*												
	Eastern	2,132.49	...	...	2,132.49	2,132·49	...	...	2,132·49	2,132·49	...	...	2,132·49
	North Eastern	52.47	1,685.38	...	1,737.85	54·08	1,686·41	...	1,740·49	52·47	1,679·46	...	1,731·93
	Northeast Frontier	101.96	263.04	...	365.00	101·96	263·04	...	365·00	101·96	263·04	...	365·00
	South Eastern	900.76	...	69.23	969.99	898·66	...	69·23	967.89	902·76	...	69·23	971·99
4.	*Gujarat*												
	Northern	...	58.92	...	58.92	...	58·92	...	58·92	...	53·63	...	53·63
	Western	903.18	3,267.58	1,155.82	5,326.58	903·18	3,327·67	1,134·82	5,365·67	835·86	3,347·11	1,134·82	5,377·79
5.	*Haryana*												
	Central	...	...	...	...	...	...	...	...	72·21	...	...	72·21
	Northern	...	...	...	...	...	...	...	...	714·70	527·87	3·38	1,245·95
	Western	...	...	...	...	...	...	...	...	...	98·97	...	98·97
6.	*Jammu & Kashmir*												
	Northern	...	...	...	...	6·20	...	...	6·20	6·20	...	...	6·20
7.	*Kerala*												
	Southern	553.26	333.47	...	886.73	553·26	333·47	...	886·73	553·39	336·54	...	889·93
8.	*Madhya Pradesh*												