

CHAPTER III

FINANCIAL AND OTHER ADMINISTRATIVE MEASURES.

814. The integration of services and the constitution of the administrative structure will not be the only problems arising out of the reorganisation of States. In this Chapter we deal with other important questions which will also have to be considered in implementing the scheme of reorganisation which we have proposed.

Finance Commission

815. In terms of Article 280 of the Constitution the second Finance Commission is now due to be appointed. Assuming that the recommendations of the second Finance Commission take effect from 1st April, 1957, an announcement regarding the setting up of this Commission cannot perhaps be delayed for any length of time. It will be an obvious advantage if decisions on the reorganisation proposals are taken before the Commission commences its enquiry. Otherwise another such body may have to go into the question of the financial needs of the newly-created units.

Second Five-Year Plan

816. The existing States are expected to be prepared to take up and implement from 1st April, 1956, the second five-year plan which is likely to be finalised by that date. We have referred already to the fact that there may be some dislocation during the initial period of this plan. However, if decisions regarding reorganisation are taken and implemented without avoidable delay, the difficulties arising out of reorganisation would be faced and overcome in the early years of the next plan period.

817. The new units may be expected to deal with their problems with a due sense of urgency and awareness of the need for cutting short the period of transition to the extent practicable. But we should like to mention the more important points deserving the attention of the Government of India and the prospective States.

Financial aid to new units

818. It would be necessary to provide for some help to the newly-constituted units during the period of transition when the administrative and financial implications of reorganisation are being considered. It has been the normal practice for the Government of

India in the past, whenever new States have been created or when accommodation is needed for any other reason, to grant ways and means advances to the States which may require them in order to help them to tide over their difficulties. We presume that such assistance will be available also in the initial years after reorganisation.

819. It has been suggested that revenue gap grants-in-aid to the new units, as in the case of the existing Part C States, may likewise be paid in the initial years; and that the Centre should assume, in effect, the residual responsibility for supporting the revenue budgets of the States until such time as other arrangements can be made. It is doubtful, however, whether it will be possible or desirable for the Centre to undertake a blanket commitment on these lines which is bound to be indefinite, in preference to more normal and orthodox arrangements.

820. Pending a comprehensive review, we would suggest that grants-in-aid on revenue or capital accounts as well as long-term loans should be available to the new States as nearly as may be on the existing basis. The Government of India might refix the existing statutory and development grants and long-term loans (including amounts promised but not disbursed to the States) with reference to:

- (i) the principles, if any, on which the grants have been recommended or sanctioned; or
- (ii) failing any definite principle, the population of the reorganised units as compared to the existing States; and
- (iii) the purposes for which long-term loans have been granted.

821. This modification of the existing pattern of grants and loans to meet the needs of the new situation may be reviewed in the light of the recommendations of the next Finance Commission. However, the need for such action immediately after, or even in advance of, the reconstitution of the new States is clear.

822. It is also necessary here to refer to one minor complication. According to Article 278 of the Constitution, revenue gap grants-in-aid are paid to three of the existing Part B States, in accordance with the agreements entered into between the Government of India and the States concerned at the time of the federal financial integration, as amended thereafter from time to time. In the set-up contemplated after reorganisation, some areas now included in these Part B

States will be integrated with other States. The construction of Article 278 and the interpretation of the agreements arrived at in terms of that Article may in that event cause some difficulty. Having regard to the needs of the new States and to various other considerations, it would, however, be fair to regard the payments under Article 278 as outright grants and to apportion them population-wise among the new States until such time as the position is reviewed by the Finance Commission.

823. In the case of the Part C States, the acceptance of our recommendations will necessitate an amendment of Article 264(b) of the Constitution. The legislation or rules under the authority of which a prescribed percentage of the divisible pools of income-tax and central excise attributable to the Part C States is now retained with the Centre will, likewise, need a consequential change. Pending a detailed review, appropriate portions of the divisible pools which are now retained with the Centre may be distributed among the new units where necessary in the ratio of the population.

Division of assets and liabilities

824. As soon as the budgetary position and prospects of the new units have been clarified, arrangements for the division of the assets and liabilities will have to be taken in hand. This question can be considered in two parts, namely, the general principles on which the assets and liabilities are to be divided, and the mechanics of this division.

825. The general principles on which assets and liabilities will have to be divided may now be said to have crystallised sufficiently in the light of such experience as the governments have had. Generally speaking, a fair basis of division will be that where the assets exceed the liabilities—

- (i) the movable assets of a State which is being divided should be distributed by agreement as equitably as possible, the most satisfactory basis being the ratio of the population;
- (ii) each area which is being separated should take over the liabilities corresponding to the book values of the immovable assets which are located in the area and the movable assets which are claimed;

and where the liabilities exceed the assets—

- (i) the movable assets should be distributed as equitably as possible, and

- (ii) each area which is being separated from a composite State should take over liabilities corresponding to the book values of the immovable assets which are located in that area and such movable assets as it is entitled to claim, and
- (iii) the balance of the liabilities should be divided as equitably as possible, the most satisfactory basis being the population ratio.

The Government of India will no doubt be able to formulate general principles on these or other lines.

826. We are aware that in practice special problems may also have to be considered. We, however, feel that the distribution of assets and liabilities should be governed by some general principles which as far as practicable should be uniformly enforced.

827. On one point, it may be necessary to make an exception to the general rule and to consider some special arrangements. In the case of the present Part C States, the accounts of which were merged into those of the Centre, the scheme of reorganisation which is contemplated will necessitate a complete separation of their balances from those of the Centre. In these cases, it would be a laborious process if consolidated-fund and public account balances, attributable to those areas were to be worked out in the light of the actual transactions. It will be convenient, therefore, if the financial settlements in the case of Part C States are not elaborate, but are based on a broad review of the position as it exists today and the needs of these areas.

828. The principles on which assets and liabilities are divided will presumably be stated in appropriate parliamentary legislation. But these principles will have to be applied to the facts of each case in the initial years after reorganisation and this will create a considerable volume of accounts work.

829. The difficulties involved in this process should not be underestimated. Normally, it takes a number of years for a complete and satisfactory division to be effected. The importance of the problem is not, of course, very great, for a notional division has been found to be workable for most purposes. Nevertheless, prolonged periods during which the division of assets and liabilities remains only notional must be regarded as unsatisfactory; and we would suggest the creation, if possible, of some special machinery for expediting the final settlements.

Inter-state agreements

330. We have stressed elsewhere the need for adequate arrangements being made for ensuring the orderly progress of the major irrigation and power projects which have already been taken up before or under the first five-year plan. A number of inter-state agreements regarding the allocation of water rights have been concluded or finalised recently. On the reorganisation of States, some of these agreements may require to be changed. In the case of the Krishna and the Godavari and the Bhakra-Nangal projects, for example, the State Governments concerned have now arrived at partial or complete agreements as a result of which planning has become easier. Similar agreements have been reached, or are likely to be reached, regarding the allocation of the cost and benefits of the Bhakra project and the utilisation of the Periyar waters for the production of power. In other cases, as in the Cauvery basin in the South, there are subsisting awards or agreements which go back many years. If no agreements are devised to adapt them to the needs of the newly-constituted States quickly some degree of confusion is likely to be caused. Provision for such adaptation may have to be made in the legislation to be enacted under Articles 3 and 4, either by specifying the rights and obligations of the prospective States or by empowering the Central Government to make the necessary adaptation in consultation with the State Governments concerned

Legislation regarding river valleys and water disputes

831. In the course of our enquiry we came across a number of cases in which claims were preferred for the transfer of particular areas on the ground that control over the catchment area of a river or over the dam site or the benefit area was necessary. We have not attached too much importance to these suggestions, for the reason partly that legislation which has already been introduced in Parliament makes specific provision for the regulation and development of inter-state rivers.

832. The general scheme of the River Boards Bill, which was introduced in Parliament in May, 1955, is that advisory River Boards, charged with the formulation of plans for the development of inter-State rivers or river valleys, will be set up under the aegis of the Centre (finance will be provided by the Government of India). Schemes prepared by these advisory bodies are intended to be placed before the governments concerned, who may modify, reject or approve these schemes. Approved schemes will be regarded as final. If there are any difficulties or disagreements regarding these schemes,

a concerned government may raise this matter, in which case the dispute will be decided by a single arbitrator.

833. The Water Disputes Bill, 1955, also introduced in Parliament in May, 1955, contemplates that on a request from a State Government, the Centre will constitute an *ad hoc* water disputes tribunal in each case involving a water dispute. An important provision in this Bill is the prohibition of a seigniorage, or rate, or fee in respect of the use of the waters of an inter-State river.

334. As we have already pointed out in Chapter V of Part II, these two bills taken together do not perhaps clothe the Central Government with all the powers which it may need. Nevertheless, the clarification of the position in respect of inter-State rivers which is proposed is, we think, timely, and even overdue. We should recommend that the contemplated legislation should be passed and brought into force as early as possible.

Regional grievances

835. Reference has been made elsewhere in this report to the grievances of particular areas on the ground of arrested economic development. We have tried to examine these grievances, and while it has been difficult to strike a balance-sheet of the gains and losses of the various areas, so far as we have been able to judge, these complaints are, generally speaking, exaggerated.

836. The feeling that some areas have been or will be neglected, is, however, one which, whether it is rational or not, has to be taken into consideration as an existing fact. If it is at all possible, it will be desirable, therefore, to devise such arrangements in future that no State or area will have any ground for complaint.

837. Some attempts have been made in the past, mainly as a result of non-official efforts, to provide adequate assurances of non-discrimination and equal treatment along these lines. The Sri Baug Pact of 1937 in the case of Andhra, and the Akola Pact of 1947 and the Nagpur Pact of 1953 in the case of Maharashtra may be cited as examples. These pacts represent an attempt to spread as equitably as possible the benefits and advantages which may be derived from the location of important offices or institutions of the State Government and from the expenditure of the State Governments in general.

838. We have carefully examined the question whether it will be possible to suggest certain broad lines of action to the reorganised

States. Apart, however, from other difficulties, an attempt to prescribe in advance the direction in which expenditure will be incurred to meet regional or local demands seems to us to be bad in principle; and we would be reluctant to depart from the salutary principle that a Government should not be tied to commitments which it may not be able to fulfil and which may not later on reflect the needs of the times.

Special Development Boards

839. Consistently with this view, the only special arrangement for areas which are now economically undeveloped, which seems to us to be suitable, is that development boards may be constituted in these areas, wherever conditions justify such an expedient, in order that the needs of these areas may be properly studied and schemes adequate to meet them formulated. Advisory planning bodies, we understand, have been constituted in most States. Our suggestion in effect only extends this principle.

840. We have already referred in Chapter I of Part III to the possibility of a provision being made in the Constitution authorising the Centre to exercise supervisory powers in relation to the development of certain economically undeveloped areas during a period, say of ten years. This provision is only intended by way of caution. These areas will, we think, be reassured, if supervisory authority for a short period is thus retained by the Government of India.

Body to look into economic grievances of areas

841. Apart from the special needs of specific under-developed areas, there is one important aspect of the distribution of development expenditure which, in our opinion, calls for serious consideration. During the course of our investigations we found that most of the demands for constituting new States were based primarily on alleged unfair and unequal distribution of development expenditure. These complaints, it may be stated, are not confined, and cannot in the nature of things be confined to multi-lingual States, but exist also in unilingual States. As we have stated earlier, the conclusion we have reached is that, by and large, these complaints are greatly exaggerated. However, considering that such complaints and counter-complaints have proved to be a prolific source of internal discord in various States, we consider it necessary that a permanent body consisting of persons, who would inspire public confidence, should be appointed for the purpose of looking into the economic grievances

of different areas. The proposed body should serve a two-fold purpose. It should help on the one hand to remove wrong impressions, and on the other to redress the legitimate grievances of the various areas. It will be an advantage if this body includes some members of the Planning Commission and reports its findings to the National Development Council. We feel that such an arrangement will go a long way towards eliminating friction and distrust arising out of the feeling that certain areas are getting special or undue consideration at the expense of others.

Industrial location plan

842. Another important question is the equitable distribution of Central Government expenditure. Responsibility in respect of many development schemes has now passed to the Central Government, and the country is on the eve of rapid industrialisation. In these circumstances, the consideration of an industrial location plan may be of value at this stage, as it will ensure that Central Government expenditure is, as far as possible, spread uniformly all over the country.

843. This question of the location of industries has already been agitated by some States in connection with the proposed establishment of the steel and fertiliser factories which are being planned by the Government of India; and as the public sector grows in importance, claims and counter-claims by various States for a share of the Central Government's attention are likely to increase. These claims cannot, however, be dealt with satisfactorily, unless the framework of an industrial location plan, to which they can be related, is available.

844. It is not necessary at this stage to anticipate the difficulties of formulating a national policy in regard to the location of industry; and it would be premature to discuss the details of such a policy. We would recommend, however, that the entire question should be examined, so that the reorganised units might be assured or reassured that subject to the availability of natural resources and the requirements of the different industries, there would be an equitable distribution of Central Government expenditure, particularly of that part of the expenditure which will be incurred on the industrial plan.

Conclusion

845. The suggestions contained in this Chapter, relate to matters which will have to be considered by the Government of India in the light of the decisions which may be taken on our report and the

manner in which they are implemented. Our purpose in discussing these questions has been mainly to invite the attention of the Government of India to the difficulties of the transition and to urge that the greatest importance should be attached to mitigating the effects of the dislocation and uncertainty which must follow any scheme of reorganisation.