

I. PRELIMINARY

The Committee was appointed by a Resolution of the Government of India (Ministry of States), No. F. 60-IB/48, dated the 22nd October 1948, (reproduced as Appendix to this Report) with the following Terms of Reference :—

Terms of Reference.

“ To examine and report upon :

- (1) the present structure of Public Finance in Indian States and Unions of States :
- (2) the desirability and feasibility of integrating Federal Finance in Indian States and Unions of States with that of the rest of India, to the end that a uniform system of Federal Finance may be established throughout the Dominion of India ;
- (3) whether, and if so, the extent to which, the process of so integrating Federal Finance in the Indian States and Unions with that of the rest of India should be gradual and the manner in which it should be brought about ; and the machinery required for this purpose, especially as regards the legislative groundwork and the administrative organisation necessary for the imposition, assessment and collection of Federal Taxes ;
- (4) the results of such a policy of integrating Federal Finance upon the finances of Indian States and Unions and the consequential financial adjustments and relations which should subsist between the Governments of the Indian States and Unions on the one hand and the Government of India on the other ;
- (5) the measures which the Committee may consider necessary and/or desirable for revising, in the light of present day conditions and standards, and having regard to the requirements of modern administration, the structure of Provincial Finance and, in particular, the levels and sources of Provincial Revenues in Indian States and Unions of States ;
- (6) any other consequential and/or cognate matters which the Committee may consider as arising out of the foregoing terms of reference ”.

These terms fall, broadly speaking, into two categories :—

- (i) those relating to what may be termed “ provincial finance ” *i.e.*, revenues etc., which according to the “ Draft Constitution of India ” appertain to the “ Provinces ” in India—items (1) and (5) of the Terms of Reference.
- (ii) those relating to “ federal finance ” *i.e.*, revenues etc., which, according to the “ Draft Constitution of India ”, come within the sphere and competence of the Union of India—items (2), (3) and (4) of the Terms of Reference.

Items (1) & (5) of Terms of Reference withdrawn.

2. The Committee found, after a preliminary survey, that a detailed investigation of the first group of questions—those relating to the “ Provincial ” field—in States and Unions of States would require detailed and elaborate local enquiries, necessitating the employment of special officers in the areas concerned. Such an investigation would have taken up much more time than was first thought would be needed. The Committee, therefore, suggested that this group of questions should be reserved for subsequent examination and that it should confine itself to the problems connected with the evolution of a system of federal finance in States and Unions of States which would be uniform with the system in Provinces, so that its report might be available to the Government of India at about the time when the Constituent Assembly would be taking up for consideration the portion of the “ Draft Constitution ” relating to “ Finance, Property, Contracts and Suits ”—Part X. This proposal was accepted by the Government of India (Ministry of States) in their letter dated the 10th April 1949. The present report deals, therefore, only with the subjects mentioned in items (2), (3), (4) and (6) of the Terms of Reference.

Plan of Work.

3. Soon after we commenced work, we called for preliminary Memoranda and data from all States and Unions of States, and from certain Ministries of the Government of India. We then issued a set of questionnaires covering the whole field of our enquiry in order that States and Unions of States might be assisted in the preparation of the statistical and other information we needed. After this, one of us (Mr. Dandeker) and our Secretary (Mr. Swaminathan) visited States and Unions of States and gave such instructions as the Governments needed for the compilation of figures and their scrutiny. They also had preliminary local discussions of an exploratory character concerning the problems arising out of our Terms of Reference. In the meantime, the Committee itself held a series of meetings in order to formulate general principles in conformity with the provisions of the “ Draft Constitution of India ” and accepted principles of federal finance, to guide it in its plans for integration. As complete information

became available for each State or Union of States, a scheme of integration was prepared for it. The Committee then arranged to meet the Government concerned and discuss the scheme in detail after explaining the general principles which the Committee thought should be followed. Often the Committee met the same Government more than once. The integration scheme for Baroda was discussed at a meeting in Bombay with the Hon'ble the Premier and the Hon'ble the Finance Minister of Bombay, the Dewan of Baroda and a representative of the Finance Ministry of the Government of India; and the integration schemes for Travancore and Cochin were finally discussed at a joint meeting in Ernakulam, attended by the Hon'ble the Prime Ministers, the Hon'ble the Finance Ministers and other Hon'ble Ministers of the two Governments. We have also had the benefit of the views expressed by several representative associations of mercantile, industrial and planting interests, both within and without the States and Unions of States and by the Indian Coffee Board, concerning matters in which they were especially interested. The various Ministries of the Government of India have assisted us with their views on particular problems, and with the data relevant thereto. We have also had the benefit of the views of Mr. V. Narahari Rao, the Auditor General of India, who has had long association with, and specialised experience of, financial problems connected with Indian States. As a result of these close consultations, the Committee has found it possible to prepare schemes of federal financial integration for States and Unions of States, the important features of which have been accepted by all the Governments concerned except on and the committee hopes that this Government will on further consideration find it possible to modify its attitude.

4. We have not specifically dealt with the following States or groups of States -

Certain States
not dealt with,
reasons therefor

- (i) States, other than Baroda, whose administrations have been integrated with those of certain provinces of India under the Instruments executed in that behalf by their Rulers and under the powers conferred by the Extra-Provincial Jurisdiction Act, 1947;
- (ii) States whose administrations have been similarly integrated into newly constituted Chief Commissioners' Provinces;
- (iii) Non-viable States; and
- (iv) Jammu and Kashmir.

States of the first two categories will be automatically integrated with the Central Government in India in the entire " federal " field, including finance, as soon as orders in respect of them are passed by the Governor-General under Section 290-A of the Government of India Act,

1935. The principles recommended by us in the case of Baroda in our First Interim Report, will be applicable, *mutatis mutandis*, to all such cases. We have, therefore, considered it unnecessary to deal with them specifically.

As regards States of the third category, *viz.*, non-viable States such as Manipur, Tripura and Cooch-Bihar, we consider that when their future is decided upon, they should be dealt with—both as respects the general principles involved and the details of transitional adjustments required—on the same basis as States for which we have prepared schemes. We have not accordingly dealt with them specifically in this Report.

Finally, as regards Jammu and Kashmir, the present circumstances in that State preclude us from working out an integration scheme for it.

"States" includes "Unions of States".

5. Wherever in this Report we refer to "States" we should be understood as referring to States and Unions of States.