CHAPTER V

SAURASHTRA

A. "REVENUE-GAP" ARISING OUT OF FEDERAL FINANCIAL INTEGRATION

35. Statements I and II appended to this Chapter bring out the net revenue effect upon the finances of Saurashtra of

(*i*) the transfer of "federal" revenues and "federal" expenditure to the Centre, and

(*ii*) the abolition of internal customs duties as a result of federal financial integration.

The figures in Statements I and II are based upon the Budget Estimates for the financial year 1949-50 and have been utilised here merely to illustrate the scheme of financial (revenue) adjustments discussed in the following paragraphs. Moreover, these figures are subject to the general limitations indicated in paragraph 6 of Chapter I. The correct final computations must therefore be made, in due course, on the same basis as in Statements I and II and following the same principles, when the actuals for the year are known.

As pointed out in paragraph 4 of Chapter I, the basic period in the case of Saurashtra, both for revenue and expenditure computations, will be their financial year ending 31st March 1950, except in regard to the railway revenue for which the average of the three complete financial years immediately preceding federal financial integration should be taken.

36. The net dependence of Saurashtra on "federal" revenues and internal customs duties may be analysed as follows (in round figures):—

	Internal customs	"Federal" Revenues	Total
		(Rs. in lakhs)	
Loss of Revenue	85	295	380
Saving in Expenditure . . .	5	63	68
	80	232	312

The total net revenue-gap resulting from federal financial integration is thus Rs. 312 lakhs.

Financial adjustments required

37. (1) *Internal Customs*:—It became clear during our discussions with the Saurashtra Government representatives, that the total abolition of internal customs in the State would be most desirable; and we recommend that this should be done with effect from the prescribed date.

The main alternative source of revenue, namely Sales Tax, would bring in a substantial yield, but only from the second year onwards; in the first year it might not be sufficient to recoup the loss in full. This is therefore clearly a case where the Central Government can reasonably be expected to offer *some* direct financial assistance in the first year, in order that the Saurashtra Government may be enabled to abolish their internal customs at one step, instead of over a period of years.

In estimating the amount of assistance required, however, we cannot overlook the fact that the Saurashtra Government would receive an indirect benefit from the Central Government, when food subsidies are enhanced, as from the prescribed date, from the present rate of 50% of the total loss on imported foodgrains to 75% as in the case of Provinces; but the additional amount thus receivable will, on present expectations, be relatively small in the case of Saurashtra.

We therefore recommend a measure of direct financial assistance from the Central Government only in the first year of federal financial integration in the shape of an *ad hoc* grant-in-aid equal to Rs. $\frac{C-F}{2}$ where 'C' represents the net internal customs revenue during the basic period (1949-50), and 'F' represents the *additional* amount receivable by the State in the *first* year of federal financial integration, on account of food subsidies (in respect of loss on the sale of imported foodgrains) on the 75% basis as compared with the amount receivable on the 50% basis.

We realise that the proposal for the grant of Central assistance constitutes a departure from our main recommendation in respect of internal customs contained in paragraph 22 of Part I of our Report; but having regard to the relatively small amount involved and the advantages to be derived from the immediate and outright abolition of the internal duties, we consider that there is ample justification for our proposal.

In order that the Saurashtra Government may be encouraged to abolish all internal customs duties even earlier, *i.e.*, during the financial year 1949-50 itself, we recommend that in the event of such abolition, the basic period for the purpose of computing the net loss of revenue from this source should be a period of 12 complete months preceding that in which the abolition is actually given effect to. We also recommend that direct financial assistance from the Centre should be given in that connection in the first year of federal financial integration in the same way as if internal customs duties were abolished on the prescribed date.

(2) We have now to consider the further financial adjustments necessary in regard to the balance of the *net* revenue-gap, namely that relating solely to the transfer of 'federal' revenues and expenditure to the Centre. This has been estimated at Rs. 232 lakhs. We recommend the following scheme :

If 'R' represents the total *net* revenue-gap, *inclusive of a loss of 'C' on internal customs*, then

(*i*) if C exceeds 40% of R, the Central Government must guarantee to re-imburse to the Saurashtra Government, *throughout the transitional period*, Rs. (R—C) per annum:

(*ii*) if C should fall short of 40% of R by an amount X, the Central Government must guarantee to re-imburse to the Saurashtra Government

Rs. (R—C) per annum for the first 5 years ;
Rs. (R—C—X/5) in the 6th year ;
Rs. (R—C—2/5X) in the 7th year;
Rs. (R—C—3/5X) in the 8th year ;
Rs. (R—C—4/5X) in the 9th year;
Rs. (R—C—X)* in the 10th year.

(3) The guarantee of reimbursement should be implemented by the Central Government as follows :—

(*a*) By paying to the Saurashtra Government its share of divisible Income-tax (and of all other divisible federal taxes, such as they may be from time to time) computed in the same manner, on the same basis and in accordance with the same principles as applicable to the Provinces of India; and

(*b*) to the extent that the amount payable under (*a*) should fall short of the guaranteed amount in any year, by further paying to the Saurashtra Government an amount equal to the short-fall, as a special *ad hoc* grant-in-aid in that year ;

(*c*) in any year in which the amount payable under (*a*) does *not* fall short of the guaranteed amount, the Saurashtra Government will receive the amount due under (*a*), and the guarantee will be inoperative for that year.

(4) If the Constituent Assembly should ultimately accept the amendment already tabled by the Drafting Committee for extension of the transition period prescribed in Article 258 of the Draft Consti-

*This is equal to 60% of R)

tution to 15 years, the guaranteed amount, as it would be in the 10th year under the above scheme, should be continued for a further period of 5 years.

(5) With effect from the prescribed date, the Saurashtra Government should, as a direct consequence of federal financial integration, be entitled to receive food subsidies, at the enhanced rate of 75% of the loss on the sale of imported foodgrains, as in the case of Provinces. These subsidies, and all grants-in-aid, 'bonuses' and other forms of financial and technical assistance from the Centre, whether in cash or kind, whether on revenue or capital account, and whether by way of loans or outright grants, should be payable to the Saurashtra Government by the Government of India quite independently of the above scheme of transitional adjustments, *i.e.*, *in addition to* the amounts guaranteed under sub-paras. (2) to (4) above, and *computed on the same basis and principles as applicable to Provinces.*

(6) *Privy Purse:*—It has been assumed in the foregoing proposals that the Privy Purse (approximately Rs. 69 lakhs) will be a charge on the revenues of the State. If, however, a decision is ultimately taken that the Privy Purse should be a "federal" liability the computations of the *net* revenue-gap should be modified accordingly. In other respects no change in the scheme of transitional financial adjustments will be necessary.

If 'P' represents the amount of the 'Privy Purse', the total net revenue-gap will be reduced to (R—P), and this figure would have to be substituted for 'R' in the illustration given in sub-para. (2) above for the purpose of computing the financial adjustments. No other modification in the scheme of transitional adjustments will be called for.

38. Sea Customs (foreign trade)

It is necessary to refer here to the taking over by the Government of India in July 1948 of the Customs rights and administration at Saurashtra Ports. At that time our Committee had not been appointed; indeed the question of federal financial integration in States was not then under consideration at all.

During our discussions with the Saurashtra Government representatives, they referred to the circumstances, in which the Customs administration and rights of the Saurashtra Union were surrendered to the Government of India, and added that the amount of the "compensation" to be paid in consideration thereof, as also the factors to be taken into account in assessing the compensation, were matters still under discussion with the Government of India. It was also pointed out that the whole question might even have to be referred to arbitration as provided in the Agreement under which the surrender took place. In the circumstances they desired that for purposes of financial integration calculations, the figure for Customs revenue in Statement I should be computed only after the whole question had first been decided in the manner provided under the Agreement.

We have explained to the Saurashtra Government that for the purposes of financial integration, we could not treat Saurashtra differently from any other maritime State and that the figure to be taken into account for the purpose of financial adjustments could under no circumstances exceed the *actual* net Customs revenue collected at Saurashtra ports. The Committee as such was not concerned with any question of "compensation" for "surrender of rights", as no such question could, in our view, arise so far as federal financial integration was concerned. On the other hand, it would be open to the Government of India (or the Arbitrators) in dealing with the question of "compensation" as it arose in July 1948, to take note of the fact that for the purposes of financial integration under the new Constitution, it would not be possible to take into account anything more than the net actual collections at Saurashtra Ports during the 'basic period' and also that no question of "compensation" as such could arise or be raised in that connection (*vide* paragraph 31 of Part I of our Report).

It was pointed out to us that the settlement of the question of "compensation" with reference to the circumstances which prevailed *in July* 1948, might even be reached on the assumption that the customs rights of Saurashtra were completely extinguished as from *that* date, and that Saurashtra should for purposes of customs duties on foreign trade be considered a non-maritime State thereafter. If such a settlement involving the outright payment of a capital sum to Saurashtra should be reached, we wish to make it clear that for purposes of computations relating to federal financial integration, the annual customs revenue of Saurashtra during 1949-50 should be taken in Statement I as *nil*. It would be beyond our terms of reference to go into the merits of the question as to whether a settlement in such terms could at all arise from the conditions on which the customs administration was taken over by the Government of India in 1948.

Gradualness in taking up the burden

39. The foregoing scheme in effect requires the Saurashtra Government to take up the entire loss arising from abolition of internal customs duties with some financial assistance from the Centre in the first year of integration ; and, to the extent to which the loss on internal

customs does not come up to 40% of the total *net* revenue-gap, the Saurashtra Government is required to take up a further small portion of the loss gradually, between the 6th year and 10th year after integration. But, if the net loss on internal customs should equal or exceed 40% of the total *net* revenue-gap, the entire gap *less* the loss on internal customs, is wholly to be guaranteed by the Centre throughout the transitional period.

By the 10th or 11th year, if not earlier, we expect that Saurashtra's share of divisible federal taxes will exceed the guaranteed amount. In that event the guarantee will merge into such share.

For the rest, our proposals are designed to secure for Saurashtra immediate financial parity of treatment with the Provinces of India. in all respects, by the Central Government.

On the termination of the transitional period under Article 258, there would be no guaranteed reimbursement ; in other words, there would thereafter be no distinction at all between the financial rights of the Saurashtra Government and those of any Province *vis-a-vis* the Central Government.

Scope for development of 'Provincial' Revenues in Saurashtra

40. As in the case of Mysore, we are satisfied that the scheme of federal financial integration proposed by us will not cause any sudden dislocation of the finances of Saurashtra nor will it necessitate reversal of any well-established and desirable administrative and social policies in the State. We have taken into account the State's immediate financial difficulties in proposing, as in the case of Mysore, that the net revenue-gap (excluding internal customs) should be fully guaranteed during the first five years. From the sixth year onwards, the normal development of "Provincial" revenues will enable Saurashtra to bear its share of the burden of financial integration and to improve its overall financial position.

Meanwhile, as indicated in paragraph 37 (1) above, the State will have to depend upon the immediate introduction of Sales Tax to obtain sufficient revenue to cover fully the loss arising from the abolition of internal customs. Other Provincial taxes for which there is appreciable scope for development in Saurahstra, by a gradual increase in rates, in due course, to the level prevailing in Bombay Province, are Entertainment tax, Electricity duty, Stamp duties and Court fees and Sales Tax on petrol.