

## CHAPTER VIII

### RAJASTHAN

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

54. Statements I and II appended to this Chapter bring out the net revenue effect upon the finances of Greater Rajasthan of—

- (i) the transfer of "federal" revenues and "federal" expenditure to the Centre; and
- (ii) the abolition of land customs duties as a result of federal financial integration.

The figures in Statements I and II are based mainly upon the Budget or Revised Estimates of the various covenanting States of Rajasthan for their respective financial years 1948-49 and are subject to the general limitations indicated in paragraph 6 of Chapter I. They have been utilised here merely to illustrate the scheme of financial (revenue) adjustments discussed in the following paragraphs. The final computations must be made, in due course, on the same basis as in Statements I and II and following the same principles with reference to the actuals of the prescribed "basic period".

55. The choice of particular accounting periods to make up the "basic period" for the Rajasthan Union as a whole presents considerable difficulty. We have stated in paragraph 4 of Chapter I that in the case of Unions generally it will be necessary to take only one year—namely, the last completed financial year before federal financial integration—as the basic period, except in the case of Railways for which audited figures are likely to be available for a three year period. The present United State of Rajasthan will not however complete its first financial year before the 1st April 1950. Consequently, it is necessary to prepare the computations with reference to the last completed financial year (before the prescribed date) of each *unit* within the Union namely,

- (i) Former Rajasthan Union,
- (ii) Jaipur,
- (iii) Jodhpur,
- (iv) Bikaner,
- (v) Jaisalmer,
- (vi) Matsya.

Allowance must be made, however, for one important factor, namely Internal Customs, the revenue and expenditure relating to which would be affected by the abolition of inter-statal customs barriers, consequent on the merger of these units to constitute the present Rajasthan Union. Accordingly, the figures in the illustrative State-

ments I and II attached have been compiled with reference to the following accounting periods after making an allowance for inter-State customs duties :

|                        |           |                         |
|------------------------|-----------|-------------------------|
| Former Rajasthan Union | .         | 1-10-1948 to 30-9-1949  |
| Jaipur                 | . . . . . | 1-9-1948 to 31-8-1949   |
| Jodhpur                | . . . . . | 1-10-1948 to 30-9-1949  |
| Bikaner                | . . . . . | 1-4-1948 to 31-3-1949   |
| Jaisalmer              | . . . . . | 1-11-1948 to 31-10-1949 |
| Matsya                 | . . . . . | 1-4-1948 to 31-3-1949   |

NOTE.—(i) Although Bikaner and Matsya are following the same financial year as the Government of India and would therefore complete their financial year 1949-50 on the 31st March 1950, it is not possible to adopt that year as the basic period for these two Units, as separate accounts are not likely to be maintained for them for the whole year 1949-50 in view of their merger into Greater Rajasthan. The financial year 1948-49 has accordingly to be adopted as the basic period for all covenanting Units.

(ii) For Railway revenue, in respect of which audited figures for earlier years are likely to be available, the average net receipts for the three completed financial years of the Railways concerned immediately preceding the prescribed date should be adopted for purposes of Statement I.

36. The effect of federal financial integration on the Revenues and Expenditure of Greater Rajasthan, as brought out by Statements I and II, may be summarised as follows :

|                                 | Abolition of<br>internal cus-<br>toms and<br>Salt duty<br>compensations | Transfer of<br>“federal”<br>Revenues &<br>Expenditure<br>to the Govt.<br>of India. | Total          |
|---------------------------------|---|--|----------------|
|                                 | Rs. (in lakhs)  | Rs. (in lakhs)   | Rs. (in lakhs) |
| Loss of Revenue . . . . .       | 332   | 225  | 557            |
| Saving of Expenditure . . . . . | 30  | 248  | 278            |
| Net loss . . . . .              | <u>302</u>  | (—) 23   | <u>279</u>     |

Although complete information in regard to a few items was not available to the Committee, it is not likely that the figures given

here will require any considerable modification, so as to affect the general plan of adjustments discussed in this Chapter.

It would seem that there will be a net 'gain' of Rs. 23 lakhs to the United State of Rajasthan upon the integration of their 'federal' revenues and 'federal' expenditure with those of the Central Government; the State will, however, be faced with a very serious problem as a result of the abolition of internal customs which at present yields nearly three crores of rupees per annum.

### **Financial adjustments required**

#### **Land Customs**

57 (1) As already explained (paragraph 22 of Part I), the loss of revenue resulting from the abolition of internal customs duties arises from the operation of Articles 16 and 244 of the Draft Constitution and must be made good by the State itself by recourse to alternative forms of taxation. Similarly, the loss on account of the discontinuance of the Salt Duty Compensations (Rs. 15 lakhs included in the figure of Rs. 302 lakhs shown in paragraph 56) must also be borne by the State, as no "federal" revenue by way of duty is being actually raised from salt.

After discussion with the Rajasthan Government, we are convinced that, in view of the very large amount involved, it will not be possible to secure the immediate abolition of internal customs in this Union. Steps must, however, be taken to ensure that the abolition will be achieved in stages, over a period not exceeding five years. The abolition of duties on some items, the scaling down of duties on others and the introduction of a carefully devised system of Sales Tax must therefore be taken in hand at once. If the revenue from Sales Tax should reach the level of Rs. 3 crores earlier than in the fifth year, the complete abolition of the internal customs duties must be correspondingly accelerated.

As an immediate step, the Rajasthan Government should (especially with effect from the date from which federal financial integration may become effective) observe the principles laid down by the Expert Committee on the financial provisions of the Union Constitution (*vide* paragraph 22 of Part I of our Report).

#### **"Federal" Revenues and Expenditure**

(2) As indicated above, our computations show that so far as 'federal' revenues and 'federal' items of expenditure are concerned, there is likely to be a net gain of the order of Rs. 23 lakhs to the Rajasthan Union. We do not consider it necessary to suggest any transitional financial adjustments in respect of this relatively small burden which would be thrown on the Centre.

The Rajasthan Government will therefore *with effect from the date of federal financial integration*, be entitled to their appropriate share of Income-tax (and other divisible 'federal' revenues such as they may be from time to time) and also be eligible for all grants-in-aid, on Capital or Revenue account, food subsidies at the enhanced rate of 75% of the loss on the sale of imported foodgrains as in the case of Provinces and all other forms of financial and technical assistance from the Centre, on the same basis and on the same principles as applicable to Provinces.

(3) If, however, when the final computations are made, with reference to the actuals of the prescribed 'basic period', it should be found that the Rajasthan Union has incurred a net loss instead of a gain as a result of federal financial integration, it will be necessary to provide for a measure of gradualness in regard to the taking up of that burden by the Union.

The following will be the scheme of financial adjustments in that event :

(i) The Central Government must guarantee the reimbursement to the State of the entire amount of the *net* revenue-gap of federal revenues, resulting from federal financial integration, for the whole transitional period of 10 years. The guarantee must be continued for a further period of five years if Article 258 of the Draft Constitution is amended so as to extend the transitional period to 15 years.

NOTE.—The loss from the abolition of land customs duties itself accounts for more than 40 per cent of the initial over-all *net* loss; there is consequently no reduction of the amount of the guarantee from the fifth year onwards—*vide* note below paragraph 32 of Part I of our Report.

(ii) The Centre should implement the guarantee :

(a) by paying to the Rajasthan Government its appropriate 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 paying to the Rajasthan Government an amount equal to the short-fall, as a special *ad hoc* grant-in-aid in that year;

(c) on the other hand, in any year in which the amount payable under (a) does *not* fall short of the guaranteed amount,

the Rajasthan Government will receive the amount due under (a) and the guarantee will be inoperative for that year.

(iii) Apart from the share of divisible 'federal' taxes referred to in (ii), the Rajasthan Government will, in addition be entitled to all other forms of financial and technical assistance from the Centre mentioned in sub-para. (2) above.

### **Privy Purse**

(4) The estimate [in sub-para. (2) above] of the 'net' gain of Rs. 23 lakhs to Rajasthan upon federal financial integration is based on the assumption that 'privy purse' would continue, as at present, to be a charge on the revenues of the Union. If, however, it should be decided that 'privy purse' should be made a charge on 'Central' revenues, there would be an additional burden on the Centre to the extent of nearly a crore of rupees. In that event we recommend that the Rajasthan Union should reimburse the Central Government the amount of the "privy purse" *in full* for the first year, 90% in the second year, 80% in the third year, and so on, on a tapering down scale until the tenth year. From the 11th year, there would not be any reimbursement and the Centre must then take up the entire burden.

The Rajasthan representatives appreciated the above proposal and strongly urged before us that there could be no justification whatever for leaving the 'privy purse' as a purely 'Provincial' charge *after* financial integration. The general question, as we have already indicated, must be decided on political and constitutional considerations.

### **Comments on certain specific matters relating to Revenue and Expenditure.**

#### **58. (1) Land Customs on foreign trade**

It is understood that Jodhpur is at present levying its own customs duties, in addition to those imposed by the Government of India, on exports to and imports from Pakistan. It is essential that any such additional duties levied on goods crossing the Indo-Pakistan frontier should be completely discontinued as from the prescribed date. Similar action will be necessary in Bikaner, and Jaisalmer, if they are also levying any duties on Indo-Pakistan trade on their own account.

#### **(2) Royalties**

Reference is invited to our general remarks in paragraph 11 (7) of the Annexure to Part I of our Report and in paragraph 12 (3) of

Chapter II relating to various types of 'Royalties' collected in certain States. Such portion of the income as will, according to the principles set out in those paragraphs, be classifiable as 'federal', must be computed separately and included in Statement I under the appropriate heading ("Income-tax" or "Central Excise").

### **(3) Salt**

The general position in regard to the various salt agreements with States is explained in paragraph 12 (5) of Chapter II. It has not been possible for us to work out with any accuracy the duty element involved in the different payments made to the States. Rough estimates have been made for purposes of inclusion in Statement I against the entry "Salt."

### **(4) Defence**

It has been represented to us that a provision of Rs. 18 lakhs included in the Jodhpur budget under defence is really a liability of the Central Government even under existing arrangements. We are not aware if this liability has been accepted by the Government of India. If it is finally settled that the amount involved should be regarded as an already existing "federal" liability, the figure to be taken into account in Statement II will be only the net amount of Rajasthan's own expenditure on defence, after deducting the contribution from the Government of India in respect of the liability in question during the basic period.