

IV. SUMMARY OF RECOMMENDATIONS

Summary of
Conclusions and
Recommendation.

43. The Committee's main conclusions and recommendations in this Part of the Report are summarised below :—

- (1) Items (1) and (5) of the Committee's Terms of Reference having been withdrawn, this Report is concerned only with the problem of the integration of "federal finance" in States. (Paras. 1 and 2)
- (2) Close consultations with all the interests concerned have rendered possible the preparation of schemes of federal financial integration for individual States, the important features of which have been accepted by the State Governments concerned with the exception of one state. (Para. 3)
- (3) Non-viable States, and (with the exception of Baroda) those which have been "merged" into existing Provinces or integrated into new Chief Commissioners' Provinces, have not been dealt with ; so also Kashmir. (Para. 4)
- (4) The new relationship established between States and the rest of India based on the 'Objectives' Resolution demands that the Central Government should have the same range of powers and authority over Provinces and States alike and function in them in the same manner through its own agency and derive the same revenues from them. Federal Financial Integration inevitably follows from this.

Financial integration is necessary and desirable on broad economic considerations as well. (Paras. 10 to 17)

- (5) When federal financial integration comes into effect, all "Central" Revenues and all "federal" Services (including Railways, Posts and Telegraphs, Telephones, and Currency and Coinage), together with the administration of the Departments concerned should be taken over by the Central Government ; Accounting and Audit should also be taken over, if possible. (Paras. 19 and 20)
- (6) Except in one or two states, internal Customs duties can be totally abolished in all States simultaneously with federal financial integration ; the loss of revenue will be covered by the direct

and indirect gains resulting from financial integration together with proceeds from Sales Tax. In the excepted cases the abolition of these duties should be gradual. No compensation should be paid in any case. (Para. 22)

- (7) As regards Armed Forces, financial integration should affect only the regular "Indian States Forces", properly so called; even there, it need not involve any change in the present administrative arrangements concerning them. (Para. 23)
- (8) The question whether Privy Purses should be a "Federal" or "Provincial" liability is left open, and financial integration schemes have been worked out on the assumption that the liability will continue with the States; but the modifications required, in the event of this liability being undertaken by the Centre, have been indicated. (Para. 24)
- (9) Integration of federal finance in States involves also the allocation of assets and liabilities of States between them and the Centre on a "functional" basis. (Para. 25)
- (10) The integration of federal finances in States need not be gradual; but provision should be made for a degree of gradualness in the full effect of its impact in certain directions. (Paras. 27 and 28)
- (11) No compensation should be paid for any "federal" assets (such as Railways) or revenues (such as Customs) which would pass to the Centre, or for any "rights and immunities" which would be extinguished, as a result of federal financial integration; but provision should be made for the prevention of dislocation of finances of States that may be caused by the loss to them of these sources of revenue in the manner indicated; also, public debt and other liabilities should be shared. (paras. 30 and 31)
- (12) Financial integration schemes for individual States have been evolved upon the basis of principles which take account of their varying circumstances, the need to avoid any sudden dislocation of their finances, and the necessity to provide for smooth transition to the full "provincial" pattern in the 11th year, or the 16th year, as may be provided under Article 258 of the (Draft) Constitution of India. (Para. 32)
- (13) The detailed integration schemes for individual States, except Hyderabad, are in the Committee's two Interim Reports and in Part II of this Report; that for Hyderabad

will follow in a supplementary Report. These schemes are workable. They are also equitable, both to the States and to the Centre. Their legal basis would be as "agreements" entered into with States under Article 258 of the (Draft) Constitution of India. (Paras. 41 and 35 to 37)

- (14) A Committee should be appointed to watch the working of these schemes. (Para. 38)
- (15) Income-tax should be introduced in all States (including those where there is none at present) at rates adjusted to local conditions. Its assessment and collection should be by officers of the Central Government under the Indian Income-tax Act. (Para. 33 and Annexure)
- (16) The existing distribution to Provinces of the proceeds from Income-tax needs revision ; it will need further revision when federal financial integration takes effect in the States. In this respect no distinction should be made between Provinces and States. (Para. 34)
- (17) Except as regards the "Anchal" post in the Travancore-Cochin Union (for which special arrangements are needed) the regular "Indian States Forces", and some miscellaneous "federal" Service Departments, the administration of all other "federal" subjects in States should be taken over by the Centre simultaneously with the integration of federal finances. Consideration of the problems arising out of this recommendation,—staff, training, organisation etc.,— should receive immediate attention. (Paras. 39 and 23)
- (18) Financial integration should be effective from the 1st April 1950, the necessary "agreements" under Article 258 being executed before that date, after the new Constitution has been enacted. (Para. 40)
- (19) It should be announced that upon financial integration, States and Provinces will be treated alike in the matter of all grants, "subsidies", and other forms of financial and technical assistance from the Centre. (Para. 36)
- (20) During a transitional period, the general revenues of the Centre should receive a subvention from the Railway Budget. (Para. 36)
- (21) Integration of federal finances in States will have most important and far-reaching consequences ; there is need, therefore, for caution in proceeding with such matters as prohibition, abolition of Jagirs, etc. (Paras. 42 and 35)

(22) A Deputy Auditor-General for States should be immediately appointed with certain special responsibilities between now and the date of financial integration. (Paras. 39 and 20)

44. The Chairman and Shri S. K. Patil desire to place on record their warm appreciation of the help they have received from their colleague Mr. N. Dandeker. The preliminary work of the Committee—the collection of the material and its verification and the drafting of proposals as a basis for discussion—was undertaken by him with the assistance of the Secretary, Mr. G. Swaminathan. The care and thoroughness with which Mr. Dandeker carried this out has considerably lightened the labours of the Committee, which has also benefited by his knowledge of the administration of Income-tax and other Central revenues.

Acknowledgements.

The Committee also desires to record its appreciation of the work done by the Secretary, Mr. Swaminathan. He shared in the preliminary work of the Committee which was extremely arduous ; and his wide and intimate knowledge of problems connected with federal and provincial finance has been of great use to the Committee.

The office staff of the Committee also performed their duties in an eminently satisfactory manner.

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