

CHAPTER X

CONCLUSION

68. It will be observed that the Scheme-Reports contained in the preceding Chapters and in our two Interim Reports follow certain uniform principles not only as regards the basic conceptions and processes involved in effecting the integration of "federal" finances in States, but also as regards the transitional adjustments necessary to avoid any sudden financial dislocation. Due account has however been taken of local situations and of the special problems confronting particular States, in relation to their present net dependence upon "federal" resources ; in the result, *the emphasis has been more upon the avoidance of dislocation of the finances of States than of the Centre.*

69. In some cases, there is likely to be a net "gain" to the States as a result of the integration of "federal" revenues and expenditure properly so called ; but except in the Patiala and E. P. States Union, the gain is in every case more than offset by the loss of revenue from internal customs duties. It is also likely that the gain may be less,—or may even turn out to be a loss in one or two cases—when final figures of "federal" revenues and expenditure of the "basic period" become available. For these reasons, we have not thought it necessary to provide for any transitional adjustments in favour of the Centre in respect of these "gains". As regards Privy Purses, however, we have no doubt whatever that any *future decision* to make them a "federal" liability would clearly justify a measure of *gradualness* in shifting the burden to the Centre, as the sums involved are very considerable in the aggregate. No difficulty arises in this respect in regard to those States—such as Mysore—, where the result of federal financial integration is to create a net "revenue-gap"; the effect of making Privy Purse a "federal" charge would merely reduce the revenue-gap and so make *easier* the problem of transitional adjustments in such cases. But where federal financial integration results in a "negative revenue-gap"—*i.e.*, a profit to the State—clearly the Centre cannot be expected suddenly to undertake a further additional burden in the shape of Privy Purse ; and in these cases, therefore, transitional adjustments designed to shift the additional burden gradually to the Centre are, we think, fully justified,

70. We shall now indicate briefly the procedure which we think may usefully be followed in giving effect to our proposals. The recommendations which we have made in each Scheme-Report, read with our general recommendations in Part I and Chapters I to III of this Part, will form the basis for "agreements" to be entered into with individual States. The final figures for the "basic period" relevant to each case will not, however, be available until about the end of 1950. These considerations clearly require that the whole matter must be dealt with in three stages:—

- (1) The first stage may be some time in September 1949, when decisions should be taken on all the general recommendations—including those relating to Income-tax—made by us in Part I of our Report and in Chapters I to III of this Part. At the same time, decisions should also be taken *in principle* upon all matters arising out of each individual Scheme-Report. In reaching decisions the Governments of the States concerned must, of course, be consulted; and the most fruitful method of doing so would, in our opinion, be to arrange separate meetings with the representatives of each State. The issues involved are so complex, and the problems and situations in the different States so varying, that quick and decisive results are unlikely to be reached at a general conference of all States,—except, perhaps as regards the broad issues which are common to all of them.
- (2) The next stage would consist in drawing up "Agreements" and, if necessary, revised Instruments of Accession, for execution by individual States in conformity with the decisions reached at the first stage and in accordance with the relevant provisions in the Constitution of the Union of India. Except in the case of the Travancore-Cochin Union, this must await the final passing of the Constitution by the Constituent Assembly, but should be completed before that Constitution comes into effect.
- (3) The final stage will consist in the preparation of the various "Statements"—*vide* Chapters IV to IX—upon which the precise financial integration scheme and the necessary transitional adjustments for each individual State will ultimately depend. This work may be taken in hand immediately after the completion of Stage (2), beginning with those States for which the 'basic period' extends over three years.

In view of the importance and complexity of the issues involved and of the volume of detailed work still to be done in preparing precise financial integration computations for individual States, we recommend the early appointment of a suitable officer, of the necessary status and experience, to be placed on Special Duty in connection with all stages of the work.

Chairman

Member

Secretary

Member

Hydrabad House,
New Delhi, the 22nd July 1949.