6

Finance Commission Vs. Planning Commission

The old controversy regarding the specific spheres of the Finance Commission and the Planning Commission and the consequent dual authority has been once again brought to the lime-light by Prof. D. R. Gadgil in his very first press-conference on assuming his new office of the Deputy Chairmanship of the Planning Commission. He referred to the two prevalent views regarding the extension of functions of Finance Commission on the one hand and the other which stresses that the Planning Commission should be accorded statutory recognition in its function of allotting grants to the States. The need for examining the continuance, enlargement or abolition of Finance Commission has also arisen due to certain other factors which inter-alia are :—

(1) The ever growing assistance to the States by the Planning Commission under article 282 of the Constitution which has created an impression that the Planning Commission is making inroads in the scope of the Finance Commission.

(2) The change in the pattern of the political set-up at the State level—i. e. the end of the one party rule at the States and Centre and the emergence of multi-party Governments. The result of this change is that the old practice of party channel for bringing about a coordination or for avoiding clash of interest between Centre and States has disappeared.

(3) The increasing number of Federal units on account of recurrent bifurcations of States on linguistic and other considerations. This has also been putting more pressure on the Centre for additional financial assistance as the State's economy is generally up-set by such bifurcations and territorial adjustments.

(4) The appointment of the study groups[1] by the Administrative Reforms Commission to go into the entire aspects of the Centre-State relations.

---

1. Administrative Reforms Commission appointed three Study-Groups under the chairmanships of Shri Setalwad, Shri Morarka and Shri Venkatappiah respectively.

Source of Conflict-a brief review.

The source of conflict, springs from the simultaneous existence of two parallel bodies namely the Finance Commission and Planning Commission which recommend financial assistance to the States. This jurisdictional controversy due to the overlapping of functions is not a new one, as provoked by Prof. D. R. Gadgil. It dates back to the year 1951. There was no reference to Plan expenditure as such in the terms of reference of the First Finance Commission and that body did not find it necessary to draw a line of distinction between plan and non-plan expenditure. The Second Finance Commission was specifically asked to take into account both the requirements, i. e., (Plan and non-plan). However, the size of plan expenditure increased so rapidly that it became a normal practice to meet the gap through discretionary grants under Article 282.

The Third Finance Commission recommended grants under article 275 to cover 75% of the State's revenue expenditure on the Third Plan, but Government did not accept the recommendation. The Fourth Finance Commission confined its recommendations to the revenue needs only, as it put forward the following reasonings for the exclusion of plan requirements. The Committee observed "the importance of planned economic development is so great and its implementation so essential that there should not be any division of responsibility in regard to any element of plan expenditure. The Planning Commission has been specially constituted for advising the Government of India and State Governments in this regard. It would not be appropriate for the Finance Commission to take upon itself the task of dealing with the State's new plan expenditure".[2]

In theory an ideal Federation is one in which each constituting unit is endowed with independent sources of revenue sufficiently elastic for discharging its responsibilities. But in practice, this ideal of perfect balance between the functions and resources is difficult to achieve. "The experience of the nineteen-twenties led, however, to the emergence of the idea that the authority most suited for discharging a particular governmental function need not necessarily be the authority most suited to raise the financial resources required to discharge the function."[3] In almost every one of the Federations inadequacy of regional or provincial finance is being met by the Central or Federal authority. In India too, as shown in the following table, the central assistance to the total State expenses is continuously on the increase both in absolute and relative terms.

2. Fourth Finance Commission Report 1965. P 9. Para 16.
3 4th Finance Commission Report—1965. P. 7 Para 10

Total State Budgets

(Rs. Crores)

	I Plan	II Plan	III Plan(x)
1. Total Net Expenditure (Revenue & Capital)	3359	6033	10790
2. Total revenue from Centre (xx)	1413	2869	5478
3. Col. (2) as % of Col. (1)	42	48	51

(x) Figures are provisional as the figures for the year 1964-65 were Revised Estimates and for 1965-66 were Budget Estimates. Source :—Currency and Finance Reports, Reserve Bank of India.

(xx) Totals taken from the Explanatory Memorandum of the Central Budget, year 1965-66.

The States are getting financial grants from two sources, one under the statutory grants as per recommendations of the Finance Commission (mainly under Article 275) and the other is the discretionery grants under Article 282. This latter one is increasing at a much faster rate and thus undermining the significance of statutory grants. This is evident from the following table :—

Financial Grants from Centre to States

(Rs. in Crores)

	I Plan	II Plan	III Plan
(A) Statutory grants	103	207	333
(B) Other grants (i. e. Discretionary grants)	145	461	815

Source :—Explanatory Memorandum to the Central Budget Year (1965-66)

The above analysis reveals that the grants made by the Finance Commission are forming only a small portion of the total central financial assistance e. g., it was about 7% during the First Plan period and only 6% in the Third Plan period. Similar findings were made by the Administrative Reforms Commission in their final Report on "Machinery for Planning."

The report observes "Over the years the assistance given in the shape of loans and grants under Article 282 has come to constitute a very high proportion of the States' expenditure. Thus the aggregate of Plan loans and grants expressed as a ratio of the total 'own resources' of the States has gone up from 24·8% in 1951-52 to 70% in 1965-66. The corresponding proportion for statutory grants according to the recommendations of the Finance Commission was 4·8% in 1951-52 and 5·6% in 1965-66. The corresponding ratios for the amounts transferred to States by the devolution of taxes and duties were 14·9% in 1951-52 and 17·8% in 1965-66. Assuredly the Planning Commission plays today a major role in the allocation of resources to States."[4] Though it may be conceded that there is nothing specific in the constitution which prohibits the Finance Commission from recommending other grants. But the fact remains that it has been so in practice. Besides this, it is also pertinent to examine some other weaknesses of this quinquennial body, so as to enable us in finding a solution for this problem. The other weaknesses are :—

(1) The present arrangement of the Finance Commission is that it is an ad-hoc body and as such there is no continuity in its work. It takes a static view and is not in a position to derive advantage of learning through experience. The time being an important limiting factor, it is not possible for it to take a comprehensive study of all the problems. There is not even a permanent secretariat to assist the Commission in diverse ways and to establish a link between successive Finance Commissions.

(2) There is no arrangement with the Finance Commission to ensure that the States have really made full efforts in raising revenue and have made judicious use of funds. The grants-in-aid have provided good method even for covering the irresponsible expenditure or for deliberately getting extra funds by showing artificial gaps, because the recent evidence is that those who clamour most tend to get more.

(3) The Finance Commission confines itself to the revenue needs whereas the integrated national approach demands to take totality of the problem. It has already been shown how limited is the scope of grants under it's (Finance Commission's) recommendation.

(4) Successive Finance Commissions felt urgently the need of reliable statistical data and had emphasised it in each of their report. A small cell consisting only of some ministerial staff was, however, opened under the Finance Ministry but it could not provide the requisite statisti-

4. Report on Machinery for Planning, March 1968, Administrative Reforms Commission, Item No. 63

cal material to the Commission. In most of the cases, the Commission had to depend upon the statistics furnished by the Planning Commission.

(5) There is yet another weakness of the present arrangement. This arises from the fact that the share to and from the dividible pool as also the distribution inter-se among the several States is not a fixed one. Every time, a Finance Commission is appointed, it proceeds on a de-novo basis and recommends the share of the States on its own discretion. There is no set formula as yet evolved for this. The effect of this is that it has led to uncertainty and speculation in this regard.

The Study Team headed by Shri Setalvad on "Centre-State Relationships" recommended that the Finance Commission should be concerned only with the fixing of shares of taxes to be distributed and settling the percentages to be allotted to the States and that the Planning Commission should deal with all the grants including Plan grants.

The Vankatappiah Study Team on Financial Administration made a different suggestion. It proposed that the Finance Commission should be made permanent and should also allocate plan grants under Article 282, awards being made twice during a quinquennium for this purpose one for the first two years of the Plan and then again for the last three years.

The Administrative Reforms Commission, however, in their final report very rightly have not accepted either of the above suggestions. Because it is not desirable to isolate the grants for plan and the grants on other purposes. Similarly the idea of putting the Finance Commission on a permanent basis, though held by even some important authors, is not a satisfactory one to meet the present problem. This may result in the separation of financial responsibility from planning responsibility of the Planning Commission. Such an alternative may also involve additional expenses on the Exchequer. Recently the Deputy Prime-Minister Shri Morarji Desai categorically refuted the possibility of making the Finance Commission on permanent footing. The Administrative Reforms Commission also rejected the case for a permanent Finance Commission because :—

"the allocation of Plan assistance is intimately connected with the formulation of the Annual Plans in which the Planning Commission has to take a leading part. Once the Annual plan is formulated by the Planning Commission, allocation of assistance follows and there is no need for a quasi-judicial body like the Finance Commission to determine that allocation." The Administrative Reforms Commission appears to maintain the status-quo in the present arrangement and does not clarify the situation posed above.

The other alternative which appears to be more plausible, is to place the Planning Commission on a Statutory basis by making necessary constitutional amendments and to add a new wing in the present working which should be entrusted with the job of devolutions and grants-in-aid presently done by the successive Finance Commissions. Such integration will automatically dissolve the existing conflicts controversies and contradictions. Simultaneously this may also require minor amendments in the Constitution to incorporate specific directives for the distribution to and from the divisional pool which will remove all uncertainties and speculations enumerated above. The Planning Commission has already grown and in view of the recent r organisation under the stewardship of Dr. D. R. Gadgil, it can effectively and efficiently discharge these additional obligations also. It is well poised to carry out this job with utmost efficiency, impartiality and objectivity of judgement.

R. K. Lele
J. R. Monga