

GRANTS-IN-AID

11.1 Under Article 280 (3)(b), the Constitution requires us to make recommendations as to the principles which should govern the grants-in-aid of the revenues of the States that are in need of assistance. In addition, the Presidential Order constituting the Commission asks us to determine, "the sums to be paid to the States by way of grants-in-aid of their revenues under article 275".

11.2 We have already explained the manner in which the estimates of the non-plan revenue receipts and non-plan revenue expenditures of the Centre and the States were reassessed by us. Thereafter, we have made our recommendations regarding the devolution of taxes to the States. Other components of resource transfer have also been considered, e.g. additional excise duties and the grants in lieu of tax on railway passenger fares. We now bring these threads together to determine the overall "need of assistance" for grants-in-aid of the revenues of each State.

11.3 A comparison at this juncture with the relevant clauses of the Presidential Order constituting the Ninth Commission would be in order. The terms of reference of that Commission contained a clear directive to "adopt a normative approach in assessing the receipts and expenditures on the revenue account of the States and the Centre and, in doing so, keep in view the special problems of each State, if any, and the special requirements of the Centre." In contrast, no explicit reference to a "normative approach" figures in our terms of reference, and our assessment has been limited specifically to the non-plan revenue expenditure of the States.

11.4 On the other hand, what is entirely new in our terms of reference is the mention of the objective of reducing fiscal deficit in Para 4(i). We are thus required to consider the fiscal balance on revenue as well as capital accounts.

11.5 Clearly, any improvement in the non-plan revenue account will go to reduce fiscal deficit only if it is not offset by a corresponding deterioration in the plan revenue account and capital account. We have not gone into the question of plan outlays or the non-plan capital account. We assume that to the extent our recommendations help improve the non-plan revenue account of the Centre and the States, they would contribute to a reduction in fiscal deficit.

11.6 The difference between assessed needs and assessed post-devolution resources on the non-plan revenue account is a resource gap. This gap is ideally estimated through a full-fledged normative exercise. In that case, the comparison would be between what a State 'ought' to be raising in terms of revenues by the application of a vector of normatively determined tax rates on the relevant tax bases after specific fiscal disabilities have been taken into account and what it 'ought' to be spending in terms of desired levels of governmental services. At the other extreme is the gap that would emerge from a comparison of what a State 'does' raise in terms of revenues with what it 'does' spend, i.e. from a comparison of the historical patterns of revenues and expenditures, projected into the future.

11.7 The absence of an explicit mention of a 'normative approach' in our terms of reference does not debar us from

adopting one. However, lack of availability of suitably disaggregated data on the tax bases of the States (especially relating to their quality and coverage) and the difficulties in evolving a suitable methodology under these limitations, place serious constraints on using a normative approach. We have not used a full-fledged normative methodology. However, our exercises do contain relevant normative and prescriptive considerations as indicated in Chapters III and IV.

11.8 Views of the States on the principles that ought to be followed in determining grants-in-aid are arrayed in a broad spectrum. Gujarat has suggested that no grants-in-aid should be given for covering post-devolution revenue gaps. Madhya Pradesh, on the other hand, has argued not only for covering this gap, but increasing its scope to include the entire 'fiscal gap'. Kerala has advocated an effective use of the grants-in-aid mechanism to rectify horizontal fiscal imbalances. Goa suggested that a built-in buoyancy should be provided for in the grants. Maharashtra has indicated that, in its view, the last three Commissions have progressively increased the ratio of grants to devolution, and that this trend needs to be arrested. Some States, e.g., Rajasthan and Manipur, have favoured linking grants to achieving a reduction in disparities in the availability of administrative and social services, not merely in terms of revenues, but in physical or real terms.

11.9 Grants-in-aid of revenues to cover post-devolution assessed deficits constitute only a component of our overall recommendations regarding grants-in-aid. The provision for devolution of 7.5 per cent of the net proceeds of Union excise duties according to assessed deficits makes for a built-in buoyancy in transfers to cover deficits.

11.10 Table 1 gives the year-wise pre-devolution surplus/deficit profile of the States, when their assessed expenditures on non-plan revenue account are posited against their own revenue receipts. In 1995-96, only Haryana and Maharashtra emerge with a pre-devolution surplus. The position of some of the other States improves in the succeeding years. By 1999-2000, six of the non-special category States have a pre-devolution surplus, viz. Gujarat, Haryana, Karnataka, Maharashtra, Punjab and Tamil Nadu.

11.11 Grants-in-aid that are meant for covering assessed deficits on non-plan revenue account of the States, are calculated after considering transfers to the States on account of (i) devolution of income tax and Union excise duties (ii) share in additional excise duties, and (iii) share in grants in lieu of tax on railway passenger fares. As indicated in Para 11.9 above, the devolution of taxes is inclusive of 7.5 per cent of the net proceeds of Union excise duties, which are devolved on the basis of deficits as they emerge after the distribution of 40 per cent of the net proceeds of Union excise duties alongwith the devolution of income tax according to the formula given in Chapter V, and the transfers on account of additional excise duties and grants in lieu of tax on railway passenger fares, according to the distributive criteria given in Chapters VI and VII, respectively.

Table: 1

Pre-Devolution Non-Plan Revenue Surplus/Deficit: 1995-2000

						(Rs. lakhs)
State	1995-96	1996-97	1997-98	1998-99	1999-00	Total 1995-00
1.	2.	3.	4.	5.	6.	7.
Andhra Pradesh	- 321410	- 318618	- 308220	- 295375	- 275477	- 1519100
Arunachal Pradesh	- 28141	- 30431	- 32823	- 35241	- 37567	- 164203
Assam	-136545	- 146239	- 155413	- 164177	- 171676	- 774050
Bihar	- 392855	- 415431	- 435901	- 457733	- 476647	- 2178567
Goa	- 11994	- 12216	- 12181	- 11990	- 11519	- 59900
Gujarat	- 16920	6643	38221	76025	122434	226403
Haryana	28225	44062	65490	89120	119721	346618
Himachal Pradesh	- 80363	- 85201	- 89686	- 93920	- 96924	- 446094
Jammu & Kashmir	- 122660	- 131264	- 140050	- 148835	- 156974	- 699783
Karnataka	- 1492	30279	73087	120662	181413	403949
Kerala	- 103000	- 94036	- 79112	- 60726	- 36578	- 373452
Madhya Pradesh	- 151922	- 145870	- 141796	- 137000	- 125004	- 701592
Maharashtra	88221	145166	216694	298984	391711	1140776
Manipur	- 34817	- 37422	- 40196	- 42994	- 45805	- 201234
Meghalaya	- 32471	- 34562	- 36600	- 38772	- 40341	- 182746
Mizoram	- 29378	- 31669	- 33901	- 36909	- 38383	- 170240
Nagaland	- 45216	- 49193	- 53385	- 58022	- 62283	- 268099
Orissa	- 156179	- 171271	- 183169	- 195235	- 209400	- 915254
Punjab	- 46152	- 43732	- 28618	- 20180	185	- 138497
Rajasthan	- 160648	- 157023	- 149205	- 143070	- 121009	- 730955
Sikkim	- 11603	- 12426	- 13194	- 13983	- 14781	- 65987
Tamil Nadu	- 150330	- 117248	- 72918	- 24137	34690	- 329943
Tripura	- 48103	- 51717	- 55861	- 59316	- 62588	- 277585
Uttar Pradesh	- 612203	- 633492	- 639943	- 642133	- 624764	- 3152535
West Bengal	- 211367	- 215035	- 203306	- 194457	- 176314	- 1000479
Total (Net)	- 2789323	- 2707946	- 2511986	- 2289414	- 1933880	- 12232549
Deficit	- 2905769	- 2934096	- 2905478	- 2874205	- 2784034	- 14403582
Surplus	116446	226150	393492	584791	850154	2171033

11.12 After taking into account the transfers pertaining to taxes and duties indicated in the previous paragraph, some States still emerge with residual deficits. We recommend grants-in-aid, to be given to the States under the substantive portion of Article 275(1), equal to the amount of these deficits as estimated for each of the years during 1995-96 to 1999-2000. These amounts have been specified in **Table 2**.

11.13 It may be observed that no State has a post-devolution deficit on the non-plan revenue account in the terminal year. The total amount of grant, on account of non-plan revenue deficit for the period 1995-2000, is Rs. 7,582.68 crores. It may be noted that the dependence of States on the deficit grants declines in successive years. This pattern applies to each of the States, indicating that their budgetary position on the non-plan revenue account keeps improving over the years thereby changing their balance on the non-plan revenue account from deficit to surplus as indicated in **Table 3**.

11.14 In addition to the deficit grants, we have also recommended grants for upgradation of standards of

administration, grants meant for local bodies consequent upon the Constitution Amendment Acts 73 and 74, and grants for special problems. Grants have also been recommended for meeting expenditure relating to calamity relief. These grants have been discussed in the relevant Chapters.

11.15 Total estimated transfers to the States for the period 1995-2000, on account of transfers relating to taxes and duties and all grants, are given in **Table 4**. For the five year period from 1995-2000, the estimated amount of devolution is Rs.1,84,457 crores. In addition, Rs.19,986 crores and Rs.1900 crores are the estimated amounts of transfers pertaining to the additional excise duties and grants in lieu of tax on railway passenger fares respectively. The total transfer on account of taxes and duties thus amounts to Rs.2,06,343 crores. The overall transfers recommended by us add to an estimated amount of Rs. 2,26,643.30 crores. The estimated position of the Central Government on the non-plan revenue account after the above mentioned transfers to States is given at Annexure XI.1.

Table: 2
Non-Plan Revenue Grants:1995-2000

State	1995-96	1996-97	1997-98	1998-99	1999-00	(Rs crores)
						Total 1995-2000
1.	2.	3.	4.	5.	6.	7.
Andhra Pradesh	483.47	202.98	0.00	0.00	0.00	686.45
Arunachal Pradesh	136.60	109.26	45.63	16.11	0.00	307.60
Assam	342.20	249.94	92.08	27.81	0.00	712.03
Bihar	257.72	75.34	0.00	0.00	0.00	333.06
Goa	38.98	26.88	9.03	2.37	0.00	77.26
Himachal Pradesh	353.11	273.00	109.25	36.82	0.00	772.18
Jammu and Kashmir	535.39	419.05	170.85	58.84	0.00	1184.13
Manipur	157.43	124.28	51.31	17.90	0.00	350.92
Meghalaya	143.83	111.89	45.19	15.51	0.00	316.42
Mizoram	147.25	117.60	48.79	17.55	0.00	331.19
Nagaland	233.04	188.46	79.63	28.65	0.00	529.78
Orissa	192.87	133.35	38.34	7.18	0.00	371.74
Rajasthan	33.45	0.00	0.00	0.00	0.00	33.45
Sikkim	48.05	37.45	15.06	5.13	0.00	105.69
Tripura	218.92	172.98	71.99	24.89	0.00	488.78
Uttar Pradesh	683.40	298.60	0.00	0.00	0.00	982.00
Total	4005.71	2541.06	777.15	258.76	0.00	7582.68

Table: 3
Non-Plan account of States after devolution of Taxes
and Duties and Deficit Grants

<i>(Rs crores)</i>						
State	1995-96	1996-97	1997-98	1998-99	1999-00	Total 1995-00
1.	2.	3.	4.	5.	6.	7.
Andhra Pradesh	0.00	0.00	21.57	571.87	1227.95	1821.39
Arunachal Pradesh	0.00	0.00	0.00	0.00	25.60	25.60
Assam	0.00	0.00	0.00	0.00	35.67	35.67
Bihar	0.00	0.00	188.50	589.66	1071.68	1849.84
Goa	0.00	0.00	0.00	0.00	2.32	2.32
Gujarat	1047.23	1454.32	1965.85	2557.82	3253.76	10278.98
Haryana	669.75	882.90	1159.69	1464.35	1844.45	6021.14
Himachal Pradesh	0.00	0.00	0.00	0.00	55.05	55.05
Jammu & Kashmir	0.00	0.00	0.00	0.00	91.00	91.00
Karnataka	1503.16	2037.76	2713.37	3459.62	4360.22	14074.13
Kerala	62.81	307.99	634.77	1012.62	1464.29	3482.48
Madhya Pradesh	793.36	1183.31	1600.07	2058.87	2623.97	8259.58
Maharashtra	2839.94	3681.81	4708.10	5871.00	7166.75	24267.60
Manipur	0.00	0.00	0.00	0.00	28.21	28.21
Meghalaya	0.00	0.00	0.00	0.00	23.54	23.54
Mizoram	0.00	0.00	0.00	0.00	27.16	27.16
Nagaland	0.00	0.00	0.00	0.00	46.17	46.17
Orissa	0.00	0.00	0.00	0.00	2.61	2.61
Punjab	18.63	110.22	338.27	506.75	801.57	1775.44
Rajasthan	0.00	199.20	529.31	865.90	1384.75	2979.16
Sikkim	0.00	0.00	0.00	0.00	7.89	7.89
Tamilnadu	408.33	1011.04	1764.70	2591.63	3547.41	9323.11
Tripura	0.00	0.00	0.00	0.00	38.74	38.74
Uttar Pradesh	0.00	0.00	49.36	904.81	2029.15	2983.32
West Bengal	23.27	290.05	753.73	1220.72	1812.29	4100.06
Total	7366.48	11158.60	16427.29	23675.62	32972.20	91600.19

Table 4

Total Transfer to States: 1995-2000

(Rs. crores)

State	Taxes and Duties					Grants-in-Aid					Total Transfer	
	Income Tax	Basic Excise Duties	Additional Duties of Excise	Tax on Railway Passenger Fares	Total (col. 2 to col. 5)	Non-Plan Revenue Deficit	Upgradation	Special Problems	Local Bodies	Relief Expenditure	Total (col. 7 to col. 11)	(col. 6+12)
1	2	3	4	5	6	7	8	9	10	11	12	13
Andhra Pradesh	5313.06	9291.43	1562.90	158.55	16325.94	686.45	88.88	65.00	424.94	490.33	1755.60	18081.54
Arunachal Pradesh	106.70	1232.44	20.79	0.10	1360.03	307.60	18.31	50.00	4.63	27.79	408.33	1768.36
Assam	1747.38	4794.51	496.25	26.00	7064.14	712.03	146.86	60.00	147.56	197.46	1263.91	8328.05
Bihar	8072.21	13465.35	1587.69	177.20	23302.45	333.06	183.13	57.50	574.28	205.14	1353.11	24655.56
Goa	112.98	361.01	46.37	3.70	524.06	77.26	3.79	7.00	5.91	4.23	98.19	622.25
Gujarat	2539.47	4146.22	1198.16	131.10	8014.95	0.00	0.00	50.00	259.47	551.17	860.64	8875.59
Haryana	777.03	1268.66	472.87	36.40	2554.96	0.00	0.00	40.00	99.22	98.93	238.15	2793.11
Himachal Pradesh	441.87	3180.97	118.92	2.05	3743.81	772.18	30.03	75.00	34.23	106.41	1017.85	4761.66
Jammu & Kashmir	688.53	5031.24	171.08	13.85	5904.70	1184.13	58.77	47.00	49.68	77.80	1417.38	7322.08
Karnataka	3351.02	5471.25	1147.99	64.38	10034.64	0.00	0.00	29.00	291.96	165.23	486.19	10520.83
Kerala	2432.14	3970.98	747.48	66.40	7217.00	0.00	29.83	52.00	204.24	218.74	504.81	7721.81
Madhya Pradesh	5203.22	8495.34	1446.19	130.75	15275.50	0.00	146.37	60.00	410.43	201.67	818.47	16093.97
Maharashtra	3844.98	6277.74	2403.72	333.40	12859.84	0.00	0.00	100.00	479.96	269.28	849.24	13709.08
Manipur	177.00	1472.91	39.37	0.35	1689.63	350.92	24.74	50.00	11.54	9.79	446.99	2136.62
Meghalaya	177.62	1318.74	37.57	0.65	1534.58	316.42	11.72	5.00	10.12	11.01	354.27	1888.85
Mizoram	93.52	1289.04	15.79	0.02	1398.37	331.19	7.13	57.00	3.32	5.00	403.64	1802.01
Nagaland	113.61	2053.64	27.38	2.75	2197.38	529.78	23.96	30.00	5.21	6.71	595.66	2793.04
Orissa	2821.29	5260.99	668.53	32.60	8783.41	371.74	86.79	51.00	220.10	193.51	923.14	9706.55
Punjab	917.00	1497.19	683.92	62.30	3160.41	0.00	81.31	**	133.95	213.80	429.06	3589.47
Rajasthan	3484.09	5712.80	973.92	84.45	10255.26	33.45	79.87	70.00	255.40	706.89	1145.61	11400.87
Sikkim	79.08	472.20	10.59	0.20	562.07	105.69	4.56	5.50	2.48	18.59	136.82	698.89
Tamil Nadu	4165.71	6801.40	1532.73	122.70	12622.54	0.00	40.84	60.00	402.86	234.33	738.03	13360.57
Tripura	237.25	2030.65	57.16	0.75	2325.81	488.78	13.90	12.00	14.97	17.75	547.40	2873.21
Uttar Pradesh	11179.07	19139.24	2912.56	295.80	33526.67	982.00	167.54	108.00	880.70	494.00	2632.24	36158.91
West Bengal	4689.17	7656.06	1606.07	153.55	14104.85	0.00	114.17	105.00	453.77	202.63	875.57	14980.42
Total	62765.00	121692.00	19986.00	1900.00	206343.00	7582.68	1352.50	1246.00	5380.93	4728.19	20300.30	226643.30

** Has been dealt with in Chapter XII para 12.40