ALL INDIA
STATE GOVERNMENT EMPLOYEES' FEDERATION

KARMACHARI BHABAN
10A, SHANKHARITOLA STREET, CALCUTTA-700 014
TEL:033/2217-7721 (Direct)/2246-4926/246-9593::Fax:033-2246-9450
E-mail No. of Calcutta Office: aisgef@cal2.vsnl.net.in
Web site:www.tradeunionindia.org

20 November 2003

SPEED POST

From:
SUKOMAL SEN
General Secretary, All India State
Government Employees' Federation
&
Ex-Member of Parliament

This may be CR acandata

1873/RH(MPS)
3/12/03

MS

JS I 28/11/2003

Dir (MPS) 3.12.2003

MPS
3/12

DD(RSA)
3/12
to (MR)

To
Dr. C. Rangarajan,
Chairman, 12th Finance Commission,
Jawahar Vyapar Bhawan,
1, Tolstoy Marg,
New Delhi-1100 001

Sub: Memorandum to the Twelfth Finance Commission

Sir,

We are submitting herewith a Memorandum on behalf of the All India State Government Employees' Federation representing the State Government employees, teachers and semi-government employees of the States for the kind consideration of the Twelfth Finance Commission while recommending devolution of funds.

As the economic condition of these sectors of employees is closely linked with the devolution of funds to the States, every year we submit as Memorandum to the Finance Commission for their consideration and we appear for oral evidences also.

This year also we earnestly request you to kindly call us for oral evidence before the Commission at your earliest convenience and we will be thankful if the date, time and venue for the same are communicated to us.

With high regards,

Sincerely yours,

Sukomal Sen

(SUKOMAL SEN)
General Secretary &
Ex-Member of Parliament

1797/JS.I/03
3/12

Office of Secretary, TFC
Dy No. L-1818.
Date 28-11-2003

Office of the Chairman
Twelth Finance Commission
Dy No. R-1104
Date 27/11/03

MEMORANDUM TO THE 12TH FINANCE COMMISSION
BY THE
ALL INDIA STATE GOVERNMENT EMPLOYEES' FEDERATION

The All India State government Emlpoyees Federation is the pioneer national organization of the state government employees, semi-government employees and teachers in our country.

It represents over 12 million employees of State government sector, teachers and employees of local bodies. The decisions of the Twelfth Finance Commission will have a direect bearing on the financial position of the state governments and consequently the lives and interests of the employees. Such common concern, vision and better service to the people are the basis on which the following memorandum has been drawn for the serious and sympathetic consideration by the Twelfth Finance Commision.

Comments on the Terms of Reference of the 12th Finance Commission

1.1 The terms of the 12th Finance Colmmissioln have further widened the Conventional mandate of the Finance Commission and presage a process in which State Govts. are forced to go along with the neo-liberal reform agenda of the Central Government. As compared to the terms of references of earlier Finance Commissions, this process started with the additional terms of reference of the 11th Finance Commission. The 11th Finance Commission was asked "to draw a monitorable fiscal reforms programme". By doing so, the centre was not merely seeking to give a particular kind of "fiscal reform" constitutional validity, but asked the Commission to give the centre the right to use provision of assistance to cover non-plan revenue deficits as an instrument to enforce compliance with such a reform programme. After the 11th Finance Commission submitted its report, the transactions between the centre and the states have been distorted by a number of Memorandum of Understanding (MOU) between the centre and each state in trouble. It distrorted the position between the Centre and states and subverted the recommendations of the Finance Commission.

1.2 Now the centre has gone even further. The Terms of reference of the 12th Finance Commission lays emphasis on certain factors such as adjustment of user charges, relinquishing non-priority enterprises through privatization or disinvestments, and resource mobilization to improve the Tax – GDP ratio. This is an attempt to use the Finance Commissionn to push through the 'second generation of reforms' namely, the enforced adoption of reform policies in a host of areas which fall within the jurisdiction of the states and not the centre. This is clearly a violation of constitutional mandate.

1.3 The Terms of reference gives the impression that the 12th Finance Coimmission should pay more attention to the financial requirements of the Union Government than the compelling needs of the States. The special requirements of the centre, such as defence, security, debt servicing and more important other committed expenditure and liabilities are expected to be specially taken into consideration by the Commission. In the case of states, such issues are not specified and special problems are left to be identified by the Commission. In the perspective of optimum utilization of the scarce resources available in the country, the centre and the states should be considered on par, on equal footing while allocating resources to each of them.

1.4 The Finance Commission is a unique Constitutional body and the Constitution envisaged the role of the Finance Commission to be in the nature of an arbitration. We wish to look upon the Twelfth Finance Commission as a neutral arbiter for settling or where necessary re-order in the centre-state financial relation in accordance with the constitutional allocation of duties and responsibilities between the centre and the states.

General Issues

2.1 The Centre-state financial relations cannot be looked in isolation of the economic scenerio of the country and various factors impinging on the fiscal federalism envisaged in our constitution. On the economic plane inspite of rigorous economic planning and development the economic prospects of 40 percent of the population continue to be grim. The regional imbalance of economic growth in the country is also a matter of serious concern. The general bend of inter-state ineqauality is not only of a very high order but has been rising in per capita terms. The changes in the economic policy since 1991 pursued unililaterally by the Union Government have caused innumerable difficulties and reduction in resources to the states. Without seeking the states' opinion at each level, the centre's moves towards neo-liberal policies have caused irreparable damage to the economies of the states and lives of the people especially bottom level of the population. There are a number of studies available giving evidence of the adverse and injurious effects on the poor and weaker section as a result of these policies.

2.2 On the macro-economic front, the constitutional provisions particularly those dealing with the centre-state fiscal relation and the executive powers of the states, have been interpreted and worked in a manner that disturbed the original federal balance. The States have been forced to be dependent on the centre. Federal institutions like National Development Council and the Inter-state council have the potential for resolving some of the issues but have failed to do so as these bodies lack mechanism through which their decisions can be enforced. The meetings and deliberations of the NDC and ISC have been manipulated. Even the institution of the Finance Commission has not been able to work effectively in the absence of a permanent secretariat. In a truly federal setup the states need to have a much greater say than they now have in both drawing up the terms of reference as well as processing the recommendations. This power is now exercised by the Central Finance Ministry. Inter-State Council is the most appropriate body to take these decisions to ensure greater acceptance of the recommendations of the Finance Commission.

Restructuring the Public Finance

3.1 The terms of reference of the Twelfth Finance Commission call upon the Commission to suggest a plan by which governments at the centre and states collectively and severally may bring about restructuring of the public finances, restoring budgetary balance and achieving macro-economic stability and debt reduction along with equitable growth. The most critcal issues of the public finance of our country are (1) the fiscal deficit and within it revenue deficit and especially monetarised deficits and (2) the running inflation and the debt servicing.

3.2 Limiting the fiscal deficit of the centre and states to a sustainable level is critical for progress. Similarly, drastic reduction in the currently ruling high level of government borrowing which again has a significant bearing on the fiscal and revenue deficits.

3.3 The Constitution has assigned to the states the responsibility for building up vital social and physical infrastructure. Also, improvement in the quality of infrastructure is one of the key pre-requisites for accelerating growth rates and to sustain them. This can be achieved only by improving the fiscal health of the states. The maintenance cost of social and physical infrastructure has also increased by leaps and bounds. The expenditure on non-developmental activities like maintenance of law and order has also increased enormously. Over the years, the general administrative costs have risen steadily and they form a large part of the states' expenditure. The gap beteen the resources and the needs of the states continue to widen, resulting in the dependence of the states on the centre revealing the built-in weakness of the system of the public finance. Further, the states position has become more precarious because of the additional resource mobilization efforts of the central government from 1980-81 which were directed towards the non-sharable taxes. There is, therefore, an urgent need to restructure the public finance between the Union and the states. This is to be done without imposing any additional strain on the financial condition of the states and local governments.

3.4 In view of the above state of affairs, the fiscal deficits can be tackled in changing the content and orientation of the policies of the centre and states. The income tax and corporate tax arrears as on 31.03.2002 from the corporate houses and big business men is Rs.1.27000 crores. The non-performing assets Rs.1.10000 crores advanced by public financial institutions are due from corporate houses and business tycoons. Besides, more than Rs.1.60488 crores in 2002-03 are doled out to the rich in the country as interest on huge deposits made by them. To give subsidy to rich people in the form of interest payment, more and more taxes are imposed on the common people. Another important issue is the generation and accumulation of huge black-money of lakhs of corores rupees., The size of black-economy is usually reported as percentage of GDP at market prices. The monetarist estimate of the black economy varies from 50 to 60 percent by 2001-2002. If the black economy is 40 per cent of the GDP at market prices, then its current size would be about Rs.7,12000 crores. If this could be brought into the tax-net, it would result in addtional Income Tax and Corporate tax collections at today's rate of Rs.2,00 000 crores. This is more than required to meet the fiscal deficits and could result in the lower indirect taxes, internal debt and more funds for the states and can contain the inflation. Another element of the same issue is the accumulation of black-money abroad. It is estimated in 94 - 95 that more than 100 billion dollars are kept outside the country by the private sector of India. According to the latest data computed by Income tax Department, there are 1.76 crores rich people in 12 major cities. But a large percentage of them do not pay any tax and the rural rich are totally exempted from the tax net.

3.5 Studies have shown that the growth of state taxes has decelerated in the 1990s. Deceleration has been in the taxes on land and agriculture, stamps and registration, state excises and sales taxes. Revenue from sale Taxes constitute two-thirds of states' own tax revenues and declaration in the growth rate of sales taxes is a major factor for the deadline in the states tax revenue-GDP ratio during 1990s. The principal reasons for the deceleration in the growth rate of sales taxes are the failure to extend the tax base and accumulation of large amount of arrears in most of the states. The bases of state taxes are also rendered narrow because of large-scale exemptions, evasion and avoidance of taxes. Lack of proper administrative machinery is general shortcoming in all the states. Effective steps to simplify and strict enforcement of tax laws are the real solutions to prevent the deceleration of the growth rate of state taxes.

3.6. A qualitative change in policies and stern measures by the union Government will be a real solution to meet the fiscal deficits, without the imposition of further burden on the people. In this way the pressure on the public finance of the centre and the states can be relieved and can restore the budgetary balance, and maintain macro-economic stability as well, the debt reduction along with equitable growth.

Responsibilities of States

41. The Constitution assigns a pre-eminent role to the States in the sphere of economic and human development of the society. The devolution of funds should be based on the primary functions and responsibilities of the states and the centre. To the common people the state authority is best revealed by the politico-administrative apparatus of the state governments, wherein the central structure is not immediately direct. The centre reaches people through State Governments. Major responsibilities in the spheres of service, development and administration lie with the states. It is primarily the State Governments to which the people turn for redressal of their grievances and fulfillment of their needs. The past fifty years of planned development, the economic responsibilities of the States are many-sided and have increased tremendously. The responsibility of social and physical infrastructure development of the States is high and it is in these sectors the rates of return are relatively low. In addition, the states are responsible for the social welfare schemes, poverty alleviation programmes, unemployment relief schemes, public distribution of essential commodities at reasonable rates etc. have cost a heavy and increasing burden on the resources of the states. As a result of it all the states have had to carry a heavier burden of expenditures on their limited resources which is only one-third of the total resources available in the country. Similarly the market borrowings, around 85 per cent goes to the central funds and only 15 to 17 per cent to the states. There is no meeting point between the rate of growth of responsibilities of the states and rate of growth of their resources even when stretched to their full resource potential. Almost all states suffer from chronic financial insufficiencies and depend upon the centre for assistance in regard to their plan and non-plan expenditure. Burdened with all such direct and indirect responsibilities, the states look to the centre for more and more additional help.

4.2. There has been a drift in the centre-state financial relations, directly favourable to the Union Government – over the last fifty five years. The centre has not so far appreciated the extra-ordinary burden the states has to bear due to the rapidly growing socio-economic distress of the vast majority of people such as that arising from incessant price rise, rising unemployment particularly amongst the educated, decreasing absorption of the increased population in the agricultural and industrial sectors, and its growing migration to the urban areas, lack of affordable housing facilities consequent emergence of slums in the urban arrears, pollution and environmental degradation on human habitat, of criminal tendencies and crimes and communal and casteist violence, all these have strained the states financial resources in an unprecedented manner during the past few years. In fact, the states' initiative in taking any advance preventive action has been curtailed by financial constraints and made many a state helpless victims of circumstances. In this kind of situation, the financial autonomy of the states with in the constitutional ambit of our federal structure suffers greviously. Such an anachronistic situation has to be changed at the earliest to avoid the emergence of undesirable fissures in the federal structure of our country. The Twelfth Finance Commission, therefore, has to consider remedial action through equitable and judicious redistribution of the resources of the centre to the states to fulfill its functional responsibilities.

4.3 The classification of expenditure as plan and non-plan earlier has done immense damage. Since the adoption of a planned approach to development, the expenditure during a plan period is classified as plan expenditure and the maintenance expenditure of previous plans is classified as non-plan expenditure. As a result, capital assets such as irrigation systems, roads, buildings, have deteriorated rapidly. There are schools without teachers and even basic teaching aids, primary health centers and veterinary dispensaries without any supply of medicines, hospitals which lacks even basic amenities. The terms of reference of the 12th Finance Commission has taken care of these aspects. Now, the Finance Commission can assess the revenue expenditure of both plan and non-plan needs of the states and can earmark necessary funds for maintenance and upkeep of capital assets.

Wage-Parity for the State Employees

5.1 The All India State Government Employees' Federation urged upon all the previous Finance Commissions for additional devolution of funds to maintain parity of pay and allowance of the employees and teachers under the state government with that of employees and teachers under central government. Emoluments of employees are an important part of the revenue expenditure of a state such an issue found a place first time in the terms of reference of the Sixth Finance Commission. It continued in the seventh and Eighth Finance Commission. These three Commissions agreed that, as the Eighth Commission put it, "there is no reason why in the matter of the grant of Dearness Allowance any distinction should be made between employees of the Union and those of the states". The Commissions, therefore provided funds for Dearness Allowance on the basis of central pattern. The Ninth Finance Commission had gone into the question of wage structure of the state government employees and accepted the specific quantum was earmarked to meet the additional expenditure in the forecasts of the receipts and expenditure of the state governments. There was no specific reference in the terms of the Tenth Finance Commission. The All India State Government Employees Federation reiterated the necessity of wage-parity to the Tenth Finance Commission also. But the Tenth Finance Commission adopted totally a negative approach and had not made any specific recommendations and noted in the report that "we have no basis for estimating the requirement on this account. Accordingly, we have decided to exclude these requirements from our estimates" (para 3.67 of Tenth Finance Commission report).

5.2 There was a specific term of reference in the Eleventh Finance Commission in regard to the emoluments and terminal benefits of state government employees. The Eleventh Finance Commission opined that "As full neutralization for the increase in the prices has been given to all categories of employees, there is no need to appoint any new Pay Commission as a matter of routine and at intervals of ten years". (para 3.5 of EFC report). By this, the EFC has done a grave damage to the cause of Government employees. The EFC has mixed the measures of sanction of DA and revision of pay. Sanction of DA is to neutralize the erosion in the emoluments of employees on account of price rise. Where as Pay revision is done as a measure of redistribution of the excess wealth created by the working people at a particular period. It is a universally accepted fact that the Government employees are part of the productive force involved directly or indirectly in the process of creation of wealth of the society. They are also eligible to get as share of the excess wealth. It cannot be believed that the EFC was not aware of the periodic pay revision of different segments of the working people at a duration of 3 years and 5 years even though the DA to those sections has been fully neutralized. So, the response of the EFC towards pay revision of government is highly negative and injurious. Similarly, another opinion of the EFC "The capacity of the Centre/States to pay salaries from their own resources should be one of the main criteria for determining the pay and allowances of the employees" (para 3.57 of EFC report). The concept of capacity to pay has been rejected by the Supreme Court in number of decisions. Lack of capacity to pay by the centre and states are mainly due to the wrong class-based taxation policies and faulty enforcement of taxation laws by the political executive of the respective governments. Therefore, there is no rationale behind the opinion of 'capacity to pay'.

5.3 The Fifth Central Pay Commission recommendations has been adopted by state governments with modifications in different states to ensure parity in wage and allowances; this has been a compulsive factor for the state governments. This is a fact of life that should be recognized as such. This is so, because no state government will be able to turn a blind eye to stark disparities in pay between the employees of the centre and that of the state working in the same area in identical posts. The state governments have sought central assistance to meet the additional expenditure. No substantial relief has yet been rendered by the centre to the states.

5.4 During this period, the transfer of funds from the centre to the states has declined and the efforts of the states to mobilize enough resources also have not succeeded. As a result of this, the fiscal conditions of the states have been further deteriorated. Number of instalments of DA have not been paid to the state employees in most of the states. Similarly, other financial entitlements of the employees have been deferred in number of states. It is, therefore, necessary that the entire expenditure on pay, DA and other allowances is duly taken into account to the full extent while assessing the revenue position of the states. Further, the Twelfth Finance Commission should engage in an examination of how best states can be supported to meet the extra-ordinary difficult financial position of the states. We urge upon the Twelfth Finance Commission to award a statutory grant for pay and allowances of the state employees.

Debt Position of States

6.1 The deterioration in the fiscal position of states has rendered their fiscal operations unsustainable and constrained the provisions of general administration and social and physical infrastructure. States' fiscal deficits are mainly financed by central loans and market borrowings. All the states are indebted to the centre and the states' market borrowing is determined by the ministry of Finance of the central government. The fiscal imbalance of the states has been caused by deceleration in central transfers and spillover of central policies. An additional dimension to state finances in recent years has been the lending by World Bank and Asian Development Bank.

6.2. The outstanding debt of the states which was 18.62 percent of GDP at the end of 1993-94, rose disturbingly to 23.39 percent by the end of 2001-02 from a level of Rs.1,61,028 crore to Rs.5,78,780 crore. Of these the loans and advances from the central government is Rs.,2,44,000 crores. Out of this, a little over Rs.1,00,00 crore bear coupon rates upwards of 13 percent per annum. The rising debt levels have led to growing interest burden of the states. The interest payments pre-empted 21.6 percent of the revenue receipts of the states in 2001 as against 13 percent in 1990-91.

6.3 The debt burden of the states has been created artificially by the pollicies of the centre. Plan assistance given by the planning commission, 30 percent is given as grants and the balance 70 percent as loan even though the revenue expenditure of plan schemes exceeds 50 percent. The rate of interest on this loan is being unilaterally increased every year by the centre. As a result, the total repayment liability of the states had now become so large that it exceeds the central plan assistance to several states.

6.4 The rate of increase in debt burden of states to the centre is to be brought down and the interest rates would have to be reduced. The Commission should attempt to work out a formula package to give adequate relief to states. The following are our suggestions in this regard:-

i) The pattern of central assistance may be reviewed. The grant element of the central assistance as per the Gadgil formula should be raised from 30 percent to 50 percent and the balance 50 percent computing the loan component should be distributed on the basis of 1971 population.

ii) The maturity pattern of the loans should be reviewed so as to make it more favourable to the states.

iii) Loans outstanding as on 31st March 2003 for the maintenance of assets and public utilities created under plan schemes should be written off and

iv) Interest rate should be reduced to reasonable levels.

Comments in the Recommendations of the Eleventh Finance Commission

7.1 It is pertinent to note that no other Finance Commission in the past has been criticized as much as the Eleventh Finance Commission for adopting illusory and subjective factors as the basis of its recommendations. The criticisms were centered on two different aspects: One for the lowest over all devolution of central finances to the states and the other for adopting subjective factors in determining the interse distribution of the share of the states. The EFC's award of devolution of 29 percent net proceeds of revenue from the central taxes to the states was lower than the average for the entire decade. In addition 1.5 percent in lieu of additional excise duties on sugar, tobacco and textiles, even that amount was just close to the levels of the recent past, below that of several years earlier. In fact, the EFC award was punishment to states. The resource transfer turned out inadequate to the states and the financial position of the states has further deteriorated affecting the development welfare content, quantum and quality of services to the people. Further, the EFC has put a cap on the total transfer of resources from the centre to the states. That was based on selective data to accede the centre's request to take into account the fiscal transfers to the states in its entirety. The requirements of the states were not at all a matter of consideration. The Eleventh Finance Commission has faltered equally in the issue of interse distribution of aggregate share of states in the central tax revenues. The EFC had made several important change in the criteria for fixing the interse share of the states. All such changes were based on subjective factors and in certain case against the guidelines in the terms of reference and therefore its award caused a great deal of controversy.

New Scheme of Vertical Devolution

8.1 A closer study of the recommendations of successive finance commissions would reveal that the devolution of revenues from the centre to the states has been inadequate for meeting the obligations and responsibilities cast on the states by the Constitution. In this background, the Tenth Finance Commission examined this issue and evolved an alternate scheme of devolution. The Constitution of India was amended in August 2000, paving the way for the alternate system of tax sharing masking all central taxes shareable with the states,. The Constitutional amendment has not incorporated the recommendations of the Tenth Finance Commission in full. While the Tenth Finance Commission had recommended that 29 percent of the gross tax revenuer of the centre be shared with the states, the centre did not accept this recommendation and has adopted the net tax revenue as the basis.

8.2 The Eleventh Finance Commission submitted its report in June 2000. So it was not possible for the EFC to review the new system. The Twelfth Finance Commission is to review the percentage share between the centre and the states for the first time after the constitutional amendment.

8.3 The states have accepted the new scheme on an expectation that the modified system will increase the existing levels of the states' share in tax devolution. While 29 percent recommended by the Tenth Finance Commission and 29.5 percent recommended by XI Finance Commission falls short of the legitimate share of the states. Making the 'net' as the basis in the Constitutional amendment caused reduction in the share of the states and left more of surplus to the centre which tantamounts to the continued centralization of resources.

8.4. The system of vertical tax devolution from the centre to the states has undergone major change. Therefore, it will be necessary for the Twelfth Finance Commission to review the new arrangement with a view to ensure a higher percentage of the tax devolution to the states.

8.5 There were fluctuations in the tax devolution to the states ads a percentage of gross tax revenue of the centre. In 1980-81, it rose to nearly 29 percent which did not remain at that level but actually registered a decline. Another issue is that the nature of taxes and duties mentioned in Articles 268 and 269 of the Constitution have not bee adequately exploited by the centre. In 1990-91 the yield under these items worked out to about 1.2 percent of the center's gross tax-revenue.

8.6. In view of these factors, looking at the centre as the principal custodian in the federal financial relations and resources and taking note of its responsibilities and the responsibilities of the states, the award of the Twelfth Finance Commission should be 50 percent of the total tax revenue to the center and the remaining 50 percent to the states. In this rendering, all states put together would be getting a resource transfer equivalent to that of what the centre retains as a single agency. Then only, can the magnitude of the resources transfer be consistent with the functional responsibilities of the states read in conjunction with less-elastic resources available to the states. Our proposal of 50 percent share to the states is by all accounts, a real solution to the chronic financial difficulties of the states. If this is not implementable in a single year, it can be implemented in a graded manner within the award period of the Twelfth Finance Commission.

Decentralization of Administration

9.1 In regard to local bodies though there is no specific reference in the terms of reference of 12th Finance Commission, as we represent a large section of employees and are seriously concerned with the activities of the local bodies; we are duty bound to place our views of the functions and problems of the Local Bodies also.

9.2 The 73rd and 74th constitutional amendments that ushered in a third tier of Government at the local level has far reaching effects that need to be critically examined by Twelfth Commission. The creation of a third tier of governments should not be considered as a mere transference of functions of the state governments to the new tier. Logically this would in fact call for a new list of resources similar to those presented in the union, state and concurrent lists. The democratic decentralization should not remain confined to transferring powers, functions and funds from the states and the centre to the local bodies. The centre also should transfer its functions, powers and responsibilities to states especially in the areas and subjects clearly falling in the state sphere.

9.3 According to the Constitution, there are 29 functions to the local bodies. None of the states, however has given all these powers to the local bodies. Most of these powers are still held by state governments, some states have given a lot of power to the panchayats but the funds are only allocated by State Government. This is not a right way for decentralization of Governmental activities. Certain revenues currently levied and collected by the State Governments should be assigned to local bodies. Assigned revenue is different from sharing of taxes levied by the State Governments between state and local bodies. Local bodies are now seriously constrained in raising the required financial resources. If good service to the people through the growth of democratic institutions is the ultimate objective, then the additional resource requirements should be shared proportionately by the centre and states. The Twelfth Finance Commission should take into account the need for building the financial base of the third tier of governance in the country.

9.4 Following the constitutional amendments a number of states have constituted state level finance commission and they have recommended a certain percentage of the States' net tax proceeds to the local bodies and also transfer of certain other entitlements,. However, their scope of operations, compositions and terms of reference given to them, as also the approach has not been properly coordinated. There it would be better, the central finance commission has to draw certain guidelines for setting up the state Finance Commissions for a uniform-approach.

9.5 In regard to the pay and other terminal benefits of the employees of local bodies, big section of employees in local bodies are on deputation from state governments. Several State Governments have opted for central parity for these employees also. The Twelfth Finance Commission in views of the cost efficiency of decentralization through the local bodies should recommend that the Union Government should give grants to cover additional salary cost and the states should further devolve resources to the local bodies. The recommendations of the Twelfth Finance Commission with the reference to these can alter significantly the nature, and character of fiscal federalism, inter-governmental financial relations and Public finance in India.

Calamity Relief Fund

10.1 The Calamity Relief Fund has been established on the basis of the recommendations of the Ninth Finance Commission. The national Calamity Contingency Fund was created to meet calamities of rare severity. The Corpus of the Calamity Relief Fund may be increased suitably in keeping with the level of expenditure incurred by the states year after year. It is the primary responsibility of the states to incur necessary expenditure on the immediate relief whenever a natural calamity occurs. Therefore, the share of the states continuation to the CRF should be reduced to 10 percent from the present 25 percent. The CRF should cover all natural calamities such as cyclone, drought, fire and flood. Expenditure for repair and reconstruction of damaged public utilities should be allowed from the Calamity Relief Fund.

10.2 The National Calamity Contingency Fund is to be merged with the Calamity Relief Fund. The Centre and the State Governments together are to decide what the pattern of investment should be out of accretions to the fund.

10.3 We urge upon the Commission to examine the necessity of setting up of an institutional mechanism for realistically assessing the damage and relief to the states and its disbursement.

Special Fund for Cities

11.1 Going by the computation of the national Commission on Urbanization Kolkata, Mumbai and Delhi have already acquired the status of mega city with more than 10 million population. Chennai is edging towards the status of a mega city. Ahmedabad, Kanpur, Hyderabad and Bangalore are the other industrial cities. The problem of exodus from rural hinterland in search of livelihood in urban centers has already become acute and chronic, leading to proliferation of slums in which an average of 30 percent of the urban population takes refuge. The inevitable side-effects are – collapse of civic services, unsanitary living conditions, over crowded suburban transit systems, rapid depletion of infrastructural facilities like water and electricity supply.

11.2 The vitality of these cities for raising the industrial productivity and accelerating economic progress are getting stifled with the growing miseries of its urban population. Socio-economic degeneration of these people must be halted as expeditiously as possible to avert disaster. The states concerned are quite aware of this problem and in fact are anxious to revive their old reputation and cultural ethos, but they seriously lack the massive capital resource required for this purpose. Our Federation urges upon the Twelfth Finance Commission to allocate an additional special fund to these cities through the concerned states, exclusively for the infrastructural development to provide better public amenities to the people of these cities.

Fund for Unemployed Benefits

12.1 Unemployment has been growing in an unprecedented manner. Several lakhs of employed also have become unemployed. With the implementation of Neo-liberal policies, recruitment to public sector has been stopped. Recruitment for Government jobs has been reduced. Several lakhs of vacancies in centre and states have not been filled up. Upto 2001-02 more than 6 lakhs workers and employees of state sector enterprises were retired through the voluntary retirement scheme.

12.2 After the introduction of New economic policies, the number of sick units is growing at an alarming rate in the small and medium industrial units. Today, around 8.68 lakh small scale industrial units, constituting about 37.65 percent of the total 23.5 lakh units in the country have been found closed (Business line: 4.10. 2003) and several lakhs of workers have become unemployed. Agriculture has ceased to absorb the rural unemployed any more. Working people of our country as a whole are getting restless under these continuous threats of joblessness, coupled with lack of social security. Immediate remedial measures are the need of the hour.

12.3 We urge upon the Twelfth Finance Commission to assign a certain percentage of central resources for social security measures for the unemployed and devolve such resources to the states for granting relief to them. Some states have already initiated such measures but they lack resource for any all-pervasive Social Security measure for unemployed. Our Federation insists upon the Twelfth Finance Commission to make an earnest beginning and provide sufficient resources to the states to meet these formidable challenges.

(R.G. KARNIK)
Chairman

(SUKOMAL SEN)
General Secretary