

CHAPTER - IV :

CENTRE-STATE FINANCIAL RELATIONS

IN EDUCATION

- 4.1 Introduction
 - 4.2 Principles of Federal Financing
 - 4.3 Perspective On Centre-State Financial Relations in India
 - 4.4 The Finance Commission
 - 4.5 Financial Devolutions Through Planning Commission
 - 4.6 Importance of Central Assistance for Educational Development
 - 4.7 Sanction and Utilisation of Central Assistance
 - 4.8 Financial Arrangements under Five Year Plans in Education (1951-1974)
 - 4.9 Some Dimensions of Criticism
 - 4.10 Conclusion
- Notes and References

4.1 INTRODUCTION

With this chapter the main discussion of the present study starts.

Educational finance, it has been rightly said, is like an ice berg. As with icebergs, so with financing of education, the obscure is often more important than the obvious. The effect of financial inputs on an educational project is patent to every one; what is not equally visible is the impact on the project of the conditions under which the latter came by these inputs.¹ It is in this context that union-state financial relations in education, which we briefly seek to examine in this chapter assume importance.²

Finance constitutes an essential-even a vital - ingredient of government, whether unitary or federal. In a unitary government the problem of finance is mainly that of raising resources and, therefore, easy. Financial arrangements in a federal set-up, however, present peculiar problems which make these arrangements a major and difficult task in all federations.³ It is even more so in a developing country like India where resources are scarce and the pressing demands on them many. The existence of heterogenuous States varying in their needs and resources only complicate matters.

4.2 PRINCIPLES OF FEDERAL FINANCING

The federal principle requires, as it has been seen in an earlier chapter, that the federal and the regional governments of a country shall be independent of each other within their respective spheres. The most important prerequisite for this principle to become operative in the present context is, obviously, financial in nature. Wheare has stated the problem in the following words :

"Now, if this principle is to operate not only as a matter of strict law but also in practice, it follows that both the general and regional governments must have under its own independent control resources sufficient to perform its exclusive functions".⁴

There is in this approach a dualism between the general and regional governments in a federation. Such a dualism is endemic to the approach of authorities like Wheare to the entire gamut of federal relations. But, nowhere has the unreality of this persistent dualism been shown up so convincingly than in the domain of financial relations between the federal governments and the federating units.⁵ Even in the 'classical' federations, this mutual financial independence has not been achieved unless, sometimes, 'as

a matter of strict law', to repeat Wheares' well-worn phrase. In the United States of America, which country, as we have seen elsewhere, is historically the federal prototype and is usually considered 'to acquit itself (well) on all tests of the standard definition of a federation',⁶ the federal government has exclusive jurisdiction only over customs.⁷ In other fields of taxation, it has concurrent powers with the States.⁸ The result has been that the United States has had to devise a built-in mechanism of tax credits, in order to avoid double taxation of the same source by the Federal and the State governments.⁹ In Canada, a certain degree of fiscal dyarchy is in existence. The Constitution confers wide powers of taxation on the dominion while the taxing power of the Provinces is restricted to 'direct taxation in order to raise revenue for provincial purposes'. This dyarchy, however, had to be kept in abeyance during the war and was restored only in 1962.¹⁰ In Australia, the situation is very similar to that in the United States. Under the Constitution of that country, the Commonwealth has exclusive power of taxation only with respect to customs and excise;¹¹ in other areas of taxation, the powers of the Commonwealth and that of the States are concurrent.¹²

The trouble, however, is not only with the stipulation



that the general and regional governments should be independent of each other in their respective fields. This is not entirely impossible of achievement in the area of control over sources of revenue; some federal constitutions, including the Indian constitution, as it will be seen later, have indeed succeeded in ~~car~~ring out the available sources of revenue between the Centre and the units. The difficulty really is with the caveat that these must each have under its own independent control 'resource sufficient to perform its exclusive functions'. This approach to federal finance is obviously a product of different times. The early federations came into existence when the concept of the state was still that of a 'police state', the functions of which were confined to the protection of life and property. Any extension of State activity beyond the severe limits set by this concept was considered both improper and illegitimate. Thus, in terms of modern political parlance, the State then was 'minimal' in nature; it was, therefore, not surprising that the financial arrangements in the early federations were, in the words of Mackintosh, fashioned 'somewhat on the stern model of a somewhat unreliable young man being given a not too generous allowance with the warning that if he is extravagant he must go to work to acquire extra funds'.¹³ Thus, in Canada, for instance, taxing powers of

the provinces as it has been seen, were restricted to direct taxes. The assumption behind this, as well as the classical theory of federal finances, was, patently minimal state activity. The modern state, however, is 'welfare oriented', if one may be permitted to use a rather colourless expression, and is, therefore, set on an inrevocable process of becoming increasingly 'maximal' in its functions.¹⁴ This is the essence of the 'Law of Increasing State Activity' propounded by Adolph Wagner, the German social theorist.¹⁵ The proliferation of state activity and the consequent emergence of the maximal state has made the assumption behind the 'classical' approach to federal finance highly unrealistic.

It is, therefore, but natural that the 'classical' stipulation regarding a balance between fiscal capacity and governmental responsibility in a federation has remained a neat theoretical model in modern times.¹⁶ Imbalance between them is now almost universal, for, apart from everything else, the two are, as Lakdawala rightly points out, distributed on two independent criteria.¹⁷ It is thus that in federations the world over large transfer of resources from the Centre to the units have become endemic. In the United States, such transfer was of the tune of 1,491 million dollars in the fiscal year of 1963 and 11,646 million dollars in 1966.¹⁸

In Australia it was of the order of 49,925,000 Australian dollars in 1967-68 and 21,900,000 dollars in 1969-70.¹⁹ In Canada, such transfer constituted 23 per cent of the total expenditure of the Dominion Government in 1968-69. The actual amount transferred was \$2,482 million.²⁰ Such large scale inter-governmental transfer of funds has universally introduced an element of integration into federal state finance. We shall have occasion later to refer to the factor that makes this tendency rather pronounced in certain countries.

The forgoing paragraphs were not meant to be an exhaustive discussion of the principles of federal finance. Other principles have also been urged equally strongly. Adarkar, for example, lays down three principles which in his opinion should inform the Centre-State fiscal relations. These are: (i) Independence and responsibility; (ii) Adequacy and elasticity; and (iii) Administrative economy.²¹ The first two of these 'maxims', as one writer calls them, can be easily seen to be aspects of the principle of balance between fiscal capacity and functional responsibility. The third is not disputed and is accepted in almost all federations as a valid principle of federal finance. One could indeed find fault with Adarkar and argue that if the last of

his principles-administrative economy - is broadly interpreted, say in the spirit of Burke's famous dictum, "mere parsimony is not economy",²² it can be shown that in certain socio-economic contexts, the principle runs counter to his first two principles. Such polemic could be raised with regard to principles enunciated by other authorities also. But that would be exceeding our brief. The purpose here was only to provide a 'global' perspective on inter-state financial relations in India.

4.3 PERSPECTIVE ON CENTRE-STATE FINANCIAL RELATIONS IN INDIA

The financial provisions of the Indian constitution are generally based on the Government of India Act, 1935.²² Many articles relating to financial matters, as indeed several of them relating to other matters also, are reproduced verbatim from this Act. The departures that the constitution makes from its prototype, like the vesting of residuary powers in the union and the incorporation in the constitution of the statutory obligation of appointing a Finance Commission every five years, were those necessitated by the changed political situation.²³ The financial arrange-

ments in the Constitution, thus, constitute another instance of the 'antecedent agreements on fundamentals'. This has been already touched upon in an earlier chapter.²⁴

Before some of the details of the financial provisions are examined the researcher would like to make a mention of what some consider to be a distinguishing feature of the Indian Constitution. The elder federations, as was seen briefly, left taxation as a concurrent subject. This was done in the hope that the problems of federal financial relations will be solved by leaving the Centre and the units to tap tax resources according to their needs. Experience, however, belied this hope as it was found that simultaneous taxing of certain sources created more problems than it solved.²⁵ The Constitution-makers in India drew benefit from this lesson of history and avoided concurrent jurisdiction in the financial sphere. As Ashok Chanda puts it, 'the taxing powers of the Union and the States have been completely separated and made mutually exclusive.'²⁶ in the Indian Constitution.

The main financial provisions of the Constitution are contained in Articles 268 to 281.²⁷ These deal with the division of revenues between the Union and the States. The Union and State Lists in the Seventh Schedule together

enumerate 31 different sources of revenue. Of these 12 are placed in the Union List²⁸ and 19 in the State List.²⁹

The taxes included in the Union List fall into five groups according to the stipulations made by the Constitution regarding their levy, collection and appropriation. These are: (i) Taxes that wholly accrue to the Union Government: No portion of the proceeds out of these is assigned to the States. Under this category are included customs (including export duties), corporation taxes and taxes on the capital value of assets, exclusive of agricultural lands of individuals and companies; (ii) Taxes levied and collected by the Union, but compulsorily shared between the Union and the States : Tax on income other than agricultural income belongs to this category; (iii) Taxes which are levied and collected by the Union, but may be shared by the Union and the States : Duties of excise on tobacco and other goods manufactured in India, except alcoholic liquors and narcotic drugs come under this category; (iv) Taxes levied and collected by the Government of India, but wholly assigned to the States : Seven taxes come under this category. They are: estate and succession duties in respect of properties other than agricultural land, terminal tax, tax on railway fares and freights, tax

other than stamp duties on transactions in stock exchanges and future markets, tax on sale or purchase of newspapers and on advertisements published therein and tax on sale or purchase of goods other than newspapers where such sale or purchase takes place in the course of inter-state trade or commerce; and (v) Taxes levied by the Union but collected and appropriated by the States: To this category belong stamp duties and duties of excise on medicinal and toilet preparations.

This rather prosaic listing of tax categories and the taxes that belong to them have been attempted in order to show that among the various 12 groups of taxes enumerated in the Union List, only one of them can be said to be exclusively 'Central' in the sense that proceeds from it are wholly appropriated by the Centre. The benefits from the other 11 groups accrue wholly or partly to the States. This shows that the division of the revenue resources of the federation between the Union and the States in India to which a reference has been made earlier is not as complete or absolute as it might appear to be at first sight. This is what made the Taxation Enquiry Commission (1953-54) assert that "the Central and State revenues really coalesce for purposes of the public finance of State Governments".³⁰

The basic concept on which the Union-State financial relations have been fashioned in the Constitution is that of India as a single, interdependent economic unit; the financial autonomy of the States, therefore, has been made subject to the overriding considerations of national economic needs.³¹

Appleby, talking about finance in his report in the early fifties, had made the assertion that in India the States have revenue resources proportionately larger than States in any other federal system.³² A comparative study of federations may prove Appleby substantially true.³³ This, however, does not affect the fact that the federal financial scheme enshrined in the Indian Constitution and briefly outlined above leaves a large gap between the fiscal needs of the states and their revenue resources. This can be easily seen from the Table 4.³⁴ ^{the} on next page.

as the table shows,

Thus, while the revenues of the States from their own sources increased by 589 per cent, their requirements went up by 754 per cent, during the period starting with the first Five Year Plan and ending with the last of the three One-Year Plans. If the slight vacillations in the cumulative figures for the plan periods are ignored, the revenue gap

Table 4.1 : States' (Own) Revenues and Their Requirements
(In Crores of Rupees)

Particulars	1951- 1952	1955- 1956	1960- 1961	1965- 1966	1968- 1969	Increase over '51- '52(in %age)
<u>1. States' Own Revenues:</u>						
a. Tax	193.17	234.73	430.93	842.00	1205.00	-
b. Non-tax	85.89	123.63	223.64	402.96	484.15	-
c. Capital Receipts	71.89	72.07	234.67	492.94	724.46	-
Total	350.65	430.43	889.04	1737.0	2418.61	589
<u>2. States Requirements</u>						
a. Revenue	340.69	553.91	990.36	1892.24	2647.46	-
b. Capital	165.14	312.36	623.44	1324.18	1667.35	
Total	504.83	846.27	1613.80	3216.42	4314.81	754
3. Lag(2-3)	154.18	415.84	824.76	1478.58	1896.20	1131
<u>4. Percentage</u> (3 as percentage of 2)						
	30	49	45	46	44	

increased progressively during the period and ended up with 44 per cent in 1968-69, which really represents an ebb in the trends, for, the gap had reached a near fifty per cent mark in 1955-56.

That the balance of financial power was tilted in favour of the Union was clear to the members of the Constituent Assembly, ^{themselves} barring perhaps a few. Concern in this regard was repeatedly voiced during the discussions on the financial provisions by prominent members like Sir Ramaswami Mudaliar, K. Santhanam, Hriday Nath Kunzru and Biswanath Das. Santhanam, who is by no means known for his intemperate language went to the extent of saying that the States 'would be beggars at the door of the Centre',³⁵ while Biswanath Das, in equally strong language expressed the fear that they might be treated "as charity boys of the North Block of the Secretariat".³⁶ It is now commonly accepted that these forebodings have unfortunately come almost true. This is shown by the large scale transfer of resources from the Centre to the States. The following Table ^{on next page} 4.2 gives an idea of the quantum of such transfer during the period of the four Five Year Plans and the three One-Year Plans.³⁷ During the First Plan Period of 1951-56, the transfer of resources from the Union to the States was of the order of 1,431 crores. By 1969-74, this went up to the phenomenal figure of 31,866 crores. The Sixth Finance Commission, the latest in the series which gives these figures, points out that the figures admit of two interpretations. Firstly, they indicate the dependence of States

Table 4.2 : Transfer of Resources from the Union to the States.

Period	Resources Transferred (Crores of Rupees)
1951-56	1,431
1956-61	2,868
1961-66	5,600
1966-69	7,114
1969-74	14,853
Total 1951-1974	31,866

on the Centre. If they are 'generously' interpreted, says the Commission, they also show that 'despite the centralisation of resources inherent in a growing economy, the Centre has responded to the expanding needs of the States and thereby ensured the use of national resources in a decentralised fashion.'³⁸ The second interpretation, however, is only a euphemism for the first. What both interpretations do bring out is the indigence of the States.

This indigence of the states is usually attributed to the fact that in the allocation of sources of revenue in the Constitution 'the Centre has got all the important and

elastic sources'.³⁹ There is indeed ^{some} truth in the argument about the important sources of revenue being assigned to the Centre.⁴⁰ The imbalance between the States and the Centre in this regard has also been further aggravated by Central Legislation. An obvious example is the amendment, in the early sixties, of the Income-Tax Act. This amendment excluded Taxes paid by companies from the definition of income tax, thus causing in the words of the Third Finance Commission, "an appreciable shrinkage" in the divisible pool to which the States were constitutionally entitled.⁴¹ But, the contention about the inelasticity of the State resources is only partially true. As the recent Finance Commission has had occasion to point out, while the tax revenue of the Centre registered a eleven-fold increase from 404.51 crores in 1950-51 to 4537.78 crores in 1972-73, that of the States grew not less than nine times from 221.55 crores to 1891.91 crores.⁴² Thus, the oft-cited inelasticity of State revenues is rather negligible in magnitude and cannot explain the large fiscal gap in state finance that Table 4.1 brings out. Wagner whose 'Law of Increasing State Activity' which was mentioned earlier, provides an explanation when he says that the income elasticities of demand for services provided by government are greater

than unity.⁴³ In other words, growth generates a disproportionate demand for social services like education and health which calls for rapidly increasing rate of governmental expenditure on such services.⁴⁴

The following Table 4.3 show^{ing} the growth of social and developmental expenditure in India, including expenditure on education, should bear this out.

Table 4.3 : Growth of Social and Developmental Expenditure in India, 1941-1968.

Period	At Constant 1948-49 prices		As percentage of total government expenditure
	Total in lakhs of Rs.	Per head in Rs. and paise	
1941-50	22,239	6.99	22.94
1951	33,396	9.32	42.58
1956	76,562	19.56	54.59
1961	1,34,667	31.05	60.12
1966	1,75,098	36.06	50.06
1968	1,64,854	30.58	49.12

As can be seen from the table, the trend of rapid rise in social and developmental expenditure set up with the inception of planning slows down only towards the end

of the Third Plan when planning in the country had already run into rough weather. It registers a slight decline during what is, sometimes approbriously, called the 'plan holiday', which only helps to establish the fact that planned development accentuates the modern tendency towards increased state activity. This has to be seen in the perspective of the fact that most of the major items of expenditure included, under 'social and development expenditure' are, under the constitution, the responsibility of the states.⁴⁶ These include 'social services' like education and health, which, as one writer has put it are 'devouring consumers of huge funds'. The inescapable corollary is that as development proceeds the fiscal gap of the states are only likely to widen.⁴⁷ And, as Birch points out, this very process of development which adds to the liabilities of the states entails increased revenues to the Centre, since the growth of production in organised industry accompanying development, automatically broadens its resource base.⁴⁸

4.4 The Finance Commission

The superior resource position⁴⁹ of the Centre makes fiscal transfer from the Centre to the States inevitable. The Constitution provides for three categories of such transfers: shared taxes, grants and loans. There are two bodies which determine the entitlements with regard to these, namely the Finance Commission and the Planning Commission. Article 280 which provides for the Finance Commission stipulates that within two years of the beginning of the Constitution and every five years thereafter, there should be a Finance Commission consisting of five members. The Planning Commission, unlike the other Commission, has no statutory backing and was set-up, as a standing body, by an executive order in March, 1950.⁵⁰

The Finance Commission, as it has been earlier pointed out,⁵¹ is one of the few departures that the Constitution makes from the Government of India Act, 1935. Bombwall is not far wrong when he says that the Commission is 'an innovation of far-reaching importance to the working of the Indian federal system'⁵² though, as it will be seen presently, this importance has tended to be progressively eroded. No other federal Constitution provides for a similar

independent agency on the recommendations of which substantial resources are transferred from the union to the federating units without much adverse effect on state autonomy.⁵³

The function of the Finance Commission is defined in the Constitution. It is mainly, to make recommendations to the President as to : '(a) the distribution between the Union and the States of the proceeds of taxes which are to be, or may be, devided between them... and the allocation between the States of the respective shares of such proceeds;' and '(b) the principles which should govern the grants-in-aid of the revenues of the states out of the consolidated Fund of India'.⁵⁴ Thus, of the three kinds of transfers that have been mentioned, shared taxes, and the grants stipulated in the Article 275 of the Constitution (which is not meant for the subvention of Plan projects) are the exclusive domain of the Finance Commission. Discretionary grants given for plan purposes under Article 282, and loans are the concern of the Planning Commission.

4.5 FINANCIAL DEVOLUTIONS THROUGH PLANNING COMMISSION

From the point of view of the Centre-State relations, financial devolutions made through the Finance Commission are not as important as those effected through the Planning Commission, under Article 282. Not that resource transfers through the former raise no problems. There have been complaints about anomalies in the scheme of 'budgetary-need' grants⁵⁵ and also about their inadequacy.⁵⁶ But, these transfers, though indicative of the over-all financial dependence of the States on the Centre are basically in the nature of division of common assets, of 'conduits' of finance if one may borrow an expression used by one authority. They are constitutionally provided for, effected through a quasi-judicial statutory body and absolutely unconditional. As Hanson puts it, they are given 'as of right and not as of grace'.⁵⁷ In their operation, therefore, there is not much scope for what is sometimes - not very happily, though-called the 'giver-taker' nexus.

But, the transfer of resources from the Centre to the States have proceeded on lines not anticipated in the Constitution. The financial arrangements envisaged in Chapter 1 of Part XII of the Constitution, as Santhanam

points out, is based on two major assumptions.⁵⁸ The first is that the main assistance required from the Centre to the states would be in the nature of shares in taxes and grants towards the recurring revenue expenditure of the latter. The second assumption, which is implied in the first, is that the Finance Commission would be the chief instrument of determining the tax shares and the subventions and that the discretionary provision embodied in the Article 282 would be used for emergencies arising out of national calamities like famine and flood. "Both these assumptions", says Santhanam, "have now broken down on account of the adoption of the policy of planned development under the guidance of a Central Planning Commission".⁵⁹ Grants-in-aid given under Article 282, which is actually not a substantive provision intended for transfer of resources from the centre to the states,⁶⁰ now overshadow those given under its substantive brother, the Article 275, as can be seen from the following table 4.4,⁶¹ on the next page.

During the First three Five Year Plans and the three Annual Plans, nearly three times as much grants were given to the States under Article 282 as under Article 275(1). This, however, does not provide a complete picture of

Table 4.4 : Central Grants to the States Under Articles
275(1) and 282 (Rupees in Crores)

Type of Grant	First plan	Second Plan	Third Plan	Three Annual Plans	Total
1. S.G.	41.0	166.0	290.0	422.0	919.0
2. D.G.	174.0	534.0	1013.0	977.0	2698.0
3. T.G. (1+2)	215.0	700.0	1303.0	1399.0	3617.0

S.G.: Statutory Grants under Article 275(1);

D.G.: Discretionary grants under Article 282;

T.G.: Total grants. Figures have been rounded off.

discretionary transfer of resources from the Centre to the States as the table does not take into account central loans to the States.^{61a} A large amount of Central control over States finances, as Venkataraman points out, is exerted through loans.⁶² The importance of Central loans to the capital structure of the States is phenomenal; almost two-thirds of their capital receipts accrue from this source.⁶³ In absolute terms, the Central loans to the States were of the tune of 720 crores during the First Plan, 1,374 crores during the Second, 3,101 crores during the Third and 2,693 crores during the interregnum of the three Annual

Plans. These loans, advanced mainly to meet the capital side of Plan expenditure, are closely linked with Plan grants under the Article 282. The total discretionary transfers, therefore, would be of the order shown in the following table 4.5.⁶⁴

Table 4.5 : Discretionary Transfers (Plan-wise) From Centre to the States (Rs. in Crores)

Type of Transfer	First Plan	Second Plan	Third Plan	Three Annual Plans	Total
1. D.G.	174.0	534.0	1013.0	977.0	2698.0
2. Loan	720.0	1374.0	3101.0	2693.0	7888.0
3. Total	894.0	1908.0	4114.0	3670.0	10586.0

Planning, as the Working Group on State Finance and Centre-State Financial Relations rightly points out, has, thus, changed the entire economic, political and fiscal context of the country. What the Group has to say in this connection bears reproduction :

"The criterion of budgetary needs implicit in the Finance Commissions' recommendations was eroded by the impact of plan expenditure... The formula-

tion and implementation of plans at the state level formed a charge on the Central fisc, in fact, if not in theory. The tax sources of the States being inelastic generally the sinews of finance for putting through the plan had to be raised through Central assistance".⁶⁵

The full truth of the above statement can be realised only when one has a look at the relevant facts. The following table 4.6/^{given below} sets out Plan expenditure during the four five-year and the three one-year plans and assistance to them from the centre.⁶⁶

Table 4.6 : State Plan Expenditure/Outlay and Central Assistance (In Crores of Rupees)

Expenditure/ Assistance	First Plan	Second Plan	Third Plan	Three Annual Plans	Fourth Plan	Total
1. Exp./ Outlay	1426	2084	4164.75	3051.75	6606.47	17332. 97
2. Central Assistance	880	1058	2515.3	1798.9	3500.0	9752.2
3. 2 as % of 1	61.8	50.8	60.0	59.0	53.0	56.3

Note: Percentage for the Third Plan, for 1966-69 and for the Fourth Plan are in round figures. Plan outlay figures are actuals for the first 3 plans, for 1966-67 (Rs.991.4 crores) and for 1967-68 (Rs.1001.5 crores). They are anticipated expenditure for 1968-69 (Rs.1058.9 crores). The actuals for the latter year may turn out to be lower. Figures of Central Assistance for 1966-69 are allocations.

As the table shows, the Plan assistance from the Centre to the States has varied from over 50 per cent to nearly 62 per cent of the total plan outlay of the states.

The researcher's purpose in the foregoing discussion has been to provide a 'global' picture of Centre-State financial relations in India so that the specific problem of those relations in education can be seen in perspective. It is, therefore, not proposed to go here into the impact, in general, on the states of 'the formulation and implementation of plans at the State level forming a charge on the Central fisc'; there will be occasion later to look at such impact in the sector of education, which is the immediate concern of the present study. One is, however, apt to recall the prophecy Alfred Deakin, one of the founding fathers of the Commonwealth of Australia and later her Prime Minister made about that country. Deakin said :

"As the power of the purse in Great Britain established by degrees the authority of the Commons, it will ultimately establish in Australia the authority of the Commonwealth. The rights of self-government of the States have been fondly supposed to be safe-guarded by the Constitution. It left them legally free, but financially bound to the wheels of the Central Government. Their

need will be its opportunity. The less populous will first succumb; those smitten by draught or similar misfortune will follow; and finally even the greatest and most prosperous will, however reluctantly, be brought to heel".⁶⁷

There are observers, some of them acknowledged authorities in the field who would go to the extent of saying that Deakin could not be more right about Australia than about India, if he had made the prophecy about this country.

4.6 IMPORTANCE OF CENTRAL ASSISTANCE FOR EDUCATIONAL DEVELOPMENT

It may not be entirely inappropriate to preface the discussion on the role of the Centre in the financing of education and Centre-State relations in this respect with a reference to the importance of Central assistance for educational development in India.⁶⁸ This importance arises mainly from the fact that the States are finding it more and more difficult to finance incremental development in education because of the development that has already taken place. This, as we know, is a problem peculiar to investment in human capital, ^{the} returns out of which can not be ploughed back for further investment so that development becomes self-

-sustaining. The result is that some states already spend nearly 40 per cent of their annual budget on education⁶⁹ - a proportion of state expenditure on education far in excess of the one suggested by the Kher Committee on Ways and Means of Financing Education. The States taken together invest in Education 20 paise out of every rupee they collect from the tax-payer, as Table 4.7⁷⁰ will show. It will also show that there is no other item in their 'shopping list' which carries away such a large chunk of the tax payer's rupee.

Table 4.7 : The Tax-Payer's Rupee: Allocation by State Governments (in paise)

	<u>1951-52</u>	<u>1965-66</u>
<u>DEVELOPMENT</u>		
<u>Education</u>	<u>14.7</u>	<u>20.0</u>
Medical and Public Health	7.1	8.2
Agriculture, Veterinary & Cooperation	0.3	4.9
Rural Development & Community Development Projects	4.1	3.1
Irrigation	4.1	3.1
Electricity Schemes	1.1	0.2
Civil Works	10.0	6.8
Industries and Supplies	2.6	1.7
Others	3.5	5.8
<u>NON-DEVELOPMENT</u>		
Direct Demands	8.7	4.3
Debt Services	2.2	14.0
Civil Administration	26.1	13.5
Famine	0.9	0.8
Miscellaneous	9.7	5.6
Others	2.6	3.1
Total	<u>100.0</u>	<u>100.0</u>

Indeed the problem is so serious that the State Education Ministers in their conference held at New Delhi in early 1967 went to the extent of adopting a resolution calling attention to it and asking the Centre to refashion Centre-State relations in the financing of education. The resolution said :

"Educational development creates permanent recurring liabilities to the State Governments and they are finding it increasingly difficult to meet them... Education is the most significant and costliest of social services to the nation and the Centre must accept responsibility to share its growing cost. This conference, therefore, recommends that the existing Centre-State relationship in the financing of education should be reviewed in its entirety and a new relationship which can meet, on a long-term basis, the challenge of the massive programme of educational reconstruction needed by the country should be devised."⁷¹

Given the constrictive pressures on State revenues,⁷² the inexorable process of accretion to the committed expenditure on education and, if one may add, the gradual tapering off of the contribution to educational expenditure from non-governmental sources which is nearly 30 per cent

at present, the Central assistance to States for educational development assumes an importance which is only likely to increase as time passes.

More authoritative quarters have made similar assertions about the Central assistance to States in general.⁷³ These may or may not prove right; but, there is no gainsaying the fact that for Central assistance as it stands to-day is vital to many areas of developmental activity, constitutionally within the strict legislative jurisdiction of the States. These, as we have already seen, include education.

Categories of Central Assistance

The Central assistance to States for education, as must be evident from the preceding discussion, falls into two broad categories. First, there are the statutory grants under the award of the Finance Commission. Second, there is the Plan assistance given, in the form of loans and grants under the relevant articles of the Constitution.⁷⁴ Of these, the first category of assistance is given for meeting, what is called in financial parlance, the 'Committed expenditure.'⁷⁵ of the States and is calculated on the basis of the entirety of this expenditure. Statutory grants are, therefore, by

convention, not given for specific purposes, even though the two Finance Commissions - the first and the third - did make specific purpose awards making exceptions to the convention.⁷⁶ The grants are 'automatic' to borrow a description from the Administrative Reforms Commission and, for reasons we have had occasion to mention earlier,⁷⁷ do not 'queer' centre-state financial relations as do assistance belonging to the second category.

The second category of assistance, which for obvious reasons is going to be the main theme of the discussion to follow, is Plan assistance.⁷⁸ It is estimated on schematic basis and is given partly on loan and partly on grant basis. Some schemes would be such as would involve elements of revenue as well as capital expenditure. The general principle of classification of capital expenditure in India is that it is the kind of expenditure needed for creating concrete assets of a material character or of reducing recurring liabilities like, say, pension payments. The State Governments can, however, exercise a certain degree of discretion in the classification of capital expenditure. They usually decide that a certain part of capital expenditure, particularly works of less than a certain value, will be met from revenue, treating only the rest as capital

expenditure. Loan assistance is generally earmarked for the capital component of the assistance-bearing plan schemes. Loan is also given to the States under another circumstance. If the Plan assistance admissible to a State, calculated on the basis of assistance to individual schemes, is less than the total assistance proposed to be allocated to the State, the shortfall is made good in the form of a Miscellaneous Development Loan. Compared to other heads of development, the loan component of plan assistance to education is usually not very large, unless, in the rare case of a state, the assistance earned on schemes falls very short of the Plan assistance proposed for it.⁷⁹

Broadly speaking there are two main types of schemes in education for which the Central aid is available, namely, the Centrally Sponsored Schemes and the Centrally Assisted Schemes. The State Five-Year Plan in education consists of the State's share of the outlay on centrally sponsored schemes plus the outlay on centrally assisted and other state schemes of education.

Empirically, the only possible definition of centrally-sponsored schemes (sometimes also called 'additional State schemes')⁸⁰ is that they are those which are proposed by

the Central Government and central assistance for which is available over and above the assistance assured for the State plan as a whole. The genesis of the schemes, as the Administrative Reforms Commission points out, has to be traced to the reluctance of the states, mostly because of paucity of funds after meeting the pressing state needs in education, to undertake certain schemes which, though important, have more national significance.⁸¹ Some obvious examples would be : provision of facility for the teaching of Sanskrit in secondary schools, propagation of Hindi in non-Hindi speaking states, promotion of student tours and national physical efficiency drive.

The practice of formulating a set of schemes at the Centre and handing them down to the states provoked a great deal of criticism from the states. The result has been, as we shall see later a gradual atrophy in the size of the centrally sponsored sector. The criteria that the centrally sponsored schemes should satisfy before they are given that status also have been laid down now.

A centrally-sponsored scheme in education is implemented by the Ministry of Education of the State Government. It is, however, a part of the Plan of the Central Ministry of

Education and it is this Ministry that accords sanction to the scheme. When the Ministry issues sanction, it invariably lays down conditions regarding details of administration. As to the release of central aid, the procedure adopted is the same as relating to the centrally-assisted schemes.

The centrally-assisted schemes are those under the major developmental head of 'Education' which the Centre has agreed wholly or partially to assist in financing. The schemes are generally those which, because of the differential needs and conditions of the States, are left to the initiative of the states themselves. The total Central assistance to the schemes are granted to them in accordance with a pattern of assistance. The pattern has been in a process of gradual evolution ever since the second five-year plan. It generally prescribes central assistance in the form of loan and/or grant in terms of percentage of expenditure varying from 25 to 100 per cent depending upon the importance of the scheme. Sometimes a separate pattern may be prescribed for recurring and non-recurring expenditure.

4.7 SANCTION AND UTILISATION OF CENTRAL ASSISTANCE

The sanction and utilization procedures of Central Assistance need some attention, for, these have raised not only questions of administrative convenience but many serious problems of the Centre-State relations to which the researches will later have occasion to refer. Assistance was first determined and given scheme-wise and there was hardly any scope for adjustments of outlays and sanction procedures. Each specific scheme qualifying for Central assistance had to be sanctioned by the Ministry of Education at the Centre before implementation. This evoked criticism not only from the States but also from agencies of the Central Government itself. The Auditor-General of India in his report submitted in 1955 drew the attention of the Union Government to the excessive centralisation involved in the practice and the way it hampered the progress of plan implementation.⁸² As a result, a process of re-thinking on the issue was started, and the Ministry of Finance and the Planning Commission came up with some suggestions which the Conference of the State Finance Ministers held on the 18th of November, 1957 considered. A revised procedure was subsequently introduced in 1958.⁸³

Under the new procedures, the practice of giving sanction to individual schemes was discontinued. Groups of schemes, say, 'Secondary Education', under the head of development, 'Education' now became units for adjustments and for determination of Central assistance. Three years later, in 1961, a further, relaxation in procedure was effected.⁸⁴ With this latter change, the position now was that the State Plan was broken down into a number of major 'heads of development', 'Education' being one of them. Each head of development, including 'Education' consisted of two groups of schemes; one, comprising schemes to which patterns of assistance were attached; and the other, comprising the remaining schemes. The quantum of assistance to a head of development, in the present case 'Education', was arrived at on the basis of pattern-bearing schemes. Diversion of funds within the head of development was permissible except in the case of some specified schemes. Such diversion from pattern-schemes to non-pattern schemes only required a reference to the Central Ministry of Education.

Before 1958 the Central assistance to education used to be released on the basis of recoupment. A State Government, thus, had first to incur expenses on the development of education and then seek recoupment from the Accountant

General to the extent of assistance. The resource position of the States being never too buoyant, this seriously handicapped the States in the implementation of the Plan programmes. Not infrequently, any delay in securing recoupment from the Auditor-General, the slow-moving ways of whose office are well-known, they had to postpone, sometimes indefinitely, action on other schemes-particularly of the poorer States.⁸⁵ The situation needed rectification and a new procedure for release of funds was adopted with effect from 1958-59.⁸⁶ The revised procedures sought to ensure the uninterrupted flow of aid funds to the States, by providing for making advances to the States to the extent of three-fourth of the estimated assistance for each financial year. They were in the form of interest-free⁸⁷ ways and means advances, paid in equal monthly instalments from May to January and adjusted by provisional payments of grants-in-aid and loans in March each year, on the basis of actual expenditure for the first three quarters and estimated expenditure for the last quarter. The financial crisis in the State towards the end of the Third Plan forced relaxation even in these rules. Central assistance was now available for education as lump sum ways and means advances to the extent of ~~five-sixths~~ ^{sixths} of the total assistance on ten equal instalments paid on or about the 15th of each month.

Final adjustment of the ways and means advances was made in June every year. This was done on the basis of the agreed annual outlay, outlay actually made and the annual assistance fixed for the head of development. The formula adopted was :

$$\frac{\text{Actual outlay}}{\text{Agreed outlay}} \times \text{loan/grant fixed for the head of development}$$

The final five-year adjustment was also made on the basis of performance. There was a ceiling in Central assistance for each head of development, including education and for the Plan as a whole. If a State did not fulfil the target of outlay under a particular head, it would lose proportionately from the fixed quantum of assistance.⁸⁸

All this is a little complicated indeed which made Ursula Hicks say: "As things have developed financial relations are more complicated in India than in almost any other federation, certainly more than they are in the U.S.A., Canada, Australia or Nigeria. A formidable problem of coordination is implied."⁸⁹ But, this is perhaps inherent in the Indian situation, a frequently forgotten component of which is, it may be worth pointing out, our colonial history. The distrust of the 'native' in money

matters perhaps still lingers on in our financial set-up. There is also the endless variety of regional economic conditions, problems and needs. This is certainly not meant to be an apologetic for the status quo in Central-State financial relations. It only means that these relations have to be seen in perspective. The dichotomy of Centrally-sponsored and centrally-assisted schemes in such a perspective would seem to be the logical result, in the Indian situation, of a federal constitution. The centrally sponsored schemes aspire, in their conception at least, after uniformity and pan-regional solutions to national problems; they also seek to stimulate 'frontier' practices in education.⁹⁰ State schemes, on the other hand, cater to the local needs of the States. Those of them that qualify for Central assistance may be considered, as one writer puts it, the Largest Common Measure of the problems to be tackled in the various states.⁹¹

4.8 FINANCIAL ARRANGEMENTS UNDER THE FIVE YEAR PLANS IN EDUCATION (1951-1974)

Before one turns to some of the problems and issues involved on the Centre-State financial arrangements described above, it may be useful, even at the risk of some

repetition, to give a resume of the operation of these arrangements during the various Plans.

(a) The First Five-Year Plan

The First Five-Year Plan was not a plan in the sense in which one has come to know them in the subsequent plans. The kind of exercise that goes into the formulation of the five-year plans now, had not been gone through in this case. The process of plan formulation that preceded the First Plan consisted in putting together the on-going post-war reconstruction and development schemes under various heads of development and adding to them a few more mainly articulated to the stepping-up of agricultural production.

The system of grant-in-aid⁹² adopted in the First Plan was that of specific purpose grants.⁹³ The schemes to which such grants were given, with the varying patterns that were attached to them are given at the end of this thesis in Annexure 1 to the chapter.

It will be seen from the Annexure that patterned Central assistance was available to a large number of schemes. Eight of them were related to elementary education, three to secondary education, four to social education

and one to propagation of Hindi. The Annexure will also show how complicated the structure of the pattern was. It varied from scheme to scheme, from year to year and from the non-recurring component of the expenditure to the recurring component. "Educational unemployed relief scheme"⁹⁴ under Social Education carried the highest percentage of assistance, namely 75 per cent both on recurring and non-recurring expenditure, in 1953-54, though it tapered off to 25 per cent, on both, by 1955-56. "Preprimary schools" and "urban basic schools" earned 60 per cent and 66 per cent on recurring and non-recurring expenditure respectively, in 1952-53 and 1953-54, but the assistance on recurring expenditure shrank to $33\frac{1}{3}$ per cent in 1954-55 and 1955-56 while that on recurring expenditure continued to be the same.

This structure of patterning was calculated to keep a large contingent of accountants on their toes. 'Taken all in all, it was a rather complicated structure', laments Naik, 'which needed a great deal of careful accounting work, both at the centre and in the states. Administratively, it kept a few officers quite busy and cases involving adjustments of grant-in-aid dragged on for years before a final settlement could take place.'⁹⁵

The hair-splitting involved in the exercise of varying the pattern of assistance on the basis of the scheme, the year and the nature of expenditure was not only arbitrary, but also invidious. One can find no rational explanation for it, but the bureaucratic legerdemain with which students of Indian administration are only too familiar.

The Central allocation for education in the First Plan was 38.9 crores of rupees.⁹⁶ This also included allocation for Central schemes, that is, schemes directly operated by the Central Government.

(b) The Second Five-Year Plan

The Second Five-Year Plan was qualitatively different from the first in many crucial respects.⁹⁷ Firstly, the Second Plan was no ad hoc affair; a great deal of discussion and technical spade-work went into its formulation, work on which was started as early as the first months of 1954. Secondly, the plan was based on what is considered by many to be a 'distinctively Indian planning ideology'⁹⁸ for the development of which Pandit Nehru and his Economic Adviser at that time, Prof. Mahalanobis of the Indian Statistical Institute, Calcutta, was mainly responsible.

It was this ideology that found expression in the famous Avadi resolution of the ruling party, the Indian National Congress on the 'socialistic pattern of society'.

If this 'distinctively Indian ideology' of planning does not find any perceptible reflection either in the orientation of the educational part of the plan or in its content, it may be only because we had not yet learned to articulate our educational system to our philosophy. We have still not fully done so, but, this is a problem that the so-called 'soft states' among the new nations are everywhere finding it difficult to tackle.

The Second Five-Year Plan in education did, however, have improvements to show over the First Plan, particularly in the matter of grant-in-aid to the states. The system of specific purpose grants continued, but two important changes were incorporated in the system with a view to simplifying it.⁹⁹ The first of these was to put an end to the irksome practice of change in the rate of assistance from year to year and of differential aid to the recurring and non-recurring components of expenditure on the aid-bearing schemes. The rate of grant-in-aid, therefore, was now fixed for the plan period as a whole and

usually, the rate did not vary from one component of expenditure to the other. The second change was to abandon the individual state scheme as the unit of aid; groups of schemes now became the unit. The aid-bearing schemes in the Second Plan was, therefore, considered under four groups, namely, elementary education, secondary education, higher education and 'other educational programmes'.

Apart from these two changes in the grant-in-aid system that existed during the First Plan, the Second Plan also introduced an innovation in the form of 'centrally-sponsored schemes'.¹⁰⁰ The Plan included a large centrally-sponsored sector consisting of as many as twenty three schemes (See Annexure 3). Rates of assistance were prescribed for these schemes also, to start with, but, the matching contribution stipulated for the States was either considerably reduced or waived altogether in their favour, towards the end of the plan. Thus, the schemes were ultimately financed wholly by the Central Government.

Reverting for a while to the centrally-assisted schemes, which have been listed in Annexure, 2, along with the rates of assistance attached to them, it will be seen that the number of these schemes increased considerably. While there

were sixteen of them in the First Plan now there were no less than twenty nine . None of the schemes carried less than 50 per cent assistance. 'Relief to educated unemployed and expansion of primary education' received 100 per cent subvention - a recognition perhaps of the Central Government's responsibility in universalising primary education.

(c) The Third Five-Year Plan

By the time the Third Five Year Plan was to be formulated, plan preparation had become a continuous process. Preliminary steps for studies and investigations relating to the Third Plan had started as early as 1957.¹⁰¹ The circumstances in which the preparations began were, however, not very heartening. The country was in the midst of a crisis, due to which the second plan itself had been cut down to a 'core'.

Two significant developments took place during this period in the area of Central aid for education to the States. First, the process of simplification of the pattern of assistance was carried still further. The Central assistance was now given for the educational plan

(that is, the 'head of development') as a whole and not for individual schemes of education, as during the First Plan or for groups of schemes, as during the Second Plan.¹⁰² Under this system, as it was seen earlier, if expenditure under the developmental head of education fell short of the approved outlay, only proportionate assistance was released. But, the State Government could still claim full Central assistance, if the total State Plan expenditure was equal to or higher than the approved plan allocation, the shortfall under the various heads of developments being available in the form of Miscellaneous Loans.

It must be noted that even after this change, seven state schemes were still designated as centrally-assisted schemes and rates of assistance prescribed for them (See Annexure 4). These schemes now served only two purposes: first, that of providing a 'norm', indicating the common measure of educational developments that the national government would like to see in the States; and second, that of providing a basis for calculating the Central aid. As regards the latter role, it must be said that, once the Central assistance was calculated, the schemes and the rates of assistance attached to them ceased to exist for purposes of aid. The only exception to this was "special

schemes relating to girls' education". Assistance in this case was earmarked and could not be diverted.

The second significant change that the Third Five-Year Plan made was a rather steep reduction in the size of the centrally-sponsored sector (See Annexure 5). During the plan discussions in the National Development Council, State representatives had not taken very kindly to this Second-Plan innovation. Some even demanded the complete disbanding of the sector. The Ministry of Education at the Centre, on the other hand, was working for a strong centrally-sponsored sector. In the compromise struck, the sector was allowed to survive in an atrophied form. The schemes now included in the sector related to research, evaluation or programmes for which the central government had a constitutional responsibility.

(d) The Three Annual Plans and
The Fourth Five-Year Plan

The Fourth Five-Year Plan, which was to get into operation in 1966 at the end of the Third, did not fructify. It is not necessary to go here into the factors responsible for this. The result of this development was that the country had, during the three years of 1966-67,

1967-68 and 1968-69 that followed the Third Plan, what is sometimes opprobriously and yet perhaps correctly, called a 'plan holiday'. This plan interregnum was covered by three 'Annual Plans'. No significant development took place in education, nor indeed in any other field, during these years, which makes it easy for one to skip this period in the account of developments in Centre-State financial relations during the various plans.

By the time the new Fourth Plan was finally launched in 1969, many important developments had taken place. The 1967 general election had radically changed the political complexion of the country. The Administrative Reforms Commission had completed its labours and its views on various aspects of the Centre-State relations were before the public and the Union and State Governments.¹⁰³ All this forced a review of Central-State financial relations. The National Development Council which was seized of the issue of the criteria for, and the patterns of assistance to the States appointed, in May 1968, a sub-committee to go into the question. As a result of the recommendations of the committee, there was now no schematic pattern or matching conditions in the matter of central plan assistance to the States. The 'liberalised' system of the Central assistance

for different heads of development evolved in the Third Plan was also abandoned. Assistance was now proposed to be given through block grants and loans for the state plan as a whole.¹⁰⁴ Each State was to get 30 per cent of the Central assistance for which it was entitled¹⁰⁵ in the form of grant and 70 per cent by way of loans. To ensure that the overall priorities of the Plan were adhered to, outlays for certain crucial programmes were earmarked and were not to be diverted. Thus, under 'Education', the outlay in the state plans for elementary education was earmarked. The operative implication of this was that if the expenditure of the States on elementary education showed any shortfall, they had to forgo a proportionate amount from the lump sum grant promised to them. As a part of the re-thinking^{on} the Central-State financial relations, the position of the centrally-sponsored sector was also examined by the Planning Commission in consultation with the ministries at the Centre and the governments in the States. Consequent upon this, criteria were prescribed which a scheme had to satisfy before it could be included in that sector. These criteria¹⁰⁶ were :-

- (1) They should relate to demonstrations, pilot projects, surveys and research;

- (2) They should have a regional or inter-state character;
- (3) They should require lump sum provision until they could be broken down territorially; and
- (4) They should have an overall significance from the all-India angle.

The application of these criteria led to the transfer of all centrally-sponsored schemes related to school education to the State sector. The total outlay on the schemes so transferred became a part of the Fourth Plan outlay of the States, the Central share of the outlay being available to the States as assistance over and above the amount already allocated to them for the Fourth Plan. The result of this 'fat-shedding' operation was that the sector was left with a limited number of schemes (See Annexure 6).¹⁰⁷

The foregoing account has been concerned a great deal with procedural matters. This is unavoidable because, as the ARC Study Team on Financial Administration found it necessary to point out by way of prefacing their enquiry into Centre-State Financial relations, procedural aspects cannot be isolated from institutional aspects, and 'the latter in turn are inseparable from the actual substance of the relationship'.¹⁰⁸ The researcher had no way of reaching

at the substantive unless through the procedural and institutional.

4.9 SOME DIMENSIONS OF CRITICISM

Looking at the procedures themselves, what immediately strikes one is the fact that these have been constantly changing, importing into them a degree of instability. It is easy to peck at this and label it as 'ad hocism', as some critics have done. To be sure, there is an element of improvisation here, but this perhaps is inevitable. What the ARC Study Team we have just referred to has to say on this bears reproduction:

'Such change is inherent in any structure which is truly federal... In such a structure the relations between the centre and the states cannot be readily codified. Institutions and procedures have to be adapted, not indeed frequently, but as occasion demands, to any substantial change of the political and economic context'.¹⁰⁹

Change, not even constant change, if the situation demands it, is not always a disadvantage. On the other hand, it may well be a sign of dynamism in the system.

Other criticism also have been voiced from time to time. It has been said, for example, that the procedures attending Central assistance to the States lack in principles;¹¹⁰ that they hamper the progress of the Plans,¹¹¹ and that the conditions attached to conditional grants are futile anyway, for, in the absence of an effective machinery for supervision these conditions remain on paper.¹¹² With the modification in procedures that had been briefly described earlier, the cause for these complaints and other complaints of this order has now been, by and large, removed.

There is, however, a more substantive criticism which is still relevant, particularly in the area of education which is a State subject. It is to the effect that plan assistance from the Centre to the States has meant encroachment by the former on the autonomy of the latter..The major premises on which this criticism is based are:(i) the matters for which plan grants are given are, in the vast majority of cases, those that fall within the exclusive jurisdiction of the states;¹¹³ (ii) the size of the grants and, later their actual issue are contingent upon detailed discussions between the State Governments, the Planning Commission and the administrative ministry

concerned at the centre;¹¹⁴ and, (iii) the Planning Commission on the recommendation of which the grants are given is, unlike the Finance Commission, an adjunct to the executive machinery of the union government.¹¹⁵ A little thought will show that none of the facts individually or even all of them collectively can, by itself, constitute sufficient ground for accepting the allegation as true, for the problem of state autonomy in this context is whether the injection of fiscal capacity from outside has led to the substitution of the judgements of the states by that of the injecting authority, the centre. It is not implied that this has not happened. What is meant here is that this  really should be the concern of academic enquiry.

Many pperceptive students of Centre-State financial relations have suggested, often on the basis of a priori economic arguments rather than on any carefully sifted facts that the Central assistance in the form of specific purpose grants have in fact led to a blunting of the judgement of the States on matters for which they are constitutionally responsible. "The effect of a subsidy to a commodity with elastic demand", observes Lakdawala, for example, "is to increase the consumers' spending on it, thus leaving less for other unsubsidised items. For the states with many

pressure groups and interests, the idea that they can give double services for half the expenditure (if the matching is 50:50) may prove too daring".¹¹⁶

More authoritative statements, this time based on carefully conducted case studies have come from the Administrative Reforms Commission and its various study teams. The Study Team on Centre-State Relations made four case studies which were directly on education. The one on the third five-year plan in education of the state of Punjab clearly brings out how state priorities in education are distorted by Central assistance.¹¹⁷ The study showed that the draft in education of that state plan/itself contained a large, sixty-three per cent component of pattern-bearing schemes. But, when it became necessary in the final plan to slash the outlay postulated in the draft, the hatchet went deeper into the non-pattern schemes than into the pattern-bearing ones. The reduction in the former was to the extent of 48 per cent. When the Study Team took a close look at the unassisted schemes that were discarded or whittled down it was seen that many of these should have received high priority in the State Plan (See Annexure 7).

Equally disconcerting is the finding of another ARC

Study Team, the one on Financial Administration which we have had occasion to cite more than once, on centrally-sponsored schemes. The Team came to the conclusion that the States tended to accept these schemes without proper scrutiny from the point of view of either their suitability or economy. The Team also found that they were sometimes accepted even without the states being really interested in them; it was enough for them that the money came from the centre.¹¹⁸

4.10 CONCLUSION

The intention in the foregoing pages was not to make any moral judgement either on the way plan assistance in education is given by the Centre or the way it is received by the States. The purpose of the present account was to describe the existing financial relations between these two in the field of education and to indicate the basic problem that attends these relations: the problem of state autonomy in matters of education and the tendency inherent in Central subvention to education to subvert that autonomy.

In the next Chapter Centre-State relations in educational planning will be critically examined.

NOTES AND REFERENCES

- 1 This sounds elementary, but many developing nations, on an international plane, have suffered due to an inadequate recognition of this fact in their strategy of educational development. For the distortion of educational priorities because of the linking of 'ideas' with 'aid' from outside in the case of India, see J.P. Naik, Education in the Fourth Plan, 1968, Bombay, Nachiketa Publications, pp.26-27. On the impact of finance on some of the unsuspected aspects of education (like the curriculum) there are many interesting studies. See, for instance, Glen Robinson, "Legislation Influences Curriculum Development", Educational Leadership, October 1961, pp.20-33.
- 2 Many consider financial factors 'decisive' even in overall union-state relations. See, for instance, V.V. Borkar, "Union-State Financial Relations", paper presented to the Seminar on Union-State Relations in India (May 18 to May 31, 1969) organised by the Indian Institute of Advanced Study, Simla, typescript, p.1.
- 3 The wide academic interest evinced in Centre-State financial relations in this country is perhaps an index of both the importance and the controversial nature of this task. For some other factors responsible for this interest, see, K. Venkataraman, States' Finances in India, 1968, London, George Allen & Unwin, p.15. For a competent survey of studies in the area, see, N. Srinivasan, Survey of Research in Social Science: Union-State Relations (mimeographed), 1970, Indian Council of Social Science Research, New Delhi, pp.-14-21.

- 4 K.C. Wheare, Federal Government (Third edition), 1953, London, Oxford University Press, p.97. This approach to federal finance is the usually accepted one. Any number of writers can be cited. See, for instance, Sir Cecil H. Kisch's forward to B.P. Adarkar, Principles and Problems of Federal Finance, 1933, London, P.S. King and Son Ltd., p.xii.
- 5 This break-down of the theoretical dualism has led many nations which adopted federal constitutions in the past to discard, extensively amend or ignore their constitutions. These include Argentina, Brazil, the U.S.S.R. and Venezuela. See, Russell W. Maddox and Robert F. Fuquay, State and Local Government, 1962, Princeton, D. Van Nostrand and Company, f.n. 2, p.13.
- 6 J.N. Sharma, The Union and the States: A Study in Fiscal Federalism, 1974, New Delhi, Sterling Publishers (P) Ltd., p.45.
- 7 Section 10 of the U.S. Constitution.
- 8 J.N. Sharma, op.cit., p.46. The federal government had no formal right to levy income tax before 1913. The Sixteenth Amendment to the constitution formally terminated this exclusive jurisdiction of the states also.
- 9 James A. Maxwell, Tax Credits and Inter-Governmental Fiscal Relations, 1962, Washington, Brookings, p.102.
- 10 M. Sriⁿⁱvasan, "Fiscal Issues which Affect Union-State Relations in India", paper presented to the Seminar on Union-State Relations in India (May 18 to May 31, 1969), organised by the Indian Institute of Advanced Study, Simla, typescript, p.2.

- 11 Section 86 of the Commonwealth of Australia Constitution Act.
- 12 It may be interesting to note here that, constitutionally, the imposts of the Commonwealth has no priority lien over those of the states; this lien was acquired by the former through judicial interpretation of what was originally meant to be a temporary constitutional provision (namely, Section 96 of the Constitution). For case law which gave Commonwealth taxes this judicial backing, see J.N. Sharma, op.cit., p.63.
- 13 Cited by J.N. Sharma, op.cit., p.2.
- 14 This phenomenon has led many present-day political scientists to designate modern states as 'total states' - states whose citizens inter-act mainly within the context of these states. See, for instance, Rasheeduddin Khan, 'The Total State', Seminar, January 1974 (annual), Passim.
- 15 For a discussion of Wagner's Law and its major premises, see Kaipa Narayan Reddy, The Growth of Public Expenditure in India: A Secular and Time Pattern Analysis, 1972, New Delhi, Sterling Publishers (P) Ltd., pp.2-8.
- 16 The qualification 'in modern times' is necessary, for, as is implied in the argument in the preceding paragraph, this has not been always so. On this point, see A.H. Birch, Federalism, Finance and Social Legislation in Canada, Australia and the United States, 1957, London, Oxford, p.25; and, D.T. Lakdawala, Union-State Financial Relations, 1967, Bombay, Lalvani Publishing House, p.12.
- 17 D.T. Lakdawala, op.cit., p.2.
- 18 J.N. Sharma, op.cit., p.50, quoted from publications of the U.S. Census Bureau.

- 19 Ibid, p.67, quoted from reports of the Commonwealth Grants Commission.
- 20 P.E. Trudeau, Federal Provincial Grants and the Spending Power of Parliament, 1969, Ottawa, Government of Canada, p.16. It may be interesting to note here, in view of the discussions we shall have later on the Indian situation, that 15 per cent of this total transfer was by way of conditional grants.
- 21 B.P. Adarkar, oppcit., pp.218-224.
- 22 Letter of Edmund Burke to the Duke of Bedford, 1796. Cited by Albert Lepawsky, Administration: The Art and Science of Organisation and Management (Second Indian Reprint), 1970, Calcutta, Oxford and IBH Publishing Company, p.480.
- 23 Kurian ascribes this large-scale borrowing from the 1935 Act to the inability of the 'founding fathers'^{to} anticipate the unprecedented expansion of developmental activities following independence. (See K.Mathew Kurian, "Centre-State Economic Relations", paper presented to^{the} Simla Seminar mentioned at footnote 2, typescript, p.1). It may be recalled here that the financial provisions of the 1935 Act themselves were an outcome of^{the} wide-spread discussions that took place during the Round Table Conferences on financial arrangements in the proposed federation and the labours of committees like the Percy Committee and the Peel Committee appointed during that period.
- 24 See Chapter III, p.14, ante.
- 25 K. Santhanam, Union-State Relations in India, 1960, New Delhi, The Indian Institute of Public Administration, p.29.
- 26 Ashok K. Chanda, Federalism in India, 1965, London, George Allen & Unwin, p.179. This Statement does not do damage to

what was said earlier regarding the tendency of Central and State finances to get integrated. The issue here is of constitutional division of taxing powers. Even here, we shall have occasion to enter a caveat later.

- 27 Chapter I, Part XII of the Constitution.
- 28 Entries 82 to 92A.
- 29 Entries 45 to 63.
- 30 Report of the Taxation Enquiry Commission (1953-54), Vol.I, p.210.
- 31 K.R. Bombwall, The Foundations of Indian Federation, 1967, Bombay, Asia Publishing House, p.291. This obviously was also an outcome of the rejection of the idea of a minimal federation by the constitution-makers, which we had occasion to notice in an earlier chapter. See Chapter III, p.9, ante.
- 32 Paul H. Appleby, Public Administration in India, Report of a Survey, 1953, p.22.
- 33 Wheare describes the situation in Australia in the following terms:-

"The control of the government of the Commonwealth of Australia over the governments of the states has become so great that some observers say that in practice the states of Australia are little more than the administrative agencies of the Commonwealth. The control has come chiefly from the greater financial resources of the Commonwealth and... the increased reliance of the states upon grants from the Commonwealth..." See K.C. Wheare, op.cit., p.28. The experience of other countries may not, however, be much relevant. On this point, see D.T.Lakdawala, op.cit., p.22.

- 34 Source: J.N. Sharma, op.cit., p.125 (with minor modifications in legends)
- 35 Constituent Assembly Debates, V.4, pp.81-84.
- 36 Ibid, IX, 6, p.207.
- 37 Source: Report of the Finance Commission, 1973, p.6.
- 38 Ibid.
- 39 K.V. Rao, Parliamentary Democracy in India, 1965, Calcutta, The World Press Private Ltd.
- 40 The major argument advanced in justification of this is 'administrative economy', for which see p.9, ante.
- 41 Report of the Finance Commission, 1961, p.36.
- 42 Report of the Finance Commission, 1973, pp.6-7. This slight difference in the rate of growth of state and central revenues may also be due to, what an earlier Finance Commission called, 'an allergy (on the part of the states) to tap resources in the rural sector for many considerations'. (Parenthesis added) See Report of the Finance Commission, 1961, p.38.
- 43 See Kaipa Narayan Reddy, op.cit., p.3.
- 44 This tendency is even greater in the countries of Asia and Africa that Roger Scott cautiously calls the 'New States', for all of them, as Scott points out, are committed (though in widely varying degrees) to policies aimed at rapid social and economic change, leading to proliferation of state activity. See Rogur Scott, The Politics of New States, 1970, London, George Allen & Unwin Ltd., p.19.
- 45 Source: Kaipa Narayan Reddy, op.cit., Constructed from tables given at pp.213-214 (Appendix A.12).

- 46 The items sub-summed by the generic head social and development expenditure are listed by Reddy according to whether they are central or state responsibility. See Kaipa Narayan Reddy, op.cit., pp.114-115. (footnote).The overall expenditure on education, which is one of the major items under the head has increased at an annual rate of 13 per cent. See, Proceedings of the Thirty-Fifth Meeting of the Central Advisory Board of Education, 1971, New Delhi, p.27.
- 47 For a detailed analysis of state financial dependence on the Centre, see J.N. Sharma, op.cit., Chapter 6, pp.124-141. A statistical annexure to the chapter gives state-wise revenue requirements and revenue transfers. Incidentally, these show that Rajasthan tops the list of the states most dependent on the centre followed by Assam and Orissa. Punjab, Maharashtra and Haryana are among the least dependent.
- 48 Ursula K. Hicks (Ed.), Federalism and Economic Growth in Underdeveloped Countries, 1961, London, George Allen & Unwin, p.116.
- 49 In the preceding discussion, we have not referred to the commanding position of the centre with respect to two important resource bases, namely, borrowings and the banks. For this, see J. Shiva Kumar, "Union-State Financial Relations", The Indian Journal of Public Administration, Vol.XVI, No.2, April-June, 1970, pp.205-206.
- 50 For the origin, functions and organisation of the Planning Commission See, Indian Institute of Public Administration, The Organisation of the Government of India, 1971, Bombay, Somaiya Publications, pp.446-456.
- 51 See, p.10, ante.

- 52 K.R. Bombwall, "The Finance Commission and Union-State Relations in India", The Indian Journal of Public Administration in India, Vol.X, No.2, p.278.
- 53 Australia is sometimes considered an exception. But, the Commonwealth Grants Commission of that country is widely different from its putative 'counterpart' in India, not only in its origins but also in its functions and powers which, in comparison, are limited. On this point see Raman Bombwall, Federal Financial Relations in India, 1970, Meerut, Meenakshi Prakashan, pp.67-68.
- 54 Article 280(3). In addition to these, subclause(c) lays down an optional function. The sub-clause reads: "Any other matter referred to the Commission by the President in the interest of sound finance".
- 55 For a brief, but interesting study of them, see, M.P. Jain, "Anomalies in the Scheme of Fiscal-Need Grants in India" in S.N.Jain, et al (ed.), The Union and the States, 1972, Delhi, National, pp.265-280. It may be noted in passing that the author uses the term 'fiscal-need grants' as synonymous with 'budgetary-need grants'. The former is generally accepted to be a concept which 'interprets the gap in resources in an overall context of ^{the} total expenditure of the State'. (Report of the Working Group on State Finances and Centre-State Financial Relations, appointed by the Study Team on Financial Administration set up by the ARC, 1967, Bombay, p.362.)
- 56 For example, as early as 1952, Dr. B.C. Roy, the then Chief Minister of West Bengal criticised the recommendations of the First Finance Commission for inadequately compensating the State for its loss of jute export duty. See Subrata Sarkar, The Centre and the States, 1972, Academic Publishers, p.129.

- 57 A.H.Hanson, The Process of Planning: A Study of India's Five Year Plans 1950-1964, 1966, London, Oxford University Press, 343.
- 58 K. Santhanam, Transition in India, 1964, Bombay, Asia Publishing House, p.116.
- 59 Ibid.
- 60 The Article 282 reads: "The Union or the State may make any grants for any public purpose, notwithstanding that the purpose is not one with respect to which Parliament or the Legislature of the State, as the case may be, may make laws". The Article is given under "Miscellaneous Financial Provisions" and the marginal note to it reads: "Expenditure Defrayable by the Union or the State out of its Revenues". For further comments on the nature and scope of the Article, see K. Santhanam, Union-State Relations in India, 1960, New-Delhi, Asia Publishing House, pp.40-41; and Report of the Finance Commission, 1961, p.40.
- 61 Source: RBI Bulletins (Computed).
- 61a It also does not take into account the indirect transfers of resources like grant-in-aid under Article 282 to voluntary organisations working in various fields of activity in the states. Several ministries at the centre operate schemes of assistance to such organisations. The Ministry of Education alone operated, in 1969-70, some 15 such schemes (see Report of the Committee on Grants-in-Aid to Voluntary Organisations, (mimeographed), 1970, New Delhi, Ministry of Education and Youth Services, Annexure III, pp.36-38). 'Attached offices' and autonomous bodies of these ministries operated their own schemes of assistance to voluntary organisations. The NCERT, an autonomous body of the Ministry of

Education, for example, spent, in 1969-70, Rs. 21,980 on such schemes. But, these transfers, though interesting from the point of view of central influence on developmental activities in the states are not directly relevant to the present purpose.

- 62 K. Venkataraman, oppcit., p.105.
- 63 Ibid, p.160. The Rajamannar Committee has pointed out that the assistance given to the states by the Centre in the form of loans is much greater than the assistance given by way of grants, both statutory and discretionary put together. See Government of Tamil Nadu, Report of the Centre-State Relations Enquiry Committee, 1971, p.101.
- 65 Report of the Working Group on State Finances and Centre-State Financial Relations, loc.cit.
- 64 Source : RBI Bulletins (computed)
- 66 Government of India, Draft Five-Year Plan, p.75, and Fourth Five-Year Plan, p.67.
- 67 Cited by L.F. Crisp in Australian Government, 1965, Victoria, Longmans, p.83.
- 68 On this, also see J.P. Naik, Educational Planning in India, 1965, Bombay, Allied Publishers, p.165.
- 69 For example, Kerala. See table X (Budget Expenditure on Education and Total Budget Expenditure by States for the Period 1961-69), Selected Educational and Related Statistics at a Glance (Plan and Non-Plan), 1969, Education Division, Planning Commission, (Mimeographed), p.20.
- 70 Source: K. Venkataraman, oppcit., p.155. The Kothari Commission has posed the problem through a comparison of the rates

of growth of: (i) national income (indicating ability to finance education) and (ii) the proportion of national income allocated to education (indicating the effort made in financing education) The latter, predictably indeed, exceeded the former. See Report of the Education Commission (1964-66): Education and National Development (First Edition), 1966, New Delhi, Ministry of Education, Government of India, p.466.

- 71 Proceedings of the Tenth Conference of State Education Ministers, 1968, New Delhi, Ministry of Education, Government of India, p.54. One cannot resist the temptation here to make a passing comment on the recommendation of the Education Commission (1964-66) in this regard. This highly knowledgeable body did reach the modish conclusion that 'the central government should assume a larger financial responsibility for education'. It is, however, a measure of the unreality of the deliberations of the 'knowledgeable' in the field of education that the Commission could visualise the discharge of this responsibility only through the expansion of the central and the centrally sponsored sectors of education. It did not occur to the Commission that no amount of expansion of these sectors can conceivably solve the problem raised by the State Ministers of Education in their resolution. It may be interesting to note here that in the same meeting in which this resolution was passed the Ministers asked for central assistance for the improvement of the remuneration of teachers. (See Ibid, p.48) The assistance was to be in the ratio of 90:10, outside the plan and without time limit.
- 72 For some of these constrictive pressures, see Report of the Finance Commission, 1961, op.cit., pp. 38-39. How barren of

results is attempts to get states to raise additional resources for financing education is shown by the recommendations that the study Group on Resource Mobilization appointed by the Government of India in 1969 came up with. See Report of the Study Group on Resources Mobilization (1969), 1970, New Delhi, Asian Institute of Educational Planning and Administration, mimeographed, pp.47-54.

- 73 See for example, A.H. Hanson, op.cit., Chapter IX, pp.311-347.
- 74 A reference has already been made to Article 282 (see pp. 21-23, ante). Article 293(2) relating to loans reads: "The government of India may, subject to such conditions as may be laid down by or under any law made by parliament make loans to any state... and any sums required for the purpose of making such loans shall be charged on the Consolidated Fund of India."
- 75 'Committed expenditure' is expenditure on staff and maintenance of schemes undertaken in previous Plans. This, by convention is not reckoned as Plan expenditure. (See Venkataman, op.cit., p.68). It is this convention that has led to the problem highlighted in the resolution adopted by the State Education Ministers in their 1967 Conference and cited earlier (See pp.28-29, ante). The Administrative Reforms Commission characterises the distinction between Plan and committed (non-Plan) expenditure as 'false' and 'invidious'. (See Administrative Reforms Commission, Report of the Study Team on Financial Administration, op.cit., p.264) Many consider committed expenditure as the main factor in 'loss of fiscal 'manoeuvrability' (see J.D. Sethi, "Union-State Economic Relations" in S.N. Jain and others, (Ed.), The Union and States, 1972, Delhi, National, p.287.

- 76 The first Finance Commission thought it desirable to provide grants for a broad purpose, selected with reference both to the importance of the service assisted and to the practicality of measuring, from time to time, the standard of service on the basis of reliable indices. What is of our interest, however, is the fact that the Commission selected primary education for the grant, a recognition of the national importance of education at this level. The third Commission revived the idea of specific-purpose grants, but the award went to development of roads.
- 77 See p.22, ante.
- 78 Constitutionally speaking there is nothing that can stop of the Finance Commission from recommending grants for plan purposes. The third Commission actually did so. It interpreted fiscal need broadly so as to include 75% of the revenue component of the state five-year plans and suggested that grants be made to the States on that basis. (See Report of The Finance Commission, 1961, pp.28-33). Awards by the Finance Commission being unconditional, this would have completely changed the complexion of planning in the country. Predictably enough, the Government of India didnot accept the suggestion.
- 79 The loan-grant distinction, in any case, is not very germane to our purposes and can be safely ignored in the sub-sequent discussion.
- 80 They are so called because of their history. From the beginning of the first five-year plan the states operated a number of developmental schemes outside their plans. At the end of that plan, when a large number of the schemes were transferred to the state sector, the remaining schemes were re-

- designated as centrally-sponsored schemes. Later more schemes were added to the category.
- 81 Administrative Reforms Commission, Report of the Study Team on Financial Administration, op.cit., p.370. See also K. Venkataraman, op.cit., p.79, and D.J. Lakdawala, op.cit., p.102.
- 82 Government of India, Audit Report (Civil) 1955, Delhi, pp.28-39. Vehement criticism of the procedure also came from the Team for the Study of Community Projects and National Extension Service (1956). See Committee on Plan Projects, Report of the Team for the Study of Community Projects and National Extension Service, 1957, New Delhi, pp.29-32.
- 83 See Letter No. Plan/5/2/56 dated 12 May 1958 of the Planning Commission addressed to the State Governments.
- 84 see Letter No.PC(P)4(2)61, dated October 20, 1961 of the Planning Commission to State Governments.
- 85 Commenting on this, the Auditor-General in the report cited earlier (p.34 ante), went to the extent of suggesting that, if the Centre wanted to bear 50 per cent of the cost of the programmes, it would yield better results if it was done by accepting liability for 50 per cent of the programmes.
- 86 The procedure had been discussed and agreed upon in the State Finance Minister's Conference in November 1957. The Planning Commission conveyed the adoption of the procedure to the States in the letter cited at footnote 83.
- 87 The part of these advances which would ultimately be converted into loans and any uncleared balance of such advances outstanding at the end of the year would, however, carry interest.

- 88 From the point of view of the total quantum of assistance to the State Plan, shortfall under one head of development would not make any difference, for, if the total agreed outlay on the Plan as a whole was fulfilled, the State would get a loan to the extent of the sectoral shortfall. Thus, such a short-fall would affect only the grant component of the total assistance. See Amiya Chatterji, The Central Financing of State Plan in the Indian Federation, 1971, Calcutta, K.L. Mukhopadhyay, p.11.
- 89 Ursula K. Hicks, "Some Fundamental Problems of Federal Finance", Supplement to Capital dated December 23, 1965, p.15.
- 90 It may be interesting to recall here the criteria suggested by Naik for centrally-sponsored schemes in a review of central assistance for education made towards the end of the third plan. Naik wanted educational programmes which had a 'seed-value, a multiplying effect, or a very high potential for qualitative improvement' to be identified and placed in the centrally-sponsored sector. See J.P. Naik, op.cit., 178.
- 91 Amiya Chatterji, op.cit., p.94.
- 92 For a descriptive account of various systems of grant-in-aid see Atmanand Misra, Grant-in-Aid of Education in India, 1973, Delhi, Macmillan India, pp.41-56.
- 93 See also p.34 ante. Naik justifies the adoption of the system on several grounds (see J.P. Naik, op.cit., p.166) The strangest of his arguments, however, is the historical one. The Despatch of 1854, the first document on grant-in-aid in India, says Naik, recommended the adoption of specific purpose grants. Grants also were given for specific purposes during 1900-1921 when Central grants for education were

revived on a large-scale.¹¹ This is as good as saying: "What was, should be". If one may be allowed an obiter dictum here, this is only one instance of the alarming degree of respect for tradition and authority in educational thinking in this country. Educational literature in India abound in them.

- 94 In passing, we may note one interesting aspect of the scheme. The scheme provided for the expansion of existing rural schools as well as the establishment of new ones by the appointment of more primary school teachers. This was meant to relieve unemployment among the educated. In other words, the problem of educated unemployment was sought to be solved through the creation of more education! Apparently, the compelling factor behind the scheme was the social desirability of both the proliferation of education at the first level and the mitigation of educated unemployment.
- 95 J.P. Naik, op.cit., p.166.
- 96 Government of India, Education and the Plan, 1955, Delhi, Ministry of Information and Broadcasting, p.43(table).
- 97 For a critical discussion of the formulation of the second plan and the assumptions underlying it, see A.H. Hanson, op.cit., chap.v, passim, pp.123-170.
- 98 Hanson, for example, See Ibid, p.123.
- 99 See also p.34, ante.
- 100 See also, pp.32-33, ante.
- 101 See A.H. Hanson, op.cit., p.170 for the reply of the Deputy Minister of Planning to a parliament question in this regard.

- 102 See also pp.34-35, ante.
- 103 The Commission, it may be recalled, had recommended the abolition of patterns of assistance and the matching principle, See Administrative Reforms Commission, Report on the Machinery of Planning, pp.28-29.
- 104 Fourth Five-Year Plan 1969-74, p.55.
- 105 The entitlement was determined on the basis of the PFN (Population, Financial Ability and Need) formula for Central assistance evolved by the sub-committee of the NDC mentioned earlier. The formula stipulated that the total quantum of plan assistance be disbursed in the following manner: (i) 10 per cent to be earmarked for strategically important States; and (ii) ^{The remainder to be distributed as under (a)} 60 per cent on the basis of 1966 population; (b) 10 per cent on the basis of per capita state income; (c) 10 per cent on the basis of per capita state taxation; and (d) 20 per cent on the basis of spill-over irrigation and power projects and other special problems.
- 106 The criteria were first suggested by the ARC Study Team on Financial Administration. See Report of the Team, op.cit., p.86.
- 107 Even this number may be considered excessive by many. The ARC Study Team on Financial Administration thought that the 90 schemes, under all heads of development, that continued to operate as centrally-sponsored schemes even after the reduction, to be 'too large' in number. See Report of the Team, op.cit., p.87.
- 108 Report of the Team, op.cit., p.77.

109. Ibid.
- 110 See, for example, P.P. Agarwal, The System of Grant-in-Aid in India, 1959, Bombay, Asia Publishing House, p.73; A.H. Hanson, op.cit., p.321; and D.T. Lakdawala, op.cit., p.79.
- 111 See Amiya Chatterji, op.cit., p.104.
- 112 Administrative Reforms Commission, Report of the Study Team on Financial Administration, p.89.
- 113 See, for example, P.R. Dubashi, "Unitary Trends in a Federal System", The Indian Journal of Public Administration, Vol.VI, No.3, passim; and Raman Bombwall, op.cit., p.53.
114. K. Santhanam, "Federal Financial Relations", Commerce, 12 November, 1966, p.847.
- 115 This, for example, was the import of the arguments of P.V. Rajamannar in his minute appended to the Report of the Finance Commission, 1965. Rajamannar, who, incidentally, was the chairman of the Commission, observed in the minute: "When compared to a statutory body like the Finance Commission, which is quite independent of the government, the Planning Commission may be described as quasi-political" (Report of the Finance Commission, 1965, p.90)
- 116 D.T. Lakdawala, op.cit., p.15. There have indeed been a few cases of States resisting the temptation. Uttar Pradesh, for example, did not accept the three-year degree course even though it was backed by central finance. But, the same state changed all its primary schools into 'Basic schools' overnight because there was central money in this, which only substantiates Lakdawala's' contention.
- 107 Administrative Reforms Commission, "An Analysis of Assisted and Unassisted Schemes in the Third Five-Year Plan of Punjab

under the Sub-head Education", Report of the Study Team on Centre-State Relations, Vol.II (Appendices), p.76.

The Study is appended to this chapter as Annexure 7.(Given at the end of the thesis)

- 118 Administrative Reforms Commission, Report of the Study Team on Financial Administration, p.87. One of the four case studies on education undertaken by the ARC Study Team on Centre-State Relations (and referred to earlier), was on centrally-sponsored schemes. The focus of the study, however, was the inordinate delay in processing some of them. The study also sheds interesting side lights on the centrally-sponsored schemes. See Administrative Reforms Commission, Report of the Study Team on Centre-State Relations, Vol.II, pp.90-96.