Central Aid to Kashmir

Effect of Finance Commission's Recommendations

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Jammu and Kashmir's claim for special, treatment in the matter of Central assistance has till now been conceded by the Central Government — perhaps more for political than economic reasons.

The Third Finance Commission, however, insisted on applying uniform standards to all States, including Kashmir, The Commissions recommendations have consequently adversely affected the resources position of the State.

The State Government has sought to make up for the reduction in Central assistance under the Finance Commissions recommendations through bigger aid from the Centre for the States plan. While the State Government''s efforts in this direction may meet with a certain measure of success, it must realise that hereafter its own performance in raising resources and its ability to make use of Central aid will come to weigh increasingly more in the matter of allocatian of Central assistance to the State.

THE recommendations of the Third Finance Commission, accepted by the Finance Minister and incorporated in his budget proposals, would at first sight seem to seriously affect the distinctive position that the State of Jammu and Kashmir has occupied in the scheme of Central aid to the State?. During the five year period from 1957-58 to 1961-62 Kashmir received the highest per capita grant-in-aid — Rs. 41.7 or almost seven times the average for all the States which was only Rs 6. The new recommendations mark a change in this pattern. Kashmir with a per capita grant of Rs 4.17 has now been pushed to the third place yielding the first two places to Orissa and Assam with per capita grants of Rs 6.53 and Rs 4.41, respectively, Kashmir's annual grant-in-aid has been rut by one half from Rs 3 crores to Rs 1.5 crores. In the case of most other States the amount of grant-in-aid has been raised.

This impression will be confirmed by the 'new system of distribution of income tax collections. While the Commission has recommended an increase in the share of the States in income tax 'from 60 per cent to 66 2l3 per cent, the change in the basis of distribution has adversely affected Kashmir. The divisible pool will now be distributed 80 per cent on the 'basis of population and 20 per cent on the basis of collection instead of 90 per cent on the basis of population and 10 per cent on the basis of collection. The percentage share of the Kashmir has accordingly fallen from 1.13 per cent to 0.70 per cent. The actual loss on this account is equal to almost half of the current share of the State. Against Rs 128 lakhs received by the State as its share of income tax, including grant in lieu of loss of income tax in 1961-62 (revised estimates), in 1962-63 it will receive Rs 63 lakhs only.

The percentage share of Kashmir in the Estate Duty. too. has fallen from 1.24 per cent to 0.88 per cent. But since receipts from this source were in any case not substantial the cut will mean a decline of only Rs 2 lakhs — from Rs 5 lakhs in 1961-62 (revised estimates) to Rs 3 lakhs in 1962-63.

Compensatory Proposals

But when the compensatory proposals arc also taken into account, the above losses will not appear to be very serious. Though the divisible pool of the basic Excise Duties has been reduced from 25 percent to 20 percent, the number of commodities included in the divisible pool stands increased from 8 to 35. Besides, the percentage share of Jammu and Kashmir has been raised from 1.75 to 2.02. As a result, the actual receipts of the State in this account are likely to increase from Rs 67 lakhs in 1961-62 (revised estimates) to Rs 148 lakhs in 1962-63 (Budget). In case of additional Excise Duties, the share of Kashmir has been raised from 1 1/4 per cent to 1 1/2 per cent which means an increase from Rs 49 lakhs in 1961-62 to Rs 62 lakhs in 1962-63. On balance, it will thus be seen that the State's share of divisible taxes is likely to be Rs 27 lakhs higher under the new proposals. The loss in the grant-in-aid amounting to Rs 1.50 crores is also proposed to be made good to the extent of Rs 50 lakhs through a grant for the development of communications. This is over and above the present grant of Rs 104 lakhs from the Central Road Fund, about Rs 69 lakhs for the maintenance of national highways and Rs 35 lakhs for the construction of the Banihal tunnel.

There is also a move to further compensate the loss of grant-in-aid to Kashmir by additional aid for its Third Five Year Plan. The Planning Commission had agreed to an outlay of Rs 75 crores for the Third Plan on the understanding that out of it the State will raise Rs 13 crores as its contribution. But almost immediately after finalising these targets with the Planning Commission, the State Government represented to the Finance Commission that its share of grant-in-aid should be raised as it was not able to raise its share of the plan outlay. Far from conceding that demand, the Commission recommended a reduction in the grant-in-aid to the State and consequently the State's Third Plan was in jeopardy. Hence a new representation has been made to the Planning Commission to give back to the State what the Finance Commission had held back.

Highest Per Capita Aid

Already the proposed per capita Central assistance for the State's Third Plan is not only the highest for Kashmir but is more than double the average for all the States. Kashmir will get Rs 117 per head of its population against an average of Rs 57 for all the States. Incidentally the proposed per capita outlay on the Third Plan of Kashmir is also the highest for all the Slates. Against the all India average per capita outlay of Rs 91, the per capita outlay in Kashmir's Third Plan is Rs 141. Again, Central assistance forms 83 per cent of this outlay (the percentage is reportedly being further raised), while for all States it is 63 per cent. (All figures are based on the estimates made by the Planning Commission).

Besides Central assistance for the Plan and other aid which it pets along with other States, Kashmir receives Central assistance for certain specific purpose. These include over Rs 60 lakhs for the development of border areas, Rs 70 lakhs for the State police, Rs 20 lakhs for the Punjab police stationed in the State. Rs 25 lakhs for other police battalions and Rs 22 lakhs for border check posts or Rs 137 lakhs for police operations of one kind or the other. (Figures relate to 196263).

The State has been receiving another special grant in the form of food subsidy. During the First Plan such grant amounted to Rs 6,42 lakhs per annum. It increased to over Rs 11 lakhs in the Second Plan and in 1962-63 the allocation under this head hag been placed at Rs 38 lakhs.

That Central aid has formed an important part of the revenues of the State will be indicated by the fact that grants-in-aid contributed 30.7 per cent of the State's revenues against 10 per cent for all States. Again, the share of Kashmir in the divisible pool of taxes has formed 56 per cent of its total tax revenue against less than 30 per cent for all States, (Reserve Bank of India *Bulletin,* May 1960,)

As a result of the changes proposed by the Finance Commission, the share of Central grant-in-aid in the revenue of the State (which cannot be precisely worked out at this stage when the budget figures for 1962-63 for the State are not yet available) has admittedly been reduced. Taking an overall view, however, the loss is not substantial. Even in a relative sense, the position of Kashmir, as the principal 'Central aid receiver remains undisturbed.

Two considerations seem to have weighed with the Finance Commission. First, Kashmir has the highest per capita revenue in the country (inclusive of grant-in-aid and share in Central taxes). Against an average of Rs 23 per capita for all the States, the per capita revenue of Kashmir is around Rs 48. (Based on budget estimates for 1962-63 and 1961 census figures). Second, Kashmir is the least taxed State in India. Against the average per capita tax of Rs 9.17 in all the States, Kashmir raised Rs 5.35 per head in 1960-61. Both these facts do not entitle the State for more Central aid either on the basis of "need" or the "extent of self help" — the two main criteria adopted by the Finance Commission.

State Government's Demands

The State Government, however, had an altogether different conception of its needs. In its memorandum to the Finance Commission, it asked for a total transfer of Rs 36.11 crores from the Centre for the next four years — Rs 7 crores more than at present — mainly on two grounds. First, it sought Central assistance for the Central sector of the Third Plan which was very considerable. Second. it wanted Central assistance to enable it to meet the strain of debt. In plain words, the case of the State Government ran be reduced to the argument that since the Centre had given a large sum of money to the State for the Plan and as loans, it needed more money to make use of the amounts already allocated.

The specific ways in which the State Government wanted its share to be raised are equally interesting. It wanted, besides an increase in grant-in-aid, the Central pool of taxes to be raised to hundred per cent, to be distributed 75 per canton the basis of population and' 25 per cent on area, dropping altogether the criterion of collection!

These arguments of the State Government amount, in effect, to changing the pattern of the Central aid to the States in such a manner as to single out Kashmir for exceptional treatment. There is no doubt that Union authorities have so far conceded the claim for exceptional treatment — but perhaps more for political than economic reasons. The Finance Commission has, however, insisted on applying uniform standards to all States including Kashmir. Even if the adverse effect of some of the recommendations of the Commission is sought to he compensated, the State Government must realise that hereafter its performance in raising resources and its ability to make use of the Central aid may come to weigh increasingly more in the matter of allocation of Central assistance.