

Chapter I.

A. Introduction: Objective, Framework and Plan of the Study.

That finance "is an essential pre-requisite of government"⁽¹⁾ has become almost an axiomatic truth. To S.P. Aiyar, "so fundamental is money to government that one might redefine the orthodox constituents of the State by saying that it consists of territory, people, sovereignty, organization and financial resources"⁽²⁾. Finances are, in a way, integral to the very nature of federal principle. Since in a federal system "both general and regional governments must each have under its own independent control financial resources sufficient to perform its exclusive functions",⁽³⁾ and this financial independence is the backbone of the concept of regional autonomy in a federation.

But one of the most peculiar problems of federal finance is that of matching "functions" with "resources", of "securing equilibrium between the division of constitutional powers and the division of revenue resources"⁽⁴⁾. It must, however, be conceded that a perfect balance between the functions and resources of different levels of government in a federation, even if achieved at one state, can not remain in perfect balance for ever.⁽⁵⁾ This distortion of

original equilibrium and the widening gap between the activities and financial resources of the unit governments has been "particularly marked in older federations such as the U.S.A., Canada and Australia" and the "general trend in federal States has been toward a relatively greater expansion in the financial resources of the national government" with the result that the component units tend steadily" to lose not only the adequacy but also the independence of their means"⁽⁶⁾. Thus the Central Government is always left with more and the regional governments with less resources than their functions would normally require.

Again, the States in a federation are not equal in respect of area, population or income. "Some are able to raise more revenues per head than others with the same rates of taxes and some, again, may have to spend more per Unit of service than others. And so, in every federal constitution there are provisions for grants to be made by the Central Government to the State Governments"⁽⁷⁾.

The financial superiority of the Central Government is chiefly due to constitutional and economic reasons. During the framing of a federal constitution, a

general agreement, conceding priority of the Central Government is usually achieved and becomes manifested in the Constitution itself, in sectors like defence, diplomatic affairs, banking, trade, customs and excise etc.. In a federation the responsibility for employment, economic development and avoidance of inflation must belong to the Central government for the sake of the nation as a whole, and this necessitates that the centre should have power to control investments. As such, income tax, including items like corporate tax should be the prerogative of the centre in order to avoid different rates in different states ⁽⁸⁾. Direct taxes including income tax, death duties etc. lend themselves to progression and are, therefore, considered conducive to economic welfare. Again, it may be said that the Central government should have power to tax the richer states for the benefit of the poorer ones. ⁽⁹⁾ In a word, "if constitutional aspects of federalism were reviewed in detail, one would discover that economic, social and technological changes and population shifts have underlain ⁽¹⁰⁾ the steady accretion of federal power".

The Constitutional provisions in the older federations were shaped by the contemporary limited notions of the ends and activities of the States and governments.

But later developments have replaced the conception of "negative state" by a "positive" one. The combined effect of these developments has been a significant expansion of the social service activities of the unit governments without a corresponding expansion of their constitutionally prescribed sources of revenue. To meet their ever-increasing financial burdens, the units have had to depend increasingly on the central governments for grants and subsidies. This fact has been true in varying degrees in cases of Canada, Australia and ^{the} United States. ⁽¹¹⁾ And this invariably has a profound impact on the federal balance of power in those federations. The discrepancy between "functions" and "resources", between "responsibilities" and "needs" has made it necessary to transfer resources to the States by the Centre - which possesses greater financial capability in relation to its "functions". ⁽¹²⁾ This, consequently, matters for a vertical federal relationships.

Again, another problem may crop up in the domain of federal finance due to the unavoidable fact that some component units are poorer than the others and this happens because "the units stand at different levels of economic development and are differently endowed with natural resources". ⁽¹³⁾ This disparity among the units would result

in corresponding inequalities of services among them creating various problems of administration. ⁽¹⁴⁾ This will account consequently for a distorted horizontal relationship among the units themselves.

In all federations devices are developed for reducing vertical as well as horizontal disparities among different levels of the governments. Usually, these "devices take the form of federal grants-in-aid to the units, grants being varied in accordance with fiscal need". ⁽¹⁵⁾ The purpose behind grants is not merely to equalize resources with functions but also to ensure a comparable standard of services in all States and are sought to be justified on the ground of economic welfare. ⁽¹⁶⁾ Federal grants are usually criticized on the ground that they undermine the sense of financial responsibility on the part of the recipient governments but it must be admitted that in the absence of grants, the equality between "marginal sacrifice" and "marginal utility" may be reached "at a higher level in a poorer State than in a richer State" and the same may be true of the "equality of the utility of the various types of public expenditure". ⁽¹⁷⁾ The traditional mould of federalism has broken down in every country with a federal constitution and the theory of federalism is coming close to the living.

realities. (18) "The Constitution of India is federal in
form". (19) "The regional diversities having abiding roots
in history reveal the essentially federal nature of Indian
Society and these constituted the most powerful centrifugal
pressure at the time of Constitution-making" (20) but at
the sametime the constitution-makers of India were much
influenced by the developments of the older federations
in technical, social, economic and political fields and
followed the world-wide trend toward "centralization". (21)

In India, from the very dawn of the federal
polity, the financial dependence of the States on the Centre
was as clear as anything and the Constitution here, has
produced consistently, surpluses at the Centre and deficits
in the States and the Centre has always been the "giver"
and the States the "receivers". (22) Had national unity
been the only consideration in this respect all resources
could have been kept with the Centre and devolutions made
annually to the States according to their needs. That
this was not done underlines one principle, namely, that
the allocation of independent resources to the States
is essential for responsible public administration at the
State level. (23)

A.W. MacMahon thinks that "durable

federations must have built-in correctives for their internal imbalances of current wealth".⁽²⁴⁾ The Constitution of India has sought to rectify the imbalance between "functions" and "resources", broadly speaking, in two ways. First, certain duties and taxes have to be shared by the Centre and the States, Second, grants-in-aid are to be given by the Centre to such of the States as are in need of assistance.⁽²⁵⁾ The Constitution of India provides for an independent Finance Commission to make recommendations to the President in regard to the distribution of sharable taxes and the payment of grants-in-aid to the States.⁽²⁶⁾ With the emergence of Planning, the devolutions made by the Finance Commission under Article 275 of the Constitution, however, have been overshadowed by the large amounts of grants and loans given by the Centre to the States on the recommendations of the Planning Commission.⁽²⁷⁾ The sense of dependence has been heightened by the fact that "Plan grants are discretionary in character, almost all of them being made under Article 282 of the Constitution".⁽²⁸⁾ Any appreciation of the extent to which funds transferred from the Centre are helping to finance State expenditure must take account of all relevant channels. But the purpose of this study is limited to the phenomenon of

"grant-in-aid" and hence it would concentrate on transfers made by way of grants only. However, it is noteworthy that the conceptual framework indicated in this study may be utilised to show the impact of some other phenomena (such as loans) as factors of inter-governmental balance of power. The reason behind picking up federal grant in this respect, is the remarkable significance and conspicuous role of this phenomenon in the maintenance of the federal balance of power in modern federal systems.

A bare example may help one to understand the extent of the dependence of the States in India on Central assistance. During the first three Plans resources transferred by the Centre had constituted a vital portion of the total State Plan expenditure and even exceeded it as it will be seen from the Table that follows.

Table 1.1.

(in Crores)

	First Plan	Second Plan	Third Plan
Resources from the Centre	1413	2868	5602
Total State Plan Expenditure	1427	2083	4058

Source:- Administrative Reforms Commission, Report of the Study Team on Centre-State Relationships, Govt. of India, New Delhi, P.16.

The above Table shows that the Central component was almost equal to the total Plan expenditure of the States in the First Plan period and exceeded it by Rs.800 crores in the Second and by Rs.1,600 crores in the Third. ⁽²⁹⁾ This picture is, perhaps sufficient enough to understand the heavy financial dependence of the States on the Centre. "With --- phenomenal increase in the developmental outlay of the States", remarks an author, "the very basis of Article 275 started eroding and Article 282 which began to be used for making discretionary grants, came to occupy a dominant position" ⁽³⁰⁾ creating enormous effects on the intergovernmental balance of power in the Indian federal system.

The mechanism of financial devolutions is integrally connected with the problem of financial "dependence". While the devolutions made on the recommendations of the Finance Commission may be regarded by the States as something they are entitled to receive as a matter of "constitutional right", the devolutions made on the recommendations of the Planning Commission involve an element of "discretion" with the Centre. This discretionary element as a centralising tendency has introduced something, the dimensions of which were not

envisaged by the Constitution-makers. For bridging the gaps created by the Plans, a system has been evolved for the transfer of funds from the Centre to the States through the Planning Commission, by passing the Finance Commission. (31)

In theory, there is nothing to prevent the Finance Commissions from taking into account the Plan requirements of the States, but in practice, this responsibility rests with the Planning Commission and the former has confined itself to the assessment of non-Plan needs only. (32) In fact, it was never foreseen that the Planning Commission would in effect supersede the Finance Commission whose purview would revert to non-Plan aspects of federal finance. (33) There is "duplication" in the works of the two commissions because of their "timings" and "differences in approach" causing divergence in assessment of expenditure and resources of the States. (34) However, these aspects will be considered subsequently in proper perspectives.

It is, therefore, prudent ~~for us~~ to lay down the approach to the problems under consideration, underline the different sides of the problem, scan them in the light of historical experiences and experiences of the major federal

systems of the world and then try to think of measures required for the rationalisation of the process.

B. Objective of the Study.

The present study, therefore, seeks to find out the role of the phenomenon of grant: as a mechanism to mould the vertical and horizontal federal balance of power in India. This study also seeks to underline the difficulties inherent in the system of grants-in-aid in India causing imbalances of federal power and makes effort to offer some observations and suggestions for the rectification of the process.

The phenomenon of 'grant' is economic by nature but in the federal systems of the world today, their political outcomes are remarkable. In fact in a country like India, the system of grants-in-aid has been playing a vital role in the working of the federal system since the advent of economic planning. Thus, the approach to any study of the grant phenomenon today should be an interdisciplinary one. This study is an humble attempt,

or rather, it is better to say, a beginning of an attempt, to look at the working of grants-in-aid in India from this standpoint. The facts used in this study are not unknown, but they have been utilised for a new interpretation.

~~The Government of Madhya Pradesh is attempting to do this~~
~~in a similar manner to that of the~~
~~Government of Madhya Pradesh.~~

The post-war federations have been broader in connotation than the classical definition of federalism provided by K.C. Wheare and others. It is no longer possible to restrict the functions of each level of the two sets of government in a federation into separate air-tight compartments. The functions of the different levels of government in a federation now-a-days often overlap in the face of living realities. No two federations are exactly the same in the truest sense of the term. But this modern notion of federalism, however, can not do away with the concept of federal balance of power since the very idea of federalism denotes a notion of balance between different sets of government - vertical as well as horizontal.

Finance and Planning hold the key positions

in the structure of federal power-relationships. The divergence between "resources" and "functions" or "needs" of the units, which is almost chronic to all the federal systems of the world, necessitates grants-in-aid as a corrective mechanism for this "non-correspondence".

In India, the superior financial position of the Union Government in a Centre-oriented federal structure of government and compulsions of Planning have given birth to grave imbalances of power resulting in perpetual dependence of the States on the Centre for more and more financial assistance. In this background, federal grants in India, instead of working as a corrective measure for removing imbalances, function as a lever for the furtherance of the central dominance - vertically and maintenance of disparities among the units - horizontally.

However, these anomalies are not beyond control. Relevant adjustments and sense of participation among different levels of government in India may create a suitable atmosphere that would help restore the required balance in this respect, facilitating a smoother functioning of the federal machineries.

In making this study, reliance has mainly been placed on the primary sources like the Reports of the

various Finance Commissions, Administrative Reforms Commission and its Study Teams, Planning Commission etc. published by the Government of India, Report of the Advisory Commission on Inter-governmental Relations, a Government of the United States publication, Debates of the Constituent Assembly of India, Reserve Bank of India Bulletins etc., as well as the second hand source - materials like relevant books, journals, seminar papers, paper-cuttings etc..

This study, the purview of which is limited to the federal grants to States in India and does not take into account grants given to the local self-governing bodies, can, in fact, claim uniqueness in two broad respects. First, it makes an almost upto-date review of the working of the system of grants-in-aid in India; Second, it provides an explicit framework of reference through the help of which phenomenon like federal grant may be seen from an interdisciplinary perspective.

C. The Conceptual Framework

The concept of balance of power in any study of federalism is an easily discernible phenomenon since a federal system involves a combination of "independence" and

"inter-dependence"⁽³⁵⁾ as its hall-mark. The balance of power approach to a study of union-state relations in a federation may be said to be "more analytical than prescriptive or narrative".⁽³⁶⁾ In such an approach, policy conclusions can always be drawn, but only in strict relevance to the analysis. "The basic premise of the approach is that every society can be looked upon as a balance of power system. The balance may be stable or unstable, static or dynamic, functional or dysfunctional. Analysis of the given balance of power does not suggest its approval or disapproval, though to change or make a balance work towards the achievement of definite objectives can not be ruled out".⁽³⁷⁾

From this standpoint, a written constitution does no more than provide a framework, ground rules, set of restraints or stimuli for the power system and political activity. "Power centres may have constitutional as well as extra-constitutional legitimacy".⁽³⁸⁾ No hard and fast rules are there as regards division of power between different levels. Even a most thoroughly "written constitution can not create a stable structure of power because new centres of power keep emerging all the time challenging the old ones".⁽³⁹⁾ In the process of development of a national phases of conflict between constitutional provisions and socio-political realities are not very rare to occur. It is wellknown that the Constitution of



India has provided for a fairly elaborate patterns of relationships and distribution of administrative, legislative, financial, legal and other powers between the Centre and the States. Yet none can deny that fresh and often serious problems and difficulties keep cropping up everyday here in the Indian political system.

"The relations between any two power-centres are not totally autonomous but are jointly determined along with other power relationships in the system as a whole".⁽⁴⁰⁾
Hence no study of a power-relationship is complete without some references to allied power-centres. Again, the power-centres "have their internal dynamics".⁽⁴¹⁾

Furthermore, any "study of power-structure must choose some important and major foci polarizing power to the exclusion of scores of minor ones which also have their role but do not seriously modify the system".⁽⁴²⁾
In any country, particularly if it is a federation, there is always "particular balance of forces on which the system rests".⁽⁴³⁾ The idea that society is based on a balance of power requires one to assume that the units in the balance are of sufficient, if not of equal power.⁽⁴⁴⁾

For any study of a federal system two easily identifiable types of power-balance may be taken into consideration. In the first place, horizontal balance of

power between Executive, Judiciary and legislature and also among different units or regional governments. ⁽⁴⁵⁾ It is well recognised that in a federation "one way of dividing power could be on a regional basis" ⁽⁴⁶⁾ says Kuzal and Meyer. According to G.Thimmaiah, the existence of economic inequalities between the States in federation is such that, if they were all to have equal standards of public expenditure from their own revenue sources, some of them would have to set their taxes and other charges at a higher overall level of severity than others - a state of affairs which may conveniently be described as inequalities of fiscal capacity, which in turn results in shifting of horizontal ⁽⁴⁷⁾ ~~(economic)~~ balance of Power in a federation. Throughout this study, we have used the term "horizontal balance" in this sense. On the other hand, a "vertical balance" between Centre or Union and States and Local Governments" ⁽⁴⁸⁾ may also be discerned in a federal system. Moreover, ~~Prof.~~ J.D.Sethi has conceived of a "Diagonal" balance between "pressure groups, classes, caste clusters, communal groups and their ruling elites" ⁽⁴⁹⁾ in India. In our country, this balance of power may be stated to be dependent "upon the balance between (i) constitutional and extra-constitutional power-structure; (ii) centralizing and decentralizing forces;

and, (iii) the states and changes in the total national power".⁽⁵⁰⁾ Broadly speaking, a number of forces such as emergency provisions, party system, and administrative directions from the Centre to the units, may account for the existence or disruption of federal balance of power in a country like India, but, like any other federal system of the world, here also, finance and planning hold the key to the power-relationships. In very simple terms, the Constitution desired for India a pattern which sought to create a central authority powerful enough to maintain and consolidate India's political integrity, to secure a rapid and planned economic growth and to give the states an effective autonomous role in different fields of governmental activity.⁽⁵¹⁾ The phenomenon of economic growth naturally involves maintenance of a stable financial system which itself is a determinant factor of federal balance of power. "Finance holds the key to this power-relationship", says an author, "supplemented by several political forces".⁽⁵²⁾ Existence of a symmetry is very essential for a balanced federal system. "Unless there is symmetry, i.e., sharing of Common features by the components of power, federalism can not offer a solution to political problems or constitutional crises".⁽⁵³⁾ In a political system like India where the final regulatory power lies with the Centre this symmetry is perhaps absent

especially in the fields of finance. "The superior financial resources of the Centre in a built-in centre-oriented federal system, and the compulsions of planning have caused an acute imbalance between the available resources of the states and their growing responsibilities in the administration and implementation of plans for economic development and social welfare. The consequence has been a perpetual dependence of the states on central assistance and the growing demand for further grants"⁽⁵⁴⁾ To S. Dasgupta, here in India, "The forces of centralisation were built with care even if unwittingly, by conventions and charisma. The policy of subventions and the development of the Planning process, which made it almost a rule that a large portion of the financial outlay of the nation was to be administered even without the legislature voting these accounts, had in fact sought not only to centralise the decision-making process but also to subvert democracy"⁽⁵⁵⁾

That federalism involves a system of balance with pulls and counter-pulls, was not unknown to the authors of classical federalism. To James Bryce, the problem of every federation is "to keep the centrifugal and centripetal forces in equilibrium, so that neither the planet states shall fly off into space nor the sun of the central

government draw them into its consumes fires". (56) But "what was not clear to the older writers were the factors which influence the balance of power in federal systems. It was also assumed that one level of government can acquire greater power only at the expense of the other". (57) At one time the constitutional division of powers was considered most vital in determining relative strength and weaknesses of federal and state governments. "Thus when the Constitution of India was framed many writers cited the wide range of the Union Government's jurisdiction as indicated in the Seventh Schedule of the Constitution and other centralizing provisions elsewhere in the document". (58) Some of the writers argued that what was important was not the number of powers allotted to either level of government but their importance, while others pointed out to the location of residuary powers. (59)

But it is doubtful whether the dynamics of federal balance of power system can be understood in the light of these explanations. Because experiences in older federations make it evident that causes of this dynamics may remain elsewhere." The powers of the federal and state governments have increased interstitially through the process of interpretation by courts" and "the history of modern federalism shows that federal centralization can

take place along with growing functions being performed by the states".⁽⁶⁰⁾ States, in a federal system today have to perform growing functions with relatively inadequate resources. "In all federal systems, the federal government has greater and more elastic resources compared with the functions to be performed, while the State Governments suffer perennially from a shortage of such resources to finance ever expanding development and welfare functions and social services".⁽⁶¹⁾

Underlying the structure of power in the Indian federal system and the politics of bargaining are the hard economic realities of the country. The "states have been left with all the rigid and unproductive sources of taxation, rendering them financially dependent on the centre"⁽⁶²⁾ and thus tilting the vertical balance automatically in favour of the Union Government although it "must also be said that the states must have shown little initiative in tapping fresh sources of revenue".⁽⁶³⁾ Nobody can deny that States in India differ greatly in area, population, density, per capita income, net savings and contribution to the national economy through income tax and productivity". These aggravate other elements of regional imbalance in literacy and education, administrative efficiency and urbanization.⁽⁶⁴⁾ "It would thus appear that the larger

States are able to exercise a greater influence on the Union".⁽⁶⁵⁾
"But the smaller states present the real problems for the units are in competition with each other, the smaller and relatively more backward states seeking to emulate the more advanced ones".⁽⁶⁶⁾ Hence, Arthur W. MacMahon's idea of federalism that "it does seem crucial for the health of the federal principle that no one constituent area should be so preponderant in population and resources that it could prevail over the others".⁽⁶⁷⁾ However this can hardly be said to be present here, in India. This "aspect of the Structure of Power"⁽⁶⁸⁾ provides a significant factor in understanding the dynamics of a horizontal balance of power in the Indian federal system.

The non-correspondence between resources and functions of different layers of government in a federal set-up has become almost "inherent characteristics of all federations of the free world" and this fiscal problem of federalism may legitimately be "theorized" as vertical fiscal ~~problem of distribution~~ imbalance.⁽⁶⁹⁾ While horizontal federal ~~imbalance~~ imbalance is caused chiefly by the existence of economic inequalities between the States in a federal system.⁽⁷⁰⁾ In order to correct these imbalances among the federal power-units, the systematic measures that are generally used

are tax-sharing, grants-in-aid, and debt adjustments - as forms of federal fiscal transfers. ⁽⁷¹⁾

When financial resources are transferred by the national government from its budget to the budgets of the governments of the constituent units in a federation, they create some effects on the budgets of the constituent units and influence the economic policies of the national government. The former type of effects may be termed as budgetary effects of federal fiscal transfers and the latter type of effects may be termed as economic policy implications of federal fiscal transfers. ⁽⁷²⁾

Again, in any theory of fiscal federalism, two sets of economic policy implications are involved. These are (i) the policy of reducing vertical and horizontal federal fiscal imbalances as also vertical and horizontal federal fiscal overlappings, and (ii) the policy of efficient allocation of national resources, redistributing income and wealth, stabilizing national output, prices and employment and promoting rapid growth of output. ⁽⁷³⁾

The first set of policies are the fiscal objectives of the transfer of federal financial resources wherein involved the important phenomenon of grant-in-aid as one of the devices of regulating federal balance of power.

D. An Overview of the Existing Literature.

In making a brief survey of the existing literature on the subject of this study, the discussion should revolve around two aspects : (i) the system of grants-in-aid in India and (ii) inter-governmental relations and the federal balance of power in India.

(1) The Reports of the various Finance Commissions that have worked so far (seven such commissions have reported, the last being in 1978) are invaluable documents about the system of grants-in-aid in India. The Report of the First Finance Commission, 1952, contained, inter alia, a historical survey of the working of federal finance in India. Subsequent Finance Commissions have also made necessary references to grant phenomenon. References and data relating to non-statutory grants are also available in various Reports of the different Finance Commission along with those about statutory grants which are the main concern of the Finance Commissions. The Seventh Finance Commission in its Report in 1978 has furnished valuable statistical data about statutory, Plan and non-plan, non-statutory federal grants. This, in fact, had lessen the dependence of the present study on Reserve Bank of India Bulletins and the Reports on current and Finance, published by the Reserve Bank of India.

The grant-phenomenon in India has been extensively considered by the Administrative Reforms Commission in its Report on machinery for Planning, March, 1968 and in its final Report of June, 1969. Besides, the two Study Teams appointed by the A.R.C., viz., Study Team on Centre-State Relationships and Study Team on Financial Administration, in their Reports in September-October, 1967 and in May, 1967, respectively, have made important references to the working of the system of federal grants in India. Though the Finance Commissions do not have anything to do with inter-governmental balance of power and the sole concern of the A.R.C. had been the administrative reforms of the Government, their Reports are always significant primary sources for any serious study of a subject like this one.

Turning to the secondary sources, the first book material that attracts ~~our~~ attention is "The system of grants-in-aid in India" (1959) by P.P. Agarwal. This small book, is perhaps the first remarkable comprehensive work on the phenomenon of grants in India and useful for knowing the nature and perspectives of federal and local grants-in-aid in India and abroad. But this is purely an economic review of the facts most of which have become outmoded today by the wave of time. Still it may be regarded as a starting point of the subject concerned.

G.Thirumalaiah's "Federal Fiscal Systems of Australia and India" (1976) is a remarkable recent analysis of various aspects of fiscal federalism in Australia and India in comparative perspective. It has made important incidental references to the phenomenon of federal grants in its theoretical as well as operational moulds. It has also made significant observations and suggestions regarding restructuring of the system of grants-in-aid and other fiscal instruments in India. But this is also a study made from the standpoint of Economics and it does not indicate any 'trend' having impact upon the working of the Indian federal system and therein lies its difference with the present study. ~~©~~

The aspects of Plan-financing and Planning in India and their mutual effects have been very competently shown by Aniya Chatterji in her "The Central Financing of State Plans in the Indian Federation" (1971). This study is indebted to their work especially for discussions regarding Plan assistance given by the Union Government in India to the States. However, the scope of this book is limited to various sides of Planning in India. The consequent political implications have not been taken into account by the author.

On aspects of federal finance, B.P. Adarkar's "Principle and problems of Federal Finance" (1933) is a

classic work where one may have references regarding theoretical position of the grant phenomenon. S.P.Aiyar's "Federalism and Social change"(1961) is a similar work but in addition it provides for an account of the working federal grants abroad. Another work of the same class is "The Theory and Working of Union Finance in India"(1956) by R.N.Bhargava. A.H.Dirch's "Federalism, Finance and Social legislation in Canada, Australia and United States"(1955) makes important review of the pre-war (World War II) and post-war developments in the fields of federal legislations and finances in Canada, Australia and the U.S.A. in comparative perspectives. This is a very helpful work in understanding the trends of federal finance in general. B.R.Misra's "Indian Federal Finance" (1963) is an unavoidable secondary source for one, interested in knowing the evolutionary aspect of federal financial relations in India in various fields including federal grants.

An article by B.H.Ganguli, entitled "Federal Financial Relations in U.S.A., Canada and Australia and their lessons for India", in "Changing India"(1961) by N.V.Sovani and V.M.Dandekar (eds), is helpful for its comparative discussions relating to grants. M.J.K.Thavaraj's article in "Aspects of administration" by A.Avasthi and S.N.Varma (eds.) (1964), entitled "Grants-in-Aid in

"Historical Perspective" will provide one with a good, brief account of the nature and development of grants-in-aid in India and abroad. M.J.K.Thavaraj's another important article for this purpose is his paper on "An Assessment of Centre-State Financial Relations", submitted to the All India Seminar on "Centre-State Relations" held in the University of North Bengal during April, 1978. A recent work by the same author - "Financial Administration of India" (1978) contains important discussions on federal grants in India.

Various references towards discretionary fiscal transfers from centre to the States in India including statistical data are available in a remarkable seminar paper by K.K.George, submitted to the 5th All India conference of the Indian School of Social Sciences, Calcutta, hold in January, 1978. The title of the paper is "Centre-State Budgetary Transfers in India : Non-statutory, Non-Plan Transfers, 1956-77".

"Federal Financial Relations" - a reprint from the Journal of Constitutional and Parliamentary Studies", Vol. VIII, No.4, October-December, 1974, published by the Institute of Constitutional and Parliamentary Studies, New Delhi, contains some valuable articles on the working of the Finance Commissions and the system of grants-in-aid in India and abroad.

On the working of the system for grants - aid in the U.S.A., Canada and Australia, a plethora of good works are available. Report of the Advisory Commission Inter-governmental Relations in the U.S.A., Vol.I, October, 1967, (Washington D.C., Govt. Printing Office), which had been utilized in this study, is a comprehensive first-hand source material for any researcher in this field, Anita S. Herbert's "Federal Grants-in-aid-Maximizing Benefits To The States" (1976) is an important path-finding analysis showing how States respond to the inducements of the grants system in the U.S. federal set-up. R.A.Dawson's Classic book "The Government of Canada" (1967) and J.D.B. Miller's noted work "Australian Government and Politics (1966)" contain important discussions on grant-phenomenon in Canadian and Australian federal system respectively. J.A. Maxwell's "Federal Subsidies To the Provincial Governments in Canada (1937)" is a classic account of conditional and unconditional grants in Canada with references to the problems of Canadian federalism. "Australian Government Today" (5th Ed., 1957) by Geoffrey Sawyer is a brief survey of Australian government and politics with references to the system of grants there. In any study of grants-in-aid in Canada and Australia, Report of the Royal Commission on Dominion-Provincial Relations (the Rowell-Sirois Commission, 1940) of Canada and the Reports of the Commonwealth Grants Commission of Australia must be taken

into account.

(11) Federalism and intergovernmental relations involve an extensive area of study. But these ^{one's} concerns should be for materials containing the notion of intergovernmental balance of power in India and abroad so that the matters may be utilized for a suitable framework necessary for the present study. From this standpoint, S.P.Aiyar's article "The Structure of Power in the Indian Federal System" in the Journal of constitutional and Parliamentary Studies, Vol.III, No.4, 1969 (New Delhi) and J.D.Sethi's article entitled "Union-State Relations - A Balance of Power Approach" in S.H.Jain, S.Kashyap and N.Srinivasan's (eds.) "Union and the States" are of immense help, S.H.Ray's paper entitled "Grants-in-Aid and Inter-governmental Balance of Power in the Indian Federal System - A comparative Perspective" (subsequently published under the title, "Inter-governmental Balance of Power in the Indian Federal System : A Study of Grants-in-Aid phenomenon in a comparative Perspective" in the Indian Journal of Political Science, Vol.39, No.3, July-September, 1978) submitted to the 5th All India Conference of the Indian School of Social Sciences, Calcutta, in January, 1978, provides a brief but very useful discussion of grants-in-aid in the perspective of federal balance of power with comparative references. But, obviously, it is not a comprehensive study.

Among other important sources on federalism with references to its balance of power aspect, mention must be made of Morton Grodzin's "Centralization and Decentralization in the American Federal System" in "A Nation of States" (1963) by R.A. Goldwin (ed.), and A.W. MacMahon's "Federal Problems and Tendencies - A Comparative Study" in the Journal of Constitutional and Parliamentary Studies (New Delhi), Vol. III, No. 4, October-December, 1969.

Of the other book materials, "Cooperation and Conflict-Readings in American Federal System" (1969) by D.J. Elazar, R.B. Carroll, E.L. Levine and D.S. Angelo (eds.) should be pointed out in this context which contains some important articles on federalism and its American way of application. "Inter-governmental Relations in India" (1966) by Anil Ray has made remarkable references, among other things, to the aspects of inter-governmental balance of power and grants-in-aid in India. In M.C.J. Vile's "The Structure of American Federalism" (1961), one may have some indications about how the phenomenon of federal balance of power may operate in a major political system.

Thus, as is revealed from above, it appears that no comprehensive work on the system of federal grants in India has been done so far in the framework of vertical and horizontal

federal balance of power with a view to showing some clear trends. From this standpoint the present study may be considered as a modest attempt to provide new interpretations to the facts which may be easily explored from the primary sources like various Commission reports, bulletins, official report of the constituent Assembly Debates etc..

E. Plan of the Study.

The present study is to be interwoven into ten relevant chapters. The First chapter, to which present section is also part, seeks to bring out introductory aspects of the study including its objective, introductory analysis, the conceptual framework, an overview of the existing literature on the subject concerned and the plan and method followed in the Study.

In chapter II, the purpose is to discuss the nature and perspectives of the federal grants-in-aid including the definition, forms, basis, advantages and disadvantages of it - which are necessary for a basic understanding of the phenomenon of grant.

In chapter III, discussions will be launched on the evolution and working of the system of federal grants

in major political systems of the world. For this purpose three federal systems will be chosen for certain concrete reasons and in this chapter the case of the United States of America will be taken into account.

In continuance of the foregoing chapter, the evolution and working of the grant phenomenon in two other federal systems - Canada and Australia - will be considered in Chapter IV.

Afterwards, in Chapter V, as a prelude to the main discussion, the purpose is to make a review of grants-in-aid in India in its historical perspective with necessary references to the evolution of federal ideas in the country till the dawn of the present constitutional system.

In chapter VI of this study, the nature of the Indian federal system and inter-governmental balance of power will be taken into account and the constitutional pattern relating to federal grants in India will also be discussed.

Chapter VII will deal with the organization and functions of the grant-mechanism in India and will make an attempt to find out the difficulties, if any, of the system so that suggestions for some readjustments may be made at the end.

In Chapter VIII, criteria governing various federal grants in India will be considered as a basis for the operation of the grant-mechanism in India.

Chapter IX will deal in detail with the operational variety of the system of grants-in-aid and will try to assess its impact on the maintenance of inter-governmental balance of power in India.

Finally, in Chapter X, our purpose will be to summarise the foregoing facts and make relevant observations and suggestions for a probable restructuring of the system of "grants" in India which might be conducive to a more fair and desirable inter-governmental power-relationships in the country.

F. Methodology.

The methodology followed in carrying out the present study has been, broadly speaking, the traditional one. Reliance has chiefly been placed here on the primary sources like various Commission-reports, Constituent Assembly Debates, Lok Sabha and Rajya Sabha Debates, Reserve Bank of India Bulletins and similar other

Government publications. Secondary sources, like book materials, periodicals and journals, seminar papers and paper-cuttings etc., have also been extensively used as and when required.

In enumerating various aspects of the present study, the historical and the comparative methods have been utilized for looking into the evolutionary phases of the grant phenomenon in different federal systems including India. Comparative approaches have naturally found its place whenever 'assessments' and similar aspects came in. For analysing factors like the 'balance of power' framework, the grant-mechanism etc., observational method has obviously been resorted to. In the analysis of the operational variety of the grant phenomenon one has to depend on available statistical data.

A very modest but sincere attempt was made to supplement the above methods by an empirical opinion-survey through interview, on the basis of a prepared questionnaire, of the bureaucrats and other high-level Grants-administrators. A number of such top functionaries was approached for this purpose, but, regrettably enough, only one of them responded to this appeal, and others failed to oblige on various grounds.

Some of them pleaded ignorance of the constitutional and financial implications, while some of them declined for lack of time, and one or two bluntly refused. This has been a most unfortunate and disturbing experience and exposes the severe constraints which have to be faced by a researcher in this country even now. Nevertheless, the responses received from the lone official have been inserted and utilised in the relevant places. This does not detract from the quality of the work or the merit of the findings, since this was merely an additional effort and not a part of the methodology on the basis of which the proposed study was originally undertaken and completed.

Thus, it appears that it is possible to deduce some clear trends about the subject of this study on the basis of the outlook, even if a traditional one, that has been pursued in making this study.

CHAPTER I

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