

Centre State Relations in India

Prof. Uday Shankar

Rajiv Gandhi School of Intellectual Property Law

Indian Institute of Technology, Kharagpur

Week 07: Grant-in-aid, Discretionary Grant, Borrowing, Inter State Council, Zonal Council, NITI Aayog

Lecture 31: Grants-in-aid (Art 275)

Greetings to all of you. We are discussing financial relations and in that we have discussed the constitutional design on distribution of revenue between the Centre and the States. We have also discussed that how the constitution has interested the responsibility upon the Finance Commission to design the formula on which the division of revenue shall take place between the Centre and the States. And apart from that we find that in the Constitution we do also have a scheme where it talks about sharing revenues or giving revenues to the States for carrying out development activities in order to ensure that overall development in this country shall be uniform. And that is that is how you find this today's lecture pertinent on that that is how on a Centre State relation there is a provision in the Constitution which in a way ensures uniformity on developmental activities across the States and the responsibility of the Centre to part with its revenue on this matter. So, in today's session we will talk about the grants in aid which comes from the Union to certain States and what is the constitutional mandate for the same and we will also look at it that the constitutional mandate gets ah reference from which provision ah of Government of India Act 1935 and how the same has been deliberated in the Constitutional Assembly Debate, what are the factors which were taken into account while formalizing and institutionalizing the provisions with regard to grants in aid under the 1950 Constitution.

Now grants-in-aid when you look at it what it basically indicates is that that every State has got an asymmetrical capacity to generate revenue, but then the expenditures are well defined. So, it may happen that the enough resources are not generated by the States by the same time they do

have a responsibility to commit to the welfare of the people and in that regard they have to undertake developmental activities and for that they need to look for funding from different sources and when you when you say funding from different sources the Constitution creates a design where allocation is done by the Finance Commission or there is a provision of a statutory grants, there is a provision of discretionary grants and at the same time there can be procurement of credit from different sources that this is something where this kind of opportunities to be avail this kind of you know schemes to be avail for filling the gap with regard to revenue and responsibility scenario. So, what you find is that that grants-in-aid is a sort of assistance which the State gets to meet their expenditure especially which is made for socio economic developmental agendas for example, education, health, infrastructure and social welfare and why this kind of grant becomes very important in the constitutional scheme and more so in the scheme of Centre State relation. So, that as far as developmental activities are concerned as well as far as developmental aspirations are concerned there has to be some balancing done where in the reasons it is not that one State shall be very developed on socio economic indicators and other lags behind because of lack of resources and that is why you find that the idea of grant-in-aid is provided in the Article 275 which says that essential services to the citizens must be ensured regardless of the fact that which territory which locality they are which State they are residing in.

So, grants-in-aid has got an important feature in in the federal setup first one is that it removes inter regional disparities in resources if you can recall while discussing earlier sessions on financial relation we have talked about a kind of asymmetrical financial positions among the States may be because of the availability of resources, may be because of the location of that State, may be because of the industrial growth taking place in that State because of that all these factors every States are not situated at par every States are not in a position to generate revenue in a very uniform way and that is why what it does is that this grants-in-aid is a process, method through which whatever is the inter regional disparity that get addressed through the additional grant given by the Central government. It also encourages units to improve particular services as I said that essential services are to be provided to citizens regardless of the fact that which State they are residing in and in such situation grants-in-aid in a way encourage the States to make a plan so that essential services are to be made achievable and attainable to the people of the

States. It also addresses the issue of national objective of having kind of minimum threshold developmental activities. It is also to do with kind of the national agenda which is in fixed on socio economic activities, infrastructural activities. So, in order to address that this grants-in-aid come as a kind of contribution for the States to contribute to that national objective, contribute to that national agenda which has to do with the socio economic development. So, it and then you find that it is also in a way a measure where Centre controls certain aspects of activities undertaken by the State because the money comes from the Centre.

So, Centre decides in a way that what kind of developmental agendas the State is following and Centre in a way monitors it. So, there is a control of the Centre on certain measures with regard to that. It also does a kind of balancing in all political system. So, because this is a constitutional mandate regardless of the system is in place, the government is in place having affiliation to with one or the other political party. The mandate categorically says that the Centre must share the revenue, apart from what has been suggested by the Finance Commission on the distribution aspect, to address the short fall, to address issues of undertaking economic and social activities by that State.

So, that way it balances that factor of political systems because of constitutional mandate .Centre is bound to step in for the larger welfare of the people. Then further it says that it adjust ah adjustments arising from the allocation of relatively elastic sources of revenue to the Central government. So, when you look at it there is a there is a revenue source and then there is expenditure. Now when you look at the scheme of revenue expenditure arrangement under the Indian Constitution you find that Centre is having a better leeway to generate more revenue, but then expenditure is there with the States to address the issues of public needs, social needs. And in order to match that in order to see that that States fulfill the responsibility and enough resources are there to meet the expenditure this grants-in-aid plays a significant role.

And the last one is that grants-in-aid also makes an important contribution in welfare functions of the units as I said that social development, social justice involves cost intensive kind of program and grants-in-aid comes into rescue as a support base for carrying out such welfare functions particularly in marginalised area, particularly in tribal areas which will be discussing that how that is what is given under the Constitution and particularly with relation to Article 275.

So, when you look at the type of grants under the Indian Constitution, one is mandatory one, other is the discretionary. Article 275 which we are discussing now is a mandatory grant, Article 282 talks about discretionary grant which will be studying in the next module. So, in grants-in-aid which is mandatory as I said that when you connected with the constitutional mandate you would find that this is a very thoughtful design given by the framers where whatever is allocated to the States if you still there is a shortfall and that shortfall is somewhere affecting adversely affecting the developmental agenda of the States then responsibility lies on the Centre to again step in in form of grants-in-aid that is what mandate of Article 275. So, grants-in-aid is generally been given to offset a residuary fiscal disadvantages of the States which is determined by the Finance Commission. So, when you say residuary fiscal disadvantages what it mean that that State does not have enough capacity to generate resources, to meet the responsibility to ensure expenditure as it is expected under the Constitution and in that case this grants-in-aid come as a kind of offset mechanism to ensure the same.

And then further it says that grants-in-aid is in a way expedites the standard specified services to a benchmark level to a to a kind of minimum threshold which is a kind of pan-India feature and that must not be overlooked only based on resource capability of one State over another State. So, that is there where the grants-in-aid play an important role and this grant under Article 275 is generally made with a recommendation of Finance Commission that recommend that what kind of revenue sharing should be done under Article 275 of the Constitution that is why when if you can recall when you are reading the responsibility of the Finance Commission one responsibility we read that that grants-in-aid of the revenues of the State is also the responsibility of the Finance Commission and it is the Parliament which has been entrusted with the responsibility to fix different grants-in-aid for different States and that certainly Parliament has to do based on the recommendations which are given by the Finance Commission. So, this is a kind of historical genesis of grants-in-aid.

So, Section 142 of the Government of India Act dealt with grants-in-aid and Section 140 said that it is the Majesty in Council which shall give the necessary sum from the revenues which are generated by the Federation to the Provinces and which such sharing of revenue shall be done by the Majesty in Council under Section 140 as grants-in-aid. It shall be determined in the need of assistance and different sum can be different to different provinces. So, it is not that there is a

kind of uniformed allocation of revenue happening to the States. For example, the States which are backward which are tribal populated they may be given more money in comparison to the States where tribal population is not in good number or States which are already industrially already performing better on parameter of industrial growth. But then as I said that even in 1935 Act it was provided that with regard to North West Frontier Province, no grant fixed under the Section shall be increased by a subsequent order unless an address has been presented to the Governor General by both the Chambers of the Federal Legislature for submission to his Majesty praying that the increase may be done.

So, you can very well look at that grants-in-aid was something different from the standard recommendation made by the Finance Commission with regard to sharing of revenue which happens once the recommendation is given that accordingly the State shall be entitled to get a defined support from the Centre. Here it grants-in-aid depends on varied consideration which is generally when decided by the Parliament under 1950 and in the 1935 Act it was by Majesty in Council and then certainly it talks about the role of the Governor General. Now when the matter was being discussed ah under the Constituent Assembly Debate it was being debated that how shall we really look into it ah because this is something on which the State is looking forward the support is of great help to the State for carrying out the socio economic agenda to carry out the important developmental activities and therefore, it has been categorically provided that this shall be determined by Parliament. So, Parliament shall make a law that is what was being debated and also it said that let it be charged on Consolidated Fund of India. So, that a kind of certainty is been assured on grants-in-aid and which Parliament shall define in a very categorical term. So, though some of the members have also proposed that as far as the concern of areas which are tribal populated they should be compulsorily compensated for expenditure incurred because obviously, in those areas the State shall be spending more for improving the socio economic conditions for preserving and protecting the culture of those regions and therefore, it was suggested that let those a whatever is expenditure is being incurred let that be compulsorily you know compensated by the Union through grants-in-aid.

Further, it was also said that for the State of Assam where at that point of time the State of Assam was catering a large population of tribal States and therefore, it was provided that a State of Assam should have a separate provisions with regard to grants-in-aid. So, what was suggested

in Constitutional Assembly Debate was that that it shall be determined by the Parliament and the President shall have a least say on this matter and it was also suggested that instead of revenue of the government it should be categorically indicated that grants-in-aid should be charged from Consolidated Fund of India that is what it says. So, this is how Article 275 has now featured after being debated in the Constituent Assembly where it categorically says that the Parliament shall decide that what sum is to be defined as grants-in-aid for a particular State and that shall be charged on the Consolidated Fund every year and that shall be as a grants-in-aid of the revenues of such a State. So, it will go to the States, but then if the Parliament we shall broadly determine and the general power to provide the grant is left on the Parliament. So, it is something where there it is expected that the developmental parameters or indicators of the State should be discussed and deliberated on the floor of the House and based on such deliberations and discussion the Parliament shall decide without any biasness without any kind of partiality in terms of ah allocating grants-in-aid.

So, that is what becomes very important specific grants-in-aid is also there with regard to tribal State that where it says if the tribal populations are there in the States then a special grant shall be there for the welfare of Scheduled Tribes and the administration of Scheduled Tribe Areas. Then with regard to Assam it again says that a special grant should be there for the State of Assam particularly because of the tribal States which are now divided into different States in ah North Eastern regions. So, Assam shall be getting special grant with regard to development of the tribal areas and these grants are to be given if the scheme are undertaken by the State has an approval of the Central government. So, that is very important that it is not that the State government can make the scheme and then start implementing it. The grant shall be made available to States only when the scheme made by the State government has got approval from the Central government. So, you can very well see that there is a central control on the issue of grants-in-aid even with regard to the areas which are there to be looked into on the issues of developmental activities. So, that is what is very significant when you when you look at the grants-in-aid provisions under the Constitution.

So, as there is disparity in generating resources between the States grants-in-aid becomes very important because that States do not have a kind of capacity on parity basis to generate revenue and therefore, they cannot have enough resources, but at the same time when it ~~log when~~ you

talk about the obligation of the States, responsibility of the States, you find that they do have same responsibility as interested upon the Constitution. So, that becomes that becomes very important and there only the grants-in-aid becomes significant because that in a way fills that gap for meeting the expenditure. So, this is sort of you need to understand a Central Sector Scheme where there 100 percent grants is provided to the States where Scheduled Tribe population is there. The grants are also provided to the States on the basis of the tribal population in the State to the total tribal population to the country and grants also become important where the responsibility lies with the States, but the Union has given the constitutional duty particularly with regard to Directive Principles related to welfare of Scheduled Caste and Scheduled Tribe and the provision related to Article 339. So, when you look at this you find that under Article 275 there are two schemes let down one scheme which talks about the resource disparity and grants-in-aid come into play to support the State from the Centre and second is a specific grants-in-aid which is addressing the tribal population, the welfare of Scheduled Tribe. So, these are two broad areas which are being addressed under Article 275.

So, that is what a scheme when you look at it says that once the Finance Commission becomes comes into existence then grants-in-aid shall be determined on the basis of the recommendation done by the Finance Commission that is what the Parliament shall keep in mind. Article 275(2) says until provision is made by Parliament under Article 275(1) the power conferred on Parliament shall be exercised by the President. So, it says that if Parliament is not determining by law then obviously, it is the President we shall do, but then that shall be a kind of not that shall be kind of interim measure because ultimately the responsibility is given to the Parliament. So, any order made by the President under Article 275(2) shall have effect subject to any provision so, made by the Parliament. So, it is the final prerogative is given to the Parliament with regard to determining that how the grants-in-aid shall be divided or distributed among the States. How this accounting of grants-in-aid is done when you look at it grants-in-aid may be given in cash or in kind, in kind means where a Central government may create a capital asset and hand it over to the hand it over to the States

So, it could be in the form of cash or it could be in the form of kind, but both are to be accounted as revenue expenditure in the books of grantor irrespective for the purpose for which it has been given. And it further says that grants-in-aid expenditure is exhibited in the budget and accounts

at the lowest level of disaggregation, i.e., an object head. The 2008-09 expenditure of the Union government on grants-in-aid was recorded under single object head that is 31 grants-in-aid. Now, the practice which is followed is you find that there are 3 heads – 31-grants-in-aid general, 35-grants for creation of capital assets and 36-grants-in-aid towards salaries. These are the current pattern followed for accounting purposes of grants-in-aid. So, how this grants-in-aid affects the Centre State relation? One important point is that Article 275 is very clear that there is a constitutional obligation upon the Union to ensure that expenditure which is the responsibility of the State should not be reason for not taking up the developmental activities by the State only because of the reason that they do not have enough revenue. So, the responsibility lies with the Union to disperse the grants-in-aid.

So, whatever responsibility lies on the State shall be discharged effectively and efficiently. That is something which is an important obligation upon the Union for ensuring a kind of standard developmental activities across the regions in the country. Then it also talks about specific grants-in-aid where a kind of cooperation is required between the Union and the States because it is the plan which the State makes, but that plan requires a kind of approval from the Centre. So, coordination is required and particularly this becomes more important when you look at the subject matter, region focus of the specific grant, i.e., tribal areas or welfare of the Scheduled Tribes. So, that is that is another important kind of cooperation and coordination between the Centre and the States on the matter of improving quality of life of marginalized section particularly the tribal people.

Then next one is parliamentary control envisaged for the grants-in-aid as we have read that under Article 275 it is the Parliament which by law determines that what shall be the grants-in-aid to different States. So, it can vary from State to State depending upon several factors and then there is a Union control over State for assistance. As per the constitutional scheme somewhere it is very clear that that Union is in a better position to generate revenue, but then when it comes to the responsibility the responsibility is more upon the States in comparison to the Union. So, these are the references for this session. Thank you very much.