



**TNPSC GROUP II MAIN**

**STATE ADMINISTRATION**

**ADDITIONAL REFERENCE – SCHOOL BOOK SOURCE**



## STATE ADMIN - SCHOOL BOOKS SOURCE

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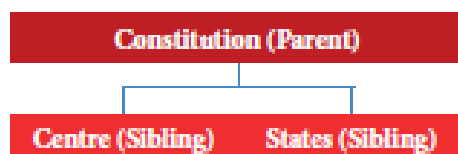
# RELATIONS BETWEEN STATE AND UNION

## Federalism in India

### Meaning of Federalism

Federalism refers to a political system that possess Constitutionally provided and guaranteed distribution of powers between a national government and several regional governments.

#### Meaning of Federalism



### Evolution of Federalism

In the modern world, the United States of America became the first federal State. Thereafter British colonies in Australia and Canada were also granted self government and they too adopted federal forms of government. The trilingual Switzerland similarly adopted a federal form of government. The European Union today another example of federal formation on a voluntary basis.

### Rise of Federalism in India

The beginnings of federalism in modern India could be traced in the Regulating Act of 1773, which brought the three regions in India under East India Company's authority (Madras, Calcutta and Bombay). The Indian National Movement recognized the plural character of colonial India.

The Government of India Act 1919, introduced partial autonomy (Dyarchy) in the Presidencies, while the Government of India Act 1935, granted provincial autonomy to the presidencies and proposed a Dyarchical form of government at the Centre.

The Nehru Committee Report in 1928 and Pandit Jawaharlal Nehru's first proposals of a Constitution favoured a federal structure with more powers for the constituent States. The Seventh Schedule of the Constitution contains the three lists relating to the distribution of powers between the Centre and States.

## **Federal features of Indian Constitution**

### **Indian Constitution possesses several federal features**

#### **Written Constitution**

Federalism requires a written Constitution. There are many governments in any federal system and for their smooth and friction free functioning their powers must be stated in crystal clear terms. There are Twenty Eight State Governments and One national government at present operating in Indian federalism and therefore their powers and functions must be clearly defined.

#### **Supremacy of the Constitution**

The Constitution must be the supreme legal document in the country. All governments must follow the terms and conditions, procedures contained in the Constitution. No government can claim powers above the Constitution.

#### **Distribution of Powers**

The distribution of powers between Centre and States is the cardinal principle of any federal system. Indian Constitution distributes powers between the two levels of governments in a comprehensive scheme. There are three lists of power distribution unlike in the classical federalism of American Constitution where there is only a single mode of distribution.

#### **Bicameralism**

The federal Constitutions provide for bicameralism. It refers to parliament having two houses. Indian Parliament is bicameral as it consists of two houses. The upper house is called Rajya Sabha or Council of States while the lower house is known as Lok Sabha or House of the People. The Council of States is the guardian of States' rights and it consists of the representatives of the States. All over the world the upper house is deemed to be the protector of States' rights and interests.

#### **Rigidity of Constitution**

A Constitution will be called a rigid Constitution if its provisions can be amended only through a special process of Constitutional amendment or through a separate amendment body and not through ordinary legislative process. Federal Constitutions do not permit Constitutional changes through ordinary legislative process. They prescribe a tougher, rigid process of amendment like greater majority. The rationale behind this rigidity is the desire to protect States' rights. The article 368 in Part XX Indian Constitution provides

a separate amendment procedure for amending Constitutional provisions and therefore our Constitution is rigid one and to some extent protects the States.

## **Supreme Court**

Indian Supreme Court acts as the umpire of the federal system and protector of the Constitution. It possesses the powers of interpretation and adjudication. If any disagreement or contradiction arises among the Central and State Governments the Supreme Court resolves them. The Constitution endows the Supreme Court with Original Jurisdiction. It means that the Supreme Court alone possesses the exclusive powers to resolve any federal dispute between Union Government and State governments or among State governments. If a problem arises between Tamil Nadu and Union Government or between Tamil Nadu and any other State only Supreme Court has powers to resolve it.

There are important differences between Union of States and Territory of India. Union of State refers to the twenty eight states and Central Government.

Territory of India means:

1. Twenty Eight States
2. Nine Union Territories
3. Acquired Territory (Any territory acquired by India like Pondicherry, Daman Diu after they became part of India and before they were made Union Territories)

## **Unitary or Non-Federal Features of Indian Constitution**

Indian Constitution differs greatly from the concept of federalism followed in the classical federal Constitutions like the United States

### **Single Constitution**

India possesses only one Constitution that caters to the needs of administration both in the Centre and States. Like the United States the individual States possess their own Constitution in addition to the national Constitution.

### **Single Citizenship**

There is only one citizenship, exists in India, i.e. national citizenship. In the United States the citizens are endowed with both national and State citizenships.

## **Flexibility of Constitution**

Indian Constitution is partially flexible. Some of the provisions of the Constitution can be carried out by a simple majority in the Parliament.

## **No Right to Existence for States**

Our Constitution doesn't recognize the right of the States to name and existence. The union parliament can change the nomenclature and territorial identity of the States through an ordinary law. The articles 3 and 4 of the Constitution provide the procedure for the creation of new States and abolition of the existing States. An ordinary bill is introduced in either House of the Parliament for creating a new State or changing the name on the recommendation of the President. The bill is discussed and passed in Parliament leading to the creation of new States. A simple majority in Parliament is the requirement for reshaping the identity of the States.

## **Anti-Federal nature of Rajya Sabha**

There are three reasons and areas where critics have criticized it as being against the States' rights and federal spirit of the Constitution.

There is no equality principle followed in the distribution of seats in the Council of States. The seats are distributed on the basis of population of the individual States. The most populous State of Uttar Pradesh has 31 seats whereas the smaller States like Nagaland have only one seat. But in any ideal federalism there should be equality of seat distribution in the upper house as seen in the United States where all the fifty State have two seats each in the upper House of Congress (Parliament) the Senate.

### **Tamil Nadu has 18 Seats in the Rajya Sabha**

Article 249 of the Constitution enables the Rajya Sabha to transfer a subject from the State List to the Union list for the purpose of legislation by parliament on grounds of national interest.

## **Imbalanced Distribution of Powers**

The Union Government is endowed with comparatively greater powers both in terms of quantity and quality. Most of the lucrative sources of revenue have been allotted to the Union Government and the States have been rendered financially weaker and forever dependent on Central Government. The Union List has more subjects than the State List and in the Concurrent List ultimately

the union power over the States will prevail. The residuary powers are given to the Union Government and not granted to the States as in federal countries like the United States.

### **Emergency powers**

The articles 352 to 360 in Part XIII of our Constitution provide for three kinds of emergencies in India. Article 352 of the Constitution can proclaim National Emergency. Under article 356 of the Constitution the President can impose emergency in any State on the grounds of the breakdown of Constitutional machinery in the State. Under article 360 of the Constitution, the President can declare Financial Emergency.

### **Integrated Judiciary**

India establishes a single, integrated and hierarchical judiciary. The Supreme Court is the apex judicial institution and the High Courts and the Subordinate Courts function under its supervision and power. In contrast, the classical federalism is following the United States.

### **Election Commission**

The National Election Commission conducts elections not only to Parliament but also to the State legislatures. There is a unified election machinery in charge of both Parliament and State legislature elections. The Chief Electoral Officer under the control of the Election Commission conducts the elections to the State legislatures. In the ideal federal systems, there is a separate election machinery for conducting elections to the State legislature.

State Election Commission is not part of the federal system in India. It conducts elections to Panchayat Bodies and Urban Local Bodies in accordance with 73rd and 74th Constitutional Amendments.

### **Unified Auditing**

India follows a unified auditing system for both the central and State governments. The Comptroller and Auditor-General as mentioned in article 148 of the Constitution controls the entire financial system of the country.

### **Centre-State Relations**

The Centre-State Relations revolve around the fulcrum of distribution of powers between Centre and States. Distribution of powers is the foundational

feature of federalism and in federal Constitutions there are three types of distributions, they are:

1. Legislative Power Distribution
2. Executive Power Distribution
3. Financial Power Distribution

## **Legislative Relations**

There are two aspects to the distribution of legislative powers between the Centre and States in our Constitution. They are

- a. Territorial Distribution of Powers
- b. Subject Distribution

### **Territorial Distribution of Powers**

The powers are distributed between the union and State governments territorially. The Union Government possess the powers over the entire territory of India while the States have jurisdiction over their own territories. The Central Government has extra territorial jurisdiction that means that its laws govern not only persons and property within India but also Indian citizens and their properties located in any corner of the world. In contrast, the State legislatures do not possess jurisdiction outside their own territory.

### **Subject Distribution**

The Constitution distributes the legislative subjects between the Union Government and States in an elaborate scheme. There are three Lists of distribution.

**List I (Union List)** contains the subjects and powers exclusively allotted to the union parliament. There are 100 subjects here including defense, foreign affairs, banking, currency

**List II (State List)** contains the subjects that are exclusively allotted to the State governments. There are 59 items including public order, and police, public health, local government, agriculture, forests, fisheries

**List III (Concurrent List)** contains 52 items including criminal law and procedure, civil procedure, marriage, education. This list is called as Concurrent List. Both the union and State governments have powers over these subjects.

But when there occurs a clash between the union and State governments the law of the parliament will prevail

There is also another category called residuary powers. Any subject not mentioned in the above three lists will automatically come under the jurisdiction of the Union Government. Our Constitution broadly follows the legislative distribution of powers provided in the Government of India Act 1935 enacted during the British colonial era.

### **Exceptions**

The above scheme of legislative power distribution will be normally followed. But under exceptional circumstances the scheme will be suspended. The power of the Union Parliament will be expanded and concomitantly the powers of the State legislatures will be diminished.

### **National Emergency**

When the President of India declares National Emergency the union parliament acquires the powers to legislate over the subjects in the State List. The emergency is declared by the president to tackle problems like war, external aggression and armed rebellion that pose a danger to the existence of our nation. For the purpose of tackling the challenges successfully and effectively, the Union Government gains control over State legislature powers too.

### **Agreement between States**

When two or more States agree that their mutual interests will be served better if there is common law on a particular subject and request the Union Government to enact the needed law, the Parliament can enact a common law for the desiring States on that subject even if it falls in the List II (State List).

### **International Agreement**

The Parliament will have powers of enactment on a State subject for the purpose of implementing an international agreement.

### **Article 356, Emergency**

After the declaration of article 356 emergency in a State the President can declare that the parliament will enact on State list subjects for that State.

## **Executive Relations**

Our Constitution distributes executive powers between the union and State governments. The distribution is co-terminous with legislative power distribution to a great extent. The Union Government possesses executive powers over the subjects that are included in the List I, namely the Union List. The States have executive powers over the subjects that are included in the List II, namely the State List. The executive power of the Union Government extends over the territory of India while the executive power of the State governments extend over their own territories

The executive powers over the subjects in the Concurrent List is ordinarily with the State governments. Nevertheless, the Union Government retains powers to issue directions to the State governments in the execution of executive functions both in normal times and during emergencies.

Another feature in the executive powers distribution scheme in the Constitution relates to mutual delegation of functions between the union and State governments. The Union Government can entrust its functions to the State government after getting the consent of the State Government concerned. Conversely, the State Government can entrust its executive functions to the Union Government after getting the consent of the Union Government. Moreover, the Union Government can entrust its executive function to the State Government without getting the consent of the State Government concerned but it must obtain the consent of the parliament.

## **Financial Relations**

Finances are very fundamental in the successful operation of federal system. Indian Constitution distributes financial powers between the union and States in a comprehensive arrangement that is broadly modeled on the 1935 Government of India Act. There are two sources of revenue distributed by the Constitution namely Tax Revenue and Non-tax Revenue.

### **Tax Revenue Distribution**

There are five important ways in which the tax revenues are distributed between the union and State Governments.

1. Certain taxes like Corporation tax and Custom tax are exclusively allotted to the Central Government



2. Certain taxes like sales tax are exclusively allotted to the States
3. Certain taxes are levied by the Union but collected and appropriated by the concerned States and the examples are stamp duties on Bills of Exchange and Excise duties
4. Certain taxes are levied and collected by the Union Government but the proceeds are assigned to the States in which they are levied like the taxes on the sale of advertisements in newspapers.
5. Certain taxes are levied and collected by the Central Government and are distributed between the union and State Governments in a certain proportion like the tax on income other than an agricultural income

### **Non-tax Revenue Distribution**

Both the union and State Governments are provided with non-tax revenue sources. The Union Government gets its revenue from the receipts from commercial and industrial undertakings relating to central subjects like Industrial Finance Corporation. It gets its revenue from Railways, Posts and Telegraphs, Broadcasting etc

The State Governments get revenue from the receipts of commercial enterprises and industrial undertaking allotted to them. The sources among others include forests, irrigation, electricity, road transport.

The Constitution understands the greater financial needs of certain States and therefore the article 275 asks the Union Government to provide Grants-in-Aid to the States like Assam, keeping in mind the imperative of the development and welfare of the tribal population.

### **Finance Commission**

The president of India constitutes a Finance Commission once in every five years. The article 280 of the Constitution describes the composition of the Finance Commission. It will have one Chairman and four other members. The Chairman will be a person with experience in public affairs and the members will have experience in financial administration, special knowledge of economics, special knowledge of public accounts and government finances, and one member will have the qualification of a High Court judge.

**Finance Commission will provide recommendations in the following manner:**

1. For the distribution of net proceeds of taxes between the Centre and States
2. Principles governing grants-in-aid
3. Measures needed to increase the Consolidated Fund of India or States to supplement the resources of the Panchayat Bodies
4. Measures needed to increase the Consolidated Fund of India or States to supplement the resources of the Urban Local Bodies
5. Any other matter referred by the president

So far fourteen Finance Commissions have been constituted once in every five years

### **Co-operative Federalism**

The Indian Constitutional expert Granville Austin described (Granville Austin, renowned scholar of the Indian Constitution, described) Indian federal system as Co-operative Federalism designed to promote co-operation between the Centre and States. The concepts of co-operative federalism applies to those federal governments like the USA where the States have more or adequate powers and the formation of the union is based on “the indestructible union composed of indestructible States”. In a quasi federal State like India, the Union Government can very easily pull down any constituent State for non-cooperation or non-compliance or defiance of Union Government’s will through Constitutional provisions, especially through the emergency powers assigned to the President. The Constitution does not permit States defiance to Centre.

There are many provisions, institutions and bodies created in Indian political system to promote the co-operative functioning of the central and State Governments in India. They can be classified into Constitutional, statutory and political bodies and provisions.

### **Constitutional Provisions and Institutions**

The Constitution itself has created a number of devices to promote cooperation and co-ordination.

## **Inter-State Council**

The article 263 of the Constitution says that the President of India can establish the Inter-State Council to serve public interests. There are three functions and duties assigned to the Inter-State Council

- a. To enquire into and advise upon disputes among the States
- b. To investigate and discuss the subjects that are common to the union and State Governments
- c. To make recommendations to the President for better co-ordination on any particular subjects among the State Governments.

A number of councils have been created to promote cooperation on specific subjects in the past like the Central Council of Health, Transport Development Council, and Central Council of Local Self- Government.

The holistic Inter-State Council was established in early nineties to deal with general cooperation among the units of Indian federal system on the recommendation of the Sarkaria Commission. The Prime Minister functions as the chairperson of the council. The Chief Ministers of all the States and Union Territories with Legislative Assemblies, six cabinet ministers of the Union Government, administrators of the Union Territories without Legislative Assemblies and Governors of States under President's Rule are its members. A Standing Committee consisting of the Union Home Minister, five other Cabinet Ministers and nine Chief Ministers also works as part of the Inter State Council to promote co-operation among the members of the federal system.

## **Statutory Bodies**

There are certain bodies created through the statute of the parliament but not mentioned in the Constitution that function to promote cooperative federalism.

## **Zonal Councils**

The Zonal Councils were established by the States Reorganization Act in 1956 to achieve cooperation and co-ordination among States. They were created in the backdrop of linguistic reorganization of India and the first Prime Minister of India Jawaharlal Nehru described their objective as to "develop the habit of co-operative working". Originally five Zonal Councils were created and later on in 1971 one more Zonal Council was established for the North Eastern States. They are

1. Northern Zonal Council
2. Southern Zonal Council
3. Eastern Zonal Council
4. Western Zonal Council
5. Central Zonal Council
6. North Eastern Zonal Council

The Union Home Minister will be the common Chairperson of all the Zonal Councils. Additionally, each Zonal Council will consist of the Chief Minister and two other Ministers of the each State and the Administrator of the Union Territory in the zone.

The Zonal Councils will discuss and suggest measures to promote cooperation among the members in areas like economic and social planning, border disputes, inter-State transport etc.

### **River Board**

The River Boards Act, 1956 establishes River Boards to provide advice to the concerned governments concerned for the regulation of an inter-State river or river valley.

### **Water disputes Tribunal**

The Inter-State Water Disputes Act, 1956 was enacted in accordance with the article 262 of the Constitution that mandated that all inter-State river disputes should be resolved through negotiations. The act provides for the formation of ad hoc tribunals for resolving inter-State water disputes if repeated negotiations prove to be futile in resolving the issue.

### **Political or Resolution Bodies**

#### **NITI AAYOG**

The Union Government created the National Commission for Transforming India after dissolving, 65 year old, the Planning Commission on January 2015. The Prime Minister is the ex officio chairman and the permanent members of the governing council are all the Chief Ministers of all the States, Chief Ministers of the Union Territories of Delhi and Puducherry and the Lieutenant Governor of Andaman and Nicobar Islands. One of the primary objectives of the commission is to “foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis”. It recognizes that strong States will make strong nation. But, without Constitutionally empowering more the constituent States and adequate devolution of revenue

resources, the States continue to remain over dependent on the Union Government, even in matters relating to tackling of natural calamities.

### **Inter - State River Water Dispute**

Inter-State River Water Disputes play a crucial role in the evolution of federalism in Indian politics. There are a large number of such disputes in our country. The Cauvery dispute involving Tamil Nadu, Karnataka, Kerala and Puducherry Union Territory, Vamsadara River dispute involving Andhra Pradesh and Odisha, Sutlej dispute involving Punjab, Haryana, Mahadayi river dispute involving Goa, Maharashtra and Karnataka are the major ones. We have the following dispute settlement mechanism in Indian federalism to solve them.

### **Constitution and Inter - State River Water Disputes**

The article 262 of the Constitution empowers the parliament to enact a law providing for the adjudication of any dispute, complaint relating to the use, distribution and control of any inter-State river or river valley. It also provides that parliament can exclude the Supreme Court or any other court from exercising any jurisdiction over inter-State river water disputes. For this purpose, parliament is empowered to enact a law overriding any provision of the Constitution. The logic of this provision is that inter-State river water disputes contain emotional and economic implications affecting the lives and livelihood of millions of people. Judicial adjudication of the disputes may create social and economic problems. Therefore, the national legislature must have competence to evolve a mechanism for resolution of these disputes through negotiations and direct dialogue.

### **Inter-State River Water Disputes Act, 1956**

Empowered by the article 262 of the Constitution the parliament enacted inter- State river water dispute act, 1956. This act enables the Union Government to establish a tribunal for the adjudication of an inter- State river water dispute. The Indian Constitutional and legal consensus is that all inter-State river water disputes must be resolved through peaceful negotiations. If no fruitful decisions can be reached through negotiations, the States concerned can approach the union for the Constitution of a tribunal on ad hoc basis for resolving that issue.

When the Union Government decides to constitute a tribunal, the Chief Justice of Supreme Court of India will nominate a person to head it. Earlier, the tribunal always used to consist of one person only but later on this provision was amended to include more members. The Chief Justice will choose a person (nominee?) from the sitting or retired Judges of the Supreme Court and High

Courts. The decision of the Tribunal shall be published in the Official Gazette and there after that decision shall be final and binding on the parties to the dispute. Neither the Supreme Court nor any other court shall have jurisdiction over any inter-State water dispute referred to a tribunal under the Act. No tribunal can be constituted for any dispute that has been placed for arbitration under the River Water Board Act, 1956.

In shortly, we can say that our Constitutional, legal and political strategy advocates a dual strategy to resolve inter- State river water disputes. It advocates negotiated settlement as the first choice if negotiations fail to resolve the issues, an ad hoc tribunal based adjudication should be established.

### **Issues and Demands in Indian Federalism**

There are many issues in Indian federalism that create disturbances in the Centre-State relations. We will focus on the major problems in this section.

### **Appointment and Role of the Governor**

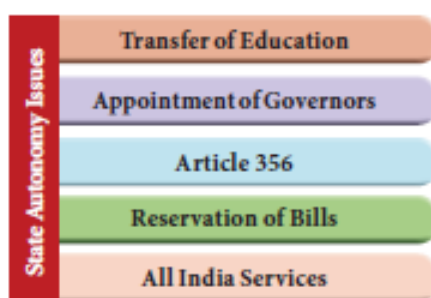
The very office of the Governor as an agent of the Central Government to monitor the State Government imperils the powers of the constituent States. The Raja Mannar Committee Report was highly critical of the office and role of governor. It is often pointed out that the Union Government to arm-twist the State executive. The Dravidian parties, since the days of C.N. Annadurai, have been demanding 'genuine autonomy for the States, by reducing the Governor's power of interfering with the State executive and State legislature.

The regional parties have deprecated the practice of appointing politically active and partisan persons as governors. They have frequently demanded that the governor should be appointed in consultation with the State Government. Many political commentators and commissions have argued for the appointment of eminent persons who have contributed to India's development in diverse fields as governors.

The attitude of the Governor towards the State Governments of those ruled by parties opposed to the ruling party at the Centre is another major tension area in Centre-State relations. Whenever there is a split in a ruling State party or hung assembly, the role of the Governor becomes very crucial and in many instances, the regional and opposition parties have agitated against the decisions of the incumbents in gubernatorial office.

## Education

There is a popular demand that the subject of education must be restored to the List II or State List in which originally it was located. The Parliament in 1976 enacted the 42nd Constitutional Amendment Act that transferred the subject of education to the List III or Concurrent List. The State Governments exclusively had authority over education when it was in State List and the Union Government acquire education after this transfer. As we learnt earlier when a contradiction arises between the States and the Central Government in the Concurrent List the authority of the Central Government or Parliament will prevail. Many political parties in States like Tamil Nadu are demanding the transfer of education back to the State List.



## Reservation of State Bills for Presidential Consideration

The Governor of a State has discretionary power to reserve a bill of the State legislature for the consideration of the President. Whenever a money bill of the State legislature is reserved by the Governor the President may either declare or withhold his assent. In case of other bills, he can declare or withhold his assent. He can also direct the Governor to send the bill for reconsideration to the legislature concerned. Even if the bill is again passed by the State legislature it is not obligatory for President to declare his assent. This provision was incorporated in the Constitution to protect the unity and integrity of India.

But many State Governments have criticized the Governors for reserving the duly passed State bills for the consideration of the President as there were alleged to have been motivated by political considerations to suppress the State Governments and to further the interests of the ruling party or coalition at the Centre.

## Improper use of Article 356

The article 356 in Part XVIII of the Constitution provides for the proclamation of Emergency by the President in any State where there is a breakdown of Constitutional machinery either based on the report of the

Governor or even otherwise. The article emphasizes on the supremacy of the Constitution and national unity and integrity. The State Governments ruled by the opposition parties of the ruling party at the Centre have complained against the frequent and improper use of this article by the ruling party or coalition at the Centre. More than a hundred times, the article has been used to impose emergency in States and in many instances there was a huge complaint that political and party considerations have led to the imposition of the President's Rule. Many regional parties have demanded the abolition of this article. However, since the Supreme Court's judgement in S.R. Bommai vs Union of India case, the chances for misuse of article 356 drastically reduced.

### **All India Services**

All India Services are created under article 312 of the Constitution. The officers to these services are recruited by the Union Government and posted in the States. The State Governments have powers of posting, transfer while the Central Government alone has powers to dismiss them. As the ultimate control over the All India Services are with the Central Government the State Governments have sought changes in the system and the Rajamannar Commission of Tamil Nadu government suggested a complete revamping in the structure and position of All India Services.

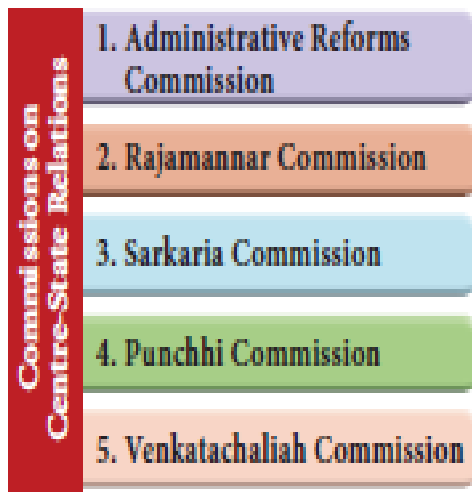
### **Commissions on Centre-State Relations**

A number of commission have been formed in past to study and provide recommendation on Centre-State relations.

### **Administrative Reforms Commission**

There were two Administrative Reforms Commissions established in the past to provide recommendations for reviewing and reforming the administrative system of the country. The First Administrative Reforms Commission was formed in 1966 initially under the leadership of Morarji Desai and later on by K. Hanumanthaiah. It submitted twenty reports including one in which extensive suggestions were provided in the domain of Centre-State relations. The Second Administrative Reforms Commission was constituted in the new millennium in 2005 under the chairmanship of initially Veerappa Moily and later on by V. Ramachandran.





## Rajamannar Commission

The Tamil Nadu government established the Rajamannar committee to analyze and provide recommendations for restructuring the Centre-State relations in our Constitution. The committee consisted of the retired Chief Justice of Madras High Court Justice. P.V.Rajamannar, former Vice- Chancellor of the University of Madras, Dr A Lakshmanaswamy and a former Chief Justice of Andhra, Dr P. Chandra Reddy. It submitted its report to the government in 1971 marking a great milestone in the history of autonomy debate in the country. The major suggestions of the committee include

The article 263 of the Constitution should be implemented and Inter-State Council should be formed to promote cooperation among central and State Governments. The proposed council must consist of the Chief Ministers of the States or their nominees and the Prime Minister as the Chairperson. All the major bills of the Parliament and decisions of the Union Government that affect the interests of one or more States must be placed and discussed in the council. Its opinion should be considered in the decision making process. The committee's made consultation with the Inter State Council is mandatory in all matters barring those related to the two subjects, namely defence and foreign affairs.

The committee recommended the elimination of articles 256, 257, 339(2) from our Constitution. The committee was against specifically these articles as they enable the Centre to issue instructions to the State Governments

It favored the shifting of the residuary powers of legislation and taxation from the Union Government to the State Governments to empower the States.

The article 356 in Part XVIII of the Constitution should be diligently used by the Union Government only as a measure of last resort in the event of a complete breakdown of the Constitutional machinery in the State and not in a mere law and order break down situation.

The committee wanted to introduce far reaching changes in All India Services. It suggested the abolition of All India Services including the elite Indian Administrative Service as they are against the spirit of federalism and State autonomy. It highlighted the concerns of the State Governments ruled by opposition parties of the ruling party at the Centre about the All India Services acting as agents of the Union Government.

In the domain of financial resources the committee recommended greater devolution of powers and resources to the States. For the purpose of expanding the financial capacity of the States it suggested changes in certain taxes like corporation tax, customs and export taxes. The committee recognized the finances as the fulcrum of State rights and balanced federalism and therefore recommended the transfer of many items from Union List and Concurrent List to State List in the seventh schedule of the Constitution. It argued for making the Finance Commission a permanent, impartial body devoted to the priorities of national unity, development and State rights and identities.

### **Sarkaria Commission**

The Union Government constituted a commission under the chairmanship of Justice R.S.Sarkaria in 1983 to review the Centre-State relations. B.Sivaraman and Dr.R.S.Sen were the two other members of the commission. Five years later, it submitted a comprehensive report containing 247 recommendations.

### **Inter State Council**

It recommended that the Inter-State Council must have the functions laid down in article 263 (b) and (c) that is to investigate subjects where many States have common interest and to make recommendation for better co-ordination of policy in that subject. The commission argued against article 263(a) stating that the Inter-State Commission should not have powers to enquire and advise on inter State disputes. The commission also suggested the establishment of an independent, permanent secretariat for Inter-State Council to make the body more effective.

## **Article 356**

It suggested that the article 356 must be imposed only meagerly, as a measure of last resort when there is a complete breakdown of Constitutional machinery in a State. All available and possible alternatives should be explored before the imposition of the article 356 Emergency in the State concerned.

### **Governor**

The commission rejected the demand and suggestion of some political parties and States that the office of governor must be abolished or the concerned State Government must be consulted before the appointment of State governors. On the contrary, for smoother functioning of federalism it suggested that the politically active persons and leaders should not be appointed as governors. Only eminent persons must be appointed as governors. When differing parties are ruling at the Centre and States the leader belonging the ruling party at the Centre must not be appointed as the governor of a State.

### **Language**

It recommended the strict adherence to the tri language formula to strengthen the unity and integrity of the country.

### **Punchhi Commission**

The Union Government constituted a commission in 2007, under the leadership of Justice Madan Mohan Punchhi, the former Chief Justice of the Supreme Court in 2007. The commission also had three more members and a Secretary and presented its report in 2010. It recommended that the governors of the States must have fixed tenure and they should be removed only through impeachment process akin to the President of India. It wanted to introduce changes in articles 355 and 356 so that insurgency or problem afflicted areas or districts in a State rather than the entire State can be brought under emergency as a strategy to localize emergency and efficiently handle insurgency or troubles. The commission also suggested that the Union Government must have power and authority for the suo motu deployment of central forces without the consent of the concerned States in areas affected by communal violence.

### **Venkatachaliah Commission**

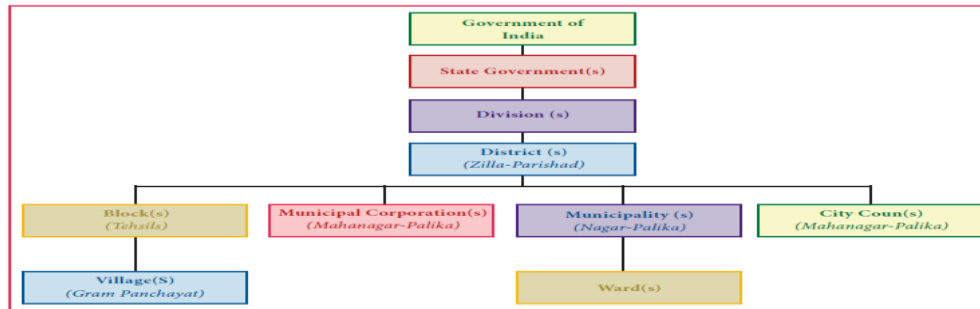
The National Commission to review the working of the Constitution (NCRWC) also known as Justice Manepalli Narayana Rao Venkatachaliah Commission was set up by a resolution of the NDA Government of India led by

Atal Bihari Vajpayee on 22 February 2000 for suggesting possible amendments to the Constitution of India.

## PUBLIC SERVICES

### Administrative Machinery in India

#### Framework of Indian Administration



#### Evolution of Indian Administrative System since Independence

- Modern India's administrative system had its beginnings in the colonial era. Until 1773, There was no regular system of administration in company's newly acquired territories in India. In theory the East India company acted as the agents of the Mughal Emperor, or the Nawabs. They managed the revenue affairs with nominated officials and traditional native sub staff. They gave priorities to military and policing requirements. Most of the Company's officers were ill educated, in experienced and untrained.
- As the foreign officers had no respect and sympathy for the native people, and as they were not accountable to any legislature, mal administration and corruption became order of the day. English parliamentarians like Edmund Burke brought such issues to the notice of the parliament. Such parliamentary criticisms resulted in the introduction of the regulating Act 1773 and the successive Charter Acts, through which the Company's Indian administration was brought under the surveillance of the British Parliament. The Court of Directors and the Board of Control in England war subordinated to the parliament and the British Cabinet. Thus the administration of Company's territories was systematized, regularized and made accountable to parliament.
- Thereafter the English officials to India were trained at Hailey bury College. The selected officers of the Superior cadre were known as the members of the Covenanted Service. They assisted the Governor Generals and Governors in administration. Indian were appointed for middle level and interior services. As the company was unwilling to interface in nature traditions, and as it was

desirous of winning the support of the influential. And traditional classes and caste for the colonial regime, They mostly accommodated people from such classes and castes in the middle level or lower level administrative assignments. There was no regular system for appointments in the middle and lower level offices.

- Persian was retained as official language till 1840: As such the English people were having a monopolistic hold over the superior services and native elites cornered all lower level offices. Gradually there emerged a demand for accommodating Indians in superior services. The introduction of European model of education and English medium prompted the Indians educated in the Macaulay on system to plead with the colonial authorities for throwing open the higher services to Indians. After the Crown took over the Indian administration in 1858. The administrative system was revised, and the Indian civil Service (ICS) organized. Offices to highest administrative and judicial positions were to be chosen through a competitive (ICS) examination and training. The elite Indians wanted age relaxations for Indians, and also insisted simultaneous ICS examinations in India too. These because the early demands in the Indian national movement.
- Until the 1919 Government of India Act, Indians could not occupy the highest executive posts. The Dyarchy, under the said Act, provided the 'transferred departments' to be entrusted to the Indian ministers, chosen from the elected members of the legislature. But the Executive officials continued to be under the control of the Governors. It was during this period, the adhere appointments to lesser services was protested and a regular public service commission was contemplated. After India's independence, the existing services were reformed: ICS was replaced with Indian Administrative Service(IAS) thus the administrative system was totally India missed and recruitment through Public Service Commission because the basic feature.

### **Indian Administrative System in the post Independent era:**

- The functions and responsibilities of the Indian administration had to undergo significant changes in the Independent India. It is made accountable to the legislature and executive. As the Government of India preferred a welfare state, the responsibilities of the administrative agencies increased manifold.
- The new Government under Jawaharlal Nehru. Opted for 'democratic Socialism' and introduced a planned economy to achieve modernization, equalization, and faster growth. 'Mixed economy' was chosen to ensure the combination of democracy and socialism. Basic industries ( Like steel and

iron) were developed through Government sector. While the private sector was allowed to involve in medium industries, transport, aviation etc. The administrative system had to exert more to achieve the goals in each plan. The first three 'Five year plans' yielded tremendous results. But thereafter the Indian economy had to confront several crises. Capitalism in Its 'Corporate' facade triumphed, the fall of the Soviet union, and other socialist countries. Creation a new challenge By 1990, India has fallen in line with the trend of Globalization - Privatization - Liberalization. The Indian administrative system adopted itself admirably to the Changing conditions. Corruption is a serious issue, but Corruption at highest level involving highest administrative officers is nothing to do with the economic order that the nation Chooses from time to time, as we found similar corruption in pre - Nehru era, as well as in the current economic order. There were corruptions and corrupt officials in every order, but for that reason, we ought not condemn the whole democratic system.

- While the Colonial regime introduced modern administrative devices like Survey, Census, Creation of a number of departments to deal with exclusive issues, the post - colonial era regimes in India successfully segregated judicial functions for executive functions, and introduced a number of measures for the welfare of the people in the eradication of diseases extension of education massive irrigation schemes, electrification, for health and hygiene, in improving and expanding roads and railways.
- In every scheme of the parliamentary executive the administrative system plays a pivotal role. But for the trained, experienced and motivated administrative system, none of the developmental plans could have been materialized.
- There are now efforts to further democratize, modernize and humanize the Indian Administrative System So as to make them adequately relevant to the changing time. In a democratic system the officialdom ought not to be insulated from criticisms and responsible and lawful interventions. At the same time the officialdom cannot be degenerated as the wings of unethical and unlawful political activism. 'Checks and balances' would ensure a better administrative system. It has to be and has to be guarded against pressures from extra- national and transnational forces.
- Our present constitution provide for a centralized administrative system. The personnel's in the State categories are subjected to twin masters, the state executive and the union executive. The administrative services created by the states are also subjected to union's supremacy. Liberalization does not mean that the bureaucracy is being relieved from excess burden, but if means

reducing government's regulatory control over private sector. In the same way we now found a trend towards more centralization in policy making and policy enforcement. The Indian administrative system, which worked for the democratic socialist economy and planned economy earlier is now given the task of more privatization and more centralized taxation system. This new arrangement now known as new public Management (NPM) movement in public administration.

- The Indian administrative system has to cope up with the enforced new economic order. It has to strive for opening domestic markets to new investors, i.e. Corporate from both India and abroad. Now the administrative system has to work for disinvestment, desubsidization, liberalizing and centralizing the tax - system in favour of trade and investors. Mining, ports, petroleum, airways are systematically being corporatized. Labour laws being revised. The Indian bureaucracy has to carry out the guidelines of transnational or globe bodies like world Bank, world Trade Organization, International monetary Fund in the domestic arena.
- The formation of regulators like IRDA, TRAI, CCI, PFRDA, SEBI, etc. have been a step in the same direction, further the idea of extending this concept to other areas is also being mooted, viz., in the infrastructure and mining sector. These reform proposals were also followed by reforms in the tax administration in the form of introduction of the VAT regime, introduction of a low and uniform tax rate regime, which is seen as the precursor to the uniform Goods and Services tax (GST). In all, these measures were received well by the industry and the markets and the numbers of economic growth started showing signs of increase and so much so that it is believed that the process of economic reform in India has been instrumental in pulling out more than 300 million out of poverty in India in a period of 20 years. Now-a-days the bureaucracy enjoys enormous powers not because it has a greed for power but because the need of the modern technological civilization has demanded this delegation. In recent times, there has been accelerated change globally brought about by technological advances, greater decentralization and social activism. The ramifications of these changes are being felt by government in the form of increasing expectations for better governance through effective service delivery, transparency, accountability and rule of law. But the public perception about the members of the civil services, who function at cutting edge and higher coordination and policy making levels, is that they are 'burdensome low-performers' heading a highly bloated bureaucracy which is often perceived to be corrupt and inefficient in governing the country. The introduction of right to Information (RTI) Act, citizen charters and Social audit makes the administration more responsive and accountable to the public.

## Ministry, Department, Boards and Commissions

### Union Government Ministries/Department

- The main policy making institution in the Union government is the central secretariat which comprises all the ministries and departments which in turn characterized by certain patterns of structural arrangements and functional specifications.

### Structure of a Ministry

Ministry of Central Government has a three tier structure consisting of

- Political Head, who is a cabinet minister assisted by minister of state and deputy minister. Sometimes a minister of state may also be a political head of a ministry/department holding an independent charge. Secretariat organization headed by a secretary who is a career civil servant. He is assisted by Joint secretaries, Deputy Secretaries, Undersecretaries and office establishment. Executive organization under a head of the department who is known by various designations like Director, Director-General, Commissioner, Inspector-General, Chief Controller etc...
- A ministry is primarily divided into departments. Each department is divided into wings. Each wing is in turn divided into divisions which are further divided into branches. Each branch is divided into sections. A section is the lowest level and smallest organizational unit of a ministry/department.

Department (Secretary)
Wing (Additional/Joint Secretary)
Division (Deputy Secretary)
Branch (Under Secretary)
Section (Section Officer)

- Under the Government of India, Rules of Business, 1961, the ministries departments in the Government of India were as follows

### Central Secretariat

- The central secretariat comprises of all the ministries and departments of the central Government. Article 77 of the Indian Constitution authorizes the President of India to make rules for more convenient transaction of business



of Central Government and for allocation of such business among the ministries.

### **Role and Functions**

- The Central Secretariat is a policy making body of the government and is not, to undertake work of execution, unless necessitated by the lack of official agencies to perform certain tasks. The Central Secretariat normally performs the following functions:
  1. Assisting the minister in the discharge of his policy making and parliamentary responsibilities.
  2. Framing legislation, rules and principles of procedure.
  3. Sectoral planning and programme formulation.
  4. Budgeting and control of expenditure in respect of activities of the Ministry/department.
  5. Supervision and control over the execution of policies and programmes.
  6. Initiating steps to develop greater personnel and organizational competence both in the ministry/department and its executive agencies.
  7. Coordination and interpretation of policies, assisting other branches of government and maintaining contact with state administration.

### **Cabinet Secretariat Functions**

The Cabinet Secretariat functions directly under the Prime Minister. The administrative head of the Secretariat is the Cabinet Secretary who is also the ex-officio Chairman of the Civil Services Board. The business allocated to Cabinet Secretariat under Government of India (Allocation of Business) Rules, 1961 includes (i) Secretarial assistance to the Cabinet and Cabinet Committees; and (ii) Rules of Business.

### **Organisation of Cabinet Secretariat**

The Cabinet Secretariat has three wings

- Civil wing
- Military wing
- Intelligence wing

**Civil wing** - It is the main wing and provides aid, advice and assistance to the Union cabinet.

**Military wing** - provides secretarial assistance to the defence committee of the cabinet, the military affairs committee etc.

**Intelligence wing** - it deals with the matters pertaining to the joint intelligence committee of the cabinet.

Other organizations are - RAW, Director General of Security, SPG, Joint intelligence group, DG public grievances (1988), National Authority, Chemical Weapons Convention.

The Cabinet Secretariat is responsible for the administration of the Government of India (Transaction of Business) Rules, 1961 and Government of India (Allocation of Business) Rules. The Secretariat assists in decision-making in Government by ensuring Inter-Ministerial coordination, ironing out differences amongst Ministries/Departments and evolving consensus through the instrumentality of the standing/adhoc Committees of Secretaries. Management of major crisis situations in the country and coordinating activities of various ministries in such a situation is also one of the functions of the Cabinet Secretariat.

### **Support to Cabinet Committees**

The secretarial assistance, provided by Cabinet Secretariat to the Cabinet and Cabinet committees, includes

- Convening of the meetings of the Cabinet & its Committees on the orders of the Prime Minister.
- Preparation and circulation of the agenda.
- Circulation of papers related to the cases on the agenda.
- Preparation of record of discussions.
- Circulation of the record of discussions after obtaining the approval of the Prime Minister.
- Monitoring implementation of decisions taken by the Cabinet and its Committees.
- The Cabinet Secretariat is the custodian of the papers of the Cabinet meetings

### **Cabinet Secretary**

The office of cabinet secretary was created in India in 1950. The first Cabinet secretary was N.R.Pillai. The Cabinet secretary is the head of the Cabinet Secretariat. He is given a top place among the civil servants. Thus he is the senior most civil servant in India.

## **Union Government -Apex Bodies**

- President of India
- Vice President of India
- Cabinet Secretariat
- Election Commission of India
- Union Public Service Commission (UPSC)
- National Human Rights Commission (NHRC), India
- Comptroller and Auditor General (CAG) of India,
- Indian Audit and Accounts Department
- NITI Aayog - National Institution for Transforming India
- National Commission for Women (NCW)
- National Commission for Scheduled Tribes (NCST)
- Fifteenth Finance Commission of India
- National Commission for Minorities(NCM)
- Insurance Regulatory and Development Authority (IRDA)
- Office of the Principal Scientific Adviser.

## **Office of Principal Scientific Adviser**

The Office of the Principal Scientific Adviser to the Government of India (O/o of PSA) was set-up in November, 1999, primarily to:

- Evolve policies, strategies and missions for the generation of innovations and support systems for multiple applications,
- Generate science and technology tasks in critical infrastructure, economic and social sectors in partnership with Government departments, institutions and industry,
- Office of PSA also services the Prime Minister's Science, Technology and Innovation Advisory Council (PM-STIAC)
- Office of PSA has been placed administratively under the Cabinet Secretariat in August, 2018.

## **Personnel Administration**

### **Concept of Personnel Administration**

The tasks of government are increasing every day. Development and welfare orientations have led to the expansion of government and its administrative machinery. As the tasks, responsibilities and activities of organisations whether public or private multiply, the demands on personnel, at every level, in terms of efficient discharge of their duties also rise. Thus the task of personnel administration is to, assure a steady source of people who can contribute to the success of an organization and meet the growing demands of

development. To understand the concept of personnel administration, it is very essential to first understand the meaning and nature of the term.

**Thus personnel administration aims at:**

- Effective utilisation of human resources
- Desirable working relations among all members of the organisation
- Maximum development
- Meeting the organisation's social and legal responsibilities.

**Scope of Personnel Administration**

Personnel administration incorporates all aspects of management of persons in organization. The primary objective of personnel administration, is to ensure effective utilization of human resources in pursuit of organizational goals. The personnel administration departments should design and establish an effective working relationship among all the members of an organization by division of organizational tasks into jobs, defining clearly the responsibility and authority for each job and its relation with other jobs in the organization. Personnel administration must try to enthuse among the employees feelings of commitment, Involvement and loyalty to the organization. The aim is to create cordial relations among the employees and do away with frictional situations arising out of personal jealousies, rivalries and prejudices. Personnel administration also has to curbun favorable practices like favoritism and nepotism in an organization.

**Functions of personnel administration**

Some of the important functions of personnel administration are :

- a. Manpower Planning
- b. Recruitment
- c. Training
- d. Promotion
- e. Salary structuring
- f. Employees' welfare

**Civil Services - meaning and features**

Advantages of having an independent, permanent and impartial civil service are as follows:

- i. The spoils system has the propensity to degenerate into a system of patronage, nepotism and corruption. Having a credible recruitment process through an impartial agency provides a defense against such abuse.

- ii. Public policy today has become a complex exercise requiring in-depth knowledge and expertise in public affairs. A permanent civil service provides continuity and develops expertise as well as institutional memory for effective policy making.
- iii. A permanent and impartial civil service is more likely to assess the long-term social payoffs of any policy whereas the political executive may have a tendency to look for short term political gain.
- iv. A permanent civil service helps to ensure uniformity in public administration and also acts as a unifying force particularly in vast and culturally diverse nations.
- v. A permanent civil service like any other reputable profession is likely to evolve over time an ethical basis for its functioning.

### **Citizen and Bureaucracy**

At the heart of democracy lies the citizen. In the ancient state, the purpose of state was only threefold - defending the realm from external aggression, maintaining internal order, and rendering rough and ready justice. The bureaucracy was limited, and the might of the sword prevailed. In the medieval state, land relations were critical, and a somewhat larger bureaucracy was necessary in addition to the armed forces. In modern times, the state's role in creating common infrastructure and services became critical, and the bureaucracy's role expanded. In the 20th century state, helping the citizen fulfill her potential and eliminating avoidable suffering became the norm of Notes of a civilized state. Dignity, opportunity and justice became the new watchwords, and the role of bureaucracy vastly expanded.

But despite democracy, we still have a highly centralized state. For a country of over a billion people, India has possibly the smallest number of final decision-makers in the public realm. The PM-CM-DM syndrome still dominates both our psyche and system. There is a near complete divorce between the vote and public good as a remote, centralized government has neither the will nor the capacity to address matters of real significance to the citizen - drinking water, sanitation, schooling, health care, electricity, roads, transport, agricultural productivity, market linkage, value addition, skill promotion and myriad other needs.

The district magistrate has become the embodiment of state power. As a result, the periodic change of governments has not altered the outcomes or quality of services. Politics has become a power game and power the source of private fortunes. The vote has become a purchasable commodity, or a means of transient assertion without real consequences. Democracy is reduced to electoral competition for power and elections about the fortunes of those who

contest and not about the citizen and voter. The tax payer has no clue about the utilization of resources, nor any voice in demanding, and role in getting, better services. The remote-controlled bureaucracy is totally unaccountable to the local people whom it is supposed to serve.

**Core Principles for making civil services Citizen Centric are:**

1. Rule of Law
2. Making Institutions Responsive and Accountable
3. Active Citizens' Participation - Decentralization and Delegation
4. Transparency
5. Civil Service Reforms
6. Ethics in Governance
7. Periodical Reforms

**All India services, Central Services and State Services**

A unique feature of the Indian Administration system, is the creation of certain services common to both - the Centre and the States, namely, the All India Services. These are composed of officers who are in the exclusive employment of neither Centre nor the States, and may at any time be at the disposal of either. The officers of these Services are recruited on an all-India basis with common qualifications and uniform scales of pay, and notwithstanding their division among the States, each of them forms a single service with a common status and a common standard of rights and remuneration.

Like other federal polities the Centre and the constituent states, under the Indian Constitution, have their separate public services to administer their respective affairs. Thus, there are Central or Union Services to administer Union subjects, like defence, income tax, customs, posts and telegraphs, railways, etc. The officers of these Services are exclusively in the employment of the Union Government. Similarly, the states have their own separate and independent services.

**All India services**

The Constitution provides for the creation of All India Services (AIS) common to the Union and the States. The All India Services Act, 1951 provides that the Central Government may make rules for regulating the recruitment and the conditions of service of persons appointed to the All India Services. Presently only the IAS, the IPS and the IFS (Indian Forest Service) have been constituted as All India Services. Recruitment to these services is made under the corresponding AIS Recruitment Rules and may be done by Direct

Recruitment (through Competitive Examinations) and by promotion from the State Service . The AIS Branch is concerned with the latter mode of recruitment which is governed by the respective IAS/IPS/IFS Promotion Regulations.

### **What are the different modes of recruitment to the All India Services?**

There are two modes of recruitment to the All India Services;

- i. Direct Recruitment: Through the Civil Services Examination for IAS and IPS and the Indian Forest Service Examination for the IFS. These Examinations are conducted by UPSC.
- ii. Promotion/Selection: By way of promotion of the SCS/SPS/SFS officers to the respective All India Service and by way of selection of Non-State Civil Services (NSCS) Officers to the IAS.

### **Indian Administrative Service**

The Indian Administrative Service (IAS) is the direct descendant of the old Indian Civil Service. As an all India service, it is under the ultimate control of the Union Government, but is divided into State cadres, each under the immediate control of a State Government. The salary and the pension of these officers are met by the States. But the disciplinary control and imposition of penalties rest with the Central Government which is guided, in this respect, by the advice of the Union Public Service Commission. On appointment, the officers are posted to different State cadres. The strength of each State cadre, however, is so fixed as to include a reserve of officers who can be deputed for service under the Union Government for one or more 'tenures' of three, four or five years before they return to the State cadre. The majority of individual officers have an opportunity of serving at least one spell of duty under the Union Government; many have more than one such spell. The practice of rotating senior officers in and out of the Secretariat position is known in official parlance as the tenure system.

Another distinctive feature of this Service is its multi-purpose character. It is composed of 'generalist administrators' who are expected, from time to time, to hold posts involving a wide variety of duties and functions; for example, maintenance of law and order, collection of revenue, regulation of trade, commerce and industry, welfare activities development and extension work, etc. In brief, the IAS is intended to serve all the purposes formerly served by the ICS except providing officers for the judiciary. Thus, this Service is a kind of generalist service, and its officers are liable for posting in almost any branch, of the administration.

## **Indian Police Service**

The Indian Police Service is an original all India Service (it had pre-independence origins) which differs from the IAS in two ways: (i) most of the officers in this service work only in the state since there are only a few police posts at the Centre and (ii) its pay scale and status are lower than those of the IAS. The officers of the IPS are recruited from the same unified All India Civil Service examination which recruits all members of the IAS, IFS and other Central Civil Services. Recruits to the IPS are first given a five months foundational training and later special training at the Sardar Patel National Police Academy, Hyderabad. The subjects of study and the training is drill, handling of weapons, etc., which have a direct bearing on the normal work of a police officer. The syllabus of training includes studies of crime psychology, scientific aids in detection of crime, methods of combating corruption and emergency relief. After completing a year's training, the probationer passes an examination conducted by the UPSC. He is, then appointed as an Assistant Superintendent of Police. But, before this appointment he has to undergo a year's programme of training; he is given practical training which requires him to do the work of various subordinate officers. It is only after this that he is appointed an Assistant Superintendent of Police.

As an all India Service it is under the ultimate control of the Union Government, but is divided into state cadres, each under the immediate control of a state government. The Indian Police Service is managed by the Ministry of Home Affairs, though the general policies relating to its personnel are determined by the Department of Personnel and Administrative Reforms.

## **Indian Forest Service**

The Indian Forest Service is the only all India Service that has been set up after independence. It became operational by an Act of Parliament in 1963. Its pay scale and status is lower than that of the two original all India Services - the IAS and the IPS. Its recruits are chosen from an exclusive examination conducted by the Union Public Service Commission which consists of a written test and interview. Though it is an All India Service, its nature is not that of a generalized civil service, but is specialized and functional. It is managed by the Department of Personnel and Administrative Reforms which is in charge of making rules of recruitment, discipline and conditions of service regarding all India Services.

After selection the appointees undergo a foundational course lasting three months along with successful candidates of the other all India and Central Services. After the foundation course, the probationers move to their own



Academy (Indian Forest Institute) at Dehradun for a rigorous two year training course, the end of which they have to pass an examination before final posting. The Indian Forest Service is cadre-based as in the case of other All India Services. Like all other All India Services, a member of this Service can come to the Centre on deputation but has to go back to his cadre after the period of deputation is over.

Unlike the all India services, the Central Civil Services are under the exclusive control of the Central Government, its member positions only in the Central Government. The Civil Services of the Central Government comprise established services known as central civil service as well as civil posts created outside the established services, which constitute the general central service. Both the established central civil services and the civil posts are classified in the descending order of importance into Class I, Class 11, Class 111 and Class IV.

It has often been pointed out that since the appointing authority is the same, there is no justification for classifying the services into the all India and central services. Though the appointing authority is the same, yet there is a significant difference between the two. Officers of all India services are employed to serve under the central as well as the state governments. Further, the members of IAS can be appointed to any office calling for duties of a general supervisory nature, while the officers of the central services are employed in jobs of specialized nature. Therefore, the distinction can be said to be justified.

## **Recruitment**

Recruitment to the Central Services Class I and II are made by the Union Public Service Commission on the basis of the unified all India Civil Service Examination.

## **The Indian Foreign Service (IFS)**

The Indian Foreign Service comes under Central Civil Service - Class I and was created after Independence. It is under the exclusive control of the Central Government and its members are recruited from the top few positions of the All India Civil Services examination. Among the Central Civil Services it is the top most in prestige, status, pay and emoluments and its recruits are asked, to serve in Indian mission and embassies abroad. It is managed by the Ministry of External Affairs.

Also, involved in the management of the IFS are the Department of Personnel which determines the conditions of service and the Ministry of Finance which is concerned with the pay scales and other financial aspects of

conditions of service. In matters of allowances the members of the Indian Foreign Service are more fortunate compared to other services. They are entitled to foreign allowance which are fixed with reference to: (a) local cost of living, (b) other expenditure

which an officer serving abroad necessarily incurs either at home or abroad, over and above that an officer of corresponding grade serving in India, (c) representational expenditure, i.e., expenditure which while optional for a private individual is obligatory for a member of the service resident, by virtue of his official position.

The recruit of the IFS undergoes a training programme which covers a period of three years. He is attached to a district for some time to enable him to pick up contact with practical work, he also undergoes a period of secretariat training.

## **UPSC- Organization, Powers, Functions and Role**

### **Historical Perspective**

The origin of the Public Service Commission in India is found in the First Dispatch of the Government of India on the Indian Constitutional Reforms on the 5th March, 1919 which referred to the need for setting up some permanent office charged with the regulation of service matters. This concept of a body intended to be charged primarily with the regulation of service matters, found a somewhat more practical shape in the Government of India Act, 1919. Section 96(C) of the Act provided for the establishment in India of a Public Service Commission which should "discharge, in regard to recruitment and control of the Public Services in India, such functions as may be assigned thereto by rules made by the Secretary of State in Council".

After passing of the Government of India Act, 1919, in spite of a prolonged correspondence among various levels on the functions and machinery of the body to be set up, no decision was taken on setting up of the body. The subject was then referred to the Royal Commission on the Superior Civil Services in India (also known as Lee Commission). The Lee Commission, in their report in the year 1924, recommended that the statutory Public Service Commission contemplated by the Government of India Act, 1919 should be established without delay.

Subsequent to the provisions of Section 96(C) of the Government of India Act, 1919 and the strong recommendations made by the Lee Commission in 1924 for the early establishment of a Public Service Commission, it was on October 1, 1926 that the Public Service Commission was set up in India for the first time. It

consisted of four Members in addition to the Chairman. Sir Ross Barker, a member of the Home Civil Service of the United Kingdom was the first Chairman of the Commission.

The functions of the Public Service Commission were not laid down in the Government of India Act, 1919, but were regulated by the Public Service Commission (Functions) Rules, 1926 framed under sub-section (2) of Section 96(C) of the Government of India Act, 1919. Further, the Government of India Act, 1935 envisaged a Public Service Commission for the Federation and a Provincial Public Service Commission for each Province or group of Provinces. Therefore, in terms of the provisions of the Government of India Act, 1935 and with its coming into effect on 1st April, 1937, the Public Service Commission became the Federal Public Service Commission.

With the inauguration of the Constitution of India in January 26, 1950, the Federal Public Service Commission came to be known as the Union Public Service Commission, and the Chairman and Members of the Federal Public Service Commission became Chairman and Members of the Union Public Service Commission by virtue of Clause (1) of Article 378 of the Constitution.

The Union Public Service Commission is a Constitutional Body established under Article 315 of the Constitution of India. The Commission consists of a Chairman and ten Members.

Union Public Service Commission is a Constitutional Body, which has been mandated the responsibilities of making recruitment by conduct of competitive examinations as well as selection through interviews, advising on the suitability of officers for appointment on promotion and transfer-on-deputation, advising the Government on all matters relating to methods of recruitment to various services, framing & amendment of Recruitment Rules, disciplinary cases relating to various Civil Services, miscellaneous matters relating to grant of extra-ordinary pensions, reimbursement of legal expenses etc, advising the Government on any matter referred to the Commission by the President of India and on the request of the Governor of a State, to serve all or any of the needs of a State relating to recruitment, with the approval of the President.

In order to fulfill its constitutional obligations, the Commission is supported by Officers/Staff broadly known as Secretariat of the Commission, headed by the Secretary. The Administration Branch of the Commission is entrusted with the functions of administering the Secretariat of the Commission as well as looking after the personal matters of Hon'ble Chairman/ Hon'ble Members and other Officers/ Staff of the Commission.

## **The Mandate of Union Public Service Commission**

### **The Mandate of Union Public Service Commission Under Article 320 and 321 of the Constitution of India, includes:**

1. Recruitment by conduct of competitive examinations;
2. Recruitment by Selection through Interviews;
3. Advising on the suitability of officers for appointment on promotion as well as transfer-on-deputation;
4. Advising the Government on all matters relating to methods of Recruitment to various services and posts; framing and amendment of Recruitment Rules;
5. Disciplinary cases relating to different civil services;
6. Miscellaneous matters relating to grant of extraordinary pensions, reimbursement of legal expenses, etc.
7. Advising the Government on any matter referred to the Commission by the President of India.
8. On the request of the Governor of a State, to serve all or any of the needs of a State relating to recruitment, with the approval of the President.

### **Methods of Recruitment is made by one of the following four methods:**

1. Direct Recruitment
2. Promotion
3. Deputation/absorption; and
4. Composite Method (Deputation + Promotion)

### **Direct Recruitment**

Direct Recruitment is conducted broadly under the following two methods:

1. Recruitment by Competitive Examination; and
2. Recruitment by Selection. Recruitment Through Examination The Commission conducts following examinations on a regular basis at various Centers located throughout the country for appointment to various Civil/Defense services/posts:

1. Civil Services (Preliminary) Examination;
2. Civil Services (Main) Examination;
3. Engineering Services Examination;
4. Combined Medical Services Examination;
5. Indian Forest Service Examination;
6. Geologists' Examination;
7. Indian Economic Service/ Indian Statistical Service Examination;

8. Special Class Railway Apprentices' Examination [Held every alternate year];
9. Combined Defense Services Examination [Held twice a year];
10. National Defense Academy and Naval Academy Examination [Held twice a year];
11. Central Police Forces (Assistant Commandants) Examination;
12. Section Officers/ Stenographers (Grade-B/Grade-I) Ltd. Departmental Competitive Examination;
  - a. A Calendar of examinations is published in the Employment News / Rozgar Samachar, stating name of examination, date of notification, date of receipt of application & date of commencement of examination, well in advance normally in October of the preceding year and also displayed on the website [www.upsc.gov.in](http://www.upsc.gov.in)

## Functions

Under Article 320 of the Constitution of India, the Commission is, inter-alia, required to be consulted on all matters relating to recruitment to civil services and posts. The functions of the Commission under Article 320 of the

## Constitution are:

- Conduct examinations for appointment to the services of the Union.
- Direct recruitment by selection through interviews.
- Appointment of officers on promotion / deputation / absorption.
- Framing and amendment of Recruitment Rules for various services and posts under the Government.
- Disciplinary cases relating to different Civil Services.
- Advising the Government on any matter referred to the Commission by the President of India.

## State Public Service Commission

Parallel to the Union Public Service Commission (UPSC) at the Centre, there is a State Public Service Commission (State Public Service Commission) in a state. The same set of Articles (i.e., 315 to 323 in Part XIV) of the Constitution also deal with the composition, appointment and removal of members, power and functions and independence of a State Public Service Commission.

## Composition

A State Public Service Commission consists of a chairman and other members appointed by the governor of the state. The Constitution does not specify the strength of the Commission but has left the matter to the discretion of the Governor. Further, no qualifications are prescribed for the commission's membership except that one-half of the members of the commission should be such persons who have held office for at least ten years either under the government of India or under the Government of a state. The Constitution also authorizes the governor to determine the conditions of service of the chairman and members of the Commission.

The chairman and members of the Commission hold office for a term of six years or until they attain the age of 62 years, whichever is earlier (in the case of UPSC, the age limit is 65 years). However, they can relinquish their offices at any time by addressing their resignation to the governor.

The governor can appoint one of the members of the State Public Service Commission as an acting chairman in the following two circumstances:

- a. When the office of the chairman falls vacant; or
- b. When the chairman is unable to perform his functions due to absence or some other reason.

The acting chairman functions till the person appointed as chairman enters on the duties of the office or till the chairman is able to resume his duties.

## Removal

Although the chairman and members of a State Public Service Commission are appointed by the governor, they can be removed only by the president (and not by the governor). The president can remove them on the same grounds and in the same manner as he can remove a chairman or a member of the UPSC. Thus, he can remove him under the following circumstances:

- a. If he is adjudged an insolvent (i.e., has gone bankrupt); or
- b. If he engages, during his term of office, in any paid employment outside the duties of his office; or
- c. If he is, in the opinion of the president, unfit to continue in office by reason of infirmity of mind or body.

In addition to these, the president can also remove the chairman or any other member of State Public Service Commission for misbehavior. However, in this case, the president has to refer the matter to the Supreme Court for an enquiry. If the Supreme Court, after the enquiry, upholds the cause of removal and advises so, the president can remove the chairman or a member. Under the provisions of the Constitution, the advise tendered by the Supreme Court in this regard is binding on the president. However, during the course of enquiry by the Supreme Court, the governor can suspend the concerned chairman or member, pending the final removal order of the president on receipt of the report of the Supreme Court.

Further, the Constitution has also defined the term 'misbehaviour' in this context. The Constitution states that the chairman or any other member of a State Public Service Commission is deemed to be guilty of misbehavior. If he (a) is concerned or interested in any contract or agreement made by the Government of India or the government of a state, or (b) participates in any way in the profit of such contract or agreement or in any benefit there from otherwise than as a member and in common with other members of an incorporated company.

### **Independence**

As in the case of UPSC, the Constitution has made the following provisions to safeguard and ensure the independent and impartial functioning of a State Public Service Commission:

- a. The chairman or a member of a State Public Service Commission can be removed from office by the president only in the manner and on the grounds mentioned in the Constitution. Therefore, they enjoy the security of tenure.
- b. The conditions of service of the chairman or a member, though determined by the governor, cannot be varied to his disadvantage after his appointment.
- c. The entire expense including the salaries, allowances and pensions of the chairman and members of a State Public Service Commission are charged on the consolidated fund of the state. Thus, they are not subject to vote of the state legislature.
- d. The chairman of a State Public Service Commission (on ceasing to hold office) is eligible for appointment as the chairman or a member of UPSC or as the chairman of any other State Public Service Commission, but not for any other employment under the Government of India or a state.
- e. A member of a State Public Service Commission (on ceasing to hold office) is eligible for appointment as the chairman or a member of the UPSC, or as the chairman of that State Public Service Commission or any other State

Public Service Commission, but not for any other employment under the Government of India or a state.

- f. The chairman or a member of a State Public Service Commission is (after having completed his first term) not eligible for reappointment to that office (that is, not eligible for second term)

## Functions

A State Public Service Commission performs all those functions in respect of the state services as the UPSC does in relation to the Central services:

- a. It conducts examinations for appointments in the services of the state.
- b. It is consulted on the following matters related to personnel management:
  - i. All matters relating to methods of recruitment to civil services and for civil posts.
  - ii. The principles to be followed in making appointments to civil services and posts and in making promotions and transfers from one service to another.
  - iii. The suitability of candidates for appointments to civil services and posts; for to another; and transfers from one service to another; and appointments by transfer or deputation. The concerned departments make recommendations for promotions and request the State Public Service Commission to ratify them.
  - iv. All disciplinary matters affecting a person serving under the government of the state in a civil capacity including memorials or petitions relating to such matters. These include:
    - Censure (severe disapproval)
    - Withholding of increments
    - Withholding of promotions
    - Recovery of pecuniary loss
    - Reduction to lower service or rank (demotion)
    - Compulsory retirement
    - Removal from service
    - Dismissal from service
  - v. Any Claim for reimbursement of legal expenses incurred by a civil servant in defending legal proceedings instituted against him in respect of acts done in the execution of his official duties.
  - vi. Any claim for the award of a pension in respect of injuries sustained by a person while serving under the government of the state and any question as to the amount of any such award.
  - vii. Any other matter related to the personnel management.



The Supreme Court has held that if the government fails to consult the State Public Service Commission in these matters, the aggrieved public servant has no remedy in a court. In other words, the court held that any irregularity in consultation with the State Public Service Commission or acting without consultation does not invalidate the decision of the government. Thus, the provision is directory and not mandatory. Similarly, the court held that a selection by the State Public Service Commission does not confer any right to the post upon the candidate. However, the government is to act fairly and without arbitrariness or malafides.

The additional functions relating to the services of the state can be conferred on State Public Service Commission by the state legislature. It can also place the personnel system of any local authority, corporate body or public institution within the jurisdiction of the State Public Service Commission. Hence, the jurisdiction of State Public Service Commission can be extended by an Act made by the state legislature.

The State Public Service Commission presents; annually, to the governor a report on its performance. The governor places this report before both the Houses of the state legislature, along with a memorandum explaining the cases where the advice of the Commission was not accepted and the reasons for such non- acceptance.

### **Limitations**

The following matters are kept outside the functional jurisdiction of the State Public Service Commission. In other words, the State Public Service Commission is not consulted on the following matters:

- a. While making reservations of appointments or posts in favour of any backward class of citizens.
- b. While taking into consideration the claims of scheduled castes and scheduled tribes in making appointments to services and posts.

The governor can exclude posts, services and matters from the purview of the State Public Service Commission. The Constitution states that the governor, in respect to the state services and posts may make regulations specifying the matters in which, it shall not be necessary for State Public Service Commission to be consulted. But all such regulations made by the governor shall be laid before each House of the state legislature for at least 14 days. The state legislature can amend or repeal them.

## **Role**

The Constitution visualizes the State Public Service Commission to be the 'watchdog of merit system' in the state. It is concerned with the recruitment to the state services and advises the government, when consulted, on promotion and disciplinary matters. It is not concerned with the classification of services, pay and service conditions, cadre management, training and so on. These matters are handled by the Department of Personnel or the General Administration Department. Therefore, the State Public Service Commission is only a central recruiting agency in the state while the Department of Personnel or the General Administration Department is the central personnel agency in the state.

The role of State Public Service Commission is not only limited, but also recommendations made by it are only of advisory nature and hence, not binding on the government. It is up to the state government to accept or reject that advice. The only safeguard is the answerability of the government to the state legislature for departing from the recommendation of the Commission. Further, the government can also make rules which regulated the scope of the advisory functions of State Public Service Commission.

Also, the emergence of State Vigilance Commission (SVC) in 1964 affected the role of State Public Service Commission in disciplinary matters. This is because both are consulted by the government while taking disciplinary action against a civil servant. The problem arises when the two bodies tender conflicting advice. However, the State Public Service Commission, being an independent constitutional body, has an edge over the SVC.

Finally, the State Public Service Commission is consulted by the governor while framing rules for appointment to judiciary service of the state other than the posts of district judges. In this regard, the concerned state high court is also consulted.

## **Staff Selection Commission**

### **Function of Commission**

1. To make recruitment to (i) all Group "B" posts in the various Ministries/Departments of the Govt. of India and their Attached and Subordinate Offices which are in the pay scales the maximum of which is `10,500 or below and (ii) all non-technical Group "C" posts in the various Ministries/Departments of the Govt. of India and their Attached and

Subordinate Offices, except those posts which are specifically exempt from the purview of the Staff Selection Commission.

2. To conduct examinations and/or interviews, whenever required for recruitment to the posts within its purview. The examinations would be held as far as possible at different centres and successful candidates posted, to the extent possible, to their home State/Region.
3. In particular, to hold Open Competitive Examinations for recruitment to the posts of:
  - i. Lower Division Clerks in the various Ministries/Departments, Attached and Subordinate Offices of the Government of India including those participating in the Central Secretariat Clerical Service /Indian Foreign Service (B), Railway Board Secretariat Clerical Service and the Armed Forces Headquarters Clerical Service;
  - ii. Grade "C" and Grade 'D' Stenographers of the Central Secretariat Stenographers Service and equivalent Grades of Indian Foreign Service (B) Railway Board Secretariat Stenographers Service/Armed Forces Head quarters Stenographers Service and to the posts of Stenographers in other Departments including Attached and Subordinate Offices of the Government of India not participating in the aforesaid Services;
  - iii. Assistants in the various Ministries/Departments including Attached and Subordinate Offices of the Government of India including those participating in the Central Secretariat Service/ IFS (B)/ Railway Board Secretariat Service/ Armed Forces Headquarters Civil Service;
  - iv. Inspectors of Central Excise in different Collectorates of Central Excise, Inspectors of Income-Tax in different charges of the Commissioners of Income-Tax, Preventive Officers and Examiners in different Custom Houses, Assistant Enforcement Officers in Directorate of Enforcement;
  - v. Sub-Inspectors in, Central Bureau of Investigation and Central Police Organisations;
  - vi. Divisional Accountants, Auditors and Accountants under the Office of Comptroller and Auditor General of India and other Accounts Departments and Upper Division Clerks in Attached and Subordinate Offices of the Government of India.
  - vii. Junior Engineer (Civil & Electrical) in CPWD, a Group 'C' Non-Gazetted, Non-Ministerial, General Central Services (Technical) post.
  - viii. Statistical Investigators, Grade IV of Subordinate Statistical Service (SSC), a Group 'C' non-gazetted, non-ministerial post in the Ministry of Statistics and Programme Implementation

- ix. Tax Assistant (a Group C non - Gazetted Ministerial post in various Commissionerates of Central Board of Direct Taxes ( CBDT) and Central Board of Excise and Customs )
  - x. Section Officer ( Commercial Audit), a Group "B" Non-gazetted post in the Indian Audit and Accounts Department
  - xi. Section Officer (Audit) , a Group B Non-Gazetted post in the Office of the Comptroller and Auditor General
4. The Commission also holds Departmental Examination for promotion from: Group "D" to Lower Division Clerk Grade of the Central Secretariat Clerical Service and equivalent grades in Indian Foreign Service (B)/Railway Board Secretariat Clerical Service/ Armed Force Hqrs. Clerical Service;
    - i. Lower Divisional Clerks to Upper Divisional Clerks Grade of the Central Secretariat Clerical Service and equivalent Indian Foreign Service (B)/Railway Board Secretariat Clerical Service/ Armed Forces Hqrs. Clerical Service;
    - ii. Stenographers Grade "D" to Stenographers Grade "C" of the Central Secretariat Stenographers Service and equivalent grades in Indian Foreign Service (B)/Railway Board Secretariat Stenographers Service/ Armed Forces Hqrs. Stenographers Service.
  5. The Commission conducts periodical Typewriting Tests in English and Hindi.
  6. The Commission prepares schemes for recruitment to all Group "B" posts which are in the pay scale of Rs 9300 to 34800 with a grade pay of Rs 42000 or below and Group "C" non-technical posts in the Ministries/Departmental of the Govt. of India including its Attached and Subordinate Offices in consultation with the Departments concerned.
  7. The Commission conducts examinations/selections for recruitment to all Group "B" posts which are in the pay scales the maximum of which is Rs.10, 500 or below and all Group "C" non-technical posts in the Ministries/Departments of the Govt. from time to time.
  8. The Commission performs such other functions as may be entrusted to it by the Central Govt. from time to time.

# Financial Administration

## Comptroller and Auditor General of India

The Constitution of India (Article 148) provides for an independent office of the Comptroller and Auditor General of India (CAG). He is the head of the Indian Audit and Accounts Department. He is the guardian of the public purse and controls the entire financial system of the country at both the levels the Centre and the state. His duty is to uphold the Constitution of India and laws of Parliament in the field of financial administration. This is the reason why Dr. B.R. Ambedkar said that the CAG shall be the most important Officer under the Constitution of India. He is one of the bulwarks of the democratic system of government in India; the others being the Supreme Court, the Election Commission and the Union Public Service Commission.

## Financial Administration : Objectives

The vagaries of the market in the developed countries, have led to an enlarged scope of financial administration which is characterised by deficit budgets, massive public debt and deficit financing. Similarly, in the developing countries, where governments have assumed the role of a facilitator of development, fiscal policies and administration reflect a set of multiple objectives such as stability, development, self-reliance, reduction of interpersonal inequalities in income and wealth, and balanced regional development. Interestingly these countries also utilize the same instruments of action. Even though political ideologies, or economic doctrines are of crucial importance in the management of the affairs of the state, there are certain fundamental objectives of financial administration which transcend, politico-economic compulsions.

1. Management of the finances of public household
2. Implementation of projects and programmes
3. Provision for public goods and social services
4. Growth, Employment and Price Stability
5. Capital formation
6. Productive deployment of national funds
7. Facilitating smooth flow of parliamentary processes
8. Achieving equity and equality.

## **Principles of Financial Administration**

**The following may be listed as some of the important principles of financial administration**

1. The principle of primacy of public interest, public choice and public policy
2. The principle of political direction and control
3. The principle of correspondence
4. The principle of unity of organisation and management
5. The principle of stability and balance
6. The principle of simplicity and flexibility
7. The principle of conduct, discipline and regularity
8. The principle of public trust and accountability.

## **Four Distinct Phases- Financial Administrative History of India**

Period I (1765-1858) - Creation of structure and concretisation.

Period II (1860-1919) - Development of systems and Procedures.

Period III (1919-1947) - Democratisation and Decentralisation

Period IV (1950-till date) - Development orientation.

## **New Emerging Trends - Financial Administration in India**

1. Regulation and control of fiscal deficit
2. Cutback on non-development expenditure
3. Development of zero base perspective
4. De-emphasised public sector
5. Non-bureaucratic delivery of public goods and services
6. Focus on decentralized responsibility for financing development plans
7. Towards deregulation and liberalization

## **Fiscal policy**

As an instrument of macro-economic policy, fiscal policy has been very popular among modern governments. The growing importance of fiscal policy was due to the Great Depression and the development of 'New Economics' by Keynes.

## **Meaning of Fiscal Policy**

In common parlance fiscal policy means the budgetary manipulations affecting the macro economic variables - output, employment, saving, investment etc.

## Definitions

“The term fiscal policy refers to a policy under which the Government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment”

- Arthur Smithies

“By fiscal policy is meant the use of public finance or expenditure, taxes, borrowing and financial administration to further our national economic objectives”

- Buehler

## Fiscal Instruments

Fiscal Policy is implemented through fiscal instruments also called ‘fiscal tools’ or fiscal levers: Government expenditure, taxation and borrowing are the fiscal tools.

i) **Taxation:** Taxes transfer income from the people to the Government. Taxes are either direct or indirect. An increase in tax reduces disposable income. So taxation should be raised to control inflation. During depression, taxes are to be reduced.

ii) **Public Expenditure:** Public expenditure raises wages and salaries of the employees and thereby the aggregate demand for goods and services. Hence public expenditure is raised to fight recession and reduced to control inflation.

iii) **Public debt:** When Government borrows by floating a loan, there is transfer of funds from the public to the Government. At the time of interest payment and repayment of public debt, funds are transferred from Government to public.

## Objectives of Fiscal Policy:

1. Full Employment
2. Price Stability
3. Economic Growth
4. Equitable Distribution
5. External Stability
6. Capital Formation
7. Regional Balance

The Fiscal Policy is useful to achieve the following objectives:

## **1. Full Employment**

Full Employment is the common objective of fiscal policy in both developed and developing countries. Public expenditure on social overheads help to create employment opportunities. In India, public expenditure on rural employment programmes like MGNREGS is aimed at employment generation.

## **2. Price Stability**

Price instability is caused by mismatch between aggregate demand and aggregate supply. Inflation is due to excess demand for goods. If excess demand is caused by Government expenditure in excess of real output, the most effective measure is to cut down public expenditure. Taxation of income is the best measure if excess demand is due to private spending. Taxation reduces disposable income and so aggregate demand.

To fight depression, the Government needs to increase its spending and reduce taxation.

## **3. Economic Growth**

Fiscal Policy is used to increase the productive capacity of the economy. Tax is to be used as an instrument for encouraging investment. Tax holidays and tax rebates for new industries stimulate investment. Public sector investments are to be increased to fill the gap left by private investment. When resource mobilization through tax measures is inadequate, the Government resorts to borrowing both from internal and external sources to finance growth projects.

## **4. Equitable distribution**

Progressive rates in taxation help to reduce the gap between rich and poor. Similarly progressive rates in public expenditure through welfare schemes such as free education, noon meal for school children and subsidies promote the living standard of poor people.

## **5. Exchange Stability**

Fluctuations in international trade cause movements in exchange rate. Tax concessions and subsidy to export oriented units help to boost exports. Customs duties on import of non-essential items help to cut import bill. The reduction in



import duty on import of raw material and machinery enables reduction in cost and make the exports competitive.

## 6. Capital formation

Capital formation is essential for rapid economic development. Tax relief helps to increase disposable income, savings and thereby capital formation. Government expenditure on infrastructure development like power and transport encourages private investment.

## 7. Regional balance

Fiscal incentives for industries in the backward regions help to narrow down regional imbalances. Public expenditure may be used to start industrial estates so that industrial activity is stimulated in backward regions.

# BUDGET

## Budget

The word 'budget' is said to have its origin from the French word "Bougett" which refers to 'a small leather bag'. The budget is an annual financial statement which shows the estimated income and expenditure of the Government for the forthcoming financial year.

## Definitions

"It is a document containing a preliminary approved plan of public revenue and expenditure".

-Reney Stourn.

"The budget has come to mean the financial arrangements of a given period, with the usual implication that they have been submitted to the legislature for approval".

- Bastabale

## Union Budget and State Budget

India is a federal economy, hence public budget is divided into two layers of the Government. According to the Indian Constitution, the Central Government has to submit annual financial statement, i.e., Union Budget under Article 112 to the Parliament and each State Government has to submit the same for the State in the Legislative Assembly under Article 202.

## Budgetary Cycle

In order to allow time for the executive and legislative processes to go through, budgeting is geared to a cycle. The process of approval is very significant in all possible forms of government.

### The cycle consists of four phases:

Preparation and submission;

Approval;

Execution; and Audit

At any given point of time, several cycles would be in operation and would be overlapping. Nevertheless, various segments of a cycle have different operational lives.

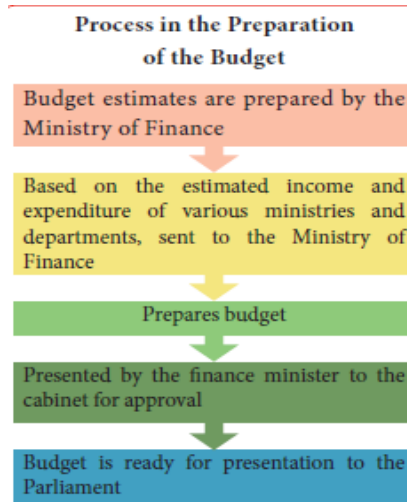
## Budgetary Procedure

Budgetary procedure refers to the system through which the budget is prepared, enacted and executed.

### (A) Preparation of the Budget

The Ministry of Finance prepares the Central Budget every year. At the state level the finance department is responsible for the Annual State Budget. While preparing the budget, the following factors are taken into account:

- The macro economic targets to be achieved within a plan period;
- The basic strategy of the budget;
- The financial requirements of different projects;
- Estimates of the revenue expenditures (includes defence expenditure, subsidy, interest payment on debt etc.);
- Estimates of the capital expenditures (includes development of railways, roadways, irrigations etc.);
- Estimates of revenue receipts from tax and non-tax revenues;
- Estimates of capital receipts from the recovery of loans, disinvestment of public sector units, market borrowings etc.
- Estimates of the gap between revenue receipts and revenue expenditure; and
- Estimates of fiscal deficit, primary deficit, and revenue deficit.



### **(B) Presentation of the Budget**

The hon'ble Minister of Finance, on behalf of the Central Government, places the Union Budget before Parliament on the eve of a new financial year. Similarly at state levels, the Hon'ble Finance Minister of the respective State Government places the State Budget before the State Legislature.

According to the Indian Constitution, all money bills must be initiated in the Lower House. All the money bills are first placed before the Lok Sabha at the Centre, and before the Vidhan Sabha at the State level. The demands of various tax proposals are included in the budget. After the finance bill is passed, an appropriation bill is presented to give legal effect to the voted demands, and to authorise the expenditure as per the budget. In this way, the budgets are enacted in India.

### **(c) Execution of the Budget**

The budget is mainly executed by different departments of the Government. Proper execution of the budgetary provisions is important for the efficient utilisation of the allocated funds.

## **Parliamentary Control over the Budget**

In India, the Government Accounts are maintained in three parts:

- (i) Consolidated Fund
- (ii) Contingency Fund
- (iii) Public Accounts

There are also two committees of parliament, viz,

- (i) The Public Accounts Committee, and
- (ii) The Estimates Committee.

These committees keep a constant vigil on the expenditure so that no Ministry or Department exceeds the amount sanctioned to it.

### **Budgetary Deficits**

Budget deficit is a situation where budget receipts are less than budget expenditures. This situation is also known as government deficit.

In reference to the Indian Government budget, budget deficit is of four major types.

- (a) Revenue Deficit
- (b) Budget Deficit
- (c) Fiscal Deficit, and
- (d) Primary Deficit

#### **(A) Revenue Deficit**

It refers to the excess of the government revenue expenditure over revenue receipts. It does not consider capital receipts and capital expenditure. Revenue deficit implies that the government is living beyond its means to conduct day-to-day operations.

$$\text{Revenue Deficit (RD)} = \text{Total Revenue Expenditure (RE)} - \text{Total Revenue Receipts (RR)}$$

**When  $RE - RR > 0$**

#### **(B) Budget Deficit**

Budget deficit is the difference between total receipts and total expenditure (both revenue and capital)

$$\text{Budget Deficit} = \text{Total Expenditure} - \text{Total Revenue}$$

#### **(C) Fiscal Deficit**

Fiscal deficit (FD) = Budget deficit + Government's market borrowings and liabilities

### (D) Primary Deficit

Primary deficit is equal to fiscal deficit minus interest payments. It shows the real burden of the government and it does not include the interest burden on loans taken in the past. Thus, primary deficit reflects borrowing requirement of the government exclusive of interest payments.

Primary Deficit (PD) = Fiscal deficit (FD) - Interest Payment (IP)

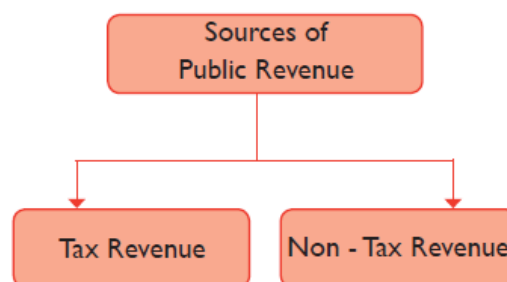
## STATE FINANCE RESOURCES

### Public Revenue

Public revenue occupies an important place in the study of public finance. The Government has to perform several functions for the welfare of the people. They involve substantial amount of public expenditure which can be financed only through public revenue. The amount of public revenue to be raised depends on the necessity of public expenditure and the people's ability to pay.

### Classification of Public Revenue.

Public revenue can be classified into two types.



### Meaning

Tax is a compulsory payment by the citizens to the government to meet the public expenditure. It is legally imposed by the government on the tax payer and in no case tax payer can refuse to pay taxes to the government.

Some of the tax revenue sources are

- ❖ Income tax
- ❖ Corporate tax
- ❖ Sales tax
- ❖ Surcharge and
- ❖ Cess

## **Non-Tax Revenue**

The revenue obtained by the government from sources other than tax is called Non-Tax Revenue. The sources of non-tax revenue are

### **1. Fees**

Fees are another important source of revenue for the government. A fee is charged by public authorities for rendering a service to the citizens. Unlike tax, there is no compulsion involved in case of fees. The government provides certain services and charges certain fees for them. For example, fees are charged for issuing of passports, driving licenses, etc.

### **2. Fine**

A fine is a penalty imposed on an individual for violation of law. For example, violation of traffic rules, payment of income tax after the stipulated time etc.

### **3. Earnings from Public Enterprises**

The Government also gets revenue by way of surplus from public enterprises. Some of the public sector enterprises do make a good amount of profits. The profits or dividends which the government gets can be utilized for public expenditure.

### **4. Special assessment of betterment levy**

It is a kind of special charge levied on certain members of the community who are beneficiaries of certain government activities or public projects. For example, due to a public park or due to the construction of a road, people in that locality may experience an appreciation in the value of their property or land.

### **5. Gifts, Grants and Aids**

A grant from one government to another is an important source of revenue in the modern days. The government at the Centre provides grants

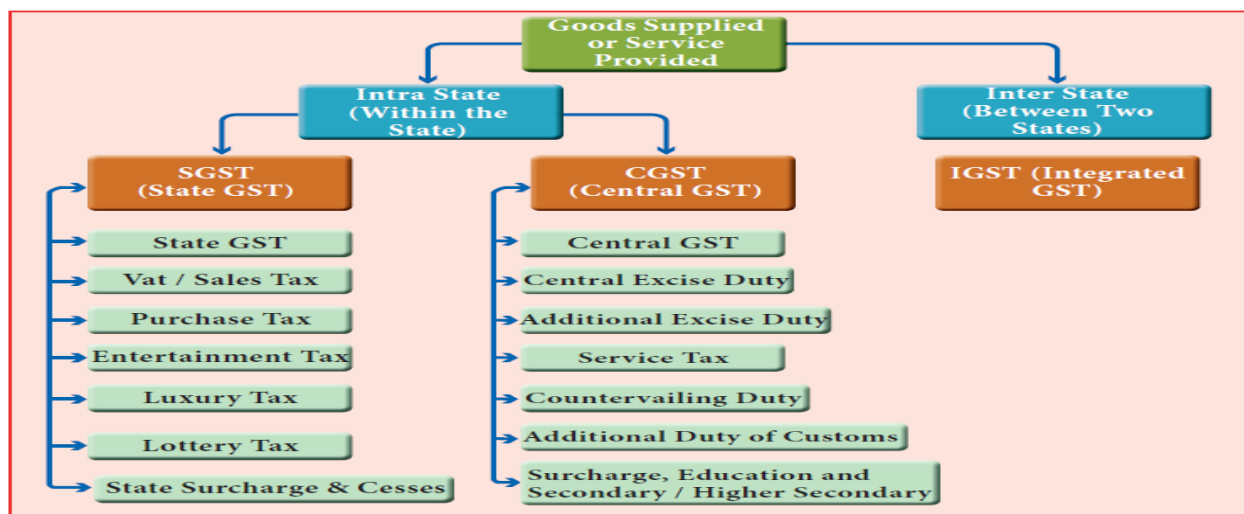
to State governments and the State governments provide grants to the local government to carry out their functions.

Grants from foreign countries are known as Foreign Aid. Developing countries receive military aid, food aid, technological aid, etc. from other countries.

## 6. Escheats

It refers to the claim of the state to the property of persons who die without legal heirs or documented will.

### Tax Structure in India



### Direct Tax and Indirect Tax

A direct tax is referred to as a tax levied on person's income and wealth and is paid directly to the government; the burden of such tax cannot be shifted. The tax is progressive in nature. It is levied according to the paying capacity of the person, i.e. the tax is collected more from the rich and less from the poor people.

The plans and policies of the Direct Taxes are being recommended by the Central Board of Direct Taxes (CBDT) which is under the Ministry of Finance, Government of India.

### Indirect Tax

Indirect Tax is referred to as a tax charged on a person who purchases the goods and services and it is paid indirectly to the government. The burden of

tax can be easily shifted to the another person. It is levied on all persons equally whether rich or poor.

**There are several types of Indirect Taxes, such as:**

**Excise Duty:** Payable by the manufacturer who shifts the tax burden to retailers and wholesalers.

**Sales Tax:** Paid by a shopkeeper or retailer, who then shifts the tax burden to customers by charging sales tax on goods and services.

**Custom Duty:** Import duties levied on goods from outside the country, ultimately paid for by consumers and retailers.

**Entertainment Tax:** Liability is on the cinema theatre owners, who transfer the burden to cinema goers.

### **GST (Goods and Service Tax)**

- ◆ GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition.
- ◆ In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India.
- ◆ GST is one indirect tax for the entire country.
- ◆ Under the GST regime, the tax will be levied at the final point of sale. In case of intra-state sales, Central GST and State GST will be charged. Inter-state sales will be chargeable to Integrated GST.





## Destination Based

Consider goods manufactured in Tamil Nadu and are sold to the final consumer in Karnataka. Since Goods & Service Tax is levied at the point of consumption, in this case, Karnataka, the entire tax revenue will go to Karnataka and not Tamil Nadu.

## Components of GST

The component of GST are of 3 types. They are: CGST, SGST & IGST.

**CGST:** Collected by the Central Government on an intra-state sale (Eg: Within state/ union territory)

**SGST:** Collected by the State Government on an intra-state sale (Eg: Within state/ union territory)

**IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

**In most cases, the tax structure under the new regime will be as follows:**

Transaction	New Regime	Old Regime	
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Centre will then share the IGST revenue based on the destination of goods.

### **Nature of Sales tax, VAT and GST**

1. Sales tax was multipoint tax with cascading effect.
2. VAT was multipoint tax without cascading effect.
3. GST is one point tax without cascading effect.

### **Advantages of GST**

1. GST will mainly remove the cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. Since tax on tax is eliminated in this regime, the cost of goods decreases.
2. GST is also mainly technologically driven. All activities like registration, return filing, application for refund and response to notice need to be done online on the GST Portal. This will speed up the processes.

### **Local Finance**

Local finance refers to the finance of local bodies in India. There is a large variety of local bodies in India. We have the following main four local bodies which are functioning today in our country:

### **Types of Local Bodies**

1. Village Panchayats
2. District Boards or Zila Parishads

3. Municipalities
4. Municipal Corporations

### **Village Panchayats:**

- ◆ **Establishment:** The jurisdiction of a panchayat is usually confined to one revenue village. In some cases, though not very frequently, two or more small villages are grouped under one panchayat. The establishment of panchayat raj is the avowed policy of most states in India.
- ◆ **Functions**
  - a. The functions of panchayats range over a wide area including civil, economic and so on. Thus small disputes may be disposed of by panchayats on the spot.
  - b. Roads, primary schools, village dispensaries etc. are to be managed by panchayats.
  - c. The supply of water, both for drinking and irrigation, falls within their field of responsibility, and in some cases farming, marketing, storage, etc. are entrusted to them.

### **Sources of revenue of Village Panchayats**

The following are the sources of revenue of village panchayats.

- (i) general property tax,
- (ii) taxes on land,
- (iii) profession tax, and
- (iv) tax on animals and vehicles.

Other taxes include service tax, octroi, theatre tax, pilgrim tax, tax on marriage, tax on birth and deaths, and labour tax. As a matter of fact, taxes are levied by the panchayats only with the sanction of the state government, and there are certain limits in respect of tax rates which have to be observed.

### **2. District Boards Or Zila Parishads:**

- **Establishment:** In rural areas, district boards or Zila Parishads are established at district level. The territorial jurisdiction of a district board is generally a revenue district.

- **Functions**

- In Tamil Nadu, the Zila Parishad is a co-ordinating body which exercises general supervision over the working of Panchayat Samitis and advises them on implementation of Development Schemes.

### **Sources of revenue of District Boards**

- i. Grants-in-aid from the state government.
- ii. Land Cesses.
- iii. Toll, fees etc.
- iv. Income from the property and loans from the state governments.
- v. Grants for the centrally sponsored schemes relating to development work.
- vi. Income from fairs and exhibitions.
- vii. Property tax and other taxes which the state governments may authorise the district boards.

### **3. Municipalities**

**Establishment and Functions:** The municipalities are bodies or institutions which are established in urban areas for looking after local affairs, such as, sanitation, public health, local roads, lighting, water supply, cleaning of streets, maintenance of parks and gardens, maintenance of hospitals, dispensaries and veterinary hospitals, provision of drainage, provision of primary education, organising of fairs and exhibitions etc. However, all these functions are performed subject to the control of the state government.

### **Sources of revenue of municipalities**

- (i) taxes on property
- (ii) taxes on goods, particularly octroi and terminal tax
- (iii) personal taxes, taxes on profession, trades and employment
- (iv) taxes on vehicles and animals
- (v) theatre or show tax, and
- (vi) grants-in-aid from state government.

### **4. Municipal Corporations**

#### **Establishment and Functions:**

The municipal corporations have wide powers and enjoy greater freedom as compared to municipalities. The municipal corporations are usually entrusted with the functions, such as, water supply and drainage, lighting, roads, slum clearance, housing and town planning etc. The rapid increase in the

population of cities has definitely added to the functions of municipal corporations.

### **Sources of revenue of Corporations**

- (i) tax on property,
- (ii) tax on vehicles and animals,
- (iii) tax on trades, calling and employment,
- (iv) theatre and show tax,
- (v) taxes on goods brought into the cities for sale,
- (vi) taxes on advertisements,
- (vii) octroi and terminal tax etc.

The corporations have a fair degree of freedom in respect of their choice and modification of these taxes, subject to the maximum and minimum rates laid down by the law.

