

CHAPTER-6.

CONCEPTUAL DISCUSSION:

This study mainly reveals the research work executed by Dr. D. R. Gadgil during his tenure of work. The abstract of which are delivered here for the project work organized by me.

This study has mainly focused **Gadgil Formula** initiated by Dr.Gadgil.

6.1 Introduction

6.2 Gadgil Formula & Planning Commission:

6.3 Process Of Resource Transformation

6.4 Theory Of Pragmatism .

6.1 Introduction:

The objective of studying the formula is to analyse the trend in transfer of resources from Centre to States. In Indian fiscal federalism the three major channels of transfer of resources from Centre to States are

- Finance Commission,
- Planning Commission and
- Various Ministries and Departments of Govt. of India.

The present study reveals a steady growth in all the components of transfer of resources. It also indicates that in total devolution of resources from Centre to State the statutory devolution is always on the higher side. Hence Some specific tool or aspect was needed to be formulate so as to devolute and control the Centres fund to States and concerning departments.

Any study on transfer of resources from Centre to States of India needs to give an overview of the various institutional arrangements for such fiscal transfer. There are several unique aspects about the arrangements for fiscal transfer in Indian federalism.

The three major channels of transfer of resources are:

- I. The devolution of resources from Centre to States as recommended by the Finance Commission. (Statutory transfers)
- II. The Central Assistance to State Plans as allocated by the Planning Commission. (Discretionary transfers)
- III. The transfer of resources from Centre to States for the Centrally Sponsored Schemes and other non-plan assistance through the Ministries and Departments of Government of India. (Discretionary transfers).

The Finance Commission is constituted in accordance to Article 280 of the Constitution of India. The existence of an Independent Finance Commission constituted every five years is a unique feature of the Indian fiscal federalism. The Finance Commission gives its recommendations on devolution of taxes to the States, prepares forecasts of the revenue receipts and expenditure of the State Governments and recommends grants against financial gaps of those States which have a deficit even after devolution of Central taxes.

The Finance Commission, as an institution, has had an important role to play as resource sharing, based on a constitutional division of functions and finances and therefore it is a critical element in the federal system.

6.2 Gadgil Formula & Planning Commission:

The principle of distribution of Central Assistance among the state, is popularly known as Gadgil formula after the name of Dr.D.R.Gadgil, the then Deputy Chairman of the Planning Commission. Which came to in use from Fourth Five Year Plan.

Planning Commission as the apex body for approval of the Five Year and the Annual Plans of the States is another major source of flow of resources from the Centre to the States in addition to the statutory tax-devolution and grants-in-aid recommended by the Finance Commission.

In view of the general demand for an objection and transparent formula for allocation of Central Assistance for State Plan, a formula known as Gadgil Formula was evolved in 1969 which was adopted for distribution of plan assistance during the Fourth and Fifth Five year Plans.

Plan grants and loans to the States for financing their development programmes under the Five Year Plan and Annual Plans were initially project based, but later according to an agreed formula known as the Gadgil Formula.

The Original strata of Gadgil Formula defines that there was 60% share distributed to population of the state and remaining 40% were distributed among other dimensions like special problems, per capita income etc. And it was came into existence from Fourth Five Year i.e. 1969.

This formula for resource distribution was further updated in September 1976 by National Development Council (NDC) and again it was modified in 1980 and the modified formula became the basis for allocation during the Sixth and Seventh Five Year Plans.

During a period 23rd & 24th Dec,1992 the modified formula was adopted formed the basis for allocation of Central Assistance for 1991-92 only. Which was later became popular as “Gadgil-Mukharjee Formula ”and has been in operation since the Eight Plan period.

Since Eighth Five Year Plan the Gadgil-Mukharjee Formula was applied on distribution Normal Central Assistance (NCA) and does not means for the distribution of Others Assistance and Additional Central Assistance (ACA).

The weightage assigned to different criteria under the formula are as under :

1)Population	:60%
2)Per Capita Income	:25%
a)Distance Method-	05%
b)Deviation Method-	20%
3)Performances-Tax Effort ,	7.5%
Fiscal Management	
Population Control,	
Literacy, Land Reforms	
4)Special Problems	7.5%

TOTAL	100%
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The history of Gadgil Formula shows that the formula has been giving more weightage to population (60%) since the time of fourth plan when the formula was introduced. In the fourth and fifth plan only 10% weightage was given to per capita income but later in was increased to 20% during sixth and seventh plan and 25% from eighth plan. This weightage was continuing till date.

6.3 Process Of Resources Transformation:

Central Plan Assistance to States Plan can be broadly classified into two categories i.e. Central Assistance (Domestic) and Additional Central Assistance for Externally Aided Projects (EAPs). Central Assistance (Domestic) Plan includes not only the Normal Central Assistance (NCA), but also other additional Central assistance to States for other Programmes viz. Basic Minimum Services (BMS), Slum Development. Area Programmes , Accelerated Irrigation Benefit Programmes (AIBP) and other Central devolution for States Plan.

The Normal Central Assistance for States' Plan is being allocated among the States on the Basis of Gadgil Formula approved by National Development Council. Prior

to Fourth Five Year Plan, the allocation of Central Assistance to the States Plan was based on a schematic pattern and there was no definite formula for allocation. In view of the general demand for an objection and transparent formula for allocation of Central Assistance for State Plan, a formula known as Gadgil Formula was evolved.

Here the Population share(60%) denotes Income Adjusted Total Population (IATP) of each state i.e.

$$\text{IATP} = \text{Total Population of State} \times \text{Inverse of per capita Income} .$$

On the overview of the study it can be noted that there are major three components to determine the transfer of resources as per Gadgil Formula.

These are :
-Population ,
-Per Capita Income
-Tax Efforts .

The allocation of Central Resources are being categorized under two groups.

-Special Category States ,
-Non Special Category States.

The Special Category States are those states which are having a strategic location in the border with neighboring countries, hilly terrain, inadequate economic and social infrastructure, predominantly larger tribal population, limited and weak resources base compared to development needs.

There is no objective criteria and weight for distribution of NCA among the Special Category States. The main considerations were the level of allotment in the previous years, resource position of States and also development needs etc.

However, for Non-Special Category States, the various criterion and weights are considered for the distribution of NCA among the States. These criteria are-Population, Per Capita Income and Performance in Tax Effort, Fiscal Management and progress in respect of natural objectives (population criteria, removal of female illiteracy, land reforms, on-time completion of Externally Aided Projects).

For Special Category States 90% of the NCA is given as grant and 10% as Loan. In the case of Non-Special Category States, however only 30% of NCA is given as grant and 70% as Loan..

Gadgil Formula was said to be Dr.Gadgil's Distinct contribution to Indian Planning. This formula was aimed at helping the most backward states. i.e. Special Category States. This formula is said to be a mile stone in Indian Economy. Because after the evolution of Gadgil Formula , Economists are being able to allocate Centrals Funds to State Governments easily. Formula has worked as a ready reckoner to them.

6.4 Theory Of Pragmatism

The structure of economic thoughts is having place and time relativity by which redressal of social problems is important or essential . At that time economic research useful to face current problems . This research may be devided into two parts . The first part is that to discuss the information of questions depending upon statistical explanation and description .

The second part is that to set up a strategy or solutions for solving the questions . This type of research is useful for planning commission . This type of research have gain importance in the planned economy .This utilise scientific explanation called as "pragmatism theory".

After Second World War there was thinking confusion in theoretical structure of economic development , in the western universities. In fact economic condition of India was different from others . Hence there was necessity of "Hindi Economics". The concept of Hindi Economics was suggested by Justice Ranade at initially. And after that because of thoughts of Dr.Babasaheb Ambedkar , Gopalkrishna Gokhale . Pragmatism became strong set up of thoughts depending upon persons condition and reference was created on that period .

Planning should covered by poor and hard workers and it's effectiveness should be convert into visual form .

This is the theme of Pragmatism. As per the Websters' dictionary pragmatism means 'Theory that advocates dealing with social and political problems primarily by practical methods adopted to the existing circumstances rather than by methods which have been confirmed to some ideas .