1. THE ESTATE DUTY (DISTRIBUTION) AMENDMENT BILL, 1985.
2. THE UNION DUTIES OF EXCISE (DISTRIBUTION) AMENDMENT BILL, 1985

AND

3. THE ADDITONAL DUTIES OF EXCISE (GOODS OF SPECIAL IMPORTANCE) AMENDMENT BILL 1985

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JANARDHAN POOJARI): Sir, I beg to move:

"That the Bill further to amend the Estate Duty (Distribution) Act, 1962, as passed by the Lok Sabha, be taken into consideration."

Sir, I also beg to move:

"That the Bill further to amend the Union Duties of Excise (Distribution) Act 1979 as passed by the Lok Sabha, be taken into consideration."

Sir, I also beg to move:

"That the Bill further to amend the Additional Duties of Excise (Goods of Special Importance) Act, 1957, as passed by the Lok Sabha, be taken into consideration."

The three Bills which I have moved today arise out of the reommendations of the Eighth Finance Commission. The report of that Commission along with Memorandum as to the action taken was laid on the Table of the House on 24-7-1984, as required under article 281 of the Constitution.

In terms of article 280 (3) of the Constitution, the Commission is required to make recommendations in regrad to:—

1. the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be divided between them and the allocation between the States of the respective shares of such proceeds;

2. the priciples governing the grants-in-aid under article 275 of the constitution; and

3. any other matter referred to the commission in the interest of sound finance.

The recommendations of the Commission are implemented in the case of income-tax and grants-in-aid by an order of the president, while those in the case of Union duties of excise, additional duties of excise and the estate duty by parliamentary legislation. The remaining recommendations are implemented by executives orders. The three Bills which I have moved for consideration are for giving effect through Parliamentary Legislation to the Government decision on the recommendations of the Eighth Finance Commission contained in the final report in regard to distribution of net proceeds of the Union excise duties, additional excise duties and the state duty on property other than agricultural land.

Before I deal with each of these three Bills, I would like to say a few words about the recommendations of the Eighth Finance Commission. Hon. Members are aware that the Eighth Finance Commission was appointed by President's Order in June, 1982 to make recommendations for a period of five years 1984-85 to 1988-89. The Commission submitted an interim report for the year 1984-85 on the 14th November, 1983. The Government accepted the recommendations of the Commission as contatined in the interim report and implemented these for the year 1984-85. On 30th April, 1984, the Commission submitted its final report to the President, covering the entire five years period of 1984-85 to 1988-89. The Government decided to continue to adhere to the recommendations of the Eighth Finance Commission made in its interim report for the year 1984-85 and to implement the final report of the Commission for the four years 1985-86 to 1988-89 only.

The report of the Commission along with the Explanatory Memorandum as to the action taken thereon by the Government was placed on the Table of this House on 24th July, 1984. The reasons for non-acceptance of the final report of the Commission for the year 1984-85 have been given in paragraph 4 of the Explanatory Memorandum.

The report and the Government's decision thereon were extensively debated by this House on 14th August, 1984. It is, therefore, needless for me to go into the various aspects of the recommendations mode by the Commission and Government's decisions thereon. However, I would like to highlight some of the important recommendations of the Commission.

The total transfer of resources to the States under the recommendations of the Eighth Finance Commission as indicated by the Commission is Rs. 39,452 crores for the five-year period 1984—89 as compared to the transfer of Rs. 20,843 crores envisaged by the Seventh Finance Commission over the preceding five-year period 1979—84, involving a step-up of about 89 per cent. The scheme of transfer confers a surplus of Rs. 26,775 crores on 12 States. On the other hand, grants-in-aid of Rs. 1,690.93 crores have been recommended to cover deficits of 11 States. Additional grants-in-aid of Rs. 509.21 crores have been recommended for the deficit States to provide for sanction of dearness allowance for State Government employees on par with the Central Government employees. Grants of Rs. 967.33 crores to 17 States have been recommended for upgradation of standards of administration and for tackling special problems. The Commission also recommended as grants-in-aid Centre's contribution of about Rs. 602 crores over the five-year period 1984—89 representing half of the margin money payable to all the 22 States for financing of relief expenditure.

While the share of states in income-tax has been retained at 85 per cent, their share out of Union excise has been increased from 40 per cent to 45 per cent. The extra 5 per cent of the States' share of Union excise is earmarked to 11 deficit States to be distributed in proportion to their assessed deficits. For the first time, a uniform formula for distribution of States' share of Union excise and bulk of income-tax has been recommended. The quantum of the annual compensatory grant in lieu of the tax on railway passenger fares has been enhanced from Rs. 23 crores to Rs. 95 crores. Debt relief of Rs. 2285.39 crores to States through consolidation and rescheduling of outstanding Central loans and by way of write-off is recommended for the five-year period 1984—89. Besides, a relief of Rs. 117.08 crores by way of moratorium on repayment is recommended to be continued in respect of repayment of small savings loans in 1984-85. The Commission adopted a normative approach in the matter of assessment of receipts and expenditures of both Central and State Governments keeping in view the scope for better fiscal management, better asset-maintenance and economy in expenditure consistent with efficiency. If also kept in view the need for ensuring reasonable returns from investments in irrigation and power projects, transport undertakings, industrial and commercial enterprises and the like.

With a view to reducing regional imbalances between the States, the Commission vested its scheme of devolution with a redistributive role through progressive devolution formula based on inverse of per capita income and distance from the highest per capita income State. Interestingly, this factor has been taken is to account by the Commission even in the matter of debt relief to States.

Now, let me give a brief resume of the three Bills which I have moved today. The first Bill provides for sharing and distribution of basic excise duties. As stated earlier, the Eighth Finance Commission has recommended that 45 per cent of the excise duties on all commodities should be paid to States during the period 1984-89. Of this, 40 per cent are recommended for distribution to all the twenty two States while the remaining 5 per cent are earmarked for distribution exclusively to the eleven deficit States in proportion to their assessed deficits. The estimated transfer on this account to the States during the four years 1985-86 to 1988-89 is of the order of Rs. 18920.70 crores, excluding Rs. 1136 crores representing receipts from excise duty on electricity which was abolished in the last year's budget.

[Shri Janardhan Poojari]

The second Bill, viz., the Estate Duty Amendment Bill, seeks to formalise the decision of the Government to adhere to the recomendations of the Finance Commission contained in the interim report for the current year. As mentioned in the Budget Speech, Estate Duty Act will be repealed in due course. Through the passage of this Bill, the payments made to the States in 1984-85 on provisional basis in terms of the interim report of the Commission, will be treated as final.

The third Bill seeks to give effect to the recommendations for the distribution of the net proceeds of the additional duties of excise levied on sugar tobacco and textile fabrics. As the House is aware, these duties are being levied from 1957 with the consent of the State Governments and are in lieu of the sales tax levied by them on these commodities. The scheme provides for the distribution of the entire collections other than the portion of the proceeds attributable to Union territories among the States in accordance with the principles recommended by the Finance Commission. The Eighth Finance Commission has recommended that proceeds of the duties may be distributed among the States on the basis of equal weightage to the State's domestic product and population. Transfers to the States on this account during the four years 1985-86 to 1988-89 are estimated to be about Rs. 3318 crores.

From basic excise duties, additional excise duties and estate duty for the distribution of which among the States the three Bills have been moved today, States will also get 85 per cent of the net proceeds of income tax under Article 270 of the Constitution. It is estimated that the States will get Rs. 5706 crores over the next four years. Besides, grants-in-aid of the order of Rs. 2937 crores are also payable to States under Article 275 of the Constitution over the next four years. All the statutory and legal formalities will be completed before the close of the current financial year for transfer of tax shares and payment of grants-in-aid to the States from 1985-86.

There are several other recommendations of the Commission which need to be implemented through executives orders. These are at various stages of processing in consultation with the concerned Ministries/Department and other agencies. Two such recommendations to which I would like to invite Hon'ble Members' attention are regarding grants-in-aid to State in lieu of the repealed tax on railway passenger fares and debt relief. The Commission has enhanced the railway fares grants from Rs 32.12 crores to Rs. 95 crores per annum. This recommendation has been referred for acceptance to the Railway Convention Committee of Parliament. As regards the debt relief and the write-off of the Central loans, necessary provision has been made in the Central Budget and formal orders will be issued in due course.

Honourable Members may recall that the Government has decided to abolish the Surcharge on Income-tax as stated in the Budget Speech already. The Eighth Finance Commission made a recommendation to this effect in its Report. Thus it may be seen that the Government has implemented this major decision at the first available opportunity. Similarly, as recommended by the Finance Commission, the Government has decided to increase the stamp duty in Bills of Lading and Letters of Credit the proceeds of which will entirely accrue to the States. I am happy to state that on the suggestion of the Finance Commission, the Government has also constituted an expert committee to review the appointment of cost of collection between Income-tax and Corporation Tax.

In conclusion, Madam, may I reiterate our Government's Commitment to put the Central and State finances on an even keel in order that a balanced regional development is promoted as an integral part of the overall national growth? Our actions on the recommendations of the Finance Commission reflect our commitment to the objective of having harmonious federal fiscal relations which is an essential requisite for accelerated and balanced economic growth. Thank you, Madam.

The questions were proposed.

THE VICE-CHAIRMAN (SHRIMATI KANAK MUKHERJEE): All the three Bills are before the House. If any Member is desirous of speaking, he can do so and the Minister will reply later. Yes, Mr. Mustafa Bin Quasem.

SHRI MUSTAFA BIN QUASIM (West Bengal): Madam Vice-Chairman, these three Bills emanate from a constitutional necessity of resorting to parliamentary legislation to give effect to some of the recommendations of the Eighth Finance Commission as accepted by the Government of India.

Madam, the honourable Finance Minister took the opportunity of making a brief resume of the recommendations of the Eighth Finance Commission and the decisions of the Government thereon. I, on my part, not to retaliate, but to put things correctly on record, would like to say that the honourable Minister has conveniently not said that Government of India made a disgraceful departure from the normal practice of implementing the recommendations of the Finance Commission for full five years. The fact remains, Madam, that the Governmant of India, as you know has not implemented the recommendations of the Eighth Finance Commission contained in its final Report for 1984-85. This departure on the part of the Government of India has resulted in the deprivation of the States in the country of the tune of Rs. 1,500 crores and the deprivation in the case of West Bengal has been the worst. West Bengal has been deprived of Rs. 325 crores because of the non-implementation of the recommendations of the Commission in 1984-85, and this non-implementation has created severe difficulties in the country's economy and also in the economy of the State of West Bengal. Madam Vice-Chairman, I want to make one point very clear in this august House. In the context of any discussion on the Centre-State relationship or on any of its aspects, we from our side do not refer to West Bengal, but we talk of the financial plight of all the States in our federation. But, I am sorry to say, that there is a tendency on the part of some of the honourable Members not all, but some—I must be faithful in my utterance—on the Treasury Benches to make a specific reference to West Bengal, to make a special attack on West Bengal and I think, while they do so, knowingly or unknowingly, they are following the heritage of the former Finance Minister, Mr. Pranab Mukherjee. Madam Vice-Chairman, I would like to say that one stock criticism of my Congress (I) friends is there against West Bengal and we have been hearing this criticism for a number of days. It is said that West Bengal expenditure on the Plan account is less and the Government is increasing the expenditure on non--Plan side or it is increasing non-Plan expenditure. Madam, what is the situation in West Bengal? Let me explain to the hon. Members. You are aware of the fact that so far as internal resource mobilisation throughout the country is concerned, of the 22 States in our country, the official report says, West Bengal tops the list. But inspite of this huge internal resource mobilisation, the difficulty lies in the fact that the advantage flowing from this resource mobilisation is being eaten up by two main things. One is, Government has to spend, it is spending a huge sum of money to undo certain misdeeds which were committed in that State by the Congress Government during the period before 1977. And Secondly, the advantage flowing from this resource mobilisation is being eaten up in a major way by the price hike let loose by successive railway and general budgets of the Central Government. Can you deny that the salaries of a vast number of Government employees in West Bengal, the salaries of municipality workers, salaries of State Government undertakings, were kept at an ignominous level by the Congress(I) Government? Our Government there have to rationalise the salaries to some extent.

[Shri Mustafa Bin Quasim]

Madam, all these expenditures have to be met. What did your party in West Bengal do? Expenditure on education was kept a very poor level. The Left Front Government in West Bengal, after being voted to power by the people of West Bengal, raised the expenditure on education to the level of 30 per cent of the total annual budgetary expenditure. And the irony of the situation is this that such useful, fruitful, unavoidable expenditure under present arrangements is considered to be non-Plan expenditure. This is the whole thing. You must understand the position of West Bengal. Madam, I anticipate that one reply of the hon. Minister may be that in the budget for the current financial year you have enhanced the Central assistance to the State Plans by more than Rs. 1600 crores. But, with all humility, Mr. Finance Minister, may I say that you have increased the size of the Central plan by 6.6 per cent only. But, on the other side, what you have done is you have kept the State plans constant compared to previous years. That is the position. And because of this you were feeling the necessity to increase Central assistance. Is it not an indication of your admission of the constant financial position in which all the States of India were put in the last several years, Is it not an indication of the total economic situation provailing in our country even after the completion of six Five Year Plans in our country?

I would like, with your permission to make one further point in this respect. You did not transfer that Rs. 1500 crores in keeping with the recommendation of the Eighth Finance Commission to the States. Now, during this current financial year the original estimate of deficit financing was to the tune of Rs. 1700 crores. Under revised estimates it came to be around Rs. 3900 crores. In the budget which has been placed before the House for the coming year, the initial budgetary deficit is estimated at Rs. 3339 crores and considering the present trends, this deficit is sure to go up. Even with this huge deficit, you don't consider your budget to be inflationary! If this is taken for granted, then what was the harm in transferring Rs. 1500 crores to the States for their development as a result of the recommendation of the Eighth Finance Commission. I would like to put this question most humbly to the hon. Finance Minister present here. In this context, I am constrained to say that your decision not to implement the final report of the Eighth Finance Commission flow not from a sound and healthy fiscal policy. On the contrary, it flows from sheer political expedient. We have been reiterating this point in this House. It is not only the West Bengal Government. The State Governments of even U.P., Gujarat, Punjab and Kerala are not Left Front Governments. They are the Congress(I) Governments. Even they are forced to take overdrafts from the Reserve Bank. Don't you take overdrafts? Why do you resort to deficit-finahcing? You take overdraft through the backdoor. The State Governments have to take overdrafts from the Reserve Bank formally by paying loans. You raise all the overdraft in the Nasik Security Printing Press. Madam, I would like to submit that in the present day the concept of dualistic federalism is obsolete. The concept of dualistic federalism has been replaced by cooperative federalism. The attitude on the part of the Government should be an attitude not of challenge but an attitude of responsibility and an attitude of sincerity towards the States. It is condusive to the principle of cooperative federalism. I must say that if you adopt the attitude of sincerity and responsibility, you will be making the concept of cooperative federalism more realistic and more meaningful in our country.

The Vice-Chairman [Dr. (Shrimati) Sarojini Mahishi] in the Chair.

I would like to make a point about the Estate Duty. But before I do so, I would say that I have heard the hon. Minister very carefully during the concluding part of his speech. He has said: The Government adhering to the recommendations of the Eighth Finance Commission and keeping in view the demands of the Governments and to develop harmonious and healthy fiscal relations in our country... Sir, if you are really sincere in your desire, then as a first step you please release Rs. 1500 crores to the States as a good gesture if you make no difference between what you say and what you act upon.

Now, I come to the Estate Duty. All of us know that the original Estate Duty Act was passed in the Parliament after a lot of thinking and deliberation and the prime objective of imposing Estate Duty, as was propounded by the then Finance Minister, Shri C. D. Deshmukh, was firstly to minimise and to eradicate inequality in the distribution of wealth in our country and secondly, in the context of our federal polity, to provide the States with a separate source of revenue.

These are the main objectives of the Estate Duty. Last year you made an amendment to the Estate Duty Act and exempted the agricultural land from the Estate Duty. And in this year's Budget, you have declared the total abolition of the Estate Duty. Madam, I think...

SHRI S.W. DHABE (Maharashtra): Madam, Vice-Chairman, I am on a point of order. Now, we have a Private Member's Bill. Let this debate continue after 5 o'clock.

THE VICE-CHAIRMAN [DR. (SHRIMATI) SAROJINI MAHISHI]: I request the hon. Members to allow him to complete his speech in two minutes. He is completing.

SHRI MOSTAFA BIN QUASIM: Madam, I was talking about the Estate Duty. There would have been justification for doing away with the Estate Duty if these two objectives had been fulfilled. But neither these two objectives have been fulfilled nor have we been able to eradicate inequalities in the distribution of wealth in our country nor is it a fact that our States are self-sufficient in financing their development programmes. So, what is the actual reason behind this? Your argument may be that the proceeds from the Estate Duty over the last several years were at a less level. But I fail to understand that. Considering that a large number of well-to-do people are there in our country, why the proceeds from the Estate Duty should be at such a lower level?

AN HON. MEMBER: If they do not die, what to do?

THE VICE-CHAIRMAN [DR. (SHRIMATI) SAROJINI MAHISHI]: No interruption, please.

SHRI MOSTAFA BIN QUASIM: Since the inception of the Estate Duty, the Central Government was never serious for its better management because it would be taxing the rich people, because the entire proceeds would go to the State and not a single pie will lie with the Central Government. And, therefore, the Government was never serious to ensure good management of the Estate Duty. Now what it amounts to is this: You are going to abolish the Estate Duty in order to give more relief to the rich people of our country at the cost of the States. You please keep all this in mind.

Through you, Madam, I would urge upon the Government that so far as the Eighth Finance Commission Report is concerned, please reconsider the whole issue. There is no cause for loss of face here. For the sake of instituting a healthy, harmonious, sound federal system and polity in our country, you give this legitimate share of the Estate Duty from the national pool, from the Central pool to the State.

With this, I conclude. Thank you, Madam.

THE VICE-CHAIRMAN (DR. (SHRIMATI) SAROJINI MAHISHI]: Now, we have Bills for introduction.