

know and I cannot say anything because they must also collect the information.

SHRI M. ATI YASHODA REDDY :  
They may come and say whatever they know.

SHRI PITAMBER DAS :  
Government have their sources of information.

SHRIMATI YASHODA REDDY :  
Whatever they know.

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : You please convey the news and whatever the lion. Members have said in that regard to Government. The situation is a very delicate situation.

SHRI SATYA NARAYAN SINHA : I am going to convey the feelings in the House from all sections, and I hope, if it is at all feasible,—I do not know.

SHRIMATI YASHODA REDDY :  
What is 'feasible'? Whatever they know, they must come and say. It may be at 5'ic even; we are prepared to wait beyond 5.

SHRI SATYA NARAYAN SINHA : I do not know when and at what time they will do it, but I will certainly convey these feelings of the House to Government.

RESOLUTION *RE*. ADVERTISEMENTS BY GOVERNMENT, PUBLIC SECTOR UNDERTAKINGS, ETC.—*contd.*

SHRI SATYA NARAYAN SINHA :  
The other issue intervened while I was replying and was going to accept the Resolution of Mr. Alva. The last thing which he proposed, we accept it, and the proposed committee will go into the matter of obscurity and distasteful advertisements also which he has mentioned.

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : Mr. Alva, do you accept his suggestion? Then I think we need not take a vote on it. In view of the explanation of the Minister you withdraw your Resolution.

SHRI JOACHIM ALVA : Yes.

SHRI P. C. MITRA : Why?

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : Now we go

1 - *lain items of taxation*  
to the other item in the name of Mr. A. P. Chatterjee.

SHRI P. C. MITRA : Sir, why do you say 'withdraw' the Resolution.

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : Mr. Mitra, you did not follow. There are two amendments from Mr. Mirdha and the Minister has also suggested some amendments. So, if it is to be subject to the amendments of Mr. Mirdha and the Minister, it will have to be accepted.

SHRI P. C. MITRA : The Resolution is adopted with that amendment. It cannot be withdrawn.

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : All right. The House adopts the Resolution as amended by the first amendment of Mr. Mirdha and further amended by the amendments of the Minister. Is it the pleasure of the House?

HON. MEMBERS : Yes, yes.

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : The Resolution is adopted as modified. [*Vide* COIS.2J2-13 *infra*]

#### RESOLUTION *RE* RE-EXAMINATION OF RELEVANT PROVISIONS OF THE CONSTITUTION TRANSFERRING FROM THE CENTRE TO THE STATES CERTAIN ITEMS OF TAXATION

SHRI A. P. CHATTERJEE (West Bengal) : Sir, I move the following resolution.

"Having regard to the fact that the present sources of revenue of the States are pitifully small leaving little elbow-room for them and causing chronic deficit budgets, and with a view to enabling the States to balance their budgets and undertake developmental activities, this House is of opinion that Government should take immediate steps, in consultation with State Governments at the ministerial level, to reexamine the relevant provisions of the Constitution, particularly those relating, *viz.*, entries 82, 83, 84, 89, 90, 91, 92 and 92A in Union List and the provisions relating to the distribution of revenues between the Union

[Shri A. P. Ghatteijec]

and the States contained in Chapter I of Part XII of the Constitution, and to suggest appropriate amendments for transferring from the Centre to the States such of these items of taxation as may be considered necessary for achieving the purpose."

In moving this Resolution I think that I am echoing the sentiments of many a person in the different States of the Indian Union. Sir, it is a Resolution which expresses the feelings of almost all the Chief Ministers of the different States. It is a fact that in the division of powers and the division of duties and functions between the Union and the States the most important nation-building sphere, the most important developmental activities are assigned to the States. I am of course cognisant of the fact that as far as the Central Government is concerned, the Central Government is no doubt entrusted with the question of national defence, the question of planning for the entire Indian Union, the question of national highways and all that but then the very fundamental activities, the nation-building activities like education, health, small-scale industries and such other things which build up the morale of the country and which build the nation up are kept for the States and the State Governments. It is also true. Sir, that local self-government which is also a State subject, is also a subject which requires a great amount of investment of funds and that also cannot be done properly unless the State Governments have enough funds in their hands. We know from our own experience and I can speak of course from the point of view of West Bengal that as far as the West Bengal Government is concerned, the West Bengal Government cannot give even a pittance of aid to the different municipalities throughout West Bengal in order that the municipal affairs in the State may look up. Who does not know the maladies and the ills from which the city of Calcutta is suffering? The city of Calcutta has got so many problems. It has got the problem of water; it has got the problem of roads; it has got the problem of health but all these problems cannot be properly tackled by the State Government of West Bengal because the West Bengal Government is feeling the pinch of funds. I am referring to the city of Calcutta not because I want to do it in a particularly sectarian manner and I am not moving this Resolu-

tion in any sectarian manner from the point of view of the interest of any particular State. I am referring to the city of Calcutta only because that is an example in point. Of course, there are other States also which must be suffering from the same difficulties as the State Government of West Bengal is suffering. Sir, while talking about Calcutta I must say that the Calcutta Corporation is also suffering from chronic budget deficit and has to depend upon subsidies and subventions from the State Government but the State Government of West Bengal is in such a position that it cannot do anything for it. The present Budget which has been placed in the West Bengal Assembly is a Budget of deficit. It is a Budget where it has been shown that about Rs. 41 crores are in deficit and the Government does not know how to meet that. That is the position and that is the position of almost the majority—why almost I should say the majority—of States in the Indian Union. It is only some six or seven fortunate States which have been left with a balance of Rs. 1271 crores by the Fifth Finance Commission it is also true that six or seven fortunate States were left with a Budget surplus by the Fourth Finance Commission also but then the others are in a very difficult way; they do not know how to make both ends meet. As far as West Bengal is concerned, the West Bengal Government has already declared that it does not know how to finance its own Fourth Five Year Plan. Now, actually why are these things happening? It is because the Constitution of India has been framed in such a way that it has concentrated all the powers of raising finances, almost all the powers of raising finances, in the Central Government. Secondly, only a few heads of taxes are left to the State Governments like the sales tax or, say, the agricultural income-tax or land revenue. As far as land revenue is concerned, you know, Sir, that in many of the States the exemption limit is being increased. In our State of West Bengal, for example, the limit is 3 acres; that is to say, up to three acres of holding we are not realising any tax. Therefore you will see that as far as land revenue is concerned it is no longer that source of revenue which it used to be perhaps long long years ago. It is no longer that source of revenue; it has exhausted its potentialities; it has exhausted all its possibilities. As far as sales tax is concerned, the sales tax is the only way in which the State Governments can perhaps raise some revenue but there

also the State Government is almost at the end of the other; I should say all the State Governments because after all you know the incidence of sales tax ultimately falls upon the common consumer and the common consumer is generally the poorest of the lot. Therefore there is also a limit for the imposition of sales tax because it is a kind of tax which is passed on to the consumer by the dealers or traders on whom we may impose the tax. Therefore Governments which are socialistically oriented or which may claim to be socialistically oriented, or a Government worth the name which has the welfare of the people even to a certain extent in its heart cannot go on augmenting revenue from the sales tax because sales tax has its own limits and it has perhaps exhausted itself in various ways in the different States. What is the way out? It is true that the Constitution says that India is a Union of States. What do we find from a cursory glance at the Constitution? We find that the entire financial, not to speak of administrative, powers are concentrated in the Central Government. There is a kind of financial emergency which the President can declare; there is a kind of political emergency which the President can declare. As soon as these emergencies are declared everything is taken over by the Central Government. That mentality or that idea of the Centre ruling the roost is writ large on every page of the Constitution so to say and the reflection of that Central autocracy I should say is also in the financial provisions of the Constitution. When I say Central autocracy it should not be thought that I am merely making a speech which is meant to criticise the Central Government. No: it is quite possible that today the Congress is the ruling organisation and it is in the Central Government. Tomorrow it is quite possible that some of us may also be there on the Treasury Benches.

SHRI PITAMBER DAS (Uttar Pradesh): Also?

SHRI A. P. CHATTERJEE : Some of us may be there. Therefore, it is quite possible.

SHRI PITAMBER DAS : You can say 'also', but I cannot.

SHRI A. P. CHATTERJEE : Cut out that 'also'. So, Sir, when we say 'Central autocracy', we say it with some

sense of responsibility and if we want to take away from the Central autocracy, we say it not in any carping spirit, not in any mood of futile or sterile criticism, not in any mood of destructive or offensive criticism, but in a mood of constructive criticism. If India is to be a Union of States, as the very first sentence of the Constitution says, then the States must be put on a proper footing. The States must be given their due share and the wherewithal with which to finance their development projects, with which to better the fortunes and standard of living of the people living within those States.

Now, Sir, look at the way in which the provisions relating to the division of revenues between the States and the Union have been provided for in the Union List and in the Constitution. It is true that there are certain subjects like income-tax, Union excise duties and some other subjects wherein they have said that the tax will be divisible. It will come into the divisible pool and from that the entire thing will be divided between the Centre and the States. I am just now thinking of income-tax. As far as income-tax is concerned, I believe it is article 270 of the Constitution. It is said that as far as income-tax is concerned, that will be brought into a pool and part of it will be divided among the different States but that income-tax pool from which the States have to draw is also daily facing depletion. As you know, since 1959 when the corporate tax or tax on companies was taken out of the purview of personal income-tax, the States have been deprived of a large share of the income-tax which would perhaps legitimately be due to the States. As you know, as far as personal income-tax is concerned, it is not at all increasing in the same proportion as the corporate tax. According to article 270 corporate tax will not come within the meaning of income-tax, that is to say, the tax which gives the largest dividend or one of the largest dividends, one of the heads giving the largest dividend to the Central Government is completely out of the purview of any division or any share between the Centre and States. I am not going to bother this House with all these figures and I do not want to spring upon this House quantities of figures, but then it is clear and it cannot but be admitted that as far as income-tax is concerned, while the income-tax has been increasing, say, by four or five per cent, the corporate

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income-tax returns have increased manifold since 1951-52. The corporate tax is being completely appropriated by the Central Government and because of the complete appropriation by the Central Government, the State Government is not having any share in it and the State Government is suffering due to lack of funds.

Now, Sir, I can tell you this that as far as the company tax or corporate tax is concerned, it is a tax which is realised definitely in the different States. I am not, of course, on the question which has exercised the minds of many whether, in dividing the tax, it should be on a population basis or it should be on a collection basis. I know that the various Finance Commissions have worked themselves over it. Sometimes economists have come to loggerheads over it. Some say that it should be on a population basis, while some others say that it should be on a collection basis. On that point also I must say perhaps enough justice has not been done to certain States. I can tell you in this connection, again with apologies to my friends from other States, when Sir Otto Niemeyer, in those days when India was not free, raised the question of the division of the returns from income-tax and gave his award, he said that fifty per cent should be divided among the States. He, of course, suggested that the division should be attuned to the collection basis. That also had come in for criticism at that time, but according to that award we find that Bengal was given 20 per cent, UP 15 per cent and so on and so forth. I think Bombay, now it is Maharashtra, was given 20 or 21 per cent, but it is rather a sad matter that, when the Finance Commissions began to divide the returns from income-tax, I should say unconscionably, they slashed down the proportion or share of West Bengal to 2 per cent or even less than that.

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : On what basis?

SHRI A. P. CHATTERJEE : I do not know, but perhaps they have gone on the population basis. If it is to go on a population basis, then the other questions are left out of account. It is a fact and it cannot be denied and disputed that Bengal and for that matter Maharashtra and for that matter Madras

certain items of taxation

or some other industrially-advanced States of the Indian Union are the places where the greatest amount of income-tax is earned. I do not, of course, say that because the greatest amount of income-tax is earned in these States, they should get all the income-tax divided among themselves. I am not saying that. What I am saying is this. This should also have been taken into account by the Finance Commission. As far as the returns from income-tax in different States are concerned, they are earned on the blood and sweat and toil and tears of the working-people of those States. It cannot be gainsaid that the capitalists or factory owners make the people of those States work and then get the surplus profit and out of that surplus profit they pay something to the exchequer.

Now then if that surplus profit which is wrung out of the people working in those States does not come to the aid of development of those States, whose working people are wrung dry so to say, then I should say that it will be a kind of injustice and wrong to these States. It may be that in the industrially advanced States the average per capita income is high. You know how the average is always calculated. If a particular person earns Rs. 1 crore per month and if another person earns Rs. 1 per month then the average would be Rs. 50 lakhs for both of them. But that will be a chimerical average income because that kind of average income is never a realistic average income. If there is the question of average per capita income for the industrially developed States, then it may be said that the average per capita income of Bengal, Maharashtra or Madras is higher than the per capita income of Uttar Pradesh or Bihar. But then one thing has to be remembered in this connection that as far as the ordinary common people either of Bengal or Maharashtra or Bihar or Madras are concerned or other industrially advanced States are concerned, they perhaps have not much share in this so-called average per capita income. They perhaps get lesser even than their brethren elsewhere. Not only that, but in the industrially advanced States we find that there are certain other problems also arising from concentration of industries, some kind of urban malnutrition, urban mal-proportion, urban mal-organisation which creates busteej, which creates a kind of a semi-proletariat army, which creates a kind of a very impecunious.

rural and urban population. This kind of problem is also there. So these problems therefore require or required sympathetic consideration from the Finance Commission. But the Finance Commission was academically confined to the question of whether to allocate this division of returns from income-tax on population basis or collection basis. I think both these bases, if they are to be stuck to, will be unrealistic bases. I think the Finance Commission ought to have gone a little deeper into the question, ought to have found what a particular State really needs. I am not speaking of budgetary needs once again. You know on that question also the economists have been at loggerheads on budgetary deficits. I am not concerned with that, but what I am concerned with is this, with the needs of the States. Well, the needs, for example, of Uttar Pradesh, the needs of Bihar, certainly are there, and I am not minimising the needs of those States. But then the needs of industrially advanced States are also perhaps more onerous, more urgent, more pressing, than the needs of States which have a predominantly agricultural bias and whose industries are not so much developed.

As I was telling you, Sir, look at, for example, the State of West Bengal. In that State of West Bengal, because it is industrially advanced, we find that Calcutta is growing beyond proportion. It is not possible to keep it within bounds. The paddy lands are shrinking. The cultivable lands are no longer so much in plenty as they used to be. They were never in plenty, but even that quantity of cultivable paddy land also is being eroded by the gradual urbanisation of the entire State. Previously, say 15 or 30 years ago, if you went 15 miles outside Calcutta, you could have found greenery all round, you could have thought that perhaps you had got into an agricultural hinterland of the port of Calcutta. Now you go 50 miles north of the city, you go 30 miles south of the city, you will find that urbanisation is eroding into the green hinterland of the city, and the entire city is, so to say, expanding but expanding not in a proper way in a balanced way; rather slums are expanding that is to say the worst part of the city, the congestion, the bad health, lack of sanitary conditions, lack of water facilities, all these are being extended along with urbanisation towards south and towards north of Calcutta. That is only an example in point. That happens in

regard to urbanisation wherever the States are industrially advanced.

Therefore, as I was saying, it will be true to say, if I may say so with respect to my friends from other States, that the States which are industrially advanced have certain special needs and problems, which are also the needs which have to be looked after by the Government of India. *(Time bell rings)* I will take some more time, another 15 minutes.

SHRI B. K. P. SINHA (Bihar) : Problems of wealth are equated with problems of poverty.

SHRI A. P. CHATTERJEE : Wealth on one side and poverty on the other. So, that is a question of sharing of the different taxes which are realised by the Government. But, Sir, as I was saying I am not merely on the problem of a particular State or States. I am on the question that the particular provisions of the Constitution have to be amended 01 have to be modified, so that greater wealth may come into the divisible pool. How can we have the greater share of the wealth in the divisible pool? I can immediately say that it is possible only if two things are immediately brought into the pool for division between the States and the Union, which are being kept apart for themselves only by the Central Government. I mean the corporate tax, that is tax on companies, and import duties. These are the two things which have been left out of division between the Centre and the States by the Constitution. As I have already said before this House, I do not want to repeat it, as far as the corporate tax is concerned, returns from that tax are increasing or advancing by leaps and bounds but the States have no share in it. Similarly, customs duties and import duties are also something which are not divisible between the Union and the States. I am also to say this to you, Sir, that as far as the other heads of income are concerned, you look at the Union excise duties. The Union excise duties are a great source of revenue as far as the Central Government is concerned. The Union excise duties perhaps now constitute 40 per cent or near about that of the revenue of the Central Government. But, Sir, from the crores of rupees which you earn out of excise duties, what do you divide between the States and the Union ? You only divide 20 per cent of it, not more than that. Twenty per cent of the

[Shri A. P. Chatterjee]

excise duties you divide between the States and the Union. That is a pitifully small share. This small share of the excise duties does not do good to the States at all. As far as the States are concerned, look at article 269 of the Constitution. Article 269 of the Constitution of course says some taxes which are to be collected and levied by the Union but assigned to the States. We are finding also in this connection the supreme indifference of the Central Government. The Central Government under article 269 only levies and collects what is called estate duty and no other duty which is set forth and laid down in article 269 of the Constitution between clauses (a) and (g). It used previously of course to raise some taxes for the benefit of the States on railway fares and freights, but now by a statute that also has been repealed. Now in place of those taxes which the States used to get on account of taxes on railway fares and freights, certain compensatory allowance is given to the States. I submit that I do not know why the Central Government first of all stopped levying and collecting taxes on railway fares and freights and also do not understand why the Central Government is not levying and collecting taxes on the other items of article 269. If India is a Union of States and if such taxes are to be levied and collected on behalf of the States by the Union, then there should have been a consultation between the Central Government and the State Governments on the question of levy and collection of these taxes. But then both on the question of stoppage of the tax on railway fares and freight and also on the question of not levying and collecting the taxes under the different clauses of article 269, the Central Government has dealt with the State Governments very shabbily and has not consulted them at all. That is why, Sir, I began by saying that the Central Government is behaving or acting like a financial autocrat as far as the question of the relations between the Centre and the States are concerned. And it is appropriating a greater part of the most paying taxes...

AN HON. MEMBER : Most elastic.

SHRI A. P. CHATTERJEE : ...Most elastic and most paying taxes to itself and it does not also consult on the question of levying and collecting those taxes

which would have to be assigned to the States completely by virtue of article 269 of the Constitution.

I am again referring to West Bengal because of my experience. But when I say this, I will again repeat that I am not saying it in a sectarian fashion, I am merely giving an example. The other day . . .

SHRI PITAMBER DAS : Why does my lady protest too much?

SHRI A. P. CHATTERJEE : ...The Mayor of Calcutta came to Delhi and he said that as far as the Calcutta Corporation is concerned, the Calcutta Corporation is suffering; for want of funds no developmental activities for the City of Calcutta can be undertaken because the Calcutta Corporation is in complete shortage of funds and its budget is in a worst state than even the State Government's deficit budget. The Mayor came out with this suggestion to give them the power to impose the terminal tax on the passengers who are coming into Howrah and Sealdah Stations every day. About 40,000 people come to Howrah Station every day on an average. Now these 40,000 people will have to be accommodated, have to be looked after. They are also taking the amenities of the City. We are of course giving them the amenities of the City with gladness. But the difficulty is this. How can you really look after the comfort and welfare of the permanent residents of the City and the welfare and amenity of the guests who come into the City unless you give certain elastic taxes to us or at least reserve some things for us which you can assign to the State so that we may meet our demands, our requirements?

Sir, they have said in the Fifth Finance Commission's Report—I have read it...

THE VICE-CHAIRMAN (ShRI AKBAR ALI KHAN) : You have taken already more than thirty minutes.

SHRI A. P. CHATTERJEE : I will finish by four.

SHRI B. K. P. SINHA : Give him four minutes more.

SHRI A. P. CHATTERJEE : Give me five minutes.

The Fifth Finance Commission has waxed eloquently over the question that 5 per cent of the income-tax returns has

been allocated for the States on the population basis, not on the need basis. What I am saying is : Is that enough for us ? You are waxing eloquent over that. But on corporation tax, you are saying, look at article 270. It says that 'taxes 'On income' does not include a corporation tax. You are excluding the corporation tax. Not merely that. You know that there is the surcharge on income-tax and that surcharge is also left out. We are not entitled to the surcharge. The State Government is not entitled to the corporation tax. So far as the excise duties are concerned, they are discretionary also; if the Central Government so thinks it may not bring even legislation. Article 272 about excise duties says that this cannot be divided between the States and the Centre unless Parliament brings a law for that purpose. One thing is it is discretionary. The other two are completely appropriated by the State. • And what does the Central Government do? Now I shall come a little to politics. It is this that they try to give subvention through grants. Now you know about the politics of grant that you give a grant to a State and you keep the State under your control. You have got Rs. 40 crores of deficit, I shall give Rs. 20 crores provided you behave properly. It is something like that.

SHRI DAHYABHAI V. PATEL : (Gujarati) : Behave in the Lok Sabha. You support and vote for the Prime Minister and you get all the money that you want.

SHRI A. P. CHATTERJEE : That is the position. Now, Sir, I have looked..

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : You have the support of Mr. Dahyabhai Patel. That was what I was, referring to,

SHRI DAHYABHAI V. PATEL : If you think that I support him, you are welcome to think so.

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : I thought that you have joined...

SHRI DAHYABHAI V. PATEL : Have we ever joined? I am only analysing what he was saying.

SHRI A. P. CHATTERJEE : If I say a good thing and if a Swatantra

Member supports it, I will not withdraw it because he supports it.

SHRI B. K. P. SINHA : Adversity makes strange bed-fellows.

SHRI A. P. CHATTERJEE : I was looking into the devolution of taxes, grants, etc. I have found that as far as the grants are concerned, they have increased 12-fold in the last three or four or five years. Well you may put it to me, they are 12-fold grants. Look how the Central Government is generous. I will say that it is not generous. This increase of 12-fold in the grant only shows this that all the States are being held to ransom by the Central Government; the Central Government is giving grants in order that the State Governments may be under their tutelage and may always act according to its own will and the dictates of the Ministry that is there. I do not say whether they can do this or they have done this so far. That is not the question. But the point is that they are keeping the instrument in their hands, the instrument of controlling, the instrument of supervising, the instrument of a whip-hand over the State Governments...(Interruptions). A kind of political discipline they are basing over the different State Government.

THE MINISTER OF STATE IN-CHARGE OF THE MINISTRY OF SUPPLY (SHRI R. K. KHADILKAR) : May I ask the hon. Member to give me an instance, in the matter of giving grants according to their needs, where there has been political influence on the decision. Can you point out any instance?

SHRI A. P. CHATTERJEE : I can say immediately that in 1967—1967 is not very far off—when the United Front was put in the saddle by the people's verdict in West Bengal, then immediately, to put the Government in difficulties, the Central Government said that overdraft will not be allowed. That was not meant only for West Bengal, that was meant for the other Governments also, for other non-Congress Governments also in the different States...

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : And Congress Governments also.

SHRI A. P. CHATTERJEE : ...in order that these non-Congress Governments may be kept under control. Therefore, immediately the Central Government issued that direction.

4 P.M.

SHRI R. K. KHADILKAR : Excuse me. Could the hon'ble Member point out at least one instance of discrimination exercised against a State whatever may be the party colour of the Government of the State concerned.

SHRI A. P. GHATTERJEE : That is as far as the State of West Bengal is concerned. After the United Front Government came into power in 1967 or in 1969, whenever they came before the Central Government for help or subvention they did not get anything. Even now I should like to wind up by referring to...

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : What the Minister wants to know is,—probably you did not get him—was it discriminated against ?

SHRI A. P. CHATTERJEE : I am saying that this is discrimination. I am quoting from the speech of Mr. Ajoy Kumar Mukherji, the Finance Minister of West Bengal...

SHRI B. K. P. SINHA : Delivered in?

SHRI A. P. CHATTERJEE : On 2-2-1970.

SHRI B. K. P. SINHA : And what does he say now?

SHRI A. P. CHATTERJEE : Why are eyebrows being raised now? He said:

"The Fifth Finance Commission seemed to have framed their recommendations in such a way that while on the one hand seven States were left with huge surpluses amounting to Rs. 1,271 crores, West Bengal (and in all probability a number of other States) was obviously left with large deficits notwithstanding the devolutions and the grants recommended by the Commission. These surpluses have enabled some of the States to augment their Plan Outlays whereas a State like West Bengal would be unable to maintain, without special assistance, even a Plan of Rs. 320.51 crores envisaged in the Draft Plan. As a result of the recommendations of the Fourth Finance Commission only six States were left with surpluses amounting to Rs. 373.73

crores. Thus the Fifth Finance Commission have only accentuated the financial disparities, notwithstanding its intention to help the weaker States..."

Of course, the Finance Minister said "intention", but I say there was no intention. Anyway, this is the position. The Finance Minister has gone on to say how difficult it is for the State Government to carry on its Fourth Five Year Plan. Therefore, what I am submitting through this Resolution to this House is that the entire structure, the way of realising it, the way of allocating it, the way of giving powers to tax, have to be looked at from a radical point of view if India has to survive as the Union of States, unless you want to make India only as a Centralised unit...

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : It would require amendment of the Constitution. Do you suggest that?

SHRI A. P. CHATTERJEE : That is my Resolution also. My resolution says :

"...that Government should take immediate steps, in consultation with State Governments at the ministerial level, to re-examine the relevant provisions of the Constitution...relating to the distribution of revenues between the Union and the States..." And appropriate amendments have to be suggested so that the States may get their proper share of taxes, so that the States may get a greater share in the wealth of the country, so that they get proper assistance and proper devolution also from what is earned by the Centre. Thank you.

*The question was proposed.*

SHRI DAHYABHAI V. PATEL :

Mr. Vice-Chairman, they do not wait for anything. They appropriate whatever they want. That is the experience of every citizen. Why bring this Resolution?

SHRI A. P. CHATTERJEE : I wish if we could only do that.

SHRI DAHYABHAI V. PATEL : People are being looted in the streets in broad daylight.

SHRI A. P. CHATTERJEE : If we could only do what Mr. Dahyabhai Patel says, we need not have moved this Resolution.



SHRI T. CHENGALVAROYAN (Tamil Nadu) : Mr. Vice-Chairman, I should have considered casting my silent vote. But as I was listening to my esteemed friend, Mr. Chatterjee, who was moving this Resolution two merits struck my mind. The first merit is that my esteemed friend, Mr. Chatterjee, moved this Resolution, and the second merit, and that is the only merit, is that this Resolution affords us an opportunity to examine, assess and evaluate the dangerous and, to some extent, diabolic trends in State politics and the conditions of our country. I should have, with no unseasonable importunity, heartily supported this Resolution, but for the alarming picture that the States' political conditions here and now, there and then, give a disquieting picture of the stability of the Indian democracy and the sublimity of our Constitution. This Resolution, if it had come under a normal quiet time, would have given us a first-class academic opportunity to examine and re-assess the various allocations and allotments under the provisions of the Constitution.

Mr. Vice-Chairman, we have been working this Constitution for nearly two decades and more, and experience has taught us—and that experience has grown both in intensity and volume—that our fathers and founders of our Constitutions have wisely and timely resolved in very suitable measures for the purpose of stabilising the conditions and continued to give stability to our Indian democracy and our Constitution.

My friend Mr. Chatterjee, must know, and perhaps none better, that the whole theory and doctrine of distribution of financial resources depend largely and exclusively, if I may say so, upon the theory and doctrine of the distribution of powers. We have known the well-known liberal doctrine of British politics that there is no representation if there is no taxation; rather there can be no taxation if there is no representation. That principle and that doctrine, Mr. Vice-Chairman, got itself modified and refined by subsequent Constitutional exposition that as regards the distribution of powers under the constitutional framework every exercise power will involve certain commanding resources for the implementation of that power. There can be no power without the resources and there should not be a resource without power. Therefore Mr. Vice-Chairman, if we examine the Con-

*certain items of taxation*

stitutional background of our country, particularly with regard to the provision of the enormous load upon the Central Government, one would certainly visualise that the Central Government under the present set-up and also as per the theory of our Constitution, must be very strong, and, therefore, it has to be very stable. Therefore, it must have enormous expanding resources.

Mr. Vice-Chairman, Sir, my submission to my esteemed friend, Mr. Chatterjee, and also to those who share his views on this question, will be that we have devolved upon very nice plans of the distribution of powers among the Centre and the States. In this theory and the doctrine of distribution of powers between the States on the one hand and the Centre on the other are involved, firstly, the question of national character and the scope of power that is to be exercised secondly, the effect of inter-State relation with regard to that subject matter of the power, and thirdly with regard to the national consequences of the exercise of that power in restrictive fields of State operation.

Now, Mr. Vice-Chairman, if we examine these principles and doctrines, as applicable to the theory of distribution of powers under this Constitution, I may be permitted to draw the attention of the House to the fact, that the Centre today is loaded with such enormous responsibilities in the interest of the nation and in the interest of the great people of our country.

Mr. Vice-Chairman, I was never in the Government and I am sure I shall never be. But I am sure as a student of Indian affairs for the last so many years I can certainly bring this important fact for the kind consideration of this House and also of the people that the question of the legislative load, the question of national responsibilities upon the Central Government is so wide and has been so widening that it will be a dangerous tendency and it will be a grave day in the history of our country to deplete the Centre of the resources that it has. I may be very outmoded in the modern, radical and romantic view of finances and even politics of our country when I say that the time has come, and I am sure the hour is also struck, when the Central Government

THE VICE CHAIRMAN (SHRI AKBAR ALI KHAN) : By the word "romantic", you are referring to Mr. A. P. Chatterjee?

SHRI T. CHENGALVAROYAN : I do not know his personal romances. I was saying that so far as . . .

SHRI A. P. CHATTERJEE : I will not engage in personal remarks.

SHRI T. CHENGALVAROYAN : . . . the Centre is concerned, I am convinced of the tremendous load that is now put upon the Central Government. May we examine some of the most important tasks that the Central Government has undertaken and must discharge with all the strength, vitality and vigour that it can command ? May I first draw the kind attention of my esteemed friend, Mr. Chatterjee—and I am sure he will not disagree with me on this—to the fact that the entire burden of defence of this great realm rests upon the Centre and the enormity of the burden, the urgency of the task and the width of that great work will certainly call forth at the command of the Centre very large resources for the purpose? Nobody can predicate where and when and how that danger to our defences will arise. If we take the question of the food problem of our country, it is the States' incompetency, if I may say so, or rather their inability to meet the food shortage . . .

AN HON. MEMBER : Or reluctance.

SHRI T. CHENGALVAROYAN : ... or their reluctances that the Centre has to come in a big and massive way to interfere with regard to the production of food. Now if we examine this enormous load on the duties of the Centre, is it not necessary, is it not desirable, to give them sufficient resources to discharge that burden? I am sure if the discharge of these national obligations, if the discharge of these national duties and responsibilities, is inadequate, my esteemed friend, Mr. Chatterjee, will be very indignant and certainly take the Centre to task for its imperfect performances in this matter.

The third point with regard to the duties and responsibilities of the Central Government is development. We are asking the national Government at the Centre to carry on and implement a very big, and sometimes bombastic, Plan. Where and how the Central Government am command resources if we also went to make an inroad into their resources? Therefore, my submission to my esteemed friend, Mr. Chatterjee, is while

I share his anxiety, while I also share his great agony with regard to the question of the difficulties of the different States, the question really is how best we can ask that difficulty to be removed. It is not at all a proper remedy if the States are to get some of the Centre's resources assigned to them. Then in the case of the Centre to whom can it go ? Mr. Vice-Chairman we have a very peculiar phenomenon in our country. The poor panchayats petition to the State Government and say "Give us some more resources so that we can carry on our Pan-chayati Raj." Then the State Government comes to the Centre through my esteemed friend Mr. Chatterjee, and pleads "I want some more resources. Otherwise I cannot carry on." May I ask my esteemed friend, Mr. Khadilkar, to whom he will petition, except perhaps to God ? Therefore, this question of distribution and getting more and more resources assigned to the States is begging the question. May I invite the House to consider the relevancy in this context of the provisions of our Constitution with regard to distribution of powers and also distribution of resources by way of levy and assignment of the taxes ? My esteemed friend, Mr. Chatterjee, referred to the provision<sup>1</sup> in Part XII, Chapter i of the Constitution. I may incidentally draw your<sup>1</sup> kind attention to the very relevant and, if I may say so with great respect, sagacious provision in the Constitution in order to ensure a proper distribution of revenues between the Union and the States. May I first refer to article 268 ? It refers to "duties levied by the Union but collected and appropriated by the States." This article provides; that the appropriation will be exclusive to the States. Mr. Vice-Chairman, the odium of levy of duties is taken by the Central Government, and the benefit and the blessing of that goes to the States. Can there be a greater charity on the part of the Centre to the States in regard to this aspect ? May I again draw your kind attention, Mr. Vice-Chairman, to article 269 which says "Taxes levied and collected by the Union but assigned to the States". With regard to article 268 my friend may argue that this assignment is nothing but a reward for their collection, that it is an agency commission that is paid. But what will my friend say with regard to article 269 ? The taxes are levied by the Centre, the odium is incurred and the great wrath of the people is taken by the Centre and the entire collection goes to the States.

SHRI A. P. CHATTERJEE : May I say that except for the estate duty referred to in article 269, no other item is being collected for the States by the Centre ?

SHRI T. CHENGALVAROYAN : This is what the article says : "Taxes levied and collected by the Union but assigned to the States". It is not actually distribution of revenue between the Centre and the States. I am sorry for the wrong heading of this chapter. It is not distribution of revenues between the Union and the States. It must really mean "assignment of revenues to the States by the Centre."

Now, let us examine article 270 which says "Taxes levied and collected by the Union and distributed between the Union and the States." There comes the question of Centre-State relations. This is a first class provision for the Centre-State relations on a cordial basis, and the auspices of the Centre is undoubtedly taken for the purpose of an equitable distribution between two States or two or more States concerned, with regard to the taxes which are levied and collected by the Union. Can there be a more just allotment or assignment of revenues between the Centre and the States ? All these provisions in this chapter relate to an equitable distribution of the revenues which are raised by the Central authority, but which in the interest of the States' finances, in the interest of the States' progress and prosperity, are assigned by the Constitution itself to the States. Our Constitution has also wisely provided a machinery for the purpose of evolving a scheme of distribution. If it had been left entirely either to the Central executive authority or even to the high Parliament of the nation, it would have been rather coloured in one way or the other. If it had been left to the Central executive authority, it might be open to criticisms of certain arbitrariness, certain favouritism and certain nepotism, particularly in the present context of our political conditions. If it had been left to Parliament for enactment, it would have been liable and susceptible to the vicissitudes of political frenzy and anger on the one hand, and political, what I may call, daringness on the other. Therefore, our Constitution has envisaged an independent and absolutely impartial tribunal for the purpose of ascertaining the allotment of these revenues, *i.e.* the setting up of a Finance Commission under the Constitution. Our consti-

tution has been hailed by eminent continental thinkers and writers' in respect of three matters : first, the declaration of the fundamental rights; secondly, the Directive Principles of our Constitution as guidelines to have a sense of direction and vision; and thirdly, the provision of two independent commissions which will not have the effect either of parliamentary anger or of executive arbitrariness, *i.e.* the Finance Commission and the Election Commission.

With reference to the Finance Commission, I have known three Chairmen of the Finance Commission my esteemed friend, Mr. Mahavir Tyagi, my esteemed friend, Mr. K. Santhanam and my lord Chief Justice Mr. Rajannanar. I have had the occasion to consider and discuss with them as to how they were going to allot the revenues. I can bear personal testimony to the absolutely impartial character and the high sense of values of these Finance Commissions. They have discussed with the respective State Finance Ministers. They have discussed at the official level. They have discussed it at the ministerial level. They have discussed it at ever so many levels. And if the Finance Commission have on the data produced before them on the data that they could independently collect, decided on the question of allocation, I think every State must accept it with grace.

Now, this Resolution states in so many terms that the provisions with regard to this—entries 82, 84, 89, 90, 91, 92 and 92A—in the Union List must suitably be transferred to the State List. I have been long studying this question of the distribution of legislative powers between the Centre and the States in the Concurrent List. If we examine the Central List one is impressed upon by the national dimension and character of the subjects which are included in the Union List. If we examine the State List one is impressed upon by the local, regional, significance of the subjects that are included in the State List. But I am afraid neither the Centre nor the States have suitably explored the possibility of originating legislation in the field of Concurrent List. There are ever so many items in the Concurrent List which the States could embark upon and which the Centre could patronise or could lend its great auspices. But I am sorry to say that the States' legislative lethargy in respect of certain very fundamental and far-reaching measures can only be

[Shri T. Ghengalvaroyan]

explained by their electoral nervousness not to undertake such far-reaching legislation. Some States could not take upon far-reaching legislations in regard to the land reforms because of the fear that the ballot box would betray them. Some States could not take some important measures to implement agricultural income tax because the ballot box would not give them its support. Therefore, it is not at all proper on the part of the States without sufficiently getting that political stamina and strength in order to legislate, to embark upon a vigorous programme of legislation, within the framework of the State List and also within the framework of the Concurrent List, to ask for more powers. If that could be done, I have no doubt in my mind, with all the tears and passion of my friend, Mr. Chatterjee, with regard to the question that more resources should be given to the States, his plea will be justified. I can illustrate one aspect with regard to my submission. Take the instance of agricultural income-tax. I think Mr. Chatterjee has said that it is in the State List. May I ask him in all humility and seriousness as to how many States have implemented this tax, and if they have implemented, what vigorous steps they have taken to collect that tax, and if they have collected it, what has happened to those returns. Now, it is pitiable display of absolute lethargy and laziness, sometimes nervousness, on the part of some States to embark upon these things but to plead with Mr. Khadilkar for more sources to the States. We are much more responsible than that.

There is one other aspect which this Resolution seeks. It suggests "appropriate amendments for transferring from the Centre to the States such of these items of taxation as may be considered necessary for achieving the purpose." Why should we amend the Constitution in respect of these matters? Are we dissatisfied with the provisions of distribution of revenues between the States and the Centre? Now, may I also take one example? And that is with regard to the plan outlay. My friend, Mr. Chatterjee, was complaining—and he was complaining in his usual bitter tone—that there could not be a greater outlay because the assistance in the plan is commensurate with the work. May I give him an example? In the Plan Outlay as has been supplied by the Planning Commission, if the

of the previous Plans was sufficiently adequate and if there was vigorous implementation of the targets, then there is evidence of vitality and the capacity of the State to implement a greater outlay. May I ask him in all humility as to how many States have discharged that obligation under the previous Plans? I claim credit for the Madras State when it was ruled by the Congress Government that we not only implemented the financial target, but we also achieved the physical target and that too within four years of the Plan period. Now, the Finance Commission under it stood and assessed our vitality in regard to the absorption of more revenues and more resources in order that greater allotments can be made. Therefore, to ask the Centre and also to plead for a Constitutional amendment is not to give any colour to our own performance. Let us behave properly, let us discharge our duties vigorously, let us see that we do everything for which the Constitution has already given us powers. And if in that performance, in that achievement, there is some inadequacy, some shortfall, surely the bounty of the Prime Minister is always there. I am sure there is no doubt with regard to this question, with this aspect of the Resolution. Sir, one word more and I have done. This question of Central assistance can only be subject to certain regular and well-recognised canons and channels. I am afraid in recent times, I am sorry to say it with all the responsibility at my command, that there has not been such decent, dignified, disposition and distribution of Central aid to various States. There has been, I am sorry to say, I would not call it nepotism; there has been, I would not call it favouritism; there has been, I would not rail it an arbitrary exercise; but I am sorry to say that in the absence of well-regulated canons and criteria for such distribution, it is liable and is exposed to such criticism. Now, only one thing, Mr. Vice-Chairman, in the present chaotic conditions politically speaking

THE VICE-CHAIRMAN (SHRI AKBAR ALI KHAN) : You have already taken 25 minutes.

SHRI T. GHENGALVAROYAN : I am concluding.

In the present chaotic conditions of our country, any move to inundate the Central authority, the Central Government and the Central resources will

be a Dooms-Day for our country. God forbid.

SHRI B. K. P. SINHA : Mr. Vice-Chairman, this is a Resolution with very serious implications. I wish I had devoted some time and thought before I participated in this discussion. But then its implications are of such a serious nature that I thought I would be failing in my duty to this country and to the Constitution if I did not participate even though I participate without any preparation. This Resolution proceeds on two masterly misunderstandings : (i) misunderstanding about the character and nature of our Constitution; (2) misunderstanding about the nature of the economic process in a modern country which is fast developing. Our Constitution is not a federal Constitution nor is it a quasi-federal Constitution. It is a Constitution which divides certain duties and functions between the Centre and the States because it is impossible to rule such a vast country from one centre. But then it clothes the Centre with such powers that it transforms the Centre in certain situations into a unitary State.

[MR. DEPUTY CHAIRMAN in the Chair]

The Centre can take over the administration of a State. The Centre can take over the financial administration of a State. The Centre can issue directives to all the States, and what is most important the Centre can by a mere process of ordinary legislation change the boundaries of a State or even destroy the existence of a State. To call such a Constitution a federal or a quasi-federal Constitution is, in my opinion, not correct. And to argue for a redistribution of revenues on that basis would be in my opinion more inappropriate. I have said that the second misunderstanding is about the nature of the economic process. Sir, the economic life inside the nation is getting united more and more. For the matter of that economic process, economic life even on a world scale is getting more and more unified and it is absolutely to a large extent unified within the confines of a nation. Therefore because of the nature of this economic life many of the objects on which taxes could be levied have assumed a unified character, an all-India character. An income-earner may be settled in one State but he will be bold to assert that his income is derived from the operations in that State; his income may be derived from different parts of the country. Take the case of

the Customs Duty; it is levied only in the ports, but the taxes which are levied on those objects come out of the pockets of these many of whom do not live in those port States, many of whom live in inland States. Similar is the case with excise. Excise duty is levied and collected at a particular centre of production but the taxes come out of the pockets of those who consume those things and live scattered in different parts of the country. In view of this greater and greater unification of economic life, taxes have lost economic local, regional limitation and because of the financial necessity it is necessary to see that economic life is not unduly hampered by regional taxes. It was necessary to take over these important sources of revenue as all-India source, of revenue. But on the other hand, when a tax has a locale like land revenue, when a tax has regional limitation like the Agricultural Income-tax, it was given over to the States. The States no doubt are concerned with development and progress as also happiness of the people. The Union is concerned with the existence of the State itself, with the security of the whole country, with the defence of the whole country. While prosperity is necessary, while life of man must be made happy, let us not forget that if life is to be made happy, life must exist and while happiness is the responsibility of the State, the existence of the nation, the existence of the life of the nation itself is the responsibility of the Centre. Therefore when a plea is made for redistribution of resources of revenue, we are inclined to forget this basic factor that before we can think of happiness, before we can think of good life, the existence of the nation has to be assured. Therefore no arrangement should be made which should really deprive the Centre of the sustenance that it derives today.

I have already said that the Constitution divided the sources of revenue on this basis that if a tax could have a locale, a regional limitation, it was given over to the States. When it was of an all-India character, it was given to the Centre. But then the Constitution-makers realised that this distribution would not leave the States with adequate sources of revenue for their development. Therefore they divided the whole gamut of taxes into four classes, namely, taxes levied and collected by the Centre and hundred per cent kept by the Centre, then taxes collected by the Centre but wholly transferred to the States;

[Shri B. K. P. Sinha]

thirdly, taxes levied by the Centre but collected by the States themselves; fourthly, taxes levied and collected by the States. But then the Constitution-makers realised that the States might be left with inadequate revenues. Therefore they made several other provisions. One was the devolution of taxes based on the recommendations of the Finance Commission which was to be appointed every five years. Taxes which are devolved on the States the Centre has no say in the expenditure of those taxes; those taxes, though they are collected by the Centre, as of right belong to the States.

Then there was provision for grants-in-aid. If after devolution it was discovered that the resources of the States were not adequate for meeting their necessities, then in that case the Constitution lays an obligation on the Union, on the Centre, to come in aid of the States and this expedient has been made use of constantly and to an increasing extent during the last 20 years. Apart from that, there is provision for special grants if there is drought, if there is famine, if there is flood. In that case the Centre transfers a part of its own resources to the States and leaves them free to spend those resources in whichever manner they like. Therefore this division of resources is based on the understanding of the nature of our Constitution, based on a deep understanding of the nature of the economic process, because taxes are based on the economic process. This division is based on the clear understanding that while the States must provide their citizens with a happy and prosperous life, the Centre must provide the conditions in which the nation's existence may not be jeopardised or threatened. I feel that the experience of the last 20 years does not lend weight to the argument that there is necessity for change in the constitutional provisions in this regard.

Mr. Deputy Chairman, our problem is not that of maldistribution of resources, but our problem is that of paucity of resources. We have a very short cloth with which we have to clothe both the Centre and the States. It should be the endeavour of both the Centre and the States to increase the measure of that cloth, to increase the combined resources of this country and only when the resources of this country rise higher and higher,

it will be possible for this country to provide resources both for the Centre and the States. I do not feel at this stage any argument has been advanced which could persuade any man of reason to support this Resolution. I therefore oppose this Resolution, this Resolution if very, ill-timed when forces of chaos are rising in every part of the country, when the unity of this country is being threatened and when the Chief Ministers of important States say that the Constitution should be so amended that regional parties should have a sort of combination at the Centre and the regional parties of the States must have a say in the governance of the country from Delhi. In this contest, Sir, to raise this demand is, in my opinion, to give sustenance to the forces of chaos, disorder and disruption. I therefore oppose this Resolution. Thank you.

SHRI CHITTA BASU (West Bengal) : Sir, I rise to support the Resolution brought forward by my friend, Shri A. P. Chatterjee. I was listening to the speeches of my esteemed friend, Mr. Sinha, and other friends who spoke before him. Sir, one thing, which Mr. Sinha wanted to prove was with regard to the nature of our Constitution. I beg to differ with the approach of Mr. Sinha with regard to the basic character of the Constitution which we are working today. Of course, our Constitution cannot be called a federal Constitution but it is not at the same time a unitary Constitution, there are elements of federalism; there are elements of unitary system. But if I am permitted to quote one expert who has made constitutional studies, then I will come to this conclusion that our Constitution can be characterised as a quasi-federation having several features of a unitary system.

Basically our Constitution envisages certain or to a large extent elements of federalism. We cannot say that our Constitution is unitary in character. That being so, it would be unwise to give much more emphasis on the unitary character of our Constitution. Rather in the present strange circumstances prevailing in the country, it is the spirit of federalism, it is the spirit of give and take, it is the spirit of maintaining and fostering better relations between the Centre and the States which can ensure and guarantee the much-needed stability in our country. It is not the imposition of unitary elements in the Constitution which can ensure the stability of the country. Rather it is the spirit of federalism, it is the practice of federalism

which can ensure to large extent the stability of our country. With these preliminary remarks I want to discuss the Resolution before us. As it has been stated earlier in the House on many occasions, the State Governments run either by the Congress or by any other political party or combination of political parties to-day have been systematically raising the point that 'the States are being starved of their resources to meet the needs of the States. I think you would agree that it is the State Government which is in closer touch with the people of the State. They are directly responsible to sponsor and implement welfare measures and naturally to raise the standard of living of the people of the State concerned but in order to do that they require resources but as it has been suggested or pointed out by me on many occasions, the resources of the States are very limited and restricted. It has no scope for elasticity. It is inelastic so far as the States resources are concerned. On the other hand although I agree that the Government at the Centre has also a very large proportion of the duty to discharge for which enormous resources are needed but it cannot be altogether denied that there is no necessity for further broadening the scope of the resources for the Centre. Here it is not a question of competition between the State and the Centre. The Centre has its own responsibilities and for that they are to secure their own resources for the efficient discharge of those duties but that does not mean that the States do not require any further increase in the resources to satisfy the needs of the States. Therefore the question is not whether the State is more responsible or the Centre is more responsible or whether the States require more finance or the Centre requires more resources for the efficient discharge of their responsibilities. The question is how best we can mobilise the resources both for the States and the Centre for the satisfaction of the needs of the people which are rising and would be continuing to rise. You might have seen that most of the States have been forced to have deficit budgets and so it is quite clear that expanding resources are not at their disposal. It has been said that in the matter of devolution of the divisible share, the Finance Commissions are constituted in accordance with the provisions of the Constitution. In that respect, I wish to bring to the notice of the House certain facts. I do not grudge or say that the Finance Commissions are partial. I do not say that they are not bodies which are created by the Constitution. I do not say that it is not above executive

or which is politically motivated. That is not my grouse. I accept that the Finance Commissions are impartial bodies, are bodies formed under the Constitution and there is no question of influencing the Finance Commissions but you would agree when I say that the Finance Commissions, since the day of their inception, have been emphasising the need for greater resources for the States. You may remember that before the inception of the Finance Commission, 50 per cent, of the pool created by the Income-tax was to be distributed among all the States but since the First Commission felt that there was greater need for the States, they decided to increase it to 55 per cent. Equally the Second Finance Commission decided to increase it to 60 per cent., the third to 66%, the 4th to 75% of the pool from the Income-tax. That means that all the Finance Commissions—even the fifth Commission—did really understand that there are greater needs for the States and allocations should be made in larger quantities to the States but they did not stop here. Even in the matter of division of other Excise Duties, earlier it was only the three items which were divisible. Now almost all the items of the Central Excise are divisible but the percentage has been decreased and from 30% of the three items earlier, although all the items have been covered, the percentage of the division has been decreased to 20% but all these go to prove that the Finance Commissions did not underestimate the needs for larger allocation for the States. Therefore it is not a question of the Finance Commissions being partial. It is not the question that the Finance Commission did not do justice to the States. Rather it is the Finance Commissions—the first, second, third, fourth and the fifth—which felt that greater allocations should be placed at the disposal of the States to meet the increasing needs of the States but my point is that even with the generous attitude of the Fifth Finance Commission, even with the generous attitude of the Central Government, the needs of the States have not been fulfilled. Rather it has come to a saturation point. So some of the other things are to be tapped. So other sources are to be found so that the increasing need of the States can be satisfactorily and adequately met.

Then when the Constitution was framed and the provisions for the constitution of the Finance Commissions were incorporated, at that time there was no Planning Commission. Now in the matter of allocation of funds or in the matter of

[Shri Chitta Basu]

developmental work, the Finance Commission has assumed a very important and vital position. While the Finance Commissions meet every five years and give their recommendations, the Planning Commission and its work is a continuous process. Every year the Planning Commission suggests allocations of funds for the developmental works of the States but there is no clear and precise definition of the jurisdiction between the Finance Commission and the Planning Commission.

As a matter of fact, I am tempted to quote from the speech of the Chief Minister of the State of West Bengal, Mr. Ajoy Mukherjee, to emphasise the particular point of the role of the Finance Commission and the Planning Commission. The Planning Commission, it is admitted, has been impressing upon the States the need for mobilisation of larger resources for larger plans, but the Fifth Finance Commission in their recommendations has not allocated sufficient funds which can meet the gap between revenue income and revenue expenditure. On the other hand the demand of the States goes on increasing. For example, the expenditure to be incurred on the revision of pay of the State Government employees continues to grow. Again, for example, since the West Bengal Government has to meet the additional expenditure for giving additional benefits to the State Government employees, several crores of rupees have to be provided for. Thus there is increase of expenditure. On the other hand, land revenue has been abolished upto three acres of land. It is not only in the case of West Bengal. It is the case in Bihar. It is the case in U.P. and I think it should be the case in all the States concerned. Thus the resources at the command of the States are being depleted whereas the burdens on the States are increasing. But the Finance Commission does not take into account this increasing burden on the States and the Planning Commission continues to emphasise the necessity for mobilisation of larger resources for their plans. Larger plans are required for the development of States and larger resources have to be mobilised for the purpose. Now, if we are to mobilise larger resources, naturally the sources are to be there. And in the sources that are there, there is no elasticity. For example, the State Governments can increase their income only by way of increasing the sales tax. But I think by this time almost all the States have reached the saturation point in the matter of sales-

tax. If you go to scrutinise it you will find that during the last few years the sales tax has been increased to a very large extent and it has reached the saturation point. Therefore, some other avenues are to be found out and it has been suggested that some share, some part of the corporate tax, which is not divisible at present, can be included among the other avenues to be found. Out of that pool of corporate tax some part of it can be made over to the States. Similarly, customs duty, which is not divisible between the Centre and the States now, can be included into the divisible pool and a share of it can be given to the States. Therefore, if you accept the increased needs of the States, it is the duty of Parliament, it is the duty of Government, to find out the resources to satisfy adequately the increased needs of the States. Now this cannot be done without amending the Constitution, and for that purpose only this Resolution is for our consideration. Earlier, I referred to quoting from the speech of Shri Ajoy Mukherjee. Now I quote.

"Although this means an increase of Rs. 34 crores per year, it may be remembered that since the award of the Fourth Finance Commission- in 1965, our liabilities on account of dearness allowance, etc., have increased by Rs. 53 crores annually. Dearness allowance is being granted at Central rates since March, 1969."

Now only one point I want to emphasise. There has been the recommendation by the Fifth Finance Commission for the increase of Rs. 34 crores. But then the liability has increased by Rs. 53 crores. Therefore, where is the additional gain for the State? The Centre comes in here because the State employees are to be given the allowance at Central rates. The State Government cannot brush aside the demand of its employees, because it is logical, it is legitimate, for the State Government employees to demand dearness allowance at the Central Government rates. Therefore, Sir, my point is that, while the liabilities of the States have increased, even the recommendation of the Fifth Finance Commission has not been adequately commensurate with the increased liability. There is the scope of raising loans. The State Government can raise loans, but if the State Governments cannot repay the loans, the Central Government is not going to give their consent to raising loans. So even the question of raising loans is not always permissible.



and that consent has to be obtained from the Centre even for raising loans. The State Governments are in a position where, as I said, they cannot increase or broaden or expand their sources. Therefore, Sir, what is to be remembered in the present context is that there is no other alternative than to have all alternative arrangement for increasing the resources at the disposal of the States. In this connection I want to quote one Chief Minister on the question of resources. He is Mr. C. N. Anna-durai and I am sorry he is no longer alive. I quote Mr. Annadurai.

"All resources belong to the people-The State Governments reflect the aspirations of the people more closely than the set-up at Delhi. Therefore, when the issue of enlarging the resources of the States is raised, the Centre should not consider it as a request for charity. When the Centre derives the benefits of personal and commodity taxation it also under-takes the corresponding obligation to divide the proceeds among the States so that they can fulfil their own constitutional obligations. The Centre should not forget that the State Governments, being nearer to the people, are more responsive to their aspirations."

Our friend was suggesting that the Centre has got a larger responsibility to discharge. Yes, but equally the Centre has also got the responsibility for meeting the needs of the States, whom they also represent. Therefore, Sir, this new arrangement cannot be done within the framework of the present Constitution. The demand for larger autonomy, the demand for larger financial assistance, to the States does not mean subversion of the Constitution. Some of our friends, who spoke earlier, wanted to make out that any demand for the amendment of the Constitution, which is necessary according to me and according to some other friends for a new arrangement, for a better financial allocation between the Centre and the States, is to be taken as subverting or wrecking the Constitution. Under the Constitution, as it stands at present, it is not possible to make any alternative arrangement unless some amendments are made in the relevant Articles of the Constitution. For example, Sir, there is no clear-cut division of jurisdiction between the Finance Commission and the Planning Commission. The Planning Commission has got a very important role to play in the matter of allocation of funds. Under

the present set-up, under the present Constitutional provision, a Finance Commission can be set up only after every five years. But I feel and many State Governments feel that the Finance Commission should be a permanent body.

MR. DEPUTY CHAIRMAN : It is 5 o'clock now and some other business has to be taken up. Will you please wind up now ?

SHRI CHITTA BASU : Yes, Sir. Even to make this small change that the Finance Commission, instead of being appointed every five years, should be a permanent body, the present Constitution does not allow it. Even for such a small thing, which is not of a controversial nature, the present Constitution does not provide. Therefore, how is it that some Members have got this allergy to say that any attempt at amending the Constitution means wrecking the Constitution ?

(Time bell rings)

MR. DEPUTY CHAIRMAN : Will you please resume your seat now. We have to take up the Half-an-Hour Discussion now.

5 P.-M.

#### REFERENCE TO REPORTED PROROGATION OF THE JAMMU AND KASHMIR ASSEMBLY—*contd.*

SHRIMATI YASHODA REDDY : Sir, before you start the half-an-hour discussion I have to bring to your notice that at about three o'clock I had raised a question about Kashmir and every Member of the House, both this side and that side, had requested the Chair to direct the Government to make a statement here before the House rises today.

SHRI OM MEHTA (Jammu and Kashmir) : No direction was given to the Government.

SHRIMATI YASHODA REDDY : The Chair had asked the Minister and the Minister promised to convey our request to the Home Minister. As you know, Sir, the Kashmir Assembly has been prorogued which is very unconstitutional. We want to know now whether the Home Minister is making a statement before the House rises or not. Whatever