(i) Statement No. IV—Eighteenth Session, 1957.

(ii) Statement No. VI—Seventeenth Session, 1957.

(iii) Statement No. X—Fifteenth Session, 1956.

(iv) Statement No. XV—Thirteenth Session, 1956.

(v) Statement No. XV—Twelfth Session, 1956.

[See Appendix XIX. Annexures 3STo. 59 to 63 for (i) to (v) respectively.J

I.THE UNION DUTIES OF EXCISE (DISTRIBUTION) BILL, 1957—*continued*

II. THE ESTATE DUTY AND TAX ON RAILWAY PASSENGER FARES DISTRIBUTION) BILL, 1957—*ontiuned*

SHRI EISWANATH DAS (Orissa): Sir, I was speaking on this question on the previous day, that is, the day before yesterday. Under article 26y, Parliament has to lay down the principles for the distribution of estate •duty and certain other duties and. in accordance with the provisions of that article, these two Bills have been presented to us. While speaking on these Bills the day before yesterday, I was placing before the House certain facts to show how unfairly the State of Orissa was being treated in this regard and I explained with specific reference to facts and illustrations how hard it will be on Orissa if the recommendations of the Finance Commission as embodied in these Bills are to be given effect to. Having done that, "Sir, I now come to the other aspect of •the question, namely that in respect of the tax on railway passenger fares. In this connection. I have to bring to 1he notice of Parliament that during the British administration, railways

were extended in areas which were helpful and useful to British trade with the result that certain specified States had the benefit of this expansion of railway services. Orissa State, extending over 60,000 square miles in area has got only 900 miles of railroad out of the total of about 34.000 miles. We have wide areas which have yet to be opened up what to speak of development. Under these circumstances, we feel that the railway administration has not been fair to us but we wait to see that justice being done. To add to that,—to say that you cannot give us immediate extension is something but—you also deprive us of our due share of the tax on passenger fares which is certainly painful.

I now come to the other Bill, the Bill which levies enhanced duties on coffee, tea and a number of other commodities. It is unfortunate, Sir, that people in certain States cannot and have not reached that stage of financial self-sufficiency to make use of these commodities to an extent which would enable them to get their auc share in proportion to their population. Unfortunately, Sir, as the Finance Commission has said, neither the Planning Commission nor the Government of India have yet enquired, as I stated day before yesterday, into the needs or the requirements of various States as also their taxable capacities. Without considering these things, they have again brought in a system of grants in the course of their planning, called the matching grants, by which a State would earn development grants, at the disposal of the Planning Commission, if it is able to find an equal amount which it claims for its development. That means that the unfortunate States which are kept undeveloped for no fault of their own are still pushed to the background and they won't see the light of development because they cannot find money to have the matching grants. They cannot get their due share of the additional

[Shri Biswanath Das.] duties because their purchasing capacity has not reached that pitch which would make them have the benefits of the excise duty on those commodities like their brethren in other States. All these are stated to show that the financial arrangements as envisaged either by the Planning Commission or as envisaged by the Finance Commission or as they have been translated into action in the shape of these Bills are a shock, are a severe shock and a deep shock on the people of these States. Therefore, I press upon the Government certain things, namely, that an immediate enquiry is called for if it is the desire of Government as also of the Planning Commission that an even progress of India, uniform progress of India should have to be planned, programmed and carried out. Sir, unless and until this is done, you will have two Indias, one the developed part, and the other part constituting the undeveloped States of India; the undeveloped limbs of the body politic of India and the developed limbs. That will be a position which will be intolerable for the entire body. Therefore, I suggest to the Government and the Planning Commission that an early enquiry be taken up to see how far the taxable capacity of the people of the States have been increased as also how far the level of development has taken place in the course of these ten years of planning, as well as the needs of the various States and also of the various areas. Thirdly I would also request the Government and the Planning Commission to see that an enquiry is undertaken as to the need of the areas that have yet to be opened up in the various States, States like Assam. Madhya Pradesh, Orissa and Rajasthan.

Sir, these are very urgent matters and ought to be the concern both of the Union Government and the Planning Commission. With these, I take my seat and hope that early action* will be taken.

SHRI H. D. RAJAH (Madras): Before this Bill can be proceeded with in this House I raise a point of order. This Bill is *ultrx vires* ot the Constitution. Article 269 clearly indicates the duties and taxes, two-of them for my purpose, being, "estate duty in respect of property other than agricultural land"; and "taxes on railway fares and freights". These things can come only under article 269. In article 269(2) it says: "The net proceeds in any financial year of any such duty or tax, except in so far as those proceeds represent proceeds attributable to Union territories, shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that duty or tax is leviable in that year, and. shall be distributed among those States in accordance with such; principles of distribution as may be-formulated by Parliament by law."

Now, the principles of distribution must be formulated first by Parliament by law. Probably, the Government is taking shelter under article 280 of the Constitution. But it does not help them. Article 280' of the Constitution says: "The President shall, within two years from the commencement of this Constitution....... " —I do not want to read out the whole thing; you can see that — ".... constitute a Finance Commission" etc. Then in 280 (3) it says: "It shall be the duty of the Commission > to make recommendations to the President as to (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds". That is all so far as (a) is concerned with regard to taxes; there is no reference to the principles of allocation. Then we come to (b) which says: "the principles * which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India". Therefore, the principles with regard to taxes are first to be formulated by Parliament by law and then, on those principles, the allocation recommended by the Finance Commission should be made to various States. That is the point. Sir.

Then I come to the second point. Article 272 of the Constitution more clearly states what should be the basis and the method by which ex cise revenues are to be allocated. With regard to tax the reference is m article 269. Then with regard to excise duties we have article 272 which says: "Union duties of excise other than such duties of excise on medicinal and toilet preparations *at* are mentioned in the Union List shall be levied and collected by the Government of India, but, if Parlia ment by law so provides, there shall be paid out of the Consolidated Fund of India to the States to which the law imposing the duty extends sums equivalent to the whole or any part of the net proceeds of that duty, and those sums shall be distributed among tjhose States in accordance with such principles of .'distribution as may be Eormulated by such law."

Therefore, Sir, in view of these provisions in the Constitution, the Bill which has been introduced is totally out, of order. Parliament should be finally responsible to adumbrate the principles and such principles must be adumbrated in the Bill that are introduced in our House for the purpose of allocation or distribution of revenues.

Now, Government realised the mistake with regard to another Bill which was introduced in the other House and debated upon. I have a copy of that Bill, "The Additional Duties of Excise (Goods of Special Importance) Bill, 1957." What did they do there? There they changed the Preamble completely. When they introduced that Bill the Preamble stated: "A Bill to provide for the levy and collection of additional duties of excise on certain goods and for the distribution of a part of the net proceeds thereof among the States and to declare those goods to be of special importance in inter-State trade or commerce." That was the Preamble which they had put in that Bill originally. But wh*en a certain Member of the other House pointed out the defect in that Preamble, Government of course insidiously, indirectly accepted that point of order aind reintroduced another Preamble, which is found different from the original Preamble contained in the Bill. Now, I will read out that Preamble which the Government had reintroduced: "A Bill to provide for the levy and collection of additional duties of excise on certain goods and for the distribution of a part of the net proceeds thereof among the States in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its Report dated the 30th day of September, 1957, and to declare those goods to be of special importance in inter-State trade or commerce."

Therefore, the wording is very vitally and fundamentally different from the original wording. Therefore, Sir, I would request you to give a ruling on this matter and see whether we can proceed with the discussion on this Bill.

SHRI B. K. P. SINHA (Bihar): Mr. Chairman, **Sir, this** point of order is a long speech.

MR. CHAIRMAN. And your reply?

SHRI B. K. P. Sinha: Sir, I have my own opinions on that point of order raised by that long speech. It boils down to this that the principles should be first laid down by Parliament and thereafter, after those principles have been enunciated by a resolution or by some other method and thereafter when the principles have been accepted by Parliament, a Bill should be brought in accordance with those principles, that is, the Bill should come after the principles are enunciated. It is a fallacious argument. If my hon. friend were a lawyer he would have realised the fallacy of his argument. The Constitution nowhere says that the laying down of the principles should precede the enactment of a Bill which contains the principles. It may precede it. But the Constitution does not bar the contemporaneous laying down of the principles.

That is the short reply to the point raised by my friend. Where the Government have put forth certain principles it is for Parliament to accept those principles or reject those principles or modify them. When we accept a Bill we ourselves lay down the principles.

My hon. friend pointed out to some Preamble. But Preamble never forms part of a Bill for the purpose of elucidating its meaning. Maybe to give a proper language or a proper wording to clothe his intentions the Finance Minister might have done that, but since he did that, it does not mean that what we are doing here is wrong. I therefore, feel that there is nothing in his point of order.

SHRI KISHEN CHAND (Andhra Pradesh): Mr. Chairman, may I just illustrate this point In a few words? The Finance Commission was appointed to enunciate certain principles and the Finance Commission in its report has given in detail the principles on which this distribution should be made. The only question is whether the acceptance by the Government of the Finance Commission's Report and the principles laid down by the Finance Commission amounts to an acceptance of those principles by Parliament. The Finance Commission has laid down that so much percentage will be distributed on the basis of population; so much on the basis of source of collection. These are principles laid down by the Finance Commission. Does the acceptance by Government of the principles enunciated by the Finance Commission amount to an acceptance of those principles by Parliament? And does any law or any Bill formulated on the basis of those principles satisfy the condition? I agree with Mr. Rajah to the extent that the principles enunciated by the Finance Commission should have come in the form of a Resolution before both Houses of Parliament and both Houses of Parliament should have discussed and come to the conclusion that they accept the principles laid down by the Finance Commission. Once the Parliament has accepted the principles laid down by the Finance Commission it is all right. Mr. Sinha's contention is that if you accept the Bill and in this Bill there is mention of the fact that the Bill has been prepared on the basis of the recommendations of the Finance Commission, then it would be all right. There would have been an implied assumption that we are accepting these principles; I submit that without it the concurrence of Parliament has not been given to the principles laid down by the Finance Commission.

SHRI H. D. RAJAH: May I say in all humility that the principle is not to be recommended by the Finance 'Commission? The principles which should govern the grant-in-aid of the revenues of the States out of the Consolidated Fund of India, for that only, the principle should be recommended by the Finance Commission. With regard to sub-section (3) (a) there is no preference to principles at all. I would request you to go through that article and give me your enlightened ruling.

MR. CHAIRMAN: I will ask the Finance Minister.

[SHRI SONUSING DHANSING PATIL (Bombay): I have heard the objection and the reply thereto. The power of this House is limited as far as the Money Bills are concerned. Article 110, sub-clause (3), states that the decision given by the Speaker of the other House is binding and so whatever objection is raised by Shri Rajah is not tenable.

THE MINISTER OF _ FINANCE (SHRI T. T. KRISHNAMACHARI) : Sir, I have no desire to take shelter under a point of that nature. The position is this matter was discussed in another quarter also. The principles should be stated. In a matter like this one has to proceed naturally on the Report that the Finance Commission has submitted. They discuss the pros and cons, they lay down certain norms and then from those norms they deduce the percentages, and those percentages are given effect to in Ithis Bill.

The question naturally might be asked about the provisions of article 272 and article 269. This and the other Bill are covered by the two articles where the questions of principles are mentioned. The real thing about it is if it is anything arbitrary. Suppose Government comeg forward here according to article 272. The rules covered by article 272 are rules by which the Central Government can levy excise duties and the money will go to the Consolidated Fund and be used for Central Government purposes. Supposing the Government says, we propose to give away about Rs. 30 crores of this amount to the States and we shall distribute the amount, any particular percentage we like, then it is as a safeguard against an action of that nature that a Bill is brought before the Houses of Parliament.

Article 272 says the principles must be laid down. Here, what has been done is the appointment of the Second Finance Commission which, again, is a statutory body. The Constitution lays "down that we should appoint a Finance Commission within such and such a period. The Finance Commission has reported and the Report has been placed on the Table of the House. Every action that is taken is on the basis of the recommendation of the Finance Commission. Whether the Finance Commission has properly argued or not, or whether they have in so arguing taken their stand on correct norms or not, is a matter which undoubtedly every hon. Member is entitled to go into. If the hon. Member who spoke just now says, I do not accept the basis on which this money has been divided, I do not think that the Finance Commission should have given only 25 per cent, of the duty on such and such commodity, he will be perfectly within his rights. In holding the view that the Finance Commission has done something with which he does not agree he will be correct. Nonetheless, the whole thing has been canvassed by the Finance Commission.

Naturally, in a Bill of this nature what can I do in order to bring in the principles, to elucidate the principles, excepting perhaps to take out a chapter out of the Finance Commission's Report and include it as a schedule. In fact, in the other House, on another measure of this nature, where it is practically a new taxation—not one that we are accustomed to, as is this one—we got over

[Shri T. T.Krishnamachari.] the difficulty by merely amending the preamble, amending the title.

Formerly, we were enacting our laws in a different way. We used to say, whereas such and such thing nas happened, then we would say, whereas the Finance Commission has recommended the principles under which the money should be distributed, it should be enacted in such and such manner. That practice has been given up lor one reason or another and we felt that the best thing to do in the circumstances, in order to get a physical relationship between the recommendations of the Finance Commision and the measure before the House was to amend the long title. The long title has been amended.

If, Sir, hon. Members of this House feel that the long title should be so amended, I am completely in their nands and I am quite prepared to -get the long title amendment. Excepting for the fact that the Bill will have again to go to the other House and it will have to be done fairly quickly I find no difficulty in it. So far as the question of embodying the principles is concerned, the principles are the principles which guided the Finance Commission. They are known principles and we can make a reference to it. Beyond that I do not think anything can be done in the body of the legislation.

MR. CHAIRMAN: I think the point raised has a point about it. Of course, it should have been taken up at the time when the Bill came before the House at the time it was moved.

SHRI H. D. RAJAH: It can be raised at any time.

MR. CHAIRMAN: It does not matter. I am not talking about it at great length. But if we can do it the mere reason that it will cause sonns delay should not prevent us from making it absolutely correct and in conformity with the thing. That is, if you say subject to the principles or whatever it may be and mention the Finance Commission, it will be a tacit acceptance of the recommendations of the Commission by the Parliament, though it may not have been discussed separately. Some thing like that may easily be done.

SHRI H. D. RAJAH: That is what should be done.

MR. CHAIRMAN: You will do it later on.

SHRI T. T. KRISHNAMACHARI: May I move an amendment to the long title?

MR. CHAIRMAN: Yes. Mr. Shah.

[MR DEPUTY CHAIRMAN in the Chair.]

SHRI M. C. SHAH (Bombaj): Sir, I rise to support the motion moved by the Finance Minister. We have to accept the recommendations of the Finance Commission. As the Finance Minister has already explained, the recommendations of the Finance Commission ought to be accepted as a matter of convention, the Finance Commission being a semi-judicial body. I know that the State from which I come, that is the Bombay State, has been done an injustice by the present Finance Commission. The first Finance Commission has also done some injustice with regard to the sharing of the income-tax. They had allowed 20 per cent, on the basis of collection and 80 per cent, on the basis of population. But this second Finance Commission has rather changed that. They thought that nothing should be done so far as collection was concerned and it should be on the basis of population. However, they have recommended 10 per cent, on the basis of collection and 90 per cent, on the basis of population.

Though the State of Bombay and the State of West Bengal have been done injustice, I do not propose to lodge a protest. Unfortunately, we have not to discuss the report of the Finance Commission and therefore it become: very difficult. . .

SHRI KISHEN CHAND: Under this Bill you can bring forward all the principles of the Finance Commission.

SHRI H. N. KUNZRU (Uttar Pradesh): Why cannot we discuss the report of the Finance Commission under this Bill?

SHRI M. C. SHAH: I thought it might be difficult, but somehow or •other there are other important questions that come up before us when we read the report of the Finance Commission.

The Finance Commission has not allotted these grants on the basis of the efforts which the States have made to raise the taxation. It was stated by the first Finance Commission that our predecessors thought that while considering the eligibility of a State for a grant-in-aid and the amount of the aid, due weight should be given to a State's effort, so that the States which raised adequate taxes were not penalised and no premium was put on lack of self-help. That principle has been . overlooked.

Sir, by this Bill the Central Government will have to pay to the State Governments Rs. 47 crores more than what was the average payment during the first Finance Commission period. Rs. 93 crores on an average was paid; now they will have to pay Rs. 140 crores. An extra sum of Rs. 47 crores' will have to be paid. In addition, the Teduction in the interest rates will •come to Rs. 5 crores. In all Rs. 52 crores will have to go to the States. I do not grudge that, but the financial position of the Central Government so far has not been rather a happy one.

SHRI KISHEN CHAND: How do you get Rs. 52 crores? It is only Rs. 29 crores in each subsequent year at the current level of taxation. It is stated like that in the memorandum.

SHRI M. C. SHAH: If you agree with the conclusions of the Finance Commission. . .

SHRI KISHEN CHAND: I am saying about this Bill. It is stated here in the Bill as it is presented.

SHRI M. C. SHAH: I am just telling you according to the Finance Commission's recommendations. The devolution will be of the order of Rs. 140 crores. The devolution in the First Five Year Plan was on an average Rs. 93 crores. So, Rs. 47 crores will go to the States in addition to the remission in the rate of interest to the extent of Rs. 5 crores. So, Rs. 52 crores will go to the States. That will be the rate of depletion of the finances of the Central Government.

What is the position so far as the States are concerned with regard to their taxation efforts? In the First Five Year Plan the State Governments had to raise Rs. 230 crores, but they raised only Rs. 80 crores. Their performance during the First Five Year Plan with regard to the raising of taxation is very poor. The Central Government had to give loans. The debt figure of the States has increased from the amount of Rs. 390 crores in 1951-52 to Rs. 1,163 crores in 1955-56. That means Rs. 773 crores increase in debt. Out of that Rs. 773 crores, I am afraid the Central Government has advanced by the end of 1955-56 about Rs. 600 and odd crores. So, the State Governments have not made efforts towards raising taxation, raising their own resources.

[Shri M. C. Shah.]

What is the position with regard to the Second Five Year Plan? The States were expected to raise Rs. 225 crores as was stated in the Second Five Year Plan. Rs. 450 crores were to be raised altogether by the Centre and the States. Later on, to fill the gap of Rs. 400 crores that was uncovered, Rs. 850 crores were to be raised. It was not mentioned as to what portion of this amount was to be raised by the States. Still Rs. 225 crores were to be raised by the States. What is their performance for these two years? The Finance Commission says according to the data given to them by the Planning Commission that they have yet to raise Rs. 206 croies. That means Rs. 19 crores for the Plan period only have been raised up to the first year of the Second Plan. At the same time it looks that they will not raise that much, and so there will be difficulty so far as the Central resources are concerned.

Now, Sir, Central resources also are not in a happy position. We had a deficit in the first year of the Plan to the extent of Rs. 241 crores, Rs. 181 crores for the Centre and Rs. 60 crores for the States. This year there is deficit financing for the Centre to the extent of Rs. 280 crores and Rs. 100 crores for the States. So far as the States are concerned, because they get these Rs. 52 crores, that will be lessened to that extent. But the position of the Central Exchequer will be desperate. Even the Prime Minister the other day, on the 14th April, spoke that the real problem was the problem of internal resources, more production in agriculture and industries. What is the position with regard to internal resources? We can only fall back on taxation, borrowings and savings. Borrowings are far short, and about savings also the position is very deplorable. Now, the Centre will have to provide these Rs. 52 crores plus Rs. 9 crores to be given under the interim report of the Pay Commission for the remaining period. Perhaps for the whole year it will come to Rs. 12 crores. I am. afraid that there will be an addition of Rs. 20 crores at least when the final report comes. The internal resources position is rather very weak. What about taxation? We have already raised taxation to the extent of Rs. 800 crores. The Finance Minister in September 1956 told us that he would come once, twice or thrice a year with proposals for taxation. He came in September and increased the excise duty. He came in November and put the capital gains tax, the compulsory deposit scheme and other taxes. Then he came in May, 1957 and raised nearly something like Rs. 100 crores in a year. At that time, he had announced that he would now come forward only for certain minor adjustments here and there because taxation had reached the saturation point. We do not know what is in the mind of the Finance Minister. We cannot expect him also to say what is in his mind. But we can infer that these minor adjustments will be a relief rather than taxation. There is no scope for taxation now so far as direct taxation is concerned. Last time, having accepted the thinking of Prof. Kaldor, he reduced the income-tax on personal incomes and perhaps, according to the recommendations of Dr. Kaldor, he will have to reduce it further and there will be a gap.

Now, so far as the additional excise duties are concerned, he said on the 8th September, 1956 here that the Bill was brought not primarily **for** revenue purposes, although they would get revenue. They wanted to-mop up the extra profits and also-inhibit consumption. Both these objectives were more than fulfilled. The taxation became rather very **hard** so **far** as the textile industry was concerned, in October and November.

Then, relief was absolutely necessary because, when that Bill was introduced and was passed, the position was that extra profits were to be mopped up and consumption was to be inhibited. Extra profits were mopped up. There is no doubt about it. Consumption was also inhibited and there were huge accumulations of cloth in the mills. The textile industry is one of the most important industries of this country, having about Rs. 400 crores of industrial products.

So, when these two objectives were more than fulfilled, it was the duty of the Government to see that some relief ought to have been given when the industry was in distress. But, in November, the Minister for Commerce and Industry said that tnt position was not yet abnormal and that they were normal accumulations. In December also, the Minister for Commerce said the position was not abnormal. On the 14th December, we hear that there is a reduction of 6 pice only for medium-count whicn consists of nearly 75 per cent, of the production. It had gone down to 66. Formerly, it was 75. Now, it may be - about 70 per cent. So, out of Rs. 80 crores of excise duties on textiles, we get about Rs. 60 crores or so on the medium count. One-fourth, 25 per cent, was reduced. This means that it will be in a year Rs. 15 crores of loss in revenues. It has been stated that this will be temporary relief up to March 31. I think the measure was rather belated and also it had not gone to the fullest possible extent. I am sure, in spite of the assertion that this is temporary up to 31st March, it shall have to be continued.

SHRI KISHEN CHAND: The hon Member is speaking the truth.

SHRI M. C. SHAH: Circumstances have changed and so, I have changed *(Interruptions)* according to the needs of the country. I have to do that.

So, the loss is about Rs. 15 crores. There is accumulation in everything and at the same time, no possibility for additional taxation, so far as matters go, because the Finance Minister himself said, when the Budget was being discussed, that he would come only for minor adjustments, because he knew that the position was rather very difficult to base more taxation. Therefore, so far as the position on the Central finances is concerned, it becomes very difficult and it is absolutely necessary that efforts should be made to persuade the State Governments. If it is not possible, they should issue directives to them that they should make efforts to raise taxation, though I am very doubtful as to whether they will raise the additional taxation that is required of them. The Finance Commission has already reported that there are heavy arrears of taxation to be collected in the States. The commercial undertakings are also showing losses. About electricity rates, they do not get enough to pay those interest charges on the capita] invested. Then about, irrigation charges also, there is difficulty. All those difficulties have been mentioned and the position is rather not a very happy one.

I, therefore, suggest that the Central Government should bestow serious consideration *on* all these aspects. We should like to know as to how the Central Exchequer will get additional revenues.

Sir, the position is this. The States, in the First Five Year Plan, had an overall revenue deficit of Rs. 57 crores. In the first year of the Second Five Year Plan, the revenue deficit of the States also is a big amount. This year also it is said to be about Rs. 86 crores. This position requires rather very serious consideration. If more revenues or more resources are not brought forward, then we will have to resort to deficit financing and the moment you resort to it, there will be inflationary pressure. In the

[Shri M. C. Shah.] First Five Year Plan, we resorted to deficit financing to the extent of Rs. 340 crores or so. In the first year of the Plan—we have it on the authority of the Planning Minister—we had *a* deficit of Rs. 241 crores. In the second year, it will be about Rs. 280 crores at the Centre and Rs. 100 crores in the States. That is also on the authority of the Planning Minister. I have got those figures with jne.

SHRI H. N. KUNZRU: This is only the revised deficit; it is not the final deficit.

SHRI M. C. SHAH: I am just talking about the Second Five Year Plan. How are we going to meet this difficult situation? Perhaps, the House and the country would like to know how the position stands. There must be a frank statement on the needs tha* exist today so that we can know the position. We are told that there will be a defiicit financing of the order of Rs. 900 to 1,100 crores. Already, we will have more than Rs. 500 crores in two years. The Finance Minister replied in the other House that he would resort to only Rs. 900 crores during the Plan period in the third and fourth year, there would be deficit financing and that in the fifth year, there would be no deficit financing. I do not know how it will be possible unless there is something like heavy taxation at the Centre. But that has to be replied to.

SHRI J. S. BISHT (Uttar Pradesh): Why not cut your coat according to the cloth?

SHRI M. C. SHAH: That is for the Government.

SHRI H. N. KUNZRU: But can't the hon. Member in the changed circumstances speak about that too?

SHRI M. C. SHAH: The circumstances have not changed because I am not the Minister. But I see the circumstances in the country as they are today.

SHRI H. N. KUNZRU: I mean precisely that.

SHRI M. C. SHAH: That is all right. So, Sir, I was just stating that the additional taxation, so far as the Centre is concerned, has already reached more than Rs. 800 crores during the Plan period, and there will be a further deficit and further drawing on the Central Exchequer to the extent of about Rs. 72 crores plus some relief in the excise duty and perhaps some reliefs in certain other matters. Now, Sir, I am always for the implementation of the Second Five Year Plan, the core of the Flan. But at the same time, for the core of the Plan we require foreign exchange to the extent of Rs. 700 crores. In this connection, Sir, the fundamental question will be about our internal resources. When the Prime Minister spoke in Calcutta, he complained about the bad habit of the States coming to the Centre for help. The Prime Minister, while addressing the Associated Chamber of Commerce in Calcutta on the 14th, after referring to the shortage of foreign exchange, said that the real problem, however, was the internal resources which must grow in agriculture and industry. Then the Prime Minister criticised the State Governments for having made it a parctice to demand supplies from the Centre because these supplies were easily secured, but they failed to apply as much pressure as was necessary in developing production and so on and so forth. So, Sir, I very much welcome the States to be helped. But while helping the States we should not endanger the position of the Central resources also. It is absolutely necessary to help them, but at the same time, they must be advised very strongly that they must also

/aise additional resources by additional taxation as was expected of them. They had failed to do so in the First Plan. In the Second Plan too, 30 far they have not come up to our expectations, and if we read the report very carefully, I am afraid that they will not be able to come up to our expectations. And therefore the position will ne this that there will be a vicious i-irele. The States will be coming to l"he Centre for help and the Centre frill be resorting to deficit financing. *nd if there is more deficit financing, there will be inflation and the prices will rise and also our expenditure will Use. So, I think that earnest efforts si-ould be made from now on and it is hifc'h time that we take stock of the situation in order to find a way out so that <ve may not have any difficulties so faj as the implementation of the core O:' the Plan or the base of the Plan is concerned. The Finance Minister saio' that he hoped to be able to spend Rs. 4,800 crores with these inflated prices. I wish that it could be done, because it is absolutely necessary. We nvist raise the standard of living of the people in the whole country. But 1 must also say that serious thought should be given to our resources position.

MR. DEPUTY CHAIRMAN: Mr. Shah, no repetitions, because the time is limited.

SHRI M. C. SHAH: Sir, if we read the reports of the industrial delegation, we will find that even if there is help in foreign exchange, unless they get the matching rupee finance here in India, it will be of no use. And the rupee finance here is very scarce and very difficult to get. Even the Finance Minister himself admitted the other day in the Lok Sabha that all the liquid assets of the industry have already been exhausted in expansion, wid therefore after the money market it, brought under control, we will be in a position to help the industry.

So, Sir, I feel that the Finance Commission's report gives us a good deal of thought, and I am sure that tha Government will seriously think on all these aspects and will take the necessary steps to see that the Central finances are augmented in order to fulfil the main objective of the implementation of the Plan. Thank you, Sir.

MR. DEPUTY CHAIRMAN: There are still eight more speakers, and we have not just two hours and thirty-five minutes. So, not more than 15 minutes each.

SHRI KISHEN CHAND: Sir, the two speakers on the Congress benches had an hour and fifteen minutes. I think all the remaining time should be allotted to the Opposition.

MR. DEPUTY CHAIRMAN: Fifteen minutes each. Shri Narayanan Nair.

SHRI PERATH NARAYANAN NAIR (Kerala): Mr. Deputy Chairman, Sir, apart from the constitutional point that has been raised about this Bill, to meet which the Finance Minister has agreed to bring in an amendment, I feel that it would have been very much more helpful if this House had an opportunity of discussing the recommendations of the Second Finance Commission in full. That would have enabled the House to understand the policy in its entirety and to view the whole thing in a proper perspective. But that has been denied to us.

Now, Sir, the provisions of the Bills before the House point rather glaringly, in my opinion, to the tardiness of the deal which the Second Finance Commission has meted out to the States. Without meaning any reflection on anybody, I must say that the Commission has not succeeded in holding the scales even as between the Centre and the States. I know that the Commission had to function under certain constitutional limitations. It was not their job to have made any

[Shri Perath Narayanan Nair.] overall assessment of the needs of the States or the Centre, to have gone into the taxable capacity and the untapped sources of revenue which yet remain to be tapped by the Centre or by the States. They had to accept the existing set-up and they had to adjudge on the figures and the information given by the States. Even so, Sir, one cannot resist the feeling that the recommendations of the Commission have been weighed very much more in favour of the Centre and much against the States. It is true that the Finance Commission was concerned only with the revenue budgets of the States and there is the Planning Commission to go into the development aspects of it. Now, I would like to ask, Sir, where precisely this line of demarcation between the revenue budget and the developmental budget is drawn. Unless you keep a certain administrative set-up of requisite standards, unless you maintain social services of certain required levels, all your efforts to raise any superstructure of development will come to no fruition. We know that the States are being hard put to it to find the necessary funds for meeting their requirements with regard to social services. Education, public health, communications and everything else are in charge of the States and they come more and more in direct contact with the people. And as the previous speaker has himself remarked, the States have been functioning under vast deficits. The Second Finance Commission are fully aware of this aspect of the question. They have even noted the recent trend of increasing devolution of federal revenues to the States.

MR. DEPUTY CHAIRMAN: You will continue after lunch.

The House stands adjourned **till 2 o'clock.**

The House then adjourned for lunch at one of the clock.

The House re-assembled after lunch at two of the clock, MR. DEPUTY CHAIRMAN in the Chair.

SHEI PERATH NARAYANAN NAIR: Sir, before the House rose for the lunch-break, I was saying that the Finance Commission had accepted the postulate that there must be a more proper devolution of the revenues from the Centre to the States. They have also stated that in the set-up in India income-tax returns being stagnant, this devolution can be mainly only in respect of excise revenue. Having accepted that postulate, what really is their recommendation in respect of excise duties? In 1952-53 the Central Government were levying excise on 13 items and the revenue amounted to Rs. 83 crores. By 1956-57 the number of items on which excise duty was levied had gone up to 29 and the revenue had increased to round about Rs. 260 crores. That shows that the Central Government has touched upon this excise revenue as an elastic source of revenue. It was the unanimous demand of all the States that the total revenue from all the items together must be brought into the divisible pool. What exactly the Commission has done is this. Whereas the division under the previous dispensation was about 40 per cent, of the revenue, they have reduced it to 25 per cent. It was the unanimous demand of the States that the returns from all the items should be included in the divisible pool. They have now agreed just to add five more items to the three which were brought into the divisible pool. All the other items have been left out. Now, we are treated only to just percentages of this division. We do not know the absolute figures to find out to what extent the States will be really benefited by this. But these two things, namely, that several items have been left out of the divisible pool and **that the** Commission has thought it necessary to reduce the percentage from 40 to 25 per cent., have worked to the great disadvantage of the States **and** that is why I say that the Commission has not given a fair deal to the States.

As between the States, the division is on the basis of population. The majority of the States have asked for that and coming, as I do, from Kerala, on that particular score in respect of the excise revenue, I have no quarrel. But in regard to the allocation of grants and the division of the tax on passenger fares, the position of the States is that almost a shabby treatment has been meted out to the States. With regard to the allocation of grants, especially in the case of backward States like Kerala, Orissa and others, I think their case has not been considered with the attention that they deserve. But I think I will be getting another opportunity to refer to that and so I will not go into it today and trace the historical background of the revenue position in some of the States and how the financial integration worked to our disadvantage in certain respects. For that I will get another opportunity. But even with regard to the division of the tax on passenger fares, the acceptance of this route-mileage principle works as a serious.- handicap to the States like Kerala and Orissa and other backward States where the route-mileage is comparatively short-Because we have not got adequate rail links we cannot develop our industrialisation and when we ask for industries you say you do not have the railway lines. So, this siort of thing has been going on. But the other speakers especially from this side of the House will refer to this matter and so I leave it at that.

Now, I want to draw the attention of this House to another and serious aspect of the relationship between the States and the Centre in respect of taxation proposals. The Finance Minister here, the Planning Minister and even the Prime Minister, have **all** rightly, inside Parliament and outside also, been exhorting the States to put forth their very best effort to step up taxation so that the increased expenditure on development and under the Plan may be met. Even on the occasion of the last Finance Bill, agricultural wealth was left out for taxation by the States. And now, on their own, because of their appeals and in their anxiety to finance this Plan expenditure, States like Kerala for example, have agreed to levy a surcharge on income-tax including plantations. I think it was a proper thing for the State to have done. But we have this unusual thing of a responsible Minister of the Union Government going there to the State on an official visit and at a press conference lashing out against the State Government for just doing these things. Mr. Morarji Desai has gone there and he has picked up particular taxation proposals, the surcharge on income-tax and the sales-tax on cashew etc. and for these particular taxation proposals, at a press conference, the Union Minister has taken the State Government to task.

SHRI H. D. RAJAH: What is your basis to say he has done it?

SHRI PERATH NARAYANAN NAIR: Well, I have got here the report in The *Hindu* before me and the full thing is there. I can pass it on to the Minister. I want to know if this is the sort of healthy convention that the House and the Government would like to be established with regard to the relationship between the Centre and the States. I have absolutely no quarrel if Shri Morarji Desai goes there as a Congressman, as a party man. In that case he has every right to criticise the Government and we as a political party will stand up and face the criticisms also. But that is not my point. Here he is a responsible Union Minister going to the State on an official visit and then at a press conference he has done it. Here I have got the report of the interview he has given at Ernakulam on the 9th of December. It has come **out** in a responsible paper like The Hindu.

[Shri Perath Narayanan Nair.] There it is not on general policies or general things, political things, that he has touched on and attacked the State Government. No. He has taken this particular tax, the surcharge on income-tax and he says that the sources of revenue there in the State are being dried up. He says that the industrialists get scared and again in regard to the item of sales tax. . .

(Time bell rings.)

Just two or three minutes more. It is a very serious thing and I want to get a clarification from the Government.

The sales-tax on cashew works out at 4-7 per cent, whereas in the neighbouring Mysore State it is 1-7 per cent. Now, because there is no uniformity in the rates of sales-tax all the various States have been put to difficulty about it. I think at the last Finance Ministers' Conference this question was gone into and an agreement has been arrived at to levy a sort of uniform saies-tax on the items as between neighbouring States. All that is quite good and I have no objection; if the Central Ministers feel that the State Government is not doing well or is going wrong, they have got umpteen methods by means of directive, by means of friendly advice, through Finance Ministers' Conferences and all sorts of Conferences. My objection is for a Union Minister to go there and publicly castigate the State Government for their taxation proposals. Now, I don't say that this is the policy accepted by the Union Government. No. For a fact, the Planning Minister had occasion to go to Kerala. When asked of him at the press conference, whether he would criticise or pass judgments on the Kerala State, he said, "No." The State Government is part of the Central Government of which he is a Minister and he did not do it publicly. Again the Prime Minister himself has stated, with propriety, that he could not publicly accuse a State Government. All that is there, but here we have got this unusual spectacle of a Union Minister going there attacking specific taxation proposals and not only that, the industrial policy. Now, as a result of discussion in the Tripartite Committee, an agreement was reached in regard to the working conditions of labourers in regard to bonus and other things. As a matter of fact the Union Minister was invited to be present at that. He was completely within his rights to have given those people his opinion in the Committee.

(Time bell rings.)

But at the press conference just to publicly lash against a State Government, I feel, is not proper. I am just proceeding on the basis of press reports. I have absolutely no access to other information from there and when I find reports in a paper like The *Hindu,* naturally, I must draw the attention of the House. Is **that** the sort of healthy convention which the Government would like to be established in respect of relationship between the Centre and the State?

Thank you, Sir.

SHRI KISHEN CHAND: Mr. Deputy Chairman, I am very glad that the hon. Finance Minister is here because I want to place certain facts before him and I would request him to very carefully consider the implications of" the facts that I am placing before him. The Finance Commission's report is not going to be discussed by us; if it was discussed by us, we would have . had occasion to carefully scrutinise all the implications of their suggestions about the distribution of income **from** excise and income-tax and various other taxes collected by the Centre, but the hon. Minister is as **much:** interested in the better financial condition of the States because after all it is the finances of the States which **are** spent on the people residing there— on the development of education, health and other facilities. The result of budget proposals is that progressively the hon. Minister is levying excise duties and if you go on levying excise duties, the prices of articles go on increasing. Naturally, it is not possible for the States to levy sales-tax at a high rate because the two together will increase the burden on the consumer very much. So, a levy of excise duty on consumer goods results in the lowering of the rates of sales-tax by the States on the consumer goods because they cannot maintain it at that high level.

Then we have adopted the policy of prohibition. Regarding land revenue, the holdings are becoming smaller and smaller and the agriculturist cannot pay. The result is that the sources of income of States are diminishing. Naturally, they have to look to the Finance Minister of the Central Government for giving them greater amounts from the collections made at the Centre. When the Finance Commission came to Hyderabad, almost all Members of Parliament from Andhra Pradesh submitted a memorandum to them and the sum and substance of that was that the State should get 40 per cent, share of all the excise duties collected by the Centre, on all the articles. That was demand No. 1. Because that was the rate at which the share of the State was fixed in excise duty by the first Finance Commission. Now, I cannot raise any objection against the Finance Minister because he will say that this is the recommendation df the Commission and he had to accept it, but the result is that though the number of items have been increased, and 4 or 5 new items have been added, on account of the lowering of the rate from 40 to 25 per cent, the States are going to get only about Rs. 2 or 3 crores extra. So, it is a great hardship. I should like the hon. Finance Minister to very carefully examine this question, whether he cannot give 40 per cent, of all excise duties; **and** in particular I draw his attention to the fact that the biggest income in excise duty is derived from cotton cloth. The income is nearly Rs. 80-crores. By excluding that from **the** list of articles on which the excise duty is shared by the States, the hon. Minister has deprived them of nearly Rs. 20 crores. So, there should be some principle. Why should you select out only a few articles? Where is the fundamental difference that you^ should include tobacco and not include cloth or some other item? The hon. Minister must carefully consider whether he cannot extend the benefits-which accrue to the States in the share of excise duty so as to include all the articles. Secondly, the rate has been reduced, from 40 to 25 per cent.; even, at the reduced rate of 25 per cent, if textile had been included, the States would have got another Rs. 20 crores. The han. Member who preceded me, Shri M. C. Shah, tried to point out and argue that the States are not losing their share and as the duty on medium cloth has been reduced, the Centre is going to get about Rs. **1ft** crores less and if they go on giving the share of excise duty, it will be a great burden on the Central revenue. I submit that it is eventually the money that is received by the States which goes to the benefit of the people, and the Centre will have to consider what sources of revenue have been left to the States, whether they are sufficient, wlether there is a taxable capacity left in the people so that the States may levy those taxes. I maintain that the States cannot levy any further taxes. The capacity has been reached to the maximum and it is only possible if the Centre makes a contribution. Otherwise, the Second Five Year Plan will fail as the States will not be able to provide the funds. They have no source of revenue and the-Centre must contribute. I whole-heartedly support the previous speaker when he stressed the fact that wa should get the full 40 per cent, of the

[Shri Kishen Chand.] excise duty on all articles. That is item number one.

I now come to the case of the State .from which I come, Andhra Pradesh. You will note, Sir, that the total excise duty on tobacco comes to nearly 41 crores of rupees and, out of this sum of Rs. 41 crores, Rs. 25 crores .come from Andhra Pradesh. If the hon. Minister had given them 25 per cent, of this sum collected from Andhra Pradesh, Andhra would have got nearly *6{* crores from this item alone but under this new award of D-3 per cent., Andhra Pradesh is going to get only Rs. *2* crores. There should have been some other compensations. When we submitted a memorandum to the Finance Commission, we pointed out to them that because it contributes a larger part, Andhra Pradesh should get a bigger share in return. I can point out other examples. West Bengal gets a special privilege on the duty collected on jute. Some other States get certain privileges on account of the duties levied on articles exported from those States but, in the case of Andhra, no such benefits is given. Sir, the Finance Commission, during the course of discussion, suggested that it would foe fair if the excise duty was levied on all articles, including textiles and was distributed amongst all the States •on the basis of the population. **The** deputationists agreed to that viewpoint because they thought that if "textiles were included, and as Andhra Pradesh did not have much of textile industry, the share that would come lo Andhra would be higher and would act as a sort of compensation. Take, again, Sir, the case of vegetable oils. In this case also, Andhra Pradesh produces much more than 10 per cent.— it produces nearly 20 per cent, of all vegetable oils produced in India. That is a big source of income. In the case -of sugar, there is no benefit because **•the** amount of sugar produced in Andhra Pradesh is in proportion to the population of Andhra Pradesh. The result of all these calculations is that Andhra Pradesh contributes a very large part of those items on which excise duty is levied but, when **the** time of distribution comes, they get their share only on the basis of population. That is very unfair. An hon. Member from Orissa was **very** eloquent on the point that some States are backward. He is quite right in asking for more grants from the Centre but when it is a question of distribution of excise duties, the principle should be something different. Certain States specialise in certain commodities and you levy excise duties on the articles produced in those States but, at the time of distribution of the excise duties, you adopt the policy of population. This leads to unfairness, inequity. The total expectation from all these nine commodities is Rs. 115 crores out of which about seven crores of rupees is supposed to be the share of the Centrally administered areas. This leaves Rs. 108 crores. Of this sum of Rs. 108 crores of excise duty collected, Andhra Pradesh contributes nearly Rs. 30 crores, and from this sum of Rs. 30 crores, we are given only Rs. *2* crores. Is it fair? I leave it to the hon. Minister and I do hope, considering the backward situation of Andhra Pradesh in the industrial field, he will come forward and give them a slightly bigger share out of the excise duties. I demand this only on grounds of fairness. I do not ask for it as a concession.

We are considering the other Bill also. That Bill deals with the estate duty and the tax on passenger fares. In the case of estate duty, it is distributed on the basis of population **and** here also, Andhra Pradesh does **not** get anything extra. *(Interruption.)* It is not getting any extra benefit. We are getting our due share. In **the** matter of the tax on railway passenger fares, this is to be distributed on **th«**

basis of the railway lines in the !J3tate compared to the total railway lines in the whole of India. There also we are getting our share. The resujt of all this is that where Andhra should get a slightly greater weightage, it does not get the weightage bu1 is given its bare share. Where it is a question of getting full share of I the duties paid to the Centre, it does not get that. I do not want to take Anything away from the share of the o^her States. Everybody should get t|heir share but some States are industrially advanced and some are industrially backward and they have their 3wn sources of income. In the matter of distribution of income-tax, the industrially advanced States get a slightly bigger share.

SHRI H. D. RAJAH: Is it not on the basis of population?

SHRI KISHEN CHAND: Eighty per cent, is on the basis of population land twenty per cent, on the source of (collection. Therefore, the States which contribute a larger share get the weightage but, in the matter of Uijiion excise duties, I beg to submit, Sib, a better deal should be given to Anqfhra Pradesh.

SHRI C. P. PAR1KH (Bombay): Mr. Deputy Chairman, I have carefjally heard what Shri Biswanath Das and Shri Kishen Chand have saiq. I think each one has been talking afbout his own State.

SHRI KISHEN CHAND: No, aljiout fairness. I was asking only for fairness.

SHRI C. P. PARIKH: Proposals I are made from each State. Each State has been advancing its own reasons, bne State has said that it should be on the basis of population whereas the other has said that it should be on the basis of collection while a third State says that it should be based on ton-sumption. All these different arguments are there and so, it is Very difficult to find out what should be accepted and what should not be accepted. The Finance Commission' has gone into these three aspects and has evolved a system by which the revenues derived from income-tax, Central excise duties, estate duty, tax on passenger fares, etc., can be distributed. So far as the backward States are concerned, the Finance Commission has given a great importance to this aspect of assisting under-developed States. Sir, the Planning Commission in their Report said that the States should raise revenues to the extent of Rs. 225 crores out of. which sales-tax alone accounted for Rs. 112 crores. The rest was made up of land revenue, agricultural income-tax, betterment levy, irrigation levy, electricity duties on motor vehicles, a stamp duty, duties on properties, etc. All these heads were open to the States but the States have not acted up to the expectations. It is very generous of the Centre, Sir, to see that the tax on railway passenger fares amounting to a sum of Rs. 12 crores is wholly given to the States. I think, Sir, that this tax on railway passenger fares should have gone to the railway revenues and not to the general revenues of the States. Mr. Kishen Chand talked about the excise duty on cloth but, Sir, excise duty on cloth is a very fluctuating item. If we distribute this excise duty or other duties, what will remain for the Centre has also to be considered. The Finance Minister in his Budget speech said that in the matter of indirect taxation, the saturation point had been reached and that the common man could not bear any more of these duties. In ' the matter of direct taxation also, he I said that industry, trade and commerce could not bear any further j levies unless it was the intention to i dislocate trade and industry. That is I the position. We have reached the I saturation point. I know that very : well and everybody realises that. The Finance Commission has also realised | that the States have got limited I resources for raising their revenues.

[Shri C. P. Parikh.] But even after these considerations they have said what allocations are fair.

Hon. Members are quite forgetting that for purposes of excise duty five items are added. I think, Sir, this point is not properly appreciated. If the five items are added and the percentage is to be reduced from 40 to 25 even then the revenues that will go to the States will be to the extent of seven crores of rupees more.

SHRI H. D. KAJAH: What is your objection to including the duty on cloth in the common pool?

SHRI C. P. PARIKH: The objection is that it will be taken away from the Centre. If the Centre is to go on raising revenue and the States remain silent, where is the Centre going to raise the revenue from? That my hon. friend must understand. The Centre is already in difficulty about the internal resources to be raised by way of loans and by way of taxation, and if more revenues are to be given to the States, then where is it going to get from? What are the sources of taxation? My hon. friend suggests that the Centre should give further, but the economy of the Centre and the economy of the States will not be well balanced. That is the whole point to be argued. The Planning Commission's report is there. The Finance Commission's Report is there. I think, Sir. they have realised the difficulties of the States and we are not appreciating that the difficulties of the States have been realised to the fullest extent.

In matters of grants-in-aid they have raised it from Rs. 16 crores to Rs. 40 crores, an addition of Rs. 24 crores. If we see the Central Budget which has been presented, the Centre will have to give Rs. 7 crores more by way ' of excise duty, even after reducing the percentage from 40 to 25. The Centre will also have to give Rs. 7 crores on account of income-tax because the percentage is raised from 55 to 60. The Centre, has not a treasury which is over-full, from which it can distribute unlimited or full revenues. So, additional amount of Rs. 14 crores is going to the States. Over and above that they get Rs. 12 crores by way of a tax on railway fares which is levied by the Centre to assist the States in their difficulties.

Now, Sir, with regard to the additional Rs. 24 crores as grants-in-aid, if we analyse it quite properly we will realise that the grants-in-aid are distributed in a very judicious manner. The three big States, which all the other States envy, are getting nothing and they are Bombay, U.P. and Madras. Sir, very few Members appreciate this. When States are backward then naturally the grants are given to them in a fair proportion. As I said, these grants have been raised from Rs. 16 crores to Rs. 40 crores. It is very well to argue that every State should get more. I am in favour of .every State, especially that the undeveloped States should get more. The question is whether they should get it by way of development expenditure or capital expenditure. That point has also to be appreciated. For development expenditure the additional amounts which the States will get will be to the extent of Rs. 50 crores more every year, and Sir, when the Central Budget was placed last year and the State Budgets were there, this was not anticipated by the Centre. So, there will be a shortfall in the Centre, and the present Central Budget which is surplus will be in deficit on account of this distribution. That must not be forgotten.

When theae taxes were levied by the Centre everyone in the House said that the indirect taxes would be a burden on the consumer, on the poor man, and that the direct taxes would cripple the development and growth of industry, trade and commerce. These arguments were advanced ana we must not forget them. Then where Is the Centre going to get more? From what sources? That we must realise. The States very well know that they have to raise revenue. But have they made sufficient efforts to raise the revenue even if their sources of revenue are limited? Their sources are limited; it is recognised. Even then the Finance Commission recommends that before giving any further assistance it must be seen that the States put in their best efforts. But the State Budgets are in deficit and the State Ministers are unwilling, or rather the State Finance Ministers are unwilling to impose further levies lest they should become unpopular in their own States. That is the whole thing I will point out.

SHRI PERATH NARAYANAN NAIR: When actually some at least of the States impose these taxes, the Union Ministers take them to task.

SHRI C. P. PARIKH: In what way and in what method? That has to be explained. It is no use making a general remark of that nature. The Planning Commission has recommended the levy of certain taxes but, Sir, the States have not done it; they have not acted upon it. My time is limited and I cannot go into all these things here.

What I want to point out is that if we make any modifications in their recommendations it will be dangerous. If we take out one piece of recommendation and put another, Sir, the whole structure which they have presented before us will be ruined. I am just pointing out the dangers inherent in making modifications in the recommendations of the Finance Commission. We had the Report of the States Reorganisation Commission and we changed their recommendations here and there and we are reaping the consequences of that. When we make any change or modification we have to be alive to how we change it and what the consequences will be. It is all very good to suggest from this corner or that that the changes are necessary. But the dangers are there. If the recommendations in the Report of the States Reorganisation Commission would have been implemented without a change, there would have been no trouble in the country, provincialism, communalism and the like. All this would have disappeared in that case, and, Sir, we have to learn a lesson from that. When we make these grants it must be clearly understood that we left the matter to an impartial body who have acted in a judicious manner and, Sir, if we begin to change their recommendations, it will be no use appointing any commission **and** also nobody in future will be willing to accept the posts of members of such commissions. That we must realise.

Now, Sir, with regard to the grants-in-aid, Bengal has got an increase from Rs. 3·25 crores to Rs. 4·75 crores. Orissa also has got Rs. 4 crores. Madhya Pradesh about which my friend was eloquent has also got it. All this is an addition to the present grants-in-aid. Many other States have not got it over which Members remained silent. I quite understand, Sir, that developed States should make sacrifice for the common development. We ar» making sacrifices. We quite understand, Sir, that if the undeveloped States rise in the country then only the country will rise; only if the undeveloped States in the country are on a par with the developed States we shall rise. It is no use talking of the city of Bombay or the city of Calcutta. We want that all the State capitals should rise to their full stature and to a great eminence, but that does not mean that we shall do it by bringing down or destroying the existing big cities. We want to make those big cities bigger than Paris, bigger than New York, bigger than London. That is our ambition. So, it is no use destroying what is existing and what is built.

[Shri C. P. Parikh.] **Now,** Sir, I come to development expenditure and capital expenditure. The provision for distribution is for current revenues and current expenditure on development. As regards capital expenditure, there are loans and these will be separate. The Planning Commission has made the recommendation in this regard and we are not appreciating that matter also. This is only expenditure distribution and not the distribution of capital expenditure which is given by loans. Sir, wherever there is industrial development or wherever irrigation works have to be constructed, there the loans are judiciously given.

We see, Sir, what are the State loans which are outstanding; they are to the extent of Rs. 880 crores; and we see where they are given. They are giyen at important places. Punjab has Rs. 155 crores; West Bengal Rs. 135 crores; U.P. Rs. 90 crores; Orissa Rs. 70 crores; Madras Rs. 61 crores; Bombay Rs. 59 crores; Bihar Rs. 52 crores and Andhra Pradesh Rs. 52 crores, each State getting according to location and according to its capacity to exploit the resources. They are given adequate loans. Hon. Members have forgotten the judicious recommendation of the Planning Commission with regard to repayable dates, which, I know, the Finance Minister or the Government of India have not still accepted. Existing loans will be repayable after 15 years or after 30 years according as they mature before 1967 or after 1967; and the rate of interest in some cases also has been brought down to 3 per cent, and 2V per cent. Now, Sir, this recommendation is at present not accepted; we quite see. I think, Sir, it is very well that the Finance Minister is not committed to this recommendation because, over and above this, the States hav« raised their own loans, and repayment of all loans will naturally be not possible by the States. But it must 1 e realised that the Centre ! has also to raise loans and the loans will be required further. If there is no redemption of these loans or if these loans are not repaid by the States, how far are we going to raise public loans and small savings about which every Member is speaking **that** the small savings are not raised adequately to the extent that is necessary. Small savings have fallen to the extent of 30 per cent, and so have the public loans also, and I think, Sir, we have no bright hopes also of raisi ing big public loans or small savings. As regards our internal resources they are falling. Therefore, we must remember that the period of extension for the repayment of the loans will be a great facility to the States. The Finance Minister may or may not accept it but, Sir, accommodation will nave to be made in one form, or another. The recommendation as it comes may not be accepted in its present form, but as the Government has referred this, namely, the method of repayment of loans, as a special term of reference, they will have to consider it before throwing out the recommendation. But the main point is how the new loans will be raised and how they can be repaid. We must look to the internal resources and these resources are found quite inadequate. We can increase the expenditure on the Plan from Rs. 4,800 crores to Rs. 10,000 crores, but **are** we able to raise the resources? **That** is the main point. You can increase all the requirements, but shall we be able to raise the resources, internal and external? And when we come to this recommendation as regards loan extensions, *(Time ball rings)* shall we be able to give them such time?

One minute more, Sir. There is one recommendation, and that is **the** Finance Commission's appointment should be coincidental with the period of the Planning Commission's **Five** Year Plan. If that is done then **there** would be more co-ordination **and** cooperation and adjustments would not be left out one way or the other.

And when we change the basist we must quite understand the great strain on the resources of the Centre before we, make any recommendations of a nature which may not be acceptable to the Government, because this House is responsible not only to the States but also responsible to the Centre. We must not forget as to how the Centre will be able to work and how the Centre will be able to function, how the Centre will be able to give more aid to the States, and how the Centre will be able to raise more resources that are required and for which we are clamouring most.

One last point is with regard to the consolidation of the sales-tax. It Is a very good measure. The Finance Commission has also made a recommendation as regards the sales-tax. The present basis of the receipts from the sales-tax will be there and whatever is additional will be distributed. That is a welcome feature. I think that this sales-tax may be extended more and more to other commodities in future in order that the Centre **will** function better and it will also bring in more revenue. With these wcrds, I support the Bill.

SHRI H. N. KUNZRU: Mr. Deputy Chairman, it is desirable first to state clearly the principles on which the Finance Commission has proceeded. It first took into account the total expenditure on the Second Five Year Plan. Now, this amounted to Rs. 2,162 crores; but the total expenditure to be met from revenue amounted only to Rs. 709 crores. The Commission proceeded on the basis that its duty was to make such allocations to the States as would enable them to meet the expenditure from revenue with the addition of their own resources and the grants likely to be or already practically promised by the Centre. This is how it proceeded. The tptal expenditure to be met from revenue amounts to Rs. 709 crores. The States had agreed to raise additional revenue to the amount of Rs. 206 crores and it seems that the grants likely to be received by the States from the Union are of the order of Rs. 275 crores. Adding these two sums together we find that there is a gap between the available resources and expenditure of about Rs. 228 crores and the Commission saw how it could fill up this gap. It has made recommendations only in order to enable them to meet their revenue expenditure without incurring any deficit. Now, the allocations made by it have been criticised on the ground that they are not fair to this State or to that State. It has taken not merely the overall need oi the States into account, but the need of every individual State and it has given to each State what it needed in order to meet the expenditure to be incurred on the Five Year Plan from revenue. I think in this matter it has proceeded on a very fair basis. My hon. friend, Mr. Kishen Chand from Andhra, has criticised the scheme of the Commission on the ground that it is very unfair to Andhra and he himself suggested that a 25 per cent, share in the yield from the Union excise duties should have been given to the States. Now, these Union duties, taking the additional duties into account, will amount to about Rs. 258 crores. The share of the States would have amounted to about Rs. 64 crores.

SHRI KISHEN CHAND: Yes.

SHRI H. N. KUNZRU: What are the States to do with the Rs. 64 crores? Is surplus money to be left in their hands to be spent on schemes totally unconnected with the Plan or is the Centre to see that all the available funds are utilised only for the fulfilment of the Plan? If the object is merely to give the States a surplus and enable them to do what they like with it, then obviously this Plan cannot be fulfilled.

SHRI H. D. RAJAH: It means an overall deficit in the Plan structure itself.

SHRI H. N. KUNZRU: My hon. friend should be less impatient. We are thinking of the needs of the States just now and not of the Centre. And in regard to the needs of the States, I think it is a good principle that the Finance Commisoion has adopted in deciding how much revenue should be transferred from the Centre to the States. We have to concentrate our attention on the fulfilment of the Second Plan. If we can do that we shall be able to do much more than we expect at the present time. Let us not allow any funds to be frittered away on any purpose other than that connected with the Plan. Here, I should like to ask the Finance Minister a few questions. The States are expected to raise Rs. 206 crores for the fulfilment of the revenue part of the Plan, that is, in order to meet a part of the expenditure on the Plan from revenue. Now, how much of this have the States raised? The Finance Commission tells us that the States were expected to raise **between** 1951 and 1956 nearly Rs. 230 crores, but they actually raised only about Rs. 80 crores. We should, therefore, like to know to what extent the States have fulfilled the undertaking given by them to the Planning Commission with regard to their capacity and determination to raise Rs. 206 crores of additional resources by means of additional taxation or by reducing expenditure or in any other way. At least one hon. Member has said that the States are not in a position to levy any more taxation. Well, then the Centre will have to consider whether it is in a position to meet the unlimited demands of the States for the fulfilment of the Plan; and if it is not in a position to do so, then it must be admitted that the size of the Plan approved for the States is too big for them and it will have to be pruned down.

SHRI J. S. BISHT: How do you expect the States to raise the revenue?

SHRI H. N. KUNZRU: The Finance Commission has stated that the States in their discussions with the Planning Commission agreed to raise an additional revenue of Rs. 206 crores. My hon. friend should now go and ask the States how they propose to raise this sum.

SHRI KISHEN CHAND: Provided the excise duty is not increased. If it is increased, their capacity to tax becomes less.

SHRI H. N. KUNZRU: My **hon.** friend is going a little further than he did in the course of his speech. Let us see what they have proposed to do, how much they have raised in these two years 1956-57 and 1957-58. During these years nothing of the kind that the hon. Member fears has happened.

SHRI H. D. RAJAH: These excise duties are in place of certain sales-' taxes.

SHRI H. N. KUNZRU: These Union duties are not in place of sales-tax. That will be dealt with in another Bill which is not before us. The Centre has agreed to give Rs. **278** crores. to the States already. It **was** mentioned in the White Paper dealing with the Budget for 1957-58 that the Budget provided assistance of about Rs. 70 crores on the revenue side to the States. The principle implied, therefore, in this grant is not a **new** one, but I should like the Finance Minister to throw some light on this— what is the purpose of these grants and what are the circumstances in which the Centre agreed to give Rs. 278 crores without waiting for the recommendation of the Finance Commission?

Now, what will be the total effect of the, recommendations of the Financ; Commission? As I have already said, it will mean the transfer of Rs. 22'! crores of revenue from the Centre to the States in five years. The Centre has already agreed to give Rs. 278 crores to the States, and it will probably give during the next four years something like Rs. 190 crores more to the States. Its obligations to the States to enable them to meet the expenditure to be met from revenue would amount to Rs. 468 crores. I should like the Finance Minister to explain the position a little more than was done in the Budget. He himself, I do not think, said anything in his speech on that point, and the explanation of this grant given in the White Paper was also very brief

Now, Sir, I come to the recommeiv-dation of the Commission with regard to the loans. I agree with the Finance Minister that this recommendation of the Finance Commission for the consolidation of the loans made at various times by the Centime to the States and to extend the period of their maturity raises a very serious question. On the 15th August, 1347 the States owed the Centre only about Rs. 44 crores, but on the 31st March, 1956 their indebtedness had risen to nearly Rs. 900 crores. If the Centre postpones the repayment of these loans, in all likelihood its ability to raise new loans in order to help the States to carry out the present Five Year Plan, and perhaps subsequent Five Year Plans, will be affected, and it is right therefore that the Finance Minister should have made a reservation in regard to this recommendation of the Commission. The recommendation made by the Commission has satisfied no one. Many questions have been raised which, on the face of it, are important, but the Finance Commission was appointed precisely to look into these questions, and I agree with the Finance Minister that unless the Commission's recommendations are accepted, the whole question will have to be discussed *de novo,* and I feel that perhaps at the end of it we shall be no nearer agreement than we are now. I know what the position of the States is. Take my own State, Uttar Pradesh. It is a huge State, and its requirements are perhaps much larger than those of any other State. It gets only about Rs. 4£ crores more under the Commission's plan. I suppose that having agreed to the appointment of a Finance Commission quinquennially, we have implicitly agreed to abide by its verdict. I should like to consider the position of the Centre with regard to these grants which will amount to about Rs. 46 or 47 crores annually.

When the Finance Minister presented the Budget for 1957-58, he told us that if the yield derived from the new taxes amounted to a little over Rs. 77 crores as was expected, he would be able to close the accounts with a surplus of about Rs. 44 crores. Unless the revenues increase further, unless the yield from the taxes turns out to be larger than was expected or the normal growth of revenue is substantial, the Centre will not be able to meet this burden. I suppose that its capacity to help the States further will be considerably reduced.

I should, therefore, like to know what are the further obligations of the Centre to the States in connection with the Second Five Year Plan. There is an expenditure of about Rs. 1,400 crores which has to be met from loans and possibly grants. Now, I should like to know whe- ther, to the extent that the

3 P.M.

Centre has agreed to part with its resources in favour of the States, the grants promised to the States, if any, will be reduced correspondingly. In any case, I should like to get a complete picture of the further obligations of the burden or rather of the help that the Centre will have to give to the States in addition to that which it has already given and to that which it has promised to give in accordance with the recommendations of the Commission.

Sir, I will take just a few seconds more and I will finish.

I have so far dealt with the recommendations of the Commission, but I should like to refer to some observa-

[Shri H. N. Kunzra.] tions of the Commission which, though briefly stated, deserve serious consideration. The Commission says in paragraph 27 of its Report, page 13:

"Some anomalies inevitably arise where the functions of the two Commissions, the Finance Commission and the Planning Commission, overlap. The former is a statutory body with limited functions, while the latter has to deal comprehensively with the finances of the Union and the States in the widest sense of the term. So long as both these Commissions have to function, there appears to be a real need for effectively co-ordinating their work."

That is the first weighty observation of the Commission. Then, it goes on to say:—

"It will be an advantage if, in future, the period covered by the recommendations of a Finance Commission coincides with that of a Five Year Plan."

This is the second important recommendation which deserves attention.

Lastly, it says:—

"Further, it is desirable to eliminate the necessity of making two separate assessments of the needs of the States."

I should like to know, Sir, whether Government has considered these observations and what conclusions, if any, it has arrived at.

SHRI N. C, SEKHAR (Kerala): Mr. Deputy Chairman, Sir, many hon. Members have argued their oases from the point of view of their respective States and also, from the other angle came the argument from Members like Mr. Parikh defending the policy of the Centre, stating that the Centre requires more revenue in the implementation of the Five Year Plan. My complaint is with regard to the devolution, from the Central revenues to the States, of the excise duties. More than eight States have suggested to the Finance Commission that, in the distribution of excise duties, all items of commodities should be included so that the quantum of the excise duties distributed among the States should be increased to help the States to implement their Second Five Year Plans. The Finance Commission, in their Report, has stated the names of those States which have suggested that demand. The States of Bihar, Kerala, Mysore, Rajasthan, Uttar Pradesh, West Bengal, etc. suggested the inclusion of the excise duties in the scheme. These are the States, as everybody knows, which suffer more from their backwardness and also, these States require money to implement huge development schemes. These States consume almost all the commodities over which the excise duties have been levied. Instead of adding all these commodities in the list on which excise duties are levied, the Finance Commission, has raised the number of commodities from 3 to 8, consequently, cutting down the percentage from 40 to 25. Had all the items been included, there would not have been much complaint from the States against the cut in the quantum. On the other hand, **while** adding five more items in the list, they have made a drastic cut in the quantum ***viz.*** from 40 to 25 per cent., even though, comparatively, the States may get a small extent of increase. But the States would not find this adequate as they expected to meet their requirements of expenditure. Moreover, before adding this, even the Finance Commission has argued in favour of distributing the Central revenues to the States on the principle of population. They have also shown that the tendency in several states is to devolve the Central revenues more and more on the units in helping their developmental schemes. At the same time, what the Finance Commission actually did was accepting the principlt of cutting down the quantum, not exactly **help-**

ins the States, to put down the States whLre there is complaint against centralisation. Whereas in the other federal States the tendency against centralisation is increasing more aind more, here centralisation is taking place more and more to the dis advantage of the States, even though the Centre is coming to help *ihe* States. For example, I would like to take the Kerala State. The Finance Commission excluding the item on capital expenditure from the purvi|ew of their consideration stated that tliat expenditure should be met from some other sources. For instance, thare are schemes now under implementa tion in certain States such as, the hydro-electric schemes. Cert lin schemes are at the fsgend of ccm-pletion, at the final stage of their completion. At this stage, a suggestion goes from the Centre to these States that, due to the foreign exchange stringency, they cannot give any licence for the import of certain necessary turbines and such machines for the generation of electricity. Ex>w can such schemes be finished if such a policy is adopted by the Cenlre? They cannot get any gain. Only if those schemes are completed, can they make any profit out of them. Of course, these are all profit-acruing projects. That profit can be gained only if' they are completed in time. That helplessness is there so far as these States are concerned.

I want to dilate on the point of railway passenger fares tax. Of course, the saying is that something is better than nothing. This railway tax |ls a new item which is to be distributed among the States. So far so good. But the principle adopted by the Finance Commission for the distribution of this railway tax is rather, to my mind, unjustified, because almost half the number of the States had suggested that this tax should be distributed on the basis of population as they had suggested in regard to some other revenue also. On the other hand, the Finance Commission has adopted the principle of route mileage. Of course, that may be much more favourable to the States where they have got longer route mileage of railways. But what will happen in the case of Kerala which has got only 464 miles of railway? What revenue can be given to Kerala in the face of its requirements? Of course, Rs. 27 lakhs or something like that is earmarked for that State from this revenue. But as some other States suggested, it should have been done on the basis of population. That would have been very helpful to so many States. Andhra Pradesh suggested it. So also did Mysore and Uttar Pradesh. At the same time, Sir, let me tell you that the Kerala State had been crymg hoarse for more mileage of railways, but the Centre or the Planning Commission did not approve it for so many reasons. Therefore, it should be considered by the Central Government whether they should give some more aid to the States in some other form.

Finally, Sir, the Finance Commission have suggested to respective States to raise taxes from some new sources. There are only a few States where resources by way of taxation are available. A State like Kerala, Sir, is not at all an industrial State. It is an agricultural State, and that too very backward, and the people these are not at all rich people e,arning a lot. They work and get just enough to make a living and they are not so rich as to enable themselves to pay whatever taxes might be levied by the Government. That is why the Kerala Government refrained from imposing any tax on the common people. On the other hand, they have taken measures to levy a certain amount of tax on agricultural estates. By and by, they may accrue some Rs. 50 lakhs over the revenue which they had got in the previous years. When this tax was levied, there arose a hue and cry from the vested interests that the Kerala Government was out to exploit a particular section of the people.

[Shri N. C. Sekhar.] They are the people who are in a position to pay a substantial revenue to the Government. But at the same time, there is no scope to levy any taxes on the common people. There-lore, Sir, it is a very serious question which should be considered by the Government. (Time *bell rings*) Only one minute, Sir.

Then with regard to this sales-tax, of course, every State has its own system of sales-tax and all that. The Kerala Government imposed a sales-tax of four pies on cashew-nuts, whereas in Mysore it was only 1*7. They levied four pies because the cashew-nut industry was concentrated In Kerala, and particularly in the Quilon District, employing some 80,000 workers. But, Sir, there is one thing which I would like to know. How far is it proper for a responsible Minister to go there and criticise that tax policy by saying that if such a tax policy is being adopted by the State Government, then the industry will shift its site to some other State? That is an indirect way of suggesting "All right, if you are being taxed by the State Government, you can shift your site to Bangalore or some other area in the Mysore State." I think, Sir, that that is not a healthy advice at all and it will neither help the State Government nor the Central Government. Rather it will create difficulties more and more. So, Sir, these Ministers from the Centre who go there think that they are helping them. But they are actually creating more and more difficulties for them. *(Time bell rings)* Thank you, Sir.

DR. P. J. THOMAS (Kerala): Mr. Deputy Chairman, Sir, I agree with the speakers just previous to Mr. Sekhar—Mr. Parikh and Dr. Kunzru— that the Report of the Finance Commission is a fair document. They have taken the whole data into account and they have made wise recommendations. The mistake lies elsewhere. The Constitution of India lays down a very centralised system of finance, unlike in other Federations. Here in this Federal Union the two most elastic sources of revenue, income-tax and commodity excises, are allotted to Central Government, while the States get only land revenue which is not at all elastic, and other minor items. Now, the liquor excise is also vanishing. In this way the State's sources are becoming very inadequate. Now one might ask: What is the position in other Federations? In the U.S.A. and Canada income-tax has been a federal source of revenue. And what lately happened in West Germany and Switzerland is most interesting. As a matter of fact, Switzerland is composed of small cantons which are not even as big as our *talukas.* Even then the income-tax, purchase-tax and other similar taxes are for the cantons. And lately there was a referendum taken in order to allocate them to the Centre, and that referendum was against that, and even those States which would have benefited by this voted against that. West Germany is a very important State. There the recent constitution vests these sources of revenue—income-tax and corporation tax and excises—mostly in the States, and the Centre depends upon certain other items, and if there is any deficiency they get it from the States.

Now, to my mind, that kind of development is necessary here also. But the only question is that there are some difficulties in the matter, because after all in those States they had larger incomes and revenues accruing from public utility concerns and public sources of wealth. And I do hope that we will soon have developed our major basic industries and in course of time we are sure to have increased revenues for the Centre. Then I do hope that the Centre will be able to give to the States a larger and larger share both of income-tax and of excises. I hope that that day will soon come, and it is essential because we require our States to have more and more money. In my opinion, for a country like India, with States larger than many independent States of Europe, we want them to have much more resources. In fact, the great bulk of economic activity takes place in the States. We cannot make our States merely *talukas* or as counties as in Great Britain. We want them to be, more or less, in charge of almost all the developmental activities.

Of course, the hon. Minister on behalf of the Government will say that we are having a big Plan and here comes the difficulty. If we want a big Plan—and it is agreed that we must have our Five Year Plan—there are in the public sector certain big activities like the large scale industries and the big basic industries for which we require a lot of money, foreign exchange resources and so on. As for the States they must have to get much more money. These they get from grants. If some States are not able to get the matching grants, that is either due to lack of energy in Government or interest on the part of the people there for raising the necessary revenues. Maybe also due to lack of resources. The whole thing is, in. my opinion, to carry out a plan for a country like India on an uniform basis is impossible. The different States of India are not alike. Some States are backward due to lack of interest or I eagerness to advance, or because there are not the necessary conditions there. I will come to that point later on. My point here is that the development in the different States of India cannot be on a uniform basis and, therefore, it is no use blaming the Finance Commission or anybody for that matter. That, is a fundamental position.

My next point is that it is in a way right that we should be sharing the most important taxes, namely, the revenue from income-tax and excises. But the question is about the basis of sharing it. Some of the hon. Members have also spoken on this and stressed the need for some of the more backward States getting more. Others are against this division on the basis of population. But I would submit that the population basis on the whole is the proper basis for the division of the revenues. I was one of the persons who expressed that view before the first Finance Commission under the chairmanship of Mr. Neogy, and I am glad the present commission have also adopted it and have even gone further in that line. I think the population basis is the most scientific basis because population really records the extent of the needs of each State. After all, we are calling ourselves a socialist society the basis of which is "to each according to his need and from each according to his ability." There are some parts—chiefly Bombay—where wealth has accumulated and there are industries and naturally from them must come more of the revenue, since we are a union.

AN HON. MEMBER: Poverty also is accumulating there.

DR. P. J. THOMAS: That also may be true. But that requires special consideration, especially the case of West Bengal.

In this connection there is one point which I would like to particularly emphasise. Just now I was saying that the different States of India are not alike. They are at different stages of economic development and we must take that into account. It appears to me that the position is like this. Some States are backward because there is no great desire on the part of the bulk of the community to advance. The people are not educated, and there are few schools. In other States like ours of Kerala, although the State is economically backward, there are schools and very large number of the people are educated and there is a great desire for progress. They want employment and employment means more and more industries, small-scale industries, big ones and so on. But

[Dr. P. J. Thomas.] the development of industries in Kerala during the last ten years has not Been as much as in the previous ten years of the Maharaja's government, when we had more development, I should say. After the merger came, some of the older industries have been languishing even, because there is not sufficient interest in that direction. So, in the case of a State like that, we require special consideration, because the people are awake and many are educated and they seek full-time employment. To a people who are not hungry you need not give food, but those who are hungry have to be given. Of course, there is great need for the whole country to have industries, but such industries should be provided especially in States like Kerala where there is such great need to give employment to the people so that discontent may be warded off. That is why Kerala is called the problem State. It is so thickly populated and population is rapidly increasing. The people are also educated and lakhs and lakhs of unemployed people are there walking about wanting employment. I press the comparison because I know most parts of India and I can say that in on other part of the country, indeed in no other part of the world can you see so many unemployed people, young and educated people remaining unemployed.

The position of the different States is something like this. Let us take a family with five or six children. Some of them are infants others a little grown up, boys and girls of 3 or 4 and the others are adolescents of 16 or 17. The needs of the adolescents are far greater than those of the others. Children want only playthings and some clothing and food. But girls of 16 and 17, adolescent girls, they want better clothes, they have got to be married, they want better jewels and so on. In the same way people who are awake, who are educated they want employment more than others and there must be industries and other avenues, otherwise they will be discontented. .So, in the case of each State we have to see at which 'stage it is. Let us help the States according to the stage of their development. That is very important. We have to see whether the people have come to the stage where they are eager for improvement, where they are ready for -sharing the benefits. My hon. friends this side have pointed out that Kerala has raised more taxation. We have been tightening our belts and increasing our revenue. A State in such a situation must be given special consideration.

Lately, I heard that our three power projects under the Second Plan might be dropped because of sticking to the core due to lack of foreign exchange. If that is so then I think that would be most unfortunate and unfair, because these power projects are very necessary and without these projects we will be unable to give employment to our people. What has happened in other parts of India? There, many power projects and big dams have been constructed, but there is no proper utilisation of them because many people there do not want the irrigation water or the power. Having spent all the money the Centre is . suffering now because the large amounts of money they had to spend on these big projects are bringing in no proper returns and all of us have *to* pay for it. That is to say, the thing is a burden on other States. But States where the people are in need of such things where they are prepared to utilise the benefits, they *Are* on a different footing and I do hope the Government and the hon Minister will take this matter into account.

SHRI H. D. RAJAH: Sir, this Bill before being brought into this House should have oeen taken into consideration in a different aspect. After all, the Finance Commission is a creature of our Constitution. After five yeqirs the Second Finance Commission \sfas appointed and the recommendations are before the Government and there is a provision in the Constitution tiiat the principles of the distribution of the taxes collected. . . .

MR. DEPUTY CHAIRMAN: You have already referred to that point and a ruling also has been given. You need not beat that point again.

SHRI H. D. RAJAH: Please hear 'me for a moment, Sir, and then you will know what I say. What I suggesj; is that before the Bill was introduced in this House, the Finance Commission's Report should have been discussed in this House and in that case there wquld have been less of controversy ^nd more of support for the Bill. That is exactly the point that I want to bjring to your notice.

People have started grumbling about various States and the apportionments made by the Finance Cjom-mission. But I think they are all out of order, because the Finance Commission have made their recommendations and the Government has accepted them. Therefore, this is not the place for us to grumble about the natuffe of the apportionment which has been made by the Finance Commission!. If I am to accept the statement of Mr. Kishen Chand, that out of the duties collected in Andhra in respect of tobacco a percentage alone must] be given to Andhra, then the Bombay-wallahs will come out here and say the income-tax collected which is more in Bombay State, should be given in the same proportion. The Finance Commission's recommendation that the division of the other tax should be on the basis of the length of railway lines in a particular State is wrong. But we cannot talk about it. Nowj, the question at issue is, in what way this apportionment is made and wha[t the Government should do for a future consideration. I would now urge on the Government to take, as Dr. Thomas ightly pointed out, the country in two categories. One is a developed portion of the country and another is the undeveloped portion of the country. I am very sorry for the Finance Commission's remark that Madras is a forward State. It is still an agriculturist State. It is not an industrially forward State. Therefore, certain apportionment must be made.

SHRI AKBAR ALI KHAN (Andhra Pradesh): As compared to Andhra, Orissa and others, it is a forward State.

SHRI H. D. RAJAH: 1 accept all the areas which our friends want me to take as under-developed areas. What the Government, on the basis of the recommendations of the Commission, should have done is to categorise.certain forward areas of India and make less apportionment to them and develop the under-developed areas by making more apportionment to those areas. If some such principle was adumbrated and our approval was sought, there was some sense in it. Now, it is a *fait accompli.* What we have to do is to give apportionment in terms of the recommendations of the Finance Commission which was appointed by the Statute and accepted by the Government. Therefore, all demands of the states for more apportionment on this Bill do not arise. That is exactly the point that I wanted to bring to the notice of the House.

With regard to the Ministers of the Central Union going about talking publicly about the taxation policies of the State Governments, it is completely to be discouraged. It does not savour of good manners. They have to see politically what they can do in the matter but to give interviews in public, to go to certain areas and then start criticising about the taxation policies of other States do not savour very well and I hope the responsibilities of Central Ministers will be more realised than merely airing their views in public on other States affairs^.

[Shri H. D. Rajah.] These are the only things that I have to say on this occasion.

SHRI BHUPESH GUPTA (West Bengal): I would only like to mention the particular point since you have been good enough to call me. Attention has been drawn to the statement made by the Minister for Commerce and Industry in Kerala. I think that should be considered by this House and by the hon. Minister. I am aware that the hon. Finance Minister, of late, has developed certain habits which are not very helpful because he would not like to talk to us even in matters of finance. Well, I think that we have not forfeited our right to tell him as to what should be done with regard to this matter. Now, as Mr. Rajah has also mentioned the question, I would like to have the opinion of the Government as regards that. Now, these are controversial matters; I realise that it is a controversial subject as to how the finances of the Centre and the States should be administered. The present arrangement is something with which we are not at all happy and something is due to the constitutional provisions which say that the Central Government should have the financial strings in its hands. Today we are in a constitutional structure which gives ample powers, almost sole power to the Centre to dictate the finances and control the finances of our country. The tea-gardens in Bengal, the plantations in the South, the mills in Bombay and Calcutta are producing the wealth of the land. Now, the finances are raised from there but the State Governments have very little say in the matter. The income-tax, the customs and excise duties which make up the finances of India are almost wholly in the hands of the Central Government. Only certain small matters have been left to the State Governments and there, there is hardly any elbow-room. There is not much room for elasticity or for development or for expansion of the resources of the State. Naturally, the whole question has to be gone into. I know this is not the time to discuss the matter but then a Bill of this kind is brought up, criticisms will have to be made. I don't see anything wrong in the various States making their points of view known. I know that things cannot be altered in an isolated manner; if you raise the allocations for a certain State the other States are to suffer. However, the points of view have to be expressed here; though sometimes we may not be having the all-India perspective. I think these points of view have got to be considered. There is dissatisfaction all over the country. Bengal is not satisfied, Kerala is not satisfied, Andhra is not satisfied and similarly various other States are not satisfied. Why is that so? Was it not possible for the Government to consider this matter in the light of the various criticisms that had been made in the past and come to its conclusions before accepting the recommendations of the Finance Commission? I don't want to criticise the Finance Commission now, but I do say that they are also guided by certain antiquated ideas and antiquated approaches in such matters. We are in a dynamic economy. Our conception of finances should undergo certain changes and we should see that decentralisation also takes place. That is to say, the finances should be so administered that States, especially the under-developed States, get greater and greater scope for developing their financial resources and greater and greater scope say in the matter of finances than they are getting at the moment. The Centre should be also in a mood to part with some of their financial powers. I think Centre's power with regard to the finances of our country is one of the surest index of certain authoritarianism in our economic affairs. I don't like this thing. It has been suggested, where would they find the money from? Hon. Mr. Parikh said "Where would they find the money from?" It is not for me to give the suggestions here. I think those who are managing the finances should also know where they should get the money from. When it is a question of giving money or disbursing the funds of the Government, of the Life Insurance Corporation, you know where to give it. But when it comes to the question of finding money from all these people, you are helpless children as if you are in the kindergarten. This is what is happening. One crore fifty lakhs goes down the drain to a person who has perhaps millions and millions of rupees and when it comes to the question of finding money, you go and harangue to the people "Make sacrifice", as if the people are not ready to make sacrifices for just causes. This is somelhing which we do not understand. Hon. Dr. Thomas thinks that he is living in a socialist society. "To each according to his needs"—that should be the dispensation, we are told. Yes, Mundhra is getting according to his needs but it does not work as regards others. We would all like to see "to each according to his needs" or something approximating that kind of thing but the opposite process has started.

Now, I say this because the whole financial matters cannot be discussed in isolation. It is not a question of a tuppence here or something here or something there. The whole thing should be understood as an integrated whole and not separately. But the States should be given a little more opportunity to have control over the finances of our country. That is of vital importance. Today it is true that in Kerala you don't have your Government. I can understand the discomfiture on the part of some hon. Minister and I can also understand the discomfiture *on* the part of our Finance Minister over this matter but then, you have got the Governments in all other States. In 12 States you have your own Government. Give them powers. They are your party-men. Because I know that if you give them a little more power in such matters, it will be possible for them to improve matters in consultation with others. At least the background will be there, the objective condition will be there and you will be creating a better atmosphere in the country. I say 'Give it*. We are not so small as to oppose extending the financial powers to the State Governments just because the Congress Party is in power. The smallness comes from other quarters when we see that just because a particular Party is in power in a particular State in India which the Finance Minister or some other Minister may not like, a Government Minister goes, drawing all the allowances and all that, to make political propaganda against that political party and throws to the winds all decorum Constitutional decorum included—of a Central Minister. We would not like this kind of thing to happen because the Centre and the States will have to function on an administrative level as far as possible in harmony, in mutual consultation and without throwing mud at each other. That is necessary today and we c|o realise that a long-term co-existence, shall we say, between the Congress Party and the Communist Party in our country is necessary. If that is so, then certain codes of conduct will have to be developed and it does not look well for the Central Government and a Minister of the Central Cabinet to set such an example which amounts to sheer provocation, invitation to all kinds of things which are unhelpful to the development of good conventions that we want to create. For political propaganda, send your own men; you have plenty of men and we can meet them on the political plane. You have every right to criticise the Kerala Government and you can do it legitimately, we shall answer it but let us do it on the party level; let us do it without drawing the allowance from the Government. Do it by your sending the Secretaries of the Congress Party or the Members of the Working

[Shri Bhupesh Gupta] Committee. We can meet their challenge but we would not like in the interest of the country and for the sake of our democracy that the hon. Ministers of the Central Government should combine in themselves the task of attacking the State Government and also carrying on certain official work at the cost of the public exchequer. That is not good and it is not good even for the Finance Minister to support it. This is what I say. I am sorry to have raised that thing but, where else could I raise it?

(Shri B. K. P. Sinha stood up.)

Oh, the lawyer is there. Yes.

SHRI B. K. P. SINHA: I am only seeking one clarification from the hon. Member. Is it the hon. Member's contention that while the Ministers of the Communist Party should be free to criticise certain of our policies, our Ministers should not do the same but rather should behave towards the Communist Party like a henpecked husband does towards a coquettish wife, receive a slap but pat her all the same?

SHRI BHUPESH GUPTA: The hon. interruptor is always very intelligent; but do I understand that he is following the Communist Ministers in this case? I do not think, if you ask the hon. Commerce and Industry Minister of the Centre, he will say that he is following it. Anyway, are we doing it? We do not draw the allowances from the State to go to another State and criticise the'Ministers there. The Ministers of Kerala come here, they discuss with the Ministers of the Central Cabinet but they do not go out in the *maidans* of Delhi criticising the Cabinet.

MR. DEPUTY CHAIRMAN: You have said enough about it. Three of you have raised this point and this has nothing to do with the Bill.

SHRI BHUPESH GUPTA: He raised that point and you were good enough to allow that interruption.

MR. DEPUTY CHAIRMAN: If there is anything else, you can say.

SHRI BHUPESH GUPTA: Since be raised it, I am replying because it is necessary. How could the States function? It is a question of giving money to them.

MR. DEPUTY CHAIRMAN: It is all right. You have said enough about it. You have said this, the other previous speakers have also said this and Mr. Rajah has also said that but what I am now saying is that it has nothing to do with the Bill before the House. He raised it and now you have answered it. Come to the next point.

SHRI BHUPESH GUPTA: Well, Sir, while planning was being discussed, the hon. Finance Minister got up to say that he will not talk to the Communist Party. What has he got to do with that? The Planning Minister should have said that. Not only that, Sir, he got up irrelevantly while I at least got up being called by you. Anyway, Sir, the point is this. What I am stressing is that I entirely support a reconsideration of the matter of the finances. I do not think the present Bill gives any satisfaction, and for good reasons, to the various States. I should not like to criticise the States as if they are being parochial or as if they are being very narrow-minded. Every State has its own problems which we would like to discuss. I think at some level or other this should be discussed and not merely between the Finance Commission and the Ministry. There are other parties and there are other elements. There are independent elements like the hon. Dr. Kunzru and Prof. Thomas. They should also be taken into confidence and they should be consulted in this matter as to how we can evolve a policy which while maintaining the position of the Centre in so far as it relates to its basic duties, gives ample powers to the States; a policy of that kind has to be evolved. We do not like minor alterations in the percentages. That is not enough. I think the whole conception calls for some drastic change. I doubt, of course, whether there will be any such change because I know that it is in the interests of certain small monopolist elements in the country to see that their concentration of economic power also gets reflected in the concentration of financial and fiscal powers in the hands of the Central Government. It is only in their interest and that is why I think we are not making a break from the old policy. Yet, all these States and these various parties do ardently desire that there should be a break from the past and that a new policy in the matter of the finances so far as the States and the Centre are concerned should be evolved. We look forward to such a change and I think it is possible' to evolve such a new policy, given the goodwill and understanding on the part of the party in power.

SHRI AKBAR ALI KHAN; Sir, I would not have spoken on this Bill but for the speech of my learned friend. . . .

SHRI BHUPESH GUPTA: Have I inspired you?

SHRI AKBAR ALI KHAN: ... and some other friends who have raised the fundamental question whether the bias in the Central financial policy should be in favour of the Centre or in favour of the States. That has been the crux of the question that has been raised. I respectfully submit that no doubt every State, especially an undeveloped State, has its demands and its needs which have to be looked into but, Sir, at the same time, let us understand, and clearly understand, that we cannot apply 94 RSI>-5. the principle of other Federations like Switzerland or others to India because here we have got more centrifugal tendencies and the best policy that could be run by adopting the Plans, especially the first Plan and the second Plan, which are in the best interests of the country, could be run only by the Centre and the Centre alone. It may be that we may differ from the Finance Minister, we may differ from the Commerce Minister, but, Sir, I would tell my hon. friend, even if he differs from them or from others, that he has no right, in the interests of the country, to advocate a policy of giving more powers in these financial matters to the States. After all, we have to take a long-term view of the thing. We are not doing this because in Kerala there is a Communist Ministry. Even if in all these States there are Communist Governments or Congress Governments, I would say that the final control should be in the hands of the Centre and the Centre alone and I feel, Sir, that it is not in the best interests of the country to have any other policy.

It is true, Sir, that as a result of the recommendations of the Finance Commission, in regard to certain matters the percentage will be reduced from 40 per cent, to 25 per cent. I do feel, Sir, that this is a hardship especially in places where there is a lot of unemployment or in places like Andhra or Kerala. So, I would recommend that, in addition to this, if there is a State which pays a greater amount of excise duty, for instance Bombay on account of textile mills and Andhra on account of tobacco, then these things should also be taken into consideration when we distribute the taxes. Compensation should be in some form which should be such as to give satisfaction to the people of Andhra and similarly placed other States, which contribute a larger or major portion in respect of certain duties, that they are being treated fairly.

[Shri Akbar AH Khan.] Submitting these two points, Sir, I support the Bill.

SHRI T. T. KRISHNAMACHAKI: Mr. Deputy Chairman, Sir, I am grateful to several hon. Members on this side, who have not merely supported the Bill but also expounded the principle behind the appointment of a Finance Commission, and the manner in which their recommendations should be treated. I am particularly beholden, Sir, to my hon. friend Pandit Kunzru for his remarks, which were indeed very helpful to any Finance Minister and to me particularly at the present juncture, but before I proceed, Sir, to deal with the subject-matter of this Bill and the remarks that have fallen from the mouths of hon. Members may I tell my friends opposite that I was rather perturbed when I heard about the criticism of a very respected and senior colleague of mine? Perhaps, sometime an indiscretion of this nature might be attributed to me because I happen to be one of those [1] who are misunderstood.

I got an extract of the speeches made here, Sir, and sent it to my colleague. My colleague tells me that he did not make any public statements of that nature. He had certain discussions with people, high-placed people in Kerala, mostly people who belong to Government, where they had an inter-change of views.

SHRI N. C. SEKHAR: May I intervene and say that it was a press conference held by him at Ernakulam?

SHRI T. T. KRISHNAMACHARI: As a matter of fact he did not say anything of that nature. He said, "These people are complaining that their taxes are very high", but he did not express an opinion. He merely said what he heard; he did not express any opinion at all. I would like to say this, Sir, that after all my colleague is a person who has had a considerable amount of experience in public life and he is a person who is very correct in his dealings with not merely State Governments but **also** State officials, and I would **ask the** hon. Members to accept the position as mentioned. It might be that somebody. . . .

SHRI BHUPESH GUPTA: I should be happy if it were not true, but it is there in the Hindu of the **10th and** you will find that "Mr. Morarji Desai, Union Commerce and Industry Minister told pressmen". . . .

MR. DEPUTY CHAIRMAN: You depend upon a newspaper report.

SHRI T. T. KRISHNAMACHARI: He did not express any opinion of his own over the matter. He merely said, "These are the complaints I received" and nothing more, and what has been mentioned merely as a complaint made to him has been expressed as an opinion expressed by him. I think it is not fair. Anyway I wanted to clear that misconception. As my hon. friend put it, perhaps each person has his individual capacity and people from Kerala might say things **not** merely in Delhi but perhaps in Calcutta also. Well, I am not saying that what they have said is wrong, but in this particular instance it does not happen to be a fact.

Now, coming to the question of the Bill itself, the point of view really is, as an hon. Member said, that this Report must have been discussed. It was the intention, Sir, that the Report would be discussed on this occasion when we are taking up this Bill and if hon. Members had expressed a desire to discuss the Report, Well, Government would not have stood in the way in regard to allotment of time. But we felt that the Report would be discussed on the occasion of this particular Bill, and in fact nothing else was discussed during the last four hours. It is only the Report of the Commission that was discussed.

Sir, the other point is this. **The** Commission, ns my hon. friend Pandit Kunzru put it, has made a recommendation and we accept it as an award, not because I feel very happy about it. I quite recognise that the States had to be given their finances. At the •same time I have my problem. It may not be quite as easy as my hon. friend opposite thinks. It may be that ■we are in the kindergarten. I am •quite prepared to admit that I might t>e in the state of second childhood; nonetheless the problem . . .

SHRI AKBAR ALI KHAN: Mr. Bhupesh Gupta is not born.

SHRI T. T. KRISHNAMACHARI: I am prepared to say it very frankly.

SHRI BHUPESH GUPTA: All the mothers will be frightened of such children.

SHRI T. T KRISHNAMACHARI: I quite recognise that while the States' demands are there and they are legitimate too, my own difficulty is to meet the overall demands that the States make on me, which I have to fulfil to some extent, and also to meet my own demands. As my hon. friend and a former colleague of mine put it, well, these demands are growing; they are not going to come down. But what can we do in the circumstances?

They have recommended on some other matter, to which again hon. Pandit Kunzru referred, the question of loans, where a number of implications are raised. But in regard to the question of apportionment of the revenues we had to accept whatever they said, and it should not be forgotten that the grants-in-aid, which have been considerably raised, have benefited all the States barring three, U.P., Bombay and Madras. Certainly, Sir, it was amongst ourselves that we spoke about it; naturally people who come from Bombay said that Bombay had a claim. According to Mr. Kishen Chand Bombay's claim should be paramount as against Andhra Pradesh, because Bombay provides the atmosphere in which money can be made both in regard to excise duties as well as in regard to income-tax and company-tax and all that sort of thing, and therefore people from Bombay have a feeling that their resources have been sort of curtailed. The problem of U.P. is that it is an interior State with the largest population in India, more than 63 millions and an administrative problem equal to that of any other State or, perhaps, more intense than that of any other State. I happen to know that the U.P. Government is not in a position to renew the school buildings; they are not able to renew hospital buildings; they are not able to provide roads and so many items including social services for which capital is required and they are suffering merely because of lack of resources. You must also admit that they have changed their system of land revenue. They have abolished zamindari, and the collection of land revenue from the tenants is really an administrative problem, which is yet to be solved. So, when these three States including Madras about which I won't say very much because I come from Madras . . .

SHRI BHUPESH GUPTA: You are there.

SHRI T. T. KRISHNAMACHARI: What is the use of my being there? All that Madras gets is only the Finance Minister, not the money. What they would probably like to get is finance and not the Finance Minister. Pandit Pant, the Home Minister happens to come from U.P. Mr. Morarji Desai, the Commerce and Industry Minister comes from Bombay and I come from Madras.

SHRI BHUPESH GUPTA: A formidable team.

SHRI T. T. KRISHNAMACHARI: Supposing we say: All right, we will scrap the Finance Commission's Report. Then what next, as Pandit Kunzru put it? Shall I apportion the revenues and then having apportioned the revenues face the charge that the Finance Minister arbitrarily apportions the revenues, and shall we

[Shri T. T. Krishnamachan.] discuss it in that House and this House, each person wanting a little more for his State? How can we really ultimately come to any settlement? That is why article 280 was devised, that there should be a Finance Commission and that Commission should go into these matters and we have to accept; the Commission's Report.

I remember very recently, when I met a person who is an authority on federalism, he was rather intrigued about how to manage the question of federal grants and apportionment of federal revenues. I told him that the first Finance Commission's recommendations were accepted and the second Finance Commission's recommendations were expected. He said, "I hope you will accept that also and create the convention that you accept the Finance Commission's recommendations."

SHRI BHUPESH GUPTA: Was it in Washington?

SHRI T. T. KRISHNAMACHARI: No, it is not in Washington; I did not speak to any professor in Washington. It is in a place where professors abound.

SHRI BHUPESH GUPTA: Wall Street?

SHRI T. T. KRISHNAMACHARI: Well, my hon. friend's knowledge of where professors abound is apparently defective as many other things are.

But the point about it is that we have to create a convention and I am glad ultimately the Government did accept them and I hope this House will also endorse what the other House has said and accept the Finance Commission's recommendations and thereby lay the foundation for the future. If the recommendations of two Finance Commissions are accepted, well, I think it would be difficult for people who come after us to interfere with them needlessly.

Again, Sir, my hon. friend, Mr. Bhupesh Gupta, mentioned something, about the way the Finance Commission proceeded with its work. I would like to tell him that so far a* the Finance Minister is concerned, he did not try in any way to influence their views. On the occasion that we met, it was merely a question of placing some facts before them. I did not attend even 10 mention my own claim, because I said, "It is a matter for you to decide". If possibly I get into difficulties because of that, the difficulties have to be faced. But that is not the end of it.

4 P.M.

Now, I come to some of the very-pertinent remarks made by the hon. Pandit Kunzru. He referred to this item of Rs. 275 crores of grants. He wanted to know what these grants are. The grants are not obligatory in the sense that they are something which cannot be taken away by the Centre. If you refer to the Explanatory Memorandum issued last May, on page 278 you will find the items categorised from item 9 and there are various matters for which we give the grants. In many cases, they are matching grants and the Finance Commission expects that these grants would be continued. But at the same time they have indicated in their Report, in para. 190, about the system of matching grants. While they have agreed that this will go on, they have said that the system of matching grants is something which is perhaps not good. I know—it is not the opinion of the Finance Minister but my own individual opinion—that the system of matching grants had not always worked well. You will see that it often makes States accept a responsibility which they cannot fulfil. And, therefore, I have often felt, and I have said so, that the Centre should accept the responsibility for a certain level of expenditure and leave it to the States to supplement it or not to supplement it. So that at least that portion of the expenditure will be incurred, without making one State which is honest say, "we cannot have a deficit budget, we won't take your matching grant"; and another State ■say, "all right, let us see what happens, we will accept the matching grant and put a deficit in the budget". If deficit budgets are the order of the day, then matching grants have no meaning at all and I think there is a lot of force in what the Finance •Commission has said.

Then, I come to the other point, that is—is this all? Since the Finance ■Commission has more or less gone into this question of what are the needs of the States in regard to the commitments, they have met the revenue needs of the States and have apportioned certain revenues to them from out of the Central fund, well, is this all, is nothing more going to be given? I am afraid I am not in that happy position of being able to say, "the Finance Commission has given you all that you want. I am not giving you anything more". At the present moment the Planning Commission is engaged in the task of discussing the budgets of the various States and in so doing they have to promise a certain amount of assistance from the Centre.

Whether there will be any reduction in the Central assistance, whether it will be by grants or by loans—merely because the additional resource is placed in the hands of the States and to that extent the resources of the Centre have been diminished—is a thing which cannot be said with any certainty. The Finance Commission has taken for granted that the resources that they have envisaged and which were given the previous year would be continued, and, therefore, any appreciable diminution— excepting for the fact that the Centre has not got the money to give—may be difficult. It may be that the grant element might be a little less because of the large amount of subvention made. It may be the loan element might go up a little more. I am at the present moment sort of vacillating between Rs. 180 crores and Rs. 200 crores aid to the States during the next year, 1958-59, and that is the figure that the Planning Commission has with it. I am afraid they probably commit me to a two per cent, or three per cent, more rather than two or three per cent. less. Therefore, the fact that I have mentioned, namely, that along with all these commitments and on the understanding that the Flan will go through, the promise made in some form or other will be available, subject only to the fact that the overall resources must be available to the Centre.

Then, I cannot take up without further and detailed examination another responsibility like waiving of payments in regard to lrans of 15 years and 30 years. I know thirty year loans are never paid. I do not know if fifteen year loans will be. But it is a matter to be examined. It is certainly a matter to be examined with the greatest sympathy, namely, the question whether we cannot come to some agreement on the question of loans. The States' ability to pay will have to be more correctly studied and the point made by my hon. friend, Mr. Parikh, is certainly relevant. If I have to write off more or less or postpone payment of debts due to me, I will not be in a position to pay the debts that are falling due from time to time. Every year I have **some** short-term securities malturing for payment. Then small savings of which we have been giving somewhere between 25 and 33 per cent, of the collections to the States, which I have now augmented to 66-2|3 per cent., will fall due much earlier than fifteen years, certainly much earlier than thirty years. While the Centre is in a generous mood, I can postpone payment, but the Centre in its turn will have to pay and the method that the Centre will have in its hands to pay is something which is not a very desirable method to adopt under all contingencies. So, T c-n assure my

[Shri T. T. Krishnamachari.] hon. friend, Pandit Kunzru, that this matter will have to be re-examined and, as I said, the other day, I propose to place before Parliament at any rate some conclusions arising out of this re-examination at the time of the budget.

Of course, a number of general principles were enunciated, particularly by Members like Dr. Thomas.

SHRI H. N. KUNZRU: May I put a question to my hon. friend? I should like to know what is the total amount that the Centre is committed to give to the States by way of grants and transfer of revenues? Is it only Rs. 275 crores plus the sum annually the transfer of which is recommended by the Finance Commission? Is it larger or is it smaller?

SHRI T. T. KRISHNAMACHARI: Well, whatever has been recommended by the Finance Commission is a commitment that we have agreed to. There is no question of any diminution. So far as the grants-in-aid for the purposes indicated, which I said is found in the Explanatory Memorandum, are concerned, there the responsibility is not so categorical. There is a certain amount of elasticity.

SHRI H. N. KUNZRU: If that is not categorical, then there will be a deficit in that part of the State budgets which has to be met from revenue.

SHRI T. T. KRISHNAMACHARI: The point about this question of undertaking a particular scheme, which is undoubtedly a desirable scheme under the present circumstances, would depend upon the matching grants. And today I suppose the Planning Commission m their final discussions with the States will come to an understanding tha' the- States will more or less have a balanced budget. Whether they will be able to find the matching grant or not will be the determining factor as to whether we are going to give the grants, or, if we are paying at all, to what extent. I do not say that I am here and now going to say that I am not giving the grant. The hon. Member can take it that Rs. 275 crores is there. It is a limit. It does not seem as if it is an outer limit, because I do not know what are the contingencies. For instance, there is. something happening in Bihar, something happening in eastern U.P., some more things happening in many other places. These are things which bring in responsibility on my shoulders which I cannot have anticipated or provided against. And there is no cushion so far as the budgetary position is concerned for me to find the possibilities of meeting such a demand.

At the present moment I cannot say with greater precision than what I have indicated, namely, that while these things may be taken more or less as something which will be normal, in addition to it, there may be a further liability on the Centre. And that liability also will have to be borne merely because we want the Plan to go through and that is really the crux of the question.

How you are going to manage your budget, how you are going to balance it, or near-balance it or not at all, is a matter which we have to consider and I suppose I might be able to afford an answer to the House some time in February or March. I have no doubt in my mind that Pandit Kunzru understands the position. He says: "Here is an additional transfer of revenue in order to balance the budgetary position of the States. Does it mean that it extinguishes or diminishes your liability to that extent"? I do not think it does because categorically they seem to have stated that they anticipate that this will not go to diminish the aid the Centre has promised to the States in furtherance of the Plan. That is a suggestion which I suppose the States will expect me to honour. But it is contingent on my possessing the resources. After all these obligations which are moral and not constitutional are dependent on the Centre's ability to meet these obligations. I hope sincerely that I will have that ability to meet the obligations. That is all I can say at the present moment.

Then the hon. Professor mentioned something about the federal character of this Constitution, the dependence on the Centre of the States, and so on. After all the Constitution is something like a portrait. I should be forgiven for saying so because I have something to do with it. It looks at you from whatever angle you stand and look at it. If the Professor wants it to be an over-centralised Constitution, it probably is. If, on the other hand, he finds that the Centre has got very little of power but lot of responsibility, <=o it is. As my hon. friend put it, quite a lot of this coordination is being done by reason of certain extraneous considerations, political considerations, and not; constitutional considerations. The people fall in line with particular projects or particular programmes. They do so for other considerations, and not for constitutional considerations. So, the extra-constitutional considerations that make the States to fall in line with the Centre's wishes or the Centre's suggestions should not be taken for granted as something which is constitutionally incumbent on the States to do. That is why he probably wants a purely professorial assessment of the position rather than an *ad hoc* assessment on the basis of certain financial considerations which undoubtedly have far reaching effects. But in the context of an entire country like ours, it is perhaps limited in its application.

SHRI BHUPESH GUPTA: He was telling about the portrait. May I know how the portrait looks when the big business looks at it?

SHRI T. T. KRISHNAMACHARI: The real trouble is my friend can sometimes put himself in the position of big business and see things. I am not in a position to do so. I do not know how big business looks at things.

SHRI BHUPESH GUPTA: You do not know?

SHRI T. T. KRISHNAMACHARI; I do not.

SHRI BHUPESH GUPTA: It is news to me.

SHRI T. T. KRISHNAMACHARI: Well, my friend must live and learn a lot more.

Coming to the end of my attempt to answer the various questions raised, my hon. friend Mr. Kishen Chand made a very good case why Andhra should get more on tobacco. There could be an equally good case for Bombay and Calcutta. There could be a good case why U.P. should get more out of sugar. U.P. produces more sugar and costly sugar, and therefore it has to be subsidised. On this question, hon. Members should not forget that Andhra has done very well; they may not have done as well as Mysore but they have done nearly as well. Therefore, I do not think Andhra Pradesh has any cause for grievance so far as this question is concerned. If any grievance is to be voiced, it must be voiced by Mr. Rajah, by Pandit Kunzru, and probably our friend Mr. Deokinandan Narayan should voice his grievance. These three States have a legitimate case to make out. 1 think probably in the face of the case they would make out other people would find it difficult to reply. I do not think they have such a grievance as my hon. friend Mr. Kishen Chand imagines.

I am grateful to the House for the general support that it has given to the Bill.

SHRI H. N. KUNZRU: May I ask the hon. Minister whether the Government has come to any decisiot

[Shri H. N. Kunzru.] with regard to those observations of the Commission to which I drew his attention?

SHRI T. T. KRISHNAMACHARI: These observations are not part of the terms of reference of the Commission. They are in the nature of an obiter or something like that. I would like it very much if the Budget date can be changed to, say, the 31st of October. Then we can sit in cold weather for five or six months and discuss the Budget. I think it is verv very desirable. But it is not quite so easy to do. These observations are good in themselves, unexceptionable, but difficult of implementation, I think.

MR. DEPUTY CHAIRMAN: We shall take the two Bills separately.

The question is:

"That the Bill to provide for the distribution of a part of the net proceeds of certain Union duties of excise among the States, as passed by the Lok Sabha, be taken into consideration."

The motion was adopted.

MR. DEPUTY CHAIRMAN: We shall now take up clause by clause consideration.

Clauses 2 to 6 were added to the Bill.

Clause 1 and the Enacting Formula were added to the Bill.

Long Title

MR. DEPUTY CHAIRMAN: There is one amendment to the Long Title.

SHRI T. T. KRISHNAMACHARI: Sir, I move:

That the Rajya Sabha recommends to the Lok Sabha that the following amendment be made in the Union Duties of Excise (Distribution) Bill, 1957, as passed by tht Lok Sabha, namely:—

"That at page 1, in the long title, the following be added at th© end, namely:—

'in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its report dated the 30th day of September, 1957'."

MR. DEPUTY CHAIRMAN: **The** question is:

That the Rajya Sabha recommends to the Lok Sabha that the following amendment be made in the Union Duties of Excise (Distribution) Bill, 1957, as passed by the Lok Sabha, namely:—

"That at page 1, in the long title, the following be added at the end, namely:—

'in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its report dated the 30th day of September, 1957'."

The motion was adopted.

SHRI H. D. RAJAH: Sir, is it your view that this kind of amendment meets the objections raised in the House?

MR. DEPUTY CHAIRMAN: Yes. The question is:

"That the Long Title, with **the** amendment recommended, stand part of the Bill."

The motion was adopted.

The Long Title, with the amendment recommended, was added to **the** Bill.

SHRI T. T. KRISHNAMACHARI: Sir, I move:

"That the Bill, with the amendment recommended, be returned."

MR. DEPUTY CHAIRMAN: The ■question is:

"That the Bill, with the amendment recommended, be returned."

The motion was adopted.

MR. DEPUTY CHAIRMAN: The Bill, with the amendment recommended, will be returned.

We will take up the next Bill. The question is:

"That the Bill to provide for the distribution of the net proceeds of the estate duty and the tax on railway passenger fares among the States, as passed by the Lok Sabha, be taken into consideration."

The motion was adopted.

MR. DEPUTY CHAIRMAN: We shall now take up clause by clause consideration.

Motion moved:

"That clauses 2 to 6 stand part of the Bill."

SHRI P. D. HIMATSINGKA (West Bengal): Sir, I want a clarification on clause 3. Sub-clause 2(a) of this clause says:—

"the amount attributable to immovable property shall be distributed among the States in proportion to the gross value of the immovable property situated in the respective States as determined in respect of that financial year."

Is it the whole property in that State or the property affected by the death of persons who come within the ambit of the estate duty? That is one point on which I want a clarification.

Similarly in the same clause 3, I want to know whether all the immovable property will be taken into consideration or that property only which is within that State.

SHRI T. T KRISHNAMACHARI: The word 'situated' seems to be very clear. It is the property in relation to its situation.

MR. DEPUTY CHAIRMAN: The question is:

"That clauses 2 to 6 stand part of the B11L"

The motion was adopted.

Clauses 2 to 6 were added to the Bill.

Clause 1, and the Enacting Formula were added to the Bill.

Long Title

SHRI T. T. KRISHNAMACHARI: Mr. Deputy Chairman, I beg to move:

"That at page 1, in the Long Title, the following be added at the end, namely:—

'in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its report dated the 30th day of September, 1957.*"

MR. DEPUTY CHAIRMAN: The question is:

"That at page 1, in the Long Title, the following be added at the end, namely:—

'in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its report dated the 30th day of September, 1957.'"

SHRI H. N. KUNZRU: May I enquire whether the preamble has any legal force at all?

SHRI T. T. KRISHNAMACHARI: Sir, the long title has been voted upon and therefore, it has a legal force. It is not a question of heading. It is voted. Anything that is voted has a legal force.

The motion was adopted.

The Long Title, as amended was added to the Bill.

SHRI T. T. KRISHNAMACHARI: Sir, I move:

"That the Bill, as amended, be passed."

MR. DEPUTY CHAIRMAN: Motion moved:

"That the Bill, as amended, be passed."

SHRI BHUPESH GUPTA: Sir, I want to make a few remarks. It is very good that some of the duties would go to the States. But, Sir, it depends on how we administer the law because the States will not get anything until and unless the estate duty is properly enforced. The experience of the estate duty has been rather disappointing. We have not, much as we regret it, that money with the capitalists and monopolists. It is unfortunate that they do not leave the money. When they die, they die, as paupers. Only after their death, it is found. Till they breathe their last, they enjoy their life. They have big cars; they have big palaces; they have plenty of money to throw parties inviting Ministers and others. After their death, when the income-tax assessor goes there, it is found that they had died without leaving anything at all. The estate duty does not come into operation there. That has been the experience. Now, Sir, this has become a scandal also.

Mr. Rockefeller, it was found, had left 11 million dollars when he died and the death duty was fixed at 7*5 million. So much money was taxed. It appears that the British monopolists have not yet cultivated the art which our monopolists have cultivated. Anyway, I .recognise that there may be some originality in this Act. But, we are a little alarmed by these things because a lot of money is lost to the Exchequer. The money that should come to the Government led by the hon. Minister does not come. We want them to take that money. But they would not do it. Now, I do not know what the remedy is. This is a legal matter and there are certain difficulties. But one thing, in this connection, I would like to mention. In order to plug these methods of evasion, what is necessary is to enforce the gift tax. We have been pressing for this from this side of the House that without the gift tax, it becomes very difficult to have the proper enforcement of even this estate duty. You will remember, Sir, that the Kaldor Report also says that these two things should be taken together. They have taken these two together and I have not a doubt in my mind about that. God forbid, if Mr. Mundhra dies, nothing will be found in his coffers; he will be an absolute pauper.

(Interruption).

This is what is going to happen.

SHRI T. T. KRISHNAMACHARI: If I can help my hon. friend to sit down. I will tell him that I have promised that I am going to introduce a gift tax integrating it with the death duties. I am working on it. I hope I will be able to finish my work soon.

SHRI BHUPESH GUPTA: I am very glad to hear it; it is encouraging also to note that he listens to us. Anyway, even the Finance Minister would recognise sometimes that there is something which he can take from us also. Why are you taking so much time?

SHRI T. T. KRISHNAMACHARI: Because of my. . .

SHRI BHUPESH GUPTA: After all, many of the millionaires are very old people and we never know . . . After all, Providence is Providence.

SHRI H. D. RAJAH: He is looking at the obituary notices in newspapers every day!

SHRI BHUPESH GUPTA: Therefore, I would say, pass it immediately, even by an Ordinance if you like. If you hold an enquiry into how much estate duty has been evaded by the multimillionaires of our country, we shall all be co-operating with you in order to find out the various methods that are used to evade this thing. Then, formulate measures; impose legal measures with matching taxes in order to prevent such evasion. The two capitalists are sitting behind you. They can tell you exactly how it can be done. They can tell the truth also. It is very important; otherwise, nothing will come out of the estate duties. It is all pie in the sky. First, as far as the States are concerned, they will get nothing. The question is of getting money and then distributing it. Therefore, I would like the Government to act. I am glad to hear that even the hon. Finance M.JI-ister has been thinking along those lines. It only shows the enormity of the problem that faces the country.

MR. DEPUTY CHAIRMAN *(To Shri* T. *T. Krishnamachari)*: Any reply?

SHRI T. T. KRISHNAMACHARI: No, Sir.

Mr. DEPUTY CHAIRMAN: The question is:

"That the Bill, as amended, be passed."

The motion was adopted.

THE PREVENTIVE DETENTION (CONTINUANCE) BILL, 1957

THE MINISTER OF HOME. AFFAIRS (SHRI GOVIND BALLABH PANT) : Sir, I move:

"That the Bill to continue the Preventive Detention Act, 1950, for a further period, as passed by the Lok Sabha, be taken into consideration."

Sir, as I have just said, this Bill has-already been passed by the Lok Sabha, I have not here moved for the consideration of a new measure. It seeks only to continue the existing law and I am only seeking for the extention of the life of the Preventive Detention Act, which forms part of the statute. The necessity for this Act has been indicated, proved and demonstrated more than once. In fact, there have been many full-dress debates on the floor of this House about the subject-matter of this Bill. It has been examined, scrutinised and discussed in all its aspects. All pros and cons of the basic principle which is embodied in this Bill have been duly weighed and fully assessed and balanced. In the circumstances, I am not, in fact, required to make a long speech.

The Bill is based on article 21 of our Constitution. I had occasion previously, Sir, to refer to certain measures which may still be within the memory of the hon. Members of this House. It has been the effort of the Government to take every reasonable step consistent with the maintenance of the security, safety and tranquillity of the country, for the enlargement of the liberty of individuals and institutions. The law for the proscription of parties or groups does not exist any more. It has lost its validity. We have not continued it. Similarly, the law dealing with objectionable matter in the press has also been allowed to lapse. Whatever measures we have brought before this august House so far have been either of a humanitarian or reformatory character, and some designed to remove the restraints and restrictions from which certain groups or individuals have been suffering. I would have been delighted if