

[20 July, 2004]

RAJYA SABHA

SHRI PRAFUL PATEL: As of now, I don't have any proposal with the Ministry of re-naming any airport. However, as the hon. Member has suggested, let some proposal come. Then, the matter can be taken up.

MR. CHAIRMAN: Question No. 204.....

DR.K. MALAISAMY: Sir, there are a lot of supplementaries on Madurai.

MR. CHAIRMAN: Certainly there are a lot of supplementaries. But there are so many other questions to be answered.

Budgetary flexibility in States

*204. SHRIMATI JAMANA DEVI BARUPAL:†

DR. T. SUBBARAMI REDDY:

Will the Minister of FINANCE be pleased to State:

(a) Whether Reserve Bank of India has called upon States to make efforts to enhance their own revenues - both tax and non-tax to improve budgetary flexibility:

(b) if so, whether any concrete steps in this regard have been considered by the Government; and

(c) what are the suggestions made by RBI to States and how many States have agreed to augment revenues?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) to (c) A Statement is placed on the table of the House.

Statement

(a) to (c) RBI in their publication State Finances-A Study of Budgets of 2003-04 has suggested that the States would need to make efforts to enhance their own revenues - both tax and non-tax in order to enhance budgetary flexibility.

RBI has suggested that States augment their tax revenues through better tax administration, improved tax compliance and rationalization of the tax structure. RBI has also suggested rationalisation of various tax exemptions and concessions extended to various sectors of economy and reforms and reorientation of stamp duties, registration fees etc. to make them tax payer friendly. RBI believes that adoption of appropriate

†The question was actually asked on the floor of the House by Shrimati Jamana Devi Barupal.

user charges for services rendered by the States would further augment their sources of revenues.

Reforms of States' taxes and levy of appropriate user charges for services rendered by States is primarily the responsibility of the States. Government of India is however, facilitating the process of reforms in sales tax by adoption of Value Added Tax by the States and taking measures in service taxation and additional excise duties for improving the resources of the States.

श्रीमती जमना देवी बारुपाल : सभापति महोदय, मैं वित्त मंत्री जी से पूछना चाहूंगी कि क्या भारतीय रिज़र्व बैंक ने राज्यों से उन के बजट को लचीला बनाने हेतु अपने कर तथा करेतर राजस्व को बढ़ाने के लिए प्रयास करने का अनुरोध किया है ? यदि हां, तो क्या सरकार द्वारा इस संबंध में कोई ठोस कदम उठाया जा रहा है

श्री सभापति : हिंदी में जवाब दीजिए, try कीजिए।

SHRI S.S. AHLUWALIA: Mr. Minister, there is no coalition compulsion here. You can speak in English.

श्रीमती जमना देवी बारुपाल : यहां Interpreters हिन्दी में अनुवाद करते हैं, उन से मुझे ज्ञान प्राप्त हो जाएगा। आप बोलिए।

SHRI P. CHIDAMBARAM: Sir, both the Government of India and the RBI are concerned about States finances. Now, the RBI puts out an Annual Report on State Finances and a Study of State Finances, as brought out by its Department of Economic Analysis and Policy. There are a number of suggestions in the Annual Report as well as in the Study. I can recall them; very briefly, in 2001-02, the RBI said that there must be improvement in fixing and collection of user charges and to improve the profitability of public enterprises. In 2002-03, the RBI strongly recommended that there should be a unified VAT, and then suggested that the States need to explore alternative taxes and improve the tax administration. In 2003-04, the RBI once again strongly endorsed the implementation of VAT, and, then, pointed out the wide-ranging tax exemptions and concessions extended to the various sectors of the economy deserved to be rationalised. The RBI has also taken a number of steps regarding State Finances. It has put out a report on State-level Guarantees. It has put out a report on Disclosure Norms for States' Budgets. It has assisted the States in improving the cash management to maximise returns and deployment of temporary surpluses, and to review the ways and means arrangement. As

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a debt manager, the RBI has devised a scheme of Consolidated Sinking Fund, and seven States have since set up such a Fund. An Advisory Committee was constituted to examine the WMA scheme. After the scheme was modified based on the Committee's recommendations, a number of steps are being taken on an on-going basis. I think, if the States heed the RBI's advice and recommendations, the States can improve their finances.

श्रीमती जमना देवी बारुपाल : सभापति महोदय, मंत्री महोदय ने जैसाकि अभी बताया कि 7 राज्य हैं, मैं जानना चाहूंगी कि वे 7 राज्य कौन-कौन से हैं जिन्होंने अपनी स्वीकृति ज़ाहिर की है और क्या हमारे राजस्थान ने भी अपनी स्वीकृति दी है तो कौन-कौन सी वस्तुओं के बिच्री कर में सुधार की प्रक्रिया को आप सरल बनाने जा रहे हैं और सरलीकरण की यह व्यवस्था कैसी होगी ?

SHRI P. CHIDAMBARAM: Sir, I don't think I have with me the names of the seven States. Whether Rajasthan is one among the seven States, I will, certainly, find out and convey to the hon. Member. But, only seven States have constituted the Sinking Fund. I will convey the information to the Member.

DR. T. SUBBARAMI REDDY: Sir, just now the hon. Minister informed the House that the RBI has given a number of suggestions. I would like to know from the hon. Finance Minister how many of those suggestions are really very important to improve the finances of the States immediately. I would also like to know from the hon. Minister whether the Government is seriously considering bringing about a constitutional amendment, in order to give more powers to the States. If so, by which date a final decision, in this regard, is likely to be taken?

SHRI P. CHIDAMBARAM: Sir, in my view, all the recommendations are important. But, if you ask me now to pick out one or two recommendations which are very important on which they should act with promptitude. I would say that the States must control their revenue expenditure; States must also control their non-Plan expenditure; States must improve their tax administration. There are too many ad-hoc and discretionary exemptions in the tax laws. These must be removed. The States must also move towards a modern, efficient tax regime, among these is VAT. There is a consensus across political parties. There are some individuals, there are some sections of the trade which are opposed to it, but among the political parties, there is a broad consensus that VAT

is an efficient tax. I am carrying the process initiated by the previous Government. I hope that the States will adopt VAT with effect from 1st April, 2005. These, I would say, are the most important policy recommendations on which the States should act with promptitude.

SHRI BALBIR K. PUNJ: Mr. Chairman, Sir, there is little doubt that the finances of the States are in a mess. I would like to know from the hon. Minister, through you, Sir, how the implementation of the recommendations of the Fifth Pay Commission has affected the health of the States. What is the ratio of the revenue deficit since the recommendations of the Fifth Pay Commission have been implemented by the various State Governments?

SHRI P. CHIDAMBARAM: Sir, there is no doubt that the Fifth Pay Commission had a very severe impact on State finances. We discussed it even yesterday. But, that is behind us now. There is no point blaming each other, or, blaming this party or that party. Everybody knows...

SHRI EKANATH K. THAKUR: Sir, that is not behind us. *(Interruptions)*

MR. CHAIRMAN: Let him speak. *(Interruptions)*

SHRI P. CHIDAMBARAM: Let me conclude my answer.

SHRI EKANATH K. THAKUR: Sir, it is a question of...*(Interruptions)*

MR. CHAIRMAN: Please take your seat.

SHRI P. CHIDAMBARAM: Virtually every political party demanded that the Fifth Pay Commission's recommendations should be implemented *in toto* and should be improved. Yes, there were some voices which cautioned moderation, but the voices which cautioned moderation were overwhelmed by the voices which said "no, this is necessary, this is good", and, therefore, it was done. I think, we must live with the fact that the Fifth Pay Commission's recommendations have been implemented. May be, there are one or two States where parts of the recommendations have not been implemented as yet. As a result of that, yes, there has been...

SHRI RAVI SHANKAR PRASAD: Are you contemplating the Sixth Pay Commission also?

SHRI DIPANKAR MUKHERJEE: Sir, is it his third supplementary?

SHRI P. CHIDAMBARAM: Please don't frighten me now. *(Interruptions)*

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SHRI BALBIR K. PUNJ: What were the compulsions of the coalition politics which forced you to accept such things, probably, to which you did not agree?

SHRI DIPANKAR MUKHERJEE: Ask Mr. Madan Lal Khurana about this.

SHRI P. CHIDAMBARAM: Not only the parties in the coalition...
(Interruptions)

SHRI NILOTPAL BASU: We are not commenting on the Governor, but the then BJ Pleader.

SHRI P. CHIDAMBARAM: Not only the parties in the coalition, but parties which were in the Opposition, and parties which were supporting the Government, all the parties demanded that the recommendations of the Fifth Pay Commission should be implemented.

Anyway. Sir, as a result of that the revenue deficit, as the percentage of the GDP went to 2.79 per cent in 1999-2000. Since then there has been some improvement. In 2000-2001, it was 2.54 percent. In 2001-2002, it deteriorated to 2.61 per cent. In 2002-2003, it improved to 2.25 per cent. But again in 2003-2004, based on Revised Estimates and Budget Estimates, it appears to be around 2.56 per cent, which means there is a reduction of about .25 per cent in the last five years, which is hardly satisfactory. That is why I have said that the States must take steps to control their revenue expenditure, in particular non-Plan revenue expenditure.

DR. K. MALAISAMY: Sir, the recommendations or the suggestions of the RBI, as listed by the hon. Minister, are well taken. But according to me, the recommendations are more theoretical rather than in practice. Not only that, this kind of recommendations and suggestions have already been there. The RBI has been suggesting this kind of recommendations on earlier occasions also. My question is, whether there is any kind of mechanism or monitoring system to note whether there is any improvement after the recommendations in the matter of the improvement of finances by the States. This is number One. Secondly, will the Minister be pleased to say whether there could be any improvement after the recommendations

in the matter of finances of the States? I would like to know about the monitoring system and its effects.

SHRI P. CHIDAMBARAM: Sir, States are virtually sovereign. ...*(Interruptions)*... I said, virtually. ...*(Interruptions)*... States have elected Assemblies and elected Chief Ministers. Therefore, all that the Government of India can do is to urge them to follow prudent fiscal policies and control their expenditure and improve their finances. But, then, the Government of India has taken a number of steps to help in the fiscal adjustment in States. Now, the Government of India has taken three major initiatives which the hon. Member is fully aware of. The first is the fiscal reform facility undertaken under the Medium Term Fiscal Reform Programme introduced by the previous Government in 2000-2001, which, I think, is a very good initiative. The second is the Accelerated Power Development and Reform Facility under which also a number of States have taken advantage of the facility. The third is the Urban Reforms Incentive Funds Scheme. These are three major initiatives. I think, the States, which have adopted these initiatives, have succeeded in improving their finances. We will follow all these three initiatives and ensure that all States take advantage of these initiatives and improve their finances.

**205. [The questioner (Shri Rishang Keishing) was absent for answer vide page 31.]*

Increase in Account Maintenance charges

*206. SHRIMATI PREMA CARIAPPA: Will the Minister of FINANCE be pleased to state:

(a) whether National Security Depository Limited sponsored Depository Participants have increased Account Maintenance charges from Rs. 75/- p.a. to Rs. 150/- p.a. and then to Rs. 300/- p.a. during the last three years;

(b) whether this increase has been approved by proper communication to customers (shareholders/investors); and

(c) if not, what action Government propose to take to stop this arbitrary increase so that such an action can help in reviving the stock markets?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM: (a) to (c) A Statement is placed on the Table of the House.