The motion was adopted

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

SHRI B.K. GADHVI: I beg to move:

"That the Bill be passed."

MR. DEPUTY-SPEAKER: The question is:

"That the Bill be passed."

The motion was adopted

17.18 hrs.

UNION DUTIES OF EXCISE (DISTRIBUTION) AMENDMENT BILL
AND
ADDITIONAL DUTIES OF EXCISE (GOODS OF SPECIAL IMPORTANCE) AMENDMENT BILL.

[*English*]

MR. DEPUTY-SPEAKER: The House will now take up item Nos. 24 and 25 together.

THE MINISTER OF STATE IN THE DEPARTMENT OF EXPENDITORE IN THE MINISTERY OF FINANCE (SHRI B.K. GADHVI): I beg to move*:

"That the Bill further to amend the Union Duties of Excise (Distribution) Act, 1979 be taken up for consideration."

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

The two Bills which I have moved toady raise out of the recommendations of First report of the Ninth Finance Commission for 1989-90. In terms of Article 280(3) of the Constitution, the Commission is required to make recommendations in regard 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 Chapter I of Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;

(b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;

(c) any other matter referred to the Commission in the interests of sound finance.

Under Article 280 (3)(c) of the Constitution, the Commission is required, *inter alia*, to suggest changes, if any, to be made in the principles governing the distribution among the States of the net proceeds in any financial year, of the additional duties of excise leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957).

Now, let me give a brief resume of the two Bills which I have moved today. The first Bill provides for sharing and distribution of the proceeds of basic excise duties. As stated earlier, the Ninth Finance Commission has recommended that 45 per cent of the net proceeds of shareable excise duties should be paid to the States during 1989-90. Of this, 40 per cent are recommended for distribution to all the 25 States, while the remaining 5 per cent are earmarked for distribution exclusively to the 13 deficit States in proportion to their assessed deficits. The estimated amount of transfer on this account to the States during 1989-90 is of the order of Rs. 7,476.46 crores.

The second Bill seeks to give effect to the recommendations of the Ninth Finance Commission for the distribution of the net

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*Moved with the recommendation of the President.

proceeds of the additional duties of excise levied on sugar, tobacco and textiles. As the House is aware, these duties are being levied from 1957 with the consent of the State Governments in lieu of the State sales tax on these commodities. The scheme provides for the distribution of the net collections other than the portion attributable to Union Territories, among the States in accordance with the principles recommended by the Ninth Finance Commission. The Commission has recommended that the States' share of the proceeds may be distributed among them by giving equal weightage to the State Domestic Product and population. Transfer to the States on this account during 1989-90 is estimated to be about Rs. 1,449.04 crores.

Apart from basic excise duties and additional excise duties for the distribution of which among the States the two Bills have been moved today, States will also get 85 per cent of the net proceeds of income tax under Article 270 of the Constitution. It is estimated that the States will get Rs. 3,128.15 crores during 1989-90. Besides, grants-in-aid of the order of Rs. 1,877.12 crores are also payable to the States during 1989-90.

In conclusion, may I reiterate the Government's commitment to foster smooth and harmonious financial relations between the Union and the States and place them on an even keel in order to promote balanced regional development as an integral part of the overall national growth. Our decisions on the recommendations of the Finance Commission reflect our financial commitment to the objective of healthy federal fiscal relations which is an essential pre-requisite for accelerated and balanced economic growth.

MR. DEPUTY SPEAKER: Motion moved.

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

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

Shri C. Madhav Reddi.

SHRI C. MADHAV REDDI (Adilabad): Mr. Deputy Speaker, Sir, the two Bills, namely 'Additional Duties of Excise (Goods of specal Importance) and the Union Duties of Excise (Distribution) Amendment' are before us. Now, Sir, as the hon. Minister has just now told us, these are the Bills which are giving effect to the recommendations of the First Report of the Ninth Finance Commission which has been submitted last year. It is only an Interim Report and the recommendations made with regard to the devolution of funds and devolution of the taxes to the States are also interim because only for this year the Commission had recommended that the same procedure, same formula, as was adopted by the Eighth Finance Commission be adopted this year, i.e. for the current financial year 1989-90.

Now, Sir, there is an ever-widening gap between the resources of the States and their responsibilities. The States' responsibilities are increasing. Now, the Government of India is thinking in terms of devolution of funds from the State Governments to the Panchayati Raj institutions. So, when that is the position, the present formula of distribution of resources, excise duties or the additional excise duties based on 40 per cent to all the States and 5 per cent to the deficit States, is not going to help the States much.

The States expect that at least they would be given 50 per cent by the Ninth Finance Commission and I hope, in their Final recommendations, this is going to be enhanced and the States are going to be given 50 per cent of the revenue collected by the Union Government on account of the Union excise duties.

Now with regard to the additional excise duties in lieu of sales tax which is being collected from 1957, the States have been demanding that there should be no restriction with regard to the imposition of sales tax on sugar and other specified goods, in lieu of

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which, the excise duties are being collected. But the Government has been thinking of merging this with the Union Excise duty and this is one of the directions given to the Finance Commission that they should consider merger of additional excise duties with the Union Excise duty. I am happy that the Commission has not come to any conclusion and no recommendation has been made so far.

I would like to tell the hon. Finance Minister that several States are opposed to this type of merger. On the contrary, they want to impose sales tax on all those specified items which are to be permitted. The Government of India has been imposing, particularly such taxes which are not shareable with the States, even in this year's Budget, you have increased the excise duty by way of sur-charge of 8% on the excise duty and across the board increase, flat increase on all the items. But that is not shareable with the States. This has been specifically earmarked, I suppose for the Jawahar Rozgar Yojana. We thought Rs. 500 crores would be collected out of this Now the sur-charge on the excise duty should also be passed on to the States. This has been the demand of the States and I would urge upon the Government to keep this in view while giving effect to the recommendations of the Ninth Finance Commission.

With regard to the Finance Commission's report itself, it is delayed already and I hope the final report would come very soon and it may be possible to give effect to the recommendations of the Final report in the next Budget and the States would be going to get more funds, as a result of the recommendations of the Ninth Finance Commission.

These are the Bills which certainly have to be supported by the States because, if the Bills are not passed this year, the States will not get their share. Therefore, with these reservations, I support these Bills.

[*Translation*]

SHRI YOGESHWAR PRASAD YOGESH (Chatra): Mr. Deputy Speaker, Sir, I support the Union Duties of Excise (Distribution) Amendment Bill, 1989 and the Additional Duties of Excise (Goods of Special Importance) Amendment Bill, 1989 moved by the hon. Minister of Finance in the House. This Bill has been moved with a view to amending the section 3 of the Additional Duties of Excise (Goods of Special Importance) Act, 1957. I appreciate the objectives of the Bill which has been moved in pursuance of the recommendations of the Ninth Finance Commission. It has been provided in the Bill that revenue earned by way of excise duty levied on sugar tobacco and cotton fabrics produced in a particular state should be transferred to the concerned state. There has been a general complaint that the states are denied their legitimate share in the revenue collected by way of excise duty on goods produced in the states. In view of this controversy, the Ninth Finance Commissions made very practical recommendations and the step of the Government to retain 45 per cent for itself and transfer 40 per cent to states and remaining 5 per cent to the deficit states is quite pragmatic and praiseworthy. As regards the suggestion of Shri Reddi about increase in share of certain states, I think all states are required to be meted equal treatment by the Central Government. Therefore the share of the Central Government is quite fair and reasonable. Secondly, special attention should be paid towards the states incurring deficit but financial discipline should be adhered to by them. It should also be one of the criteria for financial assistance. The proposal to transfer Rs. 1449.04 crores to the states during 1989-90 is welcome. This is a substantial amount and for its distribution, figures of 1971 census has been made the basis. I think the selection of 1971 census as the basis is also justified, because in some states population growth has been unjustifiable and is the cause of continuous increase in burden on them. Special attention should be paid towards these poor states. Some of the States contribute large sums of money as excise duties levied on sugar, tobacco, fabrics and other good produced in the states to the Central Government. So special financial facilities should be given to such states.

Bihar is one such state which is extremely poor and backward on the national level, but contributes large sums as excise duties levied on sugar, tobacco and other goods to the Central Government. Through you, I want to draw the attention of the hon. Minister to increase the share of Bihar State. I not only advocate raising of share of Bihar but of all the states contributing large sums to the central exchequer. From the statistics before us, it is clear that the contribution of Maharashtra to the central exchequer is the largest. Therefore I recommend the Central Government to adopt the soft attitude towards the poor states for improving their financial position.

[*English*]

SHRIMATI BIBHA GHOSH GOSWAMI: Will the time of the house be extended today?

MR. DEPUTY SPEAKER: No. We want to finish the business before the House today. The Minister wants to finish it because only two or three speakers are there. Mr. Amal Datta will now speak. As soon as the Bill is over, we will adjourn.

SHRI THAMPAN THOMAS (Mavelikara): The other Bill has not come up today.

MR. DEPUTY SPEAKER: I do not know. As it is, if we finish at 5.45 PM, then automatically it will come. Suppose if it exceeds beyond 6 O' Clock, then it will not come. That is all.

SHRI AMAL DATTA (Diamond Harbour): Beyond 6 O'Clock, other matters will not be taken up.

MR. DEPUTY SPEAKER: I think so.

MR. AMAL DATTA: You consult the Parliamentary Affairs Minister. Otherwise, like yesterday they will again mislead us into sitting till late.

MR. DEPUTY SPEAKER: What will you say, Mr. Minister?

THE DEPUTY MINISTER IN THE MINISTRY OF SURFACE TRANSPORT AND DEPUTY MINISTER IN THE MINISTRY OF PARLIAMENTARY AFFAIRS (SHRI P. NAMGYAL): We will adjourn at 6 O'Clock.

MR. DEPUTY SPEAKER: Okay.

SHRI THAMPAN THOMAS: Only this Bill. Thank you very much.

SHRI AMAL DATTA (Diamond Harbour): One of the Bills under discussion is the Additional Excise Duty Goods of Special Importance (Amendment) Bill. The Amendment is only with regard to the ratio of the additional excise duty which is to be distributed, the ratio according to which the distribution shall be made to the States according to the recommendation of the Ninth Finance Commission. But it is remarkable that although this additional excise duty, this particular Act and articles covered by this Act, were brought in the Central Pool for the purpose of their being fully distributed to the States, occurred as early as 1957 and in that the condition for distribution was laid down as the consumption of the commodities amongst the States. That will be the ratio in which the distribution is to take place. This was done by the National Development Council in December 1956. I will read the exact words so the Minister may know. I am reading from the Ninth Finance Commission s first Report. It says:

> "The National Development Council agreed unanimously that sales tax levied in States on mill-made textiles, tobacco including manufactured tobacco, and sugar should be replaced by a surcharge on the Central excise duties on these articles, the income derived therefrom being distributed among States on the basis of consumption,

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> subject to the present income derived by States being assured. The method of sharing and distribution should be referred to the Finance Commission."

This is how the Finance Commission gets the jurisdiction. Otherwise, it is a different matter. The point is that it specifically stated that the distribution among the States should be on the basis of consumption. What consumption? It means the consumption of the same commodities. But what is being done? The Finance Commission itself explained that aspect as to what is being done. The Finance Commission itself explained stating as to what the Second Finance Commission, did, the next Finance Commission was saying that taking that into consideration, it did.

I quote:

> "Further, since direct and reliable estimates of State-wise consumption of these commodities are not available, proxies have been used."

I can understand that proxies were being used by the Second Finance Commission which was sitting shortly after this Agreement. But I cannot understand as to why the same proximes were used or may be with a little oifference but still proxies were used in 1988. The consumption data of these commodities in the States are not available. They were not available in 1958. They were still not available in the year 1988 also. Thirty years have gone. This is the method of administration which you are conducting in this country that consumption data of these commodities which are essential for the distribution, which are essential for the implementation of the Agreement by which you have taken over the collection of tax on these commodities, have to be made. They are saying as to why they are not able to get the consumption data. The Ninth Finance Commission on page 37 of the First Report in Para 7.13 says:

> "Like our predecessor, we tried to get the required information from the NSSO", i.e. the National Sample Survey Organisation. "We were given to understand that the relevant data from the 38th Round (January to December, 1983) are not yet available and when available, they would suffer from the same infirmities as the data from the 32nd Round."

What was the infirmity? It further says:

> "The description of the items in the 38th round is the same as in the 32nd Round which means that the same discrepancies between the description of the articles on which additional duties of excise are leviable and those included in the survey would continue".

It is wonderful They were told apparently to wait for the 43 Round to be completed which will be available in two years. I do not know as to how they can be told to accept even that because the survey was done in 1983 and the result of that survey itself was not available in 1988. So, the survey which was being conducted in 1988, how could their data in a final form be available in two years' time? That definitely beats my imagination. Now this is, therefore, relevant to point out on this occasion that Government is not doing its duty even by way of collection oi duty, which is its incumbent duty to collect under the agreement of distribution according to certain proportions. Will the hon. Minister take note of this and see that in future the Finance Commission does not have to resort to proxies for the purpose of determining the criteria of distribution and thereby, at least be able to honour the agreement which itself the Central Government has entered into with the States as long age as in 1956 or 1957.

So far as Union Duties of Excise (Distribution) Amendment Bill is concerned, first of all, we all excepted, as Mr. Madhav Reddi before me has said, that progressively the share of States in excise duty will go up and all the excise duty will be brought into the divisible pool of excise duties. That has not been done yet. This is, however, an Interim Report of the Ninth Finance Commission which we have get and we still hope that our expectations will be fulfilled, namely, from 45 per cent it will go up to 50 per cent with all the excise duty including surcharge, including additional duties on textile goods etc., and that will all be brought into the divisible pool. The Central Government has to agree to it. And we hope the Central Government will agree to it having reqard to the needs of the States.

I will not take much time. Let me point out one or two things which I think, are relevant. The way of collection of excise duties by the Central Government leaves much to be desired. In one of the Reports of the Public Accounts Committee it has been pointed out that an entry, a false entry of Rs. 1.17 crores of deposit of duty made by a very renowned company in India, namely, the Reliance Industries Limited went undetected for a period of four years. Rs. 1.17 crores is not a small amount. And by one false entry, the company could take advantage of this amount for a period of four years. This is a remarkable fact. Although there are supposed to be two sets of checks after the entry has been made yet none of them could detect this entry for a period of four years. And then outside, the preventive officers came and detected this. That was possible by way of a tip off by a disgruntled employee. Otherwise, it would never have been found out. This is a sort of laxity which cannot be tolerated. First because, when the Central Government has to give a sizeable share—even now 45 per cent of the basic excise duty to the States —it is in a sense working as the trustee of the States in collecting these taxes. Therefore, it has to take its duties much more seriously. In any case, why should such a laxity be seen when public revenue is involved? This is just one of the innumerable examples. If you open any Report of the C&AG on Revenue and Indirect Taxes, you will find, lots and lots of such lapses are detected every year. But I do not think the Government are taking the steps which they should take to plug all the loopholes. There is enormous evasion of excise duty. Perhaps, the duties collected can be raised by fifty per cent or even hundred per cent if proper and serious efforts are made to plug these loopholes.

The Government from time to time gives concessions in excise duty without any thought, without any consultation with the State Government. It is happening every time, every year. By notification the Government is reducing duty rates on the representation of a section of interests, lobbies and so on. The aggregate value of all that comes to about a thousand crore rupees. But the Government has no thought that they have to consult the States and bring out the impact of these concessions to the Parliament. How are we and why are we to sanction the budget, approve the budget in the Parliament? Because it is on the people's approval that the Government is collecting the money and is disbursing the money. Where is the people's approval when they are merely by notification giving exemptions and reliefs? We may have the notification before us. But we do not know what is the financial effect of that notification, how much money is given away to particular interests, particular industries. We never come to know of it.

One such example took place in 1988 during the Budget speech. The Finance Minister said that he was giving certain concessions to the man-made fibre industry. 15%, 25% and 10% duty reductions were given in respect of polyester, acrylic and nylon etc. The total value of that was then estimated to be about Rs. 249 crores. The Finance Minister said in course of his speech that he expected these concessions would be passed on to the consumers. They shall watch whether that is done or not. If that is not done, then they may resind the concessions.

The Public Accounts Committee went into this aspect and found out that the duty concessions in terms of 1987-88 which is the previous year before the concessions were given would have been Rs. 241 crores. But

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the 1988-89 figures, when actually the concessions were given which would naturally have been more, could not be supplied by the Ministry. In other words, the Ministry do not care as to how much concessions are given, how much goes to the pockets of these big industries which are in the man-made fibre industry.

Then what was done to see that the duty concessions are passed on to the consumers is that a Monitoring Committee was set up with the mandate to meet every month. But it met only twice and then once again after the PAC itself had taken up this job. What was found out by the Committee is also remarkable. No duty concessions were ever given by the industry to them. The price had fallen initially a little bit; but according to the Committee itself it had fallen because of the glut in the market, because supply was more than the demand and not because of any concessions allowed by the industrialists.

If that is the case, then where is the excise duty. how can we collect the excise duty, how can we get the excise duty which are properly and duly collectable by the Government? They have given exemptions and concessions to various interests on the basis of a representation, never even checking that when they say that they shall pass on the duty concessions to the people, whether they are doing it or not.

Mr. Gadhvi, I was just referring to another report of the Public Accounts Committee regarding duty exemptions and concessions given to the man-made fibre industry in the budget of 1988.

SHRI B.K. GADHVI: To pass on to consumers?

SHRI AMAL DATTA: But that was not passed on to the consumers. that was not checked, monitored and nothing was done against those interests who got the benefit.

I am told that there are some very big industries and one industry is the Reliance Industry which has a share of 33% to 35% of the entire market of man-made fibres. If that is so, then out of this approximately Rs. 250 crores, 33% to 35% went to them.

How much is that? Is it about Rs. 90 crores? So you are in other words, lining the pockets of these industrialists. Are we to believe that they are not helping you in some way or the other? There must be quid *pro quo*, and this is being done at the expense of the States. The States are the losers to the extent of 45%. You are lining their pockets and they are lining your pockets. It is wonderful. But what is happening to the States and the people? An hon. Member here has been pleading that they are not getting water. Well, where is the money for water going? To the pockets of Reliance Industries and other such industries? That should be understood and that should be exposed. You should kindly read the report, to which I have referred. I think the Minister should take care to plug these loop-holes and see that the concessions are not, in future, given at the expense of the States.

SHRI SRIBALLAV PANIGRAHI (Deogarh): Mr Deputy Speaker, Sir, I rise to support these two Bills, which seek to amend the Additional Duties of Excise (Goods of Special Importance) Act, 1957 and the Union Duties of Excise (distribution) Act, 1979.

Sir, in fact, these have been necessitated to implement the recommendations of the Ninth Finance Commission. Whatever recommendations are there in the first-Report or the interim Report, the Government rightly wants to give effect to them. All these recommendations are in line with or in tune with the recommendations of the previous Finance Commission, that is the Eighth Finance Commission. Therefore, there is no controversy about that. But I would like to make some observations about the basis. As regards the additional duties of excise and their distribution etc, equal weightage is being given to State Domestic Product and also population. For the report of the Eighth Finance Commission, the population of 1971 census formed the basis. How is it that the same 1971 census forms the basis, this time also? We have got the 1981 census report ready. I feel that it would have been better if instead of 1971 census, 1981 census—the latest census report—had formed the basis.

Secondly, Sir, about the year. The Gross Domestic Product, that is for 1976-77, 1978-79 according to the previous Finance Commission—naturally, cannot be the basis now. They have suggested the period 1982-83, 1984-85 to be taken as the basis. So, I would like to suggest one thing. It is a proposal for the Government to examine that instead of every time amending like this—according to the recommendations of the Finance Commission, for the State Domestic Product, for the assessment, calculation and also for population,—the latest census should be adopted, so that there will be no necessity for any amendment like this, in future. This is a suggestion for the Government to examine.

Then, as regards population, the composition of population should be taken into consideration.

About the other Bill, I would like to say that 45% of the total income under the Union Excise Duties is shareable among the States and out of that 5% is to be distributed among the deficit States.

This 5 per cent to be distributed among the deficit States seems to be on the lower side. This has given rise to growing disappointment among the poor and the backward States. Therefore, when our objective is to fight out regional imbalances and promote regional balance naturally we have to fight poverty and reduce the gap between the improved States and the backward States.

As regards populations the composition of the population should be taken into consideration. SC and ST population and again percentage of people remaining below poverty line should be the consideration otherwise just going by population the rich States stand to gain. As you know the metro cities have developed at the cost of the other neighbouring States. The industries are established in those States whereas their headquarters are in the metro cities. As such, the States are deprived of the legitimate income. Naturally this thing should be taken into consideration.

Sir, the Ninth Finance Commission report has been dis-appointing for the poor States. States like Orissa and Bihar have been striving hard to improve their economic position. Still in terms of per capita income their position is not improving. Assam could improve its position because that State was included as special category State. States like Orissa and Bihar are regularly visited by natural calamities like floods, cyclones, drought, etc. and, as such, they cannot improve unless special consideration is shown to such States.

Therefore, I suggest that States like Orissa should be placed in the list of special category States. If that is not possible then more grants and less loans should be provided and whatever expenditure is incurred on fighting natural calamities that should be hundred per cent grant and not loan to be adjusted against future Plan expenditure. Further in respect of States which are below the national average in terms of income while allocating money in respect of different Central schemes instead of sharing expenditure on 50:50 basis it should be 100% Central share. These are my suggestions for consideration of the Government so that our real objective of fighting out poverty and bringing different States on parity and to fight regional imbalance and to bring in balanced development between different regions and States is achieved.

SHRI THAMPAN THOMAS (Mavelikara): Sir, there is no reason to oppose this because on the basis of the Ninth Finance Commission recommendations the States are waiting to get money and, as such, the Bill has to be passed. But I would like to restate the recommendations of the Ninth

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Finance Commission and I quote from page 37 para 7.16:

"We feel somewhat concerned about two other issues on which the States have expressed serious misgivings. One of them relates to the numerous exemptions issued by the Central Government in respect of goods which would otherwise have attracted additional duties of excise. They have an adverse effect on the total revenue from these levies. The other matter relates to the undue expansion in the coverage of additional duties of excise. As a result, the list of items on which the States may levy sales tax is becoming restricted. The States in general feel that the Central Government has not demonstrated earnestness to sort out these issues which make the States apprehensive. We recommend that the Standing Review Committee may meet urgently to resolve these issues."

18.00 hrs.

One point on which the State Governments are deeply concerned is that because of the numerous exemptions given by the Central Government, their share of revenue has gone down. Further, because of the expansion in the coverage of the additional duties, the levy of sales tax by the State Governments has also been affected and their revenue has naturally gone down.

I would also like to draw the attention of the august House to para 6.17 of this report:

"Accordingly, we recommend that the distribution among the states in 1989-90 of 40 percant should be in the following manner:

(a) 40 per cent of the net proceeds of excise duties which are shareable should be distributed among all the states in the following manner:

(i) 25 per cent should be distributed among the States on the basis of 1971 population.

(ii) 12.5 per cent should be distributed among the States on the basis of income adjusted total population........."

AND THEN IT GOES on.

Earlier, an hon. Member mentioned about the regional imbalance and that it is growing because of various factors. If we have a look at the per capita income of the various States, we find that Delhi has got Rs. 370, per month, Haryana Rs. 360 per month and Punjab has about Rs. 400 per month, and that is almost nearing the international standards. As against this, if you go to Kerala, it is Rs. 136 per month; in Orissa, it may be much less. The reason that the various States do not have the required degree of development is that they do not have sufficient money.

I would also like to make one more point. The Kerala Government, for example, demanded a share in the money for the development of that State. They are spending more money for the education and welfare activities, but they have limited resources. There are several other factors also. There are not many industries, their income mainly depends on the salaried class of Government offices and other establishments. Then, the other income is the money that comes from abroad. While you are giving all sorts of concessions to the exporters of businessmen in the form of import-export substitution etc., what is the encouragement given to the State and the persons who earn foreign exchange? That money goes to the Central pool. There is no sharing of that. The State Government's demand was that you should at least consider them at part with the exporters and business houses and give them the excise concessions, and other facilities, so that they are able to look to the development of their State. This demand has been made by the Kerala Chief Minister and it has been pending with the Centre.

As there is not much time, I am not going into the details. But, as I said, because of the various factors, regional imbalance is growing and the States are not getting their due share. If we look to the share which is given to the States, we find that there is a great discrepancy and discrimination. The State Governments and certain people are discriminated and the export houses and others are given better concessions at the cost of the public. These are the questions which have to be looked into very seriously. Forty per cent to be shared and five per cent to the set apart—I do not know, how it will work.

I hope the hon. Minister will look into these matters and make necessary apportionments in the future.

THE MINISTER OF STATE IN THE DEPARTMENT OF EXPENDITURE IN THE MINISTRY OF FINANCE (SHRI B.K. GADHVI): Mr. Deputy Speaker, Sir, I am thankful to the members who participated in the debate. Shri Madhav Reddi was very much right when he said that there was hardly any need for discussion on these two Bills. These are pursuant to the First Report of the Ninth Finance Commission and the States are benefiting because of these measures.

Sir, hon. members have made some points. One of the points is about population. Now, we are all aware that we have adopted a national policy to the effect that States should strive to contain the population growth. Therefore, if the only criterion for allocation and devolution of funds is going to be population, then we might be going in the reverse gear. Let us take the State of Kerala for example. Kerala has done a commendable job as far as family welfare measures and population control are concerned. . we take the criterion of population alone into consideration, Kerala should be put in a disadvantageous position. Now, Shri Thampan Thomas has referred to the recommendations given on page 33 of the First Report of the Ninth Finance Commission. 25 per cent of the States share based on 40 per cent of net proceeds of shareable excise duties should be distributed among the States on the basis of 1971 population. Why have we taken the 1971 population as a base? In June 1977, we adopted a Resolution in Parliament that upto 200 AD, the population of 1971 would be taken for the purpose of devolution of funds to states. This is the Resolution of the parliament itself. Therefore, the Finance Commission is also relying upon the same.

Secondly, 12.5 per cent should be distributed among the States on the basis of Income Adjusted Total Population (IATP). For calculating IATP, 1971 population of the States should be weighted with the inverse of the average per capita income for the triennium 1982-83 to 1984-85. The share of a State is to be determined by the percentage of the income adjusted total population of that State to the aggregate of the income adjusted total population of all States.

Thirdly, 12.5 per cent should be distributed on the basis of poverty ratio, i.e the proportion of the number of people below the poverty line in a State as computed by the Planning Commission for 1983-84 to the total of such population in all States. Therefore, it cannot be said that poverty factor is not taken into consideration.

The remaining 50 per cent should be distributed on the basis of distance of per capita income of any State during the triennium 1982-83 to 1984-85 to that of the State having the highest per capita income, i.e. Punjab multiplied by its 1971 population. The shares of Punjab and Goa will be determined with reference to the distance of the next State i.e. Maharashtra from Punjab.

Therefore, it would be appreciated that a very scientific approach has been adopted. If we proceed on the basis of population only and if we say that no special dispensation should be made on the basis of factors such as growing poverty, widening disparity and

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so on, perhaps we may be thwarting the total growth of the nation as a whole. On the one hand we say that we must control the population. On the other, we say that because of more population, more funds should be given. Ultimately, it may even prove as an incentive for the growth of population.

SHRI C. MADHAV REDDY: You are likely to give a wrong signal to the Finance Commission which is going to make a final recommendation.

SHRI B.K. GADHVI: No, no. I am not.

SHRI C. MADHAV REDDI: The Eighth Finance Commission has adopted the 1971 population as a base. As an interim measure, the Ninth Finance Commission also said that they would adopt the criterion of 1971 population, as has been done by the Eighth Finance Commission. That is the only reason. But now you are bringing in extraneous reasons.

SHRI B.K. GADHVI: I would again point out to you that in 1977 the parliament adopted a Resolution that upto 2001 AD, 1971 population would be taken as a base for devolution of the funds to the States. This is the Resolution of the Parliament itself. This step has been taken with a view that we are having a larger policy on population control. The idea is that growing population should not prove as an incentive for asking for more and more funds. that is why the parliament had adopted the Resolution.

SHRI C. MADHAV REDDI: What about migration of population?

SHRI B.K. GADHVI: That is why I say that poverty ratio has also been taken into consideration. Shri Amal Datta has stated that consumption for additional excise duties should be taken into consideration. This is very good. Everyone is asking for it. But we have a data deficiency. Data thrown by the National Sample Survey organisation is not acceptable. It is always not very correct. it may not give the factual and accurate position. That is why, by proxy, population, standard of living and such other factors are being taken into consideration. If we have very reliable data, that would be different. If we rely upon these deficient data, States also may make a hue and cry, saying that we are distributing something on the basis of data which could not be cent per cent relied upon.

Although consumption is a very correct approach but because of these practical difficulties, it is being represented by proxies. Proxies include population, States domestic products, etc.

Further more, I would say about tobacco. After all we will have to be dynamic for future. We are saying that smoking is a health hazard and so on. There is a campaign by the Health Ministry that as far as possible the consumption of tobacco, cigarettes, bidis should come down. So, all these relevant factors will have to be taken into account. Even the terms of reference of the Ninth Finance Commission require it to adopt, the 1971 population.

SHRI RAM SINGH YADAV (Alwar): Regarding domestic production, you take the case of Rajasthan. When wool is produced, they take into consideration only the finished goods. So, raw materials should also be considered in order to see that the percentage of Rajasthan which is only decimal zero (*Interruptions*)

SHRI B.K. GADHVI: I have got your point. But his additional excise duty is on textile goods. It is not on wools. There is no excise duty on the production of wool as such.

SHRI RAM SINGH YADAV: What about raw material of the products?

SHRI B.K. GADHVI: There is no raw material. There is no textile. This is only what we collect, we are giving. Mr. Amal Datta said about concessions on excise duty. Concessions which are there are being given with a view to give an impetus to the growth of a particular industry and we believe that it should pass on to the consumers. The middlemen or the manufacturers or the textile magnates should not pocket them up.

Unfortunately, it is happening so.............

SHRI AMAL DATTA: Don't you have a mechanism? If you don't have a mechanism, they will pocket it.

SHRI B.K. GADHVI: The mechanism is there. But it has also to work through. (*Interruptions*)

In the Budget speech also, we have stated that we will be watching whether the concessions which are given are being passed on to the consumers. If they are not being passed on to the consumers, then either the withdrawal or something else could be thought about. But if they are not being passed, that is not a happy state. But the Government is aware of it. The Government is constantly keeping a watch over it. But to say that we are depriving the States of their income by giving these concessions is not a proper approach because concessions are not given with a view just to deprive the States. But they are given with a view to give incentives or help to the particular industry which is in the crisis. It depends upon the needs. Depending upon the needs, the concessions are given many times. They may be on the excise or they may be on the income tax even. On income tax, as everybody is asking, that the limit should be raised to Rs. 25,000. The Government has not agreed to it. But, if we do so, 85 per cent of the income tax which goes to the States—perhaps it may happen that the total funds available to the States may come down—may come down. These are all practical aspects which can be looked into. But, it is only First Report of the Ninth Finance Commission. It has been given for one year. The effect to this scheme is being given for only one year.

All these suggestions which were made by the State Governments, the Central Government, the Members of parliament and various other organisations, I am confident that the Finance Commission would take into consideration and would come to its independent conclusions and recommendations.

SHRI THAMPAN THOMAS: What about foreign exchange earning?

SHRI B.K. GADHVI: Whenever they earn foreign exchange, we congratulate them. If the State earns, we congratulate the State also. (*Interruptions*).

When I was in the Estimates Committee, I was told that perhaps, Kerala is the highest consumer of the Asian Paints. Because every year, the people there, go in for painting their houses and that too by not with one colour but with various other colours like red, yellow, dark, light, etc.

MR. DEPUTY SPEAKER: The question is:

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

The motion was adopted

MR. DEPUTY SPEAKER: The House will now take up clause by clause consideration of the Bill.

The question is :

"That clauses 2 and 3 stand part of the Bill."

The motion was adopted

Clause 2 and 3 were added to the Bill

MR. DEPUTY SPEAKER: The question is:

"That clause 1, Enacting Formula and the long title stand part of the Bill."

The motion was adopted

Clause 1, Enacting Formula and the Long Title were added to the Bill

SHRI B.K. GADHVI: I beg to move:

"That the Bill be passed."

MR. DEPUTY SPEAKER: The question is:

"That the Bill be passed."

The motion was adopted.

MR. DEPUTY SPEAKER: The question is:

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

The motion was adopted

MR. DEPUTY SPEAKER: The House will now take up clause-by-clause consideration of the Bill. The question is :

"The Clauses 2 and 3 stand part of the Bill."

The motion was adopted

Clauses 2 and 3 were added to the Bill

MR. DEPUTY SPEAKER: The question is

"That clause 1, Enacting Formula and the Long title stand part of the Bill.

The motion was adopted.

Clause 1, Enacting formula and the Long Title were added to the Bill

SHRI B.K. GADHVI: I beg to move:

"That the Bill be passed."

MR. DEPUTY SPEAKER: The question is:

"That the Bill be passed."

The Motion was adopted

18.16 hrs.

The Lok Sabha then adjourned till Eleven of the Clock on Thursday, May 11, 1989/ Vaisakha 21, 1911 (Saka).

Printed at : S. Narayan & Sons, Delhi-110 006.