

A point to be noticed is also this. What are the subjects that would go to the Delhi Development Authority? The Joint Committee has also added water supply; there is also electricity, sewage disposal, provision of recreation grounds, prescribing the set-back lines and streets. There is bound to be conflict from that point of view between the Corporation and the Development Authority and also in the matter of administration, in the matter of execution, at every stage. I doubt when the correspondence between the two and the co-ordination between the two will finish and when the real work will be started. I repeat that from our experience of the Bombay Municipal Corporation, we have found that it is no use having two Authorities. You create conflict and you create so much of over-lapping and so much of friction. The work will not be done. Therefore, the amendment suggested by my hon. friend Shri Braj Raj Singh that the Authority should be terminated within five years, is good. But I say you terminate it as soon as they formulated the plan and devise the zones and hand over everything to the Corporation and finish this Delhi Development Authority at the earliest possible moment.

**Shri Braj Raj Singh:** May I have one minute, Sir?

**Mr. Deputy-Speaker:** Let it go through. The question is:

"That the Bill, as amended be passed."

*The motion was adopted*

#### UNION DUTIES OF EXCISE (DISTRIBUTION) BILL AND

#### ESTATE DUTY AND TAX ON RAILWAY PASSENGER FARES (DISTRIBUTION) BILL

**The Minister of Finance (Shri T. T. Krishnamachari):** Mr. Deputy-Speaker, Sir, may I move the two Bills together?

**Mr. Deputy-Speaker:** Yes. Both are to be discussed together, I suppose.

**Shri T. T. Krishnamachari:** They are related and may be discussed together.

**Mr. Deputy-Speaker:** He may move it and I will put it to the House.

**Shri T. T. Krishnamachari:** Mr. Deputy-Speaker: I beg to move:

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

I also move:

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

**Shri Naushir Bharucha (East Khandesh):** May I know on a preliminary issue with regard to the Union Duties of Excise (Distribution) Bill, why is it that the recommendation of the President is not attached with the Bill?

**Shri T. T. Krishnamachari:** I remember having sent it to the President.

**Mr. Deputy-Speaker:** It has been obtained. It could not be printed with the Bill. But, subsequently it has been added to the Bill.

"The President has, in pursuance of clauses (1) and (3) of article 117 and clause (i) of article 274 of the Constitution of India, recommended to Lok Sabha the introduction and consideration of the Bill."

**Shri Naushir Bharucha:** It was not communicated.

**Shri Rane (Buldana):** It has been circulated.

**Shri Naushir Bharucha:** It has not been circulated. At least, I have not got it.

**Shri T. T. Krishnamachari:** I am sorry. Actually I do recollect having sent the Bill to the President for

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authorisation. I am very sorry if we have failed to circulate it.

The first Bill seeks to implement the recommendations of the Second Finance Commission. But, before I proceed to explain the contents of the Bill, the House would, perhaps, like to have a short account of the overall recommendations of the Commission.

The House will recall that on the 14th of last month, I placed on the Table a copy of the report of the Commission and a memorandum explaining the action proposed to be taken on the recommendations of the Commission. The Commission's recommendations fall into two categories. The first involves the sharing of revenues under income-tax, and Union duties of excise between the Centre and the States which is also one of the methods of sharing revenues. The subsequent distribution of the share of revenues assigned to the States among them is a matter with which the Union is not directly concerned. The second category involves the distribution amongst the States of the revenues under certain heads which for purposes of convenience and for securing uniformity of taxation, are levied and collected by the Centre, but the entire proceeds, except the negligible amount attributable to Union territories, are assigned to the States and distributed amongst them in accordance with the principles to be formulated by the law of Parliament. In this category, the Centre is not financially concerned and the distribution among the States is a matter entirely between the States.

I shall first deal with the category of recommendation in which the Centre is directly interested. The Commission have increased the share of income tax assigned to the States from 55 per cent that was obtaining hitherto, to 60 per cent. They have

also recommended grants in aid to eleven out of the 14 States of the Union involving an annual payment of the order of Rs. 40 crores against grants of the order of Rs. 16 crores that was made to them in the past. These recommendations have to be implemented by Presidential Order and this Order is being issued Separately.

The Commission have also recommended that the existing arrangement under which 40 per cent of the net proceeds of the excise duties on matches, tobacco and vegetable products are distributed amongst the States be replaced by an arrangement under which 25 per cent of the net proceeds of the duties on these three commodities as well as on sugar, tea, coffee, paper and vegetable non-essential oils be distributed amongst the States. Although the percentage share of the States has been reduced, the increase in the number of duties to be shared has resulted in the devolution of a larger sum of revenue to the States. At the existing level of taxation, I reckon that the additional sum transferred to the States by this method will be of the order of Rs 7 crores. The States' share is now distributed amongst them in the ratio of the population. The Finance Commission have subsequently adhered to the same basis. Under their recommendation, 90 per cent will be distributed on the basis of population with certain minor adjustments made out of the balance of 10 per cent. The Bill which I am proposing to the House for its acceptance seeks to implement the recommendations in this behalf.

The second category of recommendations deal with the distribution among the State of net proceeds of the estate duty on property other than agricultural land and the recently imposed tax on railway passenger fares. A Bill embodying the principles of distribution recommended by

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the Commission and accepted by the Government is on the Order Paper today, which as I said, I have moved today, and I shall briefly explain the provisions of that Bill also.

As I have mentioned earlier, Government have accepted the recommendations of the Commission in regard to the transfer of these resources.

There is one aspect of their recommendation in respect of the debts due by the States to the Centre on which I think further consideration will be both necessary and desirable. This relates to consolidation of all existing loan liabilities of States Governments into two loans, one repayable at the expiry of 15 years, and the other repayable at the expiry of 30 years from the 1st April, 1957. It will be necessary to examine this proposal in greater detail. The proposal might have considerable reactions on the Centre's financial position during the next 15 to 30 years. It might seriously jeopardise the Centre's ability to finance the States in respect of capital needs during the immediate future and materially affect the course of the Second Plan, and perhaps the Third Plan as well.

There is also the special problem of settling the terms of repayment of the loans given to the States against their collections of small savings which have, as the House knows, a shorter maturity. I propose to go into the whole matter fully in the coming months, and I expect to be able to place before Parliament Government's final proposals in regard to this aspect of the recommendations of the Finance Commission during the Budget Session.

I know that there is a feeling in certain quarters that the recommendations of the Commission have not done adequate justice to one State or to the other. In dealing with a matter like this, we have, I venture to think, to look at the picture as

a whole, and not consider individual recommendations. I am sure that a perusal of the Commission's report would convince all reasonable people of the pains that the Commission have taken to make on an objective assessment of the needs of the States and the Centre, and in distributing the shares of the Central revenues and grant-in-aid among the States, to hold the scales even between the state

Once either the Central Government or Parliament starts modifying the basic recommendations of the Commission, there will be no end to this process, as there are, in effect, 15 parties involved, apart from Members of Parliament themselves, namely the Centre and 14 States. Also, the Commission have drawn up their scheme of assistance and devolution as an integrated scheme, and a modification in one direction might involve the recasting of the entire scheme.

The House will certainly realise that the person that is most affected by this transfer of resources from the Centre to the States of the order of about Rs. 52 crores on an average year, and Rs 39 crores during 1957-58, happens to be the unfortunate person who is the Finance Minister, but I felt very strongly that whatever may be the inconvenience, in a matter like this one has to accept the recommendations of the Finance Commission,—and this is the second time we are accepting the recommendations of Finance Commission in regard to distribution of revenues—as it is completely impossible, as I have said before, for us in this House or even a committee of this House to be able to apportion percentages or even amounts as between the various States and to hold the scales. It has to be done by an outside body with a quasi-judicial bent of mind. Therefore, for all these reasons Government have decided to accept the scheme. In

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dealing with the Bills with which the House is just now concerned, I would, therefore, earnestly request hon. Members to bear this fact in mind

I do realise when saying so that there is ample scope for difference of opinion both in regard to the excise duties to be shared and to the percentages to be allotted to the States, but any modification in this Bill, as I have said before, would upset the scheme of distribution and would also give, more or less, the death-knell to a convention which we are seeking to establish namely accepting the recommendations of the Finance Commission in a matter which is very delicate and which could not be otherwise arranged

I hope the House will accept these two Bills without modification

**Mr. Deputy-Speaker:** Motions moved:

"That the Bill to provide for the distribution of a part of the net proceeds of certain Union duties of excise among the States, be taken into consideration," and

"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, be taken into consideration "

Both these motions are before the House. Because both are connected, I hope the House would like to have a discussion on both together, though the motions would be put separately subsequently

There are four hours. May I know what time we should allot to the general discussion?

**Shri Bimal Ghose (Barrackpore):** Three and half hours.

**Mr. Deputy-Speaker:** If that is the desire, then 3½ hours we can have for general discussion.

I am getting some names, but it will be realised that there will be greater concern that hon. Members from different States should be represented. Therefore, the hon. Members who want to speak and the parties also should take into consideration that all Members from the various parties should not come from the same State.

**Shri Bimal Ghose:** One does not know who is speaking for other parties.

**Mr Deputy-Speaker:** But if there is some consultation, that will be much better because when I get names from various parties of the same States, I shall have to use my discretion, and then the parties may not feel satisfied. That would be the difficulty

**Shri Punnoose (Ambalapuzha):** Our impression was these Bills were going to be taken up separately

**Mr. Deputy-Speaker:** The time allotted was also together.

**Shri Punnoose:** We thought one by one they would be taken up

**Mr Deputy-Speaker:** Discussion would be together. The motions would be put separately, and the clauses would also be taken up separately. That is the usual course that we adopt in such circumstances. **Shri Mahanty**

**Shri Mahanty (Dhenkanal)** After listening to the initial remarks of the hon. Finance Minister, I feel rather hesitant as to whether I should speak

**Mr. Deputy-Speaker:** Then he should decide that first!

**Shri Mahanty:**... because the hon. Finance Minister has warned us that such people who would not accept the basis of the recommendations of the Finance Commission are not reasonable. It is my misfortune that,

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according to the Finance Minister, I have to be in the list of unreasonable persons, but according to me, I maintain that the recommendations of the Finance Commission are, to say the least, most unreasonable.

Hitherto 40 per cent. of the Union excise duties on matches, tobacco and vegetable oil were being distributed among the various States. Now, five more commodities, viz., tea, coffee, sugar, pepper and vegetable oil products, have been included in the list, but the distributable percentage has been lowered from, 40 to 25 per cent. The shares of the States which will accrue from this devolution have not been quoted in absolute figures in this Bill. It has merely been quoted in percentages. If the absolute figures had been given, we would have been in a position to know if the individual States are going to benefit, and to what extent.

All the States had asked the Finance Commission for increasing the number of commodities; the excise duties on which could be made distributable, and in the second place, they had also asked for a bigger percentage, but the Finance Commission has only included five more items, which has been counterbalanced by reducing the percentage from 40 to 25.

All these demands of the State Government cannot be considered illegitimate, in view of the fact that in 1952-53 excise duty was levied only on 13 commodities which yielded a net cut-turn of Rs 83-04 crores, while in 1955-56 the number of commodities has risen to 29 and the yield has increased to Rs 259-57 crores. Therefore, it is but fit and proper that the State Governments should demand a bigger share, particularly in view of the fact that all the State Governments today are committed to expanding programmes and increased expenditure on account of programmes which ensure social justice and the socialist pattern of society. Therefore, I venture to submit that the

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demand of the States for an increased percentage of the distributable amount of the Union excise duties was quite legitimate. It is unfortunate that the Finance Commission paid very scant attention to this demand of the States; the Government also have accepted the recommendations of the Finance Commission uncritically by paying scant attention to that aspect of the question. The increase in the yield owing to the increased number of items on which excise duties are levied, will by and large be negated and be neutralised by the decrease in the percentage. Therefore, underdeveloped States and small States like Kerala, Assam or my State of Orissa, have got every reason to feel disappointed over the scheme of devolution which has been presented in this Bill.

Now, it has to be remembered that all the States had urged the increase of the percentage from 40 to 50. We would have liked to know from the Finance Minister why this has not been conceded. Instead of treating the subject in a cavalier fashion, he should have told us, and he should have convinced us as to why the Finance Commission did not consider that matter with the attention that it deserved and why Government had accepted their recommendations uncritically.

I now come to another aspect of the question, namely the share of the different States in the total distributable revenue. Since the first Commission, population has remained as the sole criterion for distribution of share among the States. The present scheme of devolution, also has not departed from that time-honoured principle, from that time-honoured criterion, namely population. It is really unfortunate that the House was not provided with any opportunity to have a debate on the Finance Commission's report. Before bringing forward this Bill, we should

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at least have been provided with an opportunity for a debate on the Finance Commission's recommendations. But now, as time is limited, we cannot go into all the aspects of the question. Be that as it may, to hold population as the sole criterion for distribution of the distributable amount of excise duties, is an antiquated idea

With due respect, I may submit that population as the sole determinant for determining the percentage of devolution is an old antiquated idea and has been rejected in federations like the USA, Canada and Australia. Sir, there are States and States. There are big States and there are small States. There are agricultural States and there are industrial States. There are States with teeming and huge populations like Uttar Pradesh and there are States like Assam with very sparse population. Therefore, one unit of population in Assam cannot be equated with one unit of population in Bombay. The reason is very obvious. So, to hold population as the sole determinant in a matter of this kind, is, to say the least, is not only unscientific but impolitic too

On account of these reasons, naturally, there is a great hiatus between the economic condition of the people in the agricultural States and in the industrial States. Therefore, we had expected that the Finance Commission should have taken this fact into consideration instead of taking population as the sole criterion. It is unfortunate that the Finance Commission has consistently refused to substitute the old antiquated concept of population by socialism and the demands of social justice.

It has to be borne in mind today that the various State Governments have been reduced to the status of bloated district boards. Every day, the Government of India, in this

House and in the other House, have been forging new pieces of legislation which are absolutely robbing the States of all semblance of autonomy that was conferred upon them or was supposed to have been conferred on them.

**Pandit K. C. Sharma (Hapur):** The hon. Member is a party to all that.

**Shri Mahanty:** I am not complaining. This House has the right to do so. I do not question that right. I do not question the right of the Government of India to reduce the States to the position of bloated district boards. But, as Gandhiji had said, every right has its accompanying duties. My only humble submission to Government is that they must come forward to fulfil their part of the duty. It cannot be just an one-way traffic.

What do we find now? We find that the State Governments are restrained in various ways in raising their own finances. I can well anticipate the answer of the Finance Minister. He would come forward and say that the State Governments had failed to raise the amount which was expected of them during the First Five Year Plan period. But I maintain that, if the Union Government had not come in the way of the State Governments in raising their own financial resources, then probably there would have been no occasion for this submission today in this House.

I shall give one or two instances to show how the Union Government have come in the way of the State Governments raising their own finances. I can only speak in relation to my State. You know, Sir, that Orissa is a State with rich mineral deposits. It is open to the State Government to control the rates of royalty over its own mining leases, but the State Government cannot do that now, because the Government of India are there, and they have their own legis-

lation regulating the rate of royalty on these mining leases. The State Government have been complaining about this, and, in fact, they had complained before the Finance Commission that had they been given an opportunity to determine their own rates of royalty, then probably the yield from that item of revenue would have been much more than what they are getting now.

Then, take the question of prohibition. I concede the point that prohibition is one of the Directive Principles of State Policy in the Constitution, in the same way as the other Directive Principles, such as providing free primary education, providing every man with employment and so on and so forth. Government have not implemented any of these recommendations in the Directive principles of State policy. There is also the very salutary principle of the separation of the executive from the judiciary. That also has not been heeded to. Yet, because prohibition was there in the Directive Principles, a certain set of moralists took it into their heads that there must be prohibition only on paper, even though wine and liquor may flow like water in the streets, even in cities like Bombay. Be that as it may, when the States Government of Orissa wanted to relax prohibition, the Government of India, or rather not the Government of India but the Congress High Command came in their way, and a directive was issued from the Congress High Command, saying 'You should not relent prohibition, however stupidly it may have been functioning in your State'. The result is that we have been losing to the extent of millions of rupees on this account. It may be so with respect to other States also, but I can speak only for my State. I have not got the precise figure in regard to my State, and, therefore, I would not quote any figure, but it must be a few millions of rupees. These millions are not going into the

Government coffers, as it should have been, but it is going to the illicit distillers, to the boot-leggers and to the most undesirable kind of persons who are thriving on prohibition.

**Shri Surendranath Dwivedy (Kendrapara):** Encouragement to village industry.

**Shri Mahanty:** If the State Governments had their own unfettered right according to the Constitution to raise their own finances, not by direct taxation alone but also by indirect taxation and by other methods, then probably our grievances here would not have been of any avail. But in the absence of it, when the Union Government like an old stupid mother-in-law is trying to teach the daughter-in-law, is trying to poke its nose into the affairs of every State at every moment and is trying to teach it from morality to politics, it is only fit and proper that this Government should also undertake this responsibility of financing their needs fairly and squarely. There can be no escape from it.

**Mr. Deputy-Speaker:** If the mother-in-law is behaving like that, then the daughter-in-law should be alive to it and not strangers. (Interruptions).

**Shri Mahanty:** I quite concede that the Finance Commission was constituted by persons of a quasi-judicial frame of mind, as the hon. Finance Minister said. I quite concede that they were a body of experts. But unfortunately the body of experts always operate in a vacuum. Once a laundress asked the great mathematician, Dr. Newton, what was three times seven. Dr. Newton calculated the sum for five minutes by logarithmatics and then gave the answer as 21.

That is how our experts function. An expert is one who thinks with a one-track mind, one who operates and thinks in a vacuum. I quite concede that they were a body of experts. But they have not taken

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into consideration the changing times. They have not taken into consideration the needs and demands of the States.

The other day, the hon. Finance Minister in a speech said that our First and Second Five Year Plans had disappointed the entire middle class. The middle class today feels that it has all along been ignored; to them, this has been a promise belied.

Therefore, we had expected that the Finance Commission would have taken into consideration all these factors before deciding on this scheme of devolution. I was submitting a little while ago, that population could not be taken as a valid criterion for determining the percentage of share. But so far as the Union Duties of Excise (Distribution) Bill is concerned, the Finance Commission has taken population as the sole criterion. As I was submitting, that cannot be the sole criterion. There are other important considerations too. In that connection, I had stated that a unit of population in Orissa could not be equated with a unit of population in Bombay or Punjab.

I will give certain figures. Expenditure on social services in Orissa in 1955 including education and public health and the rest is 3·4 whereas in Bombay the figure is 7·1. In West Bengal, it is 7·3. While we do not grudge the good fortune of the population in Bombay or West Bengal, we certainly resent our misfortune of having a *per capita* expenditure on social services of 3·4. I ask the collective conscience of this House, the collective organised conscience of the Government that is committed to the socialist pattern of society: is it socialism? Twenty years hence, God willing, there will be socialism in this country when everybody will have equal status. But consider what hiatus will be there between the average man in Bombay with a *per capita* ex-

penditure on social services of 7·1 and a man in Orissa with a *per capita* expenditure on social services of 3·4. Therefore, the Finance Commission should have had a different concept concerning population.

**Mr. Deputy-Speaker:** The hon. Member's time is up.

**Shri Mahanty:** Another five minutes. There are two Bills. The principles of the two Bills are as different as cheese is from chalk. I am concluding my observations on this Bill. Then I will come to the other Bill.

**Mr. Deputy-Speaker:** That is all right. But the overall limit placed is 3½ hours and all States would like to be represented. The hon. Member has already taken 20 minutes. I do not want to interrupt him. But he could very well realise what others would feel. The last speakers are always complaining that they have not as much time as the first speakers.

**Shri Mahanty:** I will co-operate with you and conclude in five minutes.

Therefore, I will sum up by only citing the points. I had, expected that some correctives would have been applied in favour of these underdeveloped States—which the Bill has not.

The criterion should have been not where the duties are raised but where they are needed. This would have been a correct approach to the scheme of distribution. I only submit that the Government should bear this in mind at least when the question of grants-in-aid comes, so that such States would get a greater amount on that account from the Government of India.

I have got another question to ask. The Finance Minister has said that 90 per cent of the distributable revenue will be distributed among the States on the basis of population and



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the rest 10 per cent. will be reserved for adjustments. We would like to have a clear idea of what he means by adjustments. What is the scheme of adjustments and how is he going to have it?

Now, I come to the Estate Duty and Tax on Railway Passenger Fares (Distribution) Bill. This is most inequitable in its principles. The criterion laid down for fares distribution is the railway route mileage. But the fact has to be borne in mind that the extent of railway route mileage is merely adventitious; it is merely an accident of history that there are States like U.P. and West Bengal which have got greater route mileage than States like Orissa or Kerala.

Shri Shree Narayan Das (Darbhanga): Accident of geography also.

Shri Mahanty: There are two unfortunate States in the Indian Union. One is Orissa and the other is Kerala which are not hindered by any geographical factors but where the route mileage is the least in India. In Orissa, it is 838 miles and in Kerala, it is 467. On that basis, you will find that Orissa has been given 1.78 per cent. and Kerala, 1.81 per cent., whereas U.P. has got 18.76 per cent. and Bombay 16.28 per cent. The fact has to be borne in mind that these two fortunate States are served by a network of railways while we are clamouring for new railways. The Government say to us, that there is no money, no finance, for new Railways in our States, but there is no paucity of funds, for electrification of railways in U.P. and Bombay. Consider the inequity of this approach. States which are clamouring for railways are told that there is no finance and available resources, but resources are available for electrifying the railways in U.P., West Bengal and Bombay. I do not grudge them, nor do I envy them, but this fact has to be borne in mind: if you take railway route mileage as the basis, how are States like ours going to fare?

I have not much time. So I will only mention the last point. The Finance Commission has stated in its Report that some States have incurred heavy loans. I would like to request the hon. Deputy Minister to condescend to listen to me instead of indulging in private gossips. I expect a reply from him.

Mr. Deputy-Speaker: The hon. Minister is expected to listen and reply . . . Sometimes some Ministers are equipped with such sense that they can talk and also listen! The Finance Commission in its report at page 37 have stated that they have not considered, the financial condition of such States which have incurred heavy loans from the Government of India. I invite your attention to para 95 of their report. They said that they would have ordinarily done so, meaning thereby making provision for payment of interest charges to the Union Government. The report says:

"But this was not necessary because we have not included in the income available to States the receipts from the new tax on railway fares which, we expect, will meet the interest charges."

I will conclude by saying that the Government of Orissa had incurred a loan of Rs. 7436.6 lakhs between 15-8-1947 and 31-3-1957. The Bombay Government had incurred a loan of only Rs. 5950.31 lakhs. Therefore, the interest charges devolving on Orissa are much higher than that of Bombay. The Finance Commission had recommended that they were making no specific provision for that because they considered that the additional revenue that would accrue to the States on account of this share would go to meet such charges. I would only expect from the hon. Minister of Finance in the course of his reply, if he condescends to do so, to say how then Bombay could be entitled to a bigger share than that of Orissa.

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**Mr. Deputy-Speaker:** Mr. Punnoose.

**Shri Punnoose:** Sir, I must express myself strongly against these two Bills.

**Mr. Deputy-Speaker:** I looked this side first; nobody stood up. When I have called him, I find hon. Members getting up. I have called him already.

**Shri Punnoose:** I must express myself strongly against these two Bills coming out of the recommendations of the Finance Commission. When the recommendations of the First Finance Commission were discussed in this House, so many complaints were voiced from all the sides of the House that the smaller States were left in the lurch, that the States with the greatest number of problems were not cared for, and so on. It was hoped that the Second Finance Commission would do justice. But the recommendations of the Second Commission did not by and large take into consideration the needs and requirements of the States, their peculiar financial position and their problems.

With regard to Union Excise Duties, they have increased it from three commodities to eight commodities. But a majority of the States wanted almost all the commodities to be brought under it. It was fair too on the part of the States. While increasing the number from 3 to 8, they have reduced the percentage of the divisible pool from 40 to 25. I do not know why!

It would appear that the whole concept of our finance is undergoing a change. The Original idea was that India had to function as a Federation but in recent times, the trend, as has been mentioned, has developed by which the various States have become glorified municipalities. The Finance Ministers of the Centre dole out something to the States and ask them

to function. I oppose this very approach. If we have to function effectively as a democracy, there should be more and more power and financial strength behind the various States. It is the State Governments that very often come directly in contact with the people and look after their needs. The tendency to centralise everything is growing every day and the Centre is giving reluctantly small shares to these various States.

The various States had after all certain financial background. The present Kerala State—formerly Travancore-Cochin—had a certain financial background. As early as 1936, land revenue formed part of the revenue in Travancore. They had this basic tax on land. They had certain other items just as the income-tax or customs and transport and other things. There is a growing avenue of taxation. Such avenues have been centralised and the static ones had been left to the States with the result that the financial position of Kerala State has been very weak and it could not undertake any developmental programme with success. Our State and many other backward States demand a larger share of the Central duties and other benefits for these reasons but the Second Finance Commission had also not taken these into consideration.

One glaring example is their recommendation with regard to the railway passenger fares. They have said that it should depend on the route mileage. How can it be a justifiable criterion? They themselves agree that ten States out of 14 have argued that population should be the, if not the only basis, at least one of principles which should govern the division of these fares. I do not say that population should be the sole criterion as has been said by my other friend; it cannot always be the only criterion. Nevertheless, it should be one of the major considerations because when

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we visualise a socialist and welfare State, we have to think in terms of the people and their requirements. But they have completely left out population without assigning reasons. They say that the length of the railway lines in a particular State can be the basis. We have got some experience....

**Shri Damani (Jalore):** How is it that the Kerala Government's Budget is a surplus Budget?

**Shri Warrier (Trichur):** It is an honest Budget.

**Shri Punnoose:** I know the difficulty with regard to the surplus Budget. I am prepared to meet that point. But just now, I was talking about something else: how the railway fares had to be divided. That has nothing to do with Kerala Budget or the budget of any particular State.

**Mr. Deputy-Speaker:** The hon. Member had said that it is a poor State and so it was pointed out that it has a surplus budget.

**Shri Punnoose:** It may be so, but there are many difficulties. We are never poor, but the only thing is that we are faced with financial difficulties and a number of other problems. In that sense only I said that Kerala has got its own difficulties.

With regard to railway lines, when we sometimes argue before the Planning Commission that we want some industries we are told: "How can you have industries when you have no railway lines there?" When we say that we want railway lines, we are told that railway lines are given only to feed industries, "you have no industries and therefore no railway lines". Kerala with its 13 million and odd population has got only 467 miles of railway lines. This is an inequity which has been perpetuated, started by the British and continued after we got our freedom. Several times it has been demanded in this House that Kerala be given some more railway

lines, but every time that demand has been rejected.

And, in 1957 we are told that because we have got a smaller length of railway line we should get a very poor share of the railway fares. This is unjust, this is something which goes against the very interests of our people. In the long run, this type of policy by the Central Government and these recommendations if accepted and continued like this by the Central Government will go against the interests of the whole of India. When there is some parochial tendency, when some people talk about North Indian imperialism, people get angry about it. People are sometimes called mad, but people are likely to go mad if there is not sufficient sanity at the Centre to see that there is all round development of India, to see that smaller units are looked after, to see that weaker units are looked after and that there is fairness and justice.

I, therefore, appeal to the Finance Minister, who is likely not to forget the problem there in the South, to take these things into consideration and to give a better deal to the smaller, poorer and weaker parts of the country.

**Shri Viswanatha Reddy (Rajampet):** Mr. Deputy-Speaker, Sir, the Finance Commission has given due weight to the demands of all the State Governments that the divisible pool of various Union taxes should be increased on the one hand, and, on the other, the method of division of this divisible pool should be mainly on the basis of the population. I was rather disappointed to hear my hon. friend, Shri Mahanty say that population should not be the basis of division from this divisible base.

**Shri Mahanty:** I said that it should not be the only basis.

**Shri Viswanatha Reddy:** Your submission was that it should not be even the main basis.

**Shri Mahanty:** I said that it should not be the only important basis.

**Shri Viswanatha Reddy:** Coming as he does, from a backward State, I thought a division on the basis of population....

**Mr. Deputy-Speaker:** Is there any forward State here? Whoever has spoken has stated as coming from a backward State.

**Shri Viswanatha Reddy:** There are Bombay, West Bengal, Uttar Pradesh and so on.

**Shri T. T. Krishnamachari:** May I just intervene, Sir? I was once in a conference when they were speaking about under-developed countries and the representative of the most developed country that is, the United Kingdom, said that he came from an under-developed country. So it seems to me to be quite popular for everybody to say so.

**Shri Punnoose:** Was it the Finance Minister who said like that?

**Mr. Deputy-Speaker:** Particularly, when finances are to be distributed.

**Shri Viswanatha Reddy:** I was saying under-developed or backward in the sense of being industrially under-developed and the *per capita* income being lesser than other States. It is well admitted that Orissa and Andhra are among the under-developed States. It would be an advantage to both the States if this divisible pool is to be divided on the basis of population. The demand of the Orissa Government also, as I see from the remarks found in the report of the Finance Commission, has been that this should be on the basis of population—90 per cent on the basis of population and 10 per cent only on certain other criteria.

**Shri Mahanty:** He is leaving out the other recommendation that weightage should be given to Scheduled Castes and Scheduled Tribes.

**Mr. Deputy-Speaker:** He will come to that also.

**Shri Viswanatha Reddy:** I think the Scheduled Castes and Scheduled Tribes also form....

**Mr. Deputy-Speaker:** The hon. Member may proceed.

**Shri Viswanatha Reddy:** I was only suggesting that division on the basis of population has been a very healthy departure in this recommendation of the Second Finance Commission from that of the First Finance Commission. In fact, in one of the pages, while speaking about the division of income tax, the Finance Commission has stated that although they have recommended the division of income tax on the basis of 90 per cent. on the basis of population and 10 per cent. otherwise—or, is it 80 per cent. and 20 per cent, I am not quite sure—this is only a temporary arrangement and the ideal division should be completely cent per cent on the basis of population. Therefore, the submission made by Shri Mahanty on the extraneous consideration of area, backward class and all those things, have been given due consideration by the Finance Commission, and they have arrived at a very healthy conclusion that this divisible pool should be entirely on the basis of population.

I should have been very happy if all the excise duties and all the taxes divisible and accruable to the States have all been undertaken on the basis of population. From a perusal of these two Bills I find that in certain cases the division has not taken place merely on the basis of population. I refer, for instance, to the railway passenger fares distribution. This distribution has taken place on the basis of mileage of railways in each State, giving certain weightage as between the metre gauge and broad gauge, and also as between certain sectors where the traffic is very heavy.

As has been submitted by another hon. Member, the building of railway lines in the past has taken place in a very haphazard manner. The clamour has been that more new rail-

ways have to be constructed in several States. It has not been possible because of lack of resources and lack of foreign exchange with the Government. That being so, the division of this revenue accruable on the basis of imposition of additional surcharge on railway travel should be on the basis of the mileage is a principle which is very difficult to understand. This also ought to have been merely on the basis of population.

Now, I have to make one submission with regard to the distribution of Estate Duty. As regards agricultural property there is no Estate Duty. With regard to other immovable property, from that divisible pool the accrual of the division to the States should be on the basis of the location of this immovable property. As we have noticed in certain metropolitan cities like Bombay, Calcutta and, probably, even Madras, large properties are located because of historical reasons, because of certain conveniences like ports, railway facilities, banking facilities, and so on. These cities have improved because of the location of big industries on account of these conveniences and facilities provided in these cities. The duty collected from this property is to go only to these three States, because it is purely on the basis of the location of the property.

With regard to movable property the division is to take place on the basis of population. Now, why should it not have been possible for the Finance Commission to consider that immovable property also should be put on the same basis, and the duty amount accrued from the collection of the estate duty be divided merely on the basis of population? That is a point which I was not able to understand.

With reference to duties on excise, it has been said already that without exception all the State Governments

demand more than 40 per cent, as a divisible pool of this excise duty. Instead of acceding to their request, the Finance Commission has only increased the number of items from which the divisible pool is to be collected, and reduced the percentage of the divisible pool that is accruable to the State Governments.

Now, as has been pointed out by Shri Mahanty, the items on which excise duty is to be leviable were increased from a mere nine to nearly 29 items this year. And the duty collected is also of the order of Rs. 250 crores. Out of this Rs. 250 crores, the devolution to the States is only of about Rs. 7 crores. This is an injustice which I cannot comprehend. The Finance Commission, although it has given due consideration for all the demands of the State Governments, has been able to reconcile their mind to such a very meagre allotment from this excise duty. That is a matter which should carefully be considered by this House. I would very strongly urge that the percentage should be increased for the purpose of creating this divisible pool of excise duties.

The hon. Finance Minister, while moving these two Bills, has said that it is very difficult to disturb any of these recommendations of the Finance Commission, because they are all inter-related; that either we accept them in toto or we do not accept them at all. He said that if you try to disturb them then we shall be up against very great difficulties. I quite see the point. However, this deficiency in the matter of distribution of the excise duties might perhaps be made up with the increase of amounts in the grants-in-aid that are to be provided through another Bill about which a reference has been made by the Finance Minister. I hope he would very sympathetically consider it.

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**Shri T. T. Krishnamachari:** Actually if the hon. Member thinks that we have to increase the percentage of distribution, then the Rs. 39.25 crores which is given to various States as grants-in-aid has to be cut down. As a matter of fact, Bombay, Uttar Pradesh and even Madras would welcome it.

**Shri Viswanatha Reddy:** We are not bound to cut it down. We can keep this distribution as it is and increase the grants-in-aid.

**Shri T. T. Krishnamachari:** Where is the money then?

**Shri Viswanatha Reddy:** That is a different thing. I am only suggesting that the grants-in-aid should be increased.

**Mr. Deputy-Speaker:** It is for the Finance Minister to find out the money. It is for the Members to suggest the solution.

**Shri Viswanatha Reddy:** While speaking about these excise duties, I would like to make another submission. The collection of all these duties is done by the Central Government. The States are also to some extent beneficiaries of this collection. At no stage do we see that the States are associated even in the matter of collection. It is quite possible that excise duties are not collected so rigorously unless the States are also associated with it. I do not know how I could suggest it and in what manner it would be possible to associate the administration of the State Governments also in the matter of collection of these excise duties. But I think it would be in the interests of the State Governments to see that there is no laxity in the collection of these duties, because they are the beneficiaries. Therefore, increasing association of the State administration in the matter of collection of excises would be a very healthy thing to do. I hope some formula would be found to see that such association is obtained.

In conclusion, I might say that although there are a number of States which are backward—in the sense that industrially they are backward—the Finance Commission has done its job pretty well, and it has been able to get the appreciation of all the State Governments. After all, they had to determine certain fundamental principles applicable to the whole of India. It is quite possible that some State, in the course of this determination of principles, or the wishes of certain States, might have been ignored. Even so, on the whole, the recommendations of the Finance Commission in respect of this distribution of various sources of revenue have been very fair. I have no hesitation in submitting that the House would readily appreciate the provisions contained in these two Bills and extend its whole-hearted support to the two Bills.

**Shri Bimal Ghose:** I agree with my hon. friend Shri Mahanty that it would have been of advantage if we had a discussion on the report of the Finance Commission as a whole. These two Bills merely give effect to the recommendations of the Finance Commission in their entirety and I can see the justification of the observation made by the Finance Minister that if these recommendations were to be interfered with, it might open the floodgates of confusion and controversy, and it would be difficult to arrive at a basis of distribution. Nevertheless, certain observations may be made on the distributions recommended by the Finance Commission, with a view particularly to the fact that these observations have a bearing on a suggestion that I should like to make to the Finance Minister.

If you examine the recommendations of the Finance Commission, you will find that there is no serious principle involved in these recommendations. And even if there is a certain principle, it has been contradicted

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in the various recommendations. For example, if you take the basis of population and the argument advanced in favour of population for distribution of income-tax, certain States had argued that it should be the basis of collection, particularly, Bombay and West Bengal. I am not speaking in favour of my particular State. I should like to tell my friend Shri Punnoose that if there is a State which has very difficult and varied problems, it is West Bengal—much more than even Kerala. But that is a problem apart.

I am saying that if you take the basis suggested by the Finance Commission, namely, population, for distribution of income-tax on the ground that even business profits accrue from sales made in various States all over the country and that therefore collection should not be the real basis, then, when you come to the distribution of estate duty, it is said that property, where it is located, should be the basis for immovable property. I might argue that property is bought by money made out of the business profits which accrue from sales all over the country. Therefore, if you take that into consideration, if population was a right basis for income-tax distribution, then on that ground, population should also have been the right basis for distribution in regard to estate duty. The question, when you examine this distribution, is this. The Finance Commission were not concerned really with the number of excise duties that were to be distributed or the percentage as such. They appear to me to have proceeded in this fashion that a certain total had to be distributed. They had come to the conclusion, let us say, that Rs. 100 crores will be the amount that would be necessary to be distributed to the different States. Then they proceeded to find out as to how much of that amount could be raised from income-tax, how much from excises, how

much from other divisible profits or grants-in-aid, and so on.

What is the justification of extending it from 3 to 8, when you take the excise duties. What is the justification of leaving out cloth which accounts for the largest amount of excise duty? The Finance Commission might have said that let one duty be distributed, namely, cotton cloth and only 40 per cent of that, because that would have yielded about Rs. 28 crores. What the Finance Commission have done is this. The distributable pool of excise duty on the basis of collections for 1957-58 would have been about Rs. 24 crores. On their revised allocation, it will be about Rs. 29 crores. The excess would be Rs. 5 crores. I do not think it will be Rs. 7 crores, as the Finance Minister suggested. They wanted it should be only of the order of Rs. 30 crores. They could have as well raised the 40 to about 50 and not widened the range of excise duties. That would have also given the same figure. So, there is no sanctity or valid reason for widening the the excise duties. By widening, the Finance Commission is not going to give a very large amount to be distributed to the States. They are only concerned with raising a certain total amount which they had thought would be necessary for distribution to the States.

Now, that brings us really to the crux of the problem as to the work of the Finance Commission, a difficulty which they themselves have experienced. My friend Mr. Mahanty and many other friends have referred to the difficulties of the States, particularly of the States which are under-developed. But that problem is being taken into account by the Planning Commission. The Planning Commission is distributing funds or making commitments on behalf of the Central Government for loans and grants for raising the standards

[Shri Bimal Ghose]

of the backward States. The Finance Commission again comes into the picture partially with the same object in view, because if there is any State which is in a bad position, they examine it only from the revenue point of view. They try to find out how much money should be given.

Therefore, they made certain observations which are very relevant. They said that some anomalies inevitably arise. The two Commissions—the Planning Commission and the Finance Commission—overlap. The Commission says:

“It will be an advantage in future if the period covered by the recommendations of the Finance Commission coincides with that of the Five Year Plan. Further, it is desirable to eliminate the necessity of making two separate assessments of the needs of the States.”

They go on further and observe that:

“The scope of the work of the Finance Commission in assessing the needs of the States has become restricted as a result of the setting up of the Planning Commission. For all these reasons, it is for consideration whether the time is not ripe for a review of the Constitutional provisions dealing with the financial relations between the Union and the States.”

The fact of the matter is that once the needs of the States have been assessed by the Planning Commission, it becomes anomalous if another Commission comes along later on just to do the same work. Therefore, I should like to ask the Finance Minister as to whether the Government are considering the necessity or the desirability of promoting legislation for altering the Constitutional provisions relating to the establishment

and functioning of the Finance Commission.

There has been a very material change between the period in which the two Commissions worked, namely, the 1952 Commission and the 1957 Commission. When the 1952 Commission was appointed, the Planning Commission had not yet started functioning. Now that the Planning Commission has started functioning, the work of the Finance Commission has really in a very large measure become redundant. I believe a solution of this kind may be considered by the Government. There is first the Planning Commission which will certainly take into account the needs of the various States. But in addition to the Planning Commission, if you want to have anything, we might try to borrow the example of Australia, where only the claimant States apply for special assistance. The Planning Commission will have first seen that the standards are brought up to a certain common level as much as possible. But even thereafter, if there are certain States which feel that they are backward compared to other States, there may be provision for claiming special assistance for which a Commission should be set up.

Further, since we have not had a discussion on the Finance Commission, I might also put it for the Finance Minister's consideration that it is much desirable to have some organisation or body reviewing the necessities of the States all through this period of five years and not have a body only periodically at the end of five years. Both the Commissions have recommended the setting up of a nucleus body. Probably nothing has been done so far in that regard and the body that was set up has probably been absorbed in the Finance Ministry. The point whether it will be desirable to set up a separate body to do the work of the Finance Commission and to collect the materials



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that they require or whether the Finance Commission should be continued should be considered by the Government.

Finally, I would like to know what the Finance Minister thinks about the effects of the recommendations of the Finance Commission that Rs. 40 crores more will have to be distributed this year. This is going to wipe out the surplus which the Finance Minister had anticipated.

I should like also to know whether he feels that he did the right thing in promoting the legislation for the Railway Passenger Fares without awaiting the report of the Finance Commission, because the Finance Commission was taking into consideration the needs of the States and they have recommended a larger allocation. These amounts will have to be given to the States and in addition, the Finance Minister has given them another avenue of obtaining funds and that is through the Railway Passenger Fares Act. To that extent, it would reduce the resources of the Central Government, because the railways could have augmented their revenues by raising fares but that source is now allocated to the States. So, I think it would have been desirable to have awaited the recommendations of the Finance Commission before the Finance Minister had promoted that Bill. I would like to know as to whether he feels that it would be necessary to reconsider the amounts that he had promised he would make available to the States after the Finance Commission has made its recommendations. Now that the Finance Commission is making more funds

available, I would like to know whether he feels that the commitments that he had made to the States need any revision, because the Finance Commission had stated that it had taken all these facts into consideration. How it will affect the Union revenues is a matter which should also be considered. Everybody is interested in the States, but what are you going to do about the Union revenues? We find that for the finances of the Plan, our resources are becoming less and more and more amounts are being asked for by the States, who do not raise sufficient resources with a view to implement their own Plan and undertake larger expenditures on non-development work. What is the remedy for that? How is the Finance Minister's mind working on that? Has he any solution that he can put forward to cope with this situation?

शेड अचल सिंह (भागरा) : उपाध्यक्ष महोदय, मैं हम बिल का हृदय से स्वागत करता हूँ। स्टेट्स को अब तक बहुत कम सहायता मिलती रही है। कुछ बीजों का ४० परसेन्ट मिला करता था। अब फाइनेन्स कमिशन ने तय किया है कि कुछ और बीजों पर भी २५ परसेन्ट जोड़ दिया जाए।

उपाध्यक्ष महोदय: अभी तो माननीय सदस्य और वक्त लेना चाहेंगे।

शेड अचल सिंह : जी हाँ।

17.01 hrs.

*The Lok Sabha then adjourned till Eleven of the Clock on Friday, the 13th December, 1957.*