

[Shri Jawaharlal Nehru]

we might belong, to help in doing, in creating, so that when our time is up this torch which we all individually and severally hold may be handed over to worthier hands.

Mr. Speaker: Shall I put all the amendments together, or am I required to put any amendment separately?

Shri Tangamani: Amendment No. 51 may be put.

Shri Bal Raj Madhok: Amendment No. 19 to 24.

Mr. Speaker: I shall now put Nos. 19 to 24.

Amendments Nos. 19 to 24 were put and negatived.

Mr. Speaker: I shall now put No. 51.

Amendment No. 51 was put and negatived.

Mr. Speaker: I shall now put the original motion. The other amendments are not pressed, and they are deemed to be withdrawn by leave of the House.

The question is:

"That an Address be presented to the President in the following terms:—

That the Members of the Lok Sabha assembled in this Session are deeply grateful to the President for the Address which he has been pleased to deliver to both the Houses of Parliament assembled together on the 12th March, 1962."

The motion was adopted.

16.26 hrs.

UNION DUTIES OF EXCISE (DISTRIBUTION) BILL

The Minister of Finance (Shri Morarji Desai): Sir, 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 in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its report dated the 14th day of December, 1961, be taken into consideration."

Sir, I may just speak a few words to explain what it is. The States are at present entitled to get 25 per cent of the net proceeds of Union Excise Duties on eight articles, namely, matches, tobacco, sugar vegetable product, coffee, tea, paper and non-essential oils. While reducing the States' share to 20 per cent. the Commission has increased the number of shareable excises from 8 to 35 by including all major items other than motor spirit on which excise duties were collected in 1960-61. This recommendation would have a far-reaching effect. At the present levels of taxation, the States stand to get Rs. 34 crores more next year as their share of basic excise duties than what they would have not under the existing arrangements. But what is more important is the fact that as a result of the inclusion of almost all the major revenue yielding commodities in the divisible pool, the States' share would go on increasing progressively from year to year through this source. In determining the share of each State, the Commission, while retaining population as the major factor of distribution, has also taken into account the relative financial weaknesses of the States, the disparity in their levels of development and the

*Moved with the recommendation of the President.

percentage of backward classes. The first Bill, which I am proposing to the House for its acceptance, seeks to implement the recommendations of the Commission for the distribution of Union Duties of Excise.

Mr. Speaker: I find that nobody wants to speak. The question is:

"That the Bill to provide for the distribution of a part of the net proceeds of certain Union Duties of Excise among the States in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its report dated the 14th day of December, 1961, be taken into consideration."

The motion was adopted.

Mr. Speaker: As there are no amendments to the clauses, I will put all the clauses and the Schedule together. The question is:

"That clauses 1 to 6, the Schedule, the Enacting Formula and the long title stand part of the Bill".

The motion was adopted.

Clauses 1 to 6, the Schedule, the Enacting Formula and the long title were added to the Bill.

Shri Morarji Desai: I beg to move:

"That the Bill be passed".

Mr. Speaker: Motion moved:

"That the Bill be passed."

Shri Vasudevan Nair (Thiruvella): This particular Bill concerns only the distribution of Union excise duties to the various States in the Indian Union. So, I think it is proper that we are allowed to refer to the recommendations of the Finance Commission at this stage when we are considering at least a part of their recommendations.

This is a problem that has to be looked at from the angle of the problems faced by the various States of India today in implementing the various development projects as well as in trying to meet the various needs of our people. The first, second and third Finance Commission have tried to appreciate the various difficulties faced by the State Government. Here I must say that the Finance Commission has tried to give as much to the States this time by way of Union excise duties, grants-in-aid and part of income-tax as possible.

Our Constitution itself has laid down certain principles according to which the finances are to be shared between the Centre and the States. The previous Finance Commission had rightly pointed out that perhaps it is time for the Constitution to be amended so that the State Governments are given a fairer share in the finances and that over-centralisation of finances in the centre is reduced as far as possible. For more efficient administration and for more competently facing the various problems confronting the State Governments it is, I feel, very essential that more sources of revenue for the States are found, if necessary by bringing in amendments to the present constitutional position.

The functions of the States and the Centre have been so defined and the sources of revenue so allocated in the Constitution that almost all the real elastic sources of revenue have been reserved for the Centre while a major part of the spending activity of the Government have been put on the shoulders of the State Government. The major sources of revenue handed over to the States are land revenue, excise and general sales tax. There are obvious limitations to the extent to which they can be expanded as sources of revenue. On the other hand, the Centre has sources of taxation as income-tax, corporation tax, customs and central excise. The scope for enhancing income from these

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Central sources of revenue is much greater than for the expansion of land revenue, State excise and sales tax. The reason is that industrial, commercial and other non-agricultural occupations are expanding under the impact of national economic development. The expansion of these lines of economic activity leads to enhanced incomes of those classes and sections of society on whom fall the burdens of income and corporation taxes, as well as of those who depend on the import and export of commodities liable to customs duties. Production of commodities which are liable to Central excise also expands. On the other hand, land and agricultural occupations do not develop to the same extent.

In this connection, I am reminded of some of the new taxes imposed by the State Governments. For example, my own State of Kerala has imposed a tax on peasants, not this year but last year. I can understand the difficulties of a State Government in finding out new sources of revenue. So, what are they doing generally? They go on imposing taxes over the peasants who are already heavily taxed, who are already in a tight corner because of various other factors. There was a lot of agitation and heart-burning among the peasants in our State last year when the land tax was increased. Much to the displeasure of the general public, our Government had to enhance the transport charges last year in their budget. They are doing all these things because, as I have already stated, all the elastic sources of revenue have been taken over by the Central Government, whereas the States have to meet the demands of the public, as far as social services are concerned.

For example, take my own State while considering this problem. Fortunately or unfortunately—I think I should put it that way in this context—my State is perhaps the most advanced in the matter of education. But you should know that the State

has its own responsibilities because of this expansion in education. As a matter of fact, nearly one-third of our revenue is spent on one single head, namely, education. Out of a budget of Rs. 64 crores the Kerala Government are spending more than Rs. 20 crores this year on education. Added to that are public health, transport and communications and other services and naturally the State Governments are in a very difficult position. So, they do demand much better consideration and treatment.

While the States have thus been given sources of revenue which are less elastic than the Centre's, they have been given such developmental departments as education, public health, road communication, agriculture, animal husbandry etc. which have a natural tendency to grow in the scale of expenditure. In other words, the States are under the double handicap of relative stagnation in the sources of revenue and rapid increase in expenditure.

This initial difficulty of the State Governments has been further accentuated by the pattern of planning evolved by the Union Government. The outlay and investment made by the States in all the plans are mainly on agricultural programmes, community development and co-operation, irrigation and power and social services. On the other hand, the Centre's outlay and investment are on industries and minerals and transport and communications. The actual amounts expended by the Centre and the States on these major heads of development come to quite a fair sum.

Such a pattern of developmental expenditure further accentuates the difficulties of States which arise out of the original division of functions and allocations of revenues as between the Centre and the States, with the result that during the last ten or twelve years almost all the State

Governments have taken heavy loans from the Centre.

I understand that the Central Government is trying its level best to get as much from the States as possible out of these loans. I am sure most of the States will find it very difficult to repay the loans. They are asked to pay the interest as well as the principal and I am of the opinion that perhaps the Central Government will have to write off a major part of the loans that they have already advanced to the State Governments. In advancing the loans actually there was no sensible principle. If the loans advanced by the Central Government were spent on some projects which would yield some profits to the State Government then perhaps it would have been possible for the State Governments to repay these loans, but most of the State Governments have spent these loans and grants-in-aid without discrimination and have spent most of this amount on social services or on some other projects from which they do not have any yield. On the other hand, now we are developing industries in the public sector.... I am of the opinion that the Central Government should rely more and more on the profits earned from these industrial undertakings that are already launched by the Central Government in the public sector.

Many of the governments in the Western countries are trying to adjust their finances on that basis. The Central Government should learn more and more to depend on such incomes and not on income from taxes. As a matter of fact even as far as the division of Union excise duties is concerned, the Finance Commission has said that most of the States wanted all the net proceeds from the Union excise duties to be divided among the States. It is true that the Finance Commission was kind enough to include the Union excise duties on all the commodities except motor spirit to be included in the divisible pool. Of course, we should give credit to the Finance Commission for making such a recom-

mendation, but at the same time they are taking away by the other hand what they are giving by one hand. The First Finance Commission recommended 40 per cent of the net proceeds, the Second Finance Commission, I think, reduced the percentage to 25 and the latest Finance Commission, that is, the present one, is reducing it to 20 while, of course, including almost all the commodities which are charged under Union excise duties. Perhaps we will have to think of dividing the entire net proceeds from Union excise duties among the States thus helping them to meet the many obligations that are before the State Governments.

As far as the loans taken by the States are concerned, again the Union Government will have to show some more consideration. They have to see whether it will be possible at least to extend the date when they will be taking back these loans or even be prepared to write off at least part of the loans of the State Governments.

Shri Morarji Desai: There is no question of writing it off. Please do not hope for it.

Shri Vasudevan Nair: Of course, the hon. Finance Minister may also be in difficulties in his own way but taking into consideration the difficulties of the States and their governments, I think the Central Government will have to be more considerate to the States, otherwise we are not going to solve these problems.

I would again like to draw the attention of the hon. Finance Minister to the proposition that he should think of getting more finances from the imported industrial undertakings that we are developing in this country. That should be the real source of income for the Central Government. The States should be allowed to take as much of the tax revenue as possible, otherwise the difficulty will be that the State Governments will go on digging the place where they have already dug in the previous years. That is what has happened. I have told you about the taxation system in our State. Land revenue is again being

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increased. Transport charges are again being added on. Such of the taxes are hurled on the heads of the people which create a lot of difficulties. They are not able to find the money necessary for the part that they have to donate for the plan expenditure.

The main point that has to be considered when we are discussing the recommendations of the Finance Commission is that of re-arrangement of finances between the States and the Centre. I am afraid during the last 14 years in spite of the federal structure of the Constitution that we have and in spite of the talk about decentralisation etc., what has actually happened is overcentralisation of all kinds of power in the hands of the Central Government which runs quite contrary to the spirit of our Constitution and which will not help in developing the various parts of the country as we would like to develop them.

I am glad to find that the Finance Commission this time has agreed to take into consideration some of the real problems faced by some of the States in our country. It is common knowledge that in India today there are certain regions which are less developed and which are backward. I come from one of the States in India which has always clamoured against the bad treatment that it has received from the Central authorities. As a matter of fact, in the recent elections, in our State perhaps one of the major topics that was discussed by the electorate was this question of disparity in regional development. This was a hotly discussed topic during the elections and I should think one of the reasons why the ruling party got such a thrashing in these elections is this impression among our people that they are not getting a fair deal from the Central Government and that all the powers, not only financial powers but all the powers, are too much concentrated in the hands of the Central Government. At least that impression has to be removed. If it is a wrong

impression, of course that has to be cleared but if there are some substantial reasons behind that impression the Government of India should take steps to see that such backward regions are specially helped.

It is gratifying to note that in deciding the principle according to which the Union excise duties and other amounts should be distributed among the various States the Finance Commission has taken into account this particular aspect also, namely, the backwardness of certain regions. In deciding the distribution of grants-in-aid also they have taken this factor into consideration. But I think that it is not enough for the Finance Commission to take these things into account. The proper authority is the Central Government which is in charge of the entire destiny of the country as far as the development plans are concerned and it should also look at these problems from a more generous angle. It should see to it that the complaints of the people in the industrially backward areas are removed and they are given a fairer deal. My only objection to this recommendation is that the percentage has again been reduced by the Finance Commission. At the same time I am happy that more commodities are added on. The net result, of course, is that the States are getting a better deal this time from the Finance Commission. From that point of view I would like to congratulate the Finance Commission for their recommendations.

Mr. Speaker: Does the hon. Minister want to say anything in reply?... Nothing.

The question is:

"That the Bill be passed."

The motion was adopted.