SHRI DINEN BHATTACHARYYA : If the members are not here, how will it be passed ? We are opposing. We will not allow it to be passed.

16·01 hrs.

COMMITTEE ON PRIVATE MEMBERS' BILLS AND RESOLUTIONS

SECOND REPORT

SHRI G. G. SWELL (Autonomous Districts) : I beg to move :

"That this House do agree with the Second Report of the Committee on Private Members' Bills and Resolutions presented to the House on the 16th June, 1971".

MR. SPEAKER : The question is :

"That this House do agree with the Second Report of the Committee on Private Members' Bills and Resolutions presented to the House on the 16th June, 1971".

The motion was adopted.

16·02 hrs.

RESOLUTION RE : FEDERAL DEBT COMMISSION—*Contd.*

MR. SPEAKER : Further discussion of the Resolution moved by Shri Murasoli Maran. Shri Shivappa was on his legs. He is not here. The Minister may reply.

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI K.R. GANESH) : I have heard with great interest the various points made by hon. members on the Resolution moved by Mr. Maran. It is a very sensitive subject and it involves the relation between the Centre and the States. Harmonious relationship between the Centre and the States is very vital for the functioning of our democracy. The only point I wish to convey here is that the formation of a Commission as suggested by Mr. Maran will not serve the purpose which he has in mind. We have developed various institutions like the National Development Council, the Chief Ministers' Conference etc. This debate has now become a national debate and it is possible through the various instruments that our democracy has evolved to come to grips with this problem and bring about a harmonious decision on this.

16 03 hrs.

[MR. DEPUTY-SPEAKER *in the Chair*]

Having said this, I would like to confine myself to the various points specifically raised by Mr. Maran. Before I do so, I would like to mention the various provisions that are there in the Constitution groverning the transfer of resources from the Centre to the States. The Constitution provides for both obligatory and permissive participation of the States in Union taxation. We have article 268 which fixes the duties levied by the Centre but collected and retained by the States. We have article 269 under which the net proceeds of certain taxes which are levied and collected by the Centre are entirely assigned to the States. Under article 270 a percentage of the net proceeds of income-tax is assigned to the States which is 75 per cent under the Fifth Finance Commission's award. Under article 272 a percentage of the net proceeds of Union Duties of Excise 'may be' allocated to the States—20% under the Fifth Finance Commission's award. Article 275 provides for grants-in-aid by the Centre to the States for meeting their gaps on non-plan revenue account as assessed by the Finance Commission Article 282 provides for grants to the States for any public purpose. Article 293 (2) provides for loans being advanced by the Centre to the State Governments. The provisions in the Constitution have not so far proved insufficient to meet any legitimate needs of the State Governments. The elasticity of the Constitution to adjust to the various demands that might come up, as they have come up now has been discussed and commended upon by the Fifth Commission which states :

"No such machinery for periodical re-adjustments has been provided in any of the older federations. The only near parallel is the Australian Commonwealth

Grants Commission which examines annually the plea of the claimant States of Australia for Commonwealth assistance...........It has no power to suggest changes in tax sharing or to recommend conditional grants. Its functions are confined to recommending unconditional grants for a few States. The innovation of a periodical Finance Commission in the Indian Constitution has the advantage of making it possible to formulate periodically an appropriate combined scheme to cover most of the transfers from the Union to the States".

This problem has been commended upon by the Administrative Reforms Commission in their report on Centre-State Relationships :

"No Constitutional amendment is necessary for ensuring proper and harmonious relations between the Centre and the State, in as much as the provisions of the Constitution governing Centre-State relations are adequate for the purpose of meeting any situation or resolving any problems that may arise in this field".

Shri Maran has commended upon the decisions of the Finance Commission. The Finance Commission periodically appointed by the President under article 280 makes recommendations regarding distribution of Income-tax and Union Excise Duties between the Union and the States and allocation of States' share amongst them and also about grants-in-aid under article 275 to cover non-Plan revenue gaps of States as assessed by the Commission. I am taking the time of the House in going into details of that because Shri Maran has dealt at length with some of these problems The recommendations made by the Finance Commissions regarding devolution have, by convention, been accepted as awards by the Centre.

The successive Finance Commissions have recommended progressive enlargement of divisible pool of taxes to be shared as well as States' share therein and payment of grants-in-aid to States in need of such assistance. The Fifth Finance Commission has also included advance tax collections in the tax divisible pool and the States will get nearly Rs. 270 crores on account of arrears of such collections upto 1966-67 in three instalments from this year. Also the net collections of Special Duties of Excise will be shared by the States from next year, the States would get 20% of their net collections. The transfers from the Centre under the Commission's awards have risen from Rs. 386 crores in the First Plan to Rs. 4,266 crores (eleven times) in the Fourth Plan. That Tamil Nadu has benefited from these awards need hardly be emphasized. Their share of Central taxes and statutory grants has gone up from Rs. 207 crores under the Fourth Finance Commission's award to Rs. 295 crores under the Fifth Finance Commission's recommendations

Sir, Shri Maran has also mentioned that the States' resources are inelastic with the result that the major, or as he put it, the potent resources are with the Centre In our federal Constitution, our financial relations have been developed in a manner which harmonises the interests of the resource mobilisation of the Centre as well as the demands and the needs of the States.

One of the main criticisms of Shri Maran, and probably the major cause of his anger, was that the fifth Finance Commission did not take into account the burden on the State Governments as a result of the pay increase of the Tamil Nadu Government employees ; it has cost the State about Rs. 22 crores. Here, I think he is not being fair to the fifth Finance Commission, because the fifth Finance Commission took note of the recommendations of the decisions of some of the Pay Commissions which were in the process of being worked out in respect of many States As far as Tamil Nadu is concerned, the Pay Commission was appointed after the report of the fifth Finance Commission was submitted. Therefore, the fifth Finance Commission could not have taken into account what would have been the position, because the State Pay Commission was not functioning when the fifth Finance Commission submitted its report.

Shri Maran has also referred to the Planning Commission, and has called it a monster which has overshadowed the Fin-

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ance Commission as a semi-constitutional authority. As I mentioned earlier, the Planning Commission has also been given a special position in relation to our Constitution. He mentioned that liberal use of article 282 has been made. When the Constitution was framed, the framers of the Constitution could not have visualised the tremendous amount of investments and Public spending that would be necessary as a result of various development projects in the wake of the successive Plans that we have. Therefore, it is inevitable, in the conditions of a growing economy, in the conditions of a vast economic development and the problems that arise out of it, that the rights given under article 282 should have been utilised in a liberal manner as they have been. I do not, therefore, think that this should be a cause for complaint. Rather, a liberal use of the provisions and the rights under article 282 is very necessary in the coming developmental stage which our country would be definitely passing.

Massive assistance had to be given to the States in the commencement of the first Plan for financing the State plans The quantum of his assistance has risen from Rs 880 crores in the first Plan to Rs. 3,500 crores for the fourth Plan period. As in the case of transfers under the Finance Commission's recommendations, the Union Government has not exercised any discretion in the allocation of Central assistance among the States, because the criterion, as the hon. House knows, for allocation of Central assistance to the States is worked out by the National Development Council. The National Development Council is a very high-powered body with which all the Chief Ministers of the various States are associated. Therefore, a high-powered body of this nature lays down the criteria and the Central Government has invariably accepted them and the decisions given are on the recommendations of the National Development Council.

Shri Maran was also critical of the allocation of Central assistance for the fourth Plan period for Tamil Nadu which was reduced from Rs. 250 crores in the draft Plan to Rs 202 crores Here again, the basic criteria for the allocation of Central assistance to various States have been worked out by the National Development Council on a principle that has been accepted. The Chief Ministers are represented on the National Development Council ; and it is not only Tamil Nadu but various other States also had their total allocation reduced, as a result of the working of these criteria. For instance, it has affected the Governments of Gujarat, Haryana, Kerala, Maharashtra, Mysore, Rajasthan and West Bengal.

He referred to the allocation of 10 per cent of Central assistance on the basis of per capita income of the States, whose *per capita* income is less than the national average. He cited the case of Mysore whose *per capita* income was more than the national average by Rs. 2 and of Tamilnadu, whose *per capita* income was more by Rs 16 He said, this is a very ridiculous position. The formula for distribution on the basis of certain criteria has been worked out by the National Development Council Any departure from it would mean a lot of difficulties. Once the criteria have been worked out, they have to be accepted and implemented

He said that State Governments are suffering from shortage of resources to implement some of their plans. The House knows that the resources of the Centre itself are limited The Central Governmen is called upon to look after the planning and development of the entire country. There is a point that in a large and vast country like India with its complex problems, centralised planning is absolutely vital in the present stage of development. What has happened is, as a result of certain factors, political and other, the States have not kept pace with the Centre so far as resource mobilisation is concerned. Certain States have given up the resources they have been mobilising, like land revenue, profession tax, etc., for political and other reasons. It is not my intention to cast any aspersion on the right of States to give up certain resources depending on the needs of their area, the complexities of their problems, etc. But they should understand that the Centre's resources are also limited. The Centre has been going in for additional resources mobilisation in a big way year after year, when the States have not been able to proceed in the same manner.

SHRI SAMAR GUHA (Contai) : Sir, the time for this resolution has been exhausted. You know how important the next resolution is.

MR. DEPUTY-SPEAKER : I know. You will get enough time.

SHRI SAMAR GUHA : Not only myself, but other members should also participate.

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI K. R. GANESH) : I have to answer a very well-argued speech made by the mover and put the case of Government squarely before this House. During 1969-70 the target of additional taxation agreed to by the States was Rs. 122 crores. But they actually raised Rs. 52.37 crores. During 1970-71 the actuals of additional taxation of States was Rs. 38.05 crores as against a target of Rs. 79.55 crores for that year. During the current year the proposals so far add up to Rs. 10.56 crores against a target of Rs. 34.50 crores. These are some of the facts which I have to place before the House in answer to some of the points which the hon. Member, Shri Maran, has raised. He also mentioned about accommodation, of Rs 800 crores provided to certain States during the Fourth Plan period for covering their inescapable gaps in resources. The genesis of this arrangement has been explained in this House more than once and it has been debated in various forms. The reappraisal of States resources made by the Planning Commission consequent on the Fifth Finance Commision's award and other developments showed that some States would have genuine difficulties in financing their appproved Plan outlays. In this connection, Shri Maran mentioned that Tamilnadu has not received anything under the special accommodation. I think his facts were not so correct. Tamilnadu has received Rs. 7 crores during 1969-70 to make up the shortfall in its resources for financing the plans approved by the Planning Commission.

Apart from these, non-plan loan assistance is given for specified purposes. For example, two-thirds of the net small savings collections are made over to States in the form of loans. The Centre does not use any discretion in allocating these funds. Again, for meeting relief expenditure connected with natural calamities, assistance is provided to States on the basis of recommendations made by Central Study Teams set up for this purpose which are usually headed by officers of the Planning Commission.

I now come to the States' debt repayments to the Centre. In view of the phenomenal increase in the developmental work, both of the Centre and the States, it is natural that some of the States expenditure on plan as well as non-plan items may increase. Centre's own debt has gone up from Rs. 2054 crores in 1950-51 to Rs. 14,043 crores approximately at the end of last year. The increase in States' debts is evidence of massive assistance provided by the Centre to the States for investment in their developmental outlays and creation of assets. If the loans given to the States which are primarily for plan purposes are utilised purposefully, they should generate adequate resources for repayment and interest charges.

I now come to the terms of repayment of loans. The terms are by no means hard. Centrally sponsored schemes and Central Plan schemes are repayable in 15 annual instalments. Terms of loans out of small savings collections have been liberalised from 1969-70. These are now repayable in 25 years in 20 annual equal instalments commencing from the sixth year of their drawal. The interest rate on loans to the States is also very moderate- $4\frac{3}{4}$ per cent effective whereas the Centre itself is now raising loans at $5\frac{1}{4}$ and $5\frac{3}{4}$ per cent from the market and the cost of States borrowings from the market and other institutions is still higher.

Another point that he raised was the debt burden position. He suggested that a committee should go into it. After a lot of discussion it was felt that the classification of schemes into productive and unproductive categories would also involve scrutiny of individual schemes which would be contrary to the accepted objectives of allowing greater freedom to States in the formulation and implementation of schemes included in the State Plans. As a result of this, now block loans are given and loans are not tagged on to individual projects.

He has also mentioned about the burden of the States in the matter of repayment. The total transfers from the States to the Centre by way of loan repayments and inte-

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rest payments form only 15 per cent of the total expenditure of the States. In the case of the Tamilnadu it is only 11.6 per cent.

He also mentioned that loans to Tamil Nadu from the Central were less than what the State Government had to repay and that this was a very funny position. The facts are as follows. This year Tamil Nadu assumed a credit of Rs. 143.53 crores by way of devolution, grants and loans from the Centre against which provision made for repayments to the Centre adds up to Rs. 53.28 crores. Even if devolution is taken out, the transfer from the Centre to Tamil Nadu reckoned in their Budget of Rs. 69.34 crores far exceeds their repayments and interest payments to the Centre.

This position is true in the case of other States also.

Having replied to some of the specific points that Shri Maran raised, I will not stand between the Resolution that Shri Samar Guha wants to move. I have only to add that this is a very sensitive question. A national dialogue is going on this. Our own democratic institutions have worked out various forms and institutional arrangements in which this question can be discussed There is the Finance Commission which is a quasi-judicial body. There is the Planning Commission and the National Development Council. This Parliament is there and there are political avenues available to the various States to take up this question. In the larger field of the country a national dialogue is going on. Having served the purpose of attracting the attention of this House by raising this very important question, I would request the hon. Member to withdraw this Resolution, because his main purpose of focussing attention on this problem has been achieved.

SHRI MURASOLI MARAN (Madras South): Mr. Deputy-Speaker, Sir, I am grateful to the hon. Minister for the light he has thrown on this subject. He elaborately explained the *status quo* situation that is being maintained for the fund flow from the Centre to States or *vice versa*. The other day, when we discussed this Resolution, Members who participated in it all complained that their States were neglected and were backward. Even the hon. Member from Gujarat, Shri Desai, wanted to join the queue of backward States.

16 27 hrs.

[SHRI K N. TIWARY *in the Chair*]

Actually, on that day all the Members had spoken for their own States ; in fact, my reference to Tamil Nadu provoked them. I am glad such things happen, because it underlines the fact that our country of such continental proportions is fit to be a federal country. If it is not federal, we should make it a genuinely federal country. But many people expressed doubts whether such advocacy for their own States would not weaken the foundations of the country. I do not think so.

The unity of the country is equivalent to a long chain I think, the strength of the chain lies in the strength of the links. If everybody tries to strengthen the links, it means that the chain will be stronger.

India is a backward State. I think, all the States are equally backward, but the truth is that some States are more backward than other States. But what should have been the ideal policy is that the federal government should give a helping hand to the backward States but, at the same time, should not restrain the progress or advancement of another State.

The hon. Minister has explained how the funds are flowing from the Centre to the States. There are four ways of transfer of funds. Firstly, there is the share of divisible taxes. Secondly, there are the statutory grants under article 275(1) which is taken care of by the Finance Commission. Thirdly, there are the discretionary grants under article 282 which is taken care of by the Planning Commission even though it has no constitutional authority. Fourthly, there are loans for capital expenditure, which come under the Plans.

Now, the question is : Is there any central authority to look after all this ? The answer is, definite no.

We have a quinquennial body, a quasi-judicial body like the Finance Commission to look after the non-Plan expenditure. Then comes the Planning Commission which looks after the Plan expenditure. So, overlapping of functions take place. What happens is this. When the States approach the Finance Commission, they all plead that they are poor. Even the rich States plead that they are poor so that they may get more. On the other hand, when they go to the Planning Commission, they say that they command rich resources so that matching money will come from the Planning Commission. In fact, what is happing is that these States are behaving like income-tax evaders. Somebody may be surprised at my remark because we are supposed to be the advocates of States.

Why I am saying is this. When we ask for more powers, nobody need doubt that we are shaking the foundations of this federation. We are asking for more powers because then only the States can responsibly manage their financial efforts according to the promises given to the people by them during the elections. For the responsible behaviour of the States, that is very essential.

Now, what is it the Planning Commission doing ? Even after three plans, even after two decades of planning; every State is complaining that they are not getting enough. Every State is complaining that their State is being neglected. Why ? Our federal institution has so far failed to get an image of impartiality and independence.

I would like to quote one authority here. On 3rd May, 1970, Mr. Morarji Desai, when he was addressing the Indian Parliamentary Association in New Delhi on "Centre-State Relations" made it very clear and he said :

> "It is true in the earlier years, there was not a regular system in this matter and that sometimes favouritism was shown to some people according to as the predilections of people lay."

If it were a remark about socialism, we could ignore Mr. Morarji Desai's words. But he was holding a responsible position here. He was our Finance Minister and Deputy Prime Minister for so many years. He wanted to be the Prime Minister also. I give weightage to his remark because he speaks out of his experience here. He says that there was some favouritism. That is why every State points a finger at the Planning Commission under the Central Government saying that favouritism has been shown one way or the other.

The *Statesman* has given a news-item and, according to this news-item, Maharashtra had demanded Rs. 38.28 crores and now, for certain reasons, this newspaper says that it is going to have Rs. 49.10 crores. Next comes Uttar Pradesh. It is going to receive the highest planning assistance, that is, Rs. 105.02 crores. This will be the highest amount ever given.

So, as my friends point out, naturally the common man thinks that Maharashtra is being given because Mr. Chavan is Finance Minister, that UP is being given because the Prime Minister belongs to that State and elections are around the corner. Suppose tomorrow if the Planning Commission gives Tamil Nadu more, even if it is legitimately due to it, our friends will say, 'Oh. Mr. Subramaniam belongs to Tamil Nadu So he has given it more.' Why I am saying this is because we have not evolved any scientific criteria. The hon. Minister explained a great deal. It is so because the criteria is such. We do understand. But he has also said that the criteria have been evolved by the National Development Council and he said that is the highest political body in India. That is true. I differ with him on this score. These criteria are not sacrosanct. They are not immutable. Everyday we are amending the Constitution for our convenience. So, if the entire nation thinks that the criteria evolved are not scientific or realistic, we should change the criteria. Here, I would like to point out as to how they have arrived at the criteria.

Dr. Gadgil, the then Dy Chairman of the Planning Commission, was addressing a seminar in Bangalore. He explained the fact. He said that a snap decision was taken. A snap decision they have taken and implemented it. We find it is not scientific. It is not realistic. I think instead of maintaining the *Status quo*, we must arrive at some kind of a scientific, rational and realistic criteria.

The other day when the DMK Members met the Planning Commission, we explained

[Shri Murasoli Maran]

to them that 60% is being distributed as Plan assistance on the basis of population and also the Minister of State was also there and we urged that due consideration should be given for States which are implementing the Family Planning programme. He said that the Cabinet is considering such a situation and they might evolve a policy soon and I expected a reply from the Minister to-day but he did not reveal it.

Then the National Development Council at one time took important decisions even without consulting the State Legislatures. The Chief Ministers took a decision to give some of the taxing powers to the Central Government. It happened when ? When the mono-Party system was existing—when the Congress Party was ruling here, there and everywhere. Now, the situation has changed. That is why Mr. K. Santhanam once described it as 'Super Cabinet' because such a decision was taken to transfer the taxing power from the State to the Centre. I don't think it is a 'Super Cabinet'. It is a magnificent zero because even the Five Year Plans are prepared in the Secretariats of the States and you know for years and years they prepare it. What happens ? The National Development Council meets very rarely. It meets according to the convenience of the Prime Minister and other Chief Ministers. The Plan which had been on the anvil for years together, they discuss it within four or five hours. They have no permanent Secretariat. So, snap decisions are taken. I think that criteria should not be continued because so many States have complained against it. I think the hon. Minister will consider this idea.

I have been explaining how injustice is being done and how the States feel about it. Dr. Gadgil in his paper on formulating the plan has condemned horse-trading in respect of the First, Second and the Third Plans. We have heard horse-trading on in politics but, here, in finance horse-trading is going on. This very phrase was used by Dr. Gadgil. On what basis ? 100, 50, and 25 per cent grants are being given for dairy farms, poultry, and piggery. That percentage has got transformed in another year. It is a mystery even to Dr. Gadgil. One year they give 100, 50 and 25 per cent to dairy farms, poultry and piggery and next year they suddenly reduce it. Even to Dr. Gadgil it is a mystery. So, I think care should be taken that such things do not recur again. So, the best thing would be devolution of plan resources. It should be regulated by statute, not according to the whims and fancies of the politicians, if I may say so.

The hon. Minister made it very clear that the emoluments of Government employees will not be taken into consideration by his Ministry. I got an answer also. It has been the policy. I do accept. It was explained that at the time of the Finance Commission, we did not appoint such a Commission. I do accept it. If we had appointed such a Commission before the crucial date— the crucial date is before the appointment of the Finance Commission,—we would have got Rs. 25 crores, but, because we failed to appoint such a Commission we are not getting anything.

The question is : Why did we not appoint such a Commission ? Because, we wanted to balance our budget ; we did not want to incur any overdraft with the Reserve Bank. That is why we did not appoint. They did not appreciate that. Even then we said, this is a fact, for 10 years we have not given any emolument increase, this should be considered. We said, you may not consider it now, but at least give us the Grant under Art. 275 of the Constitution. It was not at all considered. I do not think it is a wise policy.

I would now like to quote what Mr. Virendra Patil said when he was Chief Minister. He said :

> The Centre has been increasing the pay and other allowances of their employees unilaterally without even consulting the States—or giving any thought to the problem this would create for the States. In fact, these increases in the pay and allowances by the Centre have repercussions in States. There is clamour by employees of the State Governments to follow in the footsteps of the Central Government and increase their pay and allowances also. Nobody bothers to remember that our capacity

to meet these persistent demands is limited.

Therefore, we have to face the situation. Planning Commission has not considered it. Finance Commission has not considered it. Finance Ministry is not considering it. We are in a dilemma. But we have to meet the situation. The entire Planning Commission and the Finance Ministry are closing their eyes to the reality. What will happen after 5 years? Another Finance Commission will be appointed. They will go into it They can evade the issue for the next 4 or 5 years But, again, they will have to meet this problem.

Therefore, Sir, if there had been a permanent Finance Commission, this problem would not have arisen That is why we wanted that there should be a national policy on employees' emoluments Otherwise it will not solve the problem. Heartburning will be there. Friction between Centre and States will remain there.

I now come to the question of Debts. I have already made it very clear. The outstanding debt of State Governments at the end of March, 1971 is Rs. 8139 crores. It is a Himalayan amount. What was an amount of Rs. 52 crores at the time of independence has now risen to Rs. 8139 crores of which loan from Reserve Bank alone account for 74 2 % and the overdraft of all the 14 States, according to the budget speech of our hon. Minister, is Rs. 260 crores.

About overdrafts, I will tell why States incur overdrafts. They do it, not for the fun of it. If the Finance Commission and various central organisations do not consider their problem they have no other go except to go to the Reserve Bank. Every day we are seeing in the newspapers of a statement that Reserve Bank is giving notices to State Governments. States are supposed to be equal partners of the Central Government. Yet, a body of the Central Government issues such notices to the State Governments. And they demand that, the overdraft should be cleared. I do not think that this kind of treatment is in good spirit, and I do not know whether this is conducive to the self-respect of the States.

My claim is that the State Governments also have got a claim to have an overdraft. I shall explain presently why. A private business concern which has an account with a bank can have an overdraft according to the volume of transaction which they have. But the State Governments are having all the transactions and they are having all their banking business, not with the individual banks like Indian Bank or the Indian Overseas Bank but with the Reserve Bank. So, they have a right to get overdraft from the Reserve Bank. From the Economic Survey, we find that during the year 1964-65, on the 31st day of March, 1965, the Reserve Bank's net credit to all the Governments, both the Centre and in the States, was Rs. 136 crores; the net credit to the Central Government alone was Rs. 123 crores, and all the States Governments together had an overdraft of Rs. 13 crores. So, we find that the Centre can have an overdraft from the Reserve Bank, but at the same time, it is said that the States cannot have. This is the policy that is being followed.

But I do concede that there should be a limit to the overdrafts. Otherwise, financial discipline will not be there. But what is the limit which should be fixed? Who is to fix it? We have not fixed it so far. It is done by some kind of understanding The private people can clear the overdraft on the 31st March, and after a week, they can once again open an overdraft account. But I do not think that the State Governments can do it, though some States are doing it But now I understand from some sources that every day in the morning the Reserve Bank people tell the Finance Secretaries of all the State Governments, that on the previous evening, each particular State had such and such amount of overdraft. I submit that this kind of thing is not proper. So, I think something should be done to regulate this. This kind of thing which is happening now has become an annual feature. Every year and every day we are hearing news that this State Government or that State Government has been given notices. But I would like to point out another thing also. What is the best way?

I would suggest that the Central Government should convert all these overdrafts

[Shri Murasoli Maran]

into long-term loans. Otherwise, we cannot solve the problem. There is also another problem that arises. If they behave like schoolmasters, if they behave like a feudal lord to a vassal, then what will happen is this. One day, the State Governments or some recalcitrant State Governments may buy a small bank and they may run it. At present, the credit creation powers are surroundered to the Reserve Bank. Instead of that, why should a State Government not buy a small bank and run the show ? Thereby they can create some credit and thereby they can have their own overdraft system like other commercial firms. I do not know why it should not be done. If the Centre continues this kind of feudal attitude and they continue these harassing methods such as sending notices and other things and giving publicity in all the newspapers, then I think that the States will explore that possibility also, and I think that that time is fast approaching.

Regarding loans, the hon. Minister was explaining that the flow was there from the Centre to the States. Here, I would like to refer to the Explanatory Memorandum on the budget of the Central Government for 1971-72. During 1970-71, the total non-Plan assistance was Rs. 654 60 crores, and during the same year, repayment of loans and advances by the States to the Centre was of the order of Rs. 595.53 crores. What is happening ? They are giving by the right hand Rs. 654 crores and taking away with the left Rs. 595 crores. What was left with the State was only Rs. 5 .07 crores.

SHRI DINEN BHATTACHARYYA (Serampore) : Just like American loans.

SHRI MURASOLI MARAN : Now the flow is in the reverse direction. They only make an appearance of giving. Instead of this, let them say : we give you only Rs. 59 crores.

The hon. Minister said regarding Tamil Nadu that we are getting more than our own repayment. It may be so because they resort to some kind of rescheduling to which I am coming. You are resorting to *ad hoc* methods every year. There is no principle binding that. Even last year, about Rs. 150 crores were adjusted like that. But how long can you continue ? That is the problem. During 1967-68, the Centre provided ways and means advances for clearance of OD to the tune of Rs. 128 crores. In 1968-69 it was Rs. 65 crores and in 1969-70 Rs. 102 crores. You should evolve some method for the States to bridge the gap between receipts and disbursements. This issue is cropping up year after year. The States are important units of the Union and nothing should be done to bring them down in the public eye.

Concerning interest rates, they are not uniform The Centre behave like a moneylender. Grants given to it are converted into loans to States. For example, the Canadian Government made a free gift of some amount to the Government of India which the latter passed on to the Tamil Nadu Government for the Kunda Project charging interest. The Centre is behaving not like an ordinary moneylender but like a village moneylender, a Kabuliwala.

Take another case. Loans got at a lesser interest rate from abroad are passed on to States as loans at a higher interest rate . One example is the PL 480 counterpart funds. They get loans from the World Bank at 1/2 or 3/4 per cent over a 50-year period but these are converted into 7-10 year loans for States at 6-7 per cent interest.

There are certain loans for rehabilitation of goldsmiths. How was the problem created ? Not because of any State Government's policy. By some Central law, thousands of goldsmiths were affected. Then we came here for a loan on which we have been charged interest. We are not responsible for the situation that necessitated the loans. There should be some kind of policy governing interest rates.

The Second Finance Commission made it clear when they said :

"The Union should not deal with the States as if they were a commercial banker. The Union and the States are partners in the big enterprise of national development. While there is no reason why the Union should lend to States as less than the trust cost of its borrowing, there is no justification either for charging more than the true cost".

We have crossed three more Finance Commissions, but we are not following this policy.

The hon. Minister was making the accusation that some States are not using their tax powers to increase their resources. During the original Fourth Plan period of 1967-71 we were asked by the Finance Commission to find resources os that they would also give more. So, during that five year period on two occasions we taxed people, not the poor people but the rich, to the extent of Rs.100 crores. What happened? The Finance Commission came into the picture, but they did not consider our tax effort. The only reward secured in return for this is that the Finance Commission took the proceeds of this tax into account as normal receipts. So, we suffered because we taxed, because we found more resources.

What is going to be done regarding the debt problem is a big question mark. I think we have reached a critical stage. We should re-schedule it or give a moratorium. If this moratorium is given, I do not think the Centre will suffer. The Setalvad Committee report has made it clear that the widening gap between fresh loans and loan repayments shows that even if a moratorium were given to all repayments, the Centre would still have sizable capital resources left from which to grant assistance to the States. You have got resources, but because you are closing your eyes, because the Centre is behaving like an ostrich, they are afraid of looking at the reality.

One State in India is receiving about Rs. 100 crores from the Special Accommodation Fund, but on what critreion? The hon. Minister has not made that clear. That State is Mysore. Their gap is not as big as Rs. 100 crores, but how did Mysore get it.? I am not jealous of Mysore, but we should also get something. I hope the hon. Minister will one day make this clear.

MR. CHAIRMAN : The question is :

"This House views with concern the financial difficulties of various States arising from the present system of devolution of Central Taxes, Loans, Grants and Plan assistance with special reference to the problems of Tamil Nadu whose legitimate claims have been ignored and in particular resolves that a Federal Debt Commission be set up to review the indebtedness of States and suggest ways and means of lightening the burden of debt."

The motion was nagatived.

16.59 hrs.

RESOLUTION RE : RECOGNITION TO BANGLA DESH

SHRI SAMAR GUHA (Contai) : I beg to move :

"This House resolves that in view of our national commitment to the sacred principles of freedom, democracy and socialism and for bringing an end to the savage genocide of the people of Bangla Desh by the Pakistani Army and efficaciously dealing with the vast problems of millions of the up rooted refugees and for eventual ushering in a new era of peace, progress and prosperity in the sub-continent, the Government of India should give immediate recognition to the Government of the people's Republic of Bangla Desh and offer all assistance necessary for early consolidation of their national freedom."

17.00 hrs.

I consider myself fortunate for getting this opportunity to move this momentous resolution in this House today It is a coincidence that a similar resolution is now being moved in the British Parliament by the leader of the British Labour Party and is supported by 122 other Members. In the United States Senate also another similar resolution is being moved by Senator Kennedy, the youngest brother of late President Kennedy, to give recognition to Bangla Desh.

It is to be remembered that the revolution that is taking place in Bangla Desh is not an accident of history but the logical end process of the internal contradictions that were inherent in the very entity of