rests of the public and in the interests of the Government, should not be disclosed here, in the first instance I will ask the sub-committee to look into it and then bring it before the House if it is satisfied.

Shri K. D. Malaviya: You, Sir, might take any decision that you like, but may I request that I might have a talk with you before you finalise it?

Mr. Speaker: Yes. If any hon. Members have got any authoritative information with respect to what is happening to similar things in foreign countries, I shall be happy to get it and look into it. These agreements are not special only to this country. In other countries also, there are similar agreements. We would like to know what is the jurisdiction of Parliaments there in regard to these agreements.

Shri Morarka: In this vary country, there are other agreements entered into by other Ministries and they are placed on the Table here? (*Interruption*).

Mr. Speaker: No Minister has said he is not prepared to place the agreements here.

Shri Sinhasan Singh (Gorakhpur): The reason that the hon. Minister has given for his inability to place a copy of the agreement on the Table of the House is not convincing. Probably the agreement may be in the interests of the company and not in the interests of the country. The hon. Minister said that in that case the other parties may take advantage of the agreement. It may be that that particular agreement is going against the particular company and not against the Government. If so, if other parties are going to take advantage of it, it means that the agreement is to the advantage of the company and not of the country.

Mr. Speaker: We will assume one case is there out of a hundred, where it may not be in the interests of the country. But, all the same, the Minister would not like to expose himself. That is what he means. Is the House to keep quiet then?

Shri T. B. Vittal Rao: How can he be a Minister in that case?

Mr. Speaker: I am arguing in the hon. Member's favour. Why is he quarrelling? There may be just one case where the Minister might like to keep it away from the House. But the House is interested in seeing that these are exposed. These are matters which will have to be considered seriously. I shall look into this matter. I am not giving my decision one way or the other. Let me go through this and then find out what to do, because whatever decision we take now will be applicable for all time. It is an important matter. I would like to reserve my judgment in this matter. I will talk to the hon. Minister.

12.18 hrs.

ADDITIONAL DUTIES OF EXCISE (GOODS OF SPECIAL IMPORTANCE) AMENDMENT BILL—contd.

Mr. Speaker: The House will now proceed with the further consideration of the following motion moved by Shri Morarji Desai on the 19th March, 1962, namely:—

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

I want to submit to hon. Members of the House that I went out of the way yesterday to adjourn the House earlier, though we had five more minutes to go, and the hon. Minister could have legitimately got up and said: "Let me finish this today." This is a Bill of far-reaching importance for five years. Whatever is dis-

[Mr. Speaker]

tributed is an important thing. This is an important matter. Three hours were provided for this Bill for the purpose of discussion. There were very few Members. I do not know whether we spent enough time on the Bill. Perhaps the House spent hardly three minutes or so on it.

Shri Braj Raj Singh (Firozabad): I had submitted much earlier that these Bills should be taken only by the next Parliament and not by this Parliament.

Mr. Speaker: The hon. Member will not be here then.

Shri Braj Raj Singh: Whether I am here or not, I wanted these Bills to be discussed by the next Parliament.

Mr. Speaker: The hon. Minister was anxious to hear the hon. Member. There is no meaning in saying that it should go on. Why are the hon. Members not prepared? Anyone of the Members could have taken interest in this. I am really surprised. These are all important matters. There is no good making distribution of excise, if all are not interested. There was not even quorum yesterday. Anyhow, if any hon. Member wants to speak, he may speak now.

Shri Warior (Trichur): Yesterday, it so happened that these Bills came in all of a sudden. We are in the fag end of this Parliament. There was not sufficient attendance here. That is why some of us, although prepared, did not expect that the Bill would come yesterday itself. We were prepared for it only today really. Anyhow, these are very important matters, especially when these have come as a result of the report and recommendations of the Finance Commission. As far as these additional duties of excise on goods of special importance are concerned, the Finance Commission has done a very good job. I am glad that they have considered several matters so far as these taxes are concerned, but at the same time, I am constrained to say that the third Finance Commission had skipped over certain very important and crucial points. I do not know whether the States will be completely satisfied by these recommendations.

In page 26, para 52, the Commission says:

> "The States urged that the guaranteed amounts should be revised to take account of the increases in rates of sales-tax effected by them after the amounts guaranteed had been determined. They also complained that as a result of the surrender of sales tax, they lost over a period of years and that they should be insulated against any further future losses."

The second Commission rejected this on certain grounds. If the third Commission had gone into the matter a bit more deeply, they would have been convinced that there was some cogent argument in the demands of the States. The States are saying that this additional excise duty is in lieu of sales-tax. Sales-tax was the prerogative of the States, but the Centre has made inroads into that and made certain items which came under sales-tax as excise items. But now when the taxes are expanding in all other items, these few items which are the most elastic are taken away from the States and brought into the fold of the Centre.

Take, for instance, tobacco. The consumption of tobacco will naturally increase more than the consumption of cloth. So also sugar, and certain other items like that. In all these items, the States stand to lose, because taxes cannot be imposed further by the States. Considering the whole economy, this will affect the resources of the States to that extent. In many States, there are revenue deficits and they are finding their budgetary positions very shaky. For instance though not directly connected with this, the Finance Commission itself have come to certain conclusions later. In page 29 of this report they say that having considered so many things, they are led to the suggestion which they have made elsewhere that an independent commission should be constituted to review, amongst other things, the financial relations which in the new situation of planned development should subsist between the Union and the States.

The Central Government has taken away many of the items which before the integration of the States were under the native States. For instance, Travancore and Cochin were imposing their taxes on income. That has been taken away. In the State of Cochin, from where I come, the first covenant had stipulated that only three items of sea customs will be taken by the Centre. But now there are 33 or 34 items and the State is losing that much of revenue from sea customs. At the same time, expenditure is increasing.

The only few items of taxes which are not elastic and which are under the control of the States are agricultural tax, land tax and some other taxes. So far as land tax is concerned, these plans have given much trouble to the organisation of the land revenue department. Every new project means new land acquisition. All these people have routine work also and there is no new staff employed by the States for these projects. So, the same people have to do the new work which comes in. So, either the plans are suffering or the routine work of the land revenue department is suffering. Because of planned economy, there are certain advantages, but at the same time, there are ceretain very great disadvantages for the States. The States have to meet all the recurring expenses after the project is completed. There is no expandable or elastic revenue for the States to meet the new expenditure. The Finance Commission says that more economy should be made in the budgetary position of the States. But I do not know how economy can be effected, because there is more of expanding of expenditure rather than economising of expenditure. For instance, if you look at the new Ministries, they will show how much additional expenditure will have to be incurred by the States. Developments are going on according to the demands of the people, but at the same time, the revenues of the States will not be sufficient to cover all the new expenses which are coming up.

Mr. Speaker: Have the Kerala Government written to the hon. Minister that the amount that is allotted to them or the percentage is not sufficient?

The Minister of Finance (Shri Morarji Desai): They have represented to the Finance Commission. It is mentioned in the Finance Commission's report itself that they had said that the original sums which were guaranteed have not taken into account future losses. The second Commission went into that very carefully and said that they were not able to give any figures to justify their complaint. They were not able to find out any figures. So, it was not possible to go into it. What they had actually received when these items were transferred to additional excise, those sums were fixed. Whatever additional amount is now received, that is divided on the basis of certain proportion fixed by the Finance Commission after hearing all the facts. There will be some complaint in one State about one thing and another complaint in another State about another matter. It is difficult to reconcile all the interests, but the Finance Commission has done the best of a bad job, if I may say so.

Shri Warior: The second Finance Commission came to the conclusion that this could be the only yardstick to fix the quotas of each State. The

[Shri Warior]

third Commission only dittoed that; it did not go into the matter. After five years a review should have been made. Then the third Commission could have known how much each State stands to lose if it is only the guaranteed amount and not the expanded amount. The States cannot cope up with their demands and that is why they are bringing this forward. This is a very intricate problem. We understand that. But the consumption is increasing. If it is only the guaranteed amount, that will be much less than what is actually the due share of the State, after a new assessment is made of the consumption. The Finance Commission's figure of consumption cannot be taken as the criterion. How can that be? Consumption alone is the criterion for sales-tax, because only when sale is effected, the tax is given and the sale is effected for consumption. We plead that the Finance Commission should have gone into the problem with greater thoroughness than the second Commission. They say:

> "The Second Commission had rejected the suggestion that not only the revenues currently derived, but prospective revenues should also be taken into account indetermining the guaranteed amount."

Because the second Commission dismissed the suggestion, must the third Commission also dismiss it? It is very easy to dismiss the suggestion, but what about the States?

I know for certain that from at least one State, that is the Kerala State, Government has represented that they must be taken into account as otherwise it will always be a fixed amount. There was an instance. I quoted earlier the Sea Customs Coventânt in the Cochin State. At that time they said that a percentage will be worked out. But after three years when they found that the amount was increasing by leaps and bounds, they said that the amount will be a fixed amount, an arbitrary amount and it will not be fixed on the basis of any percentage, because the incomes were going up and the Central Government wanted to appropriate the entire amount giving only a paltry sum from that to the State. That has already occurred. On the last occasion when the Second Finance Commission investigated into all these things, I know that the Kerala Government had submitted their own memorandum to the Commission in which they stated all these things. But the Second Finance Commission did not take the matter in all its importance and said that 'this cannot be revised at present'. We expected that at least the Third Commission would go into this matter and revise the old principle enunciated in the report of the Second Finance Commission would go into this matter and revise the old principle enunciated in the report of the Second Finance Commission. But that has not been done. Easily they have skipped over the whole problem and they have said that is is impossible to go into that matter. They also dismissed the suggestion, in a way, to make an ed and refix the amounts guaranteed. So it was only a dittoing of the assessment of the possible loss sustain-recommendation made by the Second Finance Commission.

Then, because of our Plans, because of the new development works that are going on, the entire tax structure, the entire fiscal structure has undergone a very raidical change. The Centre is appropriating more and more powers into its own hands, so that even this Commission *inter alia* says that it apprehends that the autonomy of the State will be more and more appropriated by the Centre and the States will be left more or less as mere municipalities. They have no more fiscal powers other than collecting a few taxes here and there, but the entire responsibility for implementing the developmental plans and the financial implications involved therein is on the States. The Centre is doling out money, no doubt. But who is responsible for the major part of the plans? Except perhaps the big industrial undertakings, big irrigational undertakings or hydel undertakings, all other things are to be implemented by the States. They have not got sufficient staff. They cannot increase their establishment charges. They have no provision for new items. Their budgetary position is also shaky because of what I have already stated. I would, therefore, suggest that the recommendation of this Finance Commission at least should be accepted by the Government and an independent commission should be constituted to review, amongst other things, the financial relations which in the new situation of planned development should subsist between the Union and the States. This is the crucial point I wish to touch upon.

Sir, that is all I have to say. Anyhow, I support tht Bill because at least some money will go to the States.

Mr. Speaker: Why did not they do so themselves?

Shri Warior: They gave the argument that their terms of reference did not include this. There was no time for them to go into this matter. They put forward so many other arguments.

Shri Balraj Madhok (New Delhi): Mr. Speaker, Sir, the distribution of financial resources between the States and the Union is a matter of great importance in a country which has taken up new Plans and also for the common people who are being overburdened with taxes. The old traditional resources of the country like land revenue have become rigid. There is not much scope for growth in them. Therefore, both the States and the Centre have to depend more and more on such sources as income-tax, import and export duties, sales tax, excise duties etc. That is why these duties are on the increase. At the time of independence our total income from excise duties was nearly Rs. 50 crores. It has now gone up to Rs. 450 crores. The burden of excise duties falls directly on the consumer because ultimately he has to pay for it.

Over and above these excise duties, during the last war some States took recourse to imposing sales tax. At that time there was great opposition to this tax. Then it was suggested that it was purely a temporary measure and as soon as the war was over the sales tax will be withdrawn. It has not been withdrawn. Not only that, it has now become a permanent of feature of the tax structure of the country. Even when sales tax was imposed, apart from the money it brought to the exchequer, it was found that it created many other difficulties which were not perhaps foreseen. One was that the traders—of course, the burden of tax has to be shifted to the consumer in all cases—were put to a lot of harassment because they had to maintain accounts for which they were not prepared. Many had no proper establishment for this purpose. It was also found that there was large-scale tax evasion. That is why the demand began to rise both from the tradtrs as well as the consumers that if the authorities could not completely abolish sales tax it should better be replaced by excise duties at the source. It was to meet that persistent demand that in respect of certain important items like tobacco and sugar sales tax was removed and it was replaced by excise duties at the source. It was also decided that out of the additional excise duties on these commodities the States who would be deprived of their share of sales tax would get some thing. This Bill mainly is meant to implement the recommendation of the Finance Commission as to what will be the share of different States out of the additional excise duties which will accrue from these commodities in place of sales tax.

Here certain sums have been fixed. But I feel that this is one source of income which is flexible, which is bound to grow. And as things are, many of the States are feeling the pinch of economic growth very much. They need more resources. Therefore, instead of fixing the amounts for five years, there should be some provision, some machinery to see that as the income comes every year it should be

[Shri Balraj Madhok]

distributed, and there should be no rigidity about it. There may be certain States which give more sales tax than others, and we should see that a State gets an amount almost equal to the sales tax which that State might have got if it had not been replaced by additional excise duties so that the State's exchequer does not suffer.

But I want to bring to the Notice of this House one point which is more important to my mind. At present on certain commodities sales tax has been replaced by excise duties and on certain other commodities sales tax still continues. Here in Delhi, for example, there is sales tax on utensils made of copper or brass. There is sales tax on many things made out of maida or flour. The shopkeepers and traders who deal in these commodities have to maintain all kinds of accounts. Many of them are not able to maintain such accounts. There is a persistent demand from the traders that just as in the case of certain goods the sales tax has been replaced by additional excise duties at source, in respect of other things also on which sales tax is being still charged it may be replaced by excise duties.

This is important for three reasons. One is because of the harassment that is caused to the traders. Secondly, there is a large amount of tax evasion. In this connection I would like the Finance Minister to make a survey, to conduct a research in respect of any particular trade, and see how much sales tax actually goes to the exchequer and how much of it is evaded. The shopkeepers or traders are harassed. The sales tax inspectors and other officials make hay and the exchequer does not get much. Therefore, to avoid this tax evasion, to save the petty trader from harassment and also to make the whole structure rather fool-proof—it cannot be made completely fool—proof, but at least we can minimise the possibilities of corruption—it is very important that sales tax on other commodities also should be replaced by excise duties at source. If the Centre can collect excise duties on these particular goods like sugar and tobacco, it can collect additional excise duties on other goods also. Then that can be distributed to the States. That will save the States from the both ration of collecting it and will bring much relief to the traders, not only here but all over the country. The Uuion Territory of Delhi is mainly a distributing centre and here this problem is becoming very acute. There is a persistent demand from all traders in Delhi that the sales tax should be replaced by excise duty of some kind and steps should be taken for its distribution. While I support this Bill, I will appeal to the Finance Minister to take into consideration the suggestion to replace the sales tax on other commodities by excise duties.

Shri Warior: Before the hon. Minister replies, I wish to refer to the Report of the Finance Commission, page 30, para 26, where there is reference to the Centre making in roads into the autonomy of the States The Report says:

> "While we appreciate that in a planned economy a measure of centralisation and even regimentation is inescapable, it is no less necessary that States should not feel that their autonomy is being unduly frustrated. There seems to be a strong feeling in the States that the restrictions and conditions which are attached to the grants which they receive for Plan purposes, tie their hands unduly and deprive them of necessary flexibility and room for adjustment."

We must always bear this in mind.

Shri Morarji Desai: I just now heard two suggestions which were contradictory from the hon. Member, Shri Madhok. On the one hand, he said that when sales tax is converted into additional excise duty the States lose their flexible source of revenue.

Shri Balraj Madhok: I did not mean that.

Shri Morarji Desai: He said that more items should be brought under the excise duty.

Shri Balraj Madhok: I stand for replacement of sales tax by excise duty.

Shri Morarji Desai: Then the other thing is not proper.

I have carefully considered what the two hon. Members have stated. But I must say that what they have stated was also considered by the Finance Commission and they have, after very careful consideration, made the recommendations to the best of their capacity. We must express our thanks to them for doing a very good job of a bad business. When I said they made the best of bad business, I did not mean it was a bad business I mean it was difficult business. In that sense, I called it bad, and not in any other sense.

It is not true that there is centralisation and more and more powers are being taken by the Central Government. I do not see where that is done. Some items of sales tax were converted into additional excise items with the consent of the States and not *suo motu* by the Government of India. It is with the consent of the States that this was done. First we took up three items and then the number of items was increased. Then, when another demand was made by traders, supported by others, that more and more items should be removed from sales tax and included in the additional excise duty item, the States did not agree and, therefore, we did not take any steps to do so; and we cannot do so unless the States agree.

Shri Balraj Madhok: You can do that at least in the case of Union Territories.

Shri Morarji Desai: We cannot do it only for Union Territories; it is not possible. We cannot convert it for Union Territory into additional excise duty and leave it as sales tax in the rest of the States. How can it be done? Because, it will be recovered all over the country either as sales tax or additional excise duty. How can it be recovered only in the Union Territories or in one State as additional excise duty and as sales tax in the other States? It is not possible at all. It is possible only if all the States agree that those items may be removed from sales tax and added to the additional excise duty items. Otherwise, it cannot be done. Last year I set up a committee of some of the States to go into this question but they ultimately came to the conclusion that they would not agree, because there were conflicting demands. Some States say that this should be distributed only on population basis; other States say that this should be distributed on consumption basis. It is not possible to reconcile these two conflicting demands, and unless they agree it is not possible for us to go into the question of imposing additional excise duty in place of the sales tax.

The argument that some of the States have lost in the bargain is not quite correct. We have guaranteed to them whatever they were getting before we levied this additional excise duty. It will be seen from the figures that the States are getting as additional excise duties much more than what they were getting earlier as sales tax. The figures are; 1958-59 Rs. 16·12 crores; 1959-60 Rs. 28·32 crores; 1960-61 Rs. 33·60 crores and 1961-62 Rs. 41·98 crores. So, it is increasing every year. As a result of these items being turned into additional excise duties, there has been a larger receipt of revenues to the States from these items. This would not have been the case if they had been merely sales tax items, because here there is no scope for evasion. But if the States do not agree to other items being included in the list of additional excise duties, what can I do? I cannot go and impose on them something which I cannot do under the Constitution: and I do not want to do so even if I could do so under the

[Shri Morarji Desai]

Constitution, if they do not agree to it.

There is no question of depriving any States of any of its legitimate dues. As a matter of fact the whole sum recovered in the form of additional excise duties is distributed to all the States, and the distribution is regulated by the Finance Commission. First of all, there is the guarantee that has been given to the States that they will get not less than what they were getting before. Then, what is remaining is distributed as recommended by the Finance Commission. The Third Finance Commission has laid down the method as follows:

> "We consider that in view of the fact that this additional levy is in lieu of sales tax it would be equitable to distribute the excise collections partly on the basis of the percentage increase of collection of sales tax in each State since the year 1957-58 when the additional excise duties were imposed and partly on the basis of population".

That is how they have fixed the pattern of distribution of the additional amounts after the guaranteed sums have been distributed. Therefore, the possible increase in revenue in future has been taken into account in this distribution, and I do not think the States would fare better if these items remained in the sales tax and if they had not been turned into items of additional excise duty. As a matter of fact, they get better revenues by this system than by the other system.

It is also not true to say that the States are losing their autonomy. The Government of India do not interfere with them at all in any way. But when grants are made or loans are given by the Government of India according to the Plan, which plans are fixed in consultation with the States and with their consent, then it becomes the duty of the Government of India to see that those plans are carried out as they are planned. Yet, we are bringing in more and more flexibility in the implementation of the Plan. If under the same head they want to make any changes, they are allowed to do so. If they want to change from one head to another, then there is consultation and after consultation if it is found satisfactory, it is also allowed. We try to see that there is more and more flexibility and room for adjustment in this matter. We have even changed the rules making them more flexible. The complaints which were there before would not hold true today. But if autonomy means that the Government of India should give away the money and there should be no supervision on it, it would not be planning at all. If planning is to be properly done and implemented, both have to work in co-operation. That is what we are seeking to do.

I have never held that the amount that is recovered by the Central Government from taxes belongs to the Central Government and the States have no share or interest in it. As a matter of fact, it belongs to the whole country and both the States and the Centre are equal partners in it. This has got to be divided properly according to the requirements of different States. That is what is being done. That is why more grants are made to some States which are in need of more grants and less grants are made to States which have better revenues. This is how the Finance Commission also makes its recommendations. All this is taken into account by the Central Government when the Finance Commission's recommendations are received. Therefore there is no question that in this particular Bill there can be any improvement made. As a matter of fact the additional duties of excise are all distributed to the States and no part of it is kept by the Central Government.

As it was said, if the percentage of Union duties of excise which are now shared between the States and the

Centre was reduced from 40 by the Second Finance Commission which was reduced by the Third Finance Commission to 20 per cent, it was because formerly there were only three items which were shared between the Government of India and the States. In the Second Commission's Report the items were raised to eight and in the Report of the Third Commission the items have been raised to 35. As a matter of fact, therefore, Rs. 34 crores of revenue have been given in addition to the States as a result of the additional items and there is no contraction of the amounts which are received by the States. They receive more and more amounts and more and more revenues will be received under these excise duties as future years come. They will be earning more and more share from these additional receipts of revenue in future. Therefore they are becoming shares in the expandible items of revenue in this manner. That is why I believe that the Finance Commission has increased the items from 8 to 35. All items which are there in 1960-61 have been included for distribution. That is what the Finance Commission has done. Therefore there can be no scope for the argument that a fair deal has not been made. As a matter of fact, I would say that a very fair deal has been made by the Finance Commission in its recommendations which are before us and which are for implementation through this Bill in the matter of additional items of excise.

Mr. Speaker: The question is:

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

The motion was adopted.

Mr. Speaker: There are no amendments to the clauses. Therefore I will put all the clauses together to the vote of the House.

The question is:

"That clauses 2, 3, 4 and 1, the Enacting Formula and the Long Title stand part of the Bill."

The motion was adopted.

Clauses 2, 3, 4 and 1, the Enacting Formula and the Long Title were added to the Bill.

Shri Morarji Desai: Sir, I beg to move:

"That the Bill be passed".

Mr. Speaker: The question is:

"That the Bill be passed".

The motion was adopted.

12·55 hrs.

*DEMANDS FOR SUPPLEMENTARY GRANTS (RAILWAYS), 1961-62

Mr. Speaker: The House will now take up Demands for Supplementary Grants (Railways).

DEMAND NO. 3—PAYMENTS TO WORKED LINES AND OTHERS

Mr. Speaker: Motion moved:

"That a supplementary sum not exceedings Rs. 5,56,000 be granted to the President to defray the charges which will come in course of payment during the year ending the 31st day of March 1962, in respect of 'Payments to worked lines and others'."

DEMAND NO. 13—OPEN LINE WORKS (REVENUE)—LABOUR WELFARE

Mr. Speaker: Motion moved:

"That a supplementary sum not exceeding Rs. 36,56,000 be granted to the President to defray the charges which will come in course of payment during the year ending

*Moved with the recommendation of the President.