THE BUDGET
Versus
THE PEOPLE

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The following were the Party's spokesmen:

LOK SABHA

M. R. Masani	—	**22-3-65**
N. Dandeker	—	**24-3-65**

RAJYA SABHA

Dahyabhai V. Patel	—	**10-3-65**
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M. R. Masani

VERY few things in life are all good or all bad; most of them are a little mixed; and even this Budget partakes of that general proposition. Let me, therefore, in fairness to the Finance Minister and the Government, start by mentioning some of the good things in this Budget.

The outstanding one among these is the relief given to income-tax payers. Even with the relief given, the rates of income-tax and direct taxation in this country are higher than those prevailing in the United States, Britain and other advanced countries. All the same, let us be grateful for small mercies. There are people in this country who will, no doubt, breathe a sigh of relief at the slight reduction in income-tax.

The second relief in the budget is in the excise duty which will benefit some consumers. The third very welcome provision is that employers who spend money on Family Planning for the families of their employees should be given some measure of relief. The fourth is the simplification of income-tax and super-tax payments by making one table for both and a simple calculating method. And the last good point of these proposals is the welcome given to foreign equity capital by the Finance Minister in more than one part of his speech.

These are five good elements of the Budget which we all welcome. But when that is said in favour of the Budget, all is said. I would like the House to judge by three tests in the broad national interest: What is the effect of the budget on stability of currency and prices? What is its effect on the foreign exchange crisis? And what will be its effect on economic growth? I am sure every Member in this House will agree that these three tests are the relevant ones.

Now, let us take the first test. Is the budget inflationary or is it not? There has been a rise in prices as reflected in the wholesale price index, over the last two years, of 23 per cent and that increase is proceeding. The Finance Minister has ventured to hope in his speech that now prices will fall. I wish I could agree with him – we all would – but it is wishful thinking. I venture to make a statement here —I made it during the past two years and I was proved right – that prices will not fall and that this budget is an inflationary budget.

Inflationary Budget

There are five concrete rasons why it is inflationary. First, the quantum of public spending remains unaffected. The Finance Minister claims that he has made a cut of Rs. 6.4 crores. Rs. 6.4 crores on a total revenue of Rs. 2,353 crores last year comes to under .03 per cent. Even that is not true. By the very clever device of raising customs duties 10 or 15 days before the introduction of the budget, the Finance Minister raised what he calls "the existing level of taxation" and he then pretends to make a cut of Rs. 6.4 crores for the edification of the tax-payer.

Since he would have got more than Rs. 6 crores in the few weeks of this year during which the new customs duties were levied, let us say that, by and large, the burden on the Indian tax-payer through direct and indirect taxation remains exactly the same. Or, let us accept his line of argument. All right, you have given relief of .03 per cent. Therefore, the Rake's Progress is continuing. As the comedian Harold Lloyd once said, "you cannot live on a Rolls Royce rate of expenditure on a Ford rate of income." That is what this Government is asking the Indian people to do. Without adequate resources, it is insisting that the public revenues and the public expenditure be of an order which is out of our reach if we would live in a thrifty and honest manner.

The increase in civil expenditure during the last year is Rs. 85 crores and the Finance Minister has admitted on page 13 of his speech that, if we take into account PL 480 transfers, that is, created money, civil expenditure goes up even higher. Now, why has civil expenditure been allowed to rise? What has happened to the Finance Minister's promise, made in this House, that he was going to bring about a cut of Rs. 70 crores in all non-development expenditure? Against that promise we have a further deterioration in the expenditure on non-development purposes.

Public Sector Failure

Then, again, there is an increase in Plan expenditure of Rs. 241 crores over last year and, at this stage, may I say that, when the Finance Minister on p. 14 of Part A of his speech lumps together the returns from Railways, Posts and Telegraphs and State enterprises, he is being unfair to this House.

I strongly object to the losses of State enterprises being sought to be covered up by lumping them with Railway and the Posts and Telegraphs operations. If you separate these, the results are tragic. The latest official figures published in *Hindustan Times* on the 2nd of March show that of 70 State commercial undertakings, only 13 made a profit at all – the vast majority were making losses on our behalf. It is estimated officially that the net return by the end of the Third Plan would be 1.05 per cent of the national capital so invested, but if the Railways are excluded, the average return on State undertakings sinks to 0.22 per cent.

You will remember that, four or five years ago, my hon. friend's predecessor ventured to hope that the returns on State enterprises would rise from 0.3 to 0.5 per cent. They have now fallen further to 0.22 per cent! This is the record of our nationalised undertakings. That is why this expenditure is inflationary, being unremunerative and unproductive.

The second reason why this budget is inflationary is the additional 10 per cent Customs duty. I would request the Finance Minister, when he replies to the debate, to tell us what is the revenue he expected from the 10 per cent regulatory Customs duty that he has imposed, because nowhere in the official papers can we find an answer to that question. We shall appreciate it. But the point I am making is that 10 per cent Customs duty will lead to a further rise in prices. These are intermediate goods which our industries use and naturally the end-product will go up in price as a result thereof.

There is yet another reason why the budget is inflationary: because of the savage excise duty on intermediate goods such as copper and steel. Take steel first. The larger part of steel, 80 per cent of steel production that is so taxed, goes to Government departments and organised industry who cannot be accused of blackmarketing. Only 20 per cent goes to small shopkeepers or traders where, no doubt, excessive profits might be made.

But for the sake of tapping 20 per cent, the Finance Minister claims, "I shall mop up excessive profits". He may do it to the extent of 20 per cent, I concede, but 80 per cent of honest consumers of steel and copper who are Government departments and organised industries are going to pay a higher tax and they will add it to the end-product because they are not making excessive profits. Therefore, the general effect of the excise duties will be to push up prices still further.

Fourthly, the budget is inflationary because the Finance Minister himself admits it. On page 7 of his speech, he says: "Part of long term borrowing represents deficit finance." That is the only place in his speech where he admits that he is going to resort to deficit finance.

Lastly, it may be urged that we shall check the inflationary effects of the budget by price controls. I have mentioned so often in this House the analogy given by Graham Hutton that if the lady tries to go to a plastic surgeon to remove her double chin, the darned thing comes out at the back of her neck. But we have here a greater authority on this proposition. On 5th March, 1965, no less a person that the Chairman of the I.C.I.C.I., Mr. G. L. Mehta, expressed the same thought when he stated: "Price controls have not prevented inflation but only helped to divert inflationary pressures in other directions."

Sir, for all these reasons, this is an inflationary budget and in the next twelve months prices will rise, not through accident but because the Finance Minister, for demagogic purposes, has resorted to a budget that will raise prices.

Collapse of Rupee

Now, the second test is: Will the budget solve our foreign exchange crisis? The Finance Minister thinks that it will. I venture to say that the foreign exchange crisis will continue and aggravate as a result of this budget. Today, the scarcity of foreign exchange provides this Government with an alibi for so many defaults on its part. If anything goes wrong, it says: "Sorry, we have not got the foreign exchange."

Let me say that this shortage is synthetic. The shortage of foreign exchange is artificially created by the policies of this Government over the last decade. It is a consequence of debauching the value of rupee deliberately through inflationary policies. The exchange value of the rupee in terms of the Pound or Dollar only means the price of the rupee in terms of those currencies.

Now, what happens if the price of a commodity is controlled much below the genuine market price? We know what happens. It disappears from the market and goes into the black market. We find that in the case of foodgrains. If you do not pay the farmer a fair price, he hoards the grain and puts it in the black market. Recently, we had this phenomenon in the State of Maharashtra in the case of jowar.

The same thing happens to the Dollar and the Pound, the German Mark, the French Franc and the Swiss Franc in our country. Government insists on undervaluing the Pound or the Dollar and rationing its use. It is exactly what is done in the case of foodgrains – monopoly procurement and rationing. It makes itself a monopolist in the import of Dollars and Pounds, or the availability of Dollars and Pounds, and it rations it to our people. What happens? It goes into the black market.

Let me give the real price of our rupee from the weekly *News Week*, which publishes a column every week on foreign exchange throughout the world in the free market. The price of the rupee in the free markets of the world has this story to tell. It is a very sad story.

On the 17th June, 1963, as against the official price of Rs. 4.75 to the Dollar, the rupee was worth in fact, Rs. 5.70 to the Dollar. On the 6th January, 1964, the rupee depreciated further and fell to Rs. 6.65 to the Dollar. On 9th November, 1964, the rupee had gone further down to Rs. 6.90 to the Dollar and on 1st February, 1965, on the eve of this budget, you could only get a Dollar in the free market for Rs. 7.20. That was bad enough.

Sir, let us see what this budget has done, this so-called anti-inflationary budget, which is going to solve the foreign exchange crisis. The day before the budget was introduced, you could get a £ sterling in the free market for Rs. 24. The day after the budget, you had to pay Rs. 27 to Rs. 28 to get a £ sterling. In other words, those who operate in international exchange recognised that this was a bad budget, which was going to depreciate the rupee

further. And the price today is Rs. 27 to Rs. 28 for the £ sterling.

Our Finance Minister pretends that he does not understand what the free market is. He has given an answer in this House by saying, "There is only one value of the rupee and that is what we say". He is kidding himself. I do not know who else is kidding. Every shopkeeper in Delhi and Bombay, every booking clerk in a hotel, knows that the rupee is not worth what it pretends to be. Today, the rupee is worth exactly half of what you pretend its value is. And because it is half, your foreign exchange crisis is there.

There will be no shortage of foreign exchange if you try to do your international trade on honest terms. Having used up all the reserves as a result of this policy of bankruptcy, we now go cap in hand to the United States Government, to the World Bank, to AID, to IDA, and to the Aid India Club and to all those institutions, and we ask for more and more like Oliver Twist.

Foreign Aid Drying Up

The sad fact is that today foreign aid also is going into the black market. Foreign aid, instead of helping our country, is being used to pay for our adverse balance of payments. Foreign aid today is leaking into the black market, and unintentionally providing finance for the smuggling of gold into India, because you are artificially trying, through the silly Gold Control Act, to control the price of a commodity which cannot be controlled.

Shri A. P. Jain: Who did it?

Shri M. R. Masani: Parliament did it—and Parliament was wrong—under the inspiration of our Finance Minister.

I want to warn the House that even this foreign aid is going to dry up. Let me say this harsh thing here in case we kid ourselves. Foreign aid is going to dry up in the next two or three years. It is going to dry up for two good reasons. I shall mention both reasons. The first is that the Soviet Union is entering the market for credits. Let me read from the Sunday *Herald Tribune* of January 10 this year. It says:

"For what is becoming quite apparent. . . . ."

I wish it was apparent, because the *Herald Tribune* gives us a compliment for our intelligence. It says: *"For what is becoming quite apparent to Asian and African economists is that their greatest rivals for Western aid are the Communist countries. If, in the interests of an East-West detente, the Third World. . . . . ."*

". . . loses its favoured position as a Western-aid-recipient, the hoped-for growth would be even slower than it is today".

That is one reason, because we are getting a new rival entering the world's credit market. The second reason is the way in which we have wasted a large part of that aid. Let me quote from an editorial in the *Daily Telegraph* of 20th February this year. It says:

"Yet the greater part of foreign aid is channelled into heavy industries and into luxurious but economic showpieces. These installations, so far from adding to the national wealth, are themselves absorbing for their maintenance more than half the foreign aid India receives."

Then it goes on to say:

"It makes no sense for Western friends to give military aid and watch India founder economically. But neither is it sensible to go on indefinitely filling a leaking bucket."

That is the second reason that those who have been giving us their treasure realise that they cannot go on pouring water into a leaking bucket, as the *Daily Telegraph* has not inaccurately described our economy.

And when that happens, when foreign aid starts

drying up, there will be only two alternatives left to this country. It can shamelessly go bankrupt, or it can put its house in order. If it is going to put its house in order, there are two ways of doing it again. One is to stop these inflationary policies and to scrap the Fourth Plan as it is at present devised.

Shri A. P. Jain: Scrap the Plan?

Shri M. R. Masani: . . . and create a stable measure of value in this country, an honest rupee. If you do not do it, I shall tell you what you will have to do, and what you won't like, and what my hon. friend Shri A. P. Jain and other friends won't like to see the Finance Minister of their party doing in the next two years. . . .

Shri Ranga: He may be in Kerala then.

Shri M. R. Masani: . . . and that is to devalue the rupee. It is a very painful expedient to cut down officially the value of our currency. If you do not listen to our warning today and stop this inflationary and reckless way in which you are doing things, you yourself will have to come to the country and to this House and say: 'Let us face facts. Our rupee is worth only half of what it is today; let us now pretend that it is three fourths of what it was before'. That is what is called devaluation.

I am not advocating that; it is a very painful remedy. It will hurt the rich and the poor, the honest and the dishonest alike, and I would like to avoid it. But as things are developing today, with this budget and the proposed Plan, I can say that devaluation is round the corner, and even my hon. friend will one day have the courage and the honesty to come forward and admit it.

Anti-Growth Budget

Now, the third test is: Is this budget a growth-budget or an anti-growth budget? I say that it is an anti-growth budget. It is anti-growth for the basic reason that it has failed to give any substantial relief to the corporate sector that produces most of the wealth of this country.

Consider the position that, throughout 1964, the response to all new capital issues was exceedingly poor, and the bulk of issues was taken up by underwriters and the prices of most new shares are today quoted below par. Anyone who knows anything about Indian finance knows this.

Let me give details, because I think that most of the Members of this House are not so familiar with Indian finance. During 1960, only 53 per cent of the number of new issues through Prospectus were underwritten by financial institutions. About half of them were carried in the market by the small or the big investor. The proportion of issues underwritten rose in 1961 to 62 per cent, and in 1962 to 71 per cent, and in 1963 to 77 per cent, and for the period January-June, 1964, the last period for which the figures are available, the new issues had to be underwritten to the extent of 90.3 per cent and the investor only took up 10 per cent.

The ICICI, which is one of the leading institutions which has to do the underwriting, in nine years up to 1963, according to its latest official report, underwrote 48 per cent of new issues, but in 1964, it had to underwrite 92 per cent of the capital underwritten during the last year. No wonder the Chairman of the ICICI was driven to say that 'underwriters have now become undertakers.'

It is a good joke, but it is a tragic one for this country and for this House. Even with this situation, the Finance Minister now comes forward and deals a body-blow to those who produce wealth in this country, because that is what this budget is.

We find that once every other day a pathetic attempt is being made by the officials of the Finance Ministry to try to explain this away by saying: 'Please do not think that we are hurting you. See the beauty

of the budget here, and see the beauty of the budget there'.

Let me tell those people that it is cutting no ice at all, because the facts are that this budget is a bad budget in so far as corporate enterprise is concerned. Every single evil of the last budget which we from these Benches attacked last year is still there in this budget—such as the Surtax, the Dividend tax, the Capital Gains tax on Bonus Shares and so on, and now there has been added a reduction in the development rebate over a large range of commodities while it has been increased on others. Therefore, the total taxation on those who produce remains excessive.

Tax Ceiling Fraud

The Finance Minister has very graciously prescribed a ceiling of 70 per cent on corporate taxation. But if you examine it, you find that certain categories of companies are excluded from this ceiling, and when you examine it further you find that only those who are not paying more than 70 per cent have been exempted from paying more than 70 per cent!

I would like the Finance Minister to tell the House in his reply how many corporations to his knowledge are going to benefit by this ceiling, whether it is five or six or three or ten or else how many. I do not believe that it can exceed a dozen in the whole country. And if he gives us the number, then we would be entitled to ask him — and that is his dilemma—"Are you trying to favour these companies or are you trying to fool the country by saying 'I am very generously giving a ceiling.'"

This provision of a ceiling as it is at present designed is either a joke or a fraud. There is no other way to describe it. A reasonable ceiling would be 50 per cent on corporate profits. That is the ceiling in most advanced countries of the world where corporations can bear taxation better than we can.

Therefore, with high rates of interest on one side and dearer money and low profit on the other, you are turning entrepreneurs into rentiers. Instead of encouraging risk, you are teaching people to play safe. If I can get 7 or 8 or 9 per cent interest, why should I risk my capital in a venture? You are discouraging risk capital. You are encouraging loan capital. You are turning entrepreneurs whom the country needs into coupon clippers and rentiers, who are not as useful.

There is one exception, one possible exception, to this indictment I am making. That is the Credit schemes about which reference is made in his speech though not in the Finance Bill. I am prepared to concede to the hon. Finance Minister that here he may have something big up his sleeve. I do not know his mind, but I am prepared to concede that he is taking in his hands an instrument which can do a lot of good. But there are certain things that need to be put right.

First of all, why should tax credit be given only to those who need relief to repay loans to financial institutions? Is borrowing a virtue? Is it a crime that a a company has not borrowed from a bank or other institution? So long *as it increases production,* why should borrowing be made a virtue for which relief has to be given? Therefore, if these tax credit schemes are to be of any value at all, let the limitation that it can only be used for repaying loans to these institutions be removed.

Shri A. P. Jain: It is also there.

Shri M. R. Masani: No. I am sorry. I would request Shri Jain to look at the Finance Bill as at present drafted. You can only get relief of that kind provided you want to repay loans borrowed from institutions.

A. P. Jain: Look at the speech.

M. R. Masani: I would like to go by the Bill. I do not wish to go by what he has said in his speech, because I find contradictions between the Finance Minister's professions and his practice.

Now, the picture could be changed if, as I said, this limitation on repaying loans was removed and if the tax credits were given in a fair and non-discriminatory manner. There is economic virtue in this, but there is also political danger.

Let me tell the Lok Sabha that this scheme, while it may be a good one economically is a bad one politically. Mr. Speaker, I invite your attention to the fact that this Lok Sabha alone has the right to levy taxation. In the present Finance Bill, the executive of the day is seeking to take power to levy taxation and to give relief, without consulting this House, by administrative decree; and it seeks to keep within its hands the power to levy taxation on one, two or three industries, part of industries, parts of one industry or parts of one enterprise.

Dangerous Innovation

This is a most dangerous innovation my hon. friend is trying to introduce. The hon. Finance Minister is a good democrat and a good parliamentarian. I have always recognised that he is against totalitarian dictatorship and stands for parliamentary democracy. I would appeal to him not to set a precedent that may be misused when he is not there and somebody else may be there. After all, these precedents last beyond the lives of all of us.

Therefore, I would make a plea to him in all sincerity. He has got two months between now and the Finance Bill coming before us in the first week of May. There is ample time to frame your schemes. Please frame your schemes and bring them before this house in the first days of May either as new clauses to the Finance Bill or as new schedules to be attached to that Bill. But let this House have an opportunity to consider your schemes. If they are good, we shall praise you for them.

In any case, I feel that one of the prerogatives of the Lok Sabha is in danger of being invaded in this manner. I would request you, Sir, to consider this matter closely and give your ruling later when this may be brought up in the form of a point of order at the time the Finance Bill is taken up for consideration.

Mr. K. D. Malaviya: The only wise words you have used.

Mr. M. R. Masani: I come to the last part of my speech. If the budget has been described in the press as "misconceived, weak and unimaginative at best", the question will be asked, has not this Government got the intelligence to see that this is bad for the country? The Finance Minister certainly has intelligence, understanding and knowledge. Then why has he brought forward this budget? What comes in the way of his bringing forward the kind of budget the country needs?

There are two answers. The first is contained in the first paragraph of the Finance Minister's own speech. He has said on page 1:

"It is now left to us, to my leader, the Prime Minister, to his colleagues in the Cabinet, as indeed to hon. Members and to everyone else in the country, to carry forward the legacy of Jawaharlal Nehru according to our lights. And I can only hope that the Budget I am about to present will help to fulfil this obligation in some small measure."

Let me say quite frankly that this is a legacy left to those gentlemen who sit on the other side; we have no part in it, we do not want to have any part in it. That legacy is a disastrous legacy.

Some hon. Members: No, no.

Mr. M. R. Masani: I have a right to have my say. As my colleague, Shri Dandeker, described it last year, it is a horrible legacy.

Mr. Sham Lal Saraf: In what respect?

Mr. M. R. Masani: I have already shown in what respect, and I shall prove it further. This legacy is what has brought the country to the present pass.

The Finance Minister has every right to hug that legacy to his bosom. We on this side, the party which I represent, came into existence precisely because in 1959 we saw where this country was being taken — to drift, chaos and bankruptcy. Therefore, we want no part of that legacy, and we are sure that the Indian people will discard that legacy as fast as they can.

Socialists or Communists?

The answer, therefore, is that the ghost of the past is haunting the Finance Minister. He and his colleagues are not free people; they are prisoners of their past and they are unable, in spite of their intelligence, to free themselves from that legacy.

The second cause or inhibition is the Plan, which is referred to by the Finance Minister on p. 21 of Part B of his speech. The Fourth Plan is "the nigger in the woodpile." It seems that the National Planning Commission, on whose advice the Plan has been devised, have learnt nothing and forgotten nothing, like the old Bourbons. This Plan will bring about organised chaos in this country.

Who are these planners? Let me say quite frankly that they are a group of bookish intellectuals, completely divorced from economic realities, none of whom has any experience in even producing a thousand rupees of goods and services in this country.

Let me say, again quite frankly, that many of them are incapable of producing anything except words. They say they are socialists. Let me say that they are nowhere near what has quite rightly been described as Twentieth Century Socialism in West Germany or Britain.

Several of them are veteran communist fellow travellers with a guilty record of fellow travelling. Among them are Prof. Mahalanobis and Dr. V. K. R. V. Rao. If anyone wants proof of their communist fellow-travelling, their blind admiration for the

Chinese communist regime, I would refer them to the *History of the Communist Party* published in 1954, which I had occasion to write. (p. 186, 190).

Mr. Khadilkar: Your assessment.

Mr. M. R. Masani: There you will find a factual catalogue of their pro-communist activities. I regret that my good friend, Shri Asoka Mehta, who till the other day I regarded as a democratic socialist, is also going that way. He is Vice-Chairman of the Planning Commission and he is slipping into the same groove as the others.

Last year, I had occasion to quote his statement in this house on 17th April. This was a statement he made in Calcutta and I quoted from the newspaper report. He was reported to have said:

"The present generation, which was a bridge between the stagnant present and a bright future, would get 'trampled upon in the process'. But that could not be helped."

Shri Asoka Mehta had then accepted Marxist determinism to decide that history has given him the privilege to bring into existence Plans which would trample on the present generation.

Soviet Satellite?

Now, this year, he has excelled himself. On 13th March, a few days back, he went all the way to Ludhiana, to attend a meeting of a notorious communist front, the Indo-Soviet Cultural Society, at which the Soviet Charge d'Affaires aptly presented a bust of Lenin to those who were present! At that time, Shri Asoka Mehta made a speech to the communist fellow travellers gathered in Ludhiana. I am quoting from the press report:

"He stressed the need for closer co-operation in economic planning between India and the Soviet Union . . . India, he said, had now reached a stage in its economy where it was essential to have collaboration in the planning process with the Soviet Union."

To make it quite clear he was not advocating economic co-operation between them, that he was preaching planning co-operation, he goes on to say:

"It was not enough to continue economic co-operation between the two countries. It must be seen to what extent our plans were drawn with Soviet co-operation."

I want to know whether even the gentlemen sitting opposite are prepared to see this country become a Soviet economic satellite. It is a most outrageous suggestion for anyone who holds office in this country to make.

There is an organisation called the COMECON, an economic combination of communist countries. There, they have endorsed a chapter on the "Fundamental Principles of the International Socialist Division of Labour," which suggests that planning should be by co-operation between the communist countries.

It may interest the House and Shri Asoka Mehta to know that there were two communist countries which refused to enter into planning co-operation with the Soviet Union. One was, of course, communist China, but the other was little Rumania. Little Rumania said: "We do not want planning co-operation with you. You will swallow us up. You make your plans, we will make ours. We do not want to meet you on that plane." My good friend is evidently now prepared to fall to levels which the Communists Government of Rumania is not prepared to accept in its national interest!

Why No Contradiction?

I must admit that I have quoted from the *Patriot*, the *Patriot* of 14th March. I concede that the *Patriot* is not the most veracious of newspapers in this Capital. We all know that. Dr. Samuel Johnson said that patriotism was the last refuge of the scoundrel. It is the only paper which has published it. Nobody else thought this gem of wisdom worth relating.

For eight days this remark has gone uncontradicted by the Vice-Chairman of the Planning Commission. I shall be very glad if, even now, he will come forward to repudiate this remark put in his mouth.

Mrs. Yashoda Reddy: He did not make the remark.

Mr. M. R. Masani: I am now drawing attention very formally to the fact that these words have been put in his mouth. It is for him to repudiate it, or let every man in this country realise what he has said and its implications.

Anyway, what I am saying is this. These gentlemen of the Planning Commission have been responsible for policies that have been a demonstratable failure. They are out of touch with realities. They do not understand the processes of production. If we are going to function along the path of planning, let us at least throw this intellectual junk out of the Planning Commission, and put there people who know what they are talking about. We cannot solve today's problems with the remedies of day before yesterday.

It has been said that there is no alternative to heavy taxation. I wish I had the time to go into details to show that there is an alternative. I will very briefly indicate it. I say that you could have cut down the rates of direct and indirect taxation by fifty per cent, and got away with it. How? First of all, a cut of 50 per cent does not mean a loss of revenue of 50 per cent. Hon. Members understand that. There is the law of increasing returns. It was seen in America when the Kennedy tax cuts were made.

The estimate I have got is that if you had made a 50 per cent cut in direct and indirect taxes, your taxation revenue would have dropped by 30 per cent only. That means that you would have lost revenue

to the extent of Rs. 550 crores; your tax revenues would have dropped from Rs. 1,830 to Rs. 1,280 crores.

Can this be done? I say it can and should be done. How can it be done? It can be done by cutting down civil expenditure. I am leaving Defence out. It can be done if you reduce your revenue expenditure by 20 per cent and your capital outlay by only 10 per cent. This means pruning, postponing certain wasteful projects in our plans and cutting down unproductive civil expenditure.

Let me give the example of Mr. Khrushchev. In 1958, Mr. Khrushchev found that his Sixth Plan was not achieving its targets. He had the courage to say: "Let us make this a Seven Year Plan. No more investment for two more years. Let us utilise the investment that we have made before we make any more investment." He made the Five Year Plan into a Seven Year Plan.

I advise the Government to turn their third five year plan into a seven year plan. If you do that, you can cut your rates of taxation by half right away. You would have a saving in expenditure of Rs. 640 crores, against a loss of revenue of Rs. 550 crores. So, instead of a Rs. 10 crores surplus budget, you could have a Rs. 90 crores surplus budget. But that is not being done because, as I said, of the compulsions of the past.

These prisoners of the past, since they will not move, have to be liberated.

Mr. Dinesh Singh: No one can forget the past.

Mr. M. R. Masani: We cannot liberate them, you Sir, cannot liberate them, but the people of India can liberate them by liberating them from office. They can do so within two years.

Mr. Sham Lal Saraf: Pious wish.

Mr. M. R. Masani: We on these benches, therefore, will dedicate ourselves to the task of helping the people of India to achieve that laudable objective.

N. Dandeker

THIS, Sir, is a very difficult budget. It has been very cleverly drawn up and skilfully presented. At the same time, there are tricky pieces, particularly the central claim of the Finance Minister that the deficit for the year 1964-65 was substantially lower and that at the current level of taxation there is a surplus in the budget for 1965-66 and that it involves no further deficit financing.

As I studied the budget I began to feel the need for some standards of reference on the basis of which one could come to some fairly clear conclusions in assessing the nature and impact of the budget.

Mr. Masani chose to formulate three standards of reference by which to judge the effect of the budget. They are: the effect of the budget on prices; the effect of the budget on the balance of payments and on foreign exchange generally; and the effect of the budget on growth prospects of the economy. This formulation, however, encountered a considerable amount of opposition, mainly on ideological grounds; and once again we got lost in a number of "isms", some enquiring whether there was any socialism in the budget, others asserting that there was a good deal of capitalism in it, and I myself saying to myself that I am not interested in any "isms". What I want to know is whether I can find some guide lines, some standards of reference.

For myself, I came to the conclusion that the best standpoint for judging this budget would be the impact it has on the ordinarily intelligent citizen of the country. I use the term "ordinarily intelligent citizen" instead of the very fashionable expression

"common man" because the intelligent citizen is that uncommon man who has got some common sense which is so uncommon.

I propose, Sir, in considering this budget, to ask and attempt to answer three questions. Firstly, what has the ordinary man gone through over the last 15 years? Secondly, what were his expectations of this budget in the light of the financial and economic crisis of which we have heard so much repeatedly during the last six months in numerous pronouncements from the Finance Minister, in the President's Address and in many other contexts? What were the expectations of the ordinary man in the light of those statements as regards the budget formulations of the Finance Minister? Thirdly, Sir, how does the budget stand up to these expectations?

Ordinary Man's Budget

Let me begin by clearing any kind of misconception that might exist as to the sort of a person, I mean by the "ordinary man", whose annual income is about Rs. 1,500 or less. The statistically average person in this country is one with a wife and about four dependents—may be his children or may be some other dependents—making a family of six. His average income statistically, the average share of the national income of such an ordinary man is, on my estimate for the year 1964-65 at the current prices, about Rs 360 per annum. Since that is the "per capita" figure, the "per family" figure is of the order of Rs. 2,160 per annum. It is not a very munificent sum; it is a very small share indeed of the national income.

I am, nevertheless, going to try and gear my considerations of the budget to persons of that category and also persons up to Rs. 5,000 or Rs. 10,000 income per family. They constitute the vast majority of the people of this country; and it is right and proper that the consideration of the budget should be geared to their hopes, expectations and experience.

Secondly, Sir, I am satisfied that what emerges on considering this budget from the standpoint of these people is equally applicable to those in higher income brackets; that is, I do not for a moment believe there is any real conflict of interests.

This ordinary man with a family of six, with his share of the national income of 1964-65 estimated at Rs. 2,160 per annum, is at current prices and in money terms something like 40 per cent better off than in the year 1949-50 at the current prices then. But I find that on moderating this for the rise in the cost of living—I emphasise the rise in the cost of living and not merely the general average rise in wholesale prices—over the last 15 years, there has been a serious erosion of income of the ordinary man and of most persons in this country by way of indirect taxation mounting upon indirect taxation, at the Central level, at the State level, at the municipal level, at all levels. I find also an enormous erosion of his income in terms of cost of living, that is, by reference to the consumer price index.

Taking the base year 1949 and relating it to the average for the year 1964, I find that although in money terms the average family income is 40 per cent higher, in actual real terms his income is something like 10 per cent lower. This is the fact of experience of the ordinary people of this country, namely, that while their money incomes have risen somewhat, their real incomes, in consequence of the two erosions that I have referred to, have diminished considerably.

On these facts, what did the ordinary citizen expect of this budget? I suggest that he expected three things; and it will be with reference to those three

things that I intend to examine the budget that the Finance Minister has presented.

Firstly, I submit with complete conviction that the ordinary man expected there would be no further erosion of his income by any further load of indirect taxation. Secondly, the ordinary man expected that there should be no further erosion of his income by rising prices and by rise in the cost of living. Thirdly, he was also hopeful enough that if possible his real income might also somewhat increase.

Income Eroded

Let me consider the first requirement, namely, that there should be no further erosion of income by any further load of indirect taxation. I have only to look at the budget to come to the conclusion that there is going to be still further considerable erosion of income: in the first place by the regulatory duties imposed on the 17th February, ten days before the budget; and in the second place, by the whole range of additional import duties, additional excise duties, additional countervailing duties etc. mitigated to some extent by some reduction in the excise duties on certain articles.

In the budget, which as I said is somewhat cleverly but also trickily drawn up, the effect of all this was stated to be an increase in revenue of only Rs. 1.5 crores or some such figure. But that is only because the load imposed by the regulatory duty on the 17th February has not been taken into account. If one takes into account the total net effect of this budget there is a substantial erosion of the income of the ordinary family.

At this stage, Sir, I would like to comment upon a certain fallacy that is continually exploited. It is maintained that it is not always the case that indirect taxation goes down to ground level and constitutes a burden on the consumer.

Even if there is any truth in that proposition in an ordinarily flourishing economy with free competition and ample production, the fact is that in an economy of all-round shortages, where the nature of the demand is *highly inelastic,* the consequences of imposing any indirect taxation whether by way of import duty, excise duty, countervailing duty, sales tax or petrol tax—the impact eventually goes down pretty quickly on the shoulders of the consumer. So, on examining the budget with reference to the first test of the ordinary man, namely, whether his income is going to be further eroded by further burdens of indirect taxation, the inescapable conclusion is that there is going to be serious erosion.

There is another current fallacy to which I may briefly refer. There is continuous talk of mopping up surplus purchasing power and restricting consumption of available resources. To justify the burden of increased indirect taxation, the "mopping up" of surplus purchasing capacity is brought in. To me this sounds like the example of a leaking room, where a lot of water has collected in one particular corner and a person with a rag mops up that water from that corner and squeezes the water out of the rag in another corner. If the purchasing power that is supposedly mopped up is pumped back again into the economy, there is no real mopping up of purchasing power whatsoever.

Too Many Sacrifices

This business of mopping up surplus purchasing power and restricting consumption only sickens me, this continual appeal for the last 15 years to the ordinary man to tighten his belt, to restrain himself from consumption. He has done this so often that the buckle of his belt is coming out at the back. He is no longer in a position to tighten his belt any further.

The second aspect of this matter, the ordinary

man's expectation that there should be no further erosion of his income by rising prices and, in particular, rise in consumer cost of living, involves an examination of the budget from three specific aspects. First, as regards monetary inflation, has there been a complete stoppage of deficit financing, whether open or concealed or indirect?

Secondly, has there been any arrest in so far as mounting governmental expenditure is concerned? That is to say, will there be any arrest of the "demand-pull" type of inflation, represented by the vast scale of public expenditure of the Central Government, State Governments, municipal and local bodies?

Thirdly, will there be any arrest of the "cost-push" type of inflation?

Taking a look at the budget in the light of these three aspects of the ordinary man's demand concerning the rising cost of living, he will merely say "for heaven's sake there should be no further erosion of my income any longer by rising prices". But before I examine these details, I would like to remind the Finance Minister that he carries a heavy burden of broken promises in this respect, made solemnly over the past six months. In his statement when announcing the first increase in bank rate in September last he said—I am quoting his words—

> *"A policy of utmost economy in governmental expenditure and a drastic pruning down of non-essential expenditure is called for urgently to reduce the strain of excess demand on the economy."*

That is what he has said: "to reduce the strain of excess demand". Then he says:

> *"A few weeks ago I had announced ..."*

It has remained at the stage of announcement.

> *"A few weeks ago I had announced that the Central Government had decided to effect economies in expenditure of over Rs. 70 crores. I would*

like to reiterate, however, that this figure must be regarded as the absolute minimum."

This is one promise. Another promise—I will not read it because it is too long, though extremely well put relating to deficit financing—is contained in the President's Address; and a further promise was contained also in the Finance Minister's own statement on the 17th of February 1965 in this House when announcing the second rise in the bank rate.

Again and again promises were made that savings were needed and would be stimulated; that there was need to stimulate investment; that every effort was necessary to cut down deficit financing; and every effort must be made to cut down expenditure on the scales which had become customary.

I see no evidence of the fulfilment of these promises in the budget that has been presented. Let me look at the first aspect, namely, the question about monetary inflation resulting from deficit financing. I said this budget was tricky. On this question of deficit financing, it really is full of tricks. In the 1964-65 Original Estimates, the deficit was indicated at the substantial figure of Rs. 96 crores. I find, on an examination of that budget, that the deficit really intended was only Rs. 11 crores, the difference representing intended repayment of PL-480 counterpart fund borrowings to the extent of Rs. 85 crores.

In other words, actually even the budget of last year was not a budget with a deficit of Rs. 96 crores. It was only a deficit budget of 11 crores. In the light of that, let me look at the Revised Estimates for 1964-65. The true budget deficit for that year is not Rs. 80 crores, as claimed by the Finance Minister, but is actually Rs. 91 crores, the difference being represented by borrowings (instead of repayments) from PL-480 counterpart funds to the extent of Rs. 11 crores.

In other words, the true deficit financing of 1964-

65 budget has gone up from a true deficit of Rs. 11 crores (Estimated) to a true deficit of Rs. 91 crores (Revised Estimate). To this must be added the increase of some Rs. 84 crores—I have not got the precise figure—in the Reserve Bank's holdings of Government loans, diminished by the extent to which this represents the funding of Treasury Bills.

Now, Sir, let us have a look, from the same standpoint, at the 1965-66 budget. It has been presented, with eclat, as a budget which, at current level of revenue taxation, involves a surplus of Rs. 10 crores. Actually, that current level of revenue taxation includes the regulatory duty of 10 per cent imposed only 10 days earlier; so that, whatever be the estimate of that particular item,—one does not know how much of that is included in the current year's budget as revenue at current rates of taxation,—but assuming it is Rs. 50 crores—not even on the face of it was it a budget of Rs. 10 crores surplus. It was in fact a budget of Rs. 40 crores deficit.

But even that is comparatively a minor point. The real point is this, that this budget, ostensibly a surplus budget of Rs. 10 crores, is in reality a deficit budget of Rs. 181 crores, the difference being represented by Rs. 191 crores borrowings from PL-480 counterpart funds.

I will pause here for a moment to say a word or two about this PL-480 racket. I call it a racket because the Government have now—I emphasise these words—the Government have now acquired a vested interest in importing foodgrains under PL-480. They can use the damned thing (pardon my language) twice over; they use it once as foodgrains and then use it again as money. I know there has been a good deal of controversy on this subject of PL-480 funds, namely, whether re-injecting money into the economy from the PL-480 counterpart funds held by the Reserve Bank of India is inflationary. I personally have no doubt whatever that it is so, notwithstanding the laboured defence to the contrary that borrowing from PL-480 is not inflationary.

It has been urged that it may be deficit financing of a kind, but is not inflationary; that has been the laboured case attempted in an unconvincing manner by the Reserve Bank of India. But one has only to study the problem carefully to realise that it is an extremely perverted argument. In fact there can be no doubt whatever that the net drawals of PL-480 counterpart funds out of the Reserve Bank of India is deficit financing; I have equally no doubt that it is deficit financing of an inflationary nature.

Meanwhile, the PL 480 aid continues to be used as a *Kamadhenu* by the Government of India: once for the purpose of importing foodgrains and a second time for using it as money. This is perhaps the most dangerous expedient for the national economy. It is perhaps for that very reason that over the last five or seven years, agriculture has been neglected, because they could use this thing twice over.

This is perhaps the very reason why not only have the PL-480 imports continued but steadily increased, because it furnishes a very huge base for concealed deficit financing to the Finance Minister. I submit that it is a very, very dangerous thing. It poisons the system. Like all poisons, if taken in therapeutic doses, it is a tonic; but if taken in elephantine doses, it is absolutely fatal.

Let me turn now to the second part of this problem of arresting inflation, namely, "Demand Pull Inflation". I have read out earlier an extract from the Finance Minister's statement made in September last and I do not have to really add much to what the Finance Minister himself then stated in the most lucid and succinct terminology:

"*. . . A policy of utmost economy in governmental expenditure and a drastic pruning down of non-essential expenditure . . .*"

—the thing has been very pithily stated; it could not

be improved upon; I might try to edit it, but I can't improve it—

"*. . . is called for urgently to reduce the strain of excess demand on the economy.*"

The third problem of rising prices is a simple one, namely, that there should be no further erosion of income by rise in prices resulting from cost/price spiral inflation known technically as the "Cost Push Inflation"; and so I shall not dwell on it.

I now turn to the third hope of the common man, the ordinary intelligent citizen, namely, that he hoped the budget would be such as would not only not erode his income in the ways I have mentioned but, if possible, would increase his real income. Translated again into technical terms this should involve the consideration of various matters. For instance, what sort of measures have been devised to revive the capital market?

Without a lively capital market, without any investment market and so on, there cannot be industrial progress. I know that in the other House, on Monday, the Finance Minister was somewhat bitter about the stock exchanges and he said that if necessary he could buy up the lot for Rs. 15 crores. But I would like to read out a little bit of what he himself said in a sober moment, if I may say so, on 24th December 1964 when he announced the need for certain policy changes and offered certain concessions. He said this at that time:

"*Nevertheless, it is generally felt—and this feeling is to a large extent true—that the investment climate is not there, that is, there is something lacking in our present arrangements for stimulating a greater flow of savings into industrial investment. While these arrangements are fairly adequate in regard to loan finance which along with internal resources of industry constitute a very important element in industrial investment, the lacuna in respect of individual investment in equities is there.*

But in a community in which we seek to extend the area of participation by the people in industrial expansion, there is need for greater stimulation of investment in equities. I feel that our present arrangements in this regard are not adequate. As the House is aware the State of the capital market for equity issues, particularly those of new issues, is far from encouraging. A large proportion of equity issues has had to be taken up by underwriters in the recent past."

Impetus to Savings

I do not have to advance a justification for the proposition that if real incomes are to increase, it is necessary, in the way we are organised today—I am not saying what might happen in a communist society or in an all-out socialist society, but I am saying, in the way we are organised today—it is necessary to accept that one of the urgent things required today is to revive the capital market.

The second urgent need is to take such measures as would stimulate the volume and flow of savings and investment, naturally from those sections of the community which are capable of making savings and investment.

The third thing would be measures designed to have a direct stimulative effect on production. And finally, a decisively improved performance in the public sector. I shall briefly deal with these in what follows.

The measures which the Finance Minister has actually announced for the purpose of revival of the capital market are, I submit, pitifully inadequate. It is not a problem of toning up somebody who is somewhat unwell by giving him a little tonic. It is a case of not just titivating a patient; but it is a matter of giving him some remedy in the serious state in which he is, namely a collapsing state.

The capital market in general, and the stock

exchanges in particular, have been in a state of virtual collapse for a long time; and whereas some of the things which the Finance Minister has done would, in ordinary times, perhaps, be adequate stimulants and adequate tonics, those are quite inadequate now.

I have here, from this standpoint, a few things to suggest that I would like the Finance Minister to consider. I believe that their revenue effect will be small; but I believe also that they will have a considerable uplifting effect upon the capital market and upon the corporate sector generally.

The limit of 70 per cent on tax on companies should be the limit, not of the average rate of tax, but of the marginal aggregate rate of tax, that is to say, not the average rate of total tax on the total income, but the actual on the last slab of income that suffers the highest level of taxation.

Then, there is the question of the allowance for sur-tax on capital employed. This is somewhat important point, and I would dilate on it a little bit. Whatever may have been the position in regard to the investment market a year ago, the fact is that today, on account of successive bank rate changes, one made in September and the other early in February, the entire interest structure, the entire money market structure and the capital market structure in terms of returns, has now radically changed.

Taking the bank rate of 6 per cent as the basic rate, the deposit rates of banks have gone up to 7 per cent, never heard of in this country before. As regards debenture rates, it will plainly be impossible for anybody to float debentures for the best of companies at below 8 to 8½ per cent. Banks' lending rates have gone up to 9 to 10 per cent.

The preference capital rate, I am perfectly certain, will not stop at anything less than 10 to 10½ per cent. It necessarily follows that one has, in taxation structures where interest rates are relevant, to do some rethinking; and I suggest that the first point of rethinking consequent upon this is in the sur-tax structure.

The Finance Minister evolved, in my judgment, a sensible sur-tax structure last year. Though many people did not agree with it, I, for my part, thought that it was a reasonable structure. But that structure requires just one little change now, on account of the change in the interest structure, namely, that as regards the yield on equity capital and reserves plus borrowed money which he has allowed there to be free of sur-tax at 10 per cent should now be raised to 12 per cent.

Dividend Tax

I now turn to the dividend tax. I am surprised that the Finance Minister did not draw the conclusion, the right conclusion, from his very statement that the imposition of the dividend tax had not reduced anywhere the rate of dividend paid compared with the dividends paid in the preceding years. He ought to realise now that it is, therefore, a tax which companies will simply bear out of the profits which they would otherwise have ploughed back; because there is a return which they cannot change, because the market has got used to it, and there are various circumstances governing the rates of dividends which make it impossible for companies, merely because of the dividend tax, to reduce those dividends.

I suggest that the proper type of dividend tax would be the one that used to exist a few years ago, —I think, up to 1959—tax on dividends paid in excess of a certain base dividend. There could be various ways of approaching what the base should be; I do not wish at this stage to enter into the technicalities of what would be the proper rate of base dividend, —beyond which it should be regarded as excess dividend, and upon which excess-dividend-tax should be made payable.

I turn now to the vexed question of tax on bonus issue by companies. Frankly, while I appreciated last year the Finance Minister's imposition of a capital gains tax on the recipients of bonus shares, I have yet not been able to find any logic whatsoever in the imposition of tax on the issue of bonus shares by the companies. To some extent, this has been admitted by the Finance Minister himself in the present budget by the provision that the recipient of issues of bonus shares when taxed to capital gains tax will get a credit of 10 per cent of the value of the shares against the tax paid by the companies. I have no doubt all this clutter ought to go out. I am entirely of the view that the recipient of a bonus issue should properly be taxed on his capital gains. I am equally firmly of the opinion that to tax the companies on the issue of bonus shares is not proper, because they issue nothing; there is no asset that they part with of any kind whatsoever; they just issue bits of additional paper to their existing shareholders, called bonus shares.

I suggest that instead of this complicated structure of taxing the companies and taxing the individual and giving him credit for the tax paid by the companies, let us just have a tax to be paid by the recipients of bonus shares. In case there is any question that the individuals might attempt to get away by seeking an assessment on the average value basis, there are well-known principles of other assumptions, namely, that anyone selling shares must be deemed to be selling the shares that he got by way of bonus shares *before* he sells any shares that he had purchased or acquired otherwise.

In other words, that the thing be dealt with on what is technically known as the LIFO or the 'last in, first out' basis for purposes of taxation. Thus, if this taxation of bonus shares were confined only to the recipients of the bonus issues, in respect of the capital gains *actually* made by them when they sell the wretched thing and not merely the notional gain which they are supposed to have made when they got the bonus share, then I think that much will have been done.

Wealth Tax Exemption

I shall mention just one more point in connection with the capital market. Again, this is not going to cost anything by way of revenue. I suggest that there should be exemption from wealth tax for five years on *all* new issues, something which I pressed for in the last session when the Wealth Tax (Amendment) Bill was under discussion, and which now has been partly conceded. I suggest that it should apply to all new issues, irrespective of whether they are new issues of new companies or new issues of old companies; there is no reason to distinguish the one from the other, and it should apply to both.

Now, Sir, I turn to the question of encouraging the flow and volume of savings and investment. Here I think the Finance Minister has done a fairly good job at the level of personal taxation. I have only a few minor things here on which I shall not waste the time of the House, and in regard to which I think that it will be adequate if I wrote to the Finance Minister.

I would agree entirely that a considerable job has been done by him, at any rate insofar as savings and investment come from the class of persons affected by these concessions. I think he has done a good bit, and I do not have very much to say there except on one matter, namely, annuity deposits. This is really a terrible thing. One supposed that these annuity deposits were really voluntary and therefore, a substitute for the compulsory deposits. But, in fact, they are nearly as compulsory or as "voluntary" as the compulsory deposits. For, what happens is this: if you make an annuity deposit, you get a tax concession in your taxation; but if you do not, you are not merely deprived of the concession, which is fair, but you are also further penalised, which is quite unfair.

Now, this involves the utmost hardship, both because of this particular feature as well as because of the fact that it works particularly hard against people over the age of 45. I think the Finance Minister will well understand the technical reasons. You have to compare the annuity deposit with the life expectation. The life expectation in India perhaps is 45. If people retiring at 55 to 60 are to start collecting the annuity refunds thereafter in respect of annuity payments made from the age of 46 or 47 onwards, life is going to be pretty miserable for them; or if the latter are not alive, for their children.

I think this annuity deposit scheme has not much merit in it; and in any event, my suggestion about the scheme, which is deserving of serious consideration by the Finance Minister, is that in regard to people who are 45 years old and over, the scheme should be available to them purely voluntarily and without penalties.

If they do not wish to avail of it, if they choose not to make the annuity deposit, there should please be no penal taxation; their income should be taxed as it would have been without there being an annuity deposit scheme.

I make this particular appeal on behalf of a large number of people affected at salary levels between Rs. 15,000/- and Rs. 35-40,000/- per annum; that is to say between Rs. 1,500/- and Rs. 2,500/- or Rs. 3,000 a month.

These people, particularly if they are past 45 or 48 or 50, when they begin to think of their widows having to collect annuities from treasuries, involving indentification, succession certificates, magistrate's certificates, birth certificates, life certificates, all kinds of things—I really shudder to think of their lot.

I would ask the Finance Minister repeatedly to see that this annuity scheme, in respect of people over 45, should be entirely and truly voluntary. If they choose to contribute, let them; if they do not, there should be no penal taxation.

I now turn to the question of corporate taxation which, I believe Sir, is now acting as a red rag to the Finance Minister. In a sense, I agree with him that the corporate sector in India, in any country, is a means to an end. We are all here as a means to an end. The public sector is also a means to an end; the private sector is a means to an end; etc. etc. But to threaten to wind up the corporate sector merely because it asks for certain concessions and because it will not bend to the Finance Minister's will, and so on—that is hardly the kind of line for a responsible Minister to take.

I suggest it is not so much a question here of stimulating the flow of savings and investment or anything of that kind. In relation to the corporate sector, what is required, is, again, somewhat of a streamlining of the proposals he himself made.

First, as regards the ceiling rate of 70 per cent tax on companies, as I have already suggested this would be meaningful only if applied to the marginal rate of tax suffered by companies instead of to the average rate. Secondly, it should apply to all companies including those in which the public are not substantially interested.

I turn to the question of development rebate. There is a little trick here, of 'robbing Peter to pay Paul'. Today, all companies receive development rebate in respect of their capital expenditure on plant and machinery at 20 per cent flat. Now, what is proposed to be done is that in some cases it will be 25 per cent, while in others it will be 15 per cent.

I have no objection to selective *increases* in development rebate beyond 20 per cent in relation to companies engaged in what Government might

regard as essential industries. But it is not merely a question of the growth of certain selected industries with which we are concerned; we are concerned with general industrial growth. I therefore think there is no reason whatsoever for reducing the basic 20 per cent rate allowed to all companies; otherwise, as I said, it will be merely 'robbing Peter to pay Paul'.

Now remains the very important question of taxation of inter-corporate dividends. I look at this problem not merely as a question of reducing the heavy incidence of inter-corporate taxation, but also as a problem of the growth and development of proper management institutions in this country. The present form of management has been largely one of management by managing agents.

Right or wrong, I am not now debating the Government's decision that the managing agency system ought gradually to go. But the question I ask is: what are you putting in its place, where the managing agencies did the business of managing a number of companies?

Development Inhibited

Recent tendencies in management development in India are very happy; a good deal of growth of direct managed companies, considerable development of managerial cadres and a good deal of growth of one company fostering another company's growth and so on. But I know from my personal experience that one of the things that inhibits the development of proper management structure in this country and the proper utilisation of the limited managerial talent available in this field at present is this inter-corporate taxation.

I for my part, would suggest very strongly to the Finance Minister that there should, in fact, be no taxation of inter-corporate dividends at all, with one exception. That exception would be where foreign companies have invested in an Indian company; the dividend received by the foreign company ought, in my judgment, to be taxed, just in the same way as a shareholder in India ultimately receiving dividend *from a company is taxed as* a shareholder quite apart from the tax which the company pays.

But the clutter that is introduced into the management structure, the difficulties that lie in the way of properly bringing up the new forms of management, the difficulties which are encountered in the maximum development and utilisation of the small number of top managerial personnel that exists can only be overcome if we were gradually to develop in this country what is known as the holding company type of structure, whereby there is a good deal of centralised advice and guidance, of direction and control and financing, quite a lot of things done at the holding company level, while at the same time leaving considerable latitude, autonomy and independence *of management* to the subordinate companies.

I will now deal very briefly with the Finance Ministers proposals in connection with stimulating and encouraging production. I think he was quite right when he said in the other House the other day that one has to wait and see whether these things he has evolved—the 15 per cent export credit certificates, 25 per cent excise duty credit certificates and various other devices of that kind in relation to additional export done and additional production achieved—are adequate in themselves.

I think that is the right way of approach, and I think it is perfectly logical. What I have got to say in this connection are therefore only two or three minor changes in the scheme he has evolved.

First of all, these tax credit certificates ought not merely to be available—I gather this is an error in drafting, but I just make the point—for payment of indebtedness or debentures. They ought to be

available for capital expenditure, for renewal, replacement, rehabilitation or expansion. The tax credit certificate in respect of excise duty ought not to be merely 25 per cent of the value of the additional excise duty calculated in some obscure fashion; it should be a specific credit against the excise duty payable on the additional production and tax credit should be given to the extent of 25 per cent of the excise duty otherwise payable on the additional production.

Thirdly, in regard to the tax credit certificates for excise duty,—and I think also in relation to exports —it is mentioned that it will be *up to* a certain percentage in relation to such industries as *may be* notified from time to time.

If the Finance Minister wants the economy of this country to expand in anticipation of the advantages of this concession, I suggest there ought to be no shroud of uncertainty about all these important details. I am not looking at it merely from the constitutional point that Mr. M. R. Masani urged; I am concerned also with the technical point that these concessions, in my judgment, now appear only as tentative possibilities; they are a way of approach the Finance Minister seems to have in mind and he would consider what to do further.

But I suggest that that sort of uncertainty in *relation to this* important matter ought not to exist and should be removed.

I said I would examine this budget from the standpoint of the ordinary man. But on so examining the budget from the three particular angles about which the ordinary man would feel concerned, I regret to say that except in the field of direct personal taxation, and to some extent in the field of additional stimulus to production, on the major issues in so far as the common man is concerned, the budget does not come up at all to minimum expectations and requirements.

Dahyabhai V. Patel

THE Budget next year has provided for a total expenditure of Rs. 4,290 crores; of this, Rs. 2,116 crores will be on revenue account and Rs. 2,174 crores on capital account. The total expenditure of the Government will be higher than the previous year's revised estimate by Rs. 216 crores—Rs. 117 crores on revenue account and Rs. 99 crores on capital account. The Budget provides for a total defence expenditure of Rs. 879 crores in 1965-66 on revenue and capital account, compared to the revised estimate of Rs. 835 crores for 1964-65.

The Finance Minister has, however, mentioned that the actual rupee expenditure will not increase quite so much because purchases of stores and aircraft, the full value of which is included in the expenditure estimates, are being made on deferred payment terms. To this extent the inflationary impact of such expenditure will be less.

The total Plan outlay of the Centre and the States next year will be of the order of Rs. 2,225 crores—Rs. 241 crores more than the Budget estimates for 1964-65. This means that the total outlay on the public sector in the Third Plan period will be about Rs. 8,400 crores, as against the financial provision of Rs. 7,500 crores, the difference being met wholly from additional taxation.

In 1965-66 the Plan outlay by the Centre will be Rs. 1,038 crores, excluding Rs. 116 crores contributed from the internal resources of Railways, Posts and Telegraphs and other public sector enterprises. Besides, Central assistance to States Plan projects will be of the order of Rs. 650 crores. Thus, the total

burden of the Plan expenditure on the Central Budget will be Rs. 1,688 crores.

The outgoings on account of repayment of debt will be Rs. 268 crores, Rs. 9 crores less than in the previous Budget. Repayment of foreign loans will be of the order of Rs. 97 crores, compared to Rs. 85 crores in 1964-65 and Rs. 63 crores in 1963-64. Thus, the total burden on the balance of payments next year will be Rs. 34 crores more than in 1963-64.

The total transfer of resources by the Centre to the States will be Rs. 1,307 crores in 1965-66, as against Rs. 847 crores in 1961-62, the first year of the Third Plan. The share of divisible taxes and duties in the Third Plan period has increased by Rs. 93 crores, revenue grants by Rs. 89 crores, capital grants by Rs. 35 crores and loans by Rs. 241 crores.

Thus, the States have come to depend more and more on the Centre for financial assistance. Has not this over-dependence on Central assistance encouraged lassitude on the part of the States and impaired fiscal prudence? It is worth thinking over.

Assurances Flouted

The assurance given at the time of the Chief Ministers' Conference in June, 1964, that the Centre would save Rs. 70 crores mainly on non-productive items, has not been given effect to, and the total expenditure has actually exceeded the Budget provision.

It has become imperative to achieve greater fiscal discipline and secure better use of funds, for such expenditures generate inflationary pressures and weaken productive enterprise.

The Budget has been formulated on the assumption that the balancing of the capital expenditure cannot be done entirely by mobilisation of voluntary savings and external assistance, and that it has to be supplemented increasingly by public savings realised through revenue surplus.

The present tax rates have discouraged savings of the people as well as of the corporate sector, and it has not been possible for Government to make good these deficiencies. As a result, the overall savings capacity of the economy has remained depressed.

A large part of national production, particularly agricultural, is almost wholly unrelated to the Budget. In 1964-65 it is expected that foodgrain production will reach a level of about 87 million tonnes, about 8 million tonnes more than in 1963-64. This will make good the present food shortage and even enable us to accumulate buffer stocks.

No Incentives

Industrial production and growth are on the other hand conditioned by Budget operations. The Finance Minister in his Budget speech has accepted the necessity and the urgency for Indian industry to branch out into new and complex lines of development, but the Budget itself does not contain any incentives and does not even aim at creating normal conditions in which growth can take place.

The factors which depressed the development of industry in the first four years of the Third Plan continue. The climate for investment is not such as would promote the inflow of private foreign investment in the requisite measure. If at all, the only redeeming factor is the assurance that the "policy of hospitable and fair treatment (to foreign investment) will be continued in future".

It is further indicated that the "general policy, whether in regard to taxation, industrial licensing or price controls, must be consistent with our desire to harness every possible source of dynamism and enterprise, whether domestic or foreign, public or private, to the task of rapid economic growth". The last two

are quotations from some of the pronouncements made by the Finance Minister.

Referring to the need for large investments in the public and the private sectors during the next Plan, the Finance Minister in his Budget Speech for the Union Budget for 1965-66 stated:

> *"The first and foremost precondition for mobilisation of resources for financing these investments is the maintenance of an environment of financial and monetary stability. It is only then that voluntary savings could be encouraged and directed to productive uses. Equally important is a degree of stability in our taxation policies. A greater degree of stability in regard to the structure of direct taxation is of vital importance as it has a bearing on long term decisions in regard to savings and investment."*

He also observed:

> *"It is equally important to encourage a larger flow of individual savings so as to promote a greater participation by individual citizens in the growth of industry . . . The primary objective must be to raise the capacity for individual savings and to improve the performance of industry so that it is able to earn and offer an attractive return on the capital invested."*

In spite of these observations, like those he made in his Union Budget Speech last year and on several occasions, the Budget proposals which he has formulated and announced do not reflect in the right perspective the principles he has enunciated so far.

Half-Hearted Reliefs

The reliefs he has announced have been granted in a halting and hesitant manner. They do not go far enough and have failed to infuse the confidence and vigour the capital market has needed for some time past.

The concessions are only of a marginal nature and do not relieve the pressures on the industry at the vital spots. With a large surplus of Rs. 237 crores next year at the existing rate of taxation and a small overall surplus of Rs. 10 crores, the Finance Minister could have given genuine relief to industry and tax-payer.

Punitive Taxes

Unfortunately, in India we still seem to be clinging to old notions. India at present has the unique position of being the most taxed nation in the world.

Mr. Bhupesh Gupta: It is all very well thought out. Where are you reading from?

Mr. Dahyabhai V. Patel: I will answer you in good time.

We have the largest number of taxes and their complexity is indeed bewildering. Even tax experts at times find themselves at sea when trying to correctly interpret the implications of the various tax laws whose rates at certain levels are punitive and confiscatory, because they exceed the total income of an assessee. Nowhere in the world does such a situation obtain. Even socialistic countries like Norway, Sweden and Denmark, which are often referred to as ideals to be followed, have a ceiling rate of 80 per cent tax liability on assessable income.

Even when compared to other developing countries like Pakistan, Burma, Malaya and Brazil, India has the distinction of having much higher tax rates. It is so in regard to the rates of both personal and corporate taxation.

Take the case of the Estate Duty, which was raised to the expropriatory level of 85 per cent on estates exceeding Rs. 20 lakhs in value. Even in the United Kingdom the maximum rate is 80 per cent, and this rate applies only to estates exceeding Rs. 1.33 crores in value.

The Gift Tax rates, which were stepped up last year, are no less harsh. The Expenditure Tax, which contributes only a marginal income to the State, is a measure of much harassment to the assessees.

The Capital Gains Tax, especially on bonus shares, and the Dividend Tax, have largely been responsible for creating a feeling of diffidence in the minds of prospective investors and have scared them away from the capital market.

The Sur-tax on company profits is another measure which has had a depressing effect on the corporate sector as a whole.

In no other country does the rate of aggregate tax on resident companies exceed 54 per cent of the total income. But in India in some cases taxes go beyond even 70 per cent. Considering all these facts it is hoped that the Finance Minister, realising as he does the condition of the capital market and the need for galvanising it in the larger interests of the country, will give substantial relief both in the personal and the corporate rates of taxation.

Inaccurate Estimates

The revenue surplus for the year 1963-64 is expected to be as high as Rs. 229 crores as against the Budget Estimate of Rs. 83 crores. No matter how many times it is stressed and no matter who stresses it, even if it be the Public Accounts Committee, the Finance Ministry continues to underestimate its revenues grossly.

If these estimates were properly made, perhaps the need for imposing such high rates of taxation would not have been there. It would be pertinent to quote from the Twenty-Seventh Report (Third Lok Sabha) of the Public Accounts Committee, 1964-65. The Committee stated:

"Even so, it cannot be denied that the estimates of revenue, the estimates of expenditure and the

fresh taxation proposals are closely inter-linked; and that the former two serve as some indicators for the quantum of fresh taxation effort necessary.

"The importance of arriving at accurate budget estimates cannot, therefore, be overstressed so as to avoid the risk of the public being taxed unconsciously more than necessary."

In spite of these observations, wide variations between Budget Estimates and actual collections continue. Next year also, the same story will be repeated.

Year after year the need for restraint on wasteful and avoidable expenditure is emphasised and the Finance Minister himself has recognised its validity.

However, it remains a matter of speculation how far Government's efforts to enforce economy and avoid wasteful expenditure are fruitful.

The desirability of the State Governments submitting themselves to fiscal and monetary discipline in the country and reducing their deficit is also stressed every year. But unfortunately the Union Government has not been successful in imposing on the State Governments the required measure of fiscal and monetary discipline, with the result that there have been larger drafts on the resources of the Centre in every succeeding year.

The Finance Minister has referred to the role of private foreign investment in our plans, and rightly so. It has to be recognised in this connection that the success of the efforts to woo private foreign investment depends upon the attractions that we are able to offer compared to those offered by other needy countries.

Investors Reluctant

We must take note of the observations of Dr. Hans Kuntze, leader of the West German Business Delegation which recently visited India, when he said that India was not the only country asking for aid.

He said, "You should remember that other countries are competing with you. I would be delighted if in this competition you beat them all."

Similar sentiments were expressed at the last session of the International Chamber of Commerce which was recently held in Delhi. It was then pointed out by the delegates that the private investor in developing countries faced a number of obstacles, including insufficient return on investment, inhibiting tax structures and too many restrictive controls by the local governments.

It is not enough to offer facilities to the private foreign participant because, if the matching rupee capital is not available, the collaboration agreements cannot materialise. It is for this reason that some of the delegates at the session of the International Chamber of Commerce stated that concessions to foreign capital would serve no useful purpose unless taxation on local capital was also reasonably low.

The Finance Minister has granted concessions in respect of excise duties on certain articles consumed by the common man, but the burden on the consumers is raised by the increase in the import duty on stainless steel plates and sheets and steel tin plates, etc. which is over and above the regulatory Customs duty at 10 per cent. of the value of the imported goods which was announced a few days back.

It is disappointing to note that despite representations made by industry and its genuine need, the dividend tax has been retained. Similarly there has been no change in the capital gains tax though in the case of bonus shares a marginal relief has been granted.

Confidence Destroyed

As pointed out earlier, the capital market and the general sentiment of the investing public have been deeply affected by these taxes and have done incalculable harm to the process of capital formation. The argument of the Finance Minister that the dividend tax has not materially affected the distribution pattern of dividends, is fallacious.

Most of the companies which have continued their old dividend distribution pattern have done so out of their reserves to maintain the confidence of investors in their shares.

The proposal to provide a ceiling limit to the income-tax, including the tax charges with reference to distribution of equity dividends, and surtax at 70 per cent of the total income of companies, is only illusory.

This high ceiling will be beneficial to a few companies only. It is desirable that it should be reduced to a more rational level as in the case of other advanced countries of the world.

The proposal to impose an additional wealth tax on urban properties beyond a certain limit comes like the proverbial last straw on the back of the assessees—who are already overburdened by a multitude of taxes of a highly oppressive character.

This is indeed a very harsh step to take and will cause undue hardship. Moreover, it will greatly affect private housing construction in urban areas, with consequent aggravation of the scarcity in urban housing.

The differentiation between earned and unearned income continues under the new scheme of the Finance Minister. This is an anachronism and a perpetuation of old notions in regard to taxation. There should be no distinction between earned and unearned income; the capital from which unearned income comes is already liable to wealth tax. In fact, as in the U.K., we should also have an earned income relief.

The Finance Minister has made an observation that an income of Rs. 1 or 2 lakhs in India represents economic power much greater than is enjoyed by

people having the same income in more fortunate lands.

Government All-Powerful

In India, Government has vast discretionary and arbitrary powers. Due to the licensing and permit system, every citizen of the country has to run from pillar to post to get the necessary clearance for his application. In the circumstances, it appears to be idle to talk of economic power in anybody's hands. In actual fact economic power rests in the hands of the Government and the Ministers, and the large bureaucracy that has proliferated during the last few years.

As long as income-tax rates, the Estate Duty and the Gift Tax remain at the existing high levels, the will to save and invest will be lacking. It is only when these taxes are brought down to more reasonable levels that the investor will feel inclined to work, save and invest in productive enterprises because, if after all his efforts and endeavours his savings and capital are taken away as a result of confiscatory rates of income-tax, Estate Duty and Gift Tax, he will be left with no initiative.

Above all, what is most necessary is that the waste that is going on in expenditure should be cut down. I am sure that if the Finance Minister had applied his mind in this direction the taxation proposals that he has made would not have been necessary and perhaps it would have been possible to give relief to people in the lower income group. I particularly plead with the Finance Minister to give relief to those people whose income is less than Rs. 5,000. An income on Rs. 5,000 is a very small sum. We had begun by putting the exemption limit at somewhere around Rs. 3,500. Today it is Rs. 5,000, and therefore the basic limit of exemption one would have expected—if any relief was given—should be at the basic limit of Rs. 5,000.

Sheer Waste

I would also like the Finance Minister to examine the matter in another way. What is the amount of expenditure that the Government has to incur to collect small amounts of tax? It will be about Rs. 80 Rs. 90 from small assessees every year.

Is it worth the expenditure? Government has to maintain a large department to do all this. Is it worth all the trouble, the paper and the staff required to collect the money?

Another aspect—I know that he cannot do it by himself—by which the Finance Minister can help the country with his Budget is through greater production. Whether it is in State enterprises, in Railways, everywhere, the production level is very low. It is so even in industry.

Recently we had a bank strike. I would like to refer to what I said once before in this House—and to what the bank manager said before and after the strike. All admit that employees do not do full work; if they worked sincerely they could achieve 30 per cent more production.

If people in banks, who are enlightened people, who read and write and understand, if they are capable of slowing down and of not working even after they have their demands met, if they do not give of their full time, what will conditions be elsewhere?

Therefore, what the Finance Minister needs to do is to increase production everywhere. All Government Departments are known for being overstaffed, for people not having enough work, though a lot of people are kept on the pay-roll.

Charity should begin at home; the Government should begin with Government Departments, State

enterprises and the Railways. How long are we going to have this sorry spectacle of State enterprises being deficit institutions? We were just told that our public steel projects, the biggest in the public sector, are still making five per cent losses instead of making that much of profit.

Public Sector Obsession

This morning we had a question about the Coal Development Corporation. There too we are losing Rs. 40 lakhs every year. That also adds to our tax burdens. As if this were not enough, this morning's papers announced that the Government still has the faulty notion of placing the production of the small car in the public sector. I thought the matter had been set at rest a few years ago, but there are some people who revive it. I hope the Finance Minister, who understands the implications of this, will not allow this to be done; it is not going to help the country.

I for one would greatly welcome it if he could get cheaper cars, but cheaper cars presuppose larger production and lesser taxation. Cars we have do not represent 35 per cent of the taxes we have to pay. I would like the Finance Minister to apply his mind and try methods adopted in progressive countries to reduce taxes.

Apart from the Steel Corporations and the Coal Corporation, we understand that the State Trading Corporation had bought edible oil worth Rs. 80,000 which it had to sell for Rs. 20,000 recently. If such is the achievement of the State Trading Corporation, can anybody say it is giving us any benefit?

Government have got a large number of Advisory Committees but I do not know whether they listen to what is said in these committees. In the Central Advisory Council of Industries, Mr. Tata disclosed that taxation was confiscating the whole income. Mr. Birla said that the Bihar Government was fatally interfering on behalf of labour—and particularly for the monopoly of Bihari labour.

Mr. Ramaswamy Mudaliar said that only 35 to 70 per cent of industrial capacity could be used. Mr. Goenka said that the investment climate was such that underwriters had become undertakers. Mr. G. L. Mehta said that coal production was causing stoppages. Mr. Kirloskar said that depreciation in the value of the rupee had made for hoarding and black-marketing.

These are the remarks of people whom the Government has chosen for advice in industrial matters. If this is what they say, where are we? It is the same Finance Department that was shutting its eyes to the activities of the Bank of China and to the activities of certain people who, when this country was faced with Chinese aggression, were acting like traitors.

The report is not being made public even though a categorical assurance was given on the floor of this House more than once to me and to several other Members. What is behind the mind of the Government? Are they serious in their pretensions?

Corruption Rampant

Then of course we have the burning question of the day—what is happening in the great State of Orissa. What do Mr. Nanda and the Sadachar Samiti have to say? I will not repeat what I said yesterday on certain provisions of the Bill that was before us, but is this the manner in which the Sadachar Samiti and the Home Minister are proceeding?

Is the Sadachar Samiti going to be turned into a gestapo of the Home Minister? The country is entitled to know why we are being asked to pay more and more if this is the manner in which money is going to be taken and spent.

Yesterday I read about a case of a vendetta by the Income-tax Department. There was no reply from the Finance Minister. The reply that he gave was that his attention was "recently drawn". What action has been taken? If the Income-tax Officers make use of their wide powers within a short time of the powers being conferred upon them, if they are going to use them to dig up and break up furniture and ruin a person, has the Government justified their claims for securing these powers? Has the Government justified the methods that they use? It all shows that there is something greatly lacking in these methods. Take a very simple thing. A person is required to submit his Income-tax return by a certain date, but there is no time-limit within which the Income-tax Officer has to finalise the matter. I can submit my return in time. If I do not, I will be penalised, but the I.T.O. can take his own time, can go on leave and be transferred or he can keep it pending for a long time. Does the Income-tax Department not carry a similar responsibility? Could there be no time-limit by which a return submitted—the correct return—should be finalised? If there are certain outstanding points, those points could be left out, but the return submitted in time should be accepted.

Discrimination

Before I conclude I would like also to add how Departments of Governments—it is not only the Finance Department but other Departments also—are being used. I have before me the case of a paper that was supposed to be started in this country or purported to be started as a weekly, by no less a person than a grandson of Mahatma Gandhi.

I hope nobody is going to say that he is not a patriotic citizen. He did not get a licence for newsprint. He cannot get it even now, while the allies of the Communists and fellow-travellers get machinery, paper, buildings and everything in this country, in this city of Delhi. Where are we heading?

These are some of the very serious shortcomings that Government should apply its mind to and correct if it wants the confidence of the people. Of course I have often held, I have often said, that the policy of the Government, the taxation policy particularly, is oppressive.

It is a policy aimed at crushing the people so that people cannot rise, can do nothing but meekly submit.

Before I sit down I would repeat my appeal to the Finance Minister to reconsider and revise his proposals and give some relief to the poor who have been taxed so much, particularly after the fall in the value of the rupee.

M. Ruthnaswamy

FROM a statement of the leading ideas of the Budget we may be able to record our opinion of it. One of the first of the leading ideas is that taxation must aim at securing a surplus. The idea behind that is that taxation is a form of saving. Now, if you are going to mop up the savings of the country, the saving possibilities of the country through taxation, you leave less room for actual savings by the individual citizen.

In fact, the small savings for the latest year amount to only Rs. 403 lakhs, Rs. 403 lakhs of the latest year saved by a population of 450 millions. The Economic Survey itself acknowledges that saving in private investment in priority industries has been held back in recent years.

Another leading idea and a new idea is the discouragement of investment in urban property. I wonder if this is the thin end of the wedge of imposing a ceiling on urban income? It has also to be considered whether this will involve a discouragement of industrial and other housing activities. After all only Rs. 1.5 crores is to be realised from this form of taxation.

Another leading idea of the Budget is the aid given to other countries, amounting to about Rs. 46 crores. Is this for prestige or is it as a kind of enlightened self-interest? When all the money that is available, that can be saved, has to be put into production in the country, I wonder why we are trying to imitate highly developed countries in offering economic aid to other countries.

Deficit Financing

Deficit financing persists still, because the Finance Minister himself has acknowledged that long-term borrowing *is* a form of deficit financing. And not the least of the leading ideas of the Budget is the action taken against tax evaders and other forms of hidden wealth.

The most attractive feature of the Budget is the number of reliefs given. Relief given in a Budget may be of two kinds, one, *ad misericordiam,* in order to help poor people, and the other in order to encourage production. In the sphere of indirect taxes relief is given to cyclists, users of coarse cloth, footwear, users of printing and writing paper.

Now, I wonder what proportion of the population will use printing and writing paper, coarse cloth or even cycles. Some time ago it was estimated that the total number of cycles in the country is only four million. Especially to an agricultural population these reliefs do not amount to much.

In the sphere of industry we find that there is an increase in the duty on copper, copper alloys, steel ingots and a number of basic materials for industrial production. Will this increase industrial production? Taxation has affected industrial production. There is no reduction in the dividend tax. It is no doubt true that certain tax benefits and tax credit certificates are given. To that extent these are helps to industrial production.

A series of income-tax reliefs are also given, but, as Mr. Dahyabhai Patel pointed out, they are marginal reliefs, just like the headmaster in a school reducing his caning from twelve strokes to, say, ten strokes. No doubt it is relief, but what degree of relief?

Reading of the methods used by income-tax and other officers, they look perilously like third degree methods used by the police.

High-Handed Behaviour

There is a small-scale engineering firm in Madras whose proprietor I know. He has told me recently that he does not keep any cash in his firm or in his house because he has heard of the raids organised by income-tax officials upon the offices of industrial firms and even the houses of industrialists. There are other methods which can be employed. Why does the Finance Ministry not have its own Detective Services as they have in the U.S.A.?

An Hon. Member: It has.

Mr. M. Ruthnaswamy: There is a Preventive Customs Service, but there must be a specialised Detective Service. It is only then the Finance Ministry will be able to prevent the great loss of revenue that occurs through the tax evaders, the hoarders of wealth and the smugglers.

Then there is the income that may be derived from reduction in expenditure. Administrative expenses are going up. Our national debt is growing by leaps and bounds. The total debt of the Central Government in 1950 was Rs. 2,520 crores. It is now in 1964-65 Rs. 9,726 crores.

Finance Minister's Dilemma

If the prosperity of a country is to be judged by the debt it incurs, we must be one of the most prosperous nations in the world. All this is due to the fact that the Finance Minister is faced with the problem of not only raising revenue to enable him to help the administration of the country being carried on, but also he has, as a member of a socialist Government, to realise certain socialistic objectives.

On the one side he has to find money for the socialistic plans, for financing heavy industries in the public sector, and on the other hand he has to find money, absolutely necessary money for the defence of the country.

And then the foreign policy of his Government which prevents the Government from seeking military aid and alliance makes the country dependent upon itself for its defence. Even the Rs. 726 crores will not be enough if India is to defend itself adequately. Twice that number or three times that number would be necessary.

Naturally the Finance Minister is torn between these two objectives of ensuring the defence of the country on the one side and of realising the socialistic objectives of his Government. That is his misfortune —and unfortunately it is also the misfortune of the country.

S. S. Mariswamy

IF we look at the Budget against the background of the coming Fourth Plan, the future looks very bleak, gloomy and dismal. The country is already groaning under the weight of the previous three Plans and the morale of the people is at the lowest ebb.

People like Rajaji and Shrimati Vijayalakshmi Pandit have said that we have become hundred per cent loan-minded and aid-minded, and it seems that nothing will move in this blessed country without foreign aid. There is no answer to this crucial question in this Budget, nor is there any assurance that there will be the much-needed Plan holiday in which to set things right which are in a topsy-turvy position today.

Today there is no imposition of new taxes, but I am quite sure that next year the Budget will come with redoubled vigour for imposing new taxes and so long as the Fourth Plan is hanging over our heads like the Sword of Damocles, nothing is sure. They can come up with a supplementary demand after some time.

Debacle in Kerala

Now, the attention of all of us is on Kerala, and we wonder what will happen to that poor State, whether a people's Government will emerge or President's Rule will continue. From all indications, I find that President's Rule will be continued. I may be surprising many of my friends here if I reveal a secret in this House. The President's Rule was a premeditated plan, hatched a long time ago to thwart the chances of democratic opposition parties coming to power in a State which had totally rejected the Congress.

To explain this, I must say a little about the background of Kerala politics. On the eve of the elections, the majority of the Leftist Communist leaders were arrested in one sweep. The Government came out with an excuse for the step, saying that they had unearthed certain plots of the Leftist Communists. They said that they were in league with the Chinese Communists. If it is so, this is a very serious matter which requires the Government to take any step within its power to end this traitorous role of the Communists. For that they should have banned the party. They did not do so.

Instead they arrested the top leaders and let the rank and file go scot-free. If they had banned the Party and thereby prevented the Leftists contesting the elections, the results would have been different in Kerala. You take it from me that the Congress would have been put to an even more thorough defeat there and the real democratic forces would have come to power, thereby putting an end to President's Rule.

Congress Intolerance

If the Leftist Communists have won substantially in Kerala, the credit belongs not only to its rank and file, but also to the Congress leader, Mr. Kamaraj. Kerala has revealed the intolerant and dog-in-the-manger attitude of the Congress Party. What I am afraid is that what has happened in Kerala might be repeated elsewhere too, if things are allowed to go on like this. I would request all Opposition Parties in India to give serious thought to this matter and find a way to put an end to the nefarious tactics of the ruling party.

The only way out is that we must create a climate

in our country wherein Congress will be shamed out of its tactics. I hear from friends in Kerala that big industrialists, capitalists and moneyed people were actively canvassing for the Congress. It appears that they offered unlimited funds to the Party to be spent in Kerala. Did they do so out of love for the Congress and its policies? The Congress Party to them is a veritable *Kamadenu* or *Kalpagavriksha* yielding the licences and permits that they need. That is why money is pouring into the coffers of the Congress.

Unless this is stopped and the Congress Party is left to rely on its own resources, as other Parties are left to rely on theirs, there cannot be any real contest between Parties. We must therefore all strive to see that licences, permits and quotas are not misused by the Government to collect funds for their Party and its election campaigns.

Integrity is Vital

How is this to be done? The only way is to vest the power to grant licences, permits and quotas in an autonomous Board comprising men of proven honesty, integrity and calibre. The Government might decide policies, but this Board should put them into effect. This view has also been recommended by the Santhanam Committee.

Our freedom, unity and solidarity are in peril today and enemies are sitting athwart our borders. This is the time when we must garner all our energy for constructive action and concentrate all our initiative on the expulsion of intruders from our sacred soil. We should not leave room for fissiparous tendencies to grow. Unfortunately, however, our concentration is being lavished on minor problems and wrong solutions. I am told that some members of the ruling party are consulting astrologers as to the chances of success of Mrs. Bandaranaike, so that they might again resume negotiations through her with the Chinese. It is a shame on us. If things are not set right in 1965, the enemy in our territory will become a permanent fixture and will prove to be a greater menace to us than ever.