AN INFLATIONARY BUDGET

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> "People most come to accept private enterprise not as a necessary evil, bat as an affirmative good."
>
> —Eugene Black
>
> President, World Bank

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by

A. D. SHROFF

THE Government of India budget is a very important subject. If you have read the papers of March 11, 1959, you must have sern a very interesting piecc of news. The general discussion on the budget had started in the Lok Sabha and in the course of the discussion, the Speaker of the House was annoyed because he found that there were no Ministers present in the Lok Sabha. That is the measure of importance that is being attached hy our Government in the presentation of the budget which affects the living and livelihood of millions of people in this country.

Generally, the public in this country is interested in the budget every year in so far as it involves any change in the level of tasation. The annual budget of the Government of India is a photographic presentation of the economic situation in the country which really determines the budget lor any new year. Therefore, it is imperative that intelligent public opinion in the country must have a full appreciation of the various aspects of our economic life, like production — both agricultural and industrial — monetary conditions, balance of payments, deficit financing; price level and cost of living.

Before I examine the new taxation proposals, I should like to deal with some of there aspects of our economic life. To review a few basic facts about our budget, last year when the budget was introduced a revenue of Rs. 768 crores was estimated. Owing to an unfavourable development in our economic situation, the revised estimates for the collection of revenue for the last year are now placed at Rs. 728 crores, showing a decline of about Rs. 40 crores. On the expenditure side, there is a small reduction of Rs. 8 crores. The estimated expenditure was Rs. 796 crores and the revised estimate is Rs. 788 crores. These are very large figures. Therefore, the estimated deficit which was put at Rs. 28 crores for the year which will end on March 31, 1959, is now expected to result in a deficit of nearly Rs. 60 crores. In the coming year, the Finance Minister has estimated revenue at Rs. 757 crores and expenditure at Rs. 839 crores leaving a deficit of a little over Rs. 81 crores. But he has made some new taxation proposals which will add to the revenue by about Rs. 23 crores (net of States' share) showing a final deficit of Rs. 58 crores.

The public must try to understand some of the main items of the revenue and expenditure side. That understanding is very necessary to have an appreciation of certain economic trends in the country. Customs, which always form a very important factor on the revenue side, are estimated to yield Rs. 130 crores in the coming year against the revised estimate of Rs. 136 crores or 1958-59. The reason for decline in the estimates of Customs revenue is obvious. Owing to the enormous exchange difficulties which we have been experiencing for the last two years, severe restrictions have been placed on imports and reduction in imports must mean less collection by way of Customs duties. Similarly, in order to promote exports, a number of export duties had to be lowered — and I anticipate a further lowering of the export duties in the coming twelve

months — which would also account for less receipts on the Customs side.

In recent years, the most important individual item of revenue in the Government of India Budget is excise duties. Since 1956-57, excise duties have risen from Rs. 190 crores to Rs. 325 crores for the coming year. Income-tax is expected to bring in Rs. 166 crores next year against the revised estimate of Rs. 162 crores for the past year. Corporation tax is expected to bring in Rs. 58.75 crores against Rs. 56 crores. Currency and Mint is estimated to bring in Rs. 55.60 crores against a little under Rs. 35 crores in the previous year. This is an interesting item to study, owing to the fact that under our planned economy deficit financing to a considerable extent has to be resorted to. Deficit financing means asking the Nasik Security Printing Press to work full three shifts to produce new notes, the cost of producing new notes being insignificant compared to what they are sold for. All the new notes which are printed at Nasik are handed over to the Reserve Bank. The Reserve Bank uses these notes in lending that amount of money to the Government of India to meet its commitments. The Government of India pays interest to the Reserve Bank. It swells the profits of the Reserve Bank and the profits of the Reserve Rank now are a source of revenue to the Government of India!

On the expenditure side, the main items are the defence services. I would like to congratulate the Finance Minister that he has been able to bring about a substantial reduction in defence services. The original estimate in the last budget was Rs. 278 crores; the revised estimates are put down to Rs. 267 crores, and for the next year, the estimates have been brought down still further to Rs. 243 crores. This is an item to which the Government of India ought to give more thoughtful attention and a time has come when there ought to be a ceiling fixed on the defence expenditure. A limit of Rs. 200 crores for the coming three years would be an appropriate and reasonable ceiling to aim at. In a country which works under Gandhiji's philosophy of non-violence, the Government ought to make it a principal objective to reduce defence expenditure to the minimum possible. Another important item on the expenditure side is the civil administration. Unfortunately, the estimates for the coming year are much higher than the revised estimate for the past year — Rs. 223 crores against Rs. 198 crores. This is an item of expenditure which needs to be very closely watched. When the report of the Pay Commission is published, there is likely to be a substantial increase under this head of expenditure. Various estimates have been made that it would cost the Central Government anything between Rs. 40 to Rs. 90 crores extra to implement the recommendations.

The next important item is that of Debt services. This item varies from year to year according to the volume of Government borrowing. Last year it was Rs. 42 crores, and for the next year it is put down at Rs. 58 crores. This is quite understandable in view of the fact that we are going in for large-scale foreign borrowings on which high rates of interest have to be paid, and also because of deficit financing where interest has to be paid to the Reserve Bank of India which, of course, is received again in the form of profits of the Reserve Bank. There is a very peculiar item which is described as Extraordinary item and put at Rs. 35 crores for the coming year against Rs. 15 crores for the past year. There are two main constituent items on the break-up of this figure, one is the Community Project Development where the Finance Minister proposes

to spend Rs. 6 crores more next year than during the past year, and then there is a sort of a book entry on the loans and grants received from the American Government which will cost the Government Rs. 14 crores extra next year than during the past year. These dry-as-dust figures really have a story to tell and a warning to give.

The whole budgetary situation in India for the last eight years is completely dominated by the five-year plans. During the last three years in particular, between the Centre and the States, Rs. 2,466 crores have been spent on the Plan, of which, the share of the Government of India is Rs. 1,424 crores. In the coming year, it has been decided — the Finance Minister has said it in his speech — that an expenditure of Rs. 1,092 crores will be incurred on the Plan. It is very interesting to see that during the First Plan, the total amount which was spent was roughly Rs. 2,000 crores in five years. But out of Rs. 2,000 crores, only 36% was found by foreign borrowings and deficit financing. The picture is entirely different now. During the last three years, as much as 63% of the money has been raised through foreign borrowings and deficit financing and it is very difficult to estimate that at the end of the Second Five-Year Plan whether this percentage would not still be higher.

When the Second Five-Year Plan was formed, it was estimated by the Planning Commission that although the gap in resources would be much larger, the Government of India will have to make an effort to raise Rs. 450 crores of additional taxation during the five-year period. Mr. T. T. Krishnamachari obliged the Planning Commission by putting taxation on a level which has ensured receipt of about Rs. 900 crores during the Second Plan. The total amount of external assistance which has been promised to this country till January 31, 1959, comes to Rs. 1,018 crores. When the

Second Five-Year Plan is implemented — I mean the hard core of the Plan — Rs. 1,500 crores of foreign money will have been borrowed. That is not the whole story. It consists of Rs. 1,500 crores of fresh borrowings *plus* Rs. 540 crores of the sterling balances, which we have already used up during the last three years, ***plus*** Rs. 95 crores of short-term loan which we are taking from the International Monetary Fund, ***plus*** Rs. 35 crorcs which the U. K. Government gave to the Government of India to assist the Second Five-Year Plan, as advance pension payment. This will give an idea of the borrowing position that we have developed for this country with the result that till 1967, on an average, by way of interest charges and amortisation, we shall have to provide Rs 100 crores of foreign exchange every year.

The Budget of the Government of India is divided under two heads — one is the Revenue Budget and the other is the Capital Budget. At the end of March 31, 1959, the total deficits on these two accounts for three years will he Rs. 950 crores. I have given you this picture as I want to emphasize one very serious risk which this country will be confronted with in the coming year or two. Whilst it is true that in relation to the enormous outlays on the Plan so far the inflationary pressure has not been significant the pressure will continue to aggravate and might develop into a sort of a runaway inflation. Along with the Finance Minister's speech every year, en economic review is circulated. This economic review is an interesting document to read, and I wish to congratulate that official who has prepared the economic review for this year. It is a factual review which gives up-to-date statistics regarding various aspects of our economic life, and on the basis of the facts recorded, it indicates certain trends which may be expected to follow in the coming twelve months. On this particular situation,

the economic review says: "Inflationary pressures in the economy at the present moment can hardly be said to be strong, but it would also bc wrong to suggest that the problem of inflationary pressures has been mastered. Basically, the problem still remains — and will ior long remain — one of sustaining a high rate of investment in the economy without generating excessive inflationary pressures and causing an undue strain on the Balance of Payments."

I shall produce evidence as to why such a conclusion has been drawn by the writer of the economic review. The conclusion appears to me to be inevitable in view of the development of certain economic trends during the last twelve months. On the one hand, we have the mounting budgetary deficits. It is Rs. 950 crores in the first three years of the Plan and at the end of the Plan it might be well over Rs. 1,200 or Rs. 1,300 crorcs. One redeeming feature of India's economy since independence was that every year industrial production went on increasing till about the end of 1957, when the tempo has been definitely lowered. Since 1956, however, the rate of increase has considerably slowed down. Not only the rate of expansion has slackened, but during the last few months quantitatively production in certain industries has been going down. That is inevitable in view of the very severe import restrictions where essential raw materials, spares and components are not made available for the installed capacity of the industry which has increased during the last few years.

Food production, it is said, is going to be better this year. But there are no reliable statistics or evidenre to support the view except the estimate made by the Food Minister whose estimates during the last few years have been found to be wrong as soon as they were made. In any case, let us hope that food production which suffered a severe setback last year to the tune of 6.7 million tons will at least show some improvement.

Imports are bound to be lower under the import restrictions. The cushioning effect which imports always supplied in a situation where more and more money is pumped into circulation will be lost. There are two things to counteract the effects of the increased purchasing power placed in the hands of the people; one is that there must be a substantial increase in production within the country itself which will match the increased purchasing power, and, secondly, there Should be more imports from abroad which will also help to meet the increased purchasing power in the country. After all, it is a battle between the amount of purchasing power available at any given time in the country and the quantity of goods and services which are available for purchase. If there is an imbalance between the two, as it has been in this country, the obvious result is that the general price level must rise. If the general price level rises, it must lead to increase in the cost of living. That in turn affects the cost of production. The higher cost of production affects our competitive capacity in the world markets, and therefore, our capacity to export is *pro quanto* reduced. This evidence definitely indicates that we are in for a period of increasing inflationary pressures in the country the consequences of which it is well to appreciate in advance. The very heavy withdrawals of sterling balances made possible larger imports in 1956-57 and 1957-58. These withdrawals have been such a heavy drain on our sterling balances that we are left with about Rs. 200 crores only against a short-term debt of about Rs. 95 crores from the International Monetary Fund. Therefore, very little is left in the sterling balances to draw upon to make possible larger imports. Even when that cushioning effect was available in 1956-57 end, in 1957-58 there

has been a rise of 15% in prices. With the removal of the cushioning effect, with a definite decline in industrial production and unfortunately with our reduced capacity to export, all the evidence indicates that we are heading towards inflationary pressures.

It is always said. that we cannot have planning in the country without tears, and that is a fact. We have always been told, "You are going to see a much better future.". The latest promise given by the Prime Minister was "to wait for another seven years". Whilst it is true that no under-developed country can develop on a large scale and at a rapid pace without causing some strains and stresses on the economy, it is the relative capacity of the people of the, country to withstand those stresses and strains which ought to be the determining factor. To give a very simple illustration: those of you who live in Bombay must have seen a few weeks ago that a mere 5% cut in kerosene oil caused a, furore and that cut had to be immediately restored So, when we are told that we must tighten our belts, the real fact of life is that one cannot tighten the belt on a shrinking stomach.

To add to the inflationary pressure, another very significant and serious factor to consider is the growth of deficit financing. Deficit financing means that the Government makes commitments to spend so much money in the year while it has not got the money. If you or I had attempted to do it, we will soon be seen in'the bankruptcy court. But with a very efficient printing press, the 'Government can do it, but up to a certain limit. At one stage, we were told and the Planning Commission endorsed the view that India could easily stand the strain of Rs. 1,200 crores of deficit financing, on the basis that Rs. 1,200 crores of deficit financing would not cause such inflationary pressures in the country, as would push up prices beyond the capacity of the people. But, unfortunately, the background in which the Planning Commission had estimated the figure has gone completely wrong. For instance, the Planning Commission had estimated that we would need to draw on our sterling balances only to the extent of Rs. 200 crores whereas in less than three years we had to draw over Rs. 500 crores. Therefore, deficit financing must cause a very serious disturbance to our balance of payments. And that serious disturbance will add to the inflationary pressures in the country.

We cannot correct our balance of payments position by going to the Nasik Printing Press because people outside from whom we buy will not accept our notes. Therefore, we will have to raise so much money abroad to enable us to meet the deficits between the exports and imports which means further and fresh borrowings from abroad. We can borrow from the Nasik Printing Press on the basis of payable when able. But we cannot do it when we go abroad to borrow. And, therefore, every foreign borrowing means a specific commitment which has to be met on the due date. This is an aspect of our economy which needs to be very greatly emphasized because deficit financing and inflationary pressure will not only cause increasing suffering and hardship to the people at large but will also automatically add to the cost of Plan expenditure. Every increase in the price level adds to the price of implementing the Plan. After all, what does Plan expenditure mean? It consists mainly of two items — acquiring capital goods from abroad and, secondly, spending money locally in hiring so much extra labour and buying so much of extra materials within the country. And, therefore, inflationary pressures which would push up prices automatically add to the cost of the Plan at least in so far as the rupee expenditure is concerned.

There is another point which has not yet been properly or widely noticed in this country. I have been a believer and have missed no opportunity to pointing out that recent budgets are a deliberate attempt to divert resources from the private sector to the public sector. If you study our balance of payments and a break-up of our imports and exports, that view obtains very significant confirmation. From a break-up of imports since 1956-57, one can make out that whereas due to exchange difficulties very severe restrictions have been placed on imports on private account, imports on Government account have been showing very substantial increase. To give one or two illustrations: the quarterly imports of iron and steel which averaged about Rs. 30 crores in 1956-57, Rs. 20 crores in 1957-58, have now been cut down to only Rs. 10 crores. In 1956-57 total Government imports formed only 25% of all imports in India. In the first half of 1958-59, Government imports represent 48% of the total imports. These are very significant pointers as to what is happening to the economy of the country. There is a deliberate diversion of available resources in the country from the private to the public sector. In 1956-57, Government imports were only Rs. 291 crores; in 1957-58, Government imports increased by Rs. 201 crores and private imports declined by Rs. 122 crores. While in 1956-57, Government imports represented one-fourth, now they represent about 48% of total imports.

Let us now review taxation. I observed earlier that in the Second Plan it was estimated that an additional tax effort of Rs. 450 crores will have to be made, whereas actually the taxes which have been levied both by the Centre and States during the last three years will yield Rs. 900 crores for the five-year period, assuming that there will be no further taxes next year. It is very interesting to have a break-up of the two main categories of taxation — Direct Taxes and Indirect Taxes. Direct taxes include income tax, corporation tax, estate duty, gift tax, wealth tax, expenditure tax and taxes on railway fares, whereas indirect taxes include mainly customs and excise.

The break-up of the direct taxes is as under: Out of a total estimated collection of Rs. 254 crores in the next year on direct taxes, Rs. 59 crores will come through corporation tax. Corporation tax is a tax which is levied on joint-stock companies. Then we have income tax and super tax — super tax is a counterpart of corporation tax, hut it is levied on individuals — that is estimated to give Rs. 166 crores; estate duty Rs. 2.8 crores; taxes on wealth which got last year Rs. 10 crores are estimated to bring in Rs. 13 crores next year because of the new impost. Tax on the wealth of individuals today is ½% between Rs. 2 lakhs and Rs. 12 lakhs; 1% between Rs. 12 lakhs and Rs. 22 lakhs and 1½% over Rs. 22 lakhs. Under the budget proposals, there is an increase of 100% on the first slab, 50% on the second slab, and 33% on the last slab. The wealth tax on companies which was introduced by Mr. T. T. Krishnamachari is now abolished. Wc need not be too cheered by that because there is something to replace it. In any case, I welcome it because on a matter of principle wealth tax on companies is essentially inequitable and unsound. Then we have the expenditure tax — one of the fantastic innovations in the realm of public finance. This tax prevails only in this country in the whole world. Whereas large estimates were made at the time the expenditure tax was levied, it is now estimated that the Government will not be able to collect more than Rs. 1 crore. The gift tax, where also the tax authorities thought that they will be able to rope in a lot of people who passed on a part of their wealth during life-

time, is ostimated to give only Rs. 1.20 crores. On the whole, however, it is interesting to note that in three years direct taxation will go up from Rs. 206 crores to Rs. 254 crores. Estate duty is proving a serious disappointment and a failure in the country. When it was first introduced, the estimates were that it would fetch anything between Rs. 12 crores to Rs. 15 crores a year. But it appears that rich people are not obliging the Government by dying too soon.

There is a very significant change in direct taxation introduced in this budget. So far, we had a system of what is called the grossing up of income, i.e. if a company paid a dividend tax-free, that dividend in the hands of the shareholder was a dividend which entitled a shareholder to claim credit for the tax which the company was deemed to have paid on behalf of the shareholder. A change is being introduced on the ground of simplification of the tax structure. Joint-stock companies in India today are paying 30% by way of income-tax *plus* a surcharge of 1.5% and a corporation tax of 20%, which means altogether 51.5%, *plus* a wealth tax of ½%, which works out roughly in the case of an average company to about 3%, and then we have the excess dividend tax (that is, if a company distributed a dividend over 6% on its paid-up capital, there was a graduated scale of taxes on payment made over 6% and that average worked out to about 2 to 3%). So, on an average, joint-stock companies at present are subjected to a tax of about 56½%. The new budget proposes to reduce the income-tax on companies from 31½% to 20%, to raise the corporation tax from 20% to 25% making the basic fignre of 45%. The wealth tax is abolished. The excess dividend tax is abolished. With the abolition of the wealth tax and excess dividend tax, the system of grossing of tax-free dividends has also been abolished. It is, further, proposed that every company which distributes dividends on ordinary shares will deduct income-tax at the rate of 30 per cent (25 per cent income-tax plus 5 per cent surcharge) from dividends payable to their shareholders and deposit the amount with the Government. The new tau system will affect different companies differently. By and large, all those companies which have been regularly distributing dividends will not save anything on the new basis, but may well be called upon to draw from their reserves anything between 2 and 5 per cent to maintain the same amount of gross dividend as at present.

So far as the shareholders are concerned, this so-called simplification of the tax-structure has caused a lot of confusion. The shareholder's position will be determined by the dividend policies pursued by different companics. It may well be that in the case of prosperous companies which can afford to pay higher taxes than what they are paying today, the dividends may be maintained and the dividend tax which would be payable by the companies is something which will be recoverable by the shareholders. I have tried to apply my mind to this problem, but it leaves only much doubt and confusion in one's mind. One very important issue that arises out of this so-called simplification is the accumulated reserves of companies. Every prudent company management when it prepares its account sees to it that whatever the amount available for distribution it is not completely distributed. A ccrtain portion of the distributable .profit is always accumulated in the shape of reserves. But that docs not mean that the amounts which are appropriated to reserves have not been subjected to tax; it is only after paying tax that the balance of the distributable profits is put to reserves. If the Finance Bill as it is presented now is ultimately passed, in the case of companies which have to draw on their accumulated reserves which have already paid taxes, there will

be double taxation to the extent to which they draw on their reserves either to maintain their dividends or to increase their dividends. This aspect bas been brought vividly to the attention of the Government of India. I am not without hope that the Government and Parliament will both see the inequity of double taxation on already taxed profits.

Another very important measure is Section 23-A I of the Indian Income-Tax Act. This is the most obnoxious section of the Income-Tax Law in India. Although originally this section was devised to defeat the moves made by certain wealthy people to form family companies or two-men companies in order to avoid the full incidence of individual super-tax, during the last 25 or 30 years joint-stock company development has been on such lines that out of 30,000 joint-stock companies registered in India, there are 20,000 private companies. Section 23-A I compels distribution of profits to a certain minium figure. For years it used to be 60% and on continuous representation to the Government of India, it was recently reduced to 45% in the case of manufacturing companies and 60% in the case of other companies. For some mysterious reasons, which I am unable to comprehend, this budget proposes again to enhance the compulsory distribution in case of Section 23-A I companies from 45% to 50% and 60% to 65%. It is a very highly technical matter and I should like to clarify it. The industrial development of this country, apart from what is done through big corporations, is largely due to the efforts of the small man. I have come across a number of middle class people who are full of enterprise and who have original ideas for starting new industries. But, unfortunately, brains and money do not always go together and, therefore, these small people have found it extremely difficult to collect the necessary amount of money to give concrete shape to their enterprising ideas.

The result is that they produce a little money of their own, try and induce a few friends to come in to start on a small basis and gradually expand. They have not sufficient credit to make public issues of their companies. The public would not know them and, therefore, the general public would not buy their shares with the ohvious consequence that these companies continue to be private companies. Private companies under the income-tax law mean that less than six persons own more than 50% of the capital and Section 23-A I applies to those companies with the result that such companies are compelled to distribute a minimum proportion of their profits. It will be asked: "What is wrong with it? The shareholders will be benefited." What is wrong is that these companies — and a very large number of them will continue to be under-capitalism3 — are always short of capital either for running or for expanding the business. If they are compelled to distribute a certain minimum amount of distributable profits, the scope for ploughing back the profits to augment their capital resources both for modernising and expanding their business is eliminated with the further consequence that the large dividends which are compelled to be distributed go into the hands of shareholders who are in turn subjected to the higher brackets of super-tax. And, therefore, these shareholders themselves are able to save very little. This Section 23-A I is one against which one ought to continuously agitate till it is suitably and appropriately modified to encourage medium-scale industries in this country.

There is another change in the Budget in the capital gains tax which is difficult to understand unless there is a sinister motive behind it. So far, under the capital gains tax, if in any assessment year a company makes a capital profit, it has to pay capital gains tax at the rate of 31.5 per cent (30 per cent income-tax plus 1.5 per cent surcharge). For some

mysterious reason, the basis of this taxation is changed. Instead of a flat rate of 31.5%, now the Finance Bill says that you will pay on your capital gains 20% income-tax and 10% super-tax which I fear might hold out very easy scope for future Finance Ministers to automatically increase the capital gains tax by simply increasing either the income-tax or the super-tax. In any case, ihe net result of the new budget proposals as they affect direct taxation is that there is a further diversion of capital resources from the private sector to the Government exchequer.

I am unable to follow this trend because even the ruling party in this country recognizes the imperative need of promoting capital formation. Only as recently as the last Session of the Congress at Nagpur, it passed a resolution on planning. It is a sober resolution. If you read it, you might well say that it was drafted by the office of the Forum of Free Enterprise. One significant thing which that resolution says is: "It is only when a sufficiently high rate of capital formation is kept up and the national income rises with some rapidity, that process of economic development becomes self-accelerated." If you subject this statement of policy on behalf of the Congress to the test of practical measure that the Government has devised then these measures would be found to result in defeating the very objective the Congress has in view. If you disregard everything else, the mere increase in wealth tax, which means Rs. 2½ crores every year being taken from the hands of the private sector to the Government exchequer, is a definite disincentive to capital formation in the country. As a matter of fact, as I observed at the time of the Krishnamachari Budget, in any country, under any tax structure, if even a single person is called upon to surrender to the Government 100% or more than 100% of his assessable income during the year, there must be something radically wrong with the taxation structure. It ceases to be taxation but becomes expropriation. Already the effects of the Krishnamachari Budget are in evidence as this so-called integrated pattern of taxation has been having very adverse effect on capital formation. One measure for judging capital formation in the country is the amount of new capital issues year by year. Due to the effort of some of us who were associated with this sort of control in the earlier years, the statistics published by the Government today are more informative than before. It is very interesting to see that in 1956, Rs. 230 crores of new capital issues were sanctioned by the Government. In 1957, Rs. 153 crores were sanctioned and out of that amount, Rs. 18 crores were on account of some of the Government companies which were started, leaving a balance of only Rs. 135 crores of new capital issues, In 1958, the total amount of issues was Rs. 423 crores out of which Rs. 333.5 crores were mainly on account of the steel companies started by the Government of India, leaving new capital issues of only Rs. 89.5 crores for the private sector. These figures are very telling. I am sure that the cumulative effect of the new pattern of taxation in coming years will be to further attenuate capital formation in the private sector. Maybe the Prime Minister personally will be very proud that this is happening. As a matter of fact, in the economic review to which I referred, the official writer acknowledges this trend and points out that there is no doubt that capital formation in the private sector in recent years is definitely slackening.

As regards Indirect Taxes, it is not sufficiently appreciated in Government circles that these indirect taxes are adding to the inflationary processes because most of these indirect taxes have a bearing on the cost of living. The cost of

living is going up because of the higher prices which are charged due to higher excise duties. One particular excise duty to which I would strongly object is the higher duty on vanaspati which one would be justified in describing as a tax on the middle-class kitchen. At a time when this country deplores insufficiency of fats and vitamins for building up our people, making vanaspati still more expensive than what it is is denying to many people the use even of the limited quantities of fats available.

One healthy and welcome feature of the Budget is the abolition of the Compulsory Deposits. We had a struggle two years ago in denouncing what I considered as a most obnoxious and mischievous feature in the fiscal policy of the Government of India, viz., compulsory deposit. I am glad the Government has seen the wisdom and realism of the deleterious effects it was likely to have on our whole financial stmcture. Although compulsory deposit was suspended last year, Mr. Morarji R. Desai should be congratulated on a formal abolition of this compulsory deposit.

Based on a speech delivered under the joint auspices of the Democratic Group and the Progressive Croup in Bombay on March 11, 1959.

Free Enterprise was born with man and shall survive as long as man survives.

—A. D. Shroff

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