WEALTH AND EXPENDITURE TAXES

THEIR EFFECT ON THE INDIAN ECONOMY & THE COMMON MAN

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THE recent budget of the Government of India is notable for many reasons. The total burden of direct and indirect taxation proposed in the budget exceeds the tax burden of any previous budget of this country. The budget proposals have also introduced two novel taxes: namely, the wealth tax and the expenditure tax. These taxes are likely to have far-reaching effects on the Indian economy and the common man. In this lecture I will first deal with the wealth tax, then with the expenditure tax and finally with the effects of these taxes on the common man. I will compare the budget proposals with the recommendations of Mr. Nicholas Kaldor because the Finance Minister's thinking appears to have been partially influenced by the Kaldor Report.

Important aspects of the Reports of the Select Committees of the Indian Parliament on the Wealth Tax Bill and the Expenditure Tax Bill respectively will be considered. The Select Committees, even though mainly composed of members of the Congress Party, recognised the need for many alterations in the Wealth Tax Bill and the Expenditure Tax Bill in order to reduce the inequitable burden of taxation proposed in these Bills. In the latest debate in the Parliament prominent Congress members have vehemently criticised the new taxation proposals. Mr. C. D. Pande, for instance, appealed to the Government not to "wage war

against the private sector and paralyse it" and said that because of the wealth and expenditure taxes, the ordinary man had lost interest in wealth. If there was no faith in the future of wealth and property the people would not save. Another Congress member, Mr. Mathura Prasad Mishra, said that today the burden of central and state taxes was so heavy that it was "breaking the back" of the middle class. **The new tax measures are being hastily pushed through the Parliament by the Government without giving public opinion a reasonable opportunity of assessing the implications and effects of these taxes.**

The Finance Minister recently made the astonishing statement that "logic and taxation could not go together." No reputable economist can possibly subscribe to this view. Economic theories and practice of public finance and taxation have been developed throughout the world on the basis of logic and scientific reasoning. They cannot be discarded as inapplicable merely because the Finance Minister chooses to do so. The Finance Minister would have been on surer ground if he had frankly admitted that his own taxation proposals and logic do not go together.

WEALTH TAX

In the recent budget the Finance Minister has for the first time proposed imposition of the wealth tax which will be payable by individuals having over Rs. 2 lakhs, Hindu Joint families having over Rs. 3 lakhs and companies with assets of more than Rs. 5 lakhs. Individuals and Hindu Joint families will have to pay wealth tax at the rate of ½% on the first Rs. 10 lakhs over the exempted limit, 1% on the next Rs. 10 lakhs and 1½% on wealth in excess of these amounts. The Select Committee on the Wealth Tax Bill has recommended a token relief of Rs. 500 per annum in the burden of the wealth tax on Hindu Joint families from the rates of tax originally proposed by the Finance Minister. For companies having assets of more than Rs. 5 lakhs a flat rate of ½% is proposed. Wealth, as defined for the purpose of the wealth tax, refers to the market value on a particular date of all assets of the assessee (with the exception of a few minor items which are exempted from the tax).

WEALTH TAX ON PERSONS

Rationale of the Tax

The imposition of the wealth tax on individuals has been advocated in economic literature and notably by Mr. Nicholas Kaldor as a substitute for the very high slabs of income tax and super tax prevailing in various countries. Thus the Kaldor Report had recommended that the maximum rate of income tax and super tax should not exceed 45% of gross income if the wealth tax and the other taxes recommended in the Report were to be introduced in India. The arguments in favour of the wealth tax are based upon the defects and deficiencies of the income tax and super tax which are sought to be remedied.

In the budget proposals the reduction in the rates

of income tax and super tax on individuals is so minor that it can be at best construed as a token gesture—the maximum rate of these taxes remains as high as 84%! Hence the arguments in favour of the introduction of the wealth tax as advanced by the Kaldor Report do not apply to the budget proposals because they impose the wealth tax on top of very high rates of income tax and super tax—and not as a substitute for them. **The budget proposals cannot be defended by the well-known economic arguments in favour of the wealth tax.**

Burden of the Wealth Tax

When the budget proposals were announced many persons underestimated the burden of the wealth tax because the rates of tax appeared to be low or at least somewhat reasonable. In an article in one of the newspapers I first pointed out the extremely heavy burden of the wealth tax when viewed in conjunction with the proposed rates of income tax and super tax. The average gross income or yield on wealth can be assumed at 6% per annum. This is a reasonable assumption because 6% per annum has been taken as a fair yield on capital for various taxation measures by the government in the past. Further this assumption does not affect the following analysis because similar calculations can be made assuming different rates of yield on wealth and such calculations will reveal effects of the taxes similar to those pointed out below. On the basis of 6% yield on wealth per annum we can calculate the amount left in the hands of different assessees out of their gross incomes after paying the income tax, the super tax and the wealth tax at the rates proposed by the Finance Minister. Such a calculation reveals a startling result. An individual having Rs. 5 lakhs wealth and hence a gross income of Rs. 30,000 will retain about Rs. 22,000 out of his income after paying income tax, super tax and wealth tax; an individual having Rs. 15 lakhs wealth and a gross income of Rs. 90,000 will retain about Rs. 32,000; an individual having Rs. 40 lakhs

wealth and a gross income of Rs. 2,40,000 will retain about Rs. 21,000; an individual having Rs. 60 lakhs wealth and a gross income of Rs. 3,60,000 will retain about Rs. 10,000 and an individual having Rs. 70 lakhs wealth and a gross income of Rs. 4,20,000 will retain only about Rs. 5,000! The individual having about Rs. 80 lakhs wealth and a gross income of Rs. 4,80,000 will have to pay his entire gross income to meet these taxes—he will have nothing left out of his income. The owners of wealth in excess of Rs. 80 lakhs not only will have to pay their entire gross income but also varying amounts out of their wealth or capital in order to meet their liabilities under these taxes. Thus the individual having Rs. 1 crore wealth and a gross income of Rs. 6,00,000 will have to pay his entire gross income plus about Rs. 11,000 out of his capital in order to meet these taxes and the individual having Rs. 2 crore wealth and a gross income of Rs. 12,00,000 will have to pay his entire gross income plus about Rs. 65,000 out of his capital. This peculiar negative effect on the amount retained out of gross income after paying the taxes with every increase in wealth is due to the excessive rates of tax in the higher slabs of wealth and income. On the wealth of individuals in excess of Rs. 22 lakhs, for every additional Rs. 1 lakh wealth, the gross income assumed at Rs. 6,000 will yield only Rs. 960 net income after paying the income tax and the super tax (at the rate of 84%) whereas the liability for wealth tax will amount to Rs. 1,500. **Thus on wealth in excess of Rs. 22 lakhs, the net effect of the proposed rates of income tax, super tax and wealth tax will be to confiscate the entire gross income plus 0.54%of the capital annually.**

Implications and Effects of the Tax

The effect of the imposition of wealth tax in addition to the high proposed rates of income tax and super tax payable by individuals and Hindu Joint families will be that the Government will confiscate annually a portion of private wealth. **The budget proposals therefore**

mply the gradual disappearance of private wealth and the private sector from the economy of our country.

The immediate or short-run effect of the new taxation proposals will be to impose a ceiling not only on income but also on capital. As pointed out by Dr. Krishnaswami, in his Minute of Dissent to the Report of the Select Committee on the Wealth Tax Bill, "if our marginal rates of taxation swallow up current income and also the assets year after year what we are doing in effect is to put a ceiling not only on income but also on capital—a policy which cannot commend itself to most progressive thinkers and those who wish the Plan well. Mr. Kaldor. . . . had rightly opposed attempts to fix a ceiling on income and capital. In Parliament, the Prime Minister, in a closely-reamed defence of the Second Five-Year Plan, stigmatized all attempts at putting a ceiling on incomes as totally irrational." It is therefore difficult to understand why the present taxation proposals are tolerated and even defended by the Prime Minister. The new tax proposals are likely to have even more adverse' effects than a mere ceiling on incomes in so far as they will impose ceilings on income as well as on capital and will annually confiscate private wealth.

The Finance Minister claimed in his budget speech that the wealth tax will not have any serious adverse effects on incentives. It is impossible to understand how he arrived at this conclusion. Indeed it can be claimed that the Finance Minister's proposals are likely to have a severe adverse effect on the incentives to work, to save, to invest and to take risks, especially of the investing classes. The sheer suddenness with which the crushing new tax burden has been imposed has shattered the confidence of investors. Further it is difficult to understand how the Finance Minister can expect enterprising persons to work, to save, to invest and to shoulder risks boldly when their maximum total net return on wealth after paying income tax, super tax and wealth tax appears around Rs. 32,000 and when the net return

declines rapidly with an increase in wealth. Even in a socialistic economy the incentives must be largely *economic*. **Men will work more, save more, invest more and take greater risks in business and industry if by doing so they can increase their net incomes and their net wealth after paying taxes and thus improve their standard of living. The budget proposals run counter to and flout this well-accepted and proved principle relating to incentives.**

Kaldor's Recommendations Flouted

It should be mentioned in all fairness that such a position was never envisaged or recommended by the Kaldor Report. The Report recommended that wealth tax should be levied on personal wealth at rates similar to those proposed by the Finance Minister. But the Kaldor Report had clearly stressed that if this was done, the maximum rate of income tax and super tax should be reduced to 45% of gross income (as compared with the rate of 84% under the budget proposals). Mr. Kaldor had stated that the wealth tax on individuals should not confiscate capital and that the total burden of the wealth tax, income tax and super tax should never exceed the gross income. Indeed the total burden of these taxes at the rates recommended by Mr. Kaldor is lighter than even the burden of the income tax and super tax under last year's (1956-57) budget proposals. The Kaldor Report recommendations recognised the need for maintaining incentives.

Burden of Taxes is Heavier than that prevailing in any other country

There is no other country in the free world having a taxation system under which every successive increase in wealth is accompanied by a continuous decrease in the total amount left in the hands of the taxpayers out of their gross income after paying income tax, super tax and

wealth tax. There is no country in the world where the rewards of exceptional success in business or industry and of amassing a fortune through thrift and risk-bearing are not only the confiscation of the entire gross income but also the confiscation of a portion of capital or wealth as proposed by the new budget of the Government of India. Every other country has recognised the need for observing the fundamental principle that if a man is to have incentives to work, to save, to invest, and to take risks by setting up and running businesses and industries he must be given greater rewards commensurate with greater effort after paying all taxes.

Can India afford to adopt a tax structure which is contrary to well-established economic theories and practice in relation to the incentives necessary for greater effort on the part of human beings? The answer must emphatically be: No—unless we wish to run into serious economic troubles, crisis and even bankruptcy in the long run.

WEALTH TAX ON COMPANIES

The Finance Minister has proposed the levy of the wealth tax on companies with assets in excess of Rs. 5 lakhs. The rate of tax is to be 0.5%. So far neither the Finance Minister nor anybody else has been able to give a single logical argument! in favour of this tax. This tax was not recommended by Mr. Kaldor. The only defence for this tax may be found in expediency. We are desperately in need of funds for the Second Five-Year Plan and the confiscation of the capital of companies can provide an important temporary source of revenue for the government. The **wealth tax on companies will impose double taxation on the assets of companies** because this tax is not refundable to the shareholders. Thus the assets of the companies will be taxed or confiscated twice in the same year—first by the wealth tax on companies and again by the wealth tax payable by shareholders on the

value of their shares which merely represent ownership rights in the assets of the companies.

Tax on Small Investors or the Common Man

It has been shown statistically that the vast majority of shareholders in public companies are small investors. These individuals do not own, in most cases, wealth in excess of Rs. 2 lakhs and many of them may nob even possess more than Rs.10,000. A survey of the ownership of shares and securities in Bombay city, carried out by the Department of Research and Statistics of the Reserve Bank of India in 1955, showed that 59.5 per cent of the shareholders were persons having a monthly income of less than Rs. 666. The wealth tax on companies amounts to levying a tax for confiscating the assets owned by these small investors many of whom constitute the poorer sections of the community. **There is absolutely no justification for imposing the wealth tax on companies which confiscates the assets or wealth owned by small investors who are working people and who have invested their hard-earned life-time's savings in various companies.** We have not reached that stage of economic desperation which would justify confiscation of the assets owned by the small investor or the working man who has invested his savings in companies and will need these savings after his retirement from service.

Effects of the Tax

The effect of the wealth tax on companies will be to discourage not only the wealthy but also the middle and poorer classes from investing their savings in the capital of companies or industrial enterprises. **Under the new tax laws it will be almost impossible to float new companies and to persuade the public to invest their savings in new industrial enterprises.**

The wealth tax on companies will make the working

and even survival of existing companies difficult. In the last few years the companies have been burdened with a number of new taxes which have no justification or logic. They have been imposed in the heroic effort to get greater revenue for the government. The wealth tax is the latest burden imposed on the long-suffering and patient corporate sector. It will confiscate the capital and financial resources of the companies which under normal conditions would have been used for the expansion of their production facilities. The tax is an inequitable blow given by the government to the private sector. **It will hamper the economic development and progress of the private sector and therefore of the nation.**

Some minor concessions have been proposed recently to mitigate the hardship likely to be caused by the wealth tax on companies and to reduce its inequitable burden. As a result of repeated criticism from many quarters the Finance Minister has realized at last the inequity of the wealth tax on companies in relation to the small shareholders. He has therefore proposed giving relief to small shareholders by raising the limit of unearned income surcharge for income tax purposes by Rs. 1,500 gross income derived from dividends. But this proposal will give a relief of less than Rs. 100 per annum to the small shareholders and therefore cannot possibly offset the indirct burden of the wealth tax on companies on them.

The Select Committee on the Wealth Tax Bill made a half-hearted and feeble attempt to reduce the burden of the wealth tax on companies. Concessions such as a tax holiday for new industrial undertakings, exemption of companies making losses, exemption of intercorporate investments and exemption of shipping companies from the tax were recommended by the Select Committee. But, as rightly pointed out by Dr. Krishnaswami in his Minute of Dissent to the Report of the Select Committee on the Wealth Tax Bill, "these are at best palliatives and da not touch the heart of the matter."

EXPENDITURE TAX

An expenditure tax payable by individuals and Hindu Joint families was introduced in the budget. According to the latest proposals of the Finance Minister and the recommendations of the Select Committee on the Expenditure Tax Bill a basic annual allowance of Rs. 30,000 for individual assessees and of Rs. 30,000 plus Rs. 3,000 for every coparcener subject to a ceiling of Rs. 60,000 for Hindu Joint families will be exempt from this tax. This proposed exemption is far from liberal. As pointed out by certain members in their Minutes of Dissent to the Report of the Select Committee on the Expenditure Tax Bill, the purchasing power of Rs. 30,000 per annum in terms of per-war values is not very far from Rs. 500 per month. Mr. Minoo Masani rightly asked: "How can a family spending this amount be accused of extravagant expenditure even on the very strict code of austerity prescribed by Mahatma Gandhi?" Yet expenditure in excess of these exempted limits will be subject to a tax which is to be levied on a sharply progressive scale in which the rates of tax rise from 10% upto 100% of net expenditure.

Expenditure, as it is defined for the purposes of the expenditure tax, will include all expenses incurred for personal consumption or for living costs by an assessee and his family. A few minor items of personal expenditure are exempted from the tax in order to give the tax payer a token relief for certain expenses which have to be incurred for reasons or circumstances beyond his control. The Expenditure Tax Bill as originally introduced by the Finance Minister had inadequate and

meagre exemptions for unavoidable expenditure. The Select Committee on the Expenditure Tax Bill recognised the inequitable nature of the original proposals and recommended that the list of various items exempted from the tax should be considerably extended in order to exclude items like the costs of education, medical expenses and marriage expenses from the levy of the tax.

Rationale of the Expenditure Tax

The introduction of the expenditure tax as a substitute for the income tax and the super tax or at least the higher brackets of these taxes — has been advocated by a few economists, and notably by Mr. Kaldor, on various theoretical and even some practical grounds.

One of the most important arguments in favour of the expenditure tax as a substitute for the income tax and super tax is that an expenditure tax will promote savings and curb spending more than is done by the income tax and super tax. It has been argued by Mr. Kaldor that the very high taxation of income has encouraged the wealthy classes to cease saving and to even dis-save or spend out of their capital because the sacrifice of future net income (after paying income tax and super tax) in relation to the capital consumed is negligible. Mr. Kaldor believes that the richer classes are not only spending their entire incomes but also large portions of their capital.

Mr. Kaldor has been unable to prove his belief in this matter by factual data. The Kaldor Report noted that "there are unfortunately no statistics available in India, even on a sample survey basis, of the consumption expenditure of the top income groups". Yet the Report was unscientific enough to mention that "some observers put the expenditure of the upper classes in India at over Rs. 500 crores a year". This dubious claim implies that on an average each wealthy person in India possessing more than Rs. 2 lakhs capital has been spending not only his entire income but also between Rs. 1 lakh

and Rs. 2.4 lakhs out of his capital annually. Persons familiar with Indian conditions will readily realise that this claim about the spendthrift habits of the rich made by "some observers" and quoted in the Kaldor Report is grossly exaggerated and false. If statistics were available, they would probably show that, as compared with the wealthy classes in other countries, the wealthy classes in India are made up not only of the thrifty but in many cases the most miserly people in the world! This will probably be borne out by the returns of the expenditure tax in the years to come — if the tax is imposed. **Some weeks ago I had predicted that the yield from the expenditure tax to the revenue will be negligible. In their Minutes of Dissent to the Report of the Select Committee on the Expenditure Tax Bill published recently, Mr. Minoo Masani, Dr. A. Krishnaswami and Maharaja Karni Singh of Bikaner have expressed the view that the expenditure tax might not bring in any substantial revenue commensurate with the psychological disturbance, dislocation and harassment it was bound to cause.**

Unfortunately the Finance Minister appears to have been profoundly impressed by the argument that, to quote his own words, this tax "can be a potent instrument for restraining ostentatious expenditure and for promoting savings". It is doubtful if his hopes in this direction will be fulfilled. The amount of ostentatious expenditure incurred in India by the richer classes has been grossly exaggerated. Further Mr. Kaldor's argument that an expenditure tax would promote savings is applicable only if the expenditure tax is a substitute for the income tax and super tax in the higher tax brackets. It cannot be applied to the budget proposals. The Finance Minister has proposed the imposition of the expenditure tax on top of the very high rates of income tax, super tax and wealth tax payable by individuals and Hindu Joint families — it is not a substitute for these taxes.

The expenditure tax has also been advocated as a substitute for the income tax and super tax on various other grounds. But all these arguments in favour of the tax are not applicable to the budget proposals since the rates of income tax and super tax have been kept at such high levels that the expenditure tax can under no circumstances be considered as a substitute for these taxes. It is therefore not necessary to discuss here the whole case for the expenditure tax as made out by Mr. Kaldor. It should be noted however that even the theoretical case for the introduction of the expenditure tax as propounded by Mr. Kaldor is far from convincing. In my writings I have refuted every argument advanced by Mr. Kaldor in favour of this tax. Mr. Kaldor has also failed to convince the majority of economists about the desirability of an expenditure tax.

India is the first country in the world to introduce an expenditure tax. The fact that the tax does not exist in other countries is not necessarily an argument against the tax. But it should be remembered that the proposal for introducing an expenditure tax is not a new idea. It has been discussed and carefully considered by various countries like Great Britain, U. S. A., Sweden and the other European countries. All these countries after carefully examining the proposal for introducing an expenditure tax came to the conclusion that the imposition of such a tax would be economically and socially undesirable and administratively impossible. Has our Finance Minister become wiser than the experts in the rest of the world to justify the introduction of a tax which has been discarded by every other country ? Do we possess such a superlative administrative machinery as to enforce a tax considered administratively impossible by the leading nations of the world? The answers to both these questions must undoubtedly be in the negative. The expenditure tax has been introduced by the Finance Minister as an act of economic bravado.

Burden of the Tax

It has been shown that the combination of the income tax, super tax and wealth tax at the rates proposed by the Finance Minister will result in the confiscation of most of the income and in some cases the entire income and even a portion of the capital of wealthy individuals and Hindu Joint families. The wealthy classes will therefore be forced to spend out of their capital in order to meet their personal expenses. Since the rich may have been accustomed to a higher standard of living than permitted under the exemption limits laid down by the expenditure tax provisions they will be forced to pay the expenditure tax at the proposed rates which are very high ranging from 10% upto 100% of expenditure. It is unrealistic to expect that individuals will be able to reduce their standards of living overnight in order to adjust to the new tax proposals. Thus the Report of the Select Committee on the Expenditure Tax Bill stated that expenditure tax being a new levy, persons who might have been accustomed to a high standard of living in the past may take some time to adjust their expenditure and adjust themselves to new standards. It was therefore recommended that such assessees be given the option to claim that the limit of exempted expenditure in their case be equal either to 75 per cent of the average annual expenditure of the last three years or Rs. 75,000 whichever is less. It was recommended that rulers who were receiving privy purses should have their limit of exempted expenditure settled on an individual and ad *hoc* basis by the Central Government. These recommendations if adopted will introduce small temporary concessions. Nevertheless in general the imposition of the expenditure tax in addition to the income tax, super tax and wealth tax at very high rates will merely accelerate the process of confiscating private wealth.

Effects of the Expenditure Tax

No provision is made in the Expenditure Tax Bill for giving exemption from the tax to

expenditure incurred by an assessee on aged, disabled, unemployed and needy relatives or dependants. This is the most inhuman aspect of the Bill. In a country like India most rich persons have a number of such relatives or dependants whom they have supported as a social obligation. The Government has no right to impose a tax on the living expenses of old, disabled, unemployed and needy persons when such expenditure is contributed by their richer relatives or patrons. **The expenditure tax if payable on such expenses will be a tax on the living expenses of the poorest sections of the community for which there can be absolutely no justification.**

Since the levy of the expenditure tax in addition to the other extremely heavy taxes payable by persons will confiscate private wealth, the expenditure tax will have further damaging effect on the incentives of the richer classes to work, to save, to invest and to take risks.

Indeed there is the danger that the expenditure tax instead of promoting savings and restraining ostentatious expenditure may have exactly the opposite effect. The fear that inflation will reduce the value of their money and the fear that the tax burdens may be increased in the coming years may actually encourage wealthy persons who were thrifty in the past to become extravagant. They may prefer to spend and enjoy their wealth whilst it is still possible for them to do so rather than allow the government to confiscate it in the long run!

EFFECTS ON THE COMMON MAN

The new taxes will have adverse effects on the prosperity and welfare of the common man. Of course most of these effects will not be immediate but will have their impact indirectly and in the long run.

The prosperity and welfare of the common man in India will depend upon the economic progress and development of the country. If India industrialises rapidly, if her agriculture improves and if her economy becomes strong and self-reliant the common man's standard of living will rise and he will enjoy prosperity undreamt of by his forefathers. If on the other hand the country's progress is retarded the common man's standard of living will not rise rapidly and may even fall and the fruits of his labour will be more misery and frustration.

Economic development is dependent upon saving and investment. If we wish to progress economically we must ensure first that the rate of saving increases and that the savings are properly invested in various desirable enterprises. In a poor country like India savings could be accumulated and invested mainly by the companies and by the wealthy and the investing classes. The budget will impose such a heavy burden of taxation on the companies that their future growth through ploughing back their profits into their businesses will become extremely difficult. The tax burden on individuals and Hindu Joint families will be so crushing that

it will make it impossible for even the most thrifty individuals to save. The tax proposals of the Finance Minister will have severe adverse effects on the incentives to work, to save and to invest. **The budget proposals will adversely affect the rate of saving and the rate of investment or the rate of domestic capital formation in the Indian economy.** They will therefore hamper the economic progress of the country.

Indeed statistical evidence is available to show that the new tax burdens imposed since November 1956 have already had severe adverse effects on the flow of savings and investment into the private sector. The Federation of Indian Chambers of Commerce and Industry has announced that there has been a serious decline in the overall addition to the paid-up capital of all companies since November **1956.** During the period December **1956** to March 1957 the total increase in the paid-up capital of all companies was of the order of Rs. **6.46** crores as compared with Rs. 11.08 crores in the corresponding period of the preceding financial year. In the first eight months of 1956-57 joint stock companies increased their paid-up capital at the monthly average rate of Rs. **5.84** crores whilst the monthly increase for the period December **1956** to March 1957 amounted only to Rs. 1.61 crores.

Figures published by the office of the Controller of Capital Issues of consents given for raising capital also indicate a slowing down in the rate of investment in recent months. During the quarter January to March **1957** the amount of capital issues applied for and consented to aggregated Rs. **37.39** crores and Rs. **31.61** crores respectively as compared with Rs. 121.26 crores and Rs. 1**16.59** crores for the quarter October to December 1**956.** Further from January to March **1957** initial or new capital issues accounted for less than 17 per cent of the total amount consented as compared with 41 per cent **in** the calendar year **1956, 38** per cent in 1955 and **52** per cent in 1954. **It appears therefore that the rate of investment in companies or in the private sector had declined by more than 50 per cent as compared with the rate of investment before November 1956, on account of the excessive tax burdens placed by successive budgets since that date. The figures clearly indicate which way the wind is blowing.**

Domestic savings and investment, even if achieved at high rates, will not be adequate for economic development at a sufficiently rapid rate to meet the desires of the masses and the common man. The Second Five-Year Plan takes credit for a substantial volume of foreign investment and help which is expected and without which the Plan cannot be achieved. **The introduction of the new taxes will discourage private foreign investors from starting new industries or investing their capital in India.** They will prefer to invest in many other under-developed countries where the potential for profit and capital appreciation is probably greater, where the burden of taxation is more reasonable and where the economic climate is more favourable for private enterprise than in India. Mr. G. D. Somani recently pointed out in the Parliament that a Report prepared by the National Council of Applied Economic Research had "painted a very gloomy picture about the prospects of foreign investments in India." The Government of India has not released this Report to Members of Parliament perhaps for this reason. **Foreign technicians will prefer to work in other countries where their efforts are better rewarded than in India,** especially where they will be able to enjoy their incomes without paying expenditure taxes! Even the Finance Minister has realised that the budget proposals will have serious adverse effeets on the flow of foreign investment and technical skill or "know-how" into India. Therefore there are proposals to give exemption or preferential treatment to foreign investors and personnel in respect of the new taxes. The Select Committee on the Wealth Tax Bill has recommended that wealth tax

on investments in India of non-resident foreigners should be levied at half the rate applicable to the investments or wealth of Indians. What an irony of fate! In the pre-independence days the Congress fought the British regime tooth and nail for the removal of favoured treatment to foreign investors. The present Finance Minister was one of those who vigorously condemned the preferential treatment given to foreign interests in India during the British *Raj*. But now the very same Congress Party is prepared to discriminate against Indians and Indian capital in favour of foreign capital, foreign executives and foreign experts! It is a national disgrace that within ten years of achieving independence the Government has introduced budget proposals and created an economic climate which forces them to consider economic measures for which they had so vigorously condemned the British. Moreover it is very doubtful if even such concessions in respect of the new taxes will attract foreign investors and foreign technicians to India. The fear that these concessions may be withdrawn in future will prevent foreigners from participating in the economic development of the country.

The budget proposals for the imposition of the wealth tax and the expenditure tax in addition to the very high rates of income tax and super tax will have adverse effects on the rates of domestic capital formation and foreign investment in India. They will retard the progress of the country. They are therefore opposed to the interest of the common man.

The tax officials have been given extremely wide discretionary powers for the collection of the wealth and the expenditure taxes. The tax officials have the power to probe into the assets and belongings and also the personal expenses of any person in ,the country. In the very vast majority of cases the common man may not be affected by the actions of the officials. But it should not be forgotten that **the tax officials will have the power to harass even the ordinary citizen of this country.** In their Minutes of Dissent to the Report of the Select Committee on the Expenditure Tax Bill, Dr. Krishnaswami and Mr. Minoo Masani condemned the proposed measure as amounting to legalised harassment and Maharaja Karni Singh said that such interference in the private and individual life of a citizen was unknown in any other democratic country of the world.

The interest of labour will be adversely affected in the long run by the new taxes. The proposed taxes imply gradual and continuous confiscation of private wealth. In the long run—and perhaps even in a few years if the rates of tax are further increased—such confiscation of private capital will result in the disappearance of the private sector. The Government will emerge as the sole employer of labour and it will probably crush the collective bargaining power of organised labour and the trade unions. The actions of the Government of India in connection with the recent threatened strike of Post and Telegraph workers should provide a clear warning to labou and the trade unions of the treatment which they can expect if Government becomes the sole employer of labour. If a private employer had been faced with demands from his workers similar to those made by the Post and Telegraph workers he would have been forced to concede them at least partially. The workers would have had the right to go on strike and even if the strike was declared illegal the maximum punishment which the private employer could have imposed would have been dismissal of the workers. The Government of India's actions to prevent the strike of the Post and Telegraph workers were rather surprising to say the least. The strike was denounced as anti-national. By an Ordinance the Government secured powers to declare the strike of its employees illegal. It was proposed to prohibit strikes of Government employees by changing their service rules. Workers who refused to work were to be threatened with not only the usual punishment of dismissal but were also made liable to long terms of imprisonment and heavy fines. Labour should reflect

on the fact that if it agrees to or encourages the confiscation of private wealth it will one day be at the absolute mercy of the Government. If the Government becomes the sole employer the common man will probably enjoy lower wages and worse working conditions than would have been available under private enterprise; he will probably lose his right to strike; if he refuses to work under the existing conditions he will probably be dismissed and even imprisoned and fined and he will be unable to change his employer and his job freely. The Government will determine the survival of the common man under such circumstances. If it refuses to employ him or if it dismisses him the common man will be left to starve and die. There will be no other employers to offer him the means of livelihood. The dangers of losing all their rights to work and to improve their wages and conditions of work, if Government becomes the sole employer of labour, are sufficiently grave to make organised labour, their leaders and the common man oppose the confiscation of wealth. as proposed by the budget, as being directly opposed to their interests.

Conclusions

It may finally be asked: Are these hardships necessary? The yield to the revenue from the wealth tax is estimated at Rs. 15 crores annually. If the concessions recommended by the Report of the Select Committee on the Wealth Tax Bill are adopted the yield from the tax is estimated at Rs. 12.50 crores annually. The Finance Minister has not estimated the contribution to revenue expected from the expenditure tax—but it will be probably negligible. The total contribution of all the direct and indirect taxes proposed in the budget is estimated at Rs. 73 crores for this year. But of this only Rs. 40 crores will be available for the Second Five-Year Plan: the balance will be eaten up in increased administrative expenditure. As against this gain of

Rs. 40 crores, shareholders of public companies alone have lost about Rs. 200 crores as a result of the fall in share prices caused by the Finance Minister's proposals. The yield from the new taxes will not be sufficient to offset the damage which will be inflicted on various sectors of the economy.

We have the Second Five-Year Plan on which depend the hopes and aspirations of millions for a better material existence. The Plan and all other efforts to make the country economically prosperous should have the unstinted support of every patriotic Indian. But the Plan will not be achieved by confiscating the capital of the Private Sector. Economic progress will be hampered by the budget proposals. The only possible way to achieve the Plan is through an increase in the rates of domestic saving and investment and by securing an increased flow of foreign investment and technical 'know-how' into India. This will be possible only if the Government follows economic policies which are sound, revises its tax proposals and restores the confidence of investors and the common man.

The proposal for imposing the expenditure tax should be withdrawn. The wealth tax on companies should be dropped. The wealth tax on individuals may be imposed provided the rates of income tax and super tax are reduced sufficiently to ensure that the combined effect of these three taxes will be to maintain incentives and not to confiscate capital. The maximum total of the rates of income tax and super tax should be reduced to 45% as recommended by Mr. Kaldor. Alternatively there should be a tax ceiling as under the Swedish tax laws. It should be provided that the total of the income tax, super tax and wealth tax payable by individuals should never exceed a certain percentage of their gross incomes—say 80% of the gross income as in Sweden.

The characteristic of a great man is that he is quick to see his mistakes, admit them and rectify them. The Finance Minister will once again prove his greatness as a politician and a thinker if he will reassess the effects of his tax proposals, retrace his steps and introduce suitable modifications in the budget proposals to maintain incentives and to accelerate the economic development of the country. If the Finance Minister persists in imposing his budget proposals he will force the country to take a gamble on its economic progress in which the odds appear heavily against' success.

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