Reprinted from 'The Times of India' dated May 26, 1957, with kind permission of the editor.

DANGERS OF WEALTH TAX

By S. H. Batlivala

Our recent budget has introduced the novel idea of both the Wealth and the Expenditure taxes. The reasoning for these levies is to progress towards our special brand of socialistic society.

Surely, our experts must have been consulted before this new experiment was embarked upon. In the matter of the Wealth Tax as well as the Expenditure Tax, our pioneering spirit will be watched with great anxiety by many, though the wisdom of both are doubted in many quarters.

Perhaps an examination of some historical data connected with the Wealth Tax may clarify the problem. This form of taxation was thought of more than a quarter of a century ago in a conservative though economically advanced country like England and after due deliberation was rejected for various reasons.

In the year 1919, Britain, though having come out victorious from the First World War, found her finances in a deplorable state. The financial situation in Britain was perhaps more serious than the financial situation and resources of our Second Five-Year Plan.

The British Government was tinkering with the idea that some sort of levy should be imposed on higher bracket incomes. Dr. Hugh Dalton, then a young University professor, who subsequently became the Chancellor of the Exchequer, was the chief protagonist of this idea. Through this process, it was anticipated that a silent and imperceptible process of cancellation of debts against the wealth of the more affluent members of the community would take place there.

Others like Lord Keynes and Lord Stamp joined in the debate and the Labour Party somewhat half-heartedly approved it. That Party was constrained to admit that a graduated levy on estates from £5,000 to £1,000,000 would involve not less than two and a half years' work on *valuation alone*. It did not take the Treasury and the economists long to opine that the yield to be expected was trifling compared to the administrative difficulties and economic repercussions that would follow in the wake of a measure of this nature. The project was, therefore, quietly dropped.

Full weightage was given to the disadvantages of levy on capital.

1. More capital was now wanted for reconstruction of industries and for production of profitable and marketable articles which were lost and neglected during the war. Also capital for improvement of industries for increasing output and thus permitting adequate wages to be paid was required.
2. Increased working capital was wanted as raw material and wages have increased in cost.
3. Capitalists would be obliged to sell and there would be thus universal depression of security and a general liquidation would contain all the elements of a financial crisis.
4. The rearrangement of the capital of the country in different hands—i.e. its investment

from industries to pay off State creditors—was not an honest proposal and means that you take away the property of one class to remove the burden of taxation from another class. For instance, taking away the widow's nest-egg provided by a self-denying husband by payment of life insurance premium was unfair. Spendthrifts would escape and foreigners living on British securities would secure control of British capital and industries.

Long after the termination of the Second World War, the idea of a Capital Levy was again mooted in the year 1951 in the U.K. by Mr. S. P. Chambers, a former member of the British Civil Service and a few other professors. Mr. Chambers had to point out, however, that there were roughly 3 million estates of a value exceeding £1,000; 450,000 exceeding £10,000, and 21,000 exceeding £100,000. He had to admit that at the present high rates of taxation on the higher income brackets, any re-distribution to lower income brackets would involve substantial loss of revenue to the exchequer, and in his opinion the yield of a levy on capital would be far less than that of the existing taxation which it would replace.

He was strongly of the opinion that it would be useless as a means of reducing the Government debt as long as income tax, sur-tax and death duties (which are themselves a form of capital levy) remain near their present levels.

Experience has shown that assets cannot be sold without any violent disturbance to markets. Everybody would want to sell assets at the same time and this would lead to a very heavy fall in the market price of Government securities and industrial shares. Mr. Chambers declared that the simple result would be that the greater part of a capital levy would not and could not be paid, and that, apart from a precipitous fall in bonds and equities, there would be no market for large blocks of property which people were trying to sell to pay for death duties. Mr. Chambers came to the conclusion that "a tax which cannot be collected until 1955 is not much good for financing the expenditure of 1951."

If, however, the Indian Finance Minister persists in leading the Congress Government into confiscatory methods aided and abetted by Ordinances, and causes distress to all classes of people, a warning may be uttered in the words of Disraeli's classic oratory on the waning popularity of Gladstone's Cabinet in 1872 :—

"Extravagance is being substituted for energy by the Government. The unusual stimulus is subsiding. Their paroxysm ends in frustration. Some take refuge in melancholy and their eminent chief—alternates between a menace and a sigh. As I sit opposite the Treasury Bench, the Ministers remind me of one of those marine landscapes not very unusual on the coast of South America. You behold a range of exhausted volcanoes. Not a flame flutters upon a single pallid crest. But the situation is dangerous. There are occasional earthquakes, and ever and anon the dark rumblings of the sea."

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