

# Desperate Proposals

A Review of "1957 Budget"

By Mr. A. D. SHROFF



ONE Finance Minister in the old days said that if the monsoon was good the Central budget came out successful, If not, it went wrong. It was a gamble in rains. The recent Union budget has been a gamble in planning. The whole basis and justification for the new and additional taxation proposals which are revolutionary in character are to be found in an attempt to implement the Second Five-year Plan.

The Finance Minister has estimated a total deficit of about Rs. 33 crores on current account for the year 1957-58 and an overall deficit of Rs. 365 crores including capital account. Considering the fact that under planned development some amount of deficit financing is unavoidable, I think there is some justification on the basis of sound budgeting that proposals for new taxation should have been evolved to cover the deficit on current account and that in my judgment could have been achieved without causing any serious shock to the general economy of the country.

Coming to the actual proposals which cover a wide range of indirect and direct taxation, the total incidence of the new and

additional taxes proposed comes to Rs. 93/- crores for the whole year, of which excise duties form a little over Rs. 63/- crores. In evolving proposals for new taxes, the Finance Minister has enunciated four objectives :—

1. Firstly, that these taxes must produce a sizeable addition to public revenues.
2. Secondly, they should provide incentives for larger earnings and more savings.
3. Thirdly, they must restrain **consumption** over a fairly wide field so as to keep in check domestic inflationary pressures and to release the resources for investments.
4. They must initiate such changes in the **tax** structure as would make tax yield progressively more responsive to increased incomes and facilitate an orderly development of the economy with due regard to the social objectives they have adopted.

I propose to analyse the **tax proposals** with a view to see to what extent these objectives are fulfilled, conceding at once that the first objective of producing a sizeable-addition to revenues at least in the near future will be fulfilled.

There is a wide range of both consumer and capital **goods** which have been covered by the proposals for increasing excise duties. I shall first deal with the consumer goods.

### **Consumer Goods**

- Reading the budget, I have been impressed with the fact that, irrespective of all other

considerations which particularly affect different rates in different commodities, the only objective the Finance Minister had before him in evolving the new proposals was to collect as much as possible. For example, the increase in excise duties has no relevancy at all to the peculiar situation which is prevailing in the tea industry. Last year we made a record export of tea, and knowledgeable people in the tea trade believe that perhaps it would be very difficult to maintain that record in the coming year.

We exported last year as much as **two-thirds** of our production and every effort is being made to sell more tea in the domestic market. At a time like this when the tea trade faces the peculiar difficulty of **marketing** its crop, when the world situation in tea definitely indicates over-production, when Indian tea is facing more effective competition from a newcomer like East Africa and when the tea trade is making special effort to augment local consumption of tea, the excise duty on tea cannot but have a negating effect on this effort and in augmenting the difficulties of the tea trade.

Going through the list of **excise** duties, one is struck by the fact that the **much**-talked about common man appears to have been completely forgotten in most of the new proposals.

An increased excise on matches and **sugar** and the very onerous duties on cloth which are continued are bound to reflect on the cost of living of the average man with the income of **Rs. 26/-** per month. It has been boastfully stated that the **excise duties**

on cloth, which were substantially raised last year, have produced the necessary effect of checking a further rise in the price of cloth; and that very well illustrates the capacity of the average person in this country to buy the necessities of life beyond a certain price level.

Let me give a little illustration. I was recently at a village near Baroda and went round a free primary school. The total number of people in the village was about 900 and the number of children of school-going age was 98. When I inquired, I found that only 58 children attended the school. I asked why the other 40 were not brought to the school. I was told that the parents were hesitating to bring them because they had no clothes to put on. Well, if this is achieving a higher standard of living for the masses under our schemes of planned development, I would leave it to the authors of planned development to get whatever satisfaction they derive from this reality in Indian life.

**What I wish to emphasise is that in a country like ours where the overwhelming majority of the people live on bare subsistence, the objective of restraining consumption, particularly of the daily necessities of life, can only be described as the achievement of a still lower standard of living.**

The four objectives which I have stated are to control inflationary forces and reduce consumption of some of the essential commodities. I think anybody who has a nodding acquaintance with the economy of the country would appreciate that with the amount of

money that is being pumped into circulation day in and day out (we spent last year Rs. 710 crores and in 1957-58 it is proposed to spend another Rs. 900 crores, for the so-called planned development), with the excise duty which has been placed on a vast range of commodities, it is inevitable that instead of inflationary pressures being checked they will be accelerated in the coming months, with the consequence that the money income of the people, which we are told is going up in terms of prices, really reflects no real improvement. As a matter of fact, even official statisticians have recently prepared estimates and have shown that particularly in recent years the gain in real income in India is a minus figure. There is an admitted increase of 13 per cent in the level of prices during last year. The trend of rising prices is still continuing.

There is a widespread concern over the food situation. There are complaints which we read in papers from numerous parts of the country, both of shortage of food and high prices, even in spite of the fact that fair price shops have been opened all over the country.

**In a situation like this, to talk of controlling inflationary forces by new excise duties on consumer goods is nothing short of a phantasmagoric hallucination.**

### **Capital Goods :**

The two essential capital goods are Cement and Steel which are both controlled commodities and these essential commodities for

the purpose of development have been still scarce. The excise duty on cement has been raised from Rs. 5 to **Rs. 20** and on steel ingots from Rs. 4 to **Rs. 40**. Higher prices for both have been announced as they are controlled commodities. Industries in India are already suffering from an initial handicap in capital cost of anything between 30 to 40 per cent in the shape of higher prices for imported plant and machinery, technical services and royalties. The capital costs of putting up factories will, therefore, be further enhanced by steel costing Rs. 70 more per ton and cement costing Rs. 15 more per ton from now on.

At a time when the private sector is expected to make its biggest contribution to the development of the economy, when capital **is none** too freely **available**, substantial increase **in** the cost of these essential capital goods must result in higher capital costs and because of the scarcity of the capital available must certainly discourage private enterprise **in** the country.

Apart from this, I would like to draw the attention of the public to profiteering by the Government. Last year, the State Trading Corporation took over the entire distribution of cement in the country and **fixed** a price of Rs. 102/8/- per ton on the ostensible plea that as the country was short of cement, high priced cement will have to be imported to make available adequate supplies to the growing consumption in the country. The Government announced that there will be an import of **half** a million tons of cement from abroad and as imported cement costs **more** than

locally made cement, the Government felt that local retail price of cement should be at Rs. 102/8/- per ton. I have made enquiries and I am told that the Government have so far imported less than 100,000 tons of cement and they have no intention whatsoever of importing any more because of the foreign exchange situation. Coming to the cost at which indigenous cement is made available to the State Trading Corporation, there is an illegitimate profit of Rs. 12 per ton made by the Corporation which penalises the consumer of an essential commodity like cement.

The public are entitled to call for an explanation from the Government as to why they should indulge **in** profiteering of this character in an essential commodity like cement when times without number one of the charges hurled at private enterprise **is** profiteering.

The private sector has always been told whenever a commodity is scarce, the private sector benefits and profits out of it. Here a daylight robbery of Rs. 12/- per ton is made by the State Trading Corporation on an essential commodity like cement.

The excise duty on ingot steel has been raised from Rs. 4 to Rs. 40 per ton. Four tons of ingot steel give three tons of finished steel and, therefore, the real increase in the price which should have been brought about as a result of excise duty would be about Rs. 48/-. It is difficult to understand why the Government have put up the price to Rs. 70 per ton. This is another illustration of profiteering indulged in by the Government. Tatas may be producing one

million tons of steel, but as it is a controlled commodity, Tatas cannot sell one pound steel on their own. It is all sold through the Government.

There is the increased levy on petrol. Anybody who has cared to study the economic conditions of the country for the last year or two must have been struck by the fact that one of the bottlenecks in the development of the country is lack of adequate transport. It has been recently realised by the Railways, that they alone cannot carry all the load that is required to feed our development projects and, therefore, it is imperative that road transport should be encouraged. At this time there is an increase of four annas per gallon in the price of petrol which will further hamper the development of our country.

### **Direct Taxation :**

This covers a very comprehensive range. It is a very 'clever scheme and pattern of taxation. To start with, the minimum taxable income has been reduced from Rs. 4,200 to Rs. 3,000. This is a very, very harsh step. At a time when the real value of money in terms of the purchasing power suffers such a diminution, for this class of people to pay an income tax on Rs. 250 per month will of course have serious repercussions on the general economy and it will set up an endless chain of demands for increased wages and dearness allowances. It will put up the cost of running businesses and industries. When the costs go up, the vicious circles starts moving about and wages

and salaries have again to be adjusted at a higher level.

There has been a general reduction in the rate of income tax and super tax at various slabs and the reduction of the maximum scales from Rs. 91.6 per cent to 77 per cent on earned and 84 per cent on unearned income would bring some relief. At first sight, it might appear that the Finance Minister has given considerable relief to the higher income brackets. This is a complete eye-wash. Against this relief, new taxes have been brought in, particularly the Wealth-tax and the Expenditure-tax.

If you analyse the whole position, a fairly substantial number of people in the higher income brackets will be paying in the future more than their annual income. That will be the price for the privilege we enjoy of earning an income in India.

There has been an increase in income-tax and corporation tax for companies. The bonus tax which was levied, last year at 12½ per cent has now been raised to 30 per cent. No prudent business management will in future issue bonus shares at this prohibitive price. There has been a little reduction in the tax on dividends which was levied last year.

### **Wealth Tax :**

It is proposed to levy this tax on individuals, joint Hindu families and companies. In respect of individuals, it is proposed that anyone who has wealth, as defined in the Bill, exceeding Rs. 2 lakhs shall be subject to this tax. From Rs. 2 lakhs to another Rs. 10 lakhs it is half per cent of the total, on the

next slab of Rs. 10 lakhs one per cent and over that there is to be an over-all tax of  $1\frac{1}{2}$  per cent. On the basis of income tax, similar adjustments have been made in the case of joint Hindu families. All joint stock companies registered in India with the exempted limit of Rs. 5 lakhs will also be subject to wealth tax on the basis of  $\frac{1}{2}$  per cent of the total wealth of the company.

Wealth has been defined in the Bill and certain exemptions are granted. These should be excluded from the computation of the wealth. Some of the items excluded are motor cars, house furniture, jewellery upto an amount of Rs. 25,000-1, life insurance policies which have not yet been paid in cash, and art collections which are not for sale. Short of these, everything will be computed as wealth. Although the items of wealth that one will be called upon to declare under the Bill may be defined, the value will have to be computed on each item like this. It will call for extraordinary administrative machinery to make a proper assessment of the items of wealth of what is indicated on 26,000 individuals in this country. They will be subject to this wealth tax.

If this tax is going to be administered effectively and efficiently, it could be done only under a Police **Raj**.

As soon as the tax goes into operation, I have not the least doubt in my mind that it will set up a procedure calling upon every assessee to declare items of wealth and to have values of these items assessed by an

army of officers to be **appointed** for administration of this wealth **tax**.

A tax of this character, as pointed out by a shrewd and experienced administrator Like Rajaji, would go against the fundamentals, of the privacy of life. So far as the incidence is concerned, in a number of cases it is bound to be very arbitrary. But when you consider wealth tax on individuals in conjunction with wealth tax on companies, it becomes doubly inequitable. In the first place, it **is** a matter of serious doubt as to the basis on which the wealth of a company will be assessed. There is a clause in the Bill which indicates the form and basis **on** which the valuation has to be arrived at. **On** reading it a number of times, I find that it **has** been left to the arbitrary decision of the assessing officer. In any case, wealth tax on companies would certainly mean double taxation, if not treble taxation in some cases, particularly in the case of holding companies. The wealth of companies is owned by shareholders, the shares, of which are the property of individuals who are also subject to wealth tax. **Then** you have submitted the same wealth to a double tax. It has not been found unusual that when new taxes of this character are brought, all the implications are not properly understood. It should, therefore, be the duty of the public of this country to represent effectively to the authorities concerned the implications of this **tax**.

### **Expenditure Tax :**

It is a very novel and unprecedented tax. So far as I know it has not been tried out

in any country in the world. The proposal is that anyone who has an assessable income of Rs. 60,000/- per year shall be subject to this tax. A joint income of husband and wife which is exempt is Rs. 24,000 a year and for every dependent child, there is an additional exemption of Rs. 5,000/-. For the first Rs. 10,000/- you spend in excess of this exempted limit you are subjected to a taxation of 10 per cent and the slabs rise rapidly, with the result that for an expenditure of Rs. 50,000, you pay one rupee as tax on an expenditure of every rupee. Perhaps on a proper scrutiny, this tax may be found unconstitutional. On the face of it, it is wrong and inequitable in that while assesseees having an annual income of Rs. 60,000 are made subject to this tax, any person who has an assessable income of Rs. 59,991- is not subjected to this tax and he can spend any amount. It works out to a sort of discrimination. In any case, this is also another tax which opens out unlimited opportunity for corruption among the officials and incentives for evasion of tax. The Finance Minister has stated that with this kind of taxation, the evasion of taxes will be checked and that the Government will be able to get five crores of rupees more on the ordinary income-tax and super-tax. It is a matter of common human experience that when taxes go high ingenuity of the tax payer more than matches that of the tax collector. The Tax Inquiry Commission appointed a few years ago has clearly pointed out that one important feature of large scale evasion of income-tax in this country is the onerous nature of taxes. Ingenious people will

apply their minds and find out ingenious methods of evading taxes.

One important reason for monetary stringency which has been found particularly acute during the last six or eight months is the increasing tendency to settle transactions on cash basis and not through banks. Friends in the bullion market tell me that since the announcement of the budget proposals, the most active market in India is the bullion market. Our tax collectors believe that under the provisions of this Bill they will be able to get at a large number of people declaring their holdings of gold and jewellery. I think they will be disillusioned.

A large number of people like us have been advocating adoption of a higher Code of Conduct. It becomes increasingly difficult, human nature being what it is, to persuade people to resist the temptation to resort to practices like evasion of tax when the burden of taxes becomes almost absurd and impossible. If you push the taxes to a stage where the over-all burden is to absorb not only the entire annual income, but also to liquidate a part of your capital, that is, your saving accumulated during a period of several years, then human nature will certainly assert itself and ingenious methods of evasion will be adopted.

Apart from this personal aspect, if one examines the impact of all these proposals on the economic development of the country one feels sad.

I am often accused of using harsh language. I feel that it will not be unjust if I say that

this is a deliberate design to destroy the private sector.

The private sector is sought to be crippled at every possible stage. The proposals bring in a burden of tax which, instead of providing scope for savings, a prudent and conservative way of financing, seeks to deprive you day in and day out of your hard earned income. Therefore, the only effect will be that the private sector under these conditions can only have a limited life of its own in this country.

I am sorry to retract the welcome I accorded to the Prime Minister's statement some time ago. The Prime Minister said at the A.I. M.O. meeting in New Delhi that the private sector shall have an assured and respected place in the life of the country. In the light of the new budget proposals, I am sorry to say that these assurances have no meaning at all.

I started by saying that the budget is a gamble in planning. All the taxation proposals have been designed to find additional resources for the implementation of the Second Five-year Plan. Even the Finance Minister, who is the biggest Living champion of the Second Five-Year Plan, has admitted that the Government are meeting with serious difficulties in working out the plan. He admits that apart from what is called the core of the Plan, the steel project and increase of coal production, the Second Five-Year Plan will have to be reshaped and he is unable to find the other resources.

The Second Five-Year Plan, in the circumstances prevailing today, is a bottomless bucket.

The additional resources which are sought to be raised from these proposals, in my judgment, will be found soon to be too inadequate for the purpose of carrying through the Plan.

One matter in which, although the Finance Minister has been frank enough to take the country into confidence, he has not referred to with sufficient emphasis, is the position of our foreign exchange. It was estimated under the Second Five-Year Plan that in putting through the Plan, our foreign balance may be reduced by Rs. 200 crores. At a time when we embarked on our Second Five-Year Plan our foreign balance was a little over Rs. 710 crores. Under our currency arrangements we have to maintain a minimum balance of the equivalent of Rs. 400/- crores in sterling as a cover against our paper issue, although recently the Government have taken powers under the Reserve Bank of India Act that in a case of emergency even that minimum balance can be lowered to Rs. 300 crores. As a result of indiscriminate issue of import licences last year, this foreign balance has consistently dwindled since April, 1956, and a real crisis was reached at the beginning of this year when the foreign balance dropped to round about Rs. 500 crores.

We are a member of the International Monetary Fund and our membership entitles us to certain temporary assistance from it. Our Government is entitled to a loan of \$ 200 million of which about \$ 127 million have been drawn during the last few months. Today our balance stands lower

after using about \$ 127 million than when we started. When we drew the amount from the International Monetary Fund, our balance was \$ 506 millions. After using up \$ 127 crores, our balance last week was \$ 490 million.

What the country is not fully aware of is the startling fact that nobody today is yet aware of the outstanding commitment of this country on foreign account. The indiscriminate issues of import licences last year have today left the country in a difficult and helpless position for meeting our entire foreign commitments. There is a balance of \$72 million to draw from the International Monetary Fund.

In a situation like this, one would have expected that a budget would be produced which should inspire sufficient confidence in the potential lenders of the world. I am sorry when I learn that in the last few days the value of the rupee is definitely going down in the international market. We are surely in a delicate situation in the foreign market. A budget of this character is bound to cause in the world serious reaction among international bankers. The psychology on which the Finance Minister has proceeded in framing the proposals is wrong and ill-advised. If he felt that he wanted to impress the potential lenders of the world by showing that India is making a determined effort of its own in raising all the resources<sup>3</sup> could, he would soon find himself mistaken. The potential lenders have certain sound fundamental ideas about public finance. Revolutionary changes in the tax

structure and pattern in India are bound to cause reactions in the international markets, like London and New York. Whatever chances there were of obtaining substantial assistance from abroad to take us through the Second Five-Year Plan, the prospects are now distinctly dim.

**As a matter of fact, we have reached a stage where I have no hesitation in telling Government that the Second Five-Year Plan ceases to be a People's Plan.**

It has become Government's Plan. It is sheer persistent on the part of the ruling authorities today to work through the Plan at a cost which the country is not prepared to accept because that cost can only mean the breakdown of the economy, and bring disaster to every section of the community. It is even now not too late for the Government to reconsider the position. Heavens will not fall. We will suffer no shame or humiliation. On the contrary, it might mean additional prestige in the world because they will consider we are wise and statesmanlike to limit our Plan to our resources. Everybody in this country wants his country to develop but not at a price which has now been laid down for the development of the country.

If you look at these proposals as a whole, the setting in which these proposals has been devised is like a repetition of an experience one has in a casino. It is the last throw of a desperate gambler.

**All the time there is big talk of raising additional resources to meet the requirements.**

of the Second Five-Year Plan. I do not see  
the word in the speech about the **scrutiny** of  
public expense.

Public expenditure has been mounting  
**every** year and it has now reached  
fantastic levels. The situation has arisen  
like the one we had after the First World  
War when we had the famous **Inchcape  
Committee**, to go thoroughly into the various  
aspects of public expense. It is high time  
that the Government appointed **an** indepen-  
dent and impartial Committee to have a  
thorough and all-sided scrutiny of public  
**expense.**

**Forum of Free Enterprise**  
235, DR. DADABHAI NAOROJI ROAD, BOMBAY 1.

• • •  
A non-political organisation to educate