

SUCCESS IN AGRICULTURE THROUGH FREE ENTERPRISE*

By

J. R. Henshaw

Since 1947 planters in the South have increased their annual production of tea from 98 million lbs. to 195 million lbs. with an increase of only 11% in the area under tea. They have evolved tea plants capable of quite remarkable performances in yield and have done much to eliminate the hazards of pests and diseases affecting crops. In coffee they have increased production from 14,900 metric tonnes in 1947 to over 67,000 tonnes surrendered by the producers to the Coffee Pool so far from the 1963-64 crop. Rubber crop has increased from 16,713 tonnes in 1947 to 37,200 tonnes last year. This achievement of the three major plantation crops of South India is the result of good organisation, a forward looking and competent management and a rational and scientific approach to the problems of the field and the plants. Unfortunately, there is a tendency to overlook the achievements of this industry since producers of traditional crops cannot match the glamour and publicity that modern manufacturing industries attract. In my view, the most important element in agricultural progress is first-class management with its strong bias in favour of scientific agriculture.

Our broad national approach to the problems of land and agricul-

ture requires a re-appraisal. All land reforms measures aimed at a rigid ceiling for personal holding is part and parcel of our thinking that possession and who possesses are more important than what is done with the land. To the community, the most productive use of the land is more important. Inefficiently used land, however well distributed among the population, is not of much value in economic progress. Farming should be looked upon as a business as much as any other type of business and the yardstick of efficiency applied to other industries must also be applied to agriculture. During the past 20 years of great resurgence of national economies, unemployment was the least and agricultural progress was the most, precisely in those countries where farm holdings expanded and the number of persons engaged in agriculture fell most markedly.

The most modern industrial units are coming up all over the country and our agriculture cannot remain a sentimental, old-world-way-of-life because that will prolong our stagnation and increase the extent of subsistence farming. That is why I should venture to commend the plantation system of agricultural organisation. It is the magic of systematic and rational management which will make our agricultural land respond with abundance.

* Extracts from Mr. Henshaw's presidential address at the 71st UPASI (United Planters' Association of Southern India) Annual Conference on September 1, 1964.

Any encouragement which the Government can give to progressive management in agriculture will be of great national benefit.

We are with the Government in its objective of large production and exports. But we have been trying to interest the Government in taking remedial action to correct many of the obstacles in the way. The cumulative burden of competing taxation from the Centre and the States is starving this industry of the resources so desperately needed. Until this problem is tackled, progress, despite all our efforts, will be limited.

The mainspring of increased production is the growers' estimate of their own prospects of gain and financial security. But fiscal measures, controls and an excessive concern for improving labour welfare, without any appreciation of their effects on costs and resources, weaken the confidence of the growers to such an extent that any appeal for increased output may not have the desired effect. Furthermore, the capacity of the industry to expand has been considerably weakened over the past 12 years due to a progressive diminution of resources and this in turn has been on account of increased costs of labour and supplies and to a complicated variety of tax measures levied by different authorities.

India is probably the only country where a separate tax for agricultural income exists. Under the Constitution, taxation of land and income therefrom has been designed to provide revenue to the States. It seems to me that some basic principles should have been laid down so that one who depends on an agricultural income does not have to pay more than the tax the same amount of non-agricultural income would be subjected to pay under the Central Income-tax. The agricultural income-tax rates of certain States now exceed the

Central rates and allow none of the concessions of rebates, deductions and incentives extended by the Central Income-tax Act at least in two out of the three States in South India. Here I must gratefully acknowledge the prudence and restraint shown by the Government of Madras in its taxation of agriculture.

The whole of the incomes from Rubber and Coffee and 60% of the income from Tea are subject to States' Agricultural Income-tax and, therefore, any concessions by the Centre will have little real benefit unless the States provide similar benefits. Therefore, such relief measures must necessarily be co-ordinated both at the Centre and State levels. They should not only be co-ordinated but should be lowered to a uniform level, the maximum of which should not exceed 40 paise in the rupee.

A particular form of disability which affects the plantation industry, apart from the problems set by nature, is the dis-allowance of depreciation on field assets. Though plants age and soils become exhausted, no depreciation is allowed on the planted assets, and this factor lowers the ability of the industry to find the necessary resources for replacement. The Tariff Commission on Rubber has accepted the fact of the Rubber tree having limited economic life and accordingly provided for depreciation against capital consumption as in the case of other fixed assets. The same wastage takes place in the case of Tea, Coffee and Cardamom. A depreciation in the case of these crops is just as necessary and justified.

Another limiting factor to expansion is that new plantings are treated as capital expenditure. It

is suggested that as a powerful incentive for expansion, the actual cost of these plantings be charged to revenue. If for any reason the Governments cannot see their way to agreeing to this, a development rebate at 50% of the cost incurred should be allowed on all new plantings, whether replacements or extensions.

Capital diverted to fulfil our obligations under the Plantations Labour Act now forms a large portion of the fixed assets of planting companies. When these welfare measures were originally conceived the availability of resources was fairly favourable. In the last ten years, however, the position has undergone a considerable change. In some cases these welfare measures now exceed the cost of established plantations. This capital is not an investment as there is no financial return on it, and so it cannot be called for from the public. Therefore, it has to come out of current savings, and we consider that, as in the case of new plantings, a 50% development rebate should be given to allow us to maintain the same tempo of welfare expenditure.

The direct export duty on Tea was abolished by the Finance Act of 1963. But to make up any loss of revenue, the Excise Duty was enhanced and then made non-refundable, even if the Tea were exported. In fact, it made the position of the producer worse, because he has to pay the duty even before any sale is effected. There is a clear case for sympathy in this matter and a rebate of excise duty on Tea actually exported is fully justified. Alternatively, for the sake of administrative convenience, a flat reduction in the rate of this duty may be considered.

As if all these tax burdens are not sufficiently heavy, the Mysore Government has proceeded under the Mysore Land Revenue Act 1964 for a re-assessment of land tax. The Land Settlement Officers have proceeded to revise the land tax rate, in some cases increasing it 38-fold from Rs. 2/- to Rs. 76/- per acre at one stroke without a care as to what other taxes the same acre already bears, or the permanent injury which it will cause to the industry. Since the high land tax is in addition to all the other taxes, cesses and excise falling on the income, and has to be paid whether any profit is made or not, it is an intolerable exaction. Every sound principle governing taxation seems to be thrown to the winds for raising more revenue immediately.

There is much more that can be said on the question of taxation. It is, however, clear that the Government's desire to see an increase in production and exports must be matched by a willingness on its part to modify fiscal, land and labour policies, as well as administrative procedures, to suit the purpose. It is a self-defeating process to pursue a tax policy which discourages expansion of production, a labour policy, which appreciably increases costs and a land policy which stagnates the industry. If the stimulus to increased production is created, it is our firm belief that any concession given will automatically be made good in terms of revenue. In fact the States stand to gain progressively more from an expanding industry with a broader tax base than from high levies on a stagnant industry, while the Centre will gain in earnings of that valuable commodity, foreign exchange.

Have you joined the Forum?

The Forum of Free Enterprise is a non-political organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 10/- and Associate Membership fee is Rs. 5/- only. **Bona fide** students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 2/- only.

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235 Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-1.



The views expressed in this leaflet do not necessarily represent the views of the Forum of Free Enterprise.



Forum of Free Enterprise

235, Dr. Dadabhai Naoroji Road, Bombay 1.

Published by M. R. PAI for Forum of Free Enterprise, "Sohrab House", 235, Dr. Dadabhai Naoroji Road, Bombay 1, and printed by H. NARAYAN RAO at H. R. MOHAN & CO., 9-B, Cawasjee Patel Street, Bombay 1.