THE UNION BUDGET, 1973-74

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By

N. A. Palkhivala*

Like leaves in Vallombrosa,
Like Virgins in Virginia,
Like monks on Monte Rosa,
Like chiefs in Abyssinia,
Like banditry in China,
Like Turkomen in Khiva,
Like herring in Loch Fyne are
Committees in Geneva.

Every Budget Speech is strewn with laudable objectives as thickly as autumnal leaves in Vallombrosa, and the number of times the resolute decision to combat inflation is repeated is as countless as committees in Geneva. India is the fabled land of contrasts, but there is no disparity so glaring and costly as that between the prized ends solemnly pronounced in the Budget Speech every year and the provisions of the annual Finance Bill which are so admirably calculated to frustrate those objectives.

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This year's Budget has five avowed goals: (i) to counteract inflation, (ii) to promote savings and investment, (iii) to enlarge employment opportunities, (iv) to ensure minimum basic amenities to all citizens, and (v) to give a fillip to exports. These are pious aspirations, and they will continue to remain so.

The wholesale price index touched 216.7 in early February 1973,—it was higher by 13.2% over the last year's price level. During the current year the overall deficit has been shown as Rs 550 crores. The actual deficit is Rs 1,449 crores if one takes into account Rs 421 crores which represented advances to the States and the Loans floated by the Government amounting to Rs 478 crores. Even if the overall deficit is taken at Rs 550 crores, that figure is far in excess of the estimated deficit of Rs 251 crores, despite the fact that the total receipts (on capital and revenue account together) were higher by Rs 718 crores than the original estimate. This means that although the total collections were 11% more than estimated, the Government spent an additional Rs 1,017 crores or 15% more than estimated.

During the next year, both the actual expenses and the actual receipts are again likely to be greater than the estimates, but there will be a greater increase in expenses than in receipts. There are bound to be additional advances to the States unprovided for in the Budget;

there will be the burden of Rs 150 crores per annum under the Third Pay Commission's Report, and the defence and civil expenditure will be higher than provided for. With the proposed takeover of wholesale trade in foodgrains, food subsidies will cost the nation more than ever before. Further, new public sector projects will cost more than what is provided for in the Budget. A measure of the enormous inflation in the capital cost of industrial projects is afforded by the fact that, whereas a new cement factory would today cost nearly Rs 500 per tonne of annual installed capacity, the cost was about Rs 155 per tonne on the three-million tonne expansion programme begun and completed by A.C.C. during 1965-70. Three years ago, the capital cost per tonne of capacity in the fertilizer industry was around Rs 2,900, while currently it is around Rs 3,400. The heavier excises and customs duties levied under the new Budget will probably result in as steep a rate of inflation as during the last twelve months. A check on inflation is impossible with money supply continuing to increase at the present disturbing rate and the overall growth rate in national income being so miserably poor.

The best definition of "inflation" is the simplest: "When government spends more than it gets, and labour gets more than it gives, the empty feeling in your pocket is inflation." If our present economic policies are continued, it is likely that we shall see the return of Halley's Comet sooner than monetary stability. The Comet is expected to return in 1986.

The Indian economy is like a giant who is held in chains by ideologies and political claptrap. The Budget marches in line with the Fifth Plan which aims at a small annual growth rate of 5.5%, while the new Five-Year Plan of Iran projects an annual growth rate of 14.3% while using Indian skills and technology in certain areas. Our actual rate of economic growth has been only between 1.5 and 2% in 1971-72 and 1972-73, and will probably hover in the same range during the next Plan period.

The Budget Speech makes no mention of any measures to achieve economy in public expenditure which has registered an alarming increase over the years in the non-development area. Between 1965-66 and 1972-73 the total net tax receipts of the Union (i.e., excluding the States' share in taxes) expanded by Rs 1,687 crores, but during the same period the total non-development expenditure (excluding grants to States) jumped up by Rs 1,528 crores, consuming 91% of the net additional tax receipts. The Indian Government is the largest single promoter of white-collar jobs which are created at the expense of savings. The Central Government's expenditure being non-productive, capital formation which is so necessary for currency stability and economic growth is adversely affected. In 1965-66 the budgetary resources devoted to gross capital formation (of the Centre and the States) constituted 46% of the total expenditure of the Union on revenue and capital account. The figure declined to 29.6% in 1972-73.

The Constitution of India does not make nationalisation one of the Directive Principles of State Policy, but in practice our Government seems to have adopted it as an end in itself, irrespective of the results. Presumably, that is why the Budget Speech makes no mention of the 84 public sector undertakings in which over Rs 5,000 crores have been invested and which have incurred an aggregate net loss of Rs 18.8 crores in 1971-72. Seldom has any country laid so costly a sacrifice at the altar of ideology.

So far as the public sector is concerned, we are admonished to bear in mind the old wise rule, "See no evil; hear no evil; speak no evil". To believe or say any evil of the public sector is merely to invite censure that you are not a patriot and not a true socialist.

It is beyond hope that savings and investment would get any spurt under the Budget proposals. The rates of personal and corporation tax continue to be, by and large, the highest in the world. In fact, we are so used to these ridiculous rates that the public and the press have almost stopped noticing this recurring feature of our Budgets. With such vertiginous levels of direct taxation, the only substantial savings are by smugglers, black marketeers and tax-evaders.

While progressive countries of the world have reduced rates of personal taxation, India and Burma continue to be the two exceptions and these two are amongst the countries with the lowest rates of economic growth. The Wanchoo Committee which consisted of distinguished men nominated by the Government itself, devoted months of hard labour to the problem of tax evasion and the necessity of finding practical solutions. The Committee recommended that the maximum marginal rate of income-tax should be brought down to 75%, along with reductions at lower slabs. Till this is done, it would be humanly impossible for the Government to tackle the problem of tax evasion, even if a hundred more laws are passed for the purpose. Today the tax structure is such that it is more profitable for a citizen at a certain level of income to evade tax on Rs 30 than to earn Rs 1,000 and pay the tax honestly. Our income-tax rates are too high not only at the top slab but all along the line.

The agricultural lobby is so powerful, both in Parliament and in the State Legislatures, that for a long time to come there will be no effective taxation on agricultural income. The proposal in the Budget to club agricultural income with non-agricultural, for the purpose of determining the rates applicable to the latter, can be easily defeated by the formation of a limited company to carry on agricultural activities.

For the past several years tax relief has been available to individuals in respect of premia paid under deferred annuity insurance policies notwithstanding that the policies may contain a provision for an option to receive a cash payment in lieu of the annuity. The Budget proposes an amendment to effect a sudden reversal of the established and considered policy, for no apparent reason. Such policies with a cash option will hereafter be disentitled to tax relief. The totally iniquitous result is that premia paid from the next year onwards under those policies which have been already taken out on the faith of the existing law, will be disentitled to tax relief.

No reduction is proposed in the existing rates of taxation on the corporate sector. Although all other refugee levies are withdrawn, the 5% surcharge on corporate tax, which was one of the refugee levies, has not been withdrawn.

Great upsurge in production, particularly of wage goods, is the panacea for most of our economic ills,—it would help to check inflation and secure for the Exchequer the revenues so badly needed for schemes of social justice. But there is nothing in the Budget which can act as an incentive for increased output. The tax concessions which would encourage expansion and development have all been withdrawn one by one: the last casualty will be development rebate which is scheduled to depart on May 31, 1974.

The proposed new measure of initial depreciation can never be a substitute for development rebate. The whole point of development rebate is to enable an industrial unit to meet the ever-increasing costs of renovation and replacement. Development rebate provides a deduction over and above the full cost of the asset. On the other hand, initial depreciation merely means accelerated depreciation or a larger depreciation in the first year, and it is taken into account for determining the total depreciation available over a period of years which can in no event exceed the actual cost. In other words, unlike development rebate which means a reduction in tax, initial depreciation only means postponement of tax. The trend in many countries, including the U.K., is now to let the tax-payer choose the amount of depreciation he will claim in any year—he may claim even 100% of the cost as depreciation in the very first year. Thus initial depreciation is a highly antiquated technique and is hardly used now as an incentive in any progressive country.

Further, even this initial depreciation is proposed to be made available only to a few selected industries. This is typical of the incredibly niggardly way in which national industries are sought to be nursed in India. Large republics and small hearts go ill together.

The proposal to exempt 20% of the profits of industries started in backward areas is hardly an incentive, since the additional costs, both on capital and revenue account, of running an undertaking in a backward region would far exceed the saving in tax proposed. Further, The Constitution of India does not make nationalisation one of the Directive Principles of State Policy, but in practice our Government seems to have adopted it as an end in itself, irrespective of the results. Presumably, that is why the Budget Speech makes no mention of the 84 public sector undertakings in which over Rs 5,000 crores have been invested and which have incurred an aggregate net loss of Rs 18.8 crores in 1971-72. Seldom has any country laid so costly a sacrifice at the altar of ideology.

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The proposal to exempt 20% of the profits of industries started in backward areas is hardly an incentive, since the additional costs, both on capital and revenue account, of running an undertaking in a backward region would far exceed the saving in tax proposed. Further, experience shows that on an average, undertakings in backward areas seldom make any taxable profits for the first five or six years. Thus the 20% exemption of taxable profits would operate for half or less than half of the ten years. The proposal to increase the subsidy from 10 to 15% of the capital investment required in backward areas, subject to the investment ceiling of Rs 1 crore as against the present ceiling of Rs 50 lakhs, is again wholly inadequate for rapid transformation of the neglected regions. One has only to compare the tax benefits and cash subsidies offered in other countries like Argentina, Brazil, Canada, Greece, Italy, France, Belgium, Netherlands, Norway, U.K., Iran and New Zealand, for the development of their neglected areas to see how meagre our Government's proposals are. In other countries, the profits of undertakings in backward areas are wholly exempt from tax for ten to fifteen years, and the Government subsidy is as high as 30 to 45% of the capital cost.

Even the Government's promise to exempt 20% of the profits in backward areas for a period of ten years is not a promise on which one can rely. There have been innumerable cases of breaches of similar assurances by the Central Government, the State Governments and Municipalities. Citizens have found to their cost that public authorities in India have no compunction about repudiating their solemn promises given as incentives for investment and industrialization. Citizens who bought shares in the past on the basis of exemption from wealthtax, have found the exemption suddenly withdrawn. Annuity policies purchased on the faith of existing law will now be disqualified for tax relief. Various State Governments which promised exemption from electricity duty for a period of years have broken their promises contained in legally worded agreements. Local Municipalities, which guaranteed exemption from octroi for a stipulated period, have gone back on their word.

Employment opportunities will certainly not increase as a result of the Budget proposals, because there are no incentives for industrial development. The latest estimates of the unemployed put the figure well above 20 million, including 75,000 jobless engineers and 5.8 lakhs among the highly educated unemployed, many of them with first-class degrees.

The Budget in the United Kingdom last year reduced taxes by £ 1200 million with the avowed object of reducing unemployment, and the effect has been truly dramatic: the number of the unemployed there has been cut by half. In Canada, with the unemployment figure of nearly 7%, the Budget which was introduced a month ago, provides for tax cuts amounting to 1300 million Canadian dollars, with the specific object of reducing unemployment. The Canadian Budget was described as one under which "Everybody gains, and nobody loses". By contrast, our own Budget is one under which nobody gains, and everybody loses, because unchecked inflation is bound to make everybody a loser.

Citizens' hope of getting basic amenities provided by the Government will die in their hungry hutments. One-fourth of the villages are still without drinking water and one-third are not connected with any road. Without spectacular economic growth, of at least 12% per annum, it would be impossible for the Government to raise finances for providing basic amenities.

As regards exports, the cost-push Budget can hardly help our country when the inflationary spiral is bloating the prices of Indian goods.

In short, the most striking feature of this year's Budget is its complete irrelevance to the gigantic tasks facing the country.

Budgeting has become such a technically difficult job that the time has come to adopt in India the refreshing recommendation of Sir Richard Clarke that there should be *no secrecy* about Budget proposals. In a recent article, Sir Richard Clarke who is not merely an ex-official of the U.K. Treasury but also *the* originating genius of nearly every important development in British budgeting technique in the last fifteen years, said:

"The problem of long-term tax policy should surely be debated openly with the facts on the table, just like those of defence and education. In my opinion, all Governments should have just the same *duty* to publish their long-term taxation policy as they now have to publish their expenditure policy.

"Indeed, this obligation to publish taxation policy is really essential for the control of public expenditure. In order to get realistic expenditure decisions, governments must argue them, both within themselves *and outside,* against their taxation implications." (Emphasis supplied.)

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Published by M. R. PAI for the Forum of Free Enterprise
235, Dr. Dadabhai Naoroji Road, Bombay-400 001,
and printed at TATA PRESS Ltd., 414, Veer Savarkar Marg, Prabhadevi, Bombay 400 025.

20/April/1973