The Missed Opportunity

THE CENTRAL BUDGET 1967-68

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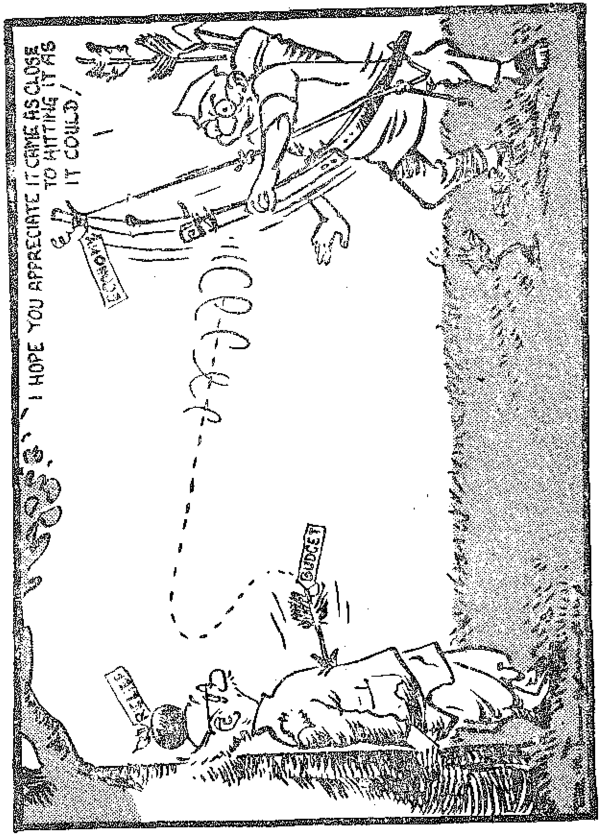
HIGH AIMS!



Courtesy: *The Times of India*

M. R. Masani

Mr. Chairman, when I spoke in this House on the President's Address last session, I had made a plea for a new temper and tone by which we could carry on a democratic dialogue in this House without doubting the motives and attacking the characters of one another. I had said that we and the gentlemen opposite have certain common ends, but that what we disapprove of are the methods by which they think they can get to those ends. Now, I would like in what I say today to try and apply the spirit of the plea I had made to hon. Members on all sides at that time.

Diagnosis Correct

To start with, I would agree with the diagnosis of the main ills or evils from which the country suffers that was made by the Finance Minister in Part A of his speech. He quite rightly drew attention to the food shortage, the rise in prices, industrial stagnation and the adverse trend in exports as being four of the major areas we have to deal with. I also welcome the general approach he made to the problems facing the country. He was candid enough to say that there was no perfect answer to these problems. That is very true, particularly when we have been taken into the mess in which we find ourselves today. But he did indicate certain correct principles. One was that governmental expenditure should be restrained and reduced; another was that industry should be exposed to a competitive environment; a third was that there should be a hospitable environment for private foreign capital. He was good enough to express publicly doubts about the wisdom of the Second and Third Five Year Plans and to admit that mistakes had been made. He also said that the relative roles of the State and the free sectors of the economy should be dependent on their relative abilities and performance. He said that controls were only a means to an end. All these are very sound principles. Many of us have expressed them in this House over the past few years.

But I have to confess that when Part B of his speech came, there was absolutely no action to match these precepts. There was only the customary tinkering with the rates of taxation. The Finance Minister forgot the very good advice somebody had given that taxes should not be raised or lowered from season to season like the hemlines of women's skirts! This Budget, like those before, has done nothing, only a little higher, a little lower there. What is more important is that there is nothing in this budget to cure the stagnation from which this country is today suffering and to stop the economy from running down further. There is no incentive to a revival of the economy. Undoubtedly, minor concessions have been given to the direct tax payers, but all of them put together aggregate to only Rs. 5 crores.

'Status Quo' Budget

It has been described as a *status quo* budget. That is true. But what is the *status quo*? The *status quo* today is rank stagnation, depression, a recession on the way, and shortage of food and other commodities for the mass of our people. This was no time for a *status quo* budget. What was needed was a dynamic budget, if you like, a revolutionary budget.

Now, the Finance Minister says he has done something. He has balanced the budget. But he has balanced it, if I may say so, by passing the buck. He has passed the buck in two directions. One was the unfortunate Railway Minister who, though faced with a deficit in the railways, had to agree to Rs. 7 crores being squeezed out of the railway budget for the general budget.

Mr. Morarji Desai: Did he say that I forced the Railway Minister to do it?

Mr. M. R. Masani: What happened in the Cabinet is beyond my knowledge. But judging by the relative seniority of the two hon. Ministers, I would not put a little gentle twisting of the arm of the unfortunate Railway Minister beyond my hon. friend.

The other direction in which the hon. Minister has passed the buck are the unfortunate States. Last year the Centre gave the States Rs. 921 crores by way of loans and advances. This year the interim budget provided for Rs. 740 crores only. Now the Finance Minister has generously added another Rs. 98 crores, making Rs. 838 crores. Since Rs. 38 cores out of this are for famine relief, which are altogther of a different category, the net assistance to all the States put together comes to only Rs. 800 crores, as against Rs. 921 crores last year. Thus the States are left with Rs. 121 crores less than last year. That is one of the methods by which the Finance Minister has been able to claim that he has balanced the budget.

Now, on this basis he has claimed that the budget will not be inflationary. I am sorry I must question that claim. Undoubtedly by balancing the budget and eschewing deficit finance, he has tried to fulfil the laudable purpose of stopping further inflation. But by his indirect taxation, by the numerous excise duties he has raised, he has effected inflation in a positive manner.

Inflationary

The Economic Adviser of the Government made a statement the day after the budget was introduced that the new duties would affect, in the way of inflation, only five to six per cent of the general index of prices. Only five to six per cent! At a time when the whole economy is saturated with inflation, five to six per cent can be a lethal dose. The sympathetic or chain reaction which can set in among prices that are not directly affected by the excise duties can be very far-reaching and very violent.

What is the background? Why do I say that the whole economy is charged with inflation? Thanks to the policy of those who sit in office, prices rose in the past four years by 14 per cent every year, and in 1966-67 they rose by 16 per cent. According to Prof. Shenoy, one of our best economists, during 1966-67, Government was printing currency notes at the rate of Rs. 1.3 crores per day during the last twelve months, and in March, 1967, the last month of the year in question, currency notes were being printed at the rate of Rs. 3 crores per day!

It is against this background of massive inflation, if I may say so, that this mere five to six per cent rise in the price index has to be considered. It can be poison to the body politic and to the body economic and can spread like cancer over the entire economy. There are many ways in which these excise duties are inflationary.

Tea, coffee and cigarettes will add directly to the cost of the white-collar worker, the lower middle

classes who are ground down by prices and taxes, and the upper ranks of the skilled workers. Aluminium is the poor man's metal. The cost of electrical equipment, which all of us have to use, public and private, and a hundred other commodities will rise because of the rise in the excise duty on aluminium. Even utensils will cost Rs. 1.74 more per kilo.

A Cruel Joke

The Finance Minister said that the poor too should be taxed; it is a question of their self-respect, he told the Bombay Union of Journalists on 8th April. The whole concept of a Welfare State is that those who are underprivileged should be helped, the whole idea of a Welfare State is to put money into the pockets of people who by their own efforts may not be able to get the minimum needs of life. Today in this country we may be too poor, thanks to the misguided policies of the Treasury Benches during the last 20 years, to be able to have a Welfare State such as we would like, but certainly to say that those who have not should be taxed, otherwise they would lack self-respect, is a very cruel joke.

In the United States today, Prof. Milton Friedman and his Liberal school of economists advocate "negative taxation." They say that anyone who has less than the lowest limit should be given something to supplement it to bring him up to the exemption level. In other words, in India, if we were to have the capacity to do it, if we had the wisdom to follow the economic policies of the United States and in course of time reach something like their affluence, we should say that any one who is earning less than Rs. 4,000 a year should be given by the State the difference between his income and Rs. 4,000 a year to make him partake of the opportunities of life. When the rest of the world is talking about the Welfare State and negative taxation, to claim that a man who is destitute, who cannot pay tax, should be made to pay it, otherwise he would be lacking in self-respect is, I think, a very harsh and cruel joke.

The worst of the excise duties is the one on petroleum and high power diesel alongside of the rise in railway freights. The effect on the cost of domestic gas will be Rs. 1.42 more per cylinder of 14.5 kilos. But the bigger effect is on transportation. Everything that is moved will cost more. This particular duty is pernicious because already petrol and diesel are being taxed many times more than they should ever have been. Bus fares, taxi fares, scooter fares, will all go up. It has been rightly described as a "stay-where-you-are budget" in every sense of the term. Not only is the country stagnant but must stay where it is. Unfortunately today, everyone must stay where he is. Even if you walk, your shoes will cost you more by being worn out faster. If you try to transport any commodity, that will cost you more. Therefore, this pernicious duty on petrol and high power diesel oil is going to add to the cost of every commodity which our people use. That is why I say that this is not a budget free from inflation. It is an inflationary budget because of both the direct effect of taxes and excise and the indirect effect on the rest of the economy. Prices are going to rise as a result of this budget in the coming months.

If this budget is not going to revive the economy and is going to continue the price rise, then it is a pretty bad budget; it is a useless budget and it has no solution to the problems that the budget should have faced.

At this point there are many kind gentlemen in the country who say: What could the poor Finance Minister have done? Look at the background, at the legacy

with which he was faced! Look at the kind of people by whom he is surrounded on the Treasury Benches! What more could you expect from this poor man?

The Hon. Finance Minister will be glad to know of the sympathy that is being exuded for him from certain misguided quarters.

Mr. Morarji Desai: I am glad you are one of them.

Mr. M. R. Masani: I am not one of them. I have too much respect for the hon. gentleman to feel pity for him. I have a feeling of sorrow and disappointment and I am trying to control anger. But I will not insult him with pity.

An Alternative Budget

I say that there *was* an alternative for the Finance Minister. I am not talking of his bringing in a Swatantra budget. That of course is beyond him. If that budget could be brought, we can revolutionise the economy of this country within a year or two and we can bring in a new atmosphere and a new psychological mood. Our policy would be the exact opposite of the policy that the Treasury Benches are following. I am not expecting him to do anything of that kind. The policy or philosophy of all previous budgets has been: maximum revenues through maximum rates of taxation. Our philosophy is exactly the opposite: maximum revenues through minimum rates of taxation. Ours is the policy of President Kennedy which he vindicated in his own country when he was President. I am not even expecting the present Finance Minister to do anything of that kind. But I do expect him, within the framework of his own Government and his own policy, to do the right thing by the country. That he has failed to do.

I am going to put to him an alternative budget, an alternative budget which he could have brought and carried through and which would have produced many good effects for this country. I am not just criticising his budget; I am saying what he could have done because we are often told: why don't you provide an alternative? This is not the Swatantra Party alternative. This is an alternative suggested to the Finance Minister of the Congress Government; it is a very modest alternative as a result.

Reduce Expenditure

The Finance Minister should have started with economy in expenditure. It is shocking that of a total expenditure of Rs. 5150 crores he could not make any cut. Rs. 6 crores on defence is all that I remember in the way of reduction in expenditure that he has ventured to make! From 5,000 crores, he has no capacity to make any cut anywhere. I say that, without hurting anyone very much, he could easily have effected economies of at least Rs. 150 crores, which would be less than three per cent of the total. If anyone tells me; I spend a thousand rupees and I cannot cut Rs. 30, I know that he is lying. Everyone of us can cut Rs. 3 out of Rs. 100 that we spend, if we really want to. He could have cut Rs. 150 crores painlessly and without tears.

How? He has given Rs. 10 crores more for civilian non-developmental expenditure which is most wasteful. Our bureaucracy has been proliferating and more and more drones are living on it; they are underemployed. Instead of cutting down that civil expenditure, he has given Rs. 10 crores more this year to waste. I suggest he could have made a modest cut of Rs. 10

crores on last year's civil administration expenditure. That would have made a saving of Rs. 20 crores between his present budget and my altenative budget.

It has been suggested that there is a taboo on suggesting a cut in defence spending. I propose to break that taboo today. A retired Wing Commander of the Air Force wrote in a magazine last week or the week before that "anybody who talks about a cut in defence is considered not defence-minded; and the entire defence finance is completely muffled by officialdom; it is hardly ever scrutinised by experts outside the circle of the brass."

The Prime Minister fell a victim to this fallacy on the first on this month when she is reported to have made the following remark: "So long as there is danger on the borders, there can be no cut in defence expenditure." I suggest this is a *non-sequitur*. Danger on the borders and defence expenditure have very little to do with each other except indirectly. Economy in defence expenditure is consistent not only with maintaining the effectiveness of our defences but even increasing it. On the one hand, you can cut the waste and on the other hand you can make your Armed Forces more effective instruments of defence.

Now, one could claim that the present foreign policy should be changed in the direction that some of us want to change it, and hundreds of crores could be saved for this country.

Here again, I am not suggesting that you change your foreign policy. Let them stick to the present policy of non-alignment, but even within this foreign policy, of which we do not approve, it is possible by the application of modern techniques in the fields of inventory control and equipment maintenance to save crores of rupees and yet not do the slightest harm to an effective fighting force.

McNamara Operation Needed

In the Air Force, for example, the ratio of spares to capital cost of planes is today 20 times what it is in Air India and other international airlines. I allow for a higher ratio on defence services because they have to deal with emergencies, but not 20 times; maybe five times or six times, but not 20 times. It is a colossal waste. The spares which have such a ratio are going down the drain. Does it mean that if control is kept on inventories, our fighting forces willl not be able to deliver the goods? Similarly, there is tremendous waste in many defence production projects. All these can be rationalised without in any way affecting the fire-power of a single regiment of the army or a single squadron of the Air Force.

What is needed is a McNamara operation, what McNamara has done for the American defence system through cost-effectiveness, testing every dollar spent as to whether it has delivered the goods, cutting it out or giving it somewhere else where the fire-power capacity of the defence forces can be increased. If this could be done, a saving of Rs. 50 crores could have been easily made in defence without doing the country the slightest harm and doing a great deal of good.

Thus, Rs. 20 crores on civil administration and Rs. 50 crores on defence gives you a net saving of Rs. 70 crores.

Scrap Bokaro

I will now turn to the third field of economy, where the economy could be the biggest, and there, I would say that on the so-called Plan expenditure of Rs. 1,826

crores, an economy of Rs. 80 crores could have easily been made. I am suggesting Rs. 80 crores because I am referring to only two projects which could have been easily dropped without touching the rest of the fourth Five Year Plan for this year. The two projects I suggest could have been dropped are the Cement Corporation with an estimated expenditure of Rs. 3½ crores and the Bokaro Steel Plant with an expenditure of Rs. 75 crores. Between them, they could have given us a saving of Rs. 80 crores straightaway.

I was very glad to read the speech made by the hon. Speaker—I am sorry he is not in the Chair now—in Madras on May 14, when he recommended that we should go slow on industrial projects and divert our attention to agriculture. As reported in the *Times of India* on May 15, the hon. Speaker said:

> "Thousands of crores of rupees are being spent on industries. If one-tenth of the money invested in big steel plants had been diverted to agriculture, the country would not have today faced a food crisis."

He should know; he has been Minister of Steel in the Congress Government. Only two days ago we had a vindication of what he said when the conclusions of the Pande report were published, and we realised that in one year Rs. 13 crores have gone down the drain in the steel works at Durgapur.

But the wost of all these white elephants, worse than Durgapur, is Bokaro. It can easily be postponed for several years without doing our economy the slightest harm. It has already become, even before it can go up, a by-word for wasteful expenditure and nepotism of the worst kind. So far, Rs. 70 to Rs. 80 crores have been spent and all that has been achieved is a levelling of the ground and the building of quarters. Even before that is completed, an army of drones is living off the country. To manage 3000 employees, there are already thirteen heads of departments drawing more than Rs. 2,000 apart from other emoluments!

I have got information—I hope hon. Finance Minister will get it checked—that they have a big Personnel Department with a Deputy General Manager drawing Rs. 2000 to Rs. 2500, under him a Deputy Personnel Manager drawing Rs. 1300 to Rs. 1600, one senior Personnel Officer, 3 Personnel Officers, 9 Assistant Personnel Officers and one Law Officer. There is a General Administration Department with a Secretary drawing Rs. 1600 to Rs. 2000; under him is a public relations officer. There is an Engineering Department with an Engineering Departmental Head. Under him there are 3 Chief Engineers. Under them there are several Design Engineers. The Accounts Department is the worst. There is a Financial Adviser drawing Rs. 3000 to Rs. 3500, a Deputy Financial Adviser drawing Rs. 1600 to Rs. 2000, a Deputy Controller drawing Rs. 1600 to Rs. 2000, 6 Assistant Controllers, 2 Senior Accounts Officers, 9 Accounts Officers and 12 Assistant Accounts Officers. All of them are engaged from the 1st to the 8th of every month in paying wages to 3000 employees!

Then there is a Material Department Head, a Medical Department Head, a Transport Manager and finally, like all private business houses, a Liaison Officer in Delhi drawing Rs. 1800. It is a colossal waste of scarce resources, which can be easily cut out to great advantage.

According to information with me, it sounds dependable, but I hesitate to mention this aspect of it, many of these officers I have mentioned are relations of senior Congressmen in Bengal and Bihar or are relations of Ministers and senior Government officials. I am going to pass on this letter to the hon. Finance

Minister for him to investigate. I am too responsible to read out which official is related to which Congressman. This is a story of not only colossal waste, but nepotism.

Proposed Tractor Deal

There are other examples I can give to the Finance Minister. For lack of time, I will give only one more before I pass on from the topic of economy. I would draw attention to the colossal waste of public money that is being contemplated and which he can even now prevent if he wants to. The Minister of Industries is discussing with Czechoslovakia a project for the manufacture of 1200 tractors per year at an investment by this country of Rs. 25 crores. Rs. 16 lakhs have already been spent on a project report supposed to have been prepared by the Czechoslovaks. It is not at all necessary for this factory to be set up in this country. There is a production of 8,000 tractors last year by Indian companies. I believe this was quite adequate. In fact, there is a glut on the market and even these companies are building up stocks. But assuming that there is a demand for smaller tractors, as has been alleged by the Agricultural Department, Indian industry today has an installed capacity to produce more tractors of any kind that are required, big or small, with any horse power and any kind of engine, all produced in this country. They claim that for one-fifth of Rs. 25 crores, i.e. at a cost of Rs. 5 crores, they can produce 12000 more tractors of any kind, any size with any horse power that is required. Can there be any justification, when we have the wherewithal to produce all our needs of tractors, to be talking with a foreign country to set up a factory at a cost of Rs. 25 crores to build tractors which we can produce at a cost of Rs. 5 crores? I do hope the hon. Minister will investigate this matter and deal with it in his reply. Will he step in and stop this criminal waste of public money?

Unfortunately, 68 per cent of this country's investible resources, including foreign aid, are today being invested in such wasteful State sector enterprises. Let me estimate what this costs the country. According to the National Council of Applied Economic Research, an organisation the Government themselves use, if you give a tax relief of Rs. 100 crores, those who get the relief, the lower middle class on the marginal exemption level, would invest Rs. 25 crores out of this in productive enterprises. That means that, if you give a relief in tax at the lower levels, out of Rs. 100 crores that you give Rs. 25 crores you can count on coming into an investible surplus. How much are Government able to put aside for investment out of the money we give them? The corresponding figures are that, out of an investment of Rs. 100 crores, there is a revenue surplus of Rs. 4 crores. That means out of a Rs. 100 crores tax that we give them they can only produce a revenue of Rs. 4 crores. In other words, there is a net saving of Rs. 21 crores per Rs. 100 crores or 21 per cent of what is left in the pockets of the public compared to the rupee that we put into the till of the hon. Finance Minister. This means, for the coming year, since there is an additional revenue of Rs. 232 crores which the Finance Minister wants, we shall be diverting that much money at the cost of Rs. 49 crores of capital will be consumed in this process of diverting from more productive to less productive channels.

I have suggested to the hon. Finance Minister where the economies could have been made. Let me tell him what he could have done or still can do with these savings. The saving of Rs. 150 crores can be converted

into relief of Rs. 150 crores – Rs. 80 crores on indirect taxes and Rs. 70 crores on direct taxes.

Cut Indirect Taxes

Reduction in indirect tax could have given tremendous relief to the poorer sections of our people. If the excise duty on vegetable oil products could have been cut down altogether – hundred per cent – if kerosene duties could have been cut by half, if cotton fabric duties could be cut by half, if the duty on matches could have been cut by half, and if the duty on trucks for transportation of goods could have been cut by half, there would have been tax relief to the extent of Rs. 80 crores. These Rs. 80 crores would have gone to the poorer sections of our people to give them a little more of the needs of life instead of having to pay the exchequer all this money. It would have meant a 50 per cent reduction on the burden of the poorer sections of our people on their most immediate needs.

Direct Reliefs

Then I come to direct taxation – how he can spend Rs. 70 crores to regenerate our economy. He should have removed the Annuity Deposit Scheme. It is the worst masterpiece of confusion and futility ever invented by human ingenuity. That would have meant a net loss of Rs. 14 crores. Shri Bhoothalingam, whom the Finance Ministry itself employed to give a report, says so. He says:

> "It would be highly desirable to get out of the way this complicating feature which in reality is not even germane to the tax structure... The continuance of this system certainly clouds the consideration of

other proposals for the rationalisation and simplification of the tax structure.....

If the system is not to be permanent, the sooner it is abolished better."

And, as he himself points out, for a mere loss of Rs. 14 crores it could have been lifted from our tax system.

The second deduction could have been by raising the exemption limit for the lower middle class from Rs. 4,000 to Rs. 6,000 a year. It would have only lost us Rs. 5 crores but would have given great relief to a wide section of our poor middle class people. The saving in collection charges would have been extra.

Then he should have removed the surcharge on income-tax, giving another Rs. 16 crores relief. He could have given relief on the first Rs. 500 of all dividends earned. That would have cost another Rs. 50 crores. Finally, the abolition of the company surcharge of 10 per cent would have meant Rs. 30 crores, bringing the total to Rs. 70 crores.

Thus, along with Rs. 80 crores on excise duties, he could have given relief of Rs. 150 crores this year to the tax-payer.

The Fruits

This would have yielded three results. First, it would have given an incentive to investment and saving. The capital market would have been stimulated to the extent of Rs. 40 crores which direct tax reliefs to the individual tax payer would have left in his pocket. As I have pointed out, one-fourth of this would have come into productive enterprise immediately. Joint stock companies would have been left with Rs. 30 corres more to re-invest. It could have been made a condition that, if you re-invest, you will be given this much.

The other effect would have been anti-inflationary. Increased investment and production would have checked the rise in prices. The scheme of commodity tax relief would have brought down prices in six very sensitive sectors for the common man, and the ever-mounting Dearness Allowance bill would have been stopped from growing further. Thus, such a Budget would have stabilised prices.

Finally, he could have got more revenue which he has thrown away by unintelligent measures. As I said, the objective should be maximising tax revenues by *minimum* rates, not by *maximum* rates. Normally, the benefits of tax relief take some time to be shown. I would have been told that it would take two or three years for the benefits to be shown from tax cuts. But this year happens to be a special kind of year when any relief given would give you returns within this year itself. There is a reason for this, and the reason is, as I have pointed out, as in the case of tractors, that we already have unutilised installed capacity for production which today is not being used either because people have not got the money to buy the things or because high taxes do not leave a surplus to re-invest. This relief would have given an immediate fillip to production because, as I said, unutilised capacity is there and there would not have been the time-lag which normally one would have expected. Mr. Morarji Desai would have had, according to me, Rs. 100 crores extra from import duties and excise duties if he had accepted my budgetary pattern. With Rs. 100 crores extra import and excise duties, he could have given more relief next year when he would have come before us, if he is still there, on 28th February, 1968. All this he has thrown away.

Now, I will be told that if it is so easy, why he did not do it? I speak more in sorrow than anger. I am one of the many disappointed people in the country. It is for him to answer why he did not do it. I hope, when he replies to the debate, he will tell us, specifically, why what I have said could not be done.

Mr. Morarji Desai: I hope you will be here.

Opportunity Lost

Mr. M. R. Masani: Till then, I can only guess why he did not do it. May be because of habit, conservatism. Maybe because of his clinging to the legacy of the past. Maybe because he put Party above country. Maybe because he did not have the courage to admit past mistakes and strike out in a new direction. In any case, whatever the reason, he has lost a great opportunity, and so has the country. I am not very much surprised. I can understand and sympathise a little with him, because a bad Budget is only one symptom of the disease that is within his party. There are other symptoms also.

The Malady

Before I conclude, I would like to mention three other symptoms, because the Budget is symptomatic of the same malady which shows in different ways. One of the symptoms is the Congress Working Committee's resolution. For sheer irrelevance to the country's problems, it is hard to beat. Having failed for more than a decade to cure a patient, all that the doctor does is to bleed him a little further! I have no time to go into each of the idiotic proposals made by the Congress Working Committee. But I shall mention only one of them to show how ridiculous they are. Take, for example, the proposed nationalisation of General Insurance. The total amount of money on which Government can lay its hands — its ugly, grasping

hands — would be Rs. 3½ crores a year. For this miserable pittance, the Congress Working Committee wants the Government to destroy an essential, a useful, service to industry and shatter confidence in the whole country at the cost of Rs. 3½ crores only. The Congress Working Committee's resolution appears to me to be a cheap demagogic device to divert the minds of the people from the miseries to which the Congress Party has brought them. I think the Congress Working Committee has made a mistake in judging that the people of India were going to support such measures. They are making a mistake; they are misunderstanding the minds of the people. As I understand it, in all humility, the people want a better life, lower prices, more food and more consumer goods. I do not think they care so much by what dogma or by what method we produce it. They are no more interested in my dogma than the dogma of my hon. friends on the Opposite. They want them just to deliver the goods, and the Congress Working Committee's Resolution certainly cannot deliver the goods.

Planning Commission

A second symptom is the way in which this Government is seeking to evade giving implementation to the excellent Report of the Administrative Reforms Commission on the planning machinery. That Report was submitted by Mr. Hanumanthaiya and his colleagues on April 29. I would like to congratulate them on the very good job of work done. But since then, all that we have heard is humming and hawing behind the scenes and an occasional leak to the Press showing how unhappy the gentlemen in office are that they have to carry out the recommendations of the Administrative Reforms Commission which they themselves appointed and which has a big majority of their own

Party men. Obviously, the Report is very embarrassing to the Congress bosses who have been misusing the planning apparatus for twenty long years.

What has the Reforms Committee recommended? They have said that the National Planning Commission has been dominated by Ministers and politicians under the Chairmanship of the Prime Minister. This – in the view of the Committee, I think I am paraphrasing them accurately; Mr. Hanumanthaiya will correct me if I go wrong – has helped it to become a super or parallel Government diluting in some measure the responsibilities of the Cabinet to Parliament and through Parliament to the people; and that its staff has grown to monstrous proportions and needs to be pruned. These broadly are the conclusions.

The recommendations of the ARC are: first, that the Planning Commission should be an expert advisory body, that the role of the Planning Commission should be confined to planning and evaluation and it should stop involving itself in executive functions and decision-making. Secondly, that, while the Prime Minister and the Finance Minister should be closely associated with the work of the Commission, neither of them should be a member or the Chairman of the National Planning Commission.

I would have thought that this was a modest recommendation and could have been accepted immediately without all this waffling. The fact that this is a vindication of what we on these Benches said I hope has not stopped the Congress Government from accepting the recommendations of Mr. Hanumanthaiya and his colleagues. Because that is exactly what we have been saying. We put it slightly differently; we said that the present Planning Commission should be dissolved and replaced by an expert advisory body. The Reforms Committee suggest that the name and the continuity

should remain, but the change should be made exactly as we wanted.

What is coming in the way of these recommendations being accepted? Why this ominous leak that the Prime Minister insists on remaining the Chairman of the National Planning Commission? I suggest that the reason is that the Congress Party has been misusing the apparatus of national planning and has made it Party planning. This is a federal Government and we have a federal Constitution. The Planning Commission should belong to the nation, to the country, as much to the State Governments as to the Union Government. They have monopolised that all this time, kept the State Governments completely outside the purview of planning, and have, therefore, all the power in their own hands.

They should be grateful to the Administrative Reforms Commission that they are letting them out so gently, just suggesting that they retire from the scene in dignity and honour. In the Soviet Union, where the planning process started and where also it failed, they were not so charitable to the planners who fail. It should interest the House to know that in the USSR, where also planning has miserably failed, those at the head of the National Planning Commission, called the Gosplan, are normally executed. From the First Five Year Plan to the death of Stalin, the position of Gosplan Chairman was held by six officials in succession; four of these were shot: the names were G. F. Grinko, V. I. Mezhlauk, G. Yu. Smirnov and N. A. Voznesensky. The fifth, Mr. V. V. Kuibyshev, died suddenly and in mysterious circumstances. Only the sixth survived. So, under the old Stalinist regime, four were executed, one died mysteriously and one lived to die in bed. Even afted Stalin, under Mr. Khrushchev. . . .

An Hon. Member: He is referring to Russia.

Mr. M. R. Masani: It is better that we try to learn the lessons without tears.

Even under Mr. Khrushchev, Mr. M. S. Saburov, was accused of being a member of "an anti-party group" and lost his job. As of now, the average life of the chairman of the National Planning Commission in Moscow, which is supposed to do long-term planning, has been a year and a half each.

In the USSR, Communism is being dragged painfully into the 20th century. Here, we have the framework of democracy, we have this Parliament, we have a free press, and we have an intelligent public. Must we go through those horrors and those disasters? should we have to learn the hard way? Should we not learn from their mistakes and our mistakes and change where change can be made on the lines suggested by Mr. Hanumanthaiya?

Hazari Report

Then I come to the last and final symptom of what is wrong with the ruling party, and that is the most interesting discussion on the Hazari report. We have been following this controversy with some interest and a little amusement; this hullabaloo in the Congress Party's ranks over the Hazari report. My sympathies are entirely with these gentlemen who are suffering from shock and anguish that their wonderful system of socialism has produced this monster that has come before their eyes!

They are doing an injustice to Mr. Hazari. I hold no brief for him; he is a Leftist. But, after reading the report, I must say that I have found it a sensible and reasonable document. There is nothing new in it. He has only repeated what we have been saying here for the last five years! If that is his real thinking, he is welcome to join the Swatantra Party. What does he

say? I have gone through the report very carefully, more than I think most Members have done, who have spoken as a result of the report. — I am very much in agreement — and I want my hon. friend Shri Madhu Limaye to listen — with the editorial writer who commented that most Members of the legislature....

An Hon. Member: That has gone to the Privileges Committee.

Mr. M. R. Masani: That has not gone yet. That would be going tomorrow. That is why I say that I am entirely in agreement with the editorial writer, whoever he is, that most of the members of the legislature perhaps shot their bolt or talked through their hats without bothering to read the report. If they had gone through the report, they would not have gone into the hysterics that they did.

What does the Hazari report say? All that Dr. Hazari points out is this. These are the main conclusions. I am paraphrasing them and for the benefit of hon. Members I shall give the references to the page numbers.

He says:

(i) That the licensing system set up by the Congress Government contains 'the implicit assurance of more or less monopolistic (or non-competitive) positions which the licensee is expected to occupy'; (page 17)

(ii) "The issue of licences tends to give an exaggerated picture of industrial capacity which sometimes scares away genuine entrepreneurs who might be chronologically late, at the same time as it encourages foreclosure of licensed capacity by influential groups and sitting tight on unimplemented licences"; (page 19)

(iii) That the process of licences "leads to bottlenecks, contributes to delays and higher costs"; (page 19)

(iv) That these failures and deficiencies are 'inherent in the licensing system as it was conceived and made to function'; (page 19)

(v) "That these deficiencies are so fundamental that they cannot be overcome by procedural or administrative changes" and that they indicate the need for "recasting of the scope and working of the licensing mechanism"; (page 21)

– or, as we suggest, the scrapping of the permit-licence *raj* –

(vi) That "if licensing is retained..."

– about which he seems to have some doubts –

> "...it should be limited to new undertakings of over Rs. 1 crore capital in place of Rs. 25 lakhs as at present." (page 27)

These recommendations are very sensible and reasonable. They hardly justify the hysteria into which certain "leftist" Members of the Congress Party seem to have gone, obviously without reading the report. I suggest that tonight they read the Hazari Report before it is discussed in the Lok Sabha in the next few days.

The fact that the system of licences, permits and controls is creating greater inequalities as a result of corrupt politicians and officials and their business friends – not ours – *their* business friends, feathering their own nests has been pointed out by us month after month and year after year from these very benches. I myself on several occasions have done, and you, Sir, had been part of the audience, and you have replied to me in debate. I have pleaded with the House that the best way to ensure social justice and a free and equal

society in which we all believe is to scrap this permit-licence-control apparatus and free the people from this octopus.

The correct conclusion to be drawn from the Hazari Report is not to look for scapegoats here and there but to realise that all this is inevitable as a result of so-called socialism, which is really Statism, and to give it up. (Interruptions)

The quarrel between the Congressmen and Birlas is a domestic quarrel with which we have nothing to do.

The remedy is to scrap permit-licence–raj and restore competitive free enterprise, make the industrialist subject to the wishes and preferences of the small man, the consumer, and not the wishes of the politicians and officials as at present.

If State enterprises and Bokaro are one kind of State Capitalist exploitation, the Hazari Report highlights another aspect of the same State Capitalist system. Both must go.

Today the national economy is pressed and held back by an army of drones who have been well described as "the heavy hands, the big feet and the blind eyes of the State." The millions of our people have to be liberated from this vested interest. Ours being a mixed economy, our "New Class", as Djilas has described it, is a mixed class. It consists not only of the Malaviyas but also of the Serajuddins. This is the prototype of the New Class in our country, the combination of corrupt Ministers and corrupt businessmen exploiting the people and sharing the profit.

The sad thing is that Shri Morarji Desai's Budget does nothing to liberate the Indian people from this "New Class." On the contrary, it freezes the *status quo*. I think the effort will fail. I think the country's economy and politics demand today revolutionary solutions. Mere conservatism and the *status quo* will not work. The present stagnant order will come unstuck under its own contradictions and futilities and the people are not going to keep quiet. Too long have they been fed on hope.

Good Advice

The Finance Minister has found a good friend — and he is a good friend of India also — I refer to Mr. George Woods of the World Bank. May I commend to him a very wise remark Mr. Woods is reported to have made? He said: "Hope is a good breakfast but a very poor supper". Today we are not in the morning, we are late in the evening. We are approaching mid-night. The hour is late. The crisis is very much on us. Mere hope will not do. The Indian people want results. I have shown the Finance Minister the way in which he could have produced results. Unfortunately, he has not brought such a Budget before us.

The result is that the people are going to be disappointed. He and his Party will no doubt pay for that disappointment when the time comes.

Prof. Ranga: The country suffers.

Mr. M. R. Masani: Yes, unfortunately, the country also is going to suffer, and millions of innocent men, women and children, who are not responsible for these policies, will have to pay the price.

This is the real tragedy of this Budget. As I said, I speak with great disappointment and sorrow. I still appeal to the Finance Minister and his Party. If they have any imagination left, if they have any vision left, even at this late hour, let them mend. Otherwise, they will destroy the country along with themselves.

Text of speech delivered in the Lok Sabha on June 5, 1967, while opening a discussion on the General Budget.

Charanjit Rai

Mr. Deputy Speaker, Sir, it is a matter of common-sense that the economic prosperity of any country can be brought about by the maximum utilisation of resources of that country. In that process the human factor is very important. It is man who makes use of these resources to the maximum extent by his knowledge, hard work and sincerity of purpose; but for this he needs incentives. Even Shri Morarji Desai did not wish to join the Cabinet till he was offered the incentive of Deputy Prime Ministership. Day before yesterday, even Shri Dange accepted the principle of incentives. Sir, slogans, preaching and lectures can never be a substitute for incentives.

The budget is not merely a statement of income and expenditure. It signifies much more. The budget starts a chain reaction in the economy and it can either promote economic growth or retard it. I am going to comment on the budget from this angle. But, before I do that, I would like, briefly, to review the effect of the previous fiscal policies of the Government in relation to the Three Plans.

Plan Objectives

The objectives of the Plans were mainly:

1) to increase the National Income
2) to raise the Standard of Living of the people
3) to increase Production, both agricultural and industrial, and
4) lastly, to provide employment opportunities.

To achieve these objectives, the outlay on the Plans, leaving aside the investment in the private sector, was about Rs. 16,000 crores, of which leaving other things, Rs. 4,200 crores were by additional taxation, Rs. 2,500 crores from foreign aid, and Rs. 3,700 crores by deficit financing. The hardships caused to the people by high taxation and deficit financing would not have mattered very much if the objectives had been achieved but they matter because this did not happen. Let us see what has actually happened?

Failure

In the case of national income, the increase was 3.9 per cent annum, against a target of over 5 per cent per annum. Regarding the standard of living of the people, the per capita income on the average increased by about 3 per cent per annum, whereas the consumer price index went up on the average by about 6.6 per cent. It is very clear, therefore, that the standard of living of the people instead of going up has gone down.

Regarding production, food production particularly, the results were disappointing! Against a target of 101 million tonnes at the end of the Third Plan, the average production, with fluctuations, reached about 74 million tonnes. Self-sufficiency in food is the long-standing promise of this Government to the people, but it is as distant today as it was 15 years ago.

Regarding industrial production, it is the same story. In very many cases, the production has rallen short of the target. As for employment, I am sorry to say that the number of unemployed men today is far higher than expected in the Plans. Actually, the number of the unemployed has been increasing progressively, with every Plan.

Now the question arises why it is so when so much money was spent? Why has it happened like that? Among other reasons I will mention only three.

The first is the undue importance given to the public sector. This defies reason when it was proved beyond doubt that most of the public sector undertakings were badly managed and, therefore, gave very small returns on the capital, as compared with the private sector.

Secondly, crippling taxation, inflicted to meet the demands of the Congress Government's policies. Very large sums were pumped into either non-yielding projects or low-yielding projects, with the result that less money was left with the people and the private sector. The result was that the productive effort of the private sector was hindered.

Thirdly, the Government placed impediments in the path of economic progress of the country by checks and controls, and particularly the Industrial Licensing Policy. By this policy, they created a very large installed capacity without caring to find out whether the country could feed this installed capacity by raw materials, either local or imported. It does not speak very well of a government which spends huge amounts of money for importing machinery, both for the public and private sectors, when that machinery cannot be used to the optimum extent, just because raw material is not there.

Lessons not Learnt

Sir, I have given you the aims, the failure and the reasons. Now the question arises whether the Government has learnt any lesson? The answer is "No". I said originally that I would like to comment on the Budget from one angle; to see whether it promotes economic growth? Frankly, I see nothing in the Budget which does this. Economic growth can take place and prices can be brought down only by higher production, both in industry and agriculture. About agriculture, we are told, the reason is "drought". Surely the planners and the Government know that Indian agriculture has been dependent upon rainfall for thousands and thousands of years. It is not a new phenomenon. What has the Government done for the last twenty years to see that, if in one year there is shortage of rain, the production does not go down to the level where people starve? I admit that they have started very large irrigation projects either in this part of the country or in that part of the country. They should have started minor and medium irrigation projects throughout India, so that a farmer, no matter from which part of the country he comes, gets water to cultivate his land. To take shelter under drought is just to cover their own mistakes. I may point out that we have imported foodgrains even when we had a good year. The only difference is that we imported less when the rainfall was good and we imported more when the rainfall was less. I am glad to see that the Government is giving up priority to agriculture. At least in 15 years, they have learnt one lesson.

Coming to the Industrial sector, I see that very small, minor reliefs have have given which will not have much effect on growth. The same is the case with the capital market. What was required to be done was that there should have been reduction in taxation on the corporate sector, dividend tax should have been abolished, rebate should have been given for ploughed-back capital and profit surtax should have been abolished. This would have brought in more

investment in the Industry, and with the ploughed-back capital, the industrial growth would have been sizeable. They could have gone for expansion and that would have enabled them to give a reasonable return to the investor. Today, the investor is not getting a reasonable return with the result that he is investing in unproductive spheres like land, houses and gold.

Economic Realities

The Finance Minister had a very fine opportunity to boost our economy by making an overall reduction in taxation, so that on the corporate sector it would not be more than 50 per cent; and on individuals 66 per cent. He might say, "I will lose money. Where will I get revenue from"? Countries like Japan, Germany and America have proved that if you judiciously lower taxation, the overall recovery is more. Some people might say that it may not work in India. I do not agree with that. Surely, if we want to achieve anything, we cannot be cautious to the extent of being timid, as our Finance Minister has been. I would like to suggest that this experiment should be given a trial, for at least one year, and even if it does not succeed, the heavens are not going to fall.

The Finance Minister was very nice to say that he would check prices. He must be a magician to do that. The prices can only come down when there is higher production. There is nothing in the Budget which promotes production. On the contrary, by the measures adopted by him, the common man will have to pay more for coffee, tea, shoes and cigarettes; he has to pay higher postal and telegraph charges; he has to pay more for rail journeys and lastly, the freight which has been increased would raise the cost of industrial products as well as agricultural products, excepting food. I am afraid we are going to see not what the Finance Minister sees, but we will see a price rise all round because when prices rise on one side, it has an overall effect on the general price level. Then there will be the same vicious circle of high prices, high wages, high cost of production.

Our Finance Minister has given some concessions for manganese ore and jute in order to promote export, Excise duty on tea and coffee has also been proposed for the same purpose. I admit that there will be some effect on the export of jute and manganese ore, but if you really want to go fast enough to achieve our target of exports, what needs to be done is to give incentives for *all* those products which have an international market.

Our Finance Minister has been very shrewd. He has not given any figure of cut in the expenditure of Government; he has tried to satisfy us by saying......

An Hon Member: That is the secret preserve of the Finance Minister.

Shri Charanjit Rai........by saying, "yes, we are going to cut" and he says that he is going to start it with his own Department. I would remind the Finance Minister that he sent a note to the Congress Working Committee where he had suggested a cut of 10 per cent in Government expenditure. He has suggested this to the Congress Working Committee, but he has not taken any action in the Budget.

Concrete Steps

We have no quarrel with the Finance Minister when he says that we should bring confidence in the minds of investors, both in India and abroad. But this needs taking concrete steps and I can suggest a few:

1) bold reduction of taxation on corporate sector as well as on individuals;
2) no nationalisation for the sake of nationalisation because this sends fear into the mind of investors both in India and abroad;
3) reduction of stress on the public sector; the projects should be placed in the private sector wherever they are likely to produce better results; and lastly,
4) I would like the Finance Minister to put into effect what he has recommended to the Congress Working Committee and that is, a cut of 10 per cent in Government expenditure. Once this is done, he has no need to propose new taxes; on the contrary, he can give relief.

Sir, I have done, but before I sit down, I want to tell the Treasury Benches that they should take lessons from the past. The masses of India are seething with discontent. (*Interruptions*)

An Hon. Member: *Laissez faire.*

Shri Charanjit Rai: I was talking of economy.

The dragon of mounting prices stares us in the face all the time. Mr. Morarji Desai says that he would like to rehabilitate confidence, but he has not taken any steps for it. I am afraid, our Finance Minister looks at the problem, the economic problem, like so many Congress-men, through the glasses of politics. As long as this goes on, we will never be able to increase production; we will never be able to produce enough food, industrial and consumer goods and the economy will just go down.

Text of Speech delivered in the Lok Sabha on June 8, 1967 during a discussion on the General Budget.

N. Dandeker

Mr. Deputy Speaker, Sir, I wish I had at my disposal the kind of time that the Minister of State has taken because I would very much have liked to deal with a number of issues he has raised. Unfortunately my time is limited and his time is not. I would therefore confine myself to what appear to be by common consent the two major standards of reference in the light of which one has to form one's judgment on the budget.

It is agreed on all hands that in the first place one must consider the budget from its immediate impact in terms of holding the price line. And the second standard of reference for judgment would be in its prospective impact: will it arrest inflation?

The Suffering Middle Class

Taking up the first,— the impact of the budget on the immediate price situation, — I think there is a good deal of confusion because it is not clear always what particular price line one is talking about. I would therefore like to consider this matter with reference to three separate sectors in the economic life of the country. In the first place, what will be the effect of the budget on the working class cost of living? Secondly, what will be the effect of the budget on the middle class, the lower and upper middle class cost of living? and thirdly, what will be the impact on wholesale prices generally and on industrial inputs and outputs. It is perhaps, — I say "perhaps' because I am

not quite sure,—justifiably claimed by the Finance Minister that the immediate impact of the budget on the working class cost of living may be negligible. Certainly, if the monsoon turns out to be as well as every one hopes, there will be no overall adverse effect if you come to look at the matter three or four months hence. But I do not think the same can be said about the impact of the budget on the middle class cost of living. Shri Shantilal Shah described the figure of a person wearing factory-made shoes, rayon or terelene clothes, smoking cigarettes and perhaps imbibing rather more than was good for him of coffee or tea. That describes the middle class people who try to maintain some standard of living in these difficult times, the white collar brigade, the lower middle class and the upper middle class. I am quite certain that the impact upon the middle class cost of living of this budget is going to be quite considerable, whether it is on the clothes or the shoes they wear, the beverages they drink in terms of tea or coffee, the cigarettes they smoke, the newspapers they read or the postal facilities they use. Many of the things that go into their standard of living, that which makes for the quality of the standard of living of the lower or upper middle class, is going to be directly affected by the consequences of this and the Railway budget. I do not think we would be right in ignoring the middle class in this country or the impact of this budget on the middle class. One has to be really in close contact with them as I have the good fortune to be, to know something about them. They live mostly in urban areas; it is true they are not in large numbers in the rural areas. But the impact of this budget on an already ground-down middle class, — a middle class that has in the family very few income earners, a middle class that is ground on the one side by the rising prices and on the other by indirect taxes which subtract from the net value of their income – is going to be quite serious and I do not think that anybody would dare contradict that proposition.

From the general economic stand point, even if we want to forget the human beings for the moment, the impact of this budget on the wholesale price structure, that is to say on the prices of industrial inputs and industrial outputs, coupled with the impact on them of the railway budget that has raised freight rates and the like will, I think, be quite serious. When I say it is quite serious, I am not measuring it in terms of 10 per cent or 15 per cent. I am measuring the impact quite simply as regards holding the price line. That, I take it, is the main criterion of judgment. All the ministers and various other people have been going round urging upon everybody the necessity of holding the price line; hence the point is not whether all these things done by the budget and by the increase in freight rates are going to put up wholesale prices precisely by five per cent or seven per cent or even three per cent. The point, quite simply, is that the impact of the budget on holding the price line is going to be quite serious in the sense that there is not going to be the slightest hope that the price line for industrial purposes, in terms of costs to industry, is going to be held at all.

Inflation not arrested

I turn now to the other major aspect. The second standard of reference is perhaps even more important, from which, it is by common consent agreed, the budget ought to be judged, namely, will this budget have the effect, – not just in terms of psychology and verbiage of that kind but specifically, – of arresting inflation in this country? If it does not, then I suggest it is a

complete failure. It does not matter to what degree it further stimulates inflation; we may disagree as to the degree to which it may stimulate inflationary forces. But Sir, the point really is that, today, the economy is so overheated and there are such strong inflationary forces in all sectors, that the question for consideration is whether this budget will arrest inflation.

This question too can be best explored and best *considered in terms of three situations.* They are the ones that have an effect on the inflationary situation. The first is governmental expenditure. The Minister of State was at great pains to indicate that there was hardly any scope for economy in public expediture. I have not heard a more startling proposition from anyone, either in this House or outside, and I would like to quote to him the authority of the Deputy Prime Minister and Finance Minister himself who, less than a year ago, indicated, – undoubtedly in broad terms because he did not have the details with him on that *occasion,* – *that the* scope for economy in this country was of the order of ten per cent. This was a "must", not a choice or an optional possibility or anything of that kind, but a necessity of the economy in this country even in terms of practicabilities.

Now, Sir, I do not want to weary the House with too many figures, but I have here some very interesting figures given in the India Pocket Book of Economic Information, about the growth of revenue expenditure in the Central and State Governments, taken together. I think these are really relevant figures, because these are not really separate fiscs, – the State Government fisc and the Central Government fisc,--because the State fiscs are dependent in a very large measure indeed upon the resources that are supplied to the States by the Central Government. The progress of non-developmental revenue expenditure of the Central and the

State Governments, other than on debt servicing and defence, in the last three years is as follows: General Administration and External Affairs 1964-65, Rs. 120 crores; 1965-66, Rs. 136 crores; 1966-67 nearly Rs. 140 crores. But the really important figures are not these,—everybody talks about this general administration;—there is another classification here called "Others", that is to say, not debt servicing, not defence, not general administration but "Others". It is this item to which I would like to invite the attention of the House. It was Rs. 451 crores in 1964-65, Rs. 469 crores in 1965-66, and Rs. 552 crores, (budget estimates) for 1966-67. I ask you: when the Minister of State says, "Make positive proposals as to how and where shall I look for economy", has he seen these figures? I suggest to him he had better take a look at the accounts of the year 1963-64 and ask himself the question. "Why can't I get back? What is the cause of the difference between expenditure of 1963-64 and 1967-68,—the budget expenditure? Where has it all gone and what can I do to slap it down back to nearly where it was four years ago?". Sir, I will leave it at that.

There are various other interesting figures in that publication; for instance Table 14.5 at page 139. But the most interesting one is Table 14.7, about gross capital formation and Government's consumption expenditure. I would invite the Finance Minister's kind attention to page 141 of this official publication and ask the simple question: how has the consumption expenditure grown over the last three, four or five years? When I ask 'how', I do not mean there is not always an explanation available. I do not mean just "how". The question for the Finance Minister should be: can I not get back to where I was 3 or 4 years ago? I am quite certain that if economy endeavours of that

very specific kind were made, it would be possible to do something quite substantial.

I will quote an example which is within my knowledge. In 1949, when this country had to devalue the rupee for the first time after the war, I was in the States Ministry and the task of bringing down the expenditure of the Government in a substantial way was entrusted to an Economy Committee consisting of the then Finance Minister, Dr. Mathai and the then Deputy Prime Minister, Sardar Patel. I remember having participated in that exercise. It was on the lines I had just suggested;—how and why had expenditure grown over the last 3 years? What is there to stop us from getting back to where we were 3 years ago? I do not say you can always succeed. But if one proceeded along those lines, a substantial, practical way of approach is available and should be explored.

Deficit Financing through the Backdoor

Sir, the second major factor in regard to inflation is this. Everyone in this House seems to have accepted the claim that this is a balanced budget and there is no deficit financing in it. I am astonished by this, because I see in this budget reliance upon PL 480 counterpart funds to the extent of Rs. 290 crores, of which Rs. 135 crores is euphemistically called "investment" of PL 480 counterpart funds on behalf of the US Government. I raised this point in this House in 1965 and the then Finance Minister attempted to shoot me down. But Reserve Bank Money obtained and spent by way of investment of PL 480 funds *is* deficit financing; indeed, any kind of expenditure of PL 480 funds is inflationary, regardless of whether it is authorised expenditure in terms of what the US Government is entitled to spend or in terms of what the US Government gives by way of grants or in terms of what US Government gives by way of Cooley loans to industry or by way of direct loans to the Government of India for public sector development, – though these are not the categories I am now referring to. I am here referring to the utilisation of the unspent balances in the PL 480 account by the procedure known as "investment" of PL 480 funds. I derive authority for saying this from what Mr. John P. Lewis has himself written in his book entitled *Quiet Crisis in India,* written in 1962. It is not as if the Government themselves are not aware of this, or that they have not themselves urged that these are inflationary processes. It is said in that book (I quote):

> "From time to time there have been vociferous complaints from the Indian Government officials that the expenditure of US PL-480 rupee holdings is dangerously inflationary. It is argued that the expenditure of PL 480 rupees at the time it occurs, is unmatched by any fresh injection of real resources into the economy. Some United States officials have vehemently denied the charge, often reasoning from the assumption of simultaniety between arrival of aid goods and the expenditure of the rupee funds to which they give rise."

Sir, I maintain that in this budget, even after allowing for what is to be spent out of PL 480 funds legitimately,—that is to say, outright grants, Cooley loans and ordinary loans to the Government for various projects etc.—the illegitimate drawing upon PL 480 unspent balance, by what is called "investment in special securities", is in fact deficit financing. This budget is a deficit budget to the extent of Rs. 135 crores, because

that is precisely the extent to which reliance has been placed on this particular source of created money.

Disincentive for Production

Finally, Sir, with regard to arresting inflation, the third question that one asks oneself is this: does the budget, taken as a whole, enable the revival of dynamism in the economy in regard to production and in regard to savings and investment.

I always like to deal with this question of production by setting out a certain economic series, of which the terms are functionally related to each other. If one is considering the *short term* problem of increasing production,—that which is relevant today, this year, the next year or the year after, because of the condition in which our economy is,—what we need is a quick spurt in production of a magnitude such that we do *not* have to cut back on consumption, as that would mean our going back in our standard of living to some years ago. We want an increase in production of a magnitude such that after satisfying domestic consumption there is an adequate surplus left over for export; otherwise all talk about reviving dynamism in the economy becomes meaningless.

The main terms in the production series are: firstly, costs;—that is the main thing in this whole problem of production;— secondly, volume of production; and the third is the availability of current finance. You have all heard of the severe bank credit restrictions now in operation. The fourth term in the series is that of profitability; if you have got volume and proper costs, if you have the right kind of credit situation, then you get profitability.

When I look at these four terms in the production series, in the light of what is going to happen. I am sure about costs because, as I said earlier, I am perfectly certain that all costs are going to go up. As regards volume, in so far as volume is dependent upon this country's current importation against non-project aid for current requirements, I think the Government have done that job well and I do not mind congratulating them on the extent to which there is now availability of foreign raw materials, components and so on. But what about this question of credit? The Finance Minister was at pains to explain that with the falling away of, or going away from deficit financing, it may be possible for the Government to restrain the Reserve Bank of India from imposing all these tremendously restrictive credit situations where the industries today are strangled for lack of working capital. I wish it were so. It would be so if there was no real deficit financing in this budget; but with the deficit financing already committed in this budget to the order of Rs. 135 crores I have no doubt that the Reserve Bank will be *unable* materially to make any change in its credit policy in future compared to what it has been in the last two years. Sir, I have expressed my apprehensions not only about rising costs but also about highly restrictive and costly credit availability. When you have rising costs and restrictive credit you cannot get volume; when you have no volume you cannot have profitability, and if you do not have profitability you have to cut back in inputs. Lacking volume, you have also to restrain consumption; and you may argue you can do this and you can do that. But you are not going to get the magnitude of production required to meet your demand at rising costs and prices, and you are certainly not going to get adequate production for exports because it is going to be more and more profitable to sell in the home market, in the internal market, and increasingly unprofitable to export.

About these export promotion devices by taxing, instead of making the export effort worthwhile in a positive way, we have got continuously into the habit, not only in this field but in many other fields, of doing things in the negative way, You make the other things less worthwhile. In other words, you make home consumption less worthwhile by heavy excise duties, so that the wretched people will be forced to export. I suggest that is not the way to reintroduce dynamism in the economy. Dynamism will be there only when the economy is capable of production of a magnitude such that the home demands can be fully met *and* and an ample surplus is left over for exports that can be sold at very low prices.

Finally, Sir, about savings and investment, that is to say the long term prospect. Is there in this budget any reasonably long term prospect,—let it be three years, five years or seven years,—of introducing dynamism in the economy? And here comes the other series, which is: savings, investment and capital formation. Mere saving is useless unless it goes into investment. Mere investment in existing shares is useless, unless it is converted into investment in new equity shares resulting in capital formation. It is those three terms in this series one has to look at. And, in regard to all these, when I see the tremendous trifles that the Finance Minister has put in by way of tax reliefs for individuals, for companies and all that, adding all that up it comes to nothing, of no significance at all. I see no desirable effect of this budget on the magnitude of savings.

I see also that there is no desirable effect of this budget on the magnitude of investment in equities. So long as you do not take account of these two situations, there is going to be no effect on the magnitude of capital formation; and unless we have adequate growth of capital formation, — Shri Pant can talk as long as he likes about sustaining the rate of growth, sustaining this and that, all that kind of thing, — other than in the public sector for which finance is forcefully taken out of the economy, in no other sectors that I can think of is there going to be voluminous saving, nor lively investment nor, therefore capital formation.

An Inadequate Budget

So, to conclude, I take a very dismal view of this budget. If I had the time, I would have also attempted to answer many of the points raised by Shri Pant and to make positive proposals. Unfortunately, I have no time. But I know I am right in saying that these are the tests. Will it hold the price line, the workmen's cost of living, the middle class cost of living and the wholesale price line that goes to constitute the inputs and outputs of industrial enterprises? The answer is in the negative. Then I look at the second test. Will it arrest inflation? Again, the answer is in the negative. Will it arrest with a jerk, not just a little here and there, governmental expenditure? The answer is in the negative. Is it going to arrest deficit financing? The answer is in the negative. Is there anything that goes to stimulate the volume of production in the short term? The answer is in the negative. Is there anything which over the long term can enthuse people about saving, investment and capital formation? The answer is in the negative. It is altogether an inadequate budget, I am very sorry to say.

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