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सत्यमेव जयते

10th January, 1969.

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Dear Mr. Masani,

I beg to enclose herewith copy of a memorandum submitted by me to the Prime Minister Sm. Indira Gandhi, following my meeting with her for your kind information.

With kind regards,

Yours sincerely,

M K Mohta

(M.K. Mohta)

Sri M.R. Masani, M.P.
2, Tugluq Road,
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NOTE SUBMITTED BY SHRI M.K.MOHTA, M.P. TO SMT. INDIRA GANDHI, ON THE 4TH JAN., 1969 REG: THE PROBLEMS OF THE INDIAN ECONOMY.

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1. The private sector has been assigned a definite role in the economic development of the country, but unless an improvement is brought about in various directions, it will be impossible for it to play its rightful role. Since the country is about to launch the Fourth Plan, it is necessary to review the prevailing situation and take immediate steps for its improvement.

The first requisite for the functioning of the private sector is a healthy and vigorous capital market. Unfortunately, the capital market has been as good as dead for the last five years. The view held by some that it is possible for the Government to by-pass the capital market by providing finance through financial institutions has been proved to be totally wrong by past experience. What is necessary is to bring about once again the enthusiasm of the early sixties when every businessman was trying to expand, as evidenced by the large number of applications for industrial licences, and was making vigorous efforts for procuring foreign collaborations. The average investor was also eager to purchase equity shares with the expectation of a decent return on his investment together with capital appreciation. It is noteworthy that two issues which were over-subscribed by more than 100 times were floated not by any of the big business houses, but by comparative new comers in industry and this could be possible only because the public had surplus funds to invest and appreciated good projects.

The financial institutions are also reported to be experiencing a dearth of acceptable proposals for loans, eventhough they have surplus funds at their disposal. The main reason for this is that the average entreprenuer is unable to raise the nuclous capital by himself or from the market on the strength of which he might seek loans from the institutions.

It is, therefore, essential to re-orient Government policies with a view to reviving the capital market. The following steps in this direction seem indicated:

a). Excise duty structure, price and other controls and corporate tax rate structure should be such as to leave sufficient profits with corporations so that the equity share-holder may get a reasonable return.

b). Sufficient incentives to companies to expand so that the investor may reasonably expect a decent capital appreciation of his investment. In this connection it may be added that it is necessary to bring about a change in the Government's attitude towards the stock exchange, namely, that a healthy upsurge in the stock exchange should be welcomed as helpful to the expansion of industiral activity.

c). Higher tax incentive to the investor in equities. The present provision making dividends upto Rs.1,000/- tax free provides no incentive to the investor in the middle-income group earning Rs.20,000/- per year, as the tax advantage works out to less than Rs.17/- per month. In view of the abolition of the system of grossing-up of dividends, the tax free limit should be raised to Rs.5,000/- to provide sufficient incentive.

d). A part of provident fund monies should be allowed to be invested in preference shares and debentures, perhaps in equities also. This will be in the interest of the members of the provident fund to the extent such investment yields a better return.

e). Cheap money policy should be followed and adequate finance should be made available to trade and industry at lower rates of interest. It may be mentioned here that as long as bank loans cost upto 9.5 percent and unsecured market loans anything between 12 to 24 percent, it would be unreal to expect anyone to invest in equity shares which at present promise neither a comparably reasonable rate of return nor any chances of capital appreciation.

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f). The present high rates of income tax on individual earnings must be brought down, because without individual savings at all levels of society, further investment must necessarily suffer. The present high rates of wealth tax - which works out to upto 50 percent of yearly earnings - are more than adequate to bring about the narrowing of disparities of wealth.

g). A higher proportion of life funds should be invested in equities to provide a hedge against inflation and to enable the policy holder to share in the industrial prosperity.

2. It has not been fully appreciated that "time' is the most valuable factor in our development plans and our failure to implement projects speedily cost us dearly in terms of lost foreign exchange, denied employment opportunities and increased inflationary pressures. For example, a delay of two years in the implementation of a project for manufacturing goods worth Rs.10 crores per annum would straightaway cost the country Rs.20 crores in foreign exchange for the import of such goods, whereas concessions extracted from foreign collabarators by bargaining during this period of two years may hardly amount 1.5 per cent or 2 percent of the output, in otherwords Rs.15 or 20 lacs per annum. This is obviously a pennywise pound foolish policy. Considering the wide gap between the technological levels of India and advanced industrial nations, buying foreign technical 'know-how' is the cheapest and quickest way of narrowing the gap. It is, therefore, submitted that emphasis must be laid on speediest implementation of all projects, whether in the public or private sectors. Only speedy industrialisation can reduce our dependence on imports, increase employment and provide consumer goods to the masses without which the forces of social unrest are bound to gain momentum. With this end in view, steps should be taken to remove all hurdles in the way of speedy industrialisation. Quick disposal of all applications for industrial licences and foreign collabaration and overlooking of minor considerations in favour of the main aim of industrialisation are most essential.

3. The watch-word for the Fourth Plan period must be "growth with speed" and all obstacles in the way of growth must be removed. Higher Government revenue must depend on higher volume of production rather than higher unit rate.

4. On the export front, increased incentive for export is essential for consolidating the gains already achieved. For instance, textile exports have already risen from Rs.70-80 crores to Rs.110 crores. A further cash assistance from the Government of as little as Rs.5 crores in Rupee currency can bring about a gain of Rs.25 to Rs.30 crores in foreign exchange. Similarly, export duty relief will have to be given to the tea and jute industries to maintain their competitive position. Delays in granting assistance on the basis of export entitlement scheme already in force, must be avoided.

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