Swatantra Party

CENTRAL OFFICE

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February 10, 1966.

CENTRAL OFFICE CIRCULAR NO. 43.

Dear Friend,

As you are aware, February 20 is being observed throughout the country by the Party as "Anti-Excessive Taxation Day." On that occasion, our Units at the primary, district and state levels are expected to organise public meetings, processions etc., to denounce excessive taxation which keeps mounting from day to day.

2. In this connection, we have pleasure in enclosing herewith material prepared by the Central Office which will serve as Talking Points for the Party's speakers at public meetings that you might organise or for inclusion in material that you might publish.

We would appreciate receiving from you a report of the manner in which the day was observed by your Unit.

Yours sincerely,

(S. V. Raju)
Executive Secretary.

Swatantra Party

Talking Points for Speakers
Anti-Excessive Taxation Day—February 20, 1966

Gandhiji on Taxation

"This much, however, is clear – taxes as a whole should stand for the general benefit of society".

(Harijan, 8.9.'46)

Swatantra Party's Policy on Taxation

"......The Swatantra Party will aim at reducing taxes and loans by giving up many States enterprises which are neither essential nor remunerative. This will also have the effect of reducing the present high prices which are inflated by government levies and loans. To the extent private enterprise relieves State enterprise, the burden of finance will properly be transferred from the common people who are not qualified to bear it to the enterprising rich who are willing to bear it."

"In the field of taxation as in that of prices the Swatantra Party stands for a fair deal to the agriculturist. Today the bulk of India's indirect taxation has to be borne by the agriculturist. He has also to pay Land Revenue, whether or not he is able to make a profit from his land. The Swatantra Party stands for a reform of the Land Revenue system and the diverse laws relating to irrigation in order to reduce the burden on the peasant and provide for suitable changes with reference to the conditions prevailing in various States including the earmarking of a part of land revenue for meeting expenditure in connection with insurance against crop failure due to uncontrollable causes. It is opposed to new levies on the peasant in the way of surcharges and 'betterment' taxes."

(*Extracts from: To Prosperity Through Freedom*, 1960 p. 16)

"The Party will enforce a drastic reduction in the present excessive burden of taxes which hampers production and employment, including *inter alia* the reorganisation and reform of the Sales Tax so as to minimise harassment and bring it in harmony with the conditions of the small traders in our country. A reduction in indirect taxation will bring down the price of commodities in daily use by the people. Direct taxes will be so regulated as to release the creative genius of our people for productive purposes which will meet the country's needs and raise its level of prosperity."

(*Extract from: Swatantra Party Manifesto*, 1962, *p.* 5)

"The Highest Taxed Nation"

"From the point of view of the economic effects of taxation the major consideration is to prevent the tax system from becoming too much of a disincentive on effort, initiative or enterprise. Taxes on income make it less attractive to undertake work or to risk capital in productive enterprise; and, through the factor of "double taxation" of savings, penalise savings and put a premium on spending. The importance of all these effects depends on the marginal rates of taxation. I am strongly of the view that the development of the last 15-20 years which imposed (nominally) fantastically high marginal rates of tax, while permitting the continuance of wide loopholes for tax avoidance, are highly pernicious in character."

"Apart from the basic injustice involved in excessive rates, our direct tax laws are strewn with other iniquities and arbitrary provisions. They remain unredressed, for a very good reason. In this democracy of 470 millions, the income-taxpayers number a million and a half. They do nothing more drastic than speak on the public platform, publish harmless booklets or write articles for newspapers which take up the space badly needed to publicise the latest homily and exhortation of some powerful individual in public office to the nation. They do not set fire to themselves or to trams and buses. They do not lead Morchas or processions to the Houses of Parliament. Above all, their number is relatively so small that any injustice to them, however gross, however strident, is of no political consequence whatsoever."

"Our Direct taxes on individuals are the highest in the world at the appropriate slabs, being excelled in some brackets only by Ceylon. An individual is assessed at the rate of 88.12% on his unearned income above Rs. 75,000 per annum and at the rate of 82.5%

on his earned income above Rs. 1 lakh. In addition to these confiscatory rates of Income-tax, there are Wealth-tax which goes upto 2.5% and Expenditure-tax which touches 20%."

"These blighting tax rates have worsened the lot not only of the wealthy but also of the higher class of salaried employees of ability, experience and skill, without whom public administration and corporate management would come to a standstill. Consider the position of such an employee during the current Third Plan. A person earning Rs. 2000 a month would take home after tax

Rs. 1,718 in 1961-62 but only
Rs. 1,558 in 1964-65

Taking into account the erosion in the value of the rupee since the introduction of the Third Plan, the real value of this sum of Rs. 1,558 is further reduced by inflation to Rs. 1,227 only.

This means that the real purchasing power of Rs. 2,000 per month in 1961-62 was

Rs. 1,718 in 1961-62 (after taxes) but only
Rs. 1,227 in 1964-65 (after taxes and inflation)."

Taxation and Hidden Money

Question and Answer

Question: Mr. Masani, the present regime says that increased levels of taxation are inevitable because we do not have sufficient funds to finance our planned economic growth and for our defence expenditure. Now, they also say that there are large sums of money underground which if unearthed would lessen this burden of taxation. Now, would you say that in a climate where there is more free enterprise, this hidden reserve, if there is such, would automatically come out?

Answer: Insofar as excessive taxation is concerned, it doesn't really add to the resources in this country. After all, the quantity of money in the country is the same. What taxation does is to transfer it from our pockets to the coffers of Government. So taxation does not add to the sum total of money for development; it diverts it from one set of investors to another. In other words, this excessive taxation is based on Socialism, Socialism that believes that the State knows how to invest better than you and I! Now, I take it we here don't accept that. We, I take it, believe that the man who has earned the money and saved it and is going to risk it is much the better man to decide where and how to invest it than some politician or bureaucrat who never earned the money anyhow and couldn't care less what happens to it. Therefore, what excessive taxation does for development is to divert money from private pockets to the Government's pocket who can invest it. Now, according to us, every rupee so diverted from private pockets to the exchequer is a rupee diverted from more to less productive purposes. This again is not an assumption, it is a fact. The profits of private enterprise are there for everyone to see and the losses made by State enterprise are also there. State enterprises are a wasting asset. Hindustan Steel lost crores of rupees of the country's money and made no profit at all. So the question is not whether we should increase the size of investible resources, but who is to invest, the people who earned it or the people who wanted to spend it on Durgapur and Bokaro. So, I would say that the craze for more taxation is based on socialist dogma and nothing else, not on economic needs. My friend, Asoka Mehta, the Vice-Chairman of the Planning Commission, admitted as much when he addressed the West Bengal Business Convention on 21st March in Calcutta last year. He said, according to the Press Report: "Mr. Mehta warned the people that there was no escape from an annual increased Rs. 100 crores in taxation. The severest curbs on consumption would be necessary to ensure surpluses." Then he gave the reason: "The present generation which was a bridge between the stagnant present and a bright future would get trampled upon in the process, but that could not be helped." Now the question arises, who gave Mr. Asoka Mehta the right to be omniscent and to decide what could and what could not be helped? Who decided that the present generation, which is you and your children and your friends and relations, were produced to be trampled upon by Mr. Asoka Mehta and Krishnamachari and their Government or by the economic process? This is a theory which is native to Karl Marx. The Communists believe in economic determinism; they believe that they know what history requires them to do, that they are God's instrument, and that therefore the Stalins or Khrushchevs can never be wrong, until they are dethroned! Now, we as democrats do not believe in economic determinism, we believe that people have the right to change their destiny, to mould it according to their wishes. That is what our Constitution says. Therefore, in making this statement, Mr. Asoka Mehta talked rather like a Communist. He said it at a time when the then Prime Minister was a Marxist and he perhaps thought he was doing the right thing by the leader of his Government. I hope he would not repeat it under the present regime.

"So far as underground money is concerned, unaccounted money, it is difficult to say what will "automatically" happen. You ask "automatically" – I don't know. But let us consider more what is likely to happen. If you make taxes more and more oppressive, following the Asoka Mehta – Krishnamachari line, then I think more and more money will be unaccounted for. You don't have to take my word for it, you can take Prof. Parkinson's word for it. Read his book "The Law and the Profits". There, Prof. Parkinson, author or Parkinson's Law, says that "where direct taxation exceeds 25 per cent the businessman spends more time in considering how to evade paying his taxes than in producing what he is about to produce." Now, we in India, are, in fact, way beyond 25 per cent. When I proposed in Parliament, some years ago, that 80 per cent might be a legitimate ceiling, Mr. Morarji Desai rejected my plea and thought even over a 100 per cent was all right. That is what it is today. You can be taxed more than your income, if you are at the top. That being the case, my feeling is that if this present line is pursued, there is no chance whatsoever of getting unaccounted money into productive investment and taxation. Raids, getting a few crores here and there, compared to the dimensions of the problem, will amount to little. In fact, more money will go underground while you are unearthing a little here and there. This is nothing new. It has been going on since the days of Babylon and the old oppressive empires; people have found ways of secreting their hard-earned possessions from tyrants and despots, whether they are emperors, commissars, or ministers. And that is what will happen; you can't blame anyone because that is human nature. On the other hand, if you slash taxation, as I suggest by 5 per cent in next month's budget, postponing your Plans and accepting military aid from the United States and other friendly countries, there is much more likelihood of this money gradually coming into the market and certainly no more going underground. This process of dealing in currency notes and in cheques, the incentive to do that, would be weakened. People will say: at last we are getting a fair deal. Let us play ball. Not everyone, there are some people, who are greedy, who will go on cheating even though taxation is 5 per cent. I don't deny that. But the number of inherently dishonest people is small. The number of people who can be honest or dishonest according to pressures and needs is very large. Everyone of us knows that while we may be by and large law-abiding, there are certain regulations we break. We sometimes break the traffic speed limit on an open road in front of us and no vehicles. We would not break another law which would make us feel bad. We are like that, most of us, a mixture of selfishness and altruism. An enlightened policy brings out the best in people, just as a brutal policy brings out the worst. There is black marketing and unaccounted money in Moscow. Anyone who goes to Moscow knows he has only got to go outside a hotel and on the footpath some Russian citizen will come and offer him roubles, twice as many as what the Government Bank will offer, for his foreign currency. That also happens in Bombay, Calcutta and Delhi. If Stalin's shooting squads and Siberia could not stop this, Mr. Krishnamachari is certainly not going to do it. Therefore, my answer would be that it is better to work with human nature, to get the best out of it, rather than to fight it, as Communist and Socialist regimes do until they come to their senses. We don't have to wait till the Soviets are completely cured, as they are beginning to be, and then get on the right path. We can learn from other's experience and do it first.

(From First Swatantra Budget, by M. R. Masani "A Swatantra Forum publication.")

After 3 Five Year Plans

"The Indian economy was under considerable pressure during 1964-65. Three aspects of the economic situation which caused anxiety were the rising trend in prices, the difficulties in raising adequate resources for investment and the sharp decline in foreign exchange reserves. The price situation continued to pose a serious problem for the Indian economy, the pressure on prices that had set in the previous years having been aggravated further...."

"Among food articles, price rise was more pronounced in the case of jowar (43.3 per cent), bajra (24.7 per cent), wheat (22.1 per cent), rice 5.0 per cent), pulses (14.4 per cent) and edible oils (13.5 per cent)."

"Liquor and tobacco advanced by 15.8 per cent during the year 1964-65 as compared to a rise of only 2.1 per cent in1963-64."

Extracts from "Report on Currency and Finance" for 1964-65 *published by the Reserve Bank of India.*

Some Facts and Figures

REVENUE OF STATES

	1551-52 Crores	1965-66 Crores
Total Revenue	396.4	1759.4
I Non tax Revenue	115.3	719.5
II Tax Revenue	281.1	1039.9
(a) Taxes on Income	57.1	133.5
(b) Taxes on Property and capital Transactions	75.4	192.3
(c) Taxes on Commodities and Services	148.6	714.1
1. Union Excise	0.7	144.3
2. State Excise	49.4	82.0
3. General Sales Tax	54.4	287.3
4. Sales Tax on Motor Spirit	4.5	28.3
5. Motor vehicles Taxes	10.1	60.9
6. Entertainment Tax	6.4	24.6
7. Electricity Duties	3.4	34.0
8. Other taxes and Duties	19.7	49.0

WHOLE SALE PRICE INDEX

Base 1952-53 = 100 | 1951-52 = Derived

	March 1951	March 1965	December 1965
Rice	100	128	147
Wheat	100	141	139
Jowar	93	190	198
Pulses	102	159	167
Fruits and Vegetables	103	158	Discontinued
Milk and Ghee	102	151	159
Fish eggs and Meat	93	178	214
Edible oil	151	188	257
Sugar	104	151	162
Cotton Textiles	102	139	141

THE GOLD CONTROL ACT

Income Tax lost	27 crores
Sales Tax (in Bombay city) lost	1.50 crores
Rehabilitation of goldsmiths cost	20 crores
Sp. Cadre to administer the Act	27 lakhs

REVENUE FROM UNION EXCISE DUTIES

(Lakhs of Rupees)

	1951-52	1965-66
Kerosene	28	49,00
Sugar	6,46	53,65
Matches	8,07	23,50
Tobacco	31,99	88,58
Tea	3,36	17,00
Cotton Fabrics	9,26	48,74
Total net revenue	67,54	814,17

REVENUE AND EXPENDITURE OF STATES

(Lakhs of Rupees)

	1950-51	1965-66
Taxes on Income	57,05	133,54
Taxes on property and Capital transactions	75,40	192,25
Taxes on commodities and Services	148,60	714,11
Total Tax revenue	281,05	1,039,90
Total Expenditure on Social and Developmental Services	196,21	1,081,43
Total Non-Developmental Expenditure	196,42	759,21

DEBT POSITION OF THE GOVERNMENT OF INDIA

1951	2,499.63 crores
1965	9,600.98 crores

DEBT POSITION OF STATES

1951-52	445,28 lakhs
1964-65	4,711,56 lakhs

LOANS OUTSTANDING AS OF MARCH 31, 1965

Union Government	32,76,42,84
all States Governments	7,38,43,52

(Figures from the Currency & Finance Report — 1964-65)

Taxation — Disincentive to Savings

"When the citizen who might have started from scratch and by sheer dint of enterprise and hard work might have built up a prosperous business in which most of his capital is locked up, dies, the 85 percent rate of Estate Duty and the incidence of Capital Gains Tax can result in his family company passing under the control of the Government or his business passing into the hands of less scrupulous rivals. In progressive countries like Israel and post-war Germany and Japan, the State started enterprises and after putting them on a sound footing, handed them over to private citizens. In India, the process is reversed and our Estate Duty and other taxes permit private enterprises of honest citizens to be transferred from the bereaved family to the Government. This can happen even where the estate is a moderate one by any reasonable standard, particularly bearing in mind the fact that the rupee is only 17% in value of what it was in 1940."

"The inevitable consequence, which everybody foresaw except the Government, of such excessively burdensome taxation, is that savings have practically dried up and the investment market is under the heaviest pall of gloom. Even when sound companies are floated, it has been found difficult in most cases to get ten percent of the capital by public subscription. Underwriters have, in the words of Mr. G. L. Mehta, become undertakers."

"As regards personal taxation, the cumulative impact of income and wealth taxes on entrepreneurs in the higher income groups, who play a crucial and dynamic role in creating new enterprises and pioneering new industries, seriously curtails their capacity to save...After a point the disposal income of an individual declines with every addition to his wealth through savings at such a level of income the tax liability is generally met at the expense savings which in the case of most businessmen are likely to be invested. Since the incentive to save is virtually eliminated at this level, there is a sound economic justification for slowing down the pace of progression of taxes at very high income levels".

"The old-fashioned fiscal theory that Income-tax rates must be increased to provide larger revenues for the State has long ago been thrown into the limbo of exploded fallacies. India pathetically clings to it despite inevitable disillusionment year after year. The modern fiscal policy pursued by the most progressive countries is to make revenues grow, not by increasing income-tax rates but by making incomes grow and the gross national product grow. In other words, tax revenues must be made self-generating. Nations standing under the shadow of defeat and disaster, with their economy in ruins around them, have awakened to the possibilities of the modern fiscal policy and have enjoyed its fruits already."

"You cannot divide more than you produce. The method of eradicating economic inequalities by giddy levels of taxation involves levelling down. The modern fiscal method aims at levelling up and uses rapid economic growth as the one unfailing instrument for reduction of economic inequalities."

(N. A. Palkhiwala—The Highest Taxed Nation)

Administration of Taxation

"The utter waste of intelligence, labour and time on the part of both the public and the Department, entitled by the complexity of our fiscal laws, is really beyond belief. Taxes have to be calculated for the purposes of (a) payment of advance tax which undergoes a change as soon as a fresh assessment for an earlier year is completed, (b) provisional assessment on the basis of the return filed, (c) self-assessment by the assesee who makes his own estimate of the advance tax payable or files a return under which tax is due by him after adjusting the advance tax paid, (d) giving effect to the decisions of the Appellate Assistant Commissioner or the Appellate Tribunal, (e) giving effect to revisions, rectifications, withdrawal of development rebate, changes in set-off or carry-forward of losses etc."

(N. A. Palkhiwala—The Highest Taxed Nation)

Instability of Taxation Laws

Our direct tax policies suffer from five pernicious defects which can be easily remedied but which the Government has so far resolutely refused to tackle:

(i) Absolute uncertainty; changes in laws and rates of tax, which are as unpredictable as they are frequent.

(ii) Complexity which verges upon incomprehensibility.

(iii) Excessive and cumulative burdens which make dishonesty immeasurably more rewarding than integrity and hard work, and make India the highest taxed nation.

(iv) Injustice inherent in fatuous laws; and arbitrary provisions which stem from individual whims and are not based on any discernible principle of legislation or taxation.

(v) An administration marked by petrifaction of discretion and paralysis of the will to do justice.

(N. A. Palkhiwala—The Highest Taxed Nation)

Japan—an Object Lesson

Japan serves as a great object lesson. It applied the fiscal stimulus and romped its way to a rate of economic growth unparalleled in modern history. The rate of tax on companies, which was 42% in 1951, has been brought down to 38% on undistributed income, while on the companys' income distributed by way of dividends it is as low as 26%. In 1957 the rate of Income-tax levied on the average lower middle class and the upper working class was literally cut in half The highest marginal rate of tax on individuals in Japan is just over 60%. Japan found that with every tax cut the economy boomed and the Exchequer garnered golden grain.

(N. A. Palkhiwala—The Highest Taxed Nation)

Anti-Excessive Taxation Day

February 20, 1966

We, the members of the Swatantra Party

DEMAND

— that no new taxes should be imposed in the forthcoming Union Budget

— that there should be no enhancement in Land-levy

— that wherever land or paddy-levy has been enhanced, it should be withdrawn

— that excise duties on the daily necessities of life of the common man should be reduced drastically. Such items include Cloth, Kerosene, Sugar, Tobacco, betel nuts

— that the strangulating taxes on the middle class should be drastically reduced

— that inflationary policies which lead to rising prices should be scrupulously avoided

— that the infamous Gold Control Act should be scrapped

— that zonal restrictions on the movement of foodgrains from State to State and District to District should be abolished

Jai Swatantra!

We call on the Party's members throughout the country to offer their unstinted cooperation in making February 20, 1966, a Day of education for the people on the realities of oppressive taxation and a Day of warning to the Government.

Issued by the Swatantra Party Central Office, 143 Mahatma Gandhi Road, Bombay 1

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