5834

Mr. M. R. Masani's speech in the Lok Sabha on 22.4.64
in the course of the discussion on Companies (Profits)
Surtax Bill, 1964

Mr. Speaker, today the House is somewhat in a position of an anti-climax after the debate of the last few days on the Finance Bill. One gets the feeling that yesterday one witnessed somebody being murdered; today one only sees the poor man's pockets being picked to see what the pickings are. In such a situation, all that one can do is to repeat one's protest both against the original crime and the petty thieving that follows.

It has been said that the Super Profits Tax has been scrapped. The previous speaker said so. On the contrary, it has not been scrapped. Only the name has been changed, and certain other changes have been made. The claim is made that this is better than the super profits tax. I agree. I think, taken as a separate measure, it is a better devised measure, is more equitable. It distributes the burden wider. I do not at all deny that, measure to measure, it is a better devised measure. But the relief that this change gives will be limited to a number of companies which had been extremely hard hit by the SPT. I am glad they will get the relief. On the other hand, many companies which had escaped super profits tax are now brought within the ambit; particularly section 104 companies which had escaped the earlier measure will now also share in the burden. Last year, Mr. Morarji Desai, my hon. friend's predecessor, had stated:

> "If the effect of the Super Profits Tax is to retard development and the growth of the corporate sector...then the measure would not be justified and I would be the first person to ask the House for a repeal of the provision."

The hon. Minister has stated earlier, speaking on the Budget:

> "There has been considerable criticism in respect of the super profits tax and the uneven nature of its effect on industry as a whole. The net result has been that it has produced a psychological resistance and has to some extent affected industrial growth."

One would have, therefore, expected that Mr. Morarji Desai's promise of repeal of that Act would have been carried out. But all that we find is replacement of that by a measure broadly the same.

The real point against this measure today - I am opposing the Bill as a whole - is that there is no case for a Surtax Bill. A Surtax Bill would only be justified if the level of profits and dividends were inordinately high. If one takes a cumulative view, one finds that the cumulative effect of the dividend tax of 7.5 percent on all dividends, 10 percent additional corporate taxation on small companies, and the capital gains tax on bonus shares combined, along with the estate duty and the gift tax and personal taxation, makes it more than certain that the already low level of profits and dividends in this country will be further depressed.

I rely on the studies of the Reserve Bank of India to show that the level of profits and dividends is already low and that it does not justify this measure. These studies on the working of 750, 1001 and 1333 companies, covering respectively two-thirds, three-fourths and 87 per cent of the total paid up capital of public limited joint stock companies operating in this country, shows that in the case of industries the percentage of dividends to net worth — that is, capital plus reserves — ranges between 4 percent to 7 percent giving an average of 6 percent and the percentage of dividends to paid-up capital varies from 7 percent to 12 percent yielding an average of 11 percent. It also shows that a portion of the profits is distributed as dividend and that the balance is, in the form of enforced saving, retained in the business for growth and expansion. For all industries, the amount so retained is on an average 4 percent of the net worth and 6 percent of the paid-up capital. Out of the total gross capital formation of about Rs.1150 crores between 1951 and 1961, the internal resources of the companies covered by the Reserve Bank survey accounted for about 80 percent of the total finances required.

Now, when the current rate of bank borrowing in this country is today anything from seven to eight percent, when the debenture and preference capital cannot be easily raised at nine to ten percent, can, by any stretch of imagination, equity dividends of six percent on the net worth and 11 percent on the paid-up capital, be called excessive or extravagant? The answer is a clear "No." And that is why there is no case whatsoever for this Bill being brought before Parliament today. It is the proverbial last straw which would break the camel's back.

If there be any awareness of the realities on the part of the Treasury Benches, they would have come today and said: "Stop; enough damage has been done by us; we will now drop this measure." But, of course, that would be too much to expect, because, Sir, if I may say so, the country is today in the hands of economic quacks.

The patient suffers from low blood pressure. There is stagnation. There is anaemia. But the patient is now being treated for high blood pressure instead. It is just like a patient suffering from low blood pressure having leeches put on him to draw away the little blood that remains in him! This is the kind of treatment that this country is being today subjected to. The leeches that are let loose on the people to draw away their blood are the bureaucrats and the politicians in office; the new vested interests who work together; as I said, the combination of the Malaviyas and the Serajuddins who batten and fatten on the country today.

As I have said earlier, this budget as a whole, including this Bill, is an attempt at industrial conscription. It is an attempt at conscripting all the investible resources in the hands of the Government, just as in time of war all the blood and the lives of young men in the country are conscripted by the Government in defence of the country; in one cause it would be justifiable, because it would be for the defence of the country. But here it is not the defence of the country but the interests of these new vested interests, of corrupt businessmen and corrupt politicians working together.

Twelve months ago, my hon. friend's predecessor showed the same self-confidence, the same self-assurance about the effect that it was going to have, that was going to do to the country a great deal of service, by the SPF and by the Compulsory Deposit scheme. We saw what happened within six months of those Bills. I regret that my hon. friend, the present Finance Minister, seems to be basically following, with slight deviations, in his predecessor's footsteps. I regret it, because he has the intelligence as he has shown by part of his speech to understand what the real remedy is. He diagnosed low blood pressure. He says we must give a dose of stimulation and then what does he do? He puts leeches on the patients to draw away the blood! This contradiction between his own understanding of the situation and his own diagnosis and his treatment in what is really going to harm him in time to come and to harm the country, both of which I would deplore.

The Planning Commission, I am told, - I read just this morning in the papers - are now engaged in an exercise; the exercise in which they are engaged is how to raise the rate of growth from the present miserable two percent or thereabouts to seven percent, so that the targets can be achieved. Sir, I wish them luck. I wish we could raise the target to seven percent. But these are not the men and these are not the measures by which the rate of growth can be sent up to seven percent. Until this Government is changed, there is no hope of this two percent going up to anything like three, four or five percent, leave aside seven percent, because of the mistakes that have been made being repeated over and over again.

I shall be told that every country gets the Government that it deserves. That is broadly true, and no doubt in the coming twelve months, the whole country and all of us will pay for the mistake that the electorate made in 1962. Out of all the classes in the country who made the mistake, the most culpable and the most criminal are large elements of our business classes. They had been amply warned; they knew what they should expect from this group of people with their Marxist dogmas and their State capitalist pattern. But yet, the large bulk of them went and got on the bandwagon and helped in returning this Government to power.

Shri Nath Pai: They have everything to do. Find out; just read that part of the Mahalanobis Committee's report, where every institution has been used for the benefit of big business in this country. They do not invest without knowing their benefit in return.

Shri Masani: I was going to say - I agree with Shri Nath Pai basically, a little before he interrupted me, that these elements in the business classes, - unfortunately in India they have been in a majority -- they have put their immediate short-term interests ahead of their long-term interests and the interests of the country as a whole. They have tried to go in for the quick rupee, through permits and licences, rather than consider what kind of country their children will be growing up in, whether those children will be able to breathe the free air of a free society or would suffer as robots under a totalitarian dictatorship.

Shri Joachim Alva: Some leading businessmen in India gave 50 percent to the Swatantra Party.

Shri Nath Pai: 33 percent.

Shri Masani: That is exactly what I was trying to say: even if a handful of them picked up that much courage, they had to reinsure by giving twice as much to their opponents as they gave to their friends! That is exactly what I am referring to. The fact is, with honourable exceptions, the bulk of the business class, including many honest businessmen unfortunately along with the big eggs, have been indulging in this very short term device of feathering their own nests and letting the interests of the country and their own fundamental interests go hang.

Year after year, we see the nauseating spectacle of these gatherings of businessmen meeting in Delhi in the month of March inviting for the inaugural address - who? - not their friends, but the Lord High Executioner - as Gilbert and Sullivan would have called him - who goes every year and gives them a smart kick in the pants for which they pass a vote of thanks!

Shri Nath Pai: The present Finance Minister is an exception.

Shri Masani: This shows the servile and supine character of large elements of this class. We may say, let them catch it; they deserve it; I would agree and if only the interests of a handful of these big businessmen to whom Shri Nath Pai referred were involved, I would be the last to shed a tear, but the fact remains that since we want capital formation, since we want to increase the rate of growth, the only way is for the first priority to be given to increased production and increased productivity. We need these people; we cannot do without them. In other words, free enterprise, such as it is, is an essential element in a free society. The alternative is communist dictatorship of the Chinese and Russian variety. So, that is why, whether they deserve it or not, one has to give them a fillip to collect the capital which the country requires for capital formation.

The majority of businessmen, as I insist, are good honest people. They are being led or misled by dubious elements. It is time, after this budget, that they opened their eyes and asserted themselves and the businessmen with clean hands, who have nothing to hide, came forward and gave a correct lead to their class. This is now probably the last warning they have before they are liquidated. If they do not do it now, they will deserve what is coming to them. Let them even now realise their civic and political responsibilities. Let them realise what a free society enjoins, what kind of policies they should follow and want the Government to follow, if their children and the children of all of us are to be free citizens in a free India.

I believe that the beginnings or the first signs of that awareness and education are visible. I would like to think that the debate that started on the 3rd March and ends today or tomorrow will have played an educative part in making our people aware of those harsh realities.

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