5866

Mr. M. R. Masani's speech in the Lok Sabha in the course of the discussion on the Finance Bill,1961, on 20th April 61.

Mr. M. R. Masani: (Ranchi-East): Mr. Chairman, before I get to the subject matter, may I start with a little appeal to my friend, the Finance Minister? And that is that he might be good enough to try and answer some of the pleas that I propose to make. It is necessary for me to say this and to make this little request to him because, on the last occasion, when the Budget was under discussion, during the general discussion of the Budget, I was sorry to find that none of the main arguments that I had advanced, whether in regard to the harshness of the excise duties and indirect taxation, nor the inflationary character of the Budget, nor the possibility of cutting down non-developmental expenditure, were answered. But the hon. Finance Minister chose to make a jibe or two and pass on to other matters.

The hon. Finance Minister would never make any inaccurate statement if he was conscious of that. But just to show how, in the passion of debate, one gets into saying something, I say this. He allowed himself to say something which is not fair to himself or to the House in arguing that we in our Party believe in freedom on everything. He said:

"He is completely swatantra. He is swatantra in everything."

I am quoting from the Finance Minister's speech:

"I say this deliberately because I find in the rules that they have made that in the Party it is not necessary for any Member to vote together; they can vote as they like... They are swatantra in everything."

Now, there are just a few words missing to complete the story. If the hon. Finance Minister had bothered to quote or read the rules accurately he would have seen that they say that the Party holds that "democracy is best served if every political party allows freedom of expression to all its members on all matters falling outside the fundamental principles of the Party." ——

—— They go on to say that "whether in Parliament or elsewhere they are given the fullest liberty on all questions not falling within the scope of these principles and the Statement of Policy."

Shri Morarji Desai: What are the principles?

Shri M.R.Masani : Naturally, the Statement of Policy and the principles cover a large ground of political and socio-economic affairs that affect the country. Therefore, the hon. Finance Minister will realise how even an honest and careful person like himself can be carried away when, instead of trying to answer arguments, he allows himself the luxury of throwing a jibe at his political opponents. I hope on this occasion he will try to take part in the dialogue which we in a democracy try to carry on.

Now, to get to the subject. Last time, on the discussion on the Budget, we from these Benches had opposed the indirect taxation which forms the main feature of this Budget, and I do not propose to repeat that plea. Public opinion in this country has manifested itself and yesterday's hartal throughout India organised by the radio trade has also shown the depth of feeling in this matter from the sections and interests concerned. Today, I would rather concentrate on the direct taxation measures of this Budget, and the main point to which I would focus attention is the increase in the surcharge laid on higher incomes. The rate of surcharge has now been increased from 5 to 10 per cent on earned incomes over one lakh of rupees. It has been argued that this is 'only Rs.3 crores'. What is this Rs.3 crores? It is always the last straw that breaks the camel's back. This sum of Rs.3 crores has to be taken in conjunction with the already excessive burden in the way of direct taxation which exists in this country. The Draft Outline of the Third Plan itself admits that saturation point had been reached in so far as direct taxation is concerned and it goes on to say that no further increase is possible. I will read from the Draft Outline of the Third Five Year Plan:

"As regards income and corporation tax, further increase in yields will have to be sought mainly through tightening of tax administration, watch on expenditure accounts of companies and other measures to check tax evasion."

....

Inspite of this, we find that a further burden of direct taxation, not on unearned incomes but on the earned incomes of people who really earn that money, is being levied this time.

This comes in very distressing contrast to what has been done in Britain in the last few days. We have seen there that, quite contrary to what we have done, the level at which the surcharge is levied in Britain has been raised in order to give relief to the very same people who are going to be mulcted and penalised by our present proposals, namely, business executives, managers, professional people and higher civil servants, people who from their fixed incomes may be expected to save something and invest it in the productive processes of the country. Therefore, while the British Budget is progressive, this Budget is regressive in its application on this particular point.

I think it is important to draw attention to this in spite of the small amount of Rs.3 crores involved because it raises a very important issue: the issue of whether high incomes are good or bad for this country. In this country, a phobia is being worked up by communists and semi-communist quarters that high incomes are bad. Envy is legitimised and called by the glorified name of socialism. A mean instinct is sought to be made out to be something good.

Now, Sir, what are the principles of sound taxation? Let me quote from the latest report on taxation by the Committee of Economic Development in the United States, a very high level research and intellectual body:

> "Taxes must be high enough to cover the expenses of Government over the years, but not so high as to repress growth, or to inhibit risk taking and individual initiative: high enough to create a surplus in prosperous times, that provides funds for private investment through retirement of government debt, and helps restrain inflation, but not so high as to prevent the attainment of high employment."

The needs of the Government have to be balanced against the Fundamental Right guaranteed by our Constitution to our citizens that the fruits of their labour and their enterprise will be left to them for their own enjoyment.

We always talk a great deal of capital formation and we all agree that capital formation is India's prime need today. But who is going to form this capital? Since 85 to 90 per cent of production in our country is done by the citizens of this country and not by the Government, it is obvious that the formation of capital also is primarily the task of the people of India and not that of the Government or the State. It is the business people, professional people like lawyers, doctors and architects, higher civil servants, salaried managers in industry; these are the people who can afford to save a little from their income and who can invest it in industry - these are the capital-formers of our country and, whatever we do in the country by way of taxation, we have to bear in mind that the vital process of capital formation must not be impeded or retarded.

Now, capital formation depends upon profit. Without profit, there would be no capital formation because people who form capital expect profit for their capital. No Government would be possible unless there was private profit because taxes to the Government are only possible when private profit first comes into existence.

In the last few days, we have welcomed in our own country as a diplomat a very distinguished academic figure from the United States. He, unlike me, is not a believer in free enterprise; he is a socialist and he believes in the expansion of the State sector in a country like his own. I am referring to Professor Galbraith. But when it comes to a country like ours, which is undeveloped, Professor Galbraith has the wisdom to see that what may be good for his country may be very bad for ours. And I shall take the liberty of quoting him because he has been an adviser to our Government and holds views very similar to theirs. Says Professor Galbraith:

> "To give people income and then remove it by taxation, inflation or appeals to thrift is an inefficient and self-limiting procedure....In poor and ill-governed societies, private goods mean comfort and life itself. Food, clothing and shelter, all technically subject to private purchase and sale, have an

urgency greater than any public service with the possible exception of the provision of law and order. The burden of proof is on any step that diverts resources from the satisfaction of these simple biological requirements to the almost invariably spendthrift services of the State."

This is the issue between my hon. friend the Finance Minister and myself. He is seeking by this Budget to divert from these primary requirements of human beings, food, shelter and clothing, money for public services which, as Professor Galbraith says, are invariably wasteful in their impact. I believe that more money should be left with the people so that they may invest in productive enterprise, because productive enterprise is run better by the people than by any Government that can possibly exist, however efficient it may be. This, therefore, is the issue. Wisdom dictates that a margin of money should be left with people to fructify in their pockets so that savings may accumulate, and for that you must give incentives.

The National Council of Applied Economic Research in our country, a body which is not Government-run but certainly Government-approved and aided, has made a study of the impact of direct taxation on our productivity in this country. I would like to quote two or three basic propositions from the report brought out by that body, fortunately a few weeks ago before the Budget was introduced: The first fact that comes out is this, that the rate of growth and the rate of profit in this country are declining. There are demagogues who go around saying that the profits are very high and must be brought down. The facts are exactly the reverse. In the last few years, the rate of industrial growth and the rate of profit have been going down in this country. I shall quote from the report - page 35:

> "The rate of growth of paid-up capital of operating registered companies has fallen from 10.4 per cent in 1951-52 to 3.6 per cent in 1959-60."

A big drop from 10.4 per cent to 3.6 per cent.

> "Nor is it correct to say that the rate of profits in the industrial sector has gone up since 1951. The index of profits after tax as a percentage of net worth for all industries worked out by the Reserve Bank of India (on the basis of a sample of companies) has actually shown a declining trend. The index (with 100 in 1950) stood at 124.7 in 1951 and at 84.1 in 1957."

So profits have been slashed in an unconscionable manner in this country in the last ten years. But people say that the economy goes on. That is a tribute to the vitality and the spirit of the enterprise of our people, not to the wisdom of Government's policies. If this country has not gone to the dogs already, if we are not bankrupt, already, thanks go to no one but the common people of India who have the patriotism and the hard work and the spirit of enterprise to break through reactionary and restrictive governmental policies.

The second thing that comes out of the Report is that the rate of saving has stagnated. In spite of all the measures that Government have taken, there is no improvement in the rate of saving of our people, naturally, for the reasons which we have just seen. This is what the Report says:

> "...over the second Plan period the rate of savings in the economy has not risen at all, but has stagnated around 8 per cent of the national income."

Then the Report goes on to draw conclusions, and the first conclusion is that private savings must be promoted by fiscal policies. It says:

> "It has often been suggested that in India higher taxation is an important method of financing public investment. Whatever may be the theoretical merits of this proposition, in practice it is found that current expenditure under the Plans as well as outside them is rising so fast that even substantial increases in tax revenues are almost wholly absorbed by the rise in such current expenditure; with the result that by far the greater part of public investment has to be financed through a draft on private savings and foreign aid....It seems clear that in the forseeable future, a large part of public net investment would have to be financed by private savings...In this situation the need to promote a higher rate of private savings deserves the Government's

closest attention."

Then the Report goes on to deal with the parrot cry of concentration of capital and power that is raised in this House and outside. If there is any concentration of power today, of economic power, it is in the hands of the gentlemen who sit on the Treasury Benches. But that apart, if you want to decentralise industry, if you want diffusion of economic power, which we all want - I want it as much as my hon. friend the Finance Minister - then the Report points out that it can be achieved. It says:

> "If it is desired to bring about diffusion of economic power and prevent its concentration in the hands of a few large corporations, it is vitally important to encourage the promotion of new enterprises by new entrepreneurs. For this to be possible, as pointed out earlier, individuals must be allowed and even encouraged to accumulate sufficient amounts of wealth."

And the conclusion to which the Report comes is this:

> "We recommend that the pace of progression of super-tax be reduced so that the highest marginal rate will become operative at a higher level than at present."

Government in their wisdom have now recommended to us to do exactly the reverse of what this learned report concludes. All the facts are clear. The argument is logical. But the Government have drawn exactly the reverse of this conclusion: progression should be accentuated rather than lowered. All this is done in the name of "equality" and "socialism." At this stage there is a choice before the country. There is a conflict, a conflict between the socialist dogma and the economic growth and development of our country. And I notice that even my hon. friend Shri Asoka Mehta from the Socialist benches wrote in an article on 7th March thus:

> "We need to encourage industrial growth, but that must not run counter to our socialist objectives."

Shri Asoka Mehta therefore concedes that economic growth is only to be allowed to the extent that the contrary demands of socialist dogma do not get over-ridden. He is a socialist and he is entitled to put his dogma higher than the national interest. But I would ask whether Parliament as a whole which is not wedded to this dogma has a right to retard the growth of our national industries, to retard the growth of the standard of life of our people for the sake of this socialist dogma to which my hon. friend is committed?

Thirty or forty years ago, people made revolutions in other countries in pursuit of the same dogma, but they learnt later than equality was inconsistent with growth and progress. So they threw equality on the scrap-heap. The leader of my hon. friends on the right, Mr. Stalin, said as far ~~xx~~ back as 1932 that "equality is a petty, bourgeois conception worthy only of a primitive society...It has nothing to do with socialism."

Mr. Kosygin, one of his followers, who was in our country the other day as a guest of our Government, is reported to have said that he was distressed to find that our State enterprises do not pay as good salaries and wages as private industrialists do outside. He thought that it was a bad thing - that State enterprises were paying their labour and their officers too little. It is reported in the same press report that he referred to the incentives being offered in his own country. Now, we know that in Russia, the managerial class, the new capitalist class - if you like to call it, the new State capitalist class - is paid very much more, in differential terms compared to the workers, than the managers and capitalists in America or the capitalists in Britain today. The range of inequality in Soviet Russia far exceeds the inequalities in income between the poorest and the richest people in those countries. That is not because they love to go back on their dogma, because they are hard realists and they have learnt the hard way that equality does not go along with progress. Inequality is a necessary part of life, within certain limits, under certain controls and regulations. Inequality is the price of progress and the whole of history shows that without inequality there can be no progress in human affairs. Therefore it is a necessary <u>(Interruption)</u> evil that has to be tolerated while human beings and human nature are what they are. I suggest that, in whatever else we do not follow Soviet Russia, we might follow it in this particular regard of economic realism and give up dogma when it becomes clear that the dogma of equality does not permit of the growth of capital accumulation which our country needs so badly.

On the other hand, the followers of Mr. Kosygin in this country naturally wantus to go into the ditch and therefore Shri Bhupesh Gupta in the other House, when he opened the debate, argued contrary to Mr. Kosygin that the salaries of the people outside the State sector should be brought down to the level of the salaries of civil servants - putting the whole thing upside down and making it stand on its head. Naturally, he does not want our country to progress. He wants the "theory of increasing misery" to be tried out. Therefore he suggests the wrong remedy. But it was a sad thing to find that the members of the Congress Party in that House walked into the trap and joined him in saying: "Yes, let us bring down the incomes of people in this country to the income paid to civil servants, who are underpaid in our country". The logic is all wrong. If you want in our State enterprise efficient managers, we should be prepared to pay for them the kind of salary that they would get outside.

Let me give an example from Britain, which has a very heavily socialised sector. Only the other day, the British Government appointed Dr. Beeching, a very senior executive from Imperial Chemical Industries, to be the Chairman of the Railway Board of Britain, and this appointment was made on a salary of £24,000 a year or Rs.26,000 a month - certainly a very big salary. There was a furore, and the British Government in the House of Commons justified this appointment by saying: "We cannot get good brains, we cannot get talent if we are not prepared to pay for them. Therefore, since we want the best people in our State sectors, we shall compete for them with private industry." That is the spirit, and the London Economist / points out that this remuneration was fixed to match what Dr. Beeching was receiving from the ICI, averaging over a five-year period. At the end of five years, he has the right to re-enter ICI without losing his pension rights, and so on. So, everything was done to make it possible for this very talented man to come and take charge of the British railways on the basis that in five years he would convert losses into profits. That, I suggest, is the spirit of real socialism and not the spirit of pulling everyone down to the level of the poorest member of our community.

Mr. Chairman: The hon. Member's time is up.

Shri M.R.Masani: I said that direct taxation in this country was already too high. Let me just give the figures before I conclude. The surcharge has been made applicable and it rises from five per cent to ten per cent on incomes over Rs. 1 lakh. Let us see whata man earning Rs.1,06,000 per year in our country today pays compared to man in other countries with the same income. A man with Rs.1,06,000 in India today pays 53.1 per cent on his earned income by way of taxes. Except for one country in the whole world, everywhere else in the world, a man with that much income pays much less. In the U.K., for a man with the same income, it is 46.2 per cent; in West Germany, it is 35.5 per cent; in France it is 25.9 per cent - half of ours; in the USA, it is also half of ours - 23.1 per cent; in Canada it is 27.1 per cent; in Japan it is 36.8 per cent. The one country where the rate is higher for the same man is Norway; the rate there is 62.8 per cent. But Norway has not got the aggregation of direct taxation that we have. When you add the wealth-tax, the expenditure tax and the capital gains tax to such a man, it is also likely that he would also pay at that level, namely, on Rs.1,06,000. So here we have the highest-taxed man in the whole world.

This is borne out by the statement of Mr. Richard S. Perkins, the Chairman of the Executive Committee of the First National City Bank of New York, who recently said:

> "We operate in 30 countries and I find that the tax-rate here in India is the highest."

He gave that as the reason why foreign capital was shy of coming into the country. We in India need foreign capital. We should throw our doors wide open to foreign capital to come at its own risk and develop our country by bringing tools and machinery, so that our people could be put to work, because we have too many people and too little capital. Here in this way we are inhibiting the coming in of private capital and thus retarding the growth of this country.

All this amounts to punishing hard work and to punishing success.

I wish to conclude by reading something, not from a private capitalist, but from the Adviser to the National Coal Board of Britain, a very eminent socialist economist, Dr. E. F. Schumacher. He says:

"The alternative to coercion cannot be provided by economic planning, because that itself pre-supposes coercion. It cannot be found when spiritual realities are dismissed as being of no account or treated as subservient to economic aims. It cannot be found when the people are considered as objects which must be driven, cajoled, or manipulated. Perhaps the best - perhaps the only effective slogan for aid is: 'Find out what the people are trying to do and help them to do it better'. "

5860

Mr. M. R. Masani's speech in the Lok Sabha on March 15,1961,
in the course of the general discussion
on the Budget

It is my fortune in Budget debates to speak immediately after Acharya Kripalani, but this time I follow him when he has spoken, not as a leader of an Opposition party, but as an eminent independent Member of the House. All the same, although he has in that way changed, I find it possible to accord a welcome to his words which, I think, deserve the earnest consideration of the House and of the country.

Yesterday, as I listened to the speeches of the leaders of two so-called Opposition parties ...

An Hon. Member: So-called?

Shri M.R.Masani: So-called. I use the word advisedly.

I found they were really supporting the Budget and the Finance Minister in the proposals that he has put before the House.

Shri Dange, quite rightly, attacked the new indirect taxation, the excise duties, as a burden on the poor. There can be no question that on that he was right. He was right in questioning the conception of the Finance Minister about what "the common man" is and isn't. If the common man is one who is not to drink tea, who should go without coffee, who should never touch a cigarette, who should not chew a pan or have a betel nut, then I would say that such a man is very uncommon. The hon. Finance Minister, for whom we have great personal regard, is indeed a very uncommon man, with his abstemiousness from the little pleasures of life and the little comforts of life, which we all like to share. But he must not try to cast the common man in his own image. A few people like the hon. Finance Minister raise the temper of our national life, but if all of them were to be like that, we might draw back a little in horror from the kind of nation that we would be! We like people to be human, to enjoy their tea and coffee and smoke their cigarettes. We like a little joy in life.

Shri Morarji Desai: I have more joy than you have.

Shri M.R.Masani: Certainly the common man wants a good life, he wants a happy life, a little joy in life.

Shri Dange, having made his point, tried, rather helplessly, to distinguish the object of his criticism from what goes on in the Soviet fatherland or motherland, and quite rightly Shri Asoka Mehta and Shri A.P.Jain pointed out that it hardly lay in the mouth of any one who accepted his theories from the Soviet Union to question a system of taxation where the largest amount of taxation falls as a burden on the consumer, the poor man, because in that country, as we know, the turnover tax, which is nothing more than a sales tax or excise duty, accounts for 40 to 50 per cent of the total income or revenues of the Soviet State. Then another 20 or 25 per cent is added from the profits of State enterprises, which again is indirect taxation, because it adds to the price of the product which is sold to the consumer.

Let me give an example. As we know, the prices paid to the collective farmers for their wheat are very low. The State has the monopoly of grinding the flour. By the time the wheat becomes flour and comes out of the State flour mills, the price has gone up many times over. This is how it is indirect taxation on the bulk of the consumer.

Shri Tyagi: Don't preach it here.

Shri M.R.Masani: Since Shri Dange was questioning the hon. Finance Minister's right to bring in moral concepts and to deprive the people of the joy of living, I would refer him to a Communist magazine, a monthly in the Soviet Union, the Kommunist of March, 1961, where, in very similar language, the Soviet editorialists flay the common man for wanting a good time and for wanting comforts in life, preaching in the same moral tone that our Finance Minister does in India. This what the Communist magazine says:

> "In recent years, Soviet citizens have shown a growing aspiration to ensure for themselves a comfortable standard of living..."

—that is a matter of complaint in the socialist world, and it says that they do it "even by semi-legal and clandestine means".

> "This desire extended from gold smuggling by airplanes to catching fish by the use of dynamite."

— both of which are considered to be highly immoral practices. In that respect, therefore, it is very difficult to distinguish between total State capitalism of the Soviet Union and our own incipient brand of it.

Shri Asoka Mehta, on the other hand, who, by and large, welcomes the Budget also seems to draw back from some other implications of this pattern which he supports. He complains that the public sector, which he wants to grow, does not give an adequate return, because the average return on the investment made by the people of India is nothing more than 0.51 per cent. If he had compared it with the profits made by the people's enterprise, he would have found that the people know how to make very much more money than the Government can ever hope to do. But then why this planning which is leading to State Capitalism? If you allow politicians to initiate schemes and bureaucrats to carry them out, how on earth can you expect any profit at all? These are not the classes who know how to produce, or how to produce at a profit, and that is why Professor Galbraith, whom we shall soon have the pleasure of welcoming in Delhi, who is himself a great advocate of the public sector and a socialist, decries our socialism as "post office socialism" which cannot make profit and only tries to avoid making a loss.

That is also why an apt analogy for the State which tries to produce or enter business has been given by the British liberal economist, Mr. Graham Hutton, when he describes State enterprise as a dog in the barnyard. The dog cannot lay eggs himself but, by constantly barking, he prevents the hens from laying eggs also!

That being the case, Shri Asoka Mehta himself will have to accept the fact that if he wants State enterprise in India on a large scale, it will have to be unprofitable. If he does not want that, he must reconsider the very assumptions from which he starts.

Shri Asoka Mehta: Reconsider socialism?

Shri M.R.Masani: Therefore, neither the Communists nor the P.S.P. are Opposition parties. They are, as I have said on a previous occasion, mere satellites of the ruling party. They are mere pressure groups who want to press the ruling party slightly one way or another, but the combined effort of both is to push the ruling party, in effect, further and faster down the slippery slope of State Capitalism and socialism.

There is only one party which provides an alternative way of life, and that party provides an alternative way of life because we reject lock, stock and barrel, the entire pattern of development on which the present Government is set. We reject it because we say there is a fundamental choice before the country. Either we accept a State-directed or command economy, where decisions as to what is produced and at what price it is sold are imposed from the top on the common people of this country, which is basically the Communist pattern, - we reject that - or we go in for real economic democracy which consists of the process of leaving the people of India ...

Ch. Ranbir Singh (Rohtak): Laissez faire.

Shri M.R.Masani: ...the freedom of choice to decide what shall be produced and what shall not be produced.

My friend Shri Jaya Prakash Narayan makes the grievance that in a parliamentary democracy the people only vote once in five years, and then after that they are helpless. There is some force in that contention. What is the way that we supplement parliamentary democracy? I say that we can supplement it only by economic democracy where every day the men and women of India go to the market place and cast an economic ballot. They decide what they want to buy, at what price, and what they do not want to buy. Every time that an hon. Member or a citizen of this country, or his wife, or even his child, goes to a shop, he or she casts a ballot by deciding that he or she wants this kind of soap and not that kind of soap, this kind of brush and not that kind of brush, this shoe and not that shoe, this cloth and not that cloth. Every time he does that, he exercises a freedom of choice. If he does not want to buy, he exercises a negative freedom of choice by saying that he does not want to buy. Out of all these votes that are cast every day in the bazaars of India, we get a collective ballot, a General Election taking place every day in this country. Out of this consumers' preference, by the laws of competition, by checking State or any other kind of monopoly, comes the consumer's right to determine the pattern of production in this country. Out of the combined preferences of the people of India, the industrialists, those who want to make a profit, come to know what it will pay them to make and what it will not pay them.

This is the broad philosophic choice before the country. On this choice, the Socialist and Communist parties and the present Government are all in one camp. Against that command economy, we put before the country the concept of decentralised economic power that Gandhiji had at heart when he said that if he had his way the Reserve Bank of India's vaults should be opened and the gold that was there should be distributed among the people in all the villages of India. That is how economic power is divided; a little particle is given to every man, woman and child in the country. That is the real choice before the country.

Having posed a real challenge to the Budget, of which, as I have said, we do not accept any part of the philosophy, I think it is right to say that it is mischievous in three ways. First of all, these additional levies undoubtedly contribute a blow to the lower middle classes and the common people of this country. This is ill-deserved, after all the burdens that have been cast on them in the last decade. The <u>Hindu</u> of Madras has estimated that already a rise of about 5 per cent in the urban cost of living has occurred as a result of this Budget. And we may take it that that will be the nature or measure of the rise as a result of this Budget.

Secondly, apart from the burden on the common man, these excise duties will injure the process of industrialisation and aggravate unemployment. Already, as a result of the excise duty on power looms, I believe that anything up to 15,000 men are in danger of being displaced in the artificial silk and other textile industries. As a result of the excise duty on metal sheets and circles of copper and zinc, 5,000 people are already unemployed today in Jagadhri in the Punjab. And they have come in deputation, both the manufacturers and the workers, appealing to the Finance Minister not to destroy that industry. That is only a small industry. They are not capitalists; they are small workers, men whom Gandhiji would have liked to see come up. Those are the ones that feel the pressure of the excise duties. In Mirzapur also the small scale industry has been mortally hit already by these excise duties. The excise duty on diesel, which is a great triumph on which the Railway Board lobby should be congratulated, will restrict transport of goods and people. Finally, the additional duty on newsprint is going to affect adversely the newspaper industry, a necessity for the minds of our people.

In these ways, along with the reduction in the development rebate, the import duty on capital equipment and the surtax on earned incomes, economic development will be impeded by this Budget. If the House does not wish to take my word for it, it knows Professor V.K.R.V.Rao, a Leftist and a supporter of Government's policy. Let me quote from a newspaper of 3rd March his comments on the Government's proposals:

> "There is a danger that the wide array of tax on intermediate and capital goods might affect both the pace of internl development as well as the build up of export capacity. He thought that the vast majority of the new excise duties would result in a rise of the cost of living and the consequent threat of an inflationary spiral."

And that brings me to the third mischief of this Budget. At a time when everyone agrees, and the leaders of Government themselves agree, that nothing must be done to aggravate inflation, this is almost a deliberate act setting in motion further inflationary tendencies.

The <u>Economic Review</u> itself supplies the material. During the Second Plan, it points out, the real income of the Indian people rose by 19 per cent. But the money supply rose by 35 per cent. If this is not deliberate inflation of currency, I do not know what is.

The hon. Finance Minister last year said that inflation was not caused by the monetary policy of Government but by the rise in food prices. That alibi that may have existed then has gone. The <u>Economic Review</u>, on page 9, points out that since 1958, the food prices, if anything, have declined. And so, it cannot be claimed that the inflation that took place in the last year is due to a rise in food prices. It is due to the monetary and financial policies of Government and the nature of the Plans on which they are launching.

The Survey also goes on to point out that at the end of 1959, the index of wholesale prices was 117.9 while at the end of 1960 it is 124.3, an average increase of 6.5 per cent; and that during the Second Plan there has been a rise of 25 per cent in wholesale prices. The rupee has depreciated to that extent. Therefore, I hope we will not be given an alibi as on the past occasion. Let the Finance Minister admit that it is the monetary policies of Government that are responsible for this inflation. Government professes, on the one hand, to be against inflation; but their practices, on the other, do not coincide with their professions.

In this context, what can the Chief Ministers' Committee do to hold the price line, when the Union Government goes out of its way to make a dent in the price line? What kind of realism is it to say that the Chief Ministers of States should meet once in three months to hold the price line? This is to throw dust in the eyes of the people. Government expenditure will go up with one hand as much as government's revenues go up with the other. What you get at an inflated rupee will not be any more than what you could have got without the inflation and without new taxation. What you get with one hand is spent with the other.

The result of inflation is disincentives to investment, savings and production, also to exports which the Economic Review calls "the central plank of public policy". For the past five years, our exports are stagnant because our things cost very much more than world levels because of the high cost structure caused by Government policies. We shall now be even less able to compete in the world markets than we have been in the last five years.

Having made out this case, people will say: 'All right, we agree that you have made out a case. But what can be done? Somehow the money must be found. Where is the money to come from?' I challenge that very assumption. This assumption that the money has to be found is a complete fallacy. We do not for a moment agree that additional taxation of any kind at all is necessary. It is true direct taxation has reached saturation point. If you want to tax more, then it is the common man or the poor people that are going to suffer, not only this year, but in the years to come if the policies of Government and the present government in office were to continue. I do not accept this point that additional taxation is necessary. I claim that by cutting down civil expenditure and by not indulging in development plans of a Utopian nature, of an unrealistic nature, we can prune our Budget so that the existing taxation, high as it is, would suffice.

Now, I shall be asked to prove this. I shall try and do so. (Interruption). I have my own figures and I do not know whether they will be the same as what the Hon. Member refers to.

Let us consider non-developmental expenditure and developmental expenditure apart. Let us start with non-developmental expenditure. This has been rising, as Acharya Kripalani pointed out, at an alarming rate. The Estimates Committee of the House has pointed out that a large part of the additional taxation levied during the Second Plan on the ground that it was to go to the Plan has, in fact, been diverted to non-Plan expenditure. Here are the figures. The cost of the Administrative Services has gone up in the last decade by Rs.37 crores. Every year it has gone up. In 1951-52, the General Administration cost Rs.10 crores. In 1960-61, it is Rs.19 crores; Rs.9 crores extra. Audit cost Rs.4 crores 10 years ago; today it costs Rs.8.5 crores. Union Police, that is Central expenditure on Police, was Rs.3.8 crores ten years ago; today it is Rs.19 crores. External Affairs was Rs.4 crores ten years ago and today it is Rs.11 crores. In this way, Rs.37 more crores have been added to what may be called parasitic expenditure consisting of a large army of under-paid and under-worked clerks. Parkinson's Law has nothing to show before the process to which this country is being subjected.

At a time when our frontiers are threatened by Communist China, I would be the last person to grudge a single rupee that is being directed to the defence of the country from that aggression. But how is one to justify the purchase of a secondhand aircraft carrier at a cost which comes, I believe, to somewhere about Rs.30 crores including the planes that are to be found on it. But who is going to attack the country from the oceans here? We are facing a threat across the Himalayas and, instead of directing the money that we spend on defence to fighting that enemy, we go and buy this big toy for fighting a non-existent enemy. Who is going to invade us from the sea? We are making the same mistake that the Moghuls did in the reverse order. They built a huge land army and neglected the navy, and the British were able to land on the coasts and established settlements all round India and from these they moved in.

Now, we are concerned with the attack by a land power on the North and, instead of concentrating on that, we neglect our defence there and we spend money on a navy which we do not need at the present moment.

Acharya Kripalani: They are our friends!

Shri M.R.Masani : Acharya Kripalani is giving an explanation; I hope that it is not the true explanation that the aggressors are our friends. I know the Indian people would not connive at or tolerate such an attitude.

Not only has this process gone on for ten years but there is every indication that they propose to carry on this kind of thing.

According to a paper that was placed before the last meeting of the National Development Council prepared by the Planning body, these are the estimates in the States of non-developmental expenditure and developmental expenditure. The developmental expenditure in 1961-62 is Rs.420.4 crores and in 1965-66 it is estimated to be Rs.471 crores - that is, an increase of Rs.51.2 crores. There is an increase in all the States in the next five years during the Third Plan period of Rs.51.2 crores. That is to say, Rs.51.2 crores is going to be the additional amount spent by all the States on development. Now, let us see the figures of non-development expenditure produced by the Planning Commission. Rs.375.9 crores is the non-development expenditure in 1961-62 compared to Rs.463.7 crores in 1965-66. There is an increase of Rs.87.8 crores in non-development expenditure. So, in the next five years, the States will spend on development Rs.51 crores more while on non-development expenditure they will spend Rs.87.8 crores more - on purely civil administration expenditure. So, Sir, it appears that the Rake's Progress in which we are indulging over the last ten years is to continue for the next ten years. I am sorry I have not got comparable figures placed before the National Development Council for the Union Government and am, therefore, unable to give them. Perhaps the hon. Finance Minister would be able to give them and supplement the information by giving the corresponding figures which are contemplated for the next five years at the Centre.

Now, let us turn to developmental expenditure. Vast developmental projects have been undertaken, as Acharya Kripalani has pointed out, at expenditure that often goes beyond estimates, and the returns, as my hon. friend Shri Asoka Mehta pointed out in this House and as Shri Santhanam did in the other House, are miserably low - 0.51 per cent return. If any businessman produced such results, he would be driven out of the market and go insolvent. An ECAFE survey, which makes a survey of the whole region on behalf of the UN organisation, complains that in India the development of the private sector has been restrained by the diversion of available external and domestic resources to the State sector - the point being, that money that could have been invested by the people to get a higher return has been conscripted for mobilisation in State projects which are of an unremunerative kind. I will not repeat the argument. The fourth steel plant should never have formed part of the Plan. It accounts for no less than Rs.235 crores. The additional tax this year is Rs.60 crores. In other words, if this white elephant was not being imposed on this country, the burden of the additional taxation this year, the next year, the year after that and the year after that could be removed from the shoulders of the common people of this country. It is because of such megalomania that the common people are being mulcted today and there is this burden of additional taxation.

I shall take another example - the nuclear energy power stations. For atomic energy and nuclear power station, Rs.11.48 crores has been budgeted for 1961-62. This expenditure has no relation to the realities of our present day. Twenty years from now, perhaps, the world will have atomic energy for industrial use. But today, the difference between the price of thermal power and hydro-electric power and this power is so vast that to think in terms of the mobilisation of nuclear power for industries is purely Utopian. Here again, for the sake of glory and looking modern in the eyes of the world, we do such things. We are following Russia and other great Powers such as America which can afford this luxury. But what has happened in the Soviet Union, whose Deputy Prime Minister was in our country a few days ago - Mr. Kosygin? He was good enough to admit - I am reading from a newspaper report - and he said that Russia was having second thoughts about the economics of nuclear power. He is reported to have said:

"Russia is having second thoughts about the economics of nuclear power and that, but for the fact that its third nuclear power station had already been launched, it would perhaps have abandoned it."

Acharya Kripalani: We will have second thoughts.

Shri M.R.Masani: It goes on:

"He would not agree with the view that nuclear power stations would be warranted where industrial areas are far away from coal belts, justifying his objection by the case of Russia where coal had to be hauled over much longer distances than India.

I hope, as Acharya Kripalani says, that, having followed Soviet Russia in one direction, we shall now have second thoughts quickly before more money is wasted.

This Budget, Sir, is nothing but a concomitant of the Plan, and we can sympathise with the Finance Minister since he is a prisoner of policies which cannot be justified on their own merits.

There are people who say that "this is all very negative though very effective criticism. But what is the use? Why don't you say something positive?" The Hindustan Times of 7th March had thrown that challenge in its editorial. There appears to be some dialectical confusion about the terms positive and negative. What is positive and what is negative? If some wrong is being done and you try to stop it, is that negative or positive? Or, is the wrong itself negative? If you are going down the slope and I put on the brakes, is that negative action? If an innocent person is being attacked and if you go and stop the bully, is that negative action? There is a mathematical concept that "two negatives make a positive". If the Government of India today are following a negative policy and if we people try to set it right in the interests of the country, then anyone who tries to set right the negative is doing something positive and constructive to this country. It recalls a story about King Louis XVI who used to keep people in the Bastille for many years without trial. Standing at the window of his palace one day, he saw a mob attacking the Bastille and he said: "Why are they so destructive and negative? Why cannot they do something positive?" That is a very funny idea. When one follows a policy which is not correct, and when someone draws attention and says that something is wrong, the man who does it is doing something positive...(Interruptions). Mahatma Gandhi led us in the very negative path of non-co-operation.

I shall try, however, briefly to list some positive things that we would like to do. I just list them because time does not permit a full exposition of these positive measures.

First of all, we should make a drastic reduction in civil expenditure. We have already indicated where these cuts can be made.

Secondly, we would concentrate development expenditure on projects which are labour intensive, which provide employment spread throughout the country - Mahatma Gandhi wanted that to be done - and give quick returns by way of increase in national income. The priorities would be, first, agriculture, then small-scale industries, then large-scale consumer goods industries and last of those white elephants, the steel plants, which are the most unremunerative that this country can afford. (An Hon. Member: Fertiliser?) Certainly, Fertiliser, certainly, but not steel.

Profitability should be the test of progress and not the amount we spend. I am glad that Prof. Galbraith has given very clear expression to this point of view and since he is a bit of a demi-God to those who support the present policy, let me read a few of his remarks. He says:

"To give people income and then remove it by taxation, inflation or appeals to thrift is an inefficient and self-limiting procedure...

In poor and ill-governed societies, private goods mean comfort and life itself. Food, clothing and shelter, all technically subject to private purchase and sale, have an urgency greater than any public service with the possible exception of the provision of law and order. The burden of proof is on any step that diverts resources from the satisfaction of these simple biological requirements to the almost invariably spendthrift services of the State."

This is on page 242 of the book Affluent Society.

This summarises, if any, the positive approach that we have.

Then, thirdly, we would limit taxation to reasonable proportions, so that money is left to fructify in the pockets of the people to be devoted to investment.

Fourthly, we would go in for honest and efficient collection of taxes.

An. Hon. Member: What do you mean by reasonable?

Shri M.R.Masani: I have already indicated that the present levies are not necessary. We can reduce the present taxation and yet the country can go fast and money left to fructify in the pockets of the people to be invested for profit and not wasted in uneconomic projects.

Then, Sir, we would go in for honest and efficient collection of taxes. Professor Kaldor pointed out that a huge amount of money escapes the tax collector's net. If that money could be collected, all this additional direct and indirect taxation would not be necessary. Therefore, the primary duty of the Government is to see that the man who evades tax is made to pay it in full and the innocent man who pays his tax, innocent men like the Government servants and salaried persons, are not unduly mulcted by reason of the incompetence and inefficiency of the tax collecting machinery.

Then, fifthly, we would cut down the capital outlay on the State sector. This will be made up many times over by the same money being invested in the popular sector.

Lastly, we would replace foreign loans taken from foreign governments which are a burden on the country by equity capital coming in in a larger measure. This is an important point, because if you are going to take money from abroad - that we must, and I agree with the Finance Minister that India will need foreign capital for many years to come - there are two ways in which you can get foreign capital: either you get it on your risk or you get it at the other man's risk. If we borrow money from foreign governments, we have to repay the capital and interest, whatever we may do with the money. Whether we use the money intelligently or effectively or we waste it or make a mistake, the loan has to be repaid.

What happens when foreign equity capital comes to this country? With his own money a foreigner comes and sets up his shop. He brings his plant and machinery to make a profit. If he makes a profit, he takes it out of the country. If he incurs a loss - as many State projects are making - then this country does not pay anything. That man loses his money. He brings money at his own risk. That is an important difference. We want foreign capital, but we want foreign capital to come at its risk and not at the risk or at the cost of the interest of this country.

Sir, one last word in conclusion. The hon. Finance Minister has said on page 35 of his speech that the additional taxation that has been levied this year has been levied "with the willing consent of the people". I do seriously question this. I do not think if a referendum on this Budget is held, it would ever be accepted by the people of this country. I know that it would be thrown out by an overwhelming majority. If only the hon. Finance Minister would wait for a year, he will know whether the people of this country are prepared to put up with the crushing burden of taxation that the so-called socialist pattern makes necessary.

Sir, when the country went to polls during the last General Elections, it was told that the Second Plan envisaged additional taxation on this country of the order of Rs.450 crores. If the Government has a mandate for any kind of taxation, it certainly has a mandate for a levy of Rs.450 crores additional taxation during the last five years. But what have they done? They have already levied Rs.1040 crores of additional taxation. In other words, they have exceeded their mandate. Already they have gone twice beyond what they were telling the country that they were going to take out of the country's pocket. Sir, this is not proper in a democracy.

I think this Budget, therefore, has no mandate from the people. It is true it will be carried by a large majority of Members of this House. But, if I may say so with respect, four years after the last elections when the commitment made for

Rs.450 crores has been exceeded twofold, this Parliament becomes what is called in other countries a "lame duck" Parliament. Its mandate has expired.

Shri Dasappa (Bangalore):The gap of Rs.450 crores was also expected to be made up by additional taxation.

Shri M.R.Masani: That was not what was said. The gap would be filled somehow. If the people had been told that Rs.1040 crores would be levied and another Rs.60 crores this year, it would have been an entirely different proposition.

Sir, this Budget has not the mandate of the people of this country. Therefore, this Parliament has become a "lame duck" Parliament. It does not reflect the wishes of the country four years after the General Elections. Its mandate has expired. You may carry it through the House, but I am confident, having faith in the intelligence and patriotism of the people, that next year when they have a chance they will reject the policies on which this Budget is founded and the policies of the Plan on which it is based.

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