Lecture notes for speech on
the Finance Bill, 1961, on
<u>20-4-1961 in the Lok Sabha</u>.

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I

F.M.'s reply to Budget debate - page 8395

c.f. Statement of Policy

II

Repeat Opposition to indirect taxation - Radio [illegible] [illegible]

Concentrate here on direct taxation Vote against all excises.

British Budget

Application of surcharge restricted to higher incomes
Benefit to professionals, managers, civil servants, etc.

Regret no similar attempt at rationalisation here

c.f. Increase in rate of surcharge on earned incomes over one lakh from 5 to 10%

"Only three crores", but it is always last straw that breaks camel's back

Draft outline of Third Plan recognises rates of direct taxation reached saturation point - No further increase possible - "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."

Raises issue of limiting high incomes - a phobia
Legitimising envy and calling it socialism

Principles of Sound taxation

Committee of Economic Development : "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." (page 3)

Right to fruits of one's labour and enterprise
fundamental

Committee of Economic Development's Tax programme ~~in~~ for 1961:

"The essentials of a programme of Federal tax reform are to increase the initiative of individuals and the incentives of individuals and businesses to save and invest; to bring about as much equity as possible in the application of the income taxes; and to improve taxpayer compliance and increase the efficiency and fairness of tax administration" (page 10)

Capital formation - Who is to save and invest?, ~~since~~
since 85 to 90% production in free sector?
- Lawyer, Doctor, Managers, Businessmen

By making profit

No business or government possible without profits out of which tax is paid

Galbraith has stressed virtue of profit; as important in USSR as in USA: "To give people income and then remove it by taxation, inflation or appeals to thrift is an inefficient and self-limiting procedure."

See Budget Speech p 6.

Wisdom dictates leaving margin for saving

Need for incentives

National Council of Applied Economic Research Study:

1. Rates of Growth and of profits decline:

"...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% in 1959-60. 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 (1950=100) stood at 124.7 in 1951 and at 84.1 in 1957." (p.35)

2. Rate of savings stagnates

"~~This means that~~ 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." (p.36)

3. ~~Why~~ Necessary to promote private savings

" 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 Govt.'s closest attention." (p. 37)

"Net savings by the public sector have really declined since 1951-52. The ratio of net govt. savings to net government investment has steadily fallen from 94 percent in 51-52 to 18 per cent in 57-58. In other words, an increasing proportion of public investment is financed by drafts on private savings. In this situation, there can be no doubt that the promotion of a high rate of private savings must be a basic goal of fiscal and other economic policies...... In order to maintain a rising rate of growth of private investment, it is necessary to ensure that increasing amounts of funds will flow into the field of industrial investment. In as much as the entrepreneur-investors are the prime motive force behind the promotion of new businesses, theirs is a key position in the process of growth in the context of a mixed economy wherein a large role is assigned to the private sector." (p.78)

4. The way to help diffusion and avoid concentration -

"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." (p47)

5. Conclusion

"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 that at present. Such a step would serve the double purpose of (a) reducing, over some range of incomes, the disincentives to earning incomes and savings and (b) raising the level at which it becomes virtually impossible to increase one's wealth-holding and also, correspondingly, the level of maximum disposable income." (p.48)

Unfortunately Govt. proposes to do just the reverse in the cause of "equality".

Choice between equalitarianism and growth a real one

Even Asoka Mehta admits "We need to encourage industrial growth/but that must not run counter to our socialist objectives (H.Times 7.3.61)

/but

So dogma put ahead of national interest

c.f. Soviet Union - Quote Stalin: "Equality is a petty bourgeois concept worthy only of a primitive society ....It has nothing to do with socialism."

c.f. Kosygin complained that State enterprises not paying salaries comparable with those in ~~the~~ private enterprises (Times of India 4-3-61)

This was not a good thing - Referred to incentives offered in USSR

Revival of capitalism in USSR because human nature breaks ~~progresses~~ through ~~initiative of the individual~~

The Sovietskaya Rossia refers to Zakhar Vasilenko a farmer who owns 4 cows, 150 sheep and has private income of $7500 a year or Rs.37,000 per year.

Rural Life refers to Fedor Kuznetsov who was found to have 23 savings accounts books, two ~~xxxxx~~ houses, 2 used motor cycles, two cars and a motor boat - Total wealth $.200,000 or Rs.10 lakhs.

Both these fortunes amassed by private enterprise, not unknown to the law.

c.f. Bhupesh Gupta's performance in Rajya Sabha
Several Congress M.Ps walked into trap

c.f. Dr. Beeching appointed Chairman of British Rly.Board at £ ~~24,000~~ 2,400/- or Rs.26,000 a month.
Remuneration fixed to match what he was receiving from ICI, averaging over a five year period. At the end of 5 years right to re-enter ICI without losing pension rights, etc.
Correct course therefore to raise levels of wage in State

enterprises and not to depress those in the Free sector.

Direct taxation already too high

For incomes over 1,0,6,666, our rate already 53.1% on earned income

c.f.

| | |
|---|---|
| U.K. | 46.2% |
| W.Germany | 35.5% |
| France | 25.9% |
| USA | 23.1% |
| Canada | 27.1% |
| Japan | 36.8% |

Only Norway higher in the whole world 62.8%.
But - Wealth Tax, Exp. Tax & Cap. Gains Tax
Highest in the World - Quote Richard S. Perkins, Chairman of Executive Committee, the first National City Bank of New York : We operate in 30 countries and I find the ~~rate~~ tax-rate here the highest."

Alleged:
1958/59 average Income tax payer contributed one day's work in every eight for direct taxes. A man with Rs.3 lakh income per annum contributed six days in eight.

As if this progression not high enough, Government now want to make it steeper.

Amounts to punishing hard work and success.

3. Gratuity: Free of tax

welcome extention to Defence Services, but why discrimination against employees in private business and industry?

Burden on poor should be removed.

~~4. Entertainment allowance~~

~~Welcome F.M.'s move to maintain status quo for firms and self-employed professional people~~

~~5.~~ 4. Exemption from Double super tax for certain industries (Amendment No. 7 - Page 10 of Bill)

- deals with Section 56A of I.T.Act

In the Finance Bill of 1953, no supertax payable by Company on income from dividends received from an Indian ~~firm~~ Company from 31.3.52 and engaged in certain industries specified in the 1st Schedule of Industries (Dev. and Regulation) Act. 1951.

In list of Companies, item (4) - "Iron and Steel"
Explanation: "In item 4, iron and steel shall include any manufactured product of iron and steel"

Industries (Dev. and Regln) Act 1956 amended first Schedule to Industries (Dev. and Reg.) Act. 1951.

Single item iron and steel as explained replaced by a group of seven items under the head "ferrous" which reads as follows :-

1 to 7.

but explanation (1) deleted.

To a lay reader, it looks as if no change in substance made but Finance Ministry have taken the line that iron and steel in Finance Act refers only to item (1) - Iron and Steel - (metal) while excluding pipes and other production made of iron and steel as in original schedule.

Against all canons of interpretation that an important restriction of an exemption under I.T.Act should be sought to be achieved by amending the Schedule to Another Act - Industries (Dev. & Reglation Act)

Then Sec. 56A of I.T. Act itself was amended by Sec. 8 of Taxation Laws Amendment Act 1960 by which item No. 2 - Iron and steel was substitued by the following

" 2. Iron and Steel - metal, ferro alloys and special steels"

Thus out of seven items in amended first schedule to Industries Act, 3 specific items now substitued in Sec. 56A in place of original item of ~~it~~ iron and steel.

Exemption from double supertax in case of company manufacturing pipes and tubes thus taken away.

Mischief of this development is that in 1953, a British concern in combination with an Indian concern established a major enterprise for the manufacture of steel tubes on the basis of ~~old~~ relief from double super tax. This was confirmed in correspondence between British party and Govt. As it happened, no dividends were earned till 1957. By the~~t~~ time of first dividend, the relief had been taken away by new construction of the Section on the part of Govt. and later by further legialation last year. This is a clear breach of faith with foreign concern.

On grounds of fairplay I request F.M. to rectify this position by including iron and steel products including pipes and tubes in current exemption [illegible].

Also Set right ~~resist~~ disasterous psychological effect of Govt. shifting the ground~~s~~ after holding out a concession to foreign enterprise - Not the way to welcome foreign capital into country.

IV

Conclusion

Quote Schumarker, Adviser to the National Coal Board

III

Amendments: Welcome re Entertainment

1. Development Rebate : 25% of cost of new plant and machinery installed after 31.3.54 allowed deduction in computing taxable profits of business

   No reason given for reduction to 20%.

   Uncalled for

2. Foreign Technician

   Need for managerial techniques - NPC

   - present definition too narrow

   "Technician" means, and shall always be deemed to have meant, a person having specialised knowledge in industrial arts and sciences and having experience in industrial practice who is employed in India in a capacity in which such specialised knowledge and experience are actually utilised."

   "Technician" means a person having specialised knowledge and experience in constructional or manufacturing operations, or in mining or in the genration or distribution of electricity or any other form of power, who is employed in India in a capacity in which such specialised knowledge and experience are actually utilised."

   Before Finance Act, 1958, more reasonable :

   Suggest restoration.