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I

Amusement - So-called "Opposition" Parties accepting general line of Govt. policy but drawing back from implications

Dange (wants Socialism or Communism without misery for poor) rightly attacked indirect taxation as burden on poor.

F.M.'s conception of "Common man" peculiar. ~~He~~ Tea, Coffee, cigarettes, betelnut.

Most uncommon in his abstemiousness

But surely "essential goods" are those considered essential by citizen and consumer

No question of morality arises

Amusing attempt to distinguish from U.S.S.R.

Abolition of all direct taxation (Law of May 7, 1960)

Pravda, (May 10, 1960): "The abolition of taxes from the earnings of the workers and salaries employees! Where, in which capitalistic country can this be done, which bourgeois parliament can make such a decision? Such bourgeois countries and such parliaments in them have never and will never exist..."

Only a socialist country which has achieved a high level in its development and places the well being of the people above everything (else) can completely abandon taxes on wages."

Previously highest income paid 13%

Now all on poorest

Turnover tax (same as sales tax or excise) provides between

40 and 50%.

20 to 25% by deductions from profits of manufactures, etc.

Also adds to price paid by consumer

Hence famine of Consumers' goods

Kommunist (March 1961) lashes out at comfort - *Same as Menge*

Dange must learn - in India as in Russia, Socialism means misery and starvation for poor

Direct taxation reached saturation point

Socialism = indirect Taxation heavier

Asoka Mehta : applauds growth of Public Sector but is appalled by absence of return - only 0.51%!

But what did he expect?

Arbitrary decisions made by politicians and implemented by bureaucrats. What else can one expect?

G. Hutton : Govt. in industry like dog in barnyard - can't lay eggs -

Galbraith - "P. O. Socialism which is out of date"

Now realised in Britain, Germany, *Japan* and Yugoslavia

Neither C.P. nor PSP Opposition Parties - mere pressure groups

Almost all speakers want Govt.-directed economy but not willing to pay price

Only alternative way of life posed by Swatantra Party.

We reject approach lock, stock and barrel

Against Command Economy

We pose free society where people, not Govt., determine pattern

faith in people
Real economic democracy - ballot of market place

Consumer is king - his preference decides pattern of production not N.P.C. *Dr. B. R. Ambedkar*

Real choice before country

II

Mischief of Budget threefold:

- 1) Blow to lower middle and poorer classes

Hindu: 5% rise in urban cost of living

Belt wound twice round waist !

- 2) Will injure industry and aggravate unemployment

Tax on production, whether profit or not

Power looms: 25% additional - retard modernisation
and ruin cottage industry - 15,000 displaced

Metal sheets and circles of copper and zinc - Jagdhari,
Punjab, - 5000 employees unemployed as workshops closed -
Also Mirzapur - small scale

Diesel will aggravate transport bottleneck

Railway lobby wins - Contrary to RTTC Report which
House welcomed.

Newsprint - newspaper industry hit

Along with reduction in development rebate, import duty on capital equipment, and surtax on earned incomes, will impede economic development

Even V.K.R.V.Rao concedes: "There ^{is} ~~was~~ a danger that ^{the} wide array of tax on intermediate and capital goods might affect both the pace of international development as well as the build up of export capacity. He thought that the vast majority of the new excise duties would result in the rise of cost of living and the consequent threat of ^{an} inflationary spiral."

(Hindustan Times 3.3.61)

(3) Inflationary - at a time when prime need to stabilise prices

Insidious injection of poison into blood stream

Measure of Inflation:

Cause: Money supply increases twice as fast as national income

Second Plan
Economic Survey: Real income rises 119 %
Money supply 315 %

Effect: Index of Wholesale Prices:-

End of 1959	-	117.9
End of 1960	-	124.3

Average increase 6.5 %

During Second Plan, rise of 25% in wholesale prices.

c.f. My forecast last year

F.M.'s reassurance (March 10): "Prices have risen not because there is deficit financing but because agricultural prices have risen"

Now alibi gone - c.f. Economic Survey p. 9

Gulf between profession and practice

No mopping up ^{releasing} power ^{in case} of necessities.

Planned Inflation

Effect same as deficit finance, through open and frank

What can Chief Ministers' Committee to hold price line do?

Government expenditure will go up - *Central Govt. Imp. Share*

What is gained with one hand will be spent with the other

~~Wages can't be static~~

C.R. : "What seems to come as increased revenue will go as increased costs all round, proving once again the age-old truth that something cannot be made out of nothing, even if Governments undertake the task."

(Swarajya: March 4, 1961)

Disincentives to savings, investment and production aggravated.

Exports which Govt. profess to foster will be retarded because of increasingly high cost structure of industry, ~~getting~~ at twice world prices.

Economic Survey: "Central plank of public policy".

Stagnant for 5 years

Illustrated at recent meeting of Export Promotion Advisory Council where exporters pointed out how Govt. policy defeated export promotion - Incentives desired
e.g. using part abroad.

Threat to use STC will only kill what is left, because STC has already a disastrous record of having destroyed India's market in Manganese Ore.

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III

But what can be done? Money has to be found

Profound fallacy

Additional taxation neither inevitable nor even necessary

Tremendous amount of wasteful expenditure, both developmental and non-developmental

Consider them apart:

Non-developmental: Rising at alarming rate

As pointed out by Estimates Committee, large part of additional taxation during Second Plan period misused for civil expenditure

Administration of controls

Proliferation of bureaucracy

~~Army of~~ ^{all hands} clerks swallowing up revenues

Cost of Administrative Services gone up in last decade by Rs.37 crores-

J.M:
"Present staff not at all excessive if the existing methods of work are taken into consideration."

	<u>1951-52</u> crores	<u>1961-62</u> crores
General Admn.	10	19
Audit	4	8.5
Police (Union)	3.8	19
External Affairs	4	11
	<u>21.8</u>	<u>57.5</u>

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Defence - will not grudge vis-a-vis China but aircraft carrier
colossal waste. - *30 crores*

c.f. Moghuls
G. I. I. I.

Given to understand that, according to estimates prepared by
P.C. and placed before NDC, this process to continue.

Estimates of expenditure on Revenue account of State Governments.

	61/62	65/66	Increase
		(in crores of rupees)	
Development expenditure	420.4	471.6	51.2 crores
Non-development expenditure	375.9	463.7	87.8 "

Comparable figures for Centre not available

Developmental:

Vast developmental projects undertaken at expenditure beyond
estimates

Returns disproportionately low - uneconomic and wasteful

~~Ashoka Mehta and K. Santhanam : Profits 0.51%~~

~~Galbraith : "Post Office Socialism which is out of date"~~

ECAFE Survey: /Development of private sector restrained by
diversion of available external and domestic resources to the
State sector

4th Steel Plant premature, costing around Rs.235 crores
c.f. Additional taxation this year of Rs.60 crores

Four times the quantum of one year's addl. taxation

Nuclear Power Station - Rs.11.48 crores in 1961-62
No relation to realities

(Soviet by Premier)
Even Kossygin confessed USSR having second thoughts about
practicability of atomic energy for industry in near future:

Quoted in
~~Kanx~~ Hindustan Times Editorial: March 5, 1961

"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. 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."

Budget thus an unfortunate concomitant of extravagant spending and of planning dominated by megalomania

Finance Minister prisoner of Plan

This Budget foretaste of coming budgets in the next five years if country not delivered from present govt. next year.

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III

So far so good but, critics say, this is all negative

What would you do?

Hindustan Times editorial 7.3.61.

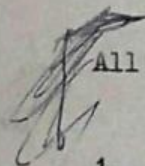
Dialectical concept, which results in semantic confusion

If something wrong is being done and someone else stops it, is that positive or negative?

Law of mathematics - two negatives make a positive

To stop country being taken down slippery slope is hardly negative - very constructive and positive

Louis XVI watching crowd storming the Bastille: "~~What~~ are they so destructive? Why don't they do something positive?".

 All the same, shall endeavour to state Swatantra alternative.

1. Drastic reduction of civil expenditure
2. Concentration of development expenditure on projects which are labour intensive, provide employment spread throughout the country and give quick returns by way of increase in national income e.g. agriculture, road transport, consumer goods industries, fertiliser, but not steel.



Profitability the test of progress and not quantity of expenditure.

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

X

10/19

Galbraith in fact gives warning:

"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 ~~was~~ ^{is} on any step that diverted resources from the satisfaction of these simple biological requirements to the almost invariably spendthrift services of the State."

(Affluent Society - p. 242)

[H.V.R.Iengar (Times of India 14.3.61)

"While the private sector required to shed some weaknesses, it had distinguished itself by a sense of dynamism and by a capacity for vigorous entrepreneurship. The weaknesses arose chiefly from severe import restrictions and relative absence of domestic competition..."

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"The best planning provides people with an opportunity for doing what is beyond the mind and even the imagination of the planners.....The success of the(public) sector will be measured broadly by the efficiency of its operations - its ability to organise ample production at low cost and to sell at remunerative prices. This means that there will be earnings - profits - and these are the most important test of the effectiveness of the public enterprise. (As a measure of performance the USSR attaches about the same importance to profits as the U.S.)"

X →
Second Plan - 1956-61:

Private sector investment Rs. 2,400 crores
Actual " 3,300 " "

- Economy refuses to die. What could we not do if given policy?*
3. Reasonable limit to taxation so that money is left to fructify in the pockets of the people to be devoted to investment.

~~Second Plan - 1940 crores c.f. 450 crores by P.O.~~

4. Honest estimates - c.f. Present Government's record:

Current - 15 crores underestimate
~~1960-61 40 " "~~

- 5.4 Honest and efficient collection of taxes

At present mass evasion on the one hand and overtaxation of honest citizen on the other.

Prof. Kaldor pointed out, but neglected.

6. Convert Sales Tax into Excise because:

1. easy to collect at source
2. incapable of evasion and corruption as at present
3. will avoid double taxation
4. will avoid inter-State difficulties

5. less harassment to businessmen
6. lower cost of collection

7. Cut down capital outlay on State sector by ~~Rs. 150 crores~~

This will be made up many times over by additional investments in the free sector.

8. Replacement of foreign loans by equity capital which comes in at foreigners' risk, not ours, as at present.

(c.f. German Mark

Choice between Socialism and economic growth

Asoka Mehta : "We need to encourage industrial growth but that must not run counter to our socialist objectives" (Hindustan Times 7.3.61)

F.M. (p.35) "Willing consent of people"

Wait a year

"Lame duck Parliament

Mandate nearly expired.

28 Pm ~ Rs 450
additional
Hesul Rs 1040 crore

Appendix IV

Estimates of Expenditure on Revenue Account of the
State Governments for the Third Plan Period.

('As on the basis of Plan discussion')

in Rs. crores

	1960-61 B.E.	Third Plan Period - 1961-62 to 1965-66					(Rs. crores)
		1961-62	1962-63	1963-64	1964-65	1965-66	Total (1961-66)
I. Non-development Expenditure							
1. Direct demands on Revenue	52.2	53.1	54.1	54.8	55.5	55.4	273.9
2. Interest payments	53.9	67.3	78.6	91.7	102.7	117.0	457.3
3. Appropriations	29.1	28.4	32.9	36.2	39.2	42.6	179.3
4. General administration	52.0	54.5	54.9	55.8	57.4	58.9	281.5
5. Administration of Justice	14.4	15.0	15.2	15.6	16.0	16.4	78.2
6. Jails and convict settlement	9.3	9.5	9.8	10.0	10.2	10.5	50.0
7. Police	76.6	79.8	82.2	84.2	86.4	88.6	421.2
8. Territorial & political pensions	0.6	0.6	0.6	0.7	0.7	0.7	3.3
9. Privy purses and superannuation allowances	20.4	20.6	20.9	21.4	21.8	22.2	106.9
10. Famine relief	5.2	3.0	3.0	3.0	3.0	3.0	15.0
11. Stationery & Printing	11.7	12.5	13.2	13.9	14.6	15.2	69.4
12. Miscellaneous departments	9.3	6.9	7.1	7.3	7.5	7.7	36.5
13. Miscellaneous & extraordinary	28.4	24.7	24.7	24.6	24.4	24.5	122.9
Total Non-developmental	363.1	375.9	397.2	419.2	439.4	463.7	2095.4

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Development Expenditure

1. Forests	21.8	17.9	18.5	19.1	19.7	20.4	95.6
2. Irrigation	10.5	10.1	10.4	10.7	11.0	11.3	53.5
3. Civil works	63.2	53.6	55.5	57.3	59.1	61.0	286.5
4. Industries	21.7	15.7	16.1	16.5	16.8	17.2	82.3
5. Agriculture and Rural development	39.9	24.5	25.1	25.8	26.5	27.1	129.0
6. Veterinary	14.4	12.1	12.5	12.9	13.2	13.5	64.2
7. Scientific departments	1.1	0.9	1.0	1.0	1.1	1.1	5.1
8. Education	178.7	168.5	172.5	176.6	180.7	184.9	883.2
9. Medical	51.5	48.5	50.1	51.6	53.0	54.8	258.0
10. Public Health	31.7	16.3	16.8	17.5	18.0	18.6	87.2
11. Cooperation	18.9	11.8	11.9	12.1	12.3	12.5	60.6
12. Miscellaneous departments	27.2	18.2	18.5	18.8	19.1	19.5	94.1
13. CP & NES	51.4	10.1	11.4	12.8	14.5	16.0	64.8
14. Other developmental items	25.4	12.2	12.5	13.0	13.4	13.7	64.8
<u>Total Developmental</u>	<u>557.4</u>	<u>420.4</u>	<u>432.8</u>	<u>445.7</u>	<u>458.4</u>	<u>471.6</u>	<u>2228.9</u>
Ordinary	316.9	307.9	316.6	325.3	333.9	342.9	1626.6
Plan maintenance	240.5*	113.5	117.2	121.4	125.5	129.7	607.3
III. <u>Liability on account of revision of pay scales</u>	-	<u>21.2</u>	<u>23.2</u>	<u>22.3</u>	<u>22.3</u>	<u>22.4</u>	<u>111.4</u>
IV. <u>Transfer to funds</u>	<u>15.3</u>	<u>15.0</u>	<u>15.5</u>	<u>16.0</u>	<u>17.1</u>	<u>17.4</u>	<u>81.0</u>
V. <u>Aggregate Revenue Expenditure</u>	<u>935.8</u>	<u>332.5</u>	<u>868.7</u>	<u>903.2</u>	<u>937.2</u>	<u>975.1</u>	<u>4516.7</u>

* Represents plan-outlay on revenue account in 1960-61.