

Sir, this is the trend which the Reserve Bank has noticed regarding the subscription to the Government loans by the public. Now, it is well known that during the First Five Year Plan the national income was much lower than during the Second Plan and therefore if there was any expectation regarding the trend, it ought to have been that during the Second Plan period larger amounts ought to have been subscribed by the public to Government loans than in the First Plan period but here quite a contrary trend is noticeable. It is necessary to find out why this trend is appearing and whether something could not be done to see that this trend is reversed.

MR. CHAIRMAN: The House stands adjourned till 2.30 P.M.

The House then adjourned for lunch at one of the clock.

The House reassembled after lunch at half-past two of the clock. THE DEPUTY CHAIRMAN in the Chair.

MESSAGE FROM THE LOK SABHA

THE PRESIDENT'S PENSION (AMENDMENT) BILL, 1962

SECRETARY: Madam, I have to report to the House the following message received from the Lok Sabha, signed by the Secretary of the Lok Sabha:—

"In accordance with the provisions of Rule 96 of the Rules of Procedure and Conduct of Business in Lok Sabha, I am directed to enclose herewith a copy of the President's Pension (Amendment) Bill, 1962, as passed by Lok Sabha at its sitting held on the 18th June, 1962.

2. The Speaker has certified that this Bill is a Money Bill within the meaning of article 110 of the Constitution of India."

Madam, I lay a copy of the Bill on the Table.

THE FINANCE (NO. 2) BILL, 1962— *continued*

SHRI ROHIT M. DAVE: Madam Deputy Chairman, when the House rose for lunch, I was discussing the response of the public to the loan programme of the Government and was trying to point out that it was rather a serious tendency in the sense that the response of the public had been proved to be poorer during the Second Plan period than during the First Plan period and that the average contribution had fallen from Rs. 58 crores per year during the First Plan period to Rs. 51 crores a year during the Second Plan period. And I was trying to point out that looking to the fact that the national income was rising and the people were becoming more conscious of a developing economy and the need to mobilise the resources more and more, a contrary trend ought to have appeared and that in view of that this trend was disturbing. This trend is to be contrasted with the trend of the public regarding the call from the corporate sector for the investment of their moneys. Here we find that the shares of some of the new companies or of the old companies that are issuing new shares are oversubscribed at times to the extent of fifteen times the capital that has been asked for by the companies. So, here are two pictures; one, the picture of the Government asking the public to subscribe to the public loans and the other, the picture of the response of the public to the corporate sector demanding investments from the public. While on the one hand there is an enthusiastic response to the demand from the corporate sector, on the other there is a very poor response as far as the loan programme of the Government is concerned. This is a matter of some concern, and I feel that the Government should pay more attention than just exhorting the people to save more and to hand over their savings to the Government as the hon. Finance Minister has done more than once. If it would have been merely a question of redirecting the money that is coming from the

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corporate sector to the public exchequer in the form of loans, perhaps the matter would not have been so serious. Then it would have been just a question of reallocation of the functions between the public sector and the private sector. But I feel that there is a large amount of money which is just changing to some lucrative channel and that explains why the response to the demand from the corporate sector is over fifteen times the original demand from the industries. This shows that fourteen times that particular capital is not required by that company and if there had been some adequate step or measure whereby originally that money could have gone to the public exchequer, to that extent there would not have been any disappointment to the people who wanted shares but who did not get them, and disappointment to the public exchequer by not getting the response which it ought to have got. That, to my mind, leads to the question of the pattern of the rate of interest. In a developing economy, and especially in view of the fact that a large number of companies are being floated today which have got an element of growth in them, thereby attracting so much capital towards them, the Government of India will have to take into consideration the question of the rate pattern of interest on their loans and to see whether something could not be done whereby the public will be attracted to a larger extent towards their loan programme than hitherto. It has appeared in the press that the question of supply and want is being reconsidered and that offers are sought to be made more attractive. If in the same strain the entire question of the loan programme is also considered, it may be possible that these loans also might be made more attractive and thereby more capital which is today just futilely changing the channels of profitable employment might be diverted to the public exchequer in the form of public loans.

Then there is the question of the State Governments performing their part which has been assigned to them during the Third Plan period. In this connection, I would like to draw the attention of the hon. House to a very important recommendation which has been made by the Third Finance Commission, namely, the appointment of a high-powered commission to go into the entire question of the allocation of financial resources between the Central Government and the State Governments. They have argued out the whole case in nearly one and a half page in order to show why it has now become necessary that a high-powered commission should be appointed to go into this important question. According to the Third Finance Commission, the allocation of resources between the Centre and the States was made at a time when a planned economic development was not visualised. When the Constitution was framed, the development of the public sector, the new responsibilities which the States were going to assume and a Plan era, were not visualised, and it was under these conditions that these allocations were made. A fundamental and far-reaching change has come about as a result of the States assuming additional responsibilities for development and the entry of the country into a Plan era. It is because of this that the Third Finance Commission has recommended that the entire question of allocation of the resources between the Centre and the States should be reconsidered and a high-powered commission should be appointed for that purpose. I think that is very necessary in view of the fact that because the State Governments have not got enough lucrative resources at their disposal, they are utilising and exploiting the resources that are with them, which leads to the additional burden on the people with the result that when the burdens imposed by the Centre are added to the burdens that are imposed by the States, the burdens become rather excessive for them, and they find it difficult to

meet the response. This leads to the evasion of large amounts of tax and black money which is circulating in the country.

While defending the proposal for the abolition of the expenditure tax, the hon. Finance Minister has categorically stated in the other House that the expenditure tax was leading to cash being kept by the people for themselves and not accounting therefor which in plain language means that black money is being collected in the hands of the people. Whether the expenditure tax failed because of this or at least that was one of the consequences, is a different matter. Now, I do not know whether the expenditure tax ought to have been given a fairer trial by trying to find out how that tax could be made effective. But I am quite certain that one of the reasons why the expenditure tax failed was the circulation of black money in the country. Now, merely by the abolition of the expenditure tax, we are not going to destroy the black money which is circulating in the country, and some more positive efforts will be necessary. A suggestion was made that the Government has got an important source of additional resources in the form of nearly Rs. 3,000 crores worth of gold that is lying in the country. The hon. Finance Minister told the other House that while he was keen to get that gold from the people, he did not know how to do so and that though he had applied his mind for the last four years to this problem, he had not been able to find out any solution thereof. Now, we realise that in a democracy it is a very serious problem, it is not possible to deprive the people of their gold to which they would like to stick, by any method other than persuasion and perhaps attractive offers. But could not something be done about the amount of gold that is still being smuggled into the country? Is it beyond the competence of the Government of India even to stop this

smuggling which is going on on a large scale?

Madam, I was reading the other day the reports of the various markets in the country and I am quoting from a report which is as late as 17th June, 1962, that is, last Sunday, and they have reviewed, as they do week by week the conditions that prevail in the markets in the particular week, the week which has just gone by. I am reading out from the report regarding the bullion market. It is a very small report and I would like to quote it in full. The report in the newspaper says:—

“The bullion market was featureless despite the fact that there was good demand for ready goods. South India was reported to be a good buyer of ready gold. But arrivals of smuggled gold were heavy with the result that prices were maintained.”

This is a report in a newspaper and this is not the only occasion when these reports have appeared. Time and again, we read in the newspapers that the bullion market was featureless or was going down because of the fact of arrival of large amounts of smuggled gold in the market. Is it not possible for the Government to find out, when the press is in a position to know, whether that particular gold which is offered in the bullion market is genuine gold held legally by the supplier or whether it is smuggled gold. Should it be so very difficult for the Government to find out whether this is legitimate gold or whether it is smuggled gold? I am told that all sorts of new gadgets have now been discovered which should make it very easy for anyone to locate the large amounts of gold which someone might be carrying—electronic devices have been discovered—and I am told that the Government of India is in possession of these instruments. In spite of this development in technology, in spite of

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the determination of the country to see that foreign exchange is saved—because here it is the foreign exchange which is involved when gold is coming into the country—and in spite of the fact that the amount of gold held by the public is increasing month by month and year by year as a result of the smuggled gold coming into the country, how is it that the Government of India have so far failed to locate how this gold is coming and to take some effective steps? I know that here and there some efforts are made and that some gold is confiscated but I am quite sure that the amount of gold smuggled into the country is much more and is quite out of proportion to the findings which are made by the Government of India and I am quite sure that if all this gold is found out, the foreign exchange that could be saved as a result of that would be more than all the attempts of the Government of India recently made to conserve foreign exchange by cutting down imports by 50 per cent, by putting restrictions on travel and by other measures which they have taken now. It is here that real attempts have to be made and it may not be necessary for us to take the Rs. 3,000 crore worth of gold which is already in the country because of the democracy that is prevailing in the country. Certainly, democracy does not mean illegitimate activity; certainly democracy does not mean smuggling activity, and something could be done with regard to this smuggling and if it is done, to a great extent it will help in solving our problem of foreign exchange.

THE DEPUTY CHAIRMAN: How much time do you wish to take?

SHRI ROHIT M. DAVE: Five minutes, Madam.

Lastly, I come to the question of the Government's responsibility when they are making such heavy imposts on the common man. I have dealt

with this question already during my Budget speech and I do not wish to repeat. But I would like to say with all the emphasis at my command that Parliament and the Government should fully realise the responsibility that they are sharing by passing the Bill which is now before us and by imposing new burdens on the people. The burdens are heavy, it has been recognised all round. Whatever might be the difference of opinion regarding the impact of the developmental efforts on the incomes of the people, there is a general agreement that a large number of people who are also subjected to the taxation measures that are now before us are living below the subsistence level and any burden which is imposed on them in the name of development, in the name of prosperity has to be imposed after the full realisation of our responsibility of making adequate use of the money that we are getting and the efficient use thereof.

I was rather pained to find from the note which has been circulated recently by the Planning Commission, in which the shortfalls in our development programme have been acknowledged. And it has been said that we are likely to lag behind by nearly a year or a year and a half in the fulfilment of our targets. But I am really surprised to see some of the calculations that appear in that Note and I would like to share only one calculation with the House in order to show the magnitude of the problem that we are facing and the responsibility that we assume. Regarding fertilisers we are told that as against the existing capacity of about 2,48,000 tons for the production of nitrogenous fertiliser, a total additional capacity of 10.4 lakh tons has been approved. We are further told that this should more than meet the Third Plan target of one million tons in nitrogen. But it is reckoned that the indigenous output at the end of the Third Plan would be of the order of 5.50 lakh

tons as compared to eight lakh tons anticipated earlier. I would like the House to realise the full implication of this small paragraph. And what does that say? It says that according to the calculations in the Third Plan report we were to create an installed capacity of 1 million tons of nitrogenous fertilizers and it was expected that 8 lakh tons will be the actual production in the country from that 1 million tons of installed capacity. Now, the Planning Commission says that they will have more than 13 lakh tons of installed capacity in the country. And yet what would be the expected production? It is 5.50 lakh tons. This shows that instead of 80 per cent. production coming out of that installed capacity, it has now been assumed by the Planning Commission that the production will be less than 50 per cent. Is this the way in which we are utilising the money that we are taking from the people? Is it because we have got the police force at our command or perhaps because patriotic people are prepared to bear any burden which is necessary in order that the development of our country could take place? Are we discharging our responsibility to the fullest extent of our ability for the money that we are taking from the people or for the sacrifices that we are demanding of them? And if we are not able to discharge our responsibility fully, have we got any moral justification to demand sacrifices from the people? That is the question which this Parliament and this Government will have to take into consideration.

SHRI MORARJI R. DESAI: May I have from the hon. Member some information? He mentioned just now that the Planning Minister has said. . .

SHRI ROHIT M. DAVE: Planning Note.

SHRI MORARJI R. DESAI: "The Planning Commission" you said. I do

not know where it was said, but I should like to know that also.

THE DEPUTY CHAIRMAN: It is in that Note, he says.

SHRI MORARJI R. DESAI: I should like to have that reference, that there is planning for 1.3 million tons of fertilizers and that the actual production will be 5.50 lakh tons. Now, is it also said—I only want to have information—that that 1.3 million ton capacity is being licensed now and that it may get into production, say, in the Fourth Plan, or that at the end of the Third Plan only 5.5 lakh tons may come out. Is that what the hon. Member said, that even though this capacity will be set up, only half will be produced?

SHRI ROHIT M. DAVE: Madam, I would be very happy to reply to the hon. the Finance Minister. I will just give the information which he has asked for. The paragraph that I have taken is from a Note which had been circulated to the Consultative Committee of the Planning Commission by the Planning Commission, and in that Note these are the actual wordings.

"This should more than meet the Third Plan target of capacity of 1 million tons in nitrogen."

The only possible meaning of that would be that during the Third Plan period this capacity would come into existence. Otherwise the targets cannot be reached. What is the meaning of reaching the targets? The targets are for creating the installed capacity during the Plan period, and if that target is reached, it means that that capacity will be created during that period.

SHRI MORARJI R. DESAI: Is it in the same Note that half will be produced?

SHRI ROHIT M. DAVE: It is in the same thing; I am reading only from that Note, and it says that half will

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be produced. In that Note it is further stated that this is the Plan target of capacity of one million tons in nitrogen, "but it is reckoned"—the sentence goes on—"that the indigenous output at the end of the Third Plan would be of the order of 5.50 lakh tons compared to 8 lakh tons anticipated earlier." I am quoting these fully from that particular Note, and it is quite obvious that instead of the installed capacity being one million tons now the installed capacity is expected to be of the order of 1.3 million tons while the actual production which was expected earlier to be 8 lakh tons is now expected to be 5.50 lakh tons.

SHRI MORARJI R. DESAI: Forty per cent.

SHRI ROHIT M. DAVE: Yes, these are the figures that have been given by the Planning Commission in this Note which has been circulated to the Informal Consultative Committee. If there are any mistakes in that Note, I do not know. But what I am trying to point out is that this is not a solitary case. I can go on industry by industry to show that the installed capacity is not being fully utilised. Why the stock market is going down today? The stock market is going down because there are the import curbs; it means that the industrial raw materials will not be available to the units that are already in production, and if the units that are already in production will not get their industrial raw materials, they will not be able to fully utilise their installed capacity which is already there. As a result of that profits will go down, and therefore the stock market will go down. There is ample evidence and all go to suggest that the installed capacity is not being fully utilised, and for some reason or other, which I have never been able to understand, we are only trying to put in more and more installed capacity in the country hoping that by some miracle the entire installed capacity will be fully utilised.

I will give only one more example and that is about the Rourkela Steel Plant. We read the other day in the newspapers that some discussion was going on between the Government of India or rather, Hindustan Steel, and their German counterpart regarding expansion of the Rourkela Steel Plant, and that in that discussion the German experts had insisted that unless the one million ton capacity which had already been created was fully utilised, there should not be any further expansion, whereas the Government of India was all along is planning its expansion from 1 million tons to 1.5 million tons. What I am trying to point out is that we are creating installed capacity with the money that we are taking from the people but we are not taking as much care to see that the installed capacity either in the public sector or in the private sector, which has already been created, is fully utilised. We might be meeting the targets which have been provided for in the Third Five Year Plan in terms of installed capacity, but as far as production is concerned, we are not meeting those targets, and to that extent the money is unnecessarily locked up; to that extent unnecessary burdens are being imposed on the people, and it is here that our responsibility comes in to see and to point out. I am not at all against installed capacity being created. Double it, if you can; I am all for it, but utilise it fully so that ultimately commodities flow out of the units and people's lives become more enjoyable, become more enriched, if not now, at least after some time, as a result of the big sacrifices that they are making.

Madam, I thank you.

SHRI M. M. S. SIDDHU (Uttar Pradesh): Madam Deputy Chairman, I am grateful to you for having given me the opportunity to place my views on the Finance Bill. Any fiscal policy of the Government should, from my point of view, fulfil the following questions; whether it is a step which

will promote the socialistic democratic economy as envisaged in the Third Five Year Plan, whether the people can bear the burden of fresh taxes and whether the revenues collected by the Union Government are shared by the States in such a way as will allow them scope for the fulfilment of their State targets or their commitments under the Plan. I would touch the last point first.

Madam, the States[†] derive their share out of the income-tax, the excise duty—basic and additional—the estate duty, the passenger tax, etc. The exact percentage of the share of each State is determined by the Finance Commission appointed by the President every four years. The corporation tax has been excluded from the divisible pool. While the revenue from the corporation tax has been mounting, the revenue from income-tax coming into the divisible pool has been going down. Let me analyse the position of corporation tax and the divisible pool. In the year 1956-57, corporation tax was to the tune of Rs. 50.8 crores and the divisible pool at that time was Rs. 145.2 crores. You will see, 3 P.M. that gradually the corporation tax went on increasing the divisible pool went on reducing. Up to the year 1960-61 while the corporation tax rose to a figure of Rs. 135 crores, the divisible pool was reduced from Rs. 145 crores to Rs. 100 crores, with the result that while the State's share of income-tax, according to the Third Finance Commission report, has increased from 60 per cent to 66-2/3 per cent. still the divisible pool remains less. The net result of the recommendations of the Third Finance Commission, applicable from the current Budget, has been that States like Uttar Pradesh, Maharashtra, West Bengal and Madras are losers.

Madam, the Finance Commission while considering the recommendation of the Second Finance Commission had admitted that the basis of the division should be population,

taking into consideration the backwardness of the State. It has been admitted on all hands that Uttar Pradesh is a backward State. The hon. Minister of Finance had recently stated in the Lok Sabha to this effect. It is the accepted policy of the Government to enable the backward States to improve their position. But to our utter dismay, we find that the recommendations of the Third Finance Commission have made the position of Uttar Pradesh worse. It was expected that the State's share of the Central taxes and duties would not be reduced to such an extent as to create a large deficit in the finances of the State.

The total income of the State during 1961-62 from devolution of Central taxes, duties and grants to compensate the loss of share of income tax on companies, prior to the recommendations of the Third Finance Commission, was Rs. 34.43 crores. The recommendations of the Third Finance Commission will reduce it to Rs. 30.71 crores per year. The loss is, therefore, to the tune of Rs. 3.72 crores and if it is repeated on the same scale for the next three years, the total loss would be about Rs. 15 crores. Would it not adversely affect the revenue component of the Plan of Uttar Pradesh? The U.P. Government, conscious of its backwardness has undertaken the onerous task of raising additional taxation to the tune of Rs. 104 crores from 1962 to 1966. But even then the State would incur, at the end of 1966, a deficit of Rs. 29 crores.

Madam, even a cursory perusal of the Commission's report would reveal that the Commission did not study the result of its recommendations on the economy of the States, otherwise it would not have drawn conclusions different from the principles laid down by it. To quote a few examples, while the share of income-tax of Uttar Pradesh is calculated on the basis of 80 per cent. population and 20 per cent. of the per-

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centage of the State's average collections, that is, 14.42 per cent, the percentage given for other States is not arrived at by the same method.

The Commission itself enunciated the principle that population should continue to be the major factor in the distribution of Union excise duties to the relative financial weakness of States, disparity in the level of development and percentage of the Scheduled Castes and Scheduled Tribes in their population. But in the case of U.P., a backward State, it slashed the existing share from 15.94 to 10.68 per cent. The population of U.P. is 17.10 per cent.

To quote another example, the Commission, instead of taking into consideration the actual expenditure on account of drought, famine, floods, natural calamities, which came to an average of Rs. 80 lakhs per year in the past three years, they recommended only Rs. 50 lakhs per annum on the basis of the Second Finance Commission's report. It even ignored the legitimate and obligatory charge of payment of debt by the State. In spite of the fact that communications in U.P. are none too good—according to experts U.P. is deficient by 2,000 miles—and is far from satisfactory, the Commission did not like to include it in the list of grants for improvement of communications from the pool of the share of motor spirit duty. Therefore, the State of Uttar Pradesh, while trying to fulfil its obligation on its part of the Third Plan, will find it difficult to raise the necessary revenue. Therefore, I would urge that while the States would try to balance their revenues, the Ministry should make up the loss by making *ad hoc* grants, because at this time it is not possible to change the recommendations of the Third Finance Commission.

There is another matter which is of equal importance in regard to utilisation of the resources, that is, the

relation between the States and the Union for purposes of collection or distribution of the revenue income. Recently the State of West Bengal had made a reference to the dispute regarding mining rights. Similarly, the State of Assam has also not been able to solve its dispute regarding royalty from oil companies. These are matters which may take a serious turn if not properly thrashed out, maybe at the Supreme Court level. The interpretation of the clauses pertaining to the duties and obligation between the States and the Union may be clearly clarified. It is still more important because, as more and more fiscal resources of the country will be developed, such things may be mutually discussed and an amicable settlement may be brought about and, further, other States may be saved the botheration of taking up their dispute with the Centre.

Another factor is whether our fiscal policy will lead us to a socialist society or not. In that, one has to see whether the income that is derived is being diverted to the public sector or not. If one were to see, one will find that more and more investment is being made by the Government directly in the public sector. While during the Second Plan period out of a total investment of Rs. 1,500 crores, Rs. 800 crores was invested in the public sector, in the Third Plan it is estimated that Rs. 1,800 crores out of Rs. 3,000 crores will be invested in it. Thus the national or the public sector is growing fast. The growth of the public sector, especially the heavy industries and the projects in the hard core of the Plan would also allow ample scope to the private sector. As far as the public sector undertakings are concerned, it has been rightly pointed out that the expectations entertained about them have not been fulfilled. But that is not the whole truth that all these undertakings have not been profitable. As a matter of fact, those undertakings which have completed their construction and have got into full production, have yielded good re-

sults. It will be seen that out of seventeen public undertakings under the Ministry of Commerce and Industry, seven which have gone into actual production have yielded a profit of 15 per cent. We are conscious of the fact that all the undertakings cannot immediately bring in dividends. It is the endeavour of the party and of the Government to see that the weaknesses are removed as quickly as possible.

SHRI LOKANATH MISRA (Orissa): Provided they accept our suggestions?

SHRI M. M. S. SIDDHU: As far as the Government's policy is concerned, the hon. the Finance Minister has times out of number stated in this House and in the other, that every suggestion which will go to improve the economy of the country and the public undertakings will receive his sympathetic consideration and I feel that there is no reason to think that the Government has not listened to such suggestions. The thing is, when the Opposition makes vague charges and is not able to substantiate them, then the Government finds its case stronger. The public sector is also growing in importance in the corporate fields, or companies. The Finance Minister has already given the House the statistics about them and I need not go into them now.

Another point that is often raised is that a group of houses controls the whole economy of the country. As a matter of fact, one has to see what was the strength of their control about ten years back and whether that strangle-hold or the firm hands of those few houses is gathering strength or gaining strength or whether it is being loosened. If we look at it from that point of view, we see that in 1956, 25 well-known agencies were managing 430 companies. After 4 years, in 1960, they are found to be managing only 198 companies. That will show that gradually the tendency is to see that this kind of a mono-

poly does not develop and whosoever had developed it will not be allowed to develop it any more.

SHRI P. N. SAPRU (Uttar Pradesh): What about the profits they earn?

SHRI M. M. S. SIDDHU: The profits claimed by the private sector varies from 15% to 20%.

THE DEPUTY CHAIRMAN: Please wind up.

SHRI M. M. S. SIDDHU: I will take only a couple of minutes more.

As regards the revenue from excise duties, I submit that the duty of the Government is not only to collect the revenue but also to see that the quality and the purity of the product is also maintained. Recently as all of us would have read in the papers, the adulteration of mustard oil led to paralysis of 380 persons in the district of Malda. Mustard oil within itself does not contain any toxin or anything injurious to health. There must have been something added to this oil which was found to be a toxin or a toxic material by the Public Health Institute of Calcutta and this has caused the paralysis. The dogs and laboratory animals which were fed with this oil developed paralysis. Adulteration in that way or the reduction in the quality or the purity of the product, not only brings a bad name but becomes a public health hazard. As far as eatables are concerned, I am sure the Finance Minister will make all efforts to see that at least products which go to make the nation healthy, are not made into a poison.

In the list of things on which there has been a reduction of the excise duty is found medicine. It is found that on medicines there has been a reduction of 2½ per cent. May I submit to the Finance Minister that as far as the medical facilities in our country are concerned, they are still primitive and in a poor state. The Government and especially the

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State Governments, are the largest buyers of these medicines and while deriving a certain amount of revenue from medicines, you increase the cost of giving relief to ailing humanity. Over and above that, the State Government also charge a certain percentage as sales tax. Will it be right, will it be human to tax medicines? Thank you.

PROF. A. R. WADIA (Nominated): Madam Deputy Chairman, I had no particular desire to speak on this occasion. When I spoke at the time of the general discussion of the Budget, I was not fully conscious of the implications of certain taxes that had been proposed. But recently my attention has been drawn to some facts especially in connection with the powerloom industry and after looking into the figures I felt impelled as a matter of justice, to say a few words as an appeal to the Finance Minister to consider its position.

I find, Madam, that the position of the powerloom is very insecure. The policy of the Government itself is not very well defined, as between the handloom industry on the one hand and the powerloom industry on the other and the full-fledged textile industry as represented by our mills. I have not the slightest doubt that our handlooms deserve encouragement. But I find that although a good deal of lip sympathy has been expressed, I do not think much has been done in actual practice, to encourage the handloom industry. In fact, in one of the representations sent to me and to other Members of Parliament by the Madras Handloom Cooperative Society, it is found that goods worth Rs 2 crores still lie unsold. To make matters worse and more insecure, a committee recently appointed went so far as to say that the handloom industry should give place to powerlooms. That means

that the future of the handloom industry becomes all the more uncertain. The powerlooms themselves are a very good example of small-scale industries but here again not as much has been done for them as might have been expected. As an example of the uncertain position of the powerlooms, I might mention that in recent years as many as 1,10,000 powerlooms have come into existence in India of which 1,05,000 have only four or less looms and very rightly they have been exempted from all taxation but the remaining 5,000 have been subject to—comparatively heavy taxation and their position has become extremely insecure. After all, the price of the goods would be fixed by the four-loom units and it will not be open to the other powerlooms to increase the price because nobody would buy them at that rate. As a rule the manufacturers are notoriously able to pass on the burden of increased taxation to the consumers but in this case since the price has to be lower, this transference is not possible and, therefore, it is the proprietors of units of more than four looms that have to bear the burden of this heavy taxation. If it is found that the proprietors are unable to carry on their business with any sense of security or profit and they wish to sell their looms, unfortunately they cannot do even that because by a curious anomaly the purchaser is required to pay duty at a higher slab than that paid by the seller and under these circumstances you can hardly expect any purchaser to come forward and buy these things. Now, we are conscious that the original rate of taxation proposed has been considerably reduced but even so it is much too high, specially, the units of fifty powerlooms and more have to pay duties comparable to those paid by the full-fledged mills and the mills are a very highly organised industry. So, the advantage of small-scale industry is wiped off and it practically makes for the closing down of this powerloom industry. It does not speak much of Government

efficiency since we find that thousands of unauthorised powerlooms have been allowed to come into existence. It rather shows in fact the indifference of the Government to the whole position of the powerlooms. Now, under these circumstances one fact emerges and I feel very strongly convinced about it that there is room for a full enquiry into the working of the powerlooms industry. This request has come from the industry concerned and it has found full support from the Estimates Committee. The Report of the Estimates Committee on handloom and powerloom industries under the able chairmanship of Mr. Dasappa on page 25 says:

"...apart from collecting complete statistics relating to the industry, the Committee recommend that a comprehensive study may be made of the working of the powerloom sector with a view to ascertaining its problems, working conditions, margin of profit and its capacity to bear the present incidence of excise duty."

In view of these facts and the considered judgment of the Estimates Committee, I do hope it will be possible for the Finance Minister to take a more sympathetic view of the difficulties of the powerloom industry. Even if it is not possible to remit the whole tax and give up the considerable amount of Rs. 45 lakhs, I do appeal to him to have an enquiry committee appointed and if it is found as a result of that enquiry that there is justice on the side of the powerloom industrialists, I do hope something would be done to relieve them. Otherwise, the most important section of the powerloom industry might come to a standstill and the expected revenue will not be forthcoming. It is for this reason, Madam Deputy Chairman, that I have ventured to speak on the present occasion.

There is another small point to which I should like to refer and that is the position of the Indian National

Army personnel. After all, when the history of the Indian freedom movement comes to be written, it will be recognised that the personality of Subhas Bose and more particularly the Indian National Army, even though it was not as strong as one might have wished, has played a very important part in the achievement of Indian freedom and, therefore, the grievances that have been put forward by the personnel of that army deserve very sympathetic consideration at the hands of the Government.

Lastly, Madam, since I am on my legs, I would once again refer to a question which I raised at the time of the Budget discussion in connection with foreign exchange. At that time my complaint was that the request for foreign exchange was neither accepted nor denied, that we were left waiting indefinitely for a reply and it was an agreeable surprise when the Finance Minister said that foreign exchange had been granted. On return to Bombay I made enquiries at the office of the Indian Conference of Social Work and I learnt that permission had been sent but unfortunately it had come to the office after the seminar had begun in Karachi and all of us were in Karachi. In other words, the required assistance came much too late. Now, my present complaint is that the Department concerned might have been a little more alert in sending a reply in time. After all, as a very good proverb in Latin says "*Bis dat qui cito dat*", he gives twice who gives quickly, and that applies as much to the Government as to private parties. I should like to make it clear once more that I do not for a moment claim any special privileges for myself as an M.P. that foreign exchange should be given. It was my hon. friend, Shri Bhupesh Gupta, who had raised the point and I felt like saying to myself, "Save me from my friends" but I do feel that the Government should come to a decision one way or the other, whether to

[Prof. A. R. Wadia.]

give or not and inform the parties concerned in time. I heartily sympathise with the difficulties of the Finance Minister and I for one perfectly sympathise with his position that no foreign exchange should be granted. I hope that all the parties concerned will be able to live up to it because if a few favourites are given and others are not given, it does not create a good impression. Anyway, so far as the general principle is concerned, I am entirely at one with the hon. Finance Minister.

SHRI NIREN GHOSH (West Bengal): Madam Deputy Chairman, over a number of years during the recent period the policies of the Government of India are taking an increasingly pro-imperialist reactionary turn in matters both internal and external. The policy of trying to build capitalism primarily with the help of the so-called imperialist aid and ever-increasing investment of foreign imperialist capital has already landed our economy in a mess and instead of our economy advancing towards the take-off stage we are going to be stuck up for a pretty long time. Now, let us recall what Shri Jawaharlal Nehru used to say in the pre-independence days. He said that if independence is achieved but the financial levers are controlled from the city of London then our political independence would become a farce. Applying that standard to the activities of the Government of India presided over by him let us see what the actual position is. In 1948 foreign private investment was Rs. 255.8 crores. In 1960 the figure rose to Rs. 655 crores and in 1962 it is well above Rs. 700 crores. That is, there has been a three-fold increase in foreign imperialist capital investment and the profits of foreign-controlled companies during the years 1954 to 1959 amounted to Rs. 239.6 crores out of which a sum of Rs. 161.8 crores was exported out of India. These are only partial figures. By making a sober under-estimated

calculation, by all accounts at least Rs. 100 crores are drained out of India as a tribute exacted by the foreign imperialist capital. Not only this. In the matter of freight charges in foreign trade it is the right of any country to reserve 50 per cent. of the shipping for its own ships but we have not succeeded or we do not intend to build any national ship-building industry as a result of which we pay a tribute of Rs. 62 crores to the imperialists each year for the carriage of export and import trade. As a result of unequal trade it can be safely said that more than Rs. 100 crores we lose annually on this account. On the whole taking a sober under-estimate the imperialists draw an annual tribute of Rs. 250 crores from India. Taking the 15 years together it would be an under-estimate to say that they have drained more than Rs. 3,000 crores out of India. With each passing year the penetration of foreign imperialist capital is rapidly growing. Just see the number of licences that have been granted by the Government of India in the years 1958, 1959, 1960 and 1961. In 1961 over 400 agreements had been approved by the Government involving foreign collaboration; in 1960 it was 290, in 1959 it was 172 and in 1958 it was 109. That is, *pari passu* with the increase in the so-called economic aid the foreign imperialist investment is also increasing year by year. It is not an accident that over the last two or three years the U.S. private investment has jumped up from Rs. 11 to Rs. 70 crores. So this is the position as regards the exploitation of India by the imperialists. What was being denounced by Mr. Nehru when the people were fighting for political independence is the very thing that is happening which they are trying to hide and conceal from the eyes of the people.

Not only this; let us see what the position is so far as the so-called aid from the imperialists is concerned. The so-called aid has taken the form

of some sort of an exploitation in an ugly form. Out of nearly Rs. 3,000 crores of foreign aid received by us the U.S. Government has given us Rs. 1805.33 crores and the total foreign aid from the U.S. sources amounts to Rs. 2,248.74 crores but very little of this aid is given for industrial development. Nearly Rs. 1144.88 crores are for surplus agricultural commodities which cannot be sold in the U.S. market and which are dumped in India to relieve our food problem and except for an insignificant portion the rest of the aid is for transport, communications and things like that and the loans from the I.B.R.D. and the I.D.A. are primarily to the private sector, the Tatas, the Tisco, etc. No wonder as a result of those policies pursued by the Government of India no machine-building industry worth the name has been created so far and we lag far behind even small countries like Rumania and Poland. All the time the imperialists are pursuing a policy of hampering the industrial development of India.

As regards the surplus agricultural commodities, you will find that they are priced at least 25 to 50 per cent higher than the Australian foodgrains. U.S. rice is priced 96 to 130 per cent. higher than that of Burma. During the years 1956 to 1960 India has paid at least Rs. 175 crores more. That is double the grant made by the U.S.A. during this year. Is it not plunder? Is it not loot that is being committed in the name of economic aid? If we continue at this rate, India will not succeed in becoming a modern industrial country even in a century.

Now, this U.S. counterpart fund under P.L. 480 has become the means of expansion of U.S. private investments and of crude interference in the economic affairs of the country. Those funds could be utilised only for those projects to which they agree. Even the rupee funds we cannot utilise as we think fit. Now,

the position has come to this that in order to service the debts and pay the interest charges to the foreign imperialists we have to pay at least Rs. 100 crores in foreign exchange to them. This huge plunder on private and Government account is pursued under the amiable name of structural invisibles which they have mentioned in their booklets.

SHRI LOKANATH MISRA: A new phrase coined.

SHRI NIREN GHOSH: A new phrase. We borrow from the creditor imperialists and in order to pay interest charges Rs. 119 crores were taken from the I.M.F. precisely for this purpose. And no wonder we have the foreign exchange crisis and all that. The foreign exchange crisis follows as a logical corollary of the policy of the Government of India. In the two years, 1960-61 and 1961-62 alone, the deficit in the balance of payments has amounted to Rs. 657 crores. Now, the argument is advanced that we have to import capital goods and equipment. In order to meet the rising tempo of industrial development, we have to import these things, there is a deficit in the balance of payments and hence the foreign exchange crisis. Now, let us have a look at the foreign trade pattern of the Government of India. The import of oil annually costs Rs. 100 crores in foreign exchange. We cannot nationalise these imperialist oil monopolies. Even a little country like Cuba, standing at the threshold of the United States Government, can do it. We will not dare to do that. We are all out to please the imperialists. So, the exploitation can go on and the foreign exchange crisis can come about.

Then, what is the position with regard to steel? In 1960 we produced in India 22 lakh tons and in 1961 29 lakh tons. Even a small European country with a population of seven millions or ten millions produces more steel than we do after fifteen

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years of Congress regime. The position is this. In 1961-62 the total internal demand for steel was 6.2 million tons, but the availability was 4.15 million tons. That is, we had to import one million tons of steel, again, involving a huge amount of foreign exchange. The same position holds good in regard to the previous year, that is, 1960-61. At that time the demand was 5.6 million tons and the availability was 3.2 million tons. Even in the case of a small and industrially backward country like ours, whatever little demand there is for steel, we cannot fulfil the demand even after importing one million tons of steel annually.

Now, let us see the import figures. In 1960-61 the total import was worth Rs. 1070 crores, of which capital goods accounted for merely Rs. 153 crores; spare parts and components Rs. 174 crores; intermediate goods Rs. 503 crores and consumer goods Rs. 240 crores. So, all their argument that the foreign exchange crisis is because we import capital goods and equipment is totally wrong and, what can I say, misleading. Now, all those spare parts and components and intermediate goods are required precisely by those consumer industries in which foreign collaboration is involved. They import these things from the U.K. or the U.S.A. For the rest of the things they ask them or do some repair work and sell the goods here. So, it is precisely on account of foreign collaboration facilities, the expansion of foreign imperialist capitalists' investments in India that the foreign exchange crisis has come about. That is one of the primary factors. During the first nine months of the Third Five Year Plan, up to the end of December, 1961, Rs. 400 crores of foreign exchange was allowed to the private sector, whereas the entire Third Plan allocation of foreign exchange amounts to Rs. 450 crores. That is Rs. 400 crores of foreign exchange has already been allocated to the private sector and more licences

involving another Rs. 180 crores were already cleared by the Capital Goods Committee. That is the position.

The remedy I suggest is this. We should nationalise all the big industries, particularly of foreign imperialist concerns, their private investments that are used in India, to stop this drain and plunder and loot of India for ever. No more licences should be granted involving foreign collaboration in the private sector. Now, whenever we speak of nationalisation of foreign imperialist capital, it seems that the tender skin of the Congress leaders themselves is touched. I do not know why this is so.

SHRI SHEEL BHADRA YAJEE
(Bihar): Question.

SHRI NIREN GHOSH: There should be diversification of foreign trade. As you know, 92.2 per cent of the foreign trade is conducted with the capitalist world and only 7.8 per cent of the foreign trade with the socialist one-third of the world. And whatever you may say about increasing assistance from the Soviet Union and all that, in respect of foreign trade it has amounted to a mere trickle, because if you diversify your trade, then you come into clash with imperialist interests. That is precisely what you want to avoid and therefore there is unequal trade during the last few years. One of their own Secretaries, Mr. S. Ranganathan, I.C.S., then Secretary of the Commerce and Industry Ministry, Government of India, wrote in the "Commerce" (Annual Number, 1958):—

"A large part of the aid received by under-developed countries was in effect practically nullified by both a turn in the terms of trade and by an absolute loss in export earnings through a fall in the quantum of exports of these countries."

Between 1954 and 1958 the prices of raw materials fell by eight per cent. When the prices of manufactured articles and semi-finished goods that

we import rose by nine per cent. That is, we lose both ways, in exporting and importing. That is the trade pattern that is imposed on us by the imperialists and we meekly submit to it and create a foreign exchange crisis, because if you diversify your trade, you have got to displease the imperialists, precisely the thing which the Government of India tries to avoid.

Then, I suggest that the entire foreign trade should be taken over by the State, so that the imperialists or any other country cannot dictate their terms to us in the matter of exports and imports. In any case these imperialist countries have got to buy materials from us because they cannot do without it. So, we can have our own terms for them. In exchange for the goods we export we must get precisely the capital goods and equipment that we need for the development of our country. We can have our terms if the entire foreign trade is taken over by the State.

We should build our national shipping industry very fast at any cost. We in our country have merely some coastal ships here and almost the entire foreign trade is carried by ships of foreign countries. If out of this, by international convention, at least Rs. 500 crores or Rs. 600 crores worth of foreign trade could be reserved for our own national shipping, that would develop the national shipping industry. But we will not do that and the position is that we annually give to them Rs. 62 crores in foreign exchange. Now, that is the remedy that I suggest.

As regards the standard of living of the masses, the other day in the House I suppose the Deputy Finance Minister, Mr. Bhagat, wanted to suggest that there might be concentration of wealth of whatever it might be, but there has been a slow and steady improvement in the conditions of the masses. Now, without going much into the arguments, I would

merely say that in India 60 million people spend five annas or less per day; 40 million people spend four annas or less per day; and 20 million people spend two annas or less per day. And if you call this a steady improvement, well, let it be a steady improvement, but the people of India will never agree to that proposition because their very life disproves their contention. Now, it is quite understandable that on account of such policies, economic and fiscal policies, pursued by the Government the imperialists dare to tell us that we must not buy MIG planes from the Soviet Union. Suppose, the Soviet Union during the fifteen years of the post-independence period at any time asked the Government of India that they must not buy planes from the United Kingdom or the United States, what would have been the position inside the country? There would have been a furore. All of us would have been righteously indignant, would have termed it a gross interference in our affairs. So I say, why allow them to tell us anything in this regard and interfere in this way? This is a position that a master country adopts towards a satellite country. That is the position which the imperialists are trying to take up in this matter. And in order to get the so-called aid from them our Army personnel have been sent to the Congo, for the so-called purpose of serving the United Nations mission there. But what is the position? The Security Council resolution expressly says that the United Nations forces should go there to protect the legal Government, to aid the legal Government of the Congo, but the Prime Minister of that very Government, Mr. Patrice Lumumba, was killed there and nothing was done. The Security Council resolution says that the foreign mercenaries must be driven out of the Congo, and operation was started against Katanga but it was stopped half way to accommodate those very persons who are harbouring those foreign mercenaries. That is, in the Congo all the Security Council resolutions are being trampled under foot, and

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whether you like it or not, our Army there is serving the purpose of the American imperialists primarily. If one infers that because of the so-called economic aid we do not dare to tell them anything and we send our Army personnel there, would it be wrong? That is the question that the common people ask.

Under the Geneva Agreement the unification of Viet Nam was to take place in 1956. India is the Chairman of the International Control Commission there, but throughout all its activities and on almost all major issues India has lined up with the Canadian delegate, there, the agent of the imperialists, against the down-trodden peoples of Asia. That is by these policies our India is getting discredited and isolated from the Afro-Asian Countries. The same thing had happened during the Belgrade Conference. Our country played the role that peace and disarmament were the issues and that anti-colonialism should not be brought up or underlined at that Conference. But who does not know that the imperialists would not dare to unleash a third World War if all the countries were free, politically free, and free from imperialist exploitation? And it was said that peace was certainly necessary and complete disarmament was necessary. But who is standing in the way of complete disarmament? It is precisely the imperialists who are standing in the way of general and complete disarmament. It is precisely the American imperialists who are barring the way to the conclusion of a nuclear test ban treaty and we never call a spade a spade, we never call the aggressors the aggressors, because we are a non-aligned nation so we must not tell that (Interruption). In order to get peace and disarmament you must unmask those persons who bar the way to peace and disarmament. It is precisely the American imperialists. But you never do that. That is the position.

In regard to Algeria it is said that if recognition was granted to the Pro-

visional Government some time back, it would have been better. But now it is too late. After referendum it is to be done. The other day the representative of the Provisional Algerian Government precisely raised the claim that here and now, when the OAS are killing them by hundreds and thousands every day in Algeria, a great country like India should come forward and accord diplomatic recognition, but it is not being done. There is *de facto* recognition but not *de jure*. That is the position. We fight shy of giving them *de jure* recognition.

As regards the German Democratic Republic, we have exchanges of Consular Missions with them, but we have no Ambassadors and no diplomatic recognition has been given to that country. Why? Have we become such a nation that we bow before the revenge seekers of West Germany in order not to incur their displeasure? We shrink from the fact of giving diplomatic recognition to the German Democratic Republic. That is the position. Everybody knows, at least the common people know, and I should think that Shri Nehru knows—whether he would admit it or not I do not know—that the national security of India, if ever it is threatened, is threatened from the imperialists, from the NATO, SEATO, CENTO, and through their agents like Pakistan. It is known to the whole world, at least our people know that. I think our Prime Minister knows that. Whether he would say so publicly or not is the question. If that is the position, why should he be afraid of calling a spade a spade? In this way if our great country gets isolated and discredited among the Afro-Asian nations, by and by and more and more the imperialists will have their way with us, they will dictate their terms to us. We are already tightly enmeshed in their financial measures, and we do not find a way to wriggle out of them. The more we go the more we see that the net has been drawn tighter. So the time has come when a break should be made with this policy, and I should

say that the time is ripe enough for this to be done.

With these words I conclude my speech.

SHRI BABUBHAI CHINAI (Maharashtra): Madam, I am thankful to you for giving me some time to make my observations on the Finance Bill. I do not intend to lose sight of the fact that we are discussing the Finance Bill (No. 2) and not the Budget proposals or the Appropriation Bill. At the outset I would like to congratulate the Finance Minister for his courage of conviction in abolishing the expenditure tax and also in giving a little relief in the tax on inter-corporate dividends.

SHRI BHUPESH GUPTA (West Bengal): When are you going to give a party for that?

SHRI BABUBHAI CHINAI: It is not the intention of the speaker to do so, but if my hon. friend wants to do that, nobody is going to prevent him. Also the Finance Minister has given certain concessions in duties and taxes to the tune of nearly Rs. 1.16 crores in an overall taxation proposal to the tune of nearly Rs. 71.7 crores. One would feel that the concessions which have been given are very meagre ones.

Sir, the biggest problem facing us today is the difficulty regarding the transport of coal and the availability of power. We are also asked by the Government that in order to tide over the difficulties we should switch over to furnace oil. But the concession which has been offered in the freight for transport of furnace oil does not go a long way because from port to the consuming destination it is very meagre. This is chiefly because even after the freight concession, furnace oil has to bear a very heavy incidence of nearly Rs. 49 per tonne of excise duty. Unless this duty is substantially reduced, if not altogether abolished, it will not be possible for industries to switch over from coal to

furnace oil. I may point out here that the switching over process requires a lot of capital investment which the factories will have to do, and it will involve a lot of foreign exchange also. This, I think, the Government should bear in mind and get it expedited wherever switch-over from coal to furnace oil is to be effected.

I would now like to refer to two or three important points arising out of

the Finance Bill. I welcome the proposal to distinguish
4 P.M. between short-term and long-term capital gains.

However, the period of twelve months which determines the nature of a capital gain is too long. Only gains which result from the disposal of capital assets within a period of six months from the date of acquisition should be considered as short-term gains. This is the position, Madam, in the United States of America from where this whole scheme has been taken for taxing capital gains. It should also be noted that in April last, in the latest U.K. Budget, only the profits on purchases of stocks, shares and securities sold within six months of purchase will attract the tax payable at normal rates of income-tax and super-tax. The longer period of twelve months will not help a genuine investor, and if the period is not reduced to six months, it may become difficult to differentiate between an investor and a speculator.

SHRI BHUPESH GUPTA: Sometimes it is not very much.

SHRI BABUBHAI CHINAI: The difference is not much according to you because you neither speculate nor invest.

SHRI BHUPESH GUPTA: I did not say that. I said that you should be knowing that the difference is not much in some cases.

SHRI BABUBHAI CHINAI: "In some cases"; it is good that you qualified it.

[Shri Babubhai Chinai.]

The next point is that short-term capital losses are not allowed to be set-off against other income of the same year. If short-term capital gains are to be assessed as ordinary business income, short-term losses should also be treated in the same way as ordinary business losses and should be allowed to be set-off against other business income or capital gains of a subsequent year. So far capital losses were not allowed to be set-off against any other income, because capital gains bore tax at a lower rate than other income. Now, this difference in the rates of tax is being abolished, and short-term capital gains are to be assessed at the same rate as ordinary business income. It will be inequitable, therefore, to deny to short-term capital losses the facilities for set-off which are available to other business losses. It is only reasonable that short-term losses should first be set-off against other income of the same year, and where the gains of the year are not sufficient for the set-off, the losses to the extent not set-off should be allowed to be carried forward.

Madam, I welcome the amendment made in the Finance Bill by the Finance Minister conceding the right to carry forward long-term capital losses not only of the years previous to the assessment year 1961-62 but also in respect of future long-term capital losses. But this right to carry forward has been limited to only 4 years instead of the 8 year period available for the carry-forward of other losses. Once the Finance Minister has conceded the justification for the carry-forward of long-term capital losses, I can see no reason why the period should be cut down to 4 years whereas in the other cases the period is for 8 years. No justifiable reason has been advanced by the Finance Minister for this differentiation, and I would therefore request him either to raise the period from 4 to 8 years, or give us a reasonable explanation for not doing so.

I would next refer to the provision withdrawing the exemption under the Wealth Tax Act, that had been granted hitherto for investments in shares of new industrial undertakings for the initial five years. There is no moral justification for the withdrawal of this exemption in respect of past investments where the full five years' exemption has been availed of. Such investments had been made in the past on the definite knowledge and understanding that the investments will not attract wealth-tax for the full period of five years. The confidence of the tax-paying public in the fiscal policies of the Government will be shaken if what has been promised is withheld later on. Such policies will also have an adverse effect on investors from foreign countries. This apart, there is necessity to continue the exemption in the future also. One of the reasons why such exemption was given was that the new industrial undertakings do not earn profits for some years in the beginning of the undertaking. It is a necessary incentive and it is not as if the need for such incentives no longer exists. A large portion of the investment in shares is done by the middle class and the richer sections of the people who are also Wealth Tax assesseees. This incentive should therefore be continued.

I would like to say a few words about the increase in the tax on individuals. The personal rates of income-tax have been increased and the wealth-tax on the higher slabs of wealth has also been increased. The personal tax will reach a maximum of 87 per cent. on the highest slab, and this rate is appreciably very high compared to rates in other countries of the world both in regard to the rates and the levels at which the maximum rate is reached. Of course the highest rate of tax exceeds 87 per cent. in the U.K. and the U.S.A., but the highest rate is reached only at the level of income of Rs. 15 lakhs in the U.S.A. and Rs. 2 lakhs in the U.K. whereas it is here at Rs. 70,000.

SHRI BHUPESH GUPTA: That is why I suppose some Indian capitalists are having huge funds.

SHRI BABUBHAI CHINAI: It is also to be noted that in the other countries there is a general tendency for reduction in the burden of tax and for giving suitable incentives at whatever points necessary. In the U.S.A., for example, the administration has already announced that the tax burden is going to be cut down as a stimulant for investment and economic activity. Another pertinent point is that in some of the other countries there is no wealth-tax. Where there is a wealth-tax also, there is a provision that the combined rate of income-tax and wealth-tax shall not exceed a certain percentage of the total income of assesses. No such provision exists in India. In the ultimate analysis it is personal saving that is responsible for capital formation, and I request the Finance Minister to give his due consideration for granting some relief from the heavy burden of personal tax.

The next point, Madam, is about the increase in the corporation-tax from 45 per cent. to 50 per cent. When the new scheme of company tax was introduced in 1959 and the system of grossing up was abolished, it was stated that it was the intention of the Government to maintain the *status quo* in all material respects with regard to revenue and the liability to the shareholders and the companies taken as a whole. Various studies had shown that the net tax burden on companies worked out at less than 45 per cent. There is therefore no case for increasing the rate so soon after 1959.

I do not, for a moment, mean to say that the rate of company tax should not at any time be varied, but in the present context of industrial development it is not right that so soon after 1959 the rate of tax should be increased to such a large extent.

Companies would now be required to pay 11 per cent. more as tax than what they have been paying hitherto. As a result, even well established companies might find it difficult to maintain the dividends. Or it may be that the available fund for ploughing back will considerably shrink. The prospects for companies are none too good, and with the shortage of power, coal and raw materials, and the transport bottlenecks they are bleak. If profits shrink as a result of working below capacity due to these factors, and dividend distributions are also less, Madam, the formation of new companies and the rate of capital formation will receive a serious setback which will have adverse consequences on planned programmes of industrial development. This is a matter which I think, Madam, should receive the serious consideration of the Finance Minister. My last point, Sir, is about the rebate on export earnings. In the Finance Bill only a rebate of one-tenth of the income-tax and super-tax on income from exports is granted. In view of the vast efforts the country has to make to step up exports in the present context of shortage of foreign exchange, the rebate that has been granted in the Finance Bill is hardly sufficient. In this connection, I may point out that the Mudaliar Committee had suggested a three-fold system of income-tax remission. I do not know why those suggestions are not acceptable to the Government. When an all-out effort is necessary to increase our export earnings, some bold measures and incentives even at the cost of a little revenue, at least during the initial periods, will have to be adopted.

Finally, incidentally, I may also refer to the travel restrictions which have been recently imposed in order to conserve our foreign exchange. These restrictions, apart from other difficulties that they may create for business men in their business dealings and in their exploring the possi-

[Shri Babubhai Chinai.]

bilities of foreign collaboration in industrial ventures, will impede and come in the way of our efforts to increase our export earnings.

I thank you, Madam.

SHRI P. N. SAPRU: Madam Deputy Chairman, I am grateful to the Finance Minister for the responsiveness he has shown in modifying some of his original proposals in respect of indirect taxation. I may at once say that I have a dislike for too much reliance on indirect taxation. The burden of indirect taxation falls on consumers, a great many of whom are not in a position to bear it. For the last ten years we have been adding annually to our indirect taxation and the time surely has come for us to cry halt.

The total incidence of Central, State and local taxation is, I should think, high. Certainly, there has been some improvement in the living conditions of our people but poverty and misery continue to be the lot of the vast majority of them. We continue to be a country of striking contrasts, some of us living luxurious lives, others not even having places of shelter where they can have some sleep.

Madam, our national income has no doubt gone up, production has increased, but our population has increased faster, and while the rich are not affected by this rise in population the poor are. Whatever the index figures may say—I do not deny their utility—but one's experience is that life is becoming harder for the common man, for the middle class man, for the lower-middle class man, for the poor working class man. Nowhere in the world do you find pavement dwellers such as we find in our big cities. I am not, therefore, convinced that the limit of direct taxation, though heavy it may seem to my friend, Shri Chinai, has been reached in this country.

SHRI BHUPESH GUPTA: Mind you, you might be called "fellow wanderer" by the Finance Minister.

SHRI P. N. SAPRU: I do not mind being called even "fellow traveller". But I am not a fellow traveller. Frankly speaking, I would like serious rethinking to be done on our financial policies. I would like a greater burden to be placed on those who are in a position to bear it. Not only must we vigorously ensure that no tax evasion takes place but we must also make it clear to the tax evader that from a moral point of view he is no better than an embezzler of public funds.

Then, Madam, from the moral point of view I think there is something wrong with the institution of property with which the question of inheritance is bound up and I would, therefore, like this question of the mode in which our inheritance taxes should be arranged to be taken up seriously. Perhaps, the yield from a rearrangement of our inheritance taxes will not be very much but I would like income-tax on grand children to be greater than the income-tax on children. I would like income-tax on collateral heirs to be greater than income-tax on grand children and children. Our effort should be to wipe off the richer classes as early as we conveniently can without liquidating the system of mixed economy that we are working.

SHRI LOKANATH MISRA: They will stop helping the Congress.

SHRI P. N. SAPRU: As regards the expenditure-tax, I am not disposed to criticise its abolition for I know that a socialist economist of the distinction of Hume Dalton when he was Chancellor of the Exchequer was opposed to it. Its abolition is, however, premature because a sufficient trial has not been given to it.

SHRI BHUPESH GUPTA: With such a practical Finance Minister the col-

lection of the expenditure tax should not be impracticable.

SHRI P. N. SAPRU: I would like to say a word about price control. It is essential for us to have commanding power within the limits of a plan that allows private enterprise over every aspect of our economic life.

Madam, our public sector should be an ever-expanding one. Personally, I would like to see this country gradually develop a socialist pattern that allows for self-government in industry, a pattern in which the distinction between the employer and the employee disappears and the employees themselves elect their own directors and managers, something like the Yugoslav pattern. I have no faith, much as I respect their ability, in the infallibility of our civil servants or of our managerial classes. The working classes should be enabled to throw up leadership which would enable them to run their own industries. We should aim at a system which is not dominated by the profit motive but a system in which the main incentive is provided by the spirit of service in man.

I would like to say a word about foreign aid. No country has been able to do without foreign aid. Therefore, I am not opposed to it. But the position of creditor and borrower is not a very happy one. We appreciate the generosity of the U.S.A. and other countries or the Aid India Club to build up our economy, but we have not, I hope, sold ourselves to them. Frankly, I do not like the way references have been made to our country by some U.S. Senator—I do not like to question their right to speak as they like—but I do not like the way they have spoken about our country, about our leadership, about our approach towards world problems and about what they think, our dependence upon their charity. In fairness to President Kennedy and his Ambassador Prof. Galbraith, it must be admitted that they have not endorsed the line of some of the Senators there, like Senator Symington. In fact, the President

has resisted the attitude that some of his own party leaders would have liked to be adopted towards our country.

SHRI BHUPESH GUPTA: What about the supporters of President Kennedy like Mr. Dodds and others?

SHRI P. N. SAPRU: Mr. Bhupesh Gupta can get ample time, but I cannot. We have a genuine admiration for the great American people, but we refuse to look at questions, whether of a domestic or an international character, from their angle. They represent an affluent society. We are a country which was at one time under colonial domination and which is endeavouring to build up a self-generating economy, an economy which would enable our citizens to have a decent standard of living and which would reduce, if not eliminate altogether, the vast inequalities of fortune or incomes that constitute a blot on our civilisation. We have our own problems and difficulties. Personally I am a unilateralist in my thought. But while I am a unilateralist, I do not recognise the right of any country to tell me whether we should purchase our M.I.G. aircraft from the Soviet Union and have them subsequently manufactured in India or not. That is our internal affair. They can, if they like, make counter offers, but it will be for us to see whether their offers are from the point of view of our interest, cheaper and better than the Soviet offer. This does not mean that if the Russian offer is accepted, the secrecy of the American and the U. K. aircraft will not be respected.

Next, may I say a word about foreign exchange? Our foreign exchange position is bad. I found out only today that we cannot get a single pie for going abroad. We can only earn foreign exchange by expanding our exports. More active steps should be taken by the Government to improve our export position by utilising all the activities of the State Industrial Corporation and by the expansion of our trade not only with the countries of the European Common Markets of which England is probably going to

[Shri P. N. Saprū.]

be one, but also with the countries of Eastern Europe and the Asian and African countries. We must carefully watch the effects of the creation of the European Common Market on our economy and of Britain's entry into it, on our exports. In this connection I would like to emphasise that we have a common interest in this matter with many Asian and African countries who have been victimised and exploited by European countries in the past. The European Common Market must not become an organisation for exploiting the resources of the Asian and African countries. We want free and cheap entry of our goods into Britain and the Common Market in order to be able to pay for our imports. The difficulty with us is that we have no monopoly, not perhaps, even in jute. The prices of some of our exportable articles including perhaps textiles, are from a competitive point of view, somewhat high. We should, therefore, evolve a policy which will enable us to push forward our exports.

I should like to refer to a statement which a Mr. Lewis has made in a recent book entitled: "The Children of Sauchiz." I read a review of it in "The New Statesman." The book is about the Mexican working class and the statement is as follows:

"Poverty in modern nations is not only a state of economic depression or disorganisation or the absence of something. It is also something positive, a way of life, remarkably stable and persistent and passed down from generation to generation along family lines."

This is a statement which is true to life for we know that poverty is self-perpetuating. The problem before us, therefore, is to have a highly efficient central planning mechanism. (*Time bell rings*) I will take only a few minutes more. I have not spoken on any of the other Bills. As I was saying there must be a highly efficient central planning mechanism and it must be a mechanism where expert opinion is available and counts. It should be

able to lay down targets, exercise control over our financial investments, including our banking operations and also determine, with fairness to all the regions concerned, the location of our projects and work steadily for an increase in public ownership which can take many forms, control over many aspects of economic life and particularly on the prices of essential commodities is essential if planning is to provide the mass of our people with the opportunity to lead a good life. Let me also say that for this type of planning it is also essential for us to bring about a change in the mental attitude of our people. Therefore, for this reason the highest priority should be given to primary education. Education, from this point of view, is no less important than, say, steel plants. We need an army of teachers, particularly women teachers, in our countryside and it is indeed a matter of regret that education and health have not received that whole-hearted support which their importance deserves. I know that it is our aim that by the end of the next five years all children within the ages of 6 to 11 should receive primary education. But the Constitution had contemplated 14 as the minimum age and we should actually think of increasing it to 16.

Now, I would like to say a word about agriculture. In our Third Plan nearly 14 per cent. of our total expenditure is allotted to agriculture. But over 250 million acres of land suffer from soil erosion and the Plan will allow only 35 million acres to escape this erosion. We have no doubt introduced Panchayati Raj. But it is also necessary for us to send to our villages a type of civil servant who has genuine sympathy for agriculturists and who occupies himself with their needs and aspirations. The need for a new outlook on the part of the services cannot be ignored. We have to save our agriculturist from the clutches of the moneylender. We have to enable him, through the development of the co-operative movement, to buy tractors and to have improved manures and seeds and also to build up a

cooperative way of living. That is to say, the impetus must be directly given for co-operative farming because it is under co-operative farming alone that we shall in the ultimate analysis be able to increase the yield per acre of our land. May I say that our propaganda should be directed not only towards birth control but it should be directed towards ensuring co-operation in all our economic activities? Co-operation should gradually replace competition but gradualness should not be another name for inaction.

Before I conclude, I would like to say that it may be that we shall have to adopt a more radical attitude towards the question of common ownership of basic industries including banking and insurance business. In our anxiety to work a system and mixed economy and not disturb our market economy questions relating to the control of banking and insurance activities cannot be shelved.

Lastly, in regard to health I may say that I have a feeling that our respected lady Health Minister is a little far too optimistic as to what will be achieved within the next five years. She thinks that within the next three or four years we shall be able to banish malaria and goitre from our land. I do not know whether we shall be able to do so. The prices of medicines, notwithstanding the lowering of the tariff that has been agreed to by the Finance Minister, are too high and I have a feeling that it is very wrong for us to have a Contributory Health Service for Government servants and for Members of Parliament. If you are to have a Contributory Health Service, you must have it for all sections of the population. You can proceed regionwise but it is not right for you to treat any class of people as a privileged class.

Finally, I would like to say that I have not been able to understand a certain statement made by Dr.

Sushila Nayar. She said that there was reason to apprehend that there would be an epidemic of smallpox in the near future. Now, I do not know whether she was speaking as a scientific physician or whether she was relying upon the intuition of an ashtagrahi astrologer. I have not been able to understand what the reasons for the assertion are that there will be an epidemic of smallpox. I am all for vaccination but surely this is not the best way of going that the task of inducing people to have themselves vaccinated. We are a panicky people and it is unwise to make statements which make our people more panicky.

Thank you very much, Madam Deputy Chairman, for the time you have given to me and for the indulgence that you have shown me.

SHRI M. H. SAMUEL (Andhra Pradesh): Madam Deputy Chairman, to my mind the present picture of the economic situation in the country is clouded by three imponderable factors, the European Common Market, the foreign exchange situation and the reports of shortfall in the Third Plan so far.

[THE VICE-CHAIRMAN (DR. A. SUBBA RAO) in the Chair].

Each one of these has been covered partly by my esteemed colleague, Mr. Saprú. Each one of these is very much interlinked with the other. Each one of these is worth a major speech but I would be brief.

Frankly, I am not frightened about the European Common Market negotiations. It may be that this is a blessing in disguise. It gives us an opportunity to break away from the bonds of traditional markets and look for new ones. Markets do not remain static. We must explore new markets nearer to us in South-East Asia and Africa and manufacture what they need. We should not always and entirely depend upon the exports of our raw materials.

[Shri M. H. Samuel.]

As for the foreign exchange situation, in spite of the Finance Minister's latest statement, I am not very clear about it. The reports of shortfall in the Third Plan so far also seem very tentative and I do not want to discuss what is merely tentative. I will try to devote the little time at my disposal to discuss in general what I consider some of the main points of the Finance Bill.

But before doing so allow me to hope, Sir, that none of these factors which I have mentioned would be allowed to be adversely affected, or our policy of non-alignment allowed to be impaired or misunderstood by reports of the deal for the purchase of MIG fighters from the Soviet Union.

Now, coming to the Finance Bill proper, I would like to congratulate the Finance Minister for what I regard his forward-looking Budget proposals, proposals with a vision of the future, showing a prudent, practically altogether a sagacious attitude towards national affairs. I am very happy about it.

Now, as you see, the Budget proposals yield a total revenue of Rs. 68.88 crores during 1962-63 and in a full year Rs. 71.7 crores. Of this full year amount the yield from direct taxation is estimated at Rs. 27.2 crores and the yield from indirect taxation at Rs. 44.5 crores. It can be noticed that the yield from direct taxation is more than half the yield from indirect taxation. Now, I have little to say about direct taxation except that the yield of Rs. 27.2 crores in spite of the fact that it comes from a very few persons is quite considerable.

I would also like to approve and support the abolition of the expenditure-tax. I have long felt that the imposition of the expenditure tax five years ago has been totally out of con-

text with our economy. That was meant to restrain ostentatious spending and promote savings, but no such conspicuous result has emerged in our economy during the last five years. Neither has it served as an economic restraint nor as a revenue earner. It is estimated that last year it yielded only Rs. 70 lakhs. As you know, this expenditure-tax like the wealth tax.

SHRI BHUPESH GUPTA: Mr. Krishnamachari seemed to think that it was possible . . .

SHRI M. H. SAMUEL: What you think also may be quite the reverse but allow me to say what I think. I hope you will give me that democratic right at least.

SHRI BHUPESH GUPTA: Just to refresh your memory.

SHRI M. H. SAMUEL: This expenditure-tax along with the other two taxes—the wealth-tax and the gift-tax—were the gifts of Prof. Kaldor when he came here just for three months to report on our taxation. Having read some of Prof. Kaldor's earlier books it must be stated that this idea of expenditure tax did not come to Prof. Kaldor as a result of his studies here. It was with him when he came here and he merely incorporated it in his Report about our taxation. True, such an expenditure-tax would be a very valuable fiscal measure in a developed economy but I think Prof. Kaldor obviously did not sufficiently consider its utility in under-developed countries. Besides, Prof. Kaldor had recommended the expenditure-tax as a replacement for the super-tax and a modified income-tax but actually the expenditure-tax was imposed in addition to super-tax and the basic income-tax. For lack of time I cannot go into all the arguments for and against the expenditure-tax. Apart from the administrative difficulties involved in implementing it, it is obvious that since it affected only individuals with incomes above Rs. 60,000, it obviously failed to influence the

behaviour of about 98.5 per cent. of the tax-payers who account for about 84.5 per cent. of the total assessed income, proving quite effectively, I hope, that this expenditure-tax is not a very effective instrument both from the economic and fiscal point of view. I think it would be a long time before we can come to the point when we can accept the theory or the principle that it is a person's expenditure that really deserves to be taxed and not his income.

As I said before, the Budget proposals relating to indirect taxation yield Rs. 44.5 crores out of a total full-year yield of Rs. 71.7 crores. Considering the wide range of consumption commodities and the rising levels of income and consumption, I think it is not a very considerable yield. Indirect taxation is merely commodity taxation paid on consumption in the form of marked-up value equivalent to the tax imposed. It plays a very important role in the finances of under-developed countries. Now, direct taxation, as everybody knows, is not a mass measure. Indirect taxation affects of course a few more persons than direct taxation but equally it is also not a mass measure. It affects largely the middle class and the upper middle class people indulging in higher levels of consumption mostly in urban areas. It is considered a better rule of economic and fiscal equity. Though the concept of indirect taxation has been adopted as a source of raising revenue since 1953-54 and has functioned as an instrument for the progressive distribution of the money burden over a larger strata of society, in spite of the fact that it is now being acknowledged as playing a very important role in the finances of under-developed countries, and in spite of the fact that, by and large, it is considered a better instrument of economic and fiscal equity, I think, this has not been developed or used to the extent desirable or necessary. Today it is said to represent about 7 per cent. or to be more exact 6.9 per cent. of the con-

sumer expenditure of all households in the country. I for one would like to see this fiscal instrument of commodity taxation or taxation of consumer expenditure used increasingly to include in it almost every section of the community benefiting from the developmental activities of both the Central and the State Governments.

After all, what is taxation direct or indirect? It is meant to raise the rate of capital formation and private investment to ensure steady economic growth. Modern economic theory invests investments, if I may say so, with the functions of creating income as well as augmenting the productive capacity of the economy. I am a little traditional and my thinking is generally conditioned by the age-old concept of human behaviour. Investment is merely an instrument and in my opinion human behaviour is the dominant factor, the motivating power and the driving energy for augmenting the productive capacity of the economy.

The more I think of the economy of the country and its underdevelopment the more I am confronted with the thought that human behaviour in our country, among the masses of people needs a revolution, yes, literally a revolution. I do not want to startle the House or the country by saying that I stand for a revolution. What I want is a revolution in the minds of men, in human behaviour, a revolution not so much of the proletariat but in the proletariat, for a person to work for what he wants and not want without working for it, a revolution to ostracise the social parasite who feeds on other men's labours, a revolution to excommunicate or hang in a public place the indolent or the beggar, a revolution to place work on the high altar of national endeavour.

SHRI BHUPESH GUPTA: Almost poetic.

SHRI M. H. SAMUEL: Today in the second half of the 20th century,

[Shri M. H. Samuel.]

in this nuclear age, in this age of inter-planetary travel when men's minds are set outwards towards other planets or as somebody says in poetic language which Mr. Bhupesh Gupta wants, towards the 'seamless spread of space'—as the Russians put it—our country, our society is still plagued by age-old evils that curb and, if I may use the word, interiorise our thinking and action. We have not been able to break out of the bonds of these social and psychological inhibitions that have plagued us for generations and as a result our investments, even costly investments like wells and schools, are still duplicated, wastefully duplicated. Our occupational mobility is still restricted. Manual labour has still attached to it a feeling of disdain and everyone in the country seems to do as little as possible. Thus, if drastic action is not taken, production is impaired. I am convinced that our agriculture, our industry, indeed every fabric of our economy, will remain nascent for a long time without a sense of corporate national service, induced, I do not mind induced even by a degree of compulsion, or effected by a complete change in human behaviour, in short, without a basic social and psychological revolution in the country.

Thank you.

SHRI S. C. DEB (Assam): Mr. Vice-Chairman, Sir, I rise to support the financial proposals of our Government. But I venture to offer some remarks. Before doing that I congratulate our Finance Minister on giving some concessions in the tax structure by his recent proposals. In spite of that, there are some points I have to make regarding the tea industry first of all. One of the tea planters has made some observations regarding the tax on tea. Although there are some concessions, there is also some other tax on tea. I am giving his version. He says:—

"The Finance Minister has reduced the high export duty on tea

by 15 nP. per kilogram, but at the same breath he has also increased the excise duty thereon by 5 to 10 nP. per Kg., thus taking away by right hand the bounty given by the left hand. Moreover, a repercussion of the imposition of new taxes on several items to the tune of 71·7 crores, would also, being coupled with the increase of freight rates and stoppage of fertiliser and transport subsidies, enhance the cost of production of tea to a great extent.

A review of the Calcutta Tea Market Report would reveal that in the last auction export sale in Calcutta, the North East India Tea was sold at an average of Rs. 3·58 nP. per Kg., as against Rs. 4·66 nP per kilogram at the corresponding sale last year. On the face of this decrease of 108 nP per Kg., the relief of 5 nP or so per Kg., proposed by the Government is very low to bring forward any help to the industry. Furthermore, the slight reduction in export duty has also primarily been made to accelerate the export of tea in order to earn greater foreign exchange. It shows that the Government is not looking to the matter from true perspective. In fact, being taxed by the Government heavily to the tune of 112·18 nP. per Kg., the Indian Tea is unable to compete with other foreign producers whose teas are allowed to be exported to the world market without being saddled with any such taxes. This has obviously resulted in the shrinkage of the sphere of our sale activities in the world market, when for the absorption of our additional yield of about 50 million lbs. of tea per year, as envisaged in the Third Five Year Plan, we essentially require a speedy expansion of our market in the world outside. Our export to U.S.A. has already dwindled from 35 million lbs. in 1950 to 20 million lbs. in 1961. And in other sectors as well the duty free tea of East Africa, Indonesia and Ceylon are driving us out.

This would inevitably bring about a disaster on the Indian Tea Industry which has to export about 70% of its produce to world outside, earning thereby a foreign exchange of Rs. 120 to 130 crores per year. The reduction of this earning will again react irreparably on the implementation of the Third Five Year Plan. It is therefore not so much for the Indian Tea Industry alone, which employs ten lakhs of our citizens and maintains about 40 lakhs more, as it is for the interest of the Government, and the people themselves, that they should come forward to save the Industry by a substantial reduction of the excise duty and total abolition of export duty."

This is the condition in some of the tea areas. So, as I was telling the

House, the North-east India tea area is suffering. For one thing, they have to pay more export duty. The fertilizer and other subsidies have been stopped. The taxes on tea products are going up. So I would urge on the Government to take note of the fact that the tea industry is suffering from a particular kind of deficiency or weakness, and proper remedial measures should be taken.

THE VICE-CHAIRMAN: (DR. A. SUBBA RAO): You can continue tomorrow. The House stands adjourned till 11 A.M. tomorrow.

The House then adjourned at five of the clock till eleven of the clock on Wednesday the 20th June 1962.