

## RAJYA SABHA

Saturday, 26th April 1958

The House met at eleven of the clock, MR. CHAIRMAN in the Chair.

### THE FINANCE BILL, 1958

THE MINISTER OF ECONOMIC AFFAIRS (SHRI B. GOPALA REDDI):  
Sir, I beg to move:

"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1958-59, as passed by the Lok Sabha, be taken into consideration."

Sir, the Bill as it has emerged from the Lok Sabha, leaves intact the pattern of taxation set up last year. The rate structure, for the direct as well as the indirect taxes, also remains practically the same as that of last year. Some amendments have been proposed to the Income-tax Act and the Wealth-tax Act, but barring the one relating to development rebate, which I shall deal with presently, these are of a comparatively minor nature. The object and scope of these amendments are explained in the Explanatory Memorandum prepared by the Ministry of Finance and circulated to hon. Members. The proposals also figured during the general discussion on the Budget in this House. I shall not, therefore, tire the House with a detailed exposition of each provision ~~of the vision~~ of the Bill and I shall confine myself to the salient features of the changes effected in the Bill during its passage through the Lok Sabha.

The first change made in the Lok Sabha relates to the exemption of the income of the members of Assam Hill Tribes who have migrated to areas in the neighbourhood of Assam. According to the law as it stands at present, the members of the Assam Hill tribes are exempt from tax only if they reside within their own areas. In the 12 RSD—1.

Bill it was originally proposed to extend this concession to those tribes who are residing in the Union territory of Manipur. It was urged in the other House that as some Hill tribes' people have also moved into the Union territory of Tripura, the tax exemption should be extended to them also. An amendment to that effect was passed by the Lok Sabha. In this connection I wish to clear a misapprehension in the minds of some that the exemption will apply only to tribes people who have migrated to the Union territories of Manipur and Tripura and not to persons who are already residing in those areas. There need be no apprehension in the matter. The relevant provisions, as they have been worded, will confer exemption on all members of the Assam Hill tribes, who reside in the Union territories of Manipur and Tripura, whether they have permanently settled in those areas or have only recently migrated thereto.

The second change which, incidentally, is the most important one, was made in the other House at the instance of the Finance Minister. It relates to the development rebate on new ships and plant and machinery.

In order to enable hon. Members to appreciate the full significance of this change, it is necessary for me briefly, to explain the position in regard to development rebate under the law as it stands and the amendment sought to be made in this connection, through the provisions in the Finance Bill, as originally introduced in this House. As hon. Members are aware, provision was made in 1955 for the grant of a development rebate on new items of plant and machinery. This allowance was fixed at 25 per cent of the cost of the new machinery or plant installed by business undertakings and was to be given by way of deduction from the taxable profits of the concern. The effect of the allowance is that the undertaking saves for itself the tax on an amount equal to the allowance. As an example, let us consider the case of an Indian company which makes a net profit of Rs. 20 lakhs

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after deducting all expenses properly chargeable to revenue and providing for the permissible depreciation allowance. At current rates of taxation, it will in ordinary circumstances pay a tax of Rs. 10,30,000. If in the particular year in which it has made these profits the undertaking has installed new machinery costing, say Rs. 20 lakhs, it will be allowed a development rebate equal to one fourth of Rs. 20 lakhs, i.e., 5 lakhs of rupees. This means that for the purpose of taxation its net profit of Rs. 20 lakhs will be notionally reduced to Rs. 15 lakhs. The tax on this reduced amount of Rs. 15 lakhs is about Rs. 7,72,000. Thus instead of paying a tax of Rs. 10,30,000 on the profit actually made by it, the company will pay a tax of Rs. 7,72,000, thereby securing a clear gain of over Rs. 2½ lakhs.

The object underlying the grant of development rebate can be well understood from the following words of the Taxation Enquiry Commission who had recommended the allowance:

"The allowance should afford a direct stimulus to expansion and quicker replacement and aid the efficiency and competitive power of the industries assisted."

Now, that the scheme of development rebate has been in existence for about three years, it is necessary for us to review its provisions and assure ourselves that the concession is not abused and that the main object underlying it is not defeated by the frittering away of tax savings after they have been obtained from Government. Clause 7 of the Finance Bill seeks to provide the necessary safeguards in this regard. In the form in which it originally stood, the clause required of the claimants of development rebate that they should satisfy three conditions:

- (i) The undertaking should create and maintain for a period of at least ten years, a reserve equal in amount to the development rebate.

- (ii) There would be no restriction on the manner in which the reserves should be kept invested during the period of ten years, provided that the investment is made within the undertaking.

- (iii) The undertaking should not, within a period of ten years, dispose of the asset on which it obtained the development rebate, to any person other than Government.

The principle underlying the imposition of these conditions has not at all been disputed. Objection was, however, raised that compliance with the conditions to the full extent would be well nigh impossible in the case of newly established undertakings or existing undertakings which embark on large-scale expansions within a short period. The reasons adduced were that for most new undertakings it might not be possible in the year of installation itself to find sufficient funds from which to put into reserve the full 100 per cent. of the development rebate, and further in any case, this would lead to the postponement for a long time of the distribution of even reasonable dividend. Similar difficulties were likely to be experienced by undertakings which had to incur large developmental expenditure within a short period. It was also argued that while a concern might with justification be required to put into reserve an amount equal to the tax saved by it as a result of the grant of development rebate, there was no justification for its being asked to put into reserve a much greater amount which in the case of a company would be equal to double the tax savings.

After carefully considering the objection raised, the Finance Minister moved in the Lok Sabha an amendment to clause 7. The effect of this amendment which has been passed by the other House is twofold. In the first place, where the admissible development rebate is in excess of the net profits of a concern for the year in which the assets are installed, the

amount to be claimed as an allowance for that year will be limited to such net profits and the balance of the rebate will be carried forward to be similarly set off against the net profit of the subsequent year or years. The period over which it can be carried forward will be limited to eight years which is under the existing law, the period over which the losses can be carried forward.

Secondly, the amount to be put in the reserve need not be 100 per cent. of the rebate as originally proposed. It is enough if 75 per cent. of the rebate actually allowed in a year is put into reserve. In the case of a company, this means that for the purpose of creating a reserve it will contribute out of its profits an amount equal to 23.5 per cent. of the development rebate in order to supplement the tax savings it has received from Government, viz., 51.5 per cent. Thus in the example which I gave a moment ago, with a net income of Rs. 20 lakhs and incurring an expenditure of Rs. 20 lakhs on new machinery, while the amount to be allowed as development rebate will be Rs. 5 lakhs, the amount to be put into reserve will be only Rs. 3,75,000. If the amount of such expenditure is, say, one crore of rupees, the full development rebate admissible will be Rs. 25 lakhs. However, as the net profits are only Rs. 20 lakhs, the rebate will be limited to that amount of Rs. 20 lakhs, and the taxable income will be determined as nil. The amount to be credited to reserve will be three-fourths of Rs. 20 lakhs i.e., Rs. 15 lakhs. The balance of Rs. 5 lakhs of the development rebate will be carried forward to the next year. If the net profits of the next year amount to Rs. 5 lakhs or more, a rebate of Rs. 5 lakhs will be given for that year and the concern will be required to put Rs. 3,75,000 in reserve. Thus taking the two years together, a rebate of Rs. 25 lakhs would be allowed and a reserve of Rs. 18½ lakhs will be credited.

Clause 10 of the Bill provides a mechanism for the recovery of the benefit of development rebate granted

to a concern, which after obtaining the rebate infringes the conditions subject to which it was granted. Consequent to the amendment of clause 7, clause 10 has correspondingly been amended in the other House. Before leaving the subject of development rebate on which I have dwelt at some length, I wish to remind the hon. Members that the rebate is proposed to be increased to 40 per cent. in the case of ships and that the obligation to maintain the reserves will apply only in respect of the rebate claimed on ships or other assets acquired on or after the 1st January, 1958.

The last change made in the other House is to clause 14 relating to the exemption from wealth-tax of certain certificates issued by Government under the Small Savings Scheme. Clause 14(b) of the Bill provided for the exemption of 'Post Office National Plan Certificates' along with other similar certificates already provided for in section 5(1) of the Wealth Tax Act. Another series of such certificates known as '12 Year National Plan Savings Certificates' have recently been issued and these stand on the same footing as the others. This series also has been added by the other House to the list of exemptions at the instance of the Finance Minister.

Sir, I move.

MR. CHAIRMAN: Motion moved:

"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1958-59, as passed by the Lok Sabha, be taken into consideration."

SHRI P. T. LEUVA (Bombay): Mr. Chairman, I rise to offer my remarks on the Bill moved by the hon. the Minister of Revenue and Expenditure. The financial proposals of the Government have to be viewed in the light of what we propose to do in developing the economy of our country. As the hon. Minister has pointed out, the tax structure which was introduced last year has been maintained and no radical proposals are made in the pre-

[Shri P. T. Leuva.]

sent Bill. Since last year the tax structure of this Government has been brought under severe criticism by people who are alleged to be affected by these proposals. The lot of the Finance Minister is always unhappy. Taxation proposals are never received with cheerfulness. Nobody likes to part with what he has got. In spite of that if we want that the responsibility of the State should increase for the welfare of the country, it is necessary that every citizen of this country will have to sacrifice, will have to contribute to the development of this country. One wing represented by the industrialists of this country has been clamouring that the present tax structure of the Government has killed industry, has made capital shy. In a moment's time I will show to the House that proposals which have been there for the last so many years have not adversely affected the industrialisation of this country. There are two or three indicators for this purpose—whether after the introduction of this tax structure there has been any fall in the paid-up capital of the corporate sector; whether there has been a fall in the dividend that has been issued from time to time? Very recently the Company Law Administration Department has circulated a report on the working of the companies Act and in that report it has given figures regarding the paid-up capital of the companies from year to year. The figures are given from the year 1947-48 to 1956-57. In 1947-48 the number of companies at work was 20,675. It has gone up in the year 1956-57 to 29,951. The paid-up capital of the companies stood at Rs. 569 crores in the year 1947-48; while the total paid-up capital is Rs. 1058 crores in the year 1956-57. This goes to show that if the tax structure had adversely affected the earning capacity of the companies, surely there would not have been an increase in the paid-up share capital of the companies. Even taking the year 1954-55, the paid-up share capital was Rs. 969.6 crores. For the year 1955-56 it was Rs. 1019.3 crores. For the year 1956-57 the paid-up share

capital is Rs. 1058 crores. Even after the killing tax imposed by the Government, it has not deterred the companies from increasing their paid-up share capital.

Then, I will come to the next indicator which has been a true guide, regarding the effect of taxation on the earning capacity of the companies, regarding the profit that a company is earning from year to year. Now, Sir, on industrial securities the figures are collected in the Reserve Bank of India Bulletin for March 1958. The debenture yield in the year 1953-54 was 3.93 per cent., while in February 1958 it was 4.14 per cent. The yield on preference shares was 5.28 per cent., in 1953-54; in February 1958 the yield was 6.09 per cent. On ordinary shares the yield was 6.07 per cent. in 1953-54; while there was a drop in 1956-57 to 5.58, in January and February; the figures now stand at 7.26 and 7.19 per cent. per annum. These two indicators go to show . . .

SHRI B. K. P. SINHA (Bihar): What about the stock exchange?

SHRI P. T. LEUVA: My hon. friend is referring to the stock exchange. I have never been a student of the stock exchange, because I have not sufficient capacity to deal on the stock exchange. But, in spite of this I can say one thing that the transactions on the stock exchange are governed by several factors, not necessarily the inherent capacity of a company. I need not dilate on this point further. But from these two indicators it is quite certain that the taxes which were imposed last year have not in any way affected the earning capacity of the companies. On the contrary the companies are increasing their share capital. That goes to show that there is sufficient margin left to the industrialists or the investor for investing his money in business.

Now, Sir, in view of this fact we have to consider another point, and that point is whether our present structure of taxes is flexible enough to yield more revenue from year to year. If you look at the yield from income-

tax revenue, you will find now that more or less the yield from income-tax revenue is stagnant: It would be legitimate to infer from this that our level of taxation has arrived at such a point that revenue from income-tax is not likely to expand. That means higher yield from direct taxes is not to be expected any longer unless and until you devise fresh measures for direct taxes. In the absence of flexibility in revenue from direct taxes we can only have more revenue from indirect taxes.

Now, Sir, Members in this House as well as in the other House have been making a point that the burden of of taxes of an indirect nature is increasing. It is, no doubt, true that the burden of indirect taxes is increasing and will increase. At the same time we must not forget one thing that indirect taxation, especially the excise duty, which gives you the highest yield is in substitution of import duty to a certain extent. The basic principle of excise duty is that if you had imported those goods, the Government would have earned import duty. But as the goods and commodities are manufactured in the country, the nation is losing revenue from import duty and in substitution of import duty excise duty is levied. Therefore, it cannot be said that revenue from excise duty or indirect taxes is necessarily an excessive burden because, as I have said just now . . .

**SHRI BHUPESH GUPTA** (West Bengal): What about coarse and medium cloth on which excise duty is imposed?

**MR. CHAIRMAN:** He is not the Minister to answer your question.

**SHRI P. T. LEUVA:** Excise duty is imposed on a number of manufactured articles, articles whose manufacture is organised. Textile manufacture is bearing a very heavy impost of excise duty. We at the moment produce about 5,000 million yards of cloth, and if my memory serves me right, I think we are getting about Rs. 72 crores as excise duty from cloth. Out of those 5,000 million yards of

cloth we are exporting 1,000 million yards; that means that 20 per cent. of the excise duty is borne by people outside the country.

Now, Sir, it is always said that the indirect taxes are paid by the common man. But if we consider the various articles which are bearing the excise duty today, we will find that the consumption of these articles mostly is not in the sector which can be called the poor sector of the people. Excise duty today is on steel, paper, cement and cotton textiles.

**SHRI BHUPESH GUPTA:** Tobacco.

**SHRI P. T. LEUVA:** Tobacco of course. Tobacco is not necessary for the purpose of maintaining human life. If the people in this country develop what you might call luxurious habits, they should be prepared to pay taxes.

**SHRI BHUPESH GUPTA:** What about matches?

**SHRI P. T. LEUVA:** Now, Sir, if I have to explain each and every item, I think I will not be able to finish my remarks even during the present session of this House. Excise duty on matches has been explained last year, how it works out *per capita* has also been explained last year. So I need not waste the time of the House on this question, but I would like to take the larger question of indirect taxes and direct taxes. This question was examined by a very competent Commission. The Taxation Enquiry Commission went into the question of the entire tax structure of this country, and this Government, Sir, has done nothing beyond accepting the recommendations of the Taxation Enquiry Commission in imposing the various taxes which were imposed last year, because direct taxes, normally speaking, Sir, have got a tendency to stagnate at a particular point of time. Direct taxes are paid by a limited number of people. Their number is very small. Compared to the population of this country, the assesses for the direct taxes are very few in number indeed and their burden of taxes

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is also comparatively high. But the persons who might bear the indirect taxes, their number being very large, the burden of tax is spread over. All these questions were examined by the Taxation Enquiry Commission and they have come to the conclusion that if this country wants development, and that too at a faster rate, there is no other alternative than to increase the yield of indirect taxes.

Sir, one thing which has been always troubling me is this that if you look into the tax structure as such, you will find that we are attempting to bring about an equitable situation between the various classes of people. Today we are considering the question of direct taxes from the point of view of the capacity of a person to pay. But that refers only to certain classes amongst the people. We say that there is the middle class, the upper middle class, the poor class and so on, and we always try to levy direct taxes on those persons who have got a higher income, who can bear the burden. But we are in this process forgetting one thing that there is another inequity in this country. We must consider one thing that as between the urban sector and the rural sector there must be a proper balance for taxation. The Taxation Enquiry Commission studied this question regarding the incidence of taxation upon the urban sector and the rural sector. I will not trouble the House by quoting figures from the Taxation Enquiry Commission Report, but one thing was quite obvious that the burden on the urban sector was twice that on the rural sector. Today, Sir, as the Constitution stands, there are difficulties in our way of imposing certain types of taxes which can bear a yield from the rural area. We have no authority to levy any tax on agricultural income. Last year when the wealth tax was imposed, the Constitution prevented us from levying any wealth tax on agricultural property, the Constitution forbids us from doing so. Even when we imposed the Estate Duty, the same difficulty was there. Today, any person in an urban area who earns anything

between Rs. 300 and Rs. 400 will have to pay income-tax. But a person whose income is from agricultural operations, even though his income might run into thousands, will not be liable to agricultural income-tax so far as the Centre is concerned. It is true . . .

SHRI P. S. RAJAGOPAL NAIDU (Madras): Several States have done that.

SHRI P. T. LEUVA: Sir, my hon. friend thought that I am unaware of the fact that there is land revenue in this country. But if my friend has got time and patience enough, he can go through the figures of land revenue and he will find that the percentage of land revenue to the State is dwindling fast. Today, there are some States in this country which have levied agricultural income-tax. I do not deny that.

SHRI P. S. RAJAGOPAL NAIDU: Majority of the States.

SHRI P. T. LEUVA: I do not know if it is a majority of the States. All right, probably the Taxation Enquiry Commission might be wrong.

SHRI BHUPESH GUPTA: Also in many lands.

(Interruptions.)

SHRI P. T. LEUVA: I stand corrected if my hon. friend is in a position to show what is the yield of agricultural income-tax from the various States.

Now, Sir, I maintain today there is an imbalance between the rural sector and the urban sector. The incidence of taxation in the urban area is certainly higher. Nobody can deny it. What are the excise duties that are being levied? The excise duties are levied on textile cloth, they are on the production of textile cloth which is the major portion of total production of cloth in this country. Who is using the textile cloth? On the contrary, we give a subsidy to handloom cloth, cloth which is mainly used in rural areas.

SHRI B. K. P. SINHA: And mill cloth is sold in urban areas?

SHRI P. T. LEUVA: Mostly. It is no use laughing. Sometimes, people have got a habit of laughing from their own ignorance. Sir, take the question of excise duty on oil. You remember, Sir, that no duty is levied on oil if purchased less than 25 tons. Oil *ghanties* in villages are exempted from this duty. Still, where is the consumption of steel? Is it in villages? Where is the consumption of cement? Is it in villages? Cement and steel today are mostly utilised in cities and towns. Most of the steel and cement is utilised for the purpose of constructing irrigation projects. That is for the purpose of benefiting the rural economy. In spite of this fact that large amounts are being spent for the development of villages, a major portion of the burden is being borne by the urban population.

SHRI VIJAY SINGH (Rajasthan): Betterment levies are made.

SHRI P. T. LEUVA: Sir, I do not want to decry the betterment levy. But, if my hon. friend has got patience, he will know that the irrigation waters are not today utilised because people refuse to pay betterment levies. For what purpose betterment levies are levied? When the yield from the land is increased because the waters are made available to the agriculturist, when the earning capacity of the agriculturist is increased in that condition only betterment levies are levied. Irrigation rates and betterment levies are taxes which have become very unpopular and no State dare levy them. The waters of the D.V.C. are not utilised. Ask my hon. friend, Mr. Bhupesh Gupta. He knows it.

SHRI BHUPESH GUPTA: Ask me?

SHRI P. T. LEUVA: These are the things which are meant for you so that you might live.

Sir, as I was saying, the betterment levy and the irrigation rates are only

levied when there is an increased benefit to the person concerned. But I will return to my original statement that there must be a balance maintained between the urban sector and the rural sector. It is no doubt true that it is our duty to develop the country as a whole. But if we want an economic development, every person whether he is in the urban area or in the rural area, must be prepared to sacrifice a little. Anybody who has got some agricultural income somewhere gets frightened when there is any talk asking for his share from that income. But when there is any proposal to reduce the burden of a person living in the urban area, who has to pay all the taxes—direct and indirect as well—there is a hue and cry. If we want to really develop this country, we must be prepared to take unpopular decisions. It may be that, for the time being, our decisions might be unpopular. But it is the duty of the persons who claim to be leaders, who claim to lead the people, to be always prepared not only to represent the popular will, but also to mould public opinion. Otherwise, what is the use of calling oneself a leader of the people?

Sir, I dealt with the question of indirect and direct taxes. Another point to which I would like to bring attention is regarding the collection of taxes. Even if you levy taxes, it will not bear any result unless and until the machinery for collection is also very efficient. Formerly, we had only a very few taxes. Today, year after year, the number of taxes is increasing. The complexities of the tax structure are also increasing. At the same time, if we do not strengthen the staff and make them competent enough to collect taxes, instead of getting any benefit out of them, we will only purchase unpopularity. Sir, it is not uncommon to find that an assessee has not paid his income-tax even for the year 1940-41. It is now necessary to re-examine the whole structure of the Indian Income-tax Act. The appeals that are provided there are so numerous that by the

time a final decision is taken, the assessee is reduced to such a position that he will not be in a position to pay any tax at all. I do not know the exact position regarding the arrears of taxes. But on a rough estimate, it might be about Rs. 200 crores. Now, these taxes which are already levied are not recoverable because the procedure is such that a person who has a mind to avoid his responsibility can postpone payment for a number of years. There must be some finality about the assessment that is to be made. I would, therefore, suggest, Sir, that the entire Income-tax Act requires overhauling. The Income-tax Act that we have now got was more or less copied out from the English Act with modifications to suit our conditions. But the Act is so complicated that an ordinary assessee or even a lawyer with some competence will find it difficult to understand correctly the various provisions of the Act. Along with this, Sir, we have got the estate duty, the wealth tax, and then we will have the gift tax and so many other taxes. And the staff is not expanding commensurately. I would, therefore, urge upon the Government to consider this question of strengthening the staff and speeding up the recovery of taxes as and when they fall due. I am in favour of indirect taxes for one more reason, because indirect taxes are difficult to be evaded. It is very easy for a person to evade a direct tax by manipulation, but indirect taxes, and especially excise duties, are not easy enough to be evaded. Now as we have got an integrated structure of taxation, it is time for the Government to study the whole thing in all its details and implications as to the effect of taxation on the development of our economy. If we find that a particular type of tax is impeding our development, we can certainly make some adjustment. In view of the fact that these taxes which were envisaged last year have all been levied now, it is now time that the Government should decide upon studying the effects of these various taxes,

because this integrated structure was also meant for checking evasion. Now I would like the Government to come before us next year and tell us what has been the increased revenue as a result of this integrated tax structure, because it was claimed that as these various taxes were self-checking, evasion might stop. When Prof. Kaldor proposed this integrated structure, he claimed that the revenue from income-tax might increase by Rs. 200 crores. We do not know in actual effect whether it has occurred or not. But now the time has come when this entire system requires to be examined.

Now, Sir, regarding this development rebate, I do not want to say anything just now, but at the proper time, when the Bill will be taken up for clause by clause consideration, I will have to say something. It is no doubt true that in spite of so many protestations by the interested parties, fortunately for us, this taxation structure has not in any way adversely affected the economy of this country. I hope, Sir, that after having this integrated structure, Government will adopt certain measures to implement the various provisions of these taxes vigorously.

DR. P. J. THOMAS (Kerala): Mr. Chairman, Sir, I just now heard from my friend over there, a Member of the Congress Party, that according to him the economy of the country has not been much affected by the tax structure that has been drawn up during the last two or three years. I do not think that that is the impression gathered by many other persons.

Now, Sir, the position in which we find ourselves in this country is very peculiar. We have in many ways tried to put certain things before other more important things, that is to say, putting the cart before the horse. In the Western countries and in almost all the advanced countries first came economic development and then only came the political development. That is to say, the industry advanced, more and more industries

developed and there were more and more employment opportunities, and all this resulted in capital formation. And then came political advance and the urge for social welfare dictated by the needs of the lower income groups. Now, Sir, in this country from the very beginning we had unfortunately promised our people certain higher standards of living, and perhaps rightly so. But at the same time we did not make any proper provision for these higher living standards being provided for by a very large increase in our production and in our national income. Both these things can take place only when there is a very rapid increase in capital formation. Sir, ours is a very under-developed country, and in a country where large numbers of people are very poor, capital formation, which in fact is the very soul of industrial development, can take place only if facilities are given to the people. First of all, of course, there should be a direct incentive to capital formation. A large number of people must be able to save a lot of money. In England, what happened in the earlier days was that large numbers of people were reducing their expenses and doing so many things to save something daily, and thus a very good progress was made in the matter of capital formation and in this way the industries developed. There was not much heavy taxation then and there was no pressure from the lower income groups, and therefore they were able to advance themselves. Then gradually came the political reform, the adult suffrage, and then there was a regular redistribution of incomes by means of heavy taxation. And now we find so many welfare activities expanding and we find so many welfare schemes including the old age pensions, State insurance, unemployment insurance, and so forth. Now I agree that we cannot go back upon what we have done. We have given adult suffrage and we have given so many other promises, and they must be carried out. But the Government and the whole country must realise that capital formation

can take place only when our production is increased considerably and no real advance can be made or living standards improved without capital formation, because our living standard very much depends upon our increasing production and upon our increasing national income. We have not at all taken very large steps. In some of the reports published by Government, we find some comparisons made with certain advanced countries. We cannot call ourselves an advanced country in the economic sense. Just now I am stating briefly the position of more advanced countries like the United States of America. Even in U.S.S.R. the trend is somewhat like this. They first of all thought of raising the income. They expanded their production rapidly. When they got the national income increased, then they were able to improve the condition of the working classes. Even there, the step was somewhat on the same basis as the Western capitalistic countries.

But in this country we have taken a different step as I have shown. My point is that we have, therefore to devise a special formula for meeting these difficulties of ours. So far the Government's idea has been to put heavy taxes upon industries,—direct taxes. Of course indirect taxes have also been imposed but the chief burden has been, in the last few years, very largely on the industries. The burden on larger producers is very heavy indeed. Certain comparisons have been made by the previous speaker. We have also to take into account items like the steep fall in the stock exchange prices in the last few years, particularly after the Kaldorian taxation system has been introduced, also the disinclination to start new industries throughout the country and particularly in expanding old industries. All these can be seen from the various figures. The stock exchange collapse is a well-known fact. Stock-prices have been going down, they are not going down very much more now but they have gone down very much in the last two years.

[Dr. P. J. Thomas.]

I quite agree that the tax system must be utilized for reducing inequalities; I am certainly for economic equalisation, but the only thing is about the timing. At the present moment we must formulate our policies in such a manner as not to weaken the incentive to production. For that purpose various policies have to be carried out. To my mind, the step taken so far—for instance just now there is development rebate promised—I do not think that will go very far in this direction. It can only be of some sort of temporary advantage or may give some psychological advantage. The proper thing is to raise more of our revenue by resorting to fields which can easily be tackled. If really you are after more revenues, there are various other fields but unfortunately we have got certain ideological taboos which prevent us from resorting to them. Various persons have pointed out, including the esteemed lady Member, about tax on salt. It may be somewhat like a poll tax apparently but after all, the burden is very light and the total amount you can get is very large. As early as in 1920, Government used to get Rs. 10 crores and the burden was only about 3 annas per head and today if you are able to gradually restore the salt tax, we will be able to get a larger amount. I do not think the burden will be large. We should do it because we want more revenue now.

Similarly, as in Sweden, Norway and other North European countries, it is possible to get a large revenue from alcoholic drinks, not in the way we have been doing. The Government must take it over and could sell some kind of cheaper drinks whose liquor content will be very small and in that way, popularise the use of less harmful drinks and Government can also make money. In fact in some countries like Norway, a great part of the Government's revenue for social welfare purposes comes from drink revenue because some of the more intoxicant liquors are sold at

very high prices while the lighter ones are sold at a very low price and even then Government makes much money. As a matter of fact for a good part of the expenditure on education and other welfare subjects, the revenue comes from this head of taxation. This can also give us another advantage. There is much talk about nationalisation in the economic field. In my opinion Government can do a great deal in supplying the common people some kind of varied diet, a diet which will be enabling us to reduce our burden on the imports of rice and wheat. If for instance, the Government can maintain, under the auspices of the Village Panchayat or Municipality, small eating places where a more varied diet can be provided at a lower cost and also certain light drinks, then we can reduce greatly the huge expenditure on food and Government can also earn much revenue in this way. There are various lines. In that direction the Government activities must expand because the revenues will expand thereby. It is not merely a matter of bringing additional revenue but we do require in this country, a country which is importing rice and wheat at great cost, some kind of re-orientation in our diet habits and such objective can thus be carried out in my opinion.

The most important point today is how quickly we are expanding capital formation, and how quickly employment opportunities are available. In my opinion our progress has been very slow. In spite of whatever has been said in the House, I feel that unemployment is increasing greatly. The latest figures given by the Minister in the Lok Sabha indicate that 2 million persons have been so far employed out of 8 million persons expected to be employed excluding agriculturists and if we include agriculturists, 10 million. If this is to be the progress, we are not going to fulfil our expectations. In my part of India, Kerala, unemployment has certainly increased very rapidly and employment is very limited. Now if you want to increase employment, it

is only possible by opportunities being greatly increased. They are not being increased because the development of industries is taking a very long time, it is very slow, largely because the burden on the industry is too heavy. So my point is, you can lower the burden on our industry by raising revenue on some other lines as I proposed. We should seriously think of giving up our old ideologies, our old ideological taboos and stop 12 Noon putting burdens upon the industry and thus reducing the pace of progress. My point is that in a situation like ours which is very unique in the world, we have to think furiously. No country in the world has been trying to achieve progress in this way. This is a very peculiar situation and therefore we must devise programmes to suit our conditions, our environments. I do not think sufficient thought has been given to it so far. The Taxation Enquiry Committee has considered some of the taxation measures years ago, but conditions today are different. We are trying to expand rapidly and the present Five Year Plan is at a much higher level than the earlier one and probably the next Five Year Plan will be pitched higher still. This is the time for us now to see how democratic planning can be effectively carried out in spite of the difficulties in planning in a country like ours, with all the impediments which are there. On this subject, I think, the speech given by Dr. Gunnar Myrdal the other day in the Central Hall is most important. He explained how in other countries things are done in a different way but, Sir, that does not mean that we cannot devise means by which we can push through our Plan and carry out economic welfare projects effectively. If we do so, in the next five or ten years, we will be able to come to the level of some of the advanced countries but, if we merely think of putting all the possible burdens upon the industrialists and the middle classes only, I do not think it will be possible to achieve our objective. Even in Soviet Russia, the first step

that they took necessitated some burdens on the lower sections of the people, but gradually these were taken away. Therefore, the whole question of planning and taxation on the basis of a democracy of our type, that is to say, on the basis of democratic governmental set-up should be examined. We must give sufficient thought to it. This question of taxation is only part of it. Our tax machinery will also have to be refashioned and carefully thought out. There are possibilities of our raising enough revenue, more than the required amount even, but we must cast away our taboos, whether it is in regard to food or in regard to taxation. What is possible must be carried out. All the promises that we are giving to the people must be carried out at least in the course of a few years and, in order to do that, we have to devise certain formulae. I do not think the formulae have been properly devised.

We have got now two Finance Ministers who have intimate experience of the State Governments. They are not merely people who have been working in the Central Government and in the Central Parliament. They have had experience of the State Governments and, I hope that they would give some thought particularly to the idea of somehow or other increasing the responsibilities of the State Governments, of giving them larger revenues also rather than putting larger and larger burdens upon the Central Government. In my opinion, the trend that is now before us of the Central Government taking more and more powers and interfering with the State Governments too much must be changed and our system of planning must be so modulated as to put larger burdens on the State Governments, especially in the matter of food and other items. The Centre should chiefly co-ordinate and give grants according to the possibilities and not take too much upon itself, sort of centralise all activities in Delhi as it has been doing in the past few years. Only if we proceed on

[Dr. P. J. Thomas.]

those lines could we carry out the increasing national production that we expect and also reduce unemployment. The latter one is the most important item, to my mind, because, unless we are able to employ larger number of persons in this country, we will not be able to improve the conditions of the common man. Some of those people, really speaking, are living under most difficult conditions. Unless that can be done quickly, I do not think there will be satisfaction and the empty promises made will only heighten the despair of the people. I do certainly appeal to the Finance Minister to give special thought to this matter of modulating our whole taxation policy to suit the peculiarity of our country and thus reducing the burdens now falling too heavily on certain classes of people, increase the incentives necessary for people to produce more and thus serve the needs of the country. For this purpose, to my mind, the review undertaken by the Taxation Enquiry Commission must be gone through again and a revision of our whole taxation policy has to be undertaken.

Thank you.

#### FOURTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (1957-58)

SHRI P. T. LEUVA (Bombay): Sir, I beg to lay on the Table a copy of the Fourth Report of the Public Accounts Committee (1957-58) on the Appropriation Accounts (Railways) 1954-55 and Audit Report 1956.

#### THE FINANCE BILL, 1958—contd.

SHRI J. V. K. VALLABHARAO (Andhra Pradesh): Mr. Chairman, I am sorry that the Finance Minister is not here.

SHRI V. K. DHAGE (Bombay): He is here.

SHRI J. V. K. VALLABHARAO: I expected the Finance Minister, Shri Morarji Desai to be here because he was the person who replied to most of

the criticisms levelled against the method of taxation in the other House. We have read with great interest his reply to the criticism. We expected a sober and proper evaluation of the criticisms made by the Opposition but, Sir, I am sorry to say that many of the points raised have not been answered. The whole country is asking as to why, with this Plan, when there is so much of increase in industrial production, the lot of the common man has not improved? Why, in spite of so many laudable ideals such as socialism, etc., the common people are denied employment and food? Pointed criticism was made by Members of my party about the methods of taxation; since no answer has been given there and the whole thing was sought to be evaded, I have to bring to the notice of the House again certain of the points raised there. Sir, I draw your attention to one interesting feature in this taxation system. In the name of economic progress and the fulfilment of the Plan, so many taxes were levied both at the Centre and at the States on the common man. If we were to compare the percentage of direct taxation and the percentage of indirect taxation since we got independence, I think we will find that the percentage of indirect taxation is going up rapidly, more than the percentage of direct taxation but, Sir, if we compare this with the income-tax from the various industries, we will find that it is falling at a much faster rate. For example, take the year 1952-53. Revenues from income-tax were about Rs. 102 crores, the assessed revenue. In 1953-54, the revenue, including surcharge, came down to Rs. 96.36 crores. In 1954-55, it came down further to Rs. 86.79 crores and by 1955-56, it had come down to Rs. 82.45 crores. We would like to know from the Finance Minister why this income is going down in spite of the fact that there has been ample growth in the incomes of these industrialists.

Another thing is that the number of assesseees also has increased. In 1952-53 the number was 2,546 and in 1955-