

MESSAGE FROM THE LOK SABHA**THE INSURANCE (AMENDMENT) BILL,
1957**

SECRETARY: Sir, 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 Insurance (Amendment) Bill, 1957, as passed by Lok Sabha at its sitting held on the 4th September, 1957."

Sir, I lay the Bill on the Table.

FOOD SITUATION

SHRI BHUPESH GUPTA (West Bengal): I have a request to make. We have seen in the Press that the Lok Sabha have found some time for discussing the food situation and I think, Sir, if it is possible, we also should find some time to discuss the critical food situation in the country.

**NOTICE OF A SHORT NOTICE
QUESTION ON PAKISTAN FIN-
ANCE MINISTER'S STATE-
MENT**

SHRI KISHEN CHAND (Andhra Pradesh): Sir, I had given notice of a Short Notice Question about the statement by the Pakistan Finance Minister regarding the loans taken from India.

MR. CHAIRMAN: A statement will be laid on the Table on the outstanding financial issues between India and Pakistan at 1 P.M. today.

SHRI KISHEN CHAND: Will we be permitted to discuss it, Sir?

MR. CHAIRMAN: Not then. Later on you can give notice of a Motion.

**ALLOTMENT OF TIME FOR THE
RAILWAY PASSENGER FARES
BILL, 1957**

MR. CHAIRMAN: I have to inform Members that under rule 162(2) of the Rules of Procedure and Conduct of Business in the Rajya Sabha, I have allotted three hours for the completion of all stages involved in the consideration and return of the Railway Passenger Fares Bill, 1957 by the Rajya Sabha, including the consideration and passing of amendments, if any, to the Bill.

**THE WEALTH-TAX BILL, 1957—
*continued***

MR. CHAIRMAN: The whole of to-day will be taken for the Wealth-tax Bill. The Minister will reply at 3. There are about 50 amendments and they will all take a lot of time. Therefore, we are asking the Minister to reply at 3.

SHRI BHUPESH GUPTA (West Bengal): I submit, Sir, that the Minister can reply at 4.

MR. CHAIRMAN: No. If you promise not to speak on your amendments, then I will ask him to speak at 4 P.M.

SHRI KISHEN CHAND (Andhra Pradesh): We may sit till 6 P.M., Sir.

MR. CHAIRMAN: Even then you will have to do that way.

DR. P. V. KANE (Nominated): Mr. Chairman, I speak as an independent Member of this body, not aligned with any particular group. I have studied this Bill very carefully and I find that there are many criticisms that can be offered. Sir, yesterday many criticisms have been offered but they have been either by Members of this party or Members of that party. Without referring to them I shall begin to make my observations and I think

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I shall have to make them within ten minutes as there are other speakers. I shall put forward certain things one after another.

We are told that we are going to have a socialistic pattern of society.

(Interruption)

MR. CHAIRMAN: Order, order.

DR. P. V. KANE: I do not see that the socialistic pattern of society has advanced to any particular stage. For example, there is no equality of income anywhere. Taking the highest pay and the lowest pay I suppose the ratio will be about 1:50, most probably, I am not sure; it would be 1:50 in some cases and if we take the average pay of the higher officers the ratio will be 1:30.

Then there are certain legislative measures taken. For example, in some of the States they have got land legislation to govern the relations between landlord and tenant, and it has been decided, particularly, in Bombay and in some other States that the soil belongs to the tiller, and the result has been that the landlords have been practically dispossessed of their lands. The possession lies with the tenant and the tenant is asked by the Government to pay one-sixth of the produce and he does not pay anything beyond the Government assessment. This has happened not only with reference to *inams* and *talugdars* and so forth but even with regard to small land-holders and if the man is not himself actually working on the land and it is only two acres, then the man gets nothing practically. If he goes there the tenant threatens him saying, "Now Government has declared me the owner. You are nobody. We pay the Government assessment." Now, if that is the socialistic pattern of society then some beginning has been made. But so far as I understand it the socialistic pattern of society in other countries is like this. It is generally of a dictatorial character. The dictator orders

that certain policies must be followed with certain results. Then nobody can say, 'No'. He is assigned a particular place and a particular business and he will have to work in that way. I mean in certain countries which have what is called a communist society that has been the result. We have changed that word and we have called it "socialistic". But there is a great difference between the two. Ours is going to be a democratic method. I understand by "democratic method" legislation by Parliament and doing certain things on the basis of that legislation. As at present constituted Parliament means the Congress Party. They are in an absolute majority and therefore, democratic method means only this much. You have returned the Congress Members to power. Therefore, whatever they do every citizen is bound to bow to it and to obey it. Of course, as long as the Government is there and we are going to be peaceful citizens, we are bound to obey. But then we obey, we must say, with discontent, particularly when now we find there is so much legislation. We have got the sales tax, the income-tax, the wealth tax and the expenditure tax. All sorts of taxes are there, and the only justification for all this is that we have what is called the Second Five Year Plan and that Plan must be carried out at any cost. What they at one time counted on, namely, foreign aid is not probably materialising. Then there was the idea of a great degree of deficit financing. That seems also to have been given up. Now we are all asked to tighten our belts or rather to gird up our loins, work hard and bear all the burden like so many beasts of burden. The position has come to it now practically.

I do not understand why the Government is not putting a ceiling on wealth, just as they have done on agricultural holdings. On agricultural holdings there is a ceiling put. I do not know whether it is done everywhere but in Bombay it is—*jirayat* land 48 acres and *bagayat* land 24 acres. There is that ceiling. So why don't you put a ceiling on wealth

that every private man should have not more than, say, Rs. 20,000 as his capital excepting companies and so forth? That would have given Government crores of rupees. But they have not that courage. Only as regards land they have done it in some States—I do not know about all States. Gradually, perhaps it is coming. They will have to do it if they really want the agricultural tenants to be contented. They say they want more production but I doubt very much whether by passing this measure the actual production has increased. Nobody is going to have a committee to find out whether it is so. My own idea is that in those parts of the Deccan where this tenancy law has been enacted production has really gone down. When the land was under the landlord he used to get one-half or one-third of the agricultural produce from the tenant and so there was the incentive to produce more as the tenant's share would increase with more outturn. Now the tenant is producing only that much which after meeting Government's assessment would be quite sufficient for him. So, where three candies of corn were being produced when the land was under the landlord and both the landlord and the tenant were taking interest in producing more, from the same area of land the tenant is now producing just a little over two candies of corn, the excess above 2 candies being just sufficient to meet Government's assessment. If anybody will go from village to village, at least in some sample villages, my idea is that it will be found that production as far as this particular part of the State is concerned has gone down. As against this we have got this. They say, "We have got the statistics for the First Five Year Plan. The total income was so much. It has increased by eleven per cent. Taking 100 as the base the *per capita* income has risen to 111." But now tell us what the exact state of things was as regards the purchasing power of the rupee in 1950 and now in 1956 or 1957. It will not be 11 per cent. In 1950 a rupee might have purchased so many seers

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of corn but the same rupee does not purchase half of it. I suppose it is perhaps less than that.

Some of you might have read the book "How to lie with statistics", how statistics can prove anything. Therefore, it is no use quoting such statistics. The important point is this. Our population is growing every year by about 60 lakhs of people or more. It is increasing at least by 50 lakhs of people every year. Will the present rate of production cope with the increasing population? In five years the increase in population will be more than two crores, there will be more people to be fed. What are you going to do? Then they will have to prepare a third Plan. You are already making the people psychologically afraid. With all the different taxes that you have got there is a psychological timidity among the people. The people are always in a state of fear. There is no knowing how far this process of pruning will go on. Here is an example.

There was a solemn declaration in our Constitution that if any man is deprived of his property by Government he will get proper compensation which will be justiciable. In four or five years after that solemn declaration in the Constitution you changed it saying that Parliament will lay down the principles and the only relief would be to go to a court to see whether the rules have been observed and the principles have not been broken, but no question of fact will go before a court at all. So, people are naturally becoming anxious. They are becoming timid and the result would be that there would be no savings. Unless the people save, not only save but are also prepared to invest the money in productive undertakings and also take risks boldly, you cannot have these things that you want to encompass. The result will be that the people will be hoarding in the form of gold and silver underground or they will be extravagant. They will say, "What is the use of keeping money? Government are going gradually. Now they say—Rs. 2

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lakhs per individual, but what guarantee is there that in the next Plan or the third Plan they will not bring it down to Rs. 20,000 or even less, say, Rs. 2,000. There is no guarantee whatsoever."

Therefore, my idea is that you should proceed with caution. Do not frighten the common man. You have not done real work to educate him, to tell him what the necessities of the situation are. He knows only one thing. If he is among the "have-nots" he probably feels that the "haves" got more than they deserve, that probably there will be some distribution and he will benefit. That is all that he knows. 80 per cent. of the people do not know anything beyond that. He thinks, "The land is ours. Government will look to everything that we want." The result will be, as I said, that those who have something will be all timid. Those who have nothing will get something but they will not reach the level that this Plan is intended to reach. That is what I feel as a man who has lived for eighty years and has seen all sorts of things. My point is that you must take this as a very cautious measure. I would have preferred you not bringing up this Wealth-tax Bill. Now when you have this wealth-tax don't bring in the expenditure tax because that is not going to give you much. The expenditure tax is levied on those who spend Rs. 2,000 a month or more than that a month. So, I do not think there are many people like that in the whole of India. There may be some hundreds or some thousands. But that will not yield very much. So don't have taxation measures piled one upon another and make the people afraid of the Government and its power to tax.

I am trying to point out the psychological effect on the common man of this taxation. As I said, it takes away the incentive. Even in the case of income-tax if you put down 12 annas in the rupee or 14 annas in the rupee, what incentive is there to work? Why should a man work the

whole day, earn Rs. 3 lakhs and pay Rs. 2,80,000 to the Government. Take a common man. Maybe a man who is brought up in the philosophy of asceticism or in the philosophy of non-violence thoroughly, not in words, he may do it, but most people won't. The common man will say, "Why should I work hard if after earning Rs. 3 lakhs I have to pay Rs. 2,80,000 to the Government? I do not care for the Government; I shall only earn Rs. 1 lakh." That will be his attitude. So my point is, there must be incentive not only to work, but to work hard and to save and invest. That incentive is being altogether taken away by the present legislation.

Then another result will follow. As the Government is taking so much money from the people, ordinary people will become chary of making gifts to charitable institutions. They will say, "Go to Government; I have been paying so much to the Government." Even now I know there are people who say, "I am paying Rs. 30,000 as income tax. Why should I pay more? I do not want to pay." So, they do not give anything as charities. Even now it is so. And with this wealth-tax and the other taxes that are looming large, the result will be that charitable societies will go to the dogs.

SHRI P. D. HIMATSINGKA (West Bengal): Already they have gone.

DR. P. V. KANE: Then there are one or two small matters. Now, in the case of companies, some exemptions have been made. It is said there is a holiday for five years and so on. The hon. Minister has been very kind with regard to some of the companies. But my point is this. Supposing the companies' profits are taxed. The shareholder is a poor man and he has no anxiety about the wealth-tax but he will be taxed indirectly through the company. Suppose the dividend is Rs. 50 on his two shares. Something will have to be paid out of this sum of Rs. 50 when it forms part of a large amount of money with the company. So there will be double taxation. The company will be paying something and this man who is not liable to this tax

will be indirectly taxed. So that has to be considered. I am not concerned with companies myself but it looks as if there is double taxation.

Then I do not understand why, if the rural house is to be exempted, the urban house is not exempted. I do not mean every urban; if it is a big palace with six storeys and all that, it is a different matter. After all, everybody requires some shelter and the urban house has got to be exempted and there should be no discrimination between a rural house and an urban house. Simply because one has the misfortune to stay in a city, he should not be penalised. Do not forget that there is going to be a third Plan; there may be a fourth Plan and so on and a lot of money will be required. Therefore, there must be a lot of savings with the people, but if you prune everything, as I said, two courses will follow—hoarding or extravagance. With these few words, I shall bring my remarks to a close.

RAJKUMARI AMRIT KAUR (Punjab): Sir, I am grateful to you for giving me just a few minutes to say what I wanted to say. I have already said that destruction of wealth is not really or basically a contribution to the creation of wealth. We want to create wealth in this country but we are, as my friend Prof. Kane has just said, creating a psychology which is not going to help the Government to attain the broad objectives which it wants to attain. I do not think there is much use in our saying anything because I do not think anybody's say is going to have any effect. I would, therefore, just only plead for two things.

I want to plead for those who possess a house in a city. Today we are taxed so much by the State Government, and by the local body. I happen to own a house and I pay ground tax to the municipality; I pay house tax to the municipality; and the rates are going up and up. In addition to these, I pay a property tax to the State Government and now the Centre is also going to tax the house. After all, one

has got to maintain a house, carry out annual repairs and so on. Surely, even in communist countries as in Russia, everybody is allowed to own one house; everybody is allowed to own one car, but we are not allowed to own anything. I have, therefore, to say that discontent among the people is not going to help the Government. I do plead, therefore, that one urban house might be exempted from the wealth tax.

Then I also want to plead for the professional man, in particular the medical man. Do not tax his equipment. I know that the limit has now been raised to Rs. 20,000 but Rs. 20,000 brings practically no equipment now. It may be all right for the doctors who today have the equipment; they may be able to pay. But any new man who wants to set up a nursing home—Government does not provide enough hospital accommodation for everybody—has got to spend very much more. All that will come under the wealth-tax. The dentists, pathologists, surgeons and in particular radiologists will literally not be able to carry on their professions. Sir, I do beg of the Finance Minister to reconsider these two things in particular.

SHRI P. D. HIMATSINGKA: Mr. Chairman, Sir, this integrated tax structure that has been proposed by the Finance Minister is, in my opinion, going to react very adversely on the production in the country. Various speakers from the stage when the Wealth-tax Bill was introduced in the Lok Sabha have suggested that companies should not be included within the ambit of the wealth-tax and they should not be made liable to this tax and their reason is obvious. Companies differ from individuals. We may not like one person to possess a very large amount of wealth but companies are formed by contributions from hundreds of persons, in many cases thousands of persons, and in some cases there are as many as 50,000 shareholders in a company. The result is that persons who have contributed small amounts to make the company a

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big company, to enable it to function and manufacture articles and important capital goods for the improvement of the economic conditions of the country, they also will be roped in within the scope of this Bill.

Again, another feature of this Bill is that when companies are taxed, the people who are shareholders of the companies are also being taxed for the same shares. Therefore, in a way a certain amount of wealth is being taxed twice—once, in the hands of the company, and, secondly, in the hands of the shareholders who go to compose the companies. Sir, the several tax measures that are at present in force and that are going to be enforced after the passing of these Bills will, in many cases, make a man liable to pay more than a hundred per cent. of his income. Sir, I have a table prepared by one of the Chambers which goes to show that in the case of a man who has an income of about Rs. 20 lakhs, he will have to pay 115 per cent. of his income. Similarly, Sir, the tax is going to work very harshly on the higher income groups. My point for submission is that a certain class of persons are in charge of most of these companies which are producing very extensive quantities of the goods that we require in the country and if these taxes have a dampening effect on them, the result may be that the country may suffer and our progress may be retarded, and it may be that instead of advancing the cause of the Second Five Year Plan, there may be difficulties in the way of the Plan. And, therefore, it is absolutely necessary that something should be done so that no one may be called upon to pay more than the income in that particular year. As a matter of fact, Sir, in no country, so far as I know, is there an annual capital levy beyond the amount of the annual income. In Sweden which has this wealth-tax, the highest that a man is called upon to pay is 80 per cent., taking all the taxes into consideration. Some such ceiling on liability should have been fixed as a total liability of any tax-

payer under these Bills. Even the suggestion of Prof. Kaldor, from whom this inspiration about taxes has come, is that the income-tax and other taxes taken together should under no circumstances exceed 100 per cent., and in fact, Prof. Kaldor had not included companies as liable to this wealth-tax. He had excluded the companies, and even after excluding the companies, the calculation that he had made was about Rs. 17 crores as income, whereas the Finance Minister is taking only Rs. 15 lakhs as income including the amount that will be available from the companies. Therefore, it seems to me that he has deliberately kept the figure at a low level in order to make the House agree to the present taxes. Otherwise, it seems to me that even if the tax is charged only from individuals and the Hindu joint families, the amount will be quite big and sufficient.

Then, Sir, some concession has been shown to the Hindu joint families. But as you know, a Hindu joint family must consist of two adult members to make it a joint family. Unless it consists of two earning members, it will not be getting the advantage under the Indian Income-tax Act. Therefore, the amount of Rs. 4 lakhs is just what everybody would have got on the basis of Rs. 2 lakhs per individual. Therefore, the amount, so far as the Hindu joint family is concerned, should have been a little more than Rs. 4 lakhs because most of the cases where you find that there are more than two members will be very adversely hit. And as it is, these Hindu joint families are breaking up on account of the impact of various laws and on account of the present day ideas, and this Bill also will help in further disintegration of those joint families. Therefore, it is only fit and proper that some consideration should be shown to the Hindu joint families. Similarly, Sir, for certain other allowances also the Hindu joint families should have a little more amount than the individuals which has been provided in clause 5.

Sir, certain hon. Members, and particularly my friend, Mr. Narayanan, have suggested in regard to the concession that has been shown in Part II of the Schedule that there will be evasion in the case of the companies which will be incurring losses. I could not follow his argument, and I do not agree with him. The provision is very clear that if a company has incurred a net loss in any year computed in the manner therein provided and which has not declared any dividend on its equity capital in respect of that year, that company will not have to pay this tax. The hon. Member said that the company could make profit, but not declare any dividend. If a company makes some profit and does not declare any dividend, that company does not get the benefit provided for in this Schedule. The company must have incurred a net loss and also may not have declared any dividend. Then and then only can the company get the benefit under this Bill. Therefore, Sir, there is nothing wrong here. As a matter of fact, it is only fit and proper that a company which has been incurring a loss should not be called upon to pay any tax.

Then, Sir, there is one provision which has been made and which to me is not very clear. It is regarding exempting that portion of the net wealth of a company which is employed in a new and separate unit after the commencement of this measure. The language used is:

"Provided further that this exemption shall apply to any such company only for a period of five successive assessment years commencing with the assessment year next following the date on which the company commences operations for the establishment of such units."

The words "commences operation for the establishment of such unit" appear to me to be very vague and liable to be misinterpreted and liable to cause a number of difficulties. Can you call

it "commencement of operations" when the company places any order or when it starts constructing a portion of the building or when it installs some machinery and so on? Therefore, I would suggest that it should be "commences production" or some such thing. It should be something definite, so that the advantage may be available. Otherwise, if it is kept in this fashion, it may be that certain units that are going to be established may take five years to be completed, and therefore, it will not be of any benefit to them. As a matter of fact, as you know, these big factories sometimes take 7 years or even more to go into production, and if a company is called upon to pay this wealth-tax even before it has begun to function, it will react on them very adversely.

Similarly, Sir, there are certain other provisions in the Bill which require a little more clarification. I would like to draw the attention of the Finance Minister to one provision which requires a certificate to be produced in the case of any transfer. That is clause 34 which says:

"Where any document required to be registered . . . purports to transfer assign, limit or extinguish the right, title or interest of any person to or in any property other than agricultural land valued at more than one lakh of rupees, no registering officer appointed under that Act, shall register any such document, unless the Wealth-tax Officer certifies that—

(a) such person has either paid or made satisfactory provision for the payment of all existing liabilities under this Act, or

(b) the registration of the document will not prejudicially affect the recovery of any existing liability under this Act."

Sir, there were previously certain other words that even future liabilities had to be certified as not to be in jeopardy. But as it is, we know

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in Calcutta, Bombay and other places, transactions of sale and purchase take place almost every day. And in most cases the properties are over a lakh of rupees, and if this certificate is not easily available from the Wealth-tax Officer, there will be a lot of difficulty in carrying out those transactions which sometimes have to be completed very quickly. Therefore, some provision should be made so that these certificates may not unnecessarily be delayed and they may be available as quickly as possible. Sir, somehow or other, it may be that this year the Bill is not going to be altered in any manner, but the Finance Minister should bear in mind the fact that the feeling that is prevailing in the country is very much adverse to these proposals. As you know, the stock exchange markets in Calcutta, Bombay and Madras have all come to a crash. Shares which were being sold at Rs. 600 have come down to less than Rs. 400. Indian Iron which was selling at Rs. 42/8 last year has come to about Rs 18. This shows how the people in the country have reacted to the measures which have been proposed, and therefore that is an indication how they are being accepted by the country.

Another important matter which I wish to speak about is the very constant reference to the dishonesty of officers in general terms. I am glad that the hon. Dr. Mudaliar spoke about it yesterday. I also have had occasion to come into contact with officers. Surely, they are very efficient and honest. There is no doubt that some of them are also dishonest and not doing their duty honestly, but the majority of them try to do their work honestly, and it is up to us not to condemn them in general terms, because that does bring about a certain amount of demoralisation. When an honest officer is always called dishonest, he begins to feel that there is no harm in his being dishonest when he is being called dishonest in spite of his having acted very honestly.

Therefore, we must be careful in the language that we use, specially in responsible quarters. I would suggest that the persons who speak glibly in this matter should be very careful, and unless they have got definite evidence or definite information or definite proof, they should not make allegations against the officers in general. These are the submissions that I wanted to make.

JANAB M. MUHAMMAD ISMAIL SAHEB (Madras): Sir, I am in agreement with the ideas put forward and the arguments put forward by hon. Members from various sides of the House.

[MR. DEPUTY CHAIRMAN in the Chair]

Now, I want to say a few words in reinforcement of those ideas with which I am in agreement. The Finance Minister has claimed that he is revising the tax structure that is moribund by a structure which is resilient and progressive, but what he has done is not to revise the old structure altogether; he has simply put up a side structure, a wing structure, by the side of the old one. This new structure does not differ in quality from the old structure. In elaboration of his idea, the hon. the Finance Minister says that the old structure and the new structure will stop the loop-holes and leakages of each other. It may be so, but I want to ask whether in doing so, he does not leave the door open for the exit of private initiative, incentive and private enterprise. If this is so, I do not very much understand how this tax is going to be progressive. This will deplete the resources of the country, and the private sector, for which increased targets have been set, will suffer for want of resources to realise those targets, and moreover the Government also, in course of time will find that the yield of revenue from this new source is not as good as they are led to expect at present. Then, there is validity and great force in the argument that, in spite of the

various exemptions made, the tax on companies is not fair or logical. As has been pointed out before, there are shareholders whose wealth may be in the aggregate about Rs. 1 lakh. They will own shares in certain companies to the extent of Rs. 25 thousand. Then, they will have to pay wealth-tax on these Rs. 25,000 through the companies in which they own shares, but they will have to pay no wealth-tax if they keep the money to themselves, if they keep it unproductive. Therefore, this kind of double taxation is not, apart from the justice of the case, conducive to the increase in production. In this connection one hon. Member made the suggestion that partnership firms should also be brought under the purview of this Bill. The question whether companies are to be taxed is a very debatable point, but this suggestion that private partnership firms also should be brought under the provisions of this Bill is quite illogical and unfair, because these partnership firms stand on a different footing altogether. One difference between a partnership firm and a company is that in the case of the former, the partners may increase or decrease the capital at their will. Therefore it is that the Income-tax Act rightly treats the partners of these firms as individuals for purposes of income-tax subject to certain conditions.

SHRI P. S. RAJAGOPAL NAIDU (Madras): What about section 26 of the Income-tax Act?

JANAB M. MUHAMMAD ISMAIL SAHEB: The partners of registered partnership firms are treated as individuals. These firms are not very much different from individuals. But I agree with him when he speaks about the shareholders' shares in co-operative societies. He suggested that these shares must be exempted from the incidence of the wealth-tax. This is fair and it is in the interests of the country that these shares are exempted from the wealth-tax because it is the object of everyone in the country that the co-operative

movement should take firm roots, and therefore it deserves every encouragement possible.

Another point is that a dwelling house in a rural area is exempted from the levy of this tax, and an elaborate attempt is made to define what a rural dwelling house is. I do not know how a dwelling house in an urban area differs in nature from a rural house. The attachment of the people to their dwelling houses is recognised and accepted by the Government as well as by all the other parties. Therefore, for sentimental as well as practical reasons every dwelling house, be it in a rural area or in an urban area, should be exempted from the incidence of this tax.

With regard to certain exemptions, I would say that exemptions are given to the extent of Rs. 10,000 for instruments and tools involved in the various professions but I don't think this limit is sufficient in several cases, and it will work as a hardship in certain other cases too. Take the medical profession. There is a radiologist who buys machinery worth many tens of thousands of rupees. Then he dies or he retires from the profession and his son will not be able to make use of them because he may not be a radiologist or a medical man at all. Then he will have to sell it but there will not be a market for such articles as you can find for a real estate or a motor car or household furniture. He will have to sell it for a song or keep it as a relic for himself. So, in such cases the exemption must be given for all the amount invested on such instruments and tools.

Another important point I want to urge along with other friends is that the payment should be allowed in kind as well as cash. A certain valuation is put on a property in assessing the wealth of a man for this tax. As time goes on, it will be found that the man may not be, though he may be wealthy and may own several properties, able to find cash and then the Government should, as a matter of

[Janab M. Muhammad Ismail Saheb.]

course, accept some property at the valuation put upon it by the officer himself. This is sure to eliminate, as has been pointed out by several speakers, the possibility of harassment. It will reduce to an appreciable extent the harassment and hardship to the assessee. Particularly the limits that are set for exemptions will lead to harassment and hardship to the people concerned. More than the tax itself it is the harassment and hardship that are felt by the people. That is human nature. We must really give some consideration to this. There is an incident in history. Asoka the Great was a virtuous ruler. He was a righteous sovereign but then during the latter part of his reign, he became unpopular because the agents whom he set for inspecting the way in which the people led their lives were interfering too much. The people felt the harassment. It is 2,300 years ago. Even a scheme that was put forward by such a virtuous ruler caused harassment to the people, when people did not have the same idea of freedom as we have got today. Therefore, it is human nature. Harassment is a thing which no man tolerates. It makes his life bitter. So, Government must really take a human point of view and do everything that is possible to eliminate harassment, as far as practicable.

(Time bell rings.)

One hon. Member in the other House compared this wealth-tax to *zakat*, that is a profession in the *Koran* but there is no analogy between *zakat* and this tax. Because *zakat* is limited in its incidence as well as in the distribution of the yield of that *zakat*. Apart from this, there is one important and inseparable factor about the *zakat*. *Zakat* is based inseparably and inevitably on the faith in God of the giver as well as the taker. Without that faith that tax will not work at all.

MR. DEPUTY CHAIRMAN: Any way we are not concerned with it.

JANAB M. MUHAMMAD ISMAIL SAHEB: One hon. Member brought forward this idea and he said that it was in conformity with the provisions already in existence that this tax was being brought forward but I want to tell you that it is not really so because when you take that faith away, when you take that basis away from this taxation, it will really work to the hardship and harassment of the people.

DR. P. J. THOMAS (Kerala): Mr. Deputy Chairman, theoretically, the idea of levying wealth and expenditure taxes is attractive because it would broaden the tax-structure and could reduce the evasion on income-tax now so common. The idea is that if instead of placing the main weight of personal taxation on one single tax, the income-tax, other yardsticks like total wealth and expenditure are also resorted to, tax evasions can be greatly reduced and larger revenues collected.

In my opinion this tax would suit very well to countries which have much advanced economically, where production has reached great heights and large accumulation of wealth has taken place. In such countries the problem is one of spreading out the advantage of wealth to all sections of the country by egalitarian measures. Yet, only a few such countries have adopted a tax on wealth. Those are chiefly the small Scandinavian countries.

But the position is different with an under-developed country like India where production is still at a low ebb and wealth accumulation small. This can be seen from out income-tax collections. While in Britain, nearly half the population are income-earners, and 70 per cent. of them, i.e., 26 million persons, pay income-tax, in India even after the recent changes, income-tax-payers will only be round about one million, that is, 1 per cent. of the total income-earners. Why? Because production here is at a rather low level. Very few have any large accu-

mulated wealth In such a country the prime concern is to increase production so that there may be a large enough national produce to distribute The Prime Minister has definitely stated that not merely by distribution of the existing income but chiefly by expansion of production can we bring about socialism properly in this country If production, at least of consumer goods, is to remain in the private sector, sufficient incentive has to be provided for this sector so that capital formation and expansion of production may take place Some people think that the public sector may now be entrusted with capital formation I personally have no objection to this, if this is possible But our experience, so far, with the public sector does not warrant the assumption that capital formation will take place with any rapidity in the public sector Our worthy lady Member, Mrs Munshi, gave telling illustrations of the wastefulness of State-managed concerns Unless some miracle takes place, the capacity of Government machinery to manage businesses efficiently cannot improve

Having regard to all this, I think we have to go slow with the tax measures which weaken incentives for production Judging from the evidence tendered by various Chambers of Commerce, it is clear that there is serious concern in business circles about this tax measure Our esteemed colleague, Dr Ramaswami Mudaliar, has boldly stated his views on this matter It may be too much to call the wealth-tax an annual death duty because the proposed tax is a tax on accrual and not on the principal itself Yet in many cases, it may prove in effect, a continuing capital levy Therefore, there are great dangers in it Many persons will have to pay their wealth-tax by selling part of their property There are also serious difficulties regarding the assessment of wealth Much litigation may come out of this and lawyers may reap some advantage Is this the reason why

many lawyers have supported this measure?

There are several points which I would like to submit but I don't think I have much time Take the case of properties in certain towns where rent control is going on Properties may be assessed at very high prices but actually the rents received may be small Differences will thus arise regarding assessment In many such cases the court will have to decide. Much trouble and harassment will take place and to hold property may become difficult I have some little property left and I know what difficulty there is in getting anything out of it In areas where there are several communities which are not always on good terms, even a just assessment by an officer of a different community may be misconstrued, and this may cause much trouble In a country like England things are different, there, after all, differences are very little I am not against this tax, but these difficulties of assessment have to be avoided somehow

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Therefore, the working of this tax has to be carefully watched My suggestion is that machinery for a proper appraisal of the results of this tax from year to year is essential and its findings must be checked by an impartial body outside the Government

Sir, Dr Ramaswami Mudaliar pointed out the defects of statisticians and economists But I cannot agree with him when he says that the economists are responsible for the size and the defects of the Plan Of course, when statisticians go beyond their proper function and encroach on the economists' field, results may be doubtful But the economists are not to blame for this

MR. DEPUTY CHAIRMAN. Are you likely to take some more time?

DR. P. J. THOMAS. A little more Sir, say, two minutes We on the panel of economists had expressed

[Dr. P. J. Thomas.]

doubts about the size of the Plan and particularly pointed out some of the possible dangers arising from inadequate resources and from deficit financing when carried out without making provision for an adequate quantity of foodgrains etc. But this advice was not heeded to then. So, the fault is not really that of economists. Politicians naturally think of votes and with a General Election to fight, thus Plan came handy. Naturally, in a democracy like ours, this is inevitable.

I do feel along with many other hon. Members here that planning on a democratic basis may be found rather risky in a country with few of the moral and social influences that make democracy work fairly well in some other countries. So we have to go slow. Let us also remember the usage, slow and steady wins the race. Thank you, Sir.

PAPER LAID ON THE TABLE

STATEMENT ON THE OUTSTANDING FINANCIAL ISSUES BETWEEN INDIA AND PAKISTAN

THE MINISTER OF FINANCE (SHRI T. T. KRISHNAMACHARI): Sir I lay on the Table a statement on the outstanding financial issues between India and Pakistan. [Placed in Library. See No. S-248/57.]

THE WEALTH-TAX BILL, 1957— *continued*

SHRI P. N. SAPRU (Uttar Pradesh): Mr. Deputy Chairman, before I develop my arguments on the Wealth-tax Bill which has my support, I would like to refer to certain observations which were made by my esteemed friend Dr. Mudaliar in the course of his speech yesterday. Mr. Mudaliar thought that co-existence between the Communists and the other parties was impossible in this country. Well, Mr. Deputy Chairman, we have a quasi-federal constitution and free

elections. We cannot prevent the Communists or any other party from coming into power. Democracy would be denying its creed if we were to attempt to do any such thing. That is the difference between democracy and fascism or communism. Democracy believes in a free competition of ideologies and in order to effectively prevent communism or the Communists from coming to power, you would not only have to ban the Communist Party—and even in the United States of America with all the MaCarthyism you find in some parts of the U.S.A., they have not banned communism—but you will have to go further and establish real censorship on thought and books and literature. We would have to regiment thought. We would have to ban books by Marx and Engels and their many interpreters, their British and even American interpreters.

MR. DEPUTY CHAIRMAN: Please come to the subject.

SHRI P. N. SAPRU: Yes, Sir, but this is very important.

MR. DEPUTY CHAIRMAN: You have only fifteen minutes.

SHRI P. N. SAPRU: I will finish, my observations within fifteen minutes. I am not completely a Marxist in my thoughts. But I would like to say that Marx was a very, very great man and as Justice Holmes in his Pollock-Holmes letters says, it would be a tragedy indeed if Marxian literature was banned in this country. Therefore, what Dr. Mudaliar was asking this country to do was to follow some quasi-fascist pattern of society. That certainly is not the attitude of this party.

DR. A. R. MUDALIAR (Madras): Just the opposite.

AN HON. MEMBER: Marx is obsolete now.

SHRI P. N. SAPRU: I am afraid my hon. friend is getting obsolete, if I may say so.