RAJYA SABHA

Saturday, 15th December 1956.

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

MEMBERS SWORN

1. Shri Algu Rai Shastri (Uttar Pradesh)
2. Shri Dawood Ali Mirza (Madras)
3. Shri Mahavir Prasad (Uttar Pradesh)
4. Shri Balkrishna Sharma (Uttar Pradesh)

RESIGNATION OF SHRI MEHR CHAND KHANNA

MR. CHAIRMAN: I have to inform Members that Shri Mehr Chand Khanna, having been elected a Member of the Rajya Sabha to represent the State of West Bengal, has resigned his seat in the Rajya Sabha representing Delhi.

MESSAGE FROM THE LOK SABHA

THE HINDU ADOPTIONS AND MAINTENANCE, BILL, 1956

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 157 of the Rules of Procedure and Conduct of Business in Lok Sabha, I am directed to inform you that Lok Sabha, at its sitting held on the 14th December, 1956, agreed without any amendment to the Hindu Adoptions and Maintenance Bill, 1956 which was passed by Rajya Sabha at its sitting held on the 29th November, 1956."

THE FINANCE (NO. 2) BILL, 1956 AND THE FINANCE (NO. 3) BILL, 1956

MR. CHAIRMAN: I will ask the Finance Minister to move both the Bills No. 2 and No. 3, and discussion will take place on them simultaneously, though the vote will be taken separately.

THE MINISTER FOR FINANCE (SHRI T. T. KRISHNAMACHARI): Mr. Chairman, I beg to move:

"That the Bill to increase or modify the rates of duty on certain goods imported into India and to impose duties of excise on certain goods produced or manufactured in India and to increase the stamp duty on bills of exchange, as passed by the Lok Sabha, be taken into consideration."

I also move:

"That the Bill further to amend the Indian income-tax Act, 1922, for the purpose of imposing a tax on capital gains and for certain other purposes and to prescribe the rate of super-tax on companies for the financial year 1957-58, as passed by the Lok Sabha, be taken into consideration."

Sir, these two Bills have been before the country for some time. They were discussed almost threadbare in the other House and even before that the country had an opportunity of considering these measures and such consideration as the country had has been reflected in the comments and criticisms in the newspapers. So, the House is aware of the import of these Bills. I do not know if we have circulated to Members of this House the statement that I made in the other House at the time of introduction of this Bill. If I have not done it, well, I must apologise for it, but I thought some steps were taken to that end. I would briefly state, more for the purpose of pinpointing discussion than for enlightening hon. Members, the reason why Government had to introduce these Bills at this time of the

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year and at this stage of the life of the other House. We are engaged in implementing a Plan, which from all accounts and the impressions it has created generally in the minds of the world, is something stupendous. Undoubtedly some people think that we would not be in a position to implement the Plan successfully during the period of five years. There are a few others who are willing to give credit for our capacity to implement the Plan. But it is a matter of common ground that the Plan is something which is of magnitude which has not been thought of not only by us in the past, but by any country in the world similarly placed. Well, planning is a concept very common in what are called Communist countries where the structure of the party which is in power is something which is totally different from what we conceive of in this country. Planning, in practice, has certainly meant a large degree of regimentation and in the countries where planning has been successful, this regimentation has been imposed from above.

Our First Plan, which we have implemented somewhat successfully, was in one sense not a plan at all. If hon. Members of this House will forgive me for dilating or digressing into the First Plan, may I tell them that about the time that Plan was formulated, I happened to have the good fortune of being a private Member, though a Member whose status was taken note of by his friends in the Legislature? I was thoroughly disappointed with the First Plan when it first came out, or the draft of it came out, because, to use a somewhat expressive though inelegant phrase, it looked to me to be a damp squib. We put large and big hopes in regard to the economic development of our country when we attained freedom. We wanted the Government then to set the economy in motion, so that it would gather dynamism as it went on, and we thought that a plan which did not exceed to any considerable extent the aggregate of the budgets for five years was something which was not in response to our demands. I felt very strongly about it. In my private talks I gave expression to my views, when one particular incident happened which perhaps made me slightly wiser, but certainly made me a convert to the Plan. Almost by accident, I was asked to lead a delegation to the Economic and Social Council in Geneva on behalf of the Indian Government and I found I was in a new arena of that nature. My predecessors who had represented India had all won great laurels. So I had to be rather cautious when we were discussing the world situation and the economic development of the world. But I felt I had to apologise for our Plan, to explain it. Very possibly in the process I generated some enthusiasm for it. I had also, may I say, the good fortune or the misfortune to do something towards the fulfilment of the First Five Year Plan as Commerce and Industry Minister. In retrospect I am quite convinced that I was wrong in my appreciation of the Plan as it came out, because if there had been no Plan of that nature or if a Plan was envisaged which it was possible for us to implement in spite of the vicissitudes in our fortunes during the plan years, we would never have thought of a Second Plan. The shortcomings of the First Plan, the low targets and the lack of a sense of some stupendous achievement by the First Plan generated in our minds, made us think of the Second Plan. May I also tell the House that in planning during the second time we reversed the process? In the First Plan we thought of our resources and then we developed a plan more or less coterminous with our resources so far as expenditure was concerned. We went away from that idea so far as the Second Plan was concerned. We thought of our needs first, and then having set down our needs and the targets that go to meet our needs, we tried to dovetail them with the problem of our resources. In fact hon. Members will realise that a very high power Commission like the Taxation Enquiry Commission, presided over by a very distinguished predecessor of mine, had thought of a Plan of Rs. 3,600 crores for this country and framed their recommendations in such a manner as to attune it to an expenditure of Rs. 3,600 crores. Since we started to have what I would call a physical conception, a physical appreciation of our needs and dovetailed our resources, we had to decide to have a Rs. 4,800 crore Plan. Many things have happened since the Plan came out, because it is wrong for any planner or for any Government which sponsors a plan to think that the Plan is, like the law of the Medes and the Persians, immutable, because *it has to function* amongst the people of the country, the Plan has to function in a society which we want to become dynamic, not static, and the mutations that occur in the composition of a society in the elements that go to make up its economic structure, certainly change. Those with fixed ideas, say there are fixed targets that go with a set plan. They first decide that Rs. 4,800 crores shall be the amount to be expended on the plan and A, B, C, to Z would be the targets that we are supposed to achieve. No person is wise in saying that the Plan has said so; otherwise he would be completely ignoring the circumstances under which the Plan is being operated. It is no good saying, "All right. Rs. 4,800 crores is the amount that is fixed. We will stick to it. If we cannot, we will bring down the targets. If we cannot bring down the targets, we will increase the duration of the Plan from five to six or seven years." If I as perhaps the economic adviser to this Government—whether I am competent or not for fulfilling that role I do not know—were to suggest to Government "Well, Rs. 4,800 crores will not do the trick. So either we should stick to Rs. 4,800 crores and do what could be done within it, or let us go up to Rs. 5,400 crores, if necessary, and take it on to the sixth year"—Sir, I did not feel that I would be doing justice either as a member of the Government or as its economic adviser or as a citizen of this country if I had given the Government an advice of that nature. My colleagues and myself have more or less decided, in consultation with the Planning Commission, that certain things have to be done and that they are the absolute minimum.

We were aware, even when we sponsored the Plan, of the shortcomings of the Plan, of the areas where we had been rather nigardly. My friends of the other sex in this House have certainly pointed their finger at me and said "well, what have you done in regard to the social overheads in the Plan? How much of it has been neglected?" My esteemed friend Mama Warerkar has asked, as I said before, "what have you done in regard to the cultural life of the people in the Plan? You have done nothing." We are aware of the shortcomings. We acknowledge our faults. We plead guilty because ultimately there are some limitations to our resources, however ambitiously we might plan to develop those resources. Having starved the basic spiritual needs of our people, we cannot go on starving their physical needs. The Plan must go through, and that is the basis on which we are now proceeding, and that is my apology, Mr. Chairman, for breaking a tradition, if that be a tradition, by coming to this House and to the other House at a time when we should not come, because the laws have said that a Finance Minister shall appear before the bar of the House only on the 28th February with his budget proposals. Well, Sir, it was not in any spirit of bravado that I said in the other House the other day that if it was necessary for me to come and plead at the bar of the House that I want more money for the fulfilment of the Plan, I shall not be ashamed of coming once, twice or thrice. I shall come, may come in all humility, and say "I cannot help it", I shall not fight shy of criticism, and whenever there is a necessity, I shall come. That is why, Mr. Chairman, I am asking this House to consider the proposition, which is just the beginning, the beginning of an attempt to see that this Plan succeeds, on a Saturday when they should not be asked

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to attend the House, and to assist the Government in passing this measure.

Mr. Chairman, I shall first take the more important of the two Bills, certainly more important in its scope and in the trail that it blazes so far as the future is concerned. In Finance Bill No. 3 we have outlined a series of tax measures and quasi-tax measures, all of which are intended to help in the furtherance of the Plan, help to serve the basic objectives of the Plan. Starting with the capital gains tax, hon. Members know that it is not a new tax. The tax has a bad association in the minds of our people. It is not because of the person with whose name it is associated—Mr. Liaquat Ali Khan, was a Member of the Central Legislature and a respected Member. I claim that he was a friend of mine. Further, the very fact that you say that Liaquat Ali's budget is being revived is, I think, doing damage to the memory of that man, who has been a prominent Member here, who has been a prominent Member in a country which has a place in the comity of nations. There is no point in saying that this is a budget proposal which carries with it the element of haste, the element of having to do something very quickly which perhaps was a defect of the Budget that was presented by one of my distinguished predecessors, as Mr. Liaquat Ali Khan was. We have had time to digest the nature, the scope, the mischief, that a capital gains tax will do and the benefits that it might confer. I must tell the hon. Members of this House that I have given a fair amount of time to this capital gains tax. In fact I would not be fair if I do not say that the initiation of the consideration of this measure started with my distinguished predecessor. It was considered by him first. But, for the measure in its present form, I take full responsibility. As I said in other places, capital gains tax will remain as an integral part of the tax structure of this country until such time as human ingenuity devises some other form of collecting money for State expenditure. I saw in a newspaper this morning an American banker or industrialist criticising the capital gains tax in that country. Well, the salt has not lost its flavour because of the fact of that criticism. The tax has been so devised as to be integrated with the income-tax structure. I would also like to say that it does not extend to super-tax. A person who makes a capital gain pays income-tax on that gain. But he does not pay super-tax. The maximum tax that will be levied as income-tax is 4 annas in the rupee. But lower slabs carry much lower rates. Therefore, nobody who makes capital gains will pay more than 4 annas in the rupee. Not only that, we propose to divide any capital gains made in any year into three and add up one third gain with the other income to determine the rate applicable to the entire capital gains. Therefore, the effect of it is spreading the gain over three years. I do not have to explain this tax beyond that. We have given certain concessions. It is said that the exemption limit contemplated in the tax is not up to expectations and is lower than for the years 1946-48. It has to be lower because of the concessions we have given. We have also given an overall concession—not merely that capital gains of less than Rs. 5,000 will not be taxed, but also that gains included in the total income of Rs. 10,000 in the aggregate will not be taxed. We went a step further to safeguard the interests of middle-class house-owners. If a person with more than one house sells one of the houses and if the sale price is not beyond Rs. 25,000 and if the aggregate value of all the house properties that he possesses does not go beyond Rs. 50,000, he will not be liable to capital gains tax. These concessions I think safeguard more or less the casual, incidental capital gains that come to the middle-class investor. A big investor who buys and sells houses, buys property and sells it, buys shares and sells them is a man who has a large portfolio and when the values appreciate much, he sells them. If he does not sell, we cannot catch him; if he sells, we catch him.

There are benefits also conferred in regard to capital losses. But that, I must confess, I will have to scrutinise once again. I do not want my capital gains to be taken away by capital losses. We had to make some concessions in the Income-tax Act in the past because of business losses. But where a person has lost money in a business, we allow him this sort of adjustment without any limit. I do not think that position can obtain here and I will have to review it, but I am not doing anything now.

My second proposal is to increase the rate of super-tax on dividends. Well, may be, a foreign economist here or there thinks that the dividend tax is meaningless. But I am afraid we must largely judge conditions in the country from our own standpoint. While we welcome advice from competent people abroad, I think we can justifiably claim that we know our country best, as we know our people best.

While there has been some measure of criticism in regard to the tax on dividends as it was originally imposed by my predecessor, I do not think that circumstances have so developed for me as to agree that it is a bad tax. I think it is a good tax from two points of view. If inflationary pressures gather momentum and become more pronounced than what they are today, we have to put a ceiling on everything, even on wages. And it would not be fair for me to ask a person—a wage-earner—to put a ceiling on his income without, at the same time, trying to put a ceiling on what you might call the 'unearned income'. May be, some kind of a discipline will be necessary in course of time, but I do think today, with possibilities of inflation generating in certain pockets, this is a very essential step. It also does not stand in isolation. The latest amendment to the super-tax on dividend has a multi-purpose objective. It is not merely intended to put a check on inflationary pressures which are generated by higher income, but it is also intended to conserve money for the industrial units, for industrial development, in the private sector primarily.

The sequal to this raising of the super-tax on dividend is the control on reserves. If I had merely put a super-tax on dividends and said, "All right. Companies may do what they like with their reserves," there will be money going into reserves and that money will be spent not for the purpose of the Plan perhaps, but for other purposes. It is a logical corollary—having raised the dividend I must take control of the reserves. The Government never does anything purely for benefiting any particular sector. In fact the Government does it for the benefit of the community as a whole. And in the particular context in which we are operating, we want that the Plan should develop. We have assigned a particular sphere for the private sector. We have said that their investment might be of the order of Rs. 600 crores. I have often been told that money is not available; banks would not advance monies; there is no machinery available for the purpose of getting medium-term credit for industrial purposes; there is no capital issue market in this country and the institutions that we have brought into being do not serve the purpose adequately because the terms are strict for the reason that they do long-term lending and they do not lend on easy terms so that a man can borrw merely for the purpose of setting up an industrial plant and then go to the equity market and raise the equity capital. I realise the force of the argument of those people. People who complain that finance is not adequate cannot at the same time complain when I say, "All right, I shall provide you the finance. The finance is provided by seeing that you do not declare dividends which are generous. You take that money and use it for the purpose of developing either your own industry if it is possible; if not for any specific industries which we shall indicate and which are necessary for the purpose of the furtherance of the Plan." Well, I will say this in all humility, Sir, that I claim a certain

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amount of logical consistency for my ideas. But it might have certain effects on the economy. Sir, I might be treading on the corns of the whole lot of the capitalist system. I agree I might; I do not deny it, very possibly because I am so anxious to get the Plan through, I am rushing about so that I do not know that a number of people are standing and all of them have got corns on their feet. But I do claim that it has a purpose and a purpose which can be served and fulfilled and the fulfilment of that purpose will add to the ease with which we can see the Plan implemented. Well, I can see the imperfections of all logical syllogisms. Well, here is the money. If you take the money and invest it either for modernising your plant or making it more efficient or expanding your plant wherever it is necessary, you can use the money. I will give you the money for that purpose. On the other hand, you can also say "my plant gives me enough money, I get moneys in various other ways, I get my commission on the purchase of stores or my commission on the purchase of cotton, and I am quite satisfied with my income. I am not going to develop the plant." In that case the money is with me, and I shall use it for such purpose—may be, I might help private enterprise, or may be, it might go in some other spheres. But I will not do so if private enterprise co-operates and offers me the facility for utilisation of the money for the furtherance of industries. I am saying that the whole thing is in their hands, and they can make use of this opportunity. The only condition is that their movements would be controlled. They have got to do things in a certain manner. There will undoubtedly be some check on all that they do, and ultimately any increase in production or industrial equipment must come from the people. If they do not choose to do it, the Government cannot keep quiet. It all depends upon the quantum, whether it is Rs. 35 crores or Rs. 40 crores or Rs. 50 crores, or only Rs. 15 crores a year, that will stick to the Government which will help them for their own purposes or for the purposes of the people. It will all depend on the amount of co-operation that will be forthcoming from the industrial sector.

Certain minor changes, Sir, have been made in regard to the taxation of what are called '23 A Companies'. '23 A Companies', as hon. Members would probably know, is something of an abnormality. It is not a normal company. It is a company where the device of a joint stock company is used for benefits to certain groups of people, and if some money is earned and some portion of it is put in the reserves which does not pay the same quantum of taxes as the money that is distributed, Government feel that they must have some check on it, because the firm can go into liquidation and the reserves can be distributed as a ratable dividend among the shareholders. That is why Government have designed a somewhat inelegant method of preventing people from misusing such money by saying "You must declare 60 per cent. of the profits that you make as dividend so that it might be subjected to super-tax. And you must declare the entire 100 per cent. if your reserves are equal to your capital." And certain penalties are provided for failure to do so, I can see that in a normal industrial set-up where things are being done in a proper way, it would be wrong to ask people to fritter away what they get merely to serve some other objective, when that objective can be safeguarded in a different manner at the appropriate time when the work of the reconstruction of the tax-structure is undertaken. May be, we may be able to do something in regard to the '23 A companies' which are industrial companies, where we want people to plough back their money, not distribute it. But for the time being all that has been done is that there is a penalty for not declaring the dividends which is four annas. It cannot however be anything less than the tax on the highest slab of the dividend. So, we have equated it. Six annas is the highest dividend slab, and we have equated it to the penalty.

Now, Sir, with regard to the method by which we propose to operate this question of utilisation of the reserves which would be so built, I have given the assurance that I will do nothing which will defeat the purpose that I have in mind, namely, that the money should be properly utilised for the benefit of the people of this country, and for the Plan. And if for that purpose I have to be liberal, I am quite prepared to be liberal. In fact, I think it would be much better that I should start off fairly liberally and see how it works for a year or so. There is no point in my putting the whole industrial set-up in such a way that somebody might come and say "Mr. Krishnamachari wants that everybody should only be six feet—the Procrustean bed —and nothing more; either he should stretch himself to that extent, or he should be chopped off to that level." No. I have no intention of having that Procrustean bed as a yardstick for the administration of the rules and regulations that will have to be improvised in this matter. And I have told the vested interests and the various representatives who have met me that they shall have the freedom to criticise the rules.

Then, Sir, one point has been raised, which is a common thing. The whole agitational approach in regard to anything that the Government does is built on one single rock, and that is, the Government is generally inefficient. Sir, I would not concede that that is so, because I thought that I was running a fairly efficient instrument when I was the Minister for Commerce and Industry, and I challenge any private enterprise in any part of the world to come and tell me whether the assistance that has been given to them is more quick and efficient. Oftentimes, foreigners have come and told me that that they have had to wait perhaps for a month or so to see a Principal in their Government, whereas it is possible for a man to come up to a Minister or a Secretary and get a decision perhaps in the course of three or four days. So, I will not plead guilty to the charge that we are inefficient. In fact, I do maintain that many parts of our Government are quite efficient. Now, I think the tasks which the Government officers have undertaken can be fulfilled provided they are treated fairly; and if they are not put in a difficult position by means of representations, which are not correct. I am quite sure that the private industrialists will get all the co-operation they need and that they deserve. In any event, I do propose to devise an agency which will deal with this matter as quickly as possible. I cannot say that it is going to be something like a slot machine where one puts an application and gets something. If for instance, the textile industrial units want to expand or modernise, well, the Textile Adviser will have to be consulted or the Engineering Adviser to the Government of India will have to be taken into consultation, or the Board constituted for the purpose of operating this particular scheme will have to be consulted. So, the assurance that I can give to the House is that initially we will operate the scheme of deposits liberally in the first year. And the second thing is that we will see that as far as possible, decisions are given quickly.

Sir, that almost brings me to the end of my proposals in the Finance (No. 3) Bill. Now I will take up the Finace (No. 2) Bill.

As far as this second Finance Bill is concerned, it has a bearing on the economic position in our country today. We are admittedly short of foreign exchange. Some people say that we are playing it up and others say that we are scaring the public. But I have no desire to do either. I can tell this House—I am sure, my hon. friend, Mr. Bhupesh Gupta, will take a note of it and make it the basis of his sermon against me—that my total needs of foreign exchange for the Plan, as I envisage it today, will be more than covered if I use

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all my foreign exchange reserves, that is to say, the amount of money that I have as foreign exchange reserve for my currency—Rs 400 crores But we admit that there has been no proper evaluation of the foreign exchange reserve that we need for our currency It might be less or more But as I have stated elsewhere, the stability of our currency is not so much because of the foreign exchange reserves which might help in regard to the movement of goods to and fro, but the stability really depends on the stability of the internal economic structure, and I do think that at the end of the Five-Year Plan Government will have enough tools here in the country which can produce goods for the purpose of export, if necessary, and for covering any foreign exchange deficit that might occur in the latter part of the Plan period So, that is the real position, and every liberal estimate of our foreign exchange needs, as envisaged today, would be completely covered by the Rs 400 crores that we have set apart for our currency reserve But that, as I said, is merely to indicate to the people that we have the resources but by a self-denying ordinance we are not in a position to use it It may be used perhaps when other resources do not develop If tomorrow every citizen of this country, every member of the fair sex, gives me Rs 100 worth of gold we shall have enough gold reserves for the currency and I can say that I do not want these foreign exchange resources I have got enough gold to be utilised for the purpose of providing fiduciary backing for the currency I do think that there is enough gold in the country I do think that, if an appeal is made by my leader, the appeal would not be in vain. So there are cushions in the country which give us strength, to those who are in charge of its destinies There is no need to be alarmed, but at the same time there is absolutely no ground for being extravagant or complacent We have to take steps to see that our foreign exchange expenditure equates or rather slightly exceeds in a degree which is sizeable, the foreign exchange receipts, and the measures that we have taken are enumerated in Bill No 2, *viz*, the raising of duty, which is just a very tiny part of that effort I do not think the people of this country are going to be unduly affected by the imposition of this duty. After all, the technique of imposing duties, either excise duties or customs duties, is partly to inhibit consumption and partly to help to renerate more production in this and allied lines in the country. Incidentally it gives a little money to the Government But that happens to be only a very small part of the whole thing We have very carefully framed it

One provision in regard to Bill No 2 which perhaps needs more explanation than has been vouchsafed till now, is the imposition of a stamp duty on bills of exchange It is not a fiscal measure, though in effect it means revenue It does not come to the Central Government, because the proceeds of the stamp duty go to the State Governments If the State Governments, say Bombay for example gets Rs 20 lakhs more, or Bengal gets Rs 17 lakhs more than what they used to get and Madras gets Rs 3 lakhs more, it is all additional grist to the mill. From out of the subvention that I am giving which runs into crores, I can deduct these few lakhs, but that is not the purpose The purpose really is to safeguard us at a time when we are thinking of expanding the bill market Well, you can say, "Why do you safeguard? Why don't you rise the bank rate? You expand the bill market and you are increasing the amount of bills in currency by about Rs 120 crores or Rs 130 crores according to the needs Why don't you raise the bank rate ?" Bills are rediscounted by the Reserve Bank at the bank rate of 3½ per cent today, it was 3¼ per cent some time ago That would be the proper thing to do normally But so far as the country is concerned, the bill rate has other implications It is not merely related to these common business transactions It has some other implications also After all, we have got to borrow at the bill rates. Government borrowings have to be at the bill market rates. If it is 3½ per cent., the Government of India borrows at 3½ per cent. If we want to get some additional advantage, we will pay an interest of 5 per cent. I will pay Rs. 100 when the time comes for payment of the promissory notes, and I shall accept Rs. 98. We give people the initial advantage of lowering the amount that we receive from them. A straightforward increase in the Bill rate from 3 per cent. to 4 per cent., 4½ per cent. or 5 per cent., would mean that the bank rate will have to go up. It means that all the people who have portfolios of Government securities will have them depressed in value, but even that does not matter so much. It might affect the small man who buys Government promissory notes. If he finds that the market quotation of the loans that he has subscribed to is low—if it is 99, the Reserve Bank will engage in market operations to sustain it. But if it comes down to 91 naturally he will think, "I do not know whether when I get the money, the purchasing power of the money will be the same." That is how the wise man will think. The common man will think that the money is the same. The wise man will think, "I have invested my savings of Rs. 100 in Government notes, but here is the market quotation which is only 91. Next year, I will not subscribe." The Finance Minister has to consider a number of what we might call extra-banking considerations when he thinks of the bank rate. The banker will think of his particular problem. Even the Reserve Bank will only think of its own particular problem, if it thinks about it. You might say that what we should do is to have a straightforward increase in the bill rates, but I have half a dozen or probably a dozen considerations which I have to satisfy or at any rate to give due weight to before I agree to a straightforward increase in the bill market rate. What I seek to do is only to control a very small portion of the banking activities of the country. I thought hard over it. I have discussed it with competent people. If you give me credit for devising something new something compeletely new, I am prepared to have the credit. If you blame me for doing something which is totally wrong, I am prepared to take the blame. It is entirely my own device. This increase in the stamp duty is intended to help to have a check on the expansion that we are thinking of allowing in the bill market operations in the country in the immediate future. What is the rate? A ceiling has been fixed. The ceiling would be roughly one per cent. That is to say, if the duty is operated in its fullest rigour, the person who borrows or rather the person who rediscounts will have to pay not merely 3½ per cent. to the Reserve Bank but one per cent. more which will go to the State Governments. That is to say, the Bank will have to commit itself to 4½ per cent. They might say to the borrower that the rate will be one per cent. above the bill rate. Some of the banks which are not quite progressive might say 2 per cent. above the bank rate subject to a limit of 7 per cent. or six per cent. These things adjust themselves to the nature of demand and supply. The duty may be eight annas, or it may be four annas, but it is a thing which goes up and down. It may be that there is nothing at all and I might use the power which the Parliament gives me in this matter not to levy any stamp duty on bills at all if we find that the bill habit is dropping, but it is a thing which has to be used in present times. One might say that a rupee is proper or half of it would be proper; some others might say that a quarter of it is the proper rate. Whatever is the proper thing we shall do. It has been characterised as a fiscal measure with a monetary content. If somebody were to ask me, "You have given some sort of *Sutra*. We want a *Bashyam* for it". I can say that I can only explain it in the manner I have done. Therefore, that happens to be the sum total of the taxation envisaged in these two measures before the House. As I have said in the beginning, unless hon. Members want me to dilate further with regard to the

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economic situation, the whole purpose of it is for us to have enough control for the purpose of seeing that the plan is not wrecked by certain incidental tensions and frictions that arise in the course of the implementation of the plan. It is true that we have not been a wise people, that is, to see far ahead. The capacity for second-sight is certainly notoriously absent in my case and we thought that some of these pressures would have occurred a little later but if they have occured, they have occurred because of a combination of circumstances.

One of the main factors today happens to be the question of foodgrains. The paucity of foodgrains has a definite bearing on the import programme. Not merely that. Any diminution in agricultural production, whether it be of food crops or cash crops, has an inevitable effect on our import position. Well, I am in a slightly better position than what I was when I was speaking in the other House at the time when I introduced this particular measure there. We are now slightly in a more happy frame of mind in regard to the immediate prospects, both with regard to food and cash crops. The reports that we have been receiving have been reasonably good in spite of the fact that in some parts we had to face disaster and calamity by way of floods and havoc because of that. By and large, the crop position seems to be good. Of course wheat crop will take time to come. The cotton crop is good, though oilseed prices, are hardening, still the crop is reasonably good. I think even jute is not bad. Rice crop generally seems to be good. In fact, what was worrying particularly me, as a man coming from Madras—I have been in Tanjore a few days back—was that I found that the price of rice has been very high in a producing centre. I am told that recently it has come down with a thud. What was selling at Rs. 40 a bag has come down to Rs. 33 or Rs. 34. That is well ahead of the new crop coming into the market, that is to say, the grains that have been stored by middlemen and millers, who were expecting probably an increase beyond Rs. 40 have now got to be disgorged from their hoardings pretty quickly at a price which will be about Rs. 36 or Rs. 37 or Rs. 33 and probably it will come down. So these are factors which look as though it may be that we might have a respite for a short while to take stock of the situation and make preparations for the Second year and third year of the Plan. The outlook is not quite so grim but nevertheless the fact that we were almost in a jam in regard to food prices, in regard to foodgrain supplies, in regard to our import programme, in regard to foreign exchange, in regard to lack of response for investment—all these certainly indicate to us that complacency has no place in a planned economy. That will be, Sir, if the House would permit me to say so, the guiding principle of the economic policy during the Plan period.

I have said that we are making a beginning to set the house right. Undoubtedly the tax structure of this country will have to be altered because today my hon. friend Mr. Bhupesh Gupta will say 'Why do you tax Rs. 0/14/2 so far as the man who makes a lot of money is concerned? Why don't you make it sixteen annas?' If I do, I will get Rs. 2½ crores. There is no point in it. I am not interested in Rs. 2 or 2½ crores. I am interested in hundreds of them. Therefore this system of taxation has got to give place to something which is better, where loop-holes are less, where incentives are preserved. We are not thinking any more of the question, say, that there should be ceilings on income. In fact I don't want any ceiling on incomes, on company incomes. I want them to make as much money as possible. The only thing is, I don't want them to distribute beyond a percentage. I want them to earn more. I am not against the distribution. I am not saying 'You should not distribute more than 9 per cent.' I say 'If you distribute more than 10 per cent. you should pay me so much. If you distribute beyond 18 per cent. you should give so much.' I expect, human nature being what it is, these checks and balances will make a person distribute less. The whole logic leads to the fact that we want more production, we want people to make more money, more income, but that income must be at the disposal of the society. That is what we are trying. Any change in the tax structure should give incentives to the people to make more money but by and large that money, the increased income, should be available to the society for its benefit, not for the benefit of individuals. That is the trend of our thinking in regard to the future of the tax structure. Of course hon. Members will surely understand that no Finance Minister can say anything as to what he is going to do. Even when somebody announced at 12-30 that the Finance Minister would make a statement, the Bombay market was upset by 1-30. So I cannot tell the House, much as I would like to share my trouble with them and seek their advice and change my ideas in tune with that advice. The unfortunate position of a Finance Minister is, he has to be his own confidant; and placed in that unfortunate position, I can only tell you that we are thinking of revising our tax structure which will enable people to make more money but which will also enable the people of the country to use that money for their own benefit. This is a very small, very fractional part of the effort that we are making, but in one sense it is the first instalment. Sir, I move.

DR. SHRIMATI SEETA PARMANAND. (Madhya Pradesh): There is one question which I should like to ask if I may. Why was it that the Minister asked only the fair sex to give one tola of gold or Rs. 100 and why not the men?

SHRI T. T. KRISHNAMACHARI: The trouble about it is, Madam, I thought that all men were like me, without any jewels.

MR. CHAIRMAN: Motion moved:

"That the Bill to increase or modify the rates of duty on certain goods imported into India and to impose duties of excise on certain goods produced or manufactured in India and to increase the stamp duty on bills of exchange, as passed by the Lok Sabha, be taken into consideration."

MR. CHAIRMAN: Motion moved:

"That the Bill further to amend the Indian Income-Tax Act, 1922, for the purpose of imposing a tax on capital gains and for certain other purposes and to prescribe the rate of super-tax on companies for the financial year 1957-58, as passed by the Lok Sabha, be taken into consideration."

Both the motions are before the House.

SHRI T. T. KRISHNAMACHARI: Sir, how long is the general discussion going to be?

MR. CHAIRMAN: Six hours—the whole of to-day.

SHRI T. T. KRISHNAMACHARI: Will the general discussion go on till 5?

MR. CHAIRMAN: Yes, till five, with an hour's interval for lunch, between 1 and 2.

SHRI C. P. PARIKH (Bombay): Sir, I first congratulate the Finance Minister for bringing forward these proposals which are bold and imaginative, in my opinion. In my opinion they have also come too late and they should have come much earlier. Whatever it be, better late than never.

12 Noon

He has put before us the position of the country as regards our sterling balances and the foreign exchange position where we have lost by about 200 crores out of 700 crores. Besides that, our index has risen by about 50 points during the last twelve months, and it has shot up

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to 433. In a country where 70 per cent of the people are living at a sub-subsistence level. I think, any rise in this index is unwarranted and all efforts should be made to bring the index to 380 which was the original figure prevailing some months ago. When that is the present background, inflation has to be checked in the country at all costs and inflation cannot be checked unless we fight on all fronts which are possible. That is the problem. We have also seen that bank advances have gone up to Rs. 175 crores in the country during the last six months. That shows that our monetary condition also requires control in order that deficit financing may be avoided to the maximum extent possible. It is with this background that these four proposals of the Finance Minister have come up and they deserve our serious consideration and we have also to support them with all the strength at our command, because he has brought them forward at a stage when they are very necessary, though it is now the third quarter of the year.

The capital gains tax is a tax which the hon. Finance Minister has brought forward. This tax operated only for two years, I think for 1947 and 1948. The arguments for abolishing that tax were that receipts were little. But I think the receipts were not properly pursued and there were also so many loopholes and these he is now trying to close. I also think that the incidence at that time was more on the poor person and less on the richer persons. That incidence is also being changed now. In this background, I may say that capital gains tax will yield to the country in the long range, from Rs. 20 crores to Rs. 30 crores. that may not be an under-estimate, for I think with an expanding economy and with the expanding industrialisation of this country, this is bound to happen. Prof. Kaldor has also corroborated it. Therefore,, we cannot leave it out.

Is the capital gains tax really a hardship? Will it come in the way of capital formation in our country? These are the questions that have to be understood and answered. I do not think these things can be considered in the way they are being argued about in the press or by persons who do not want to pay. I will give the House some instances of how capital has multiplied. Equity capital has multiplied 150 times in a period of 50 years. One share which a purchaser bought in 1905 has now multiplied 150 times. That is the rise in his income. A rupee note then is now 150 rupee notes. In 35 years it has multiplied 80 times. I can give instances where in 25 years it has multiplied by 50 times.

SHRIMATI LILAVATI MUNSHI (Rajasthan): But has he the same purchasing power now?

SHRI C. P. PARIKH: The purchasing power in the hands of those who have money is always at a saturation point. It is not undermined, because those who have the capital have all the purchasing power that they need and they do not require any further purchasing power. So that aspect has to be understood in that angle. A man with three or four lakhs has the same purchasing power in 1938. in 1950 and now, it is all the same, because he can buy all his requirements.

SHRI J. S. BISHT (Uttar Pradesh): What about the reinvestment of the capital?

SHRI C. P. PARIKH: I will come to that later, otherwise I miss my argument. As I was saying, it has multiplied and in 15 years it has multiplied 20 times and in the last seven years there are cases where it has multiplied 5 times. All this, in my opinion, is unearned increment, increment earned by just sitting at home and holding the capital. The capital has multiplied in this fashion. I think in a socialist society, in a country where 70 per cent. of the people are in a sub-subsistence level. this increase is unwarranted and the latitude we had allowed these people was too generous. Therefore, this tax is justified.

I will now give the reasons why there is this multiplication. Only in the case of companies, Rs. 70 crores are annually taken into reserves. That is indirect appreciation of capital which is not distributed, because the price of equity share is mainly dependent on what reserves are existing in the company. So there is automatic enhancement or capital appreciation every year by the funds being taken to the reserves and this comes to Rs. 70 crores annually and this is borne out by the figures that I have.

Now, who pays all this money? The major share-holders in the country are about 40,000, I mean those holding shares of Rs. 1 lakh and over. The estate-holders those holding estates worth a lakh and over, they number about a lakh of persons. So the total capital gains tax will be payable by 1,40,000 persons in the whole country. The rest of the population will not be called upon to pay. And even those who are called upon to pay, will be called upon to do so only when the gain is realised. As long as the gain is not realised, this tax is not payable.

The next point is with regard to the price at which it will be computed. I think the hon. Finance Minister is reasonable in putting down the price of 1954 as the figure which owners of shares may take into account when they make the computation. The 1954 price should be considered reasonable, because by that time people had seen the world war and they had reaped the benefits of that war. The option of price in 1954 should therefore be considered reasonable and any gain over that price should be considered for this tax and the State should be entitled to a share in it. Therefore, that tax is justified on that account and whatever arguments may be raised against it on the ground of capital formation are without substance. I will come back to this point a little later.

With regard to the exemption, the Finance Minister has rightly put it down at a level of Rs. 5,000 instead of Rs. 15,000. In a country where the family-income is Rs. 800 per year if the limit is not Rs. 5,000 how is the tax going to be collected? Formerly, the limit was Rs. 15,000 and there were so many loopholes and exemptions and these he is trying now to block them. There were so many exemptions where capital gains tax should not be levied. All these exemptions he is blocking. These are given in the Explanatory Memorandum and into that I will not go now. If there were these exemptions and if the level was kept at Rs. 15,000 then the capital gains tax to be realised would have been halved, half of what is estimated now. Our realisation will now be full by the elimination of these exemptions as well as by revising the present limit from Rs. 15,000 to Rs. 5,000.

This tax is very important from the long-term point of view. It may not yield Rs. 20 crores at present, but in a period of 3 or 5 years it will yield that amount. It may be argued that there will be few dealings in shares in share markets owing to this levy. So much cry has been raised for forgetting the middle-classes' interest. But in the U.S.A. I may submit this tax exists and the volume of transactions in that country has remained the same as before. This has been disclosed by enquiries conducted in a scientific manner. Therefore, the negotiability of security will remain the same as before and that is our paramount purpose. At present it is proposed to levy it at the rate of 4 annas—that being the maximum or according to the income-tax rate of the assessee. I think this is a reasonable limit. The hon. Finance Minister has said that he is revising the tax structure. He may, if he follows Prof. Kaldor's recommendation, drop the idea of having a super-tax at low levels and have the super-tax on Rs. 40,000 and above as Prof. Kaldor has suggested. When he starts the super-tax at the level of Rs. 40,000 he can very well raise the incidence of income-tax from 4 annas to 7 annas. I think what one has gained after 1954 by sitting at home and by holding on to the capital and by investing it, the State is entitled to have a share from.

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Unless we get these resources, we will not be able to work out all our programmes in the Plan. We will not be able to build the country in the manner we want to build it up and during the time that we want to do it. We have to bear the international situation also always in mind. To do this at the present time is good. So every year that we push our Plan is very important for carrying out our programmes to the maximum of our capacity. We have only to bear in mind that incentive, imagination and enterprise are also encouraged. We can consider whether by the levy of such taxes, incentive or enterprise is being killed. Certainly, our ideas of profit will have to be revised.

The ideas of profit have gone up enormously owing to the war profits which accrued to these people. I think Sir, revision of such ideas is necessary and the Finance Minister has done well in calling upon the industrial classes to come to a certain reasonable level of profits.

Now, Sir, I will come to the next proposal, tax on dividends. Now, Sir, a tax on dividends is better than a limitation of dividends. As he has already explained, we can limit dividends but that would serve no purpose; let the concern distribute its dividend and give a share to the State. In regard to the dividends which are distributed, hon. Members of the House know as to what will be payable by the recipients of these dividends. A tax of seven annas in the rupee is first paid by the company. Over and above this, the people who receive dividends will pay indirectly a tax of two annas in the rupee on dividends ranging from 6 per cent. to 10 per cent.; four annas on dividends ranging from 10 per cent. to 18 per cent., they will pay a tax of six annas in the rupee in dividends over 18 per cent. So, the total tax payable indirectly by the recipients of dividends will go up to thirteen annas in the rupee. That is the maximum. I think, Sir, that for the first time this enunciation has been made as to what should be a fair return on capital both earned as well as unearned. As regards the individuals, the steep graded taxes are already there; the corporate bodies if they make profits on the paid up capital over and above 18 per cent., are heavily taxed when they distribute the dividends and this tax is, on the maximum side, thirteen annas in the rupee. Just as the Finance Minister has brought the super-tax limit on individuals to fourteen and half annas in the rupee, he has brought in this tax of thirteen annas in the rupee. What I say is that *a dividend on whatever reserves are* there in the company will have to be distributed some time or the other and until then they will be earning some fair amounts. Whatever the man gets as dividend is a real return and that will be taxed. Now, Sir, a definition has been laid down as to what should be a fair return and on that account, I support the Bill. Though a tax on dividends was levied in March—it was only two to three annas in the rupee—it was a flea-bite because, after that levy, equity prices rose in the market by about 25 per cent. This was because the industrialists were expecting to be charged more and when that did not happen, naturally there was an industrial boom, I should say, and an industrial prosperity which was not seen even during the second World War. It is very well-known that the Finance Minister has brought this measure with a view to seeing that the concerns earn not more than a certain percentage. If they earn more than that, then the State comes in for a fair share. These concerns are earning more owing to the policy of planned economy which we have to follow. We are restricting or prohibiting imports in certain cases if the goods can be manufactured in the country. Secondly, we are not allowing the installed capacity to be increased if the present installed capacity is adequate for the requirements of the country. Therefore, Sir, all the industrial concerns are enjoying some benefits; in my opinion, the industries are of a semi-monopolistic nature and when they are of a semi-monopolistic nature, there should be a contribution to the State. This will not come in the way of the formation of capital as has been made out now. I ask, if there is not going to be any formation of capital, where will all this capital go ? Where will all this capital go if persons are not investing it in the direction in which it is thought fit to be invested? It will not remain idle; either it will be invested in Government securities or in some other spheres. If it is invested in gold or silver or jewellery or even if it goes underground, Government has sufficient powers to get all such things out and bring the capital formation to a reasonable level. He has given an inkling of his mind by the depreciation allowance and the compulsory rebate, etc., that he proposes to have. Therefore, the cry of there not being any capital formation should not be taken very seriously or should be considered on its own value.

Sir, I will now come to the great lacunae or drawbacks in this scheme of tax on dividends because it has to be considered only on the paid up capital. Sir, many concerns are under-capitalised; many concerns have ten times more in the reserves than in the capital or even twenty times more and the price of equity shares is governed by the reserves and capital. The same thing is seen in the case of the Banking companies where they are called "own funds". So, whether it is capital or whether it is reserves, I think, Sir, they should be treated on a par. I do not know why the Finance Minister has taken this attitude of not taking the paid up capital and reserves together. On the basis of having the paid up capital alone, he has made the slabs a little wide; if he had taken the paid up capital and reserves together, he would have made the slabs narrower than what they are today. Today, the slabs are 6 per cent. to 10 per cent. and ten per cent. to eighteen per cent., and over eighteen per cent. If he had taken both items together, then the slabs would have been narrower but that is ultimately the scientific structure, in my opinion, for levying taxes on dividends. After having taken this step, I would request him to do one more thing. If people make an application for converting reserves into capital, permission should be given very generously. There should be no hindrance in the way of companies converting their reserves into capital. Such a change would serve the purpose that we have in view because, once the reserves are converted into capital, they will be used only for expansion, for renovation and for reconditioning. They will be used in a manner which will serve the cause of the country because if the capital is to be reduced subsequently, then permission or sanction of the Government is required. Therefore, Sir, I suggest that ultimately return should be calculated on paid up capital and reserves put together and this is more scientific. Sir, let us see what good will be achieved by this tax on dividends. Either people will pay taxes on dividends or they will plough back the profits into industry and by this process, industrialisation will not be retarded but, in my opinion, it will be accelerated. People will be forced to plough back their profits for fear of having to pay more tax on the dividends and by his process, industry will be expanded considerably. Therefore, on this score, I have full confidence that it will expand owing to the tax being levied in this fashion. Sir, it may be said that the Finance Minister is very hard on industry at present and it has been said so in many quarters but we have to look to one concession that he has given in clause 6 regarding section 23A. He has reduced the percentage of distribution from 60 to 50. I think, Sir. this is a very welcome feature. This was overdue because if industrial concerns want to plough back the profits for expansion or for re-conditioning and renovation, they should be allowed to do so. This gives us an idea about his inclination which is that the country should be industrialised at a fast pace and on this account, he has given this concession.

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He is giving exemptions in certain cases, in order that the concerns may expand by not distributing any dividend. In giving such exemptions, I hope he will be very generous.

Now, Sir, I would come to the third point about depreciation allowance, development rebate and compulsory deposit. This has been a very controversial point amongst the industrial and business circles and rightly so. In the Bill as it has been drafted, Government have taken too much powers for asking concerns to deposit a percentage on account of profits and gains before the 30th of June if certain conditions exist regarding reserves, fixed assets and so on. He has done this with a purpose and I quite understand it but the way in which it is put is simply embarrassing to those who are carrying on business and industry. He has assured us that he will use this power in the most liberal manner but that assurance could very well have been implemented by having some changes in the clause which has been brought before the House because this deposit has to be made before the 30th of June. Because it has to be made before the 30th June. You know that 90 per cent of the concerns are borrowers and a borrower cannot be asked to deposit earlier. Therefore one month before let him know that so much profits and reserves would be exempted. A borrower cannot be asked to make a compulsory deposit. Sir, although the hon. Minister has assured us that he will be very liberal in this connection, I feel that it should have been in the Bill itself rather than in the rules, if he at all means that.

As regards working capital, no mention is made that the genuine needs of working capital will be provided in this rule for compulsory deposit because it is very necessary that when the concern requires working capital it should be fully provided and that is the aim and object of running an industrial concern. Without working capital the industry cannot thrive; production will slow down and the cost will go up. So he should have provided clearly that genuine needs of working capital would be met. The intentions that he has expressed so frequently are very clear, that he wants to support the industry. He has a passion for supporting the industries. He wants to industrialise this country to the maximum extent. I know that, but a mere assurance is not sufficient when something else is written in the Bill. Even at this late hour I want him to give an assurance that working capital for genuine needs will be provided to the concern and no compulsory deposits will be asked for in advance. I think, Sir, such an assurance in unequivocal terms, in unambiguous terms, in plain language is necessary to reassure the industry that no hardship will result by this provision. His intentions if they are real should be given effect to properly.

Of course I know why he has brought forward this provision for compulsory deposit. As he has said, in the textile industry out of 400 concerns 180 concerns are not renovated or reconditioned or modernised to the degree required for efficient production and for production at low cost because our whole theory should be maximum production at lowest cost. This object is not being achieved because many concerns are not spending their money and their resources for reconditioning, renovating or modernising their machinery. On that account this provision is salutary and he should have power to ask the concerns to renovate, recondition and modernise their machinery. He must tell them in advance and in details. I will not give you the development rebate and depreciation allowance unless you do certain things"—because they are benefits which have been given for this renovation and which some may be abusing. There should be provision for compulsory renovation, reconditioning and modernisation of machinery.

Secondly, he is not giving this latitude but asking for compulsory deposit because many concerns are indulging in speculation in the matter of raw materials as well as manufactured goods. They are hoarding or buying and selling goods so that they may derive profits on this account also I think that tendency has to be controlled and this is the only weapon in the hands of the Finance Minister to control it. On that account the restriction is welcome and if it is done even in the rules, it is very good. So, in the light of these observations the position about compulsory deposits should be reviewed considerably.

Now, many companies have their reserves, if not employed in working capital, either in the banks or in investments in private and public sector. As regards bank balances all the banks are controlled by the Reserve Bank and therefore he need not worry. Banks are at present short of money and whatever deposits are made in the banks, they will be fully utilised. But as regards other investments, they are liable to be abused. So I suggest to him that instead of asking for compulsory deposits he may evolve a system by which a certain percentage of a company's investments may be invested in industries which he specities, industries which are considered essential and for which capital is not forthcoming adequately. That will be a salutary curb against it.

The next thing I want to say is this. Some concerns are holding shares of other companies in order to acquire control over them. That, Sir, is not good if the concerns over which control is sought to be acquired are running efficiently. I know that many concerns which were being efficiently run were bought over by speculators in industries. I need not name the instances but many concerns which were being run efficiently were bought over by speculation in industries by those who possessed money and after acquiring them these people began running them less efficiently. I think the Government should exercise control on such manoeuvres of speculators and rightly so and I think the hon. Minister can do that under this Bill. The whole point is he must be clear in his mind.

Now, there are many misgivings in the mind of the industrial community and many representations are being made. I feel there is an important aspect to be considered here. I would request the hon. Minister that when he looks into these representations, members of Parliament should be associated as in the Joint Select Committee to hear these representations to know what the grievances are of those who are speaking against this compulsory deposit. If there was some such thing as a Select Committee to hear these representations and in which all these rules etc., may be discussed, that will go a long way in meeting the wishes of the industrialists as well as the responsibilities of Members of both the Houses. If it is not done in this manner, whatever may be the efficiency of his administration, I think there is bound to be favouritism, there is bound to be corruption, if latitude is given. There must be definite rules and unless definite rules are made favouritism is bound to occur. Whatever may be the efficiency of any person, I think he cannot do everything himself. Therefore in order to prevent favouritism the rules will have to be laid down in a manner that nobody can point a finger against the Government.

With regard to export and import trade, he has brought forward the Finance Bill (No. 2). He has thought fit to tax certain luxuries and other articles in order that the purchasing power for luxury and semi-luxury goods may be reduced and our foreign exchange may be saved. That is very good. He has levied Rs. 3,000 as tax on motor cars but I think he has missed the point. I would suggest to him that no company should be allowed to buy a car over 14 H.P. unless it pays not Rs. 3,000 but Rs. 10,000.

SHRI N. R. MALKANI (Nominated): What would be the value of such a car?

SHRI C. P. PARIKH: Rs. 17,000 and over. All the big cars are owned by companies and I think the compa-

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nies can very well carry on their business with a Rs. 11,000 car. This incidence of Rs. 3,000 may be applicable to individuals who do not get depreciation but as regards companies, the incidence should be Rs. 10,000. That will meet the situation all right. I do not understand why the company officers require big cars. Many companies which are prosperous simply want to waste their money in this fashion. They have high salaried officers, allowances and such things. Expenses of this nature which can be prevented should be prevented and therefore I suggest that in the case of companies this tax should be increased to Rs. 10,000.

SHRI N. R. MALKANI: Individuals also should not be encouraged to use big cars.

SHRI C. P. PARIKH: You have not been in business. You forget that individuals who are not in business are not allowed depreciation allowance. In companies they get depreciation allowance and therefore the car is at the expense of the State because they get depreciation to the extent of 50 per cent and over in the first year. I hope Mr. Malkani has understood my point. A private person does not get depreciation allowance if he enjoys the luxury of a car for his own benefit. I cannot understand his argument. It is very material and it is with a sense of responsibilty that I am making this suggestion.

Now, Sir, the States are not acting up in the matter of getting their taxes. We have got about Rs. 400 crores in these three budgets which Government has proposed, that is, in March, September and November. Out of the expected revenues of Rs. 400 crores which were to be distributed between the States and the Centre, the Centre was asked to bring, according to the Planning Commission, a revenue of about Rs. 212 crores. Instead of that the levy has been to the extent of about Rs. 375 crores.

[MR. DEPUTY CHAIRMAN in the Chair]

So, that means that the obligation of the Centre is discharged as regards the expectation of the Planning Commission as well as about half of the gap of Rs. 400 crores which was envisaged. Practically the whole taxation of the Centre is covered by these measures.

Now, Sir, the Finance Minister wants still more taxes and he is making suggestions on that account. Taxes may come, but I think that the States must also be asked to play their part in collecting the taxes. I will just make a suggestion in this respect that stamp duties on the stock exchanges, I think, are very small. From the level of six annas they should be considerably raised. I think they should be raised three times as much because it is the stock exchanges where transactions take place which give rise to violent fluctuations in movement, which depress the prices or boost the prices. If inflation is to be checked, transactions will have to be checked also on the stock exchanges and forward exchanges, whether in commodities, equity shares or anything else. Therefore, I suggest that the States should play their part and find out where they can get the revenue.

The second source of revenue, besides taxing motor cars, is, I suggest, houses. Some people are living in palaces. I think one may live in a mansion or in a palace. When they live so in palaces, let them pay the tax, just as they are asked to pay the tax on the motor car. A floor space for each family depending on the number of people living should be prescribed, and for any area over that which the man occupies the tax should be levied. Tax realisations in this regard will be very large because, if persons may reasonably occupy two thousand to five thousand square feet but there are many persons who are occupying more than fifty thousand square feet. Naturally over the reasonable limit a tax should be levied.

SHRI AKBAR ALI KHAN (Andhra Pradesh): Does this apply to the Ministers' bungalows?

SHRI C. P. PARIKH: Everyone. I do not say that the Ministers should not occupy such bungalows but should pay the tax.

THE MINISTER FOR REVENUE AND CIVIL EXPENDITURE (SHRI M. C. SHAH): You are very jealous of those people.

SHRI C. P. PARIKH: I am not jealous because I have enjoyed all that I wanted. I say, play the austerity yourself first. I know the Ministers. Play it yourself first.

DR. R. P. DUBE (Madhya Pradesh): You are still enjoying a palace. You have not given it up.

THE MINISTER FOR REHABILITATION (SHRI MEHR CHAND KHANNA): I have no house like that.

SHRI C. P. PARIKH: I am only sharing my Delhi house with somebody. I am certainly living here for six months in a year and only remain out there for the other part of the year which the hon. Mr. Khanna must know.

SHRI MEHR CHAND KHANNA: He has not one house but has two.

SHRI C. P. PARIKH: The present house in which he is living in Calcutta is bigger than the one in which I am living. However, I do not like to siderack the issue.

I now come to the question of foreign aid. I am sure that the Finance Minister has painted a gloomy picture. I am absolutely certain that America shall give and will give foreign aid to India to the extent that we reasonably need because there are two warring elements and we are neutral, and the position of India cannot be ignored by any country in the world.

SHRI AKBAR ALI KHAN: America has only recently become sensible.

SHRI C. P. PARIKH: I think, Sir, America is a more sensible nation than any other nation in the world. Whatever that be, I am very sanguine that foreign aid to the extent that is desired will be forthcoming.

(*Interruptions*)

As regards Prof. Kaldor's recommendations, the Finance Minister has said that if a tax is paid fully, then naturally he will realise much more. Prof. Kaldor expects this figure to be from Rs. 50 to Rs. 70 crores a year if the present loopholes are plugged and if the administration is more vigilant. From Rs. 50 to Rs. 80 crores can be collected if his method is followed. Mr. Deshmukh puts this figure at Rs. 30 crore. Whatever it be, in the plan period we can get Rs. 200 crores if we plug the loopholes and collect the taxes in a way in which they are warranted.

SHRI V. K. DHAGE: (Bombay): What method do you suggest for plugging loopholes ?

SHRI C. P. PARIKH: If you read Kaldor's Report, the method is suggested there, and only Government requires implementation of that.

Now, Sir, with regard to tax on gifts I do not understand why it has not come. That will bring in my opinion Rs. 30 crores revenue annually. If you read Prof. Kaldor's Report, you will find that what I am saying is considerably true. I am sure that the Finance Minister will bring that measure in less than twelve months. No Finance Minister can miss his tax in a socialistic pattern of society. Otherwise inequalities will grow.

SHRI AKBAR ALI KHAN: What tax?

SHRI C. P. PARIKH: Tax on gifts. It will take many minutes for me to explain it. Those who want to know about it will be well advised to read Prof. Kaldor's Report.

Now, Sir, I want to say something regarding tax on wealth. Tax on wealth is recommended by Prof. Kaldor. That is a very scientific suggestion, in my opinion,

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because lot of evasion is occurring in the country owing to the steep super-tax which individuals are asked to pay. He has very well noticed what is happening in the country, and therefore he has suggested, instead of pinning down the super-tax limit to seven annas, the levy may be substituted by a tax on the total wealth of an individual. By that way the avoidance of tax will become very much less. The gains in this regard in my opinion will be Rs. 30 crores a year. If these two things are properly given effect to, we shall not be short of the finances that we require.

Lastly, Sir, I would make some remarks on the inflationary tendencies that are prevailing in the country. Whatever the proposals here may be, the money that we are circulating in the country is bound to raise the purchasing power of the people, and I have to request the Finance Minister specially to give his attention to the items which are appearing in the working cost of living index: 50 per cent. is on account of food; 10 per cent. on account of clothing; 10 per cent. roughly on account of fuel; 10 per cent on account of rent; 20 per cent for the rest. All these items should be as cheap as possible. Our main object should be to keep the wholesale index below 400 and not to raise it. The Finance Minister has expressed great concern over this, and I think supplementary measures should be taken in order that the prices of food, the prices of clothing, the prices of fuel, etc., which are all important items in the poor man's budget, should not rise. We are talking of exports, but how can we export if we raise our cost of production? How can we meet the demand of 25 per cent rise in industrial wages in a poor country like ours? I know, Sir, that for establishing industrial peace, there should be rise in wages, but it should be given in the form of bonus or gratuities so that the cost of production is not raised.

These are some of the suggestions which I have to make. With these words I support the motion.

SHRI RAJENDRA PRATAP SINHA (Bihar): Mr. Deputy Chairman, the Finance Minister while bringing these two taxation measures has reviewed the economic condition and the situation in this country and has also made certain remarks by which we could judge how his mind is working. There is no doubt that the central pivot in our economy is the Plan and only through the successful implementation of our Plan, we can raise the standard of living of our people. And all our resources must be bent to achieve that end.

There are often disquieting features which crop up in our economy which usually scare not only the people of this country, but even the Government. Of late, prices have been raising and this has led to all kinds of scares. Sir, we must keep in control all prices; there can be no denying this fact. But you will remember that, when the Plan was introduced, the Plan itself and the Finance Minister at that time envisaged that during the Second Plan period, there would be an inflation of the order of 25 to 40 per cent and that this rise in prices was inevitable. Statisticians have said that in the political conditions existing in our country and the economy that we have adopted for ourselves, planned development without rise in prices is not possible. But during the course of these five years, the rise in prices will not be even; there will be points when the prices will go up very much. But what we should aim at is that, on an average, prices are kept steady. Therefore, what is needed is that both investment and inflation should be phased.

Having said that, I would like to warn the Finance Minister that the most important prices that must be kept under check are those of food and clothing. My hon. friend, Mr. Parikh, has also stated this and he has said further that rent and fuel prices also should be kept under proper control. What I say is that, if the Finance Minister succeeds in keeping down the prices of food and clothing, our economy will not be injured even if there is a slight rise in other sectors. In this connection, I very much welcome the agreements that have been entered into by us with various countries for the import of food, and it is very important that we must build up our food reserves and the mistakes of the past should not be repeated in this direction. I am very happy to note from the statement of the Finance Minister that the prospects of our food crop are bright. But that should not lead us to any complacency. We should not only build up our food stocks by imports. This is a time when prospects of our own crop are good and we should embark upon a programme of internal procurement by the Government so that we may augment our food reserves and this will help us if, unfortunately, a lean season overtakes us.

The other point that I would like to impress is that speculation in foodgrains should be vigorously stopped The credit restriction policy of the Reserve Bank had a salutary effect on this and I would like that this policy of credit restriction should be continued so that unsocial elements may not speculate on foodgrains.

Another important point that I would like to emphasise here is in regard to cloth supply. There was a good deal of tall talk about meeting our requirements of cloth through the agency of Ambar Charkha and handloom. I would have very much liked that the Government had given its full attention to see that this programme was implemented. But what I find is that production by the Ambar Charkha and handloom has not made any impress on the economy. I am very sorry to note that the organisational side of this important sector has not been developed as it was hoped in the beginning and my fears are that failure of production in this sector is writ large and it will be a disastrous thing if it so happens.

Now, I would like to enquire of the Finance Minister as to what he is going to do in regard to meeting our cloth shortage. Sir, the *per capita* requirement of cloth is rising. But the supply is not keeping pace with the rising demand. What is the remedy that the Government proposes? Are they still sticking on to getting supply from the Ambar Charkha and handloom or have they decided to encourage cloth production by the mills? I would like to have a clarification from the Government on this point, because I have said that if we succeed in keeping down the cloth and food prices, we will be in a happier position to put through our plan.

Now, Sir, with regard to our sterling balances, you will remember that on several times I have pleaded during the course of the first Plan period that we are not making enough and proper use of our foreign resources. On this particular point I would like to congratulate our Finance Minister because he has been successful in making a proper use of our foreign resources. These resources were available to us but we were not making any use of them. Now the Finance Minister has adopted a bold policy—he also happens to be the Minister for Iron and Steel—to make full use of the foreign resources. He has imported steel in huge quantities. I know, Sir, that there is a steep fall in our foreign resources which have been brought down considerably and this steep fall in our foreign resources has scared some people. In this connection, Sir, I would like to request our Finance Minister to so phase the utilisation of our foreign resources that there is no steep fall which generates a kind of scare in the country. Is it not possible to phase out the utilisation of our foreign resources in such a manner that there is no such steep fall in the foreign resources? I think the Finance Minister should devote some attention to this problem.

Sir, I really do not see why people should be scared of this fall in the sterling balances. I was just refreshing my memory this morning by looking into the Plan and I found that in the Plan itself we had envisaged an adverse balance of trade to the tune

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of Rs. 224 crores on an average during the Plan period. During the first year the Plan had envisaged an adverse trade balance of Rs. 140 crores. I do not think, Sir, that—the Finance Minister is of course, in a better position to say so—we shall be far off the mark as envisaged in the Plan. I entirely agree with the Finance Minister that the strength or the stability of our country's currency does not so much depend upon the foreign reserves that we hold, but upon the strength and stability of our internal economy. If we keep down our prices, if we increase our production, the stability of our currency will take care of itself. I have no doubt about that.

Then, Sir, another point that was touched by the Finance Minister was regarding the size of the Plan. Sir, at the outset, I would not like the Finance Minister—I am glad he is here—to make a misuse of the provision for flexibility. I would like that at least so far as the targets of production and investment are concerned, within the fixed period of five years, they should be achieved. There should be some amount of stability about them. That is the minimum that we have got to achieve, and anything achieved below that will only bring dismay to this country. Sir, I would like, if I can do so, to strengthen my hon. friend, the Finance Minister, in his desire or in his confidence to see through this Plan within the five years' time, so far as the investment and production targets are concerned Sir, if there is a talk in certain quarters to extend the period of the Plan, it means nothing but scaling down the Plan itself. Well, by flexibility, what I have understood is how to mould our resources in different sectors. And I have no doubt in my mind that so far as the targets of the Plan are concerned, there should be some stability about them. I am one with the Finance Minister when he says that there should be no rigidity with regard to the raising of resources or with regard to the quantum of deficit financing, and all that. I am at one with him when he used the word 'flexibility' in that sense, and I entirely support him and am in agreement with him when he says that the amount of deficit financing should be reduced and the amount of taxation should be increased. While speaking, Sir, on the Budget proposals which were moved by his learned predecessor, I had stated that there was a greater room for increasing our resources through taxation and to that extent at least the deficit financing could be reduced. Now I am glad that my hon. friend has done that before the year was out. Well, I am entirely in agreement with him—and this side of the House will support him—that he should have no hesitation in coming forward with his taxation proposals any number of times during any year. Sir, I am glad to find that he is keeping a watch on the economy of our country, and whenever he thinks that the country can pay more to the exchequer, he should certainly come forward and take the sanction of Parliament to impose those taxes.

SHRI H. P. SAKSENA (Uttar Pradesh): Especially when they are meant to be imposed on the rich.

SHRI RAJENDRA PRATAP SINHA: Yes, Sir.

MR. DEPUTY CHAIRMAN: How long will you take, Mr. Sinha?

SHRI RAJENDRA PRATAP SINHA: A few minutes more, Sir.

MR. DEPUTY CHAIRMAN: You may continue at 2 o'clock.

The House stands adjourned till 2 o'clock.

The House adjourned for lunch at one of the clock.

The House re-assembled at two of the clock, MR. DEPUTY CHAIRMAN in the Chair.

SHRI RAJENDRA PRATAP SINHA: Mr. Deputy Chairman, coming to the taxation proposals, I welcome the measure that has been introduced. I am glad that Mr. Parikh also had welcomed it.

SHRI AKBAR ALI KHAN: He always does it.

SHRI RAJENDRA PRATAP SINHA: I am of the opinion that the deficit financing that has been envisaged in the Planning Commission's report could to a very large extent be curtailed and revised by raising resources through taxation. In the context of that, I welcome the proposals, although they do not mean much by way of additions to our resources.

With regard to the capital gains tax, I would suggest that the Finance Minister should consider that the imposition that he has proposed is too meagre. Capital gains tax should also come under the purview of super-tax, and therefore large profits made on account of capital gains should be taxed at the super-tax rate. After all, capital gains are not so much brought about as a result of the efforts of the individual or the *entrepreneur*. Today at least, it is directly the consequence and result of community spending, directly as a result of our successive plans. Therefore, the community has a right to share in the profits that accrue on account of capital gains as a result of this community spending. Capital gains are mostly made by people of substance, and these people have got holding capacity and my fears are that exchange of properties will be inhibited by the capital gains tax. Therefore, it is imperative that we should have a wealth tax, as has been advised by Prof. Kaldor. Without taking the least risk, the value of property is going by leaps and bounds. That too, as I explained earlier, as a consequence of community spending during the First and the Second Five Year Plans. It is imperative therefore that in order to augment our resources, the Finance Minister should seriously consider bringing forward proposals for a wealth tax, more so when we profess to bring about a socialistic pattern of society, because this will bring down inequalities of wealth.

I would also lend my support to the suggestion made by Mr. Parikh that the Finance Minister should seriously think of having a gift tax. Otherwise, I have my fears that the purpose of estate duty will to a very large extent be defeated. I would also like to emphasise here that the loopholes in our taxation system should be plugged. The more we spend, the greater the deficit financing and, as a result, the income of people will rise, and greater is the loss to the community or the exchequer, if tax evasions by the tax dodgers continue. Sir, people who are paying their taxes honestly suffer when there are unscrupulous people who dodge the tax collectors. If I have a house which is valued at Rs. 1 lakh and if I can fetch a price of Rs. 4 lakhs for it, I can so manipulate that I get Rs. 3 lakhs in black and it will not go on the registration document. I will take it in cash. This is what I fear may happen and therefore the Finance Minister should pay particular attention, and see that such evasion of taxes may not take place. I am sure, I have faith and I am confident of his abilities, that he is good administrator and he should use his administrative talents to see that such tax evasions do not take place.

MR. DEPUTY CHAIRMAN: Please hurry with your speech. There are about 8 speakers more. The time is limited.

SHRI RAJENDRA PRATAP SINHA: Then I would like to say a few words regarding the compulsory deposit to be made by the companies. It is a laudable object that it has before it, because ultimately it is the community wealth, whether it is in the private or the public sector and the community's resources must be canalised to achieve our Plan ends, and it is right that the Finance Minister is increasing his hold upon the reserves of the companies so that they are not diverted towards unplanned ends. But I should like to plead here that because of the tightness in the money market there is difficulty, and the industries today—I don't say with all of them

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but with many of them—cannot find working capital, and the Finance Minister should give a categorical assurance which will go a long way to satisfy and to instil confidence in the industry, that the genuine needs of the industry, so far working capital requirements are concerned, will not be permitted to be starved on account of this compulsory deposit clause. Apart from the resources that the industries may have, it is very difficult for them, in the present day tight-money market conditions, to have finances for working capital and this is hampering, if I may say so, production which is planned out in the Plan itself.

The other point that the Finance Minister should bear in mind is this that the repayment of loans to the various Finance Corporations by the industry should be regarded as one of the genuine requirements of the industry and before any deposit is called upon to be paid by the industry, such necessity must be taken into account. I would however here like to emphasise the imperative needs of a very efficient machinery to administer this clause of the measure, because if you have a weak machinery to administer it, your pious hopes and wishes will be defeated and I give full credit to the Finance Minister for the improvements he brought about in the administration of the Commerce and Industry Ministry and I do hope the same efficiency will be brought about in the administration of the Company Law and of this measure. Thank you.

SHRI J. S. BISHT: Mr. Deputy Chairman, it was my misfortune to be a consistent and persistent opponent and critic of the policy of deficit financing for the last three years. In fact sometimes it appeared as if there was a blank wall so far as the Finance Minister was concerned and that there was no one to listen to any voice which was raised in doubt of the policy of deficit finance. Therefore I heartily welcome the new policy now adumbrated by the new Finance Minister with regard to this particular policy of deficit finance. I would quote a few paragraphs of his speech delivered at the other place. It is an authoritative admission from the Finance Minister himself. There he says:

> "The general Economic situation has also altered somewhat since the Plan was formulated. Prices have registered an almost continuous upward trend—the index is now round about 430—and the danger of inflationary pressures getting the upperhand has to be safeguarded by taking steps to mop up a part of the purchasing power now with the public. This is evidenced by the fact that the demand for food, for cloth, for steel and for cement has been rising rapidly."

Then almost at the end of his speech he has said in another place as follows:

> "The extent of deficit financing has from now on to be operated within limits if it could not be progressively reduced, if prices are to be prevented from going up further and creating fresh difficulties through increased pressures for higher wages and increased costs all round."

That was exactly the theme which some of us were harping when this deficit financing to the tune of nearly Rs. 390 crores was proposed for the finance year 1956-57 because that was almost equivalent to the amount of our budget as it stood in 1953 or 1952. The previous Finance Minister —Mr. Chintaman Deshmukh—himself had repeatedly stated in his budget speeches, of 1954 and 1955, that this deficit financing was to be used as medicine and not as food. But unfortunately, by process of—I do not know what to say—of escapism or what, he came to the conclusion that he must budget for deficit financing to the tune of Rs. 390 crores which certainly was more than medicine. And the natural result was, as we have seen, the inflationary process was accelerated from what was evident from the beginning of this year, round about January or February. Then we had speeches from the Finance Minister and from various other authorities that they had got ample weapons in their armoury to control the inflationary process, and I believe they did use some of them, though it had no impression whatsoever on the situation. As the Finance Minister himself has admitted now, the price index is round about 430, as against 380 or 375 of last year, at about May 1955. You can very well understand, Sir, the position of people with fixed incomes or earnings, the position of people who have got little savings and other people whose large portions of incomes are spent on food and cloth. Food prices have now gone up nearly by 33 per cent. Atta which was selling at 3 seers per rupee has now gone down to 2 seers a rupee or even less than 2 seers. The price of cloth went up naturally, and then the cry arose of all places in Ahmedabad—the place from which Mr. Parikh hails— of organised labour asking for increase in wages. That was bound to be the case, because this sort of an inflationary spiral, when it once begins to work, it defeats the very purpose. The hon. Minister was justified in saying that we have got a real plan in the Second Five Year Plan and that the First Five Year Plan was, in fact, no plan. I entirely agree with him, because it was a hotch potch of a plan. We certainly had some schemes already in operation or had been sanctioned like the Bhakra-Nangal project, the Sindri project the D.V.C. projects and some other projects already in working and they had to be continued. But whatever may be the form of the First Plan, it gave us some good experience of working a plan and the Second Plan has been formulated now with due regard to the needs of our economy and the necessity of raising the standard of living. On that particular point there is no difference of opinion among us at all. The real point is that when we develop quickly it must be development with stability That is the only difference. We should not hasten in a manner which will defeat the very object that we have in view, because, if we rush with this sort of deficit financing, apart from many other difficulties that it creates, it inflicts one great psychological damage on the people. We in India. Sir, the Indian people and the Indian housewives, are very thrifty. They try their very best to economise and to save. But once you create this sort of inflation in the economy—and we had it once in war time, during the second world war—if you create it again, what happens. That propensity to saving is permanently damaged. It gets damaged because everybody begins to ask, "Why should I save ?" Now, why should I save? Why do I save? Why do I sacrifice my present gratification and save Rs. 10 or Rs. 100? I do so because I have some sort of a trust in my Government and in my currency, that I will have this money, this purchasing power some ten years or five years hence, or two years later for my use, when I need it, for my daughter's marriage or my son's education. But if you create this sort of an inflationary pressure, by this easy method of deficit financing, you damage this propensity to save and you encourage the propensity to consume. Everybody will feel, "Why should I save? I do not know what will happen. Let me spend and be merry today while our currency has value. Tomorrow, we do not know what its value will be." Sir, there was an interesting story that we read in the papers about the German currency, when it went down. It is an interesting story of two brothers. One was a very thrifty man who lived a very sober life who saved all his money. The other was used to drinking off all the money that he got and he spent all on beer And then this sudden depression came and the Mark went down to zero and then what happened? The brother who used to drink and had his cellar full of empty bottles asked his brother, "What about you now? You have nothing in the banks, but I at least had the enjoyment. I drank and the empty bottles will now fetch ten times the money that you have in your banks. That is the result of all your saving and economising." Therefore, this sort of thing may happen here, as it has happened in other countries. We

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should guard against that. We do not say that there should be no development. We do want development and that too, as quickly as possible. If you can manage it in five years, with Rs. 10,000 crores, do it, provided you have got the capacity and the ability to keep price levels down, keep them at—not as Mr. Parikh suggested, at their 1954 level—but at the level they were in May 1955, for it was then that the fixed income groups were feeling a sort of relief. At least they could get three seers of atta per rupee and atta was a staple article of food, and cloth also was at a reasonable level. I know that this sort of thing cannot be done. Nobody has yet done it. not even the totalitarian States. It is not enough if you print money and distribute it among the people. Apart from these things, there is this trouble. I think Members of Parliament are also members of district planning committees or district development committees. I know, and I think others also know, that there is a peculiar mentality developing among the people and they are making very inflated demands. They say, "We want so many roads, we want so many hospitals, so much of electrification and so on." And when you ask them, "Where is the money for all this to come from?" they reply, "What is the difficulty? The Government of India is going in for deficit financing and if they can go in for 1,200 crores of it, why not go in for 2,000 crores?" That sort of mentality has also developed in the States. They have been coming up with very big demands, as if all the money could be had by merely printing notes. Money is considered as being equivalent to the real resources of the country. That is the sort of difficulty that we are facing. So we must come to the hard realities of the economic situation. That is to say, we must plan very realistically, but for that you will have to make sacrifices. Everybody has to make sacrifices, not only the rich. I am very glad the Finance Minister has put in all these taxes that are going to affect mostly the upper level group. But I want also taxes that everybody will have to pay so that the people may know what the Plan is, that if they want to have rapid development, then they must pay for it, that they must tighten their belt, that they will have to make sacrifices, not only by working hard, but by hard economy and with that money the Plan will be successful. And the best way to encourage this sort of a mentality in the people is to make the people pay.

I do welcome very much these proposals and all these taxes. For financing all our development programmes, I am wholly cent per cent in favour of levying taxes at all levels and to the maximum extent that we can do it. Of course, in a democracy you cannot go beyond a certain limit, for otherwise, the electorate will turn all of us out from this place, and that will do nobody any good. But up to a certain limit, I think, we must try to raise all the resources that we need, by taxation and by borrowing and if that is necessary, by compulsory savings, at all levels. I welcome very much this capital gains tax. I have here the Report of Prof. Kaldor and I am a little worried about one thing. I find that the hon. Minister has taken one portion of Prof. Kaldor's recommendations but has left out many other portions. Prof. Kaldor has recommended the capital gains tax along with certain other things, because they are all one whole. I hope that the Finance Minister, when he comes with his Budget next year, in May 1957 or so, will bring in also other provisions. For instance, with reference to income-tax, he has shown that income-tax, capital gains tax and all these things are interlinked. This is what he has said:

> "In place of the present income tax and super tax, there should be a single income tax which for individuals and partnerships, etc., is progressive up to an annual income of Rs. 25,000, and at a flat rate of 7 annas in the rupee for all income above that level. The top marginal rate on income, therefore, becomes 43¾ per cent (or, say, 45 per cent including surcharge) above that level."

This then, will be a sort of a reduction and he recommends it because he thinks that evasion goes on on a very large scale.

"If capital gains were treated in the same way as other forms of income, which means (since the gains are concentrated in the top income and capital brackets) taxing them at the rate of 90 per cent., the economic effects would undoubtedly be serious. But the moral of this is that it is useless to push the marginal rates of income taxation to levels at which the tax can only be endured because it can be so largely evaded or avoided. The disincentive effects of taxation depend on the *marginal* rates of taxation; and if these are kept down to reasonable levels, there is no need to resort to inequity and dishonesty in order to keep the system going. It is far better to forego the *appearance* of high progressiveness in the schedule of taxation than to choose a definition of 'income' for the tax base which is neither consistent, nor impartial, nor unambiguous in its application to different taxpayers."

Now, Sir, as this capital gains tax has been linked with the tax on income, it should be on the same level at which incomes are taxed. At page 34 of his Report, he again says:

"The tax (the capital gains tax) should, therefore, be so framed that all capital gains should come under the tax net sooner or later—*i.e.*, that over a long period, the tax charged on realised gains should come to the same as the charge on accrued gains. This will be the case if transfers of assets of all kinds (by way of gift or inheritance, as well as by sale, etc.) are treated as realisation for tax purposes."

Now, Sir, the difficulty is that in the first place this has been linked with Income Tax but the rate of Income Tax has not been touched at all, that is to say, the rate of Income Tax and Super Tax still goes on at the same old rate. 85 per cent., or 90 per cent., and the marginal rate is very high and now, in the name of the capital gains, it comes in. Therefore, the incentive to avoid it or evade it in some way or other is there. My friend, Mr. Sinha, said that the Finance Minister, with his administrative ability, should be able to find some means of plugging it. I do not know how it will be found because, in 1947-48, I saw a transfer of a property worth Rs. 30,000 but the actual sale deed was executed for Rs. 15,000 and the rest of the money was paid behind the Registration Office. You cannot avoid this sort of thing because when the rate becomes very high the tendency is to avoid the tax. The value of property has appreciated like anything. For a property which was worth hardly Rs. 50,000 before the war here in Delhi, the value now today, I am told, is about five lakhs of rupees. If a person sells such a property for five lakhs of rupees, the desire to avoid the tax is very great. I know there is a provision here which says that the assessee has got the option that is to say, he can either base the calculation on the purchase price—what it was in 1939 or 1940—or the market rate of 1954, on the 1st January 1954. It may be said that the market rate possibly on the 1st January 1954 was pretty high. If that is so, if the Income Tax Officer or the assessing officer is very good and generous, a tax on capital gains is going to bring in very little because on the 1st of January 1954, the value of immovable property had gone up pretty high and I do not think it has gone higher since then.

There is another point which has struck me very much and it is with regard to clause 4, first proviso to the proposed section 12B which deals with Hindu undivided families. It says, "Provided that any distribution of capital assets on the total or partial partition of a Hindu undivided family or under a deed of gift, bequest or will shall not for the purposes of this section be treated as a sale, exchange, relinquishment or transfer of the capital assets:" That is good

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so far as it goes but the difficulty is that it does not provide for the case of distribution or partition of property in the case of a Hindu undivided family where the property may not be standing in the name of the brothers themselves but *benami* in the name of one of the brothers. I would give one example. Hon. Members who are familiar with civil courts know very well that *benami* transactions are legal transactions recognised by law and by the courts throughout India. Now, take the case of a father who has properties Y and Z bought in 1940 in the name of his eldest son A. He has got four sons, A. B. C and D. The property today continues to be in the name of the eldest son, A—both the properties Y and Z. Today, after the passage of this Bill, the brothers decide to divide the property amongst themselves; let us assume that C and D want to buy the property Y and compensate A and B for their share in money value by the sale of property Z to an outsider. In such a case, how would a Hindu undivided family be exempt from the provisions of this Section? I am not sure how this contingency is going to be looked after. (*Time bell rings.*) I do not know whether we can at this stage make any changes in this Bill. If not, I would appeal to the Finance Minister to make certain provisions with regard to this either in the rules or in the instructions that may be issued to the officers.

Sir, I shall say a few words with regard to certain duties that are being imposed. I find that import duties have been levied on the import of machinery for instance, sugar mills or textile mills, oil crushing mills, etc. On all these things, a certain rate of duty has been put. These are not manufactured in this country and so, you want to levy these rates but my submission is that import duties on capital goods, goods which are required for setting up consumer industries, should not be levied or should not be raised to this high rate as at present because, under the Industrial Policy Resolution of the Government of India, it is the private sector which is supposed to fill in the gap with regard to the consumer industries and that sector is already handicapped for lack of capital. After the passage of this legislation, it will still further be handicapped. Now, we have got also this difficulty with regard to the Suez Canal and the additional expenditure for bringing in these goods from foreign countries round the Cape of Good Hope. I think the duty is about 10 per cent., and if you put this on top of all the difficulties that I have enumerated, it will be very difficult. On goods worth a crore of rupees, even this ten per cent. will mean a lot. Even if it is a question of importing machinery worth Rs. 30 or Rs. 40 lakhs, the duty will mean a big sum. So, I should like to know why this particular duty is being put in at this particular moment when the transport expenditure is going up; when the insurance expenditure is going up and in the market there is what is called the credit squeeze. There is also the danger of the bank rate going up. I have no doubt that the hon. Finance Minister has some explanation to give for this particular point of view.

SHRI N. R. MALKANI: Sir, I welcome both the Bills, Finance (No. 2) Bill and Finance (No. 3) Bill, for the very obvious reason that we want more revenue, more and more revenue.

MR. DEPUTY CHAIRMAN: Fifteen to twenty minutes for each. There is a large number of speakers.

SHRI N. R. MALKANI: I will not take longer than that. The Finance Minister said in his own graphic fashion that he would not mind coming to us thrice or four times in a year to enable him to get revenue whenever he wants it, because there is a big gap in resources and that has got to be filled up. This way of filling it up appears to me reasonable, equitable. Both the Finance Bills more or less impose burdens, financial burdens, almost exclusively on property holders, big and substantial property holders. Both the Bills spare of course the poor class and even the middle classes as far as I can see. Mostly the rich people are affected. Not only that: the rates levied appear to me as very reasonable and moderate. They may have to be enhanced subsequently but to begin with the rates appear to me as very just and as very fair.

Taking the Finance (No. 2) Bill, however, it appears to me that so far as taxation on motor cars is concerned it is difficult to know the position. The value of the motor car is not specified but the quality of the motor car is specified. I cannot make out what would be the value of such a motor car that is specified in the Bill but to my mind . . .

SHRI C. P. PARIKH: Maximum Rs. 15,000.

SHRI N. R. MALKANI: Taxation on a car valued at about Rs. 15,000 I think is quite reasonable. At the same time I would support the suggestion that any car which is of the value of Rs. 20,000 and above—as was pointed out this morning by my hon. friend there—especially when purchased by a public body, company or a firm, should be more heavily taxed, and it may be anything from Rs. 5,000 to Rs. 10,000. If they are individual owners it may be Rs. 5,000 and if they are corporations or firms, then perhaps Rs. 10,000 because they get the benefit of depreciation allowance.

Similarly, another thing I could not understand—this taxation in the import of watches and clocks. In my opinion very few of us indulge in going in for expensive watches; sometimes may be ladies now and then do so but they hardly know how to keep them properly. They do not mind the value of time very much though they do mind keeping valuable watches on their wrists. Watches if they are of the value of Rs. 100 and above and time pieces which are expensive may be taxed but not ordinary time pieces. As a matter of fact, I would encourage the habit of keeping time; we should keep better time and I would encourage people to go in for watches and clocks. They are no more luxuries; they are more or less necessaries in modern life.

SHRI H. P. SAKSENA: Why not manufacture your own time-pieces and watches?

SHRI N. R. MALKANI: You do so, but until then we must not tax them. I will be the first to say, 'have your own watches and tax them also when they can bear the tax'.

So far as the Finance (No. 3) Bill is concerned, it appears to me that capital gains had been taxed in the past in a very half-hearted manner, in a setting which was not favourable to them and under economic conditions of more or less of a difficult nature. Now that we want more funds they are necessary and not only necessary, as Prof. Kaldor says, they are also very equitable. Not taxing capital gains would be inequitable, wrong and unfair because after all when you tax income, you must tax income in different forms and capital gains are income in a different form. Not only income in a different form, but they are unearned income arising from social changes, not due to the owner himself. They are due to social changes. As my friend said this morning, we are spending crores of rupees on development and naturally this money goes somewhere and values rise and appreciate—values of property, values of shares and all that. All this income is enjoyed by the people at the top. Surely we all know that not only prices have risen but profits have risen, even faster than prices perhaps, especially at the top rung. Why should not these profits be shared by the State? I do believe that capital gains have got to be taxed because it is income in a different form, in a hidden form, in a secret form. They have got to be taxed; they have been taxed in the past and should be taxed now.

About this also I must say that there are one or two exemptions which I would really not keep. I would drop those exemptions as a number of other exemptions have been dropped. For instance, take this tax on gifts. One does not know the

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extent to which gifts are being given. They are given on a very large scale by rich people to all sorts of persons, may be relatives, may be sons and daughters, may be outsiders; or trusts may be created, family trusts for that matter. So all these gifts trusts should be taxed. Not only that; it is quite probable that quite a large amount of revenue may be available from taxation on gifts.

So also in joint Hindu families when there is a partition, it is a transfer, may be within the family but it is a transfer. Capital gains of any kind of any value have to be taxed and . . .

SHRI J. S. BISHT: What are the gains in a partition?

SHRI N. R. MALKANI: This is transfer within the family. The only difference is in the other case it is transfer outside the family. In one case it is transfer with consideration and this may be without consideration. All the same it is transfer of property. The value can be estimated. If it is a share that you have bought, its value can be estimated. If it is a building even then you can estimate its value; you fix a particular date and month and take the value as on that date or any other date and the present value.

SHRI J. S. BISHT: Partition is effected by a registered deed where stamp duty has to be paid.

SHRI N. R. MALKANI: Therefore what?

Shri J. S. BISHT: And you want to tax again?

SHRI N. R. MALKANI: Perhaps you know better. You are a lawyer and technical man. I cannot argue with you on that ground but I do believe that the stamp duty would be very moderate, very nominal, whereas this would be a substantial thing.

SHRI H. N. KUNZRU (Uttar Pradesh): Partition is not a sale at all.

SHRI N. R. MALKANI: I did not say it is a sale. I said it is a transfer within the family and if it is not taxed . . .

THE MINISTER FOR DEFENCE ORGANISATION (SHRI MAHAVIR TYAGI): Alimony is also a gain.

SHRI N. R. MALKANI: Well, I have not thought about it. You can make your suggestion but I do believe that if joint family property is not taxed, the temptation will be to accumulate propetry in this form, in the form in which it cannot be taxed and so the State will be relieving a large sector of property which should be taxed. We are all family-minded, very much family-minded, and this will encourage us to be more family-minded and the State will be deprived of a large amount of revenue.

SHRI M. SATYANARAYANA (Nominated): Do you advocate a partition tax?

SHRI N. R. MALKANI: No, no; but . . .

MR. DEPUTY CHAIRMAN: Order, order. You go on, Mr. Malkani.

SHRI N. R. MALKANI: There is another thing I would like to say and it is this. So far as capital gains tax is concerned, there is some dispute about the return that we will get out of it. How much will the State get as return? Some say, it will be Rs. 4 crores. Last time when it was imposed it was believed that it would fetch only Rs. 1 crore but it yielded Rs. 6 crores though it was imposed in a very half-hearted manner, in very difficult conditions and only for a short period. Prof. Kaldor is of opinion that so far as this tax is concerned, one must judge it over a long period of time, say, 10 years or at least more than five years. Property accumulates and appreciates slowly over five, six seven or ten years and so the results of that tax will be visible only over a period of five to ten years, not earlier. He was of the view—and I agree with that view—that now that we are spending so much money on development and now that the national income has also risen—in the first Plan period it rose to the extent of 3 per cent. and now we expect it to rise to the extent of 5 per cent. per year, that is, 25 per cent. over five years—private property would also appreciate in value and to the extent that we have a larger national income there will be an increase in private income and there is no reason why when the private income has increased, it should not be taxed. On that calculation he believes that over a long period of time our receipts will be very substantial and it will be a very welcome addition to the limited resources of the State. Sir, I do think that this tax would fetch a good return in the long run. Sir, he is also of the view—and perhaps the Professor is right—that so far as shares are concerned, the rise in value is much more rapid and to a much greater extent. It may be anything 5, 8, 10, 15 and even 20 per cent. My friend was giving this morning very striking information about how the values of shares have risen to a very remarkable extent, and if that is so, it is quite probable that on account of this rise our income from capital gains tax would be very substantial. Perhaps to that extent also it will be a cheek on speculation.

There is another matter to which I would like to refer. So far as the dividend rates are concerned, there is no dividend limitation, but there is a tax on the rates of dividends. As the dividends rise from 6 to 10 per cent. the rate is 2 annas per rupee; from 10 to 18 per cent. it is 4 annas per rupee; from 18 per cent. onwards 6 annas per rupee. This to my mind is very good and it should be like that instead of limiting the rate of higher dividends. But, Sir, suppose there is a firm which has reaped very large profits and which issues bonus shares —some firms are known to do so even now, very well known firms are doing so, issuing bonus shares to the extent of lakhs of rupees— and on bonus shares, I remember, the rate of taxation is very moderate, it is only two annas in the rupee, and that is also paid only once in a year. I do not see why these bonus shares should not be taxed high. Why not it be four annas or six annas, as the case may be, and not two annas? Rather I would go further and say that bonus shares should not be issued. Bonus should be part of the gains and should be taxed as part of the gains. Bonus shares are granted to defraud the Government of its proper dues. I would rather say that the issue of bonus shares should be stopped.

Then there are one or two other matters deserving attention. If you resort to taxation all the time, it will not take us very far. The Finance Minister and everybody knows that unless production increases, some taxation here and some taxation there will neither give us large revenues nor will it give us a socialist pattern of society. It will just equalise and level up or down a bit here and a bit there. It will not take us to a socialist pattern of society. Production must increase, but we must not increase production in a wrong way. For instance, we are all agreed that agricultural production must be speeded up, and speeded up rapidly and fairly highly. Again I am not an expert on this subject but a student, and I do study reports, and the report which we have got just now from our own China delegation shows how it can be speeded up, as it has been speeded up in China. In India it can be done provided we carry out land reforms very quickly. There is not one item but there are half a dozen items—consolidation of holdings, prevention of eviction, fixing of ceilings and so many other things to be done. But we have done so only in a very few provinces, and there also in an incomplete form. The process is far too slow and it must be carried out rapidly and completed within two years. We were also told on the last occasion by Mr. Thapar, Secretary to the Ministry of Food and Agriculture, that unless prices of agricultural products are guaranteed by the State, production will not increase. The most important factor in this connection is that the agricul-

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turists must get the benefit and not the middlemen, the man at the bottom who really wields the plough, who really toils, should get the benefit. We are also told that this will not mean a great liability so far as the State is concerned. It may mean a few crores, to my mind not more than Rs. 30 or Rs. 40 crores would be required to guarantee the stability of prices. I see no reason why the State should not guarantee prices. That, to my mind, is the very basic factor if we are to increase our agricultural production. Also, if we are to have an increase in production, then our extension services must be very much strengthened. Today each village level worker has got eight to ten villages in his charge. The village level worker is today becoming a "Jack of all trades". He can hardly look after three or four villages. Now he has to work under the orders of half a dozen extension officers who are asking him to do miscellaneous things. The village level worker goes to him not for taking his advice but goes to him for some grant, some sanction of money. He is also running from his village to the headquarters several times a month. He is becoming a messenger boy, though he is the very basis of the foundation of the Community Project administration. To my mind he is misused. He should be used as an extension worker and he must be trained to give expert agricultural or craft advice, so that he should be able to guide people about improved methods of craft or improved methods of agriculture. There are also other defects and deficiencies of the extension services, and until these extension services are improved—I could suggest various ways of improvement—agricultural production will not increase substantially. It is not so much money that is wanted. It is efficient service that is wanted. So also a good and sound agricultural policy is required, not money. Money may be wasted and is being wasted.

[illegible]

Similarly, on the manufacturing side, production must increase. It is increasing, but it could be increased faster if labour is associated with management, if labour also participates in the benefits of production if labour becomes a co-sharer. Labour should get wages plus a bonus or some share in the profits. We will have to devise a method for the object I have stated. Unless we do so, every now and then there will be shouts for rise of wages by 25 per cent., and so on. Our own Ministers say that wages should now be raised by 25 per cent. Profits rise, wages rise and prices rise. They will all rise and there will be a rise in a vicious circle. To my mind it is a very wrong thing. Labour must believe that it is a co-sharer in industry and it must be allowed to work as a part owner; just as, when the tiller of the land has been made the owner, there is more agricultural production per acre, the same policy must be pursued to my mind unrelentingly even as regards manufacture of articles in spite of the resistance of the so-called vested interests. Otherwise there will be no great increase in production.

Sir, there is another aspect to which I would like to refer, the tremendous waste that is going on so far as public expenditure is concerned. I have not seen it, I have heard about it, I have smelt about it. I have myself been an officer of Government for about four years and I know how waste takes place on a very large scale. Now we are spending money by the crore, we are also misspending by the crore. Nobody is thinking of that. We are all thinking of four thousand crores, five thousand crores and six thousand crores, playing with astronomical figures and getting into all difficulties about deficit financing. But the ordinary thing, the obvious thing is to stop the waste. Many people, responsible people tell me that instead of the two thousand crores under the last Plan, if only one thousand crores had been spent properly and rightly, perhaps they would be satisfied. They have exaggerated and the waste may be not 50 per cent. but 30 per cent. but even that would be very considerable. Now that we are spending more than four thousand crores, we have to look within, not outside, for sources of taxation and so on. Unless we look within and put our own house in order and in any case stop the waste and the delay, the sickening delays, things will not improve. I am connected with a few non-official bodies and they tell me, and I also know, that often the sanctions come in February and in March, on the 31st March. Such money is bound to be misspent. Will you see to it that the crores of rupees that are sanctioned in January or February or March are spread over the whole year? If you sanction in February or March, how can that money be properly spent? Stop that. Why cannot you spread the expenditure over twelve months?

3 P.M.

SHRI H. N. KUNZRU: Mr. Deputy Chairman, the Finance Minister has given us three reasons for placing Finance Bills No. 2 and No. 3 before us. The first reason that he gave is that it is now estimated that the Second Five Year Plan will require four to five hundred crores more its fulfilment than was envisaged in the 'Plan document'—to use his own word. When the debate on the Second Five Year Plan took place in this House, I ventured to point out that the sum of Rs. 4,800 crores did not represent the entire expenditure that would have to be incurred on the Plan if it was to be carried out fully. I gave certain instances to show that this figure was a under-estimate and that the actual expenditure, if the Plan was carried out in its entirely, would be substantially more. Now, when winding up the debate, the Finance Minister said that Government was not unaware of this; it knew very well that the total expenditure would amount to more than Rs. 4,800 crores, but it did sometimes happen that our expectations were not fully realised. It might, therefore, happen in connection with this Bill too that the entire expenditure envisaged by the Plan could not be incurred and in that case, it would not be necessary to increase the total expenditure by the sum not taken into account. Now, he takes into account that very figure and puts that forward as a justification for introducing the two Bills that are now before us.

Another point that was mentioned by him was that the Sterling reserves now stand at a figure that cannot be lowered which means that we have used up all our Sterling reserves. During the debate on the Five Year Plan, I ventured to draw the attention of the Government to this matter also and to ask as to how it proposed to meet its Sterling requirements, in view of the fact that a sum of Rs. 200 crores which was to be taken out of the Sterling reserves for the purpose of carrying out the Plan had already been spent.

Now, Sir, this is another argument that has been placed before us in support of the Bills that we are considering.

Lastly, the Finance Minister has referred to the price index. This too was a factor that was well understood at the time when the Plan was discussed. It is true that the situation has become worse than it was then, but it was serious enough when the debate took place. And yet, it was thought that the suggestions made in connection with the Plan would be sufficient to enable us to meet all our requirements during the next five years. I should like to ask him here, since the Finance Minister urges the increase in the total expenditure as a ground for coming forward and asking for more taxation or for an increase in revenue, whether he is quite certain now that the Plan will be carried out in its entirely. It is only then that a larger sum than Rs. 4,800 crores will be needed. Now, can he give us any assurance on that point? If he cannot, then the reasons he has given are not sufficient to justify the measures before the House.

SHRI N. R. MALKANI: I think the plan is to spend Rs. 600 crores this year.

SHRI H. N. KUNZRU: The Finance Minister will be able to tell us what he means to spend. He is strong enough to take care of himself.

SHRI BHUPESH GUPTA (West Bengal): It cannot be taken care of by the Finance Minister.

SHRI H. N. KUNZRU: Now, as regards the foreign exchange reserves, the only suggestion made by the Finance Minister is that a reduction in imports without any reduction in our exports would enable us to increase our foreign exchange earnings. But he knows very well that whatever our success in this direction may be, it cannot be enough to enable us to get all the foreign exchange that we shall need. It is obvious that some other measures will have to be taken in order to meet our requirements in respect of foreign exchange. We have, in the first place, to be sure that the restrictions that we are going to place on imports by increasing the customs duties to which they are subject, will not yield to any reduction in our exports. But even if we assume this, we cannot come to the conclusion that we shall thereby appreciably augment our Sterling resources. Some other measures will have to be taken and I know that Government is carrying on negotiations at the present time in order to get the foreign exchange required by the Five Year Plan. I feel, however, that more serious efforts will have to be made in that connection if any hope of substantial success is to be entertained. This is a matter that will have to be dealt with at the highest level.

Our Prime Minister has gone to America. He will doubtless discuss the world situation with the President of the United States. But India being a part of the world, I hope that the conversations that will take place between our Prime Minister and President Eisenhower will have some bearing on our own situation too, and will enable us to add materially to the resources now available for the economic development of our country. I have no doubt that, if the conversations proceed in an atmosphere of cordility and a greater understanding is arrived at between India and America than exists at the present time, our position will become easy and that the opportunity we are now enjoying of obtaining facilities required for the development of the country will be substantially greater than what they are at the present time. Perhaps, the Finance Minister himself can take a hand in this matter, and I feel that any effort made by him directly will yield better results than any efforts made by any of his agents.

Now Sir, I come to the price-index. When the Second Five Year Plan was discussed, the question relating to the increased production of food and cloth received our special attention. The Prime Minister was of the opinion that without increasing expenditure by a rupee the agricultural production could be substantially increased. Well, I do not know whether that hope of his will be fulfilled that our agricultural production will be increased substantially, so that the danger of inflation which looms large now may not disturb our thoughts as much as it does at present. As regards cloth too, Sir, I hope that the production will increase in a substantial measure very shortly. I am not aware of any positive measures taken by Government, since we discussed this matter, to increase the production of cloth. I should, therefore, like to request the Government to give us full information on this point. Some information was given to us in the course of a reply to some supplementary questions the day before yesterday, but that reply was too inadequate to enable us to know what exactly was being done in regard to this important matter. The increase in revenue that we expect as a result of the Bills before us is about Rs. 16 crores a year. Now, surely this sum, though it may add to our resources, is not such as to have any material effect on the trend of prices. Therefore, something more than the extra taxation proposed is required in order to keep prices steady. This obviously means that production must increase. Here I should like to know whether the reduction in imports has not increased the prices of one set of imported articles unnecessarily, and this will have, in some way or other, an effect on the prices of other articles. We have certainly to conserve our foreign exchange resources, but we have, on the other hand, to guard against certain dangers also. And I should like the Government to satisfy us that in drawing up their plans they have taken sufficient account of the possibility of a rise in prices as a consequence of their measures.

Lastly, Sir, I come to the Bills before us. Taking first the Finance Bill No. 2, I should like to support my hon. friend, Shri Bisht, in regard to what he said about the increased duties imposed on certain kinds of machinery. I think they are mentioned in item 33 of the Explanatory Memorandum relating to the Finance Bill No. 2. Is the machinery mentioned in this item produced to a sufficient extent in this country to meet our demands? If it is, then, though the duty may be called revenue duty, it is intended to have a protective effect. But if we are not producing enough for our needs and if we are not producing or manufacturing enough machinery of the kind mentioned in item 33 for our use, then I should like to know why a higher duty has been imposed upon it now? Formerly it was free, and now a duty of 10 per cent. has been imposed upon it.

SHRI J. B. BISHT: May I, Sir, point out one thing here? Supposing you order a sugar mill from Holland. Part of it may be manufactured here, but it may not fit into it at all, and yet a duty of 10 per cent., is imposed. It may have to be imported from Holland, in spite of its being produced here. Otherwise, the machinery won't function.

SHRI H. N. KUNZRU: The next point that I should like to refer is that of watches. Sir, watches, in the year 1956, cannot be regarded as a luxury. If the tax were to be imposed only on those watches which are very expensive, I could have understood it. But watches are needed these days when time is of great importance, and watches are not made in this country. I therefore do not see any sufficient justification for increasing the duty on this article.

Now, Sir, I come to the Finance Bill No. 3. Here, Sir, we are increasing the additional super-tax on dividends exceeding 6 per cent. of the paid-up capital. We are also requiring companies to deposit a certain percentage of their accumulated profits and of their annual profits with Government. The object of this is to increase the sum at the disposal of the Government for the carrying out of the Five Year Plan. Why is it then that the bonus shares continue to be taxed at the present rate? Will not the effect of levying the tax on bonus shares at the present figure be to tempt companies to convert their profits as quickly as they arise into bonus shares?

SHRI P. D. HIMATSINGKA (West Bengal): It cannot be done without the permission of the Government.

SHRI H. N. KUNZRU: Nothing can be done without the permission of the Government. Even new capital cannot be had without the permission of the Government. Hardly any new undertaking can be entered into without the permission of the Government, and yet extra taxation has been imposed on certain kinds of activities. Why has this particular commercial activity been left out of consideration? Or rather why has the tax to be paid in this connection been left at the present figure? I think the effect of it will be to convert profits into bonus shares. I mean the undistributed annual profits within the course of the year successive to that to which they relate into bonus shares.

This virtually completes what I wanted to say, but I should like just to say before I sit down that the Finance Minister has drawn our attention to the increase in currency since, I think, 1st April and the increase in bank credit also since that date. I know that the Reserve

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Bank is taking measures to restrict the flow of credit, and I also understand that this Bill which requires the accumulated profits and the annual undistributed profits to be deposited with the Government in certain proportions will also have the same effect. But is any step being taken to reduce the volume of credit consistently with the capital required for the development of our industries? I should also like to know what steps are being taken to control the increase in currency. These two measures, as I have already pointed out, will not suffice to have any appreciable effect on prices, and so far as I can see, as the Second Five Year Plan involves an expenditure of over Rs. 5,000 crores, the resources available to the people, notwithstanding the taxes imposed, will go on increasing. How are the prices to be controlled? It seems to me that there is only one way of controlling prices and that is to be exceedingly cautious in regard to deficit financing. Whatever our hopes might have been when the plan was framed, the actual course of events should warn us of the dangers of the deficit financing proposed in the Plan which was virtually unlimited. I hope, therefore, that Government will not stick to the Plan merely in order to be able to say at the end of five years that the entire sum of money that was to be spent in connection with the Plan had been spent. They will owe a heavy responsibility to the country if they do not take into account its ultimate interests and care far more for the stability of our economy than for any spectacular rise in expenditure which may weaken our economic foundations and make it more difficult for us to proceed with the development of our resources.

SHRI BHUPESH GUPTA: Sir, the House will remember that over the past few years that we have been here, we have been demanding a change in the structure of our taxation, and it is only this year we have heard the Finance Minister at least announce that the time has come when the tax structure of our country must be changed. What exactly is the change in the tax structure that is going to be made still remains to be seen. Only the other day, on the 3rd November in Calcutta Mr. Santhanam, Chairman of the Finance Commission, was stating that the financial stability of the State and the Central Governments as well as the successful implementation of the Second Five Year Plan depended to a large extent on a radical change of outlook of the people towards taxation. In that speech he also made it clear that he would expect the common people to pay more taxes. Now, if the change of structure of the taxation system is to be sought in order to continue to exact the limited savings of the common man, deprive him of the necessities of life, then I would not be in favour of any such change. If, however, the tax structure were to be changed for a policy that would make the rich pay for the Second Five Year Plan, I would be in favour of it. I make it clear that it has never been the contention of the people that they would not bear the responsibilities of building up the country. In fact, our workers in the factories are sweating day in and day out so that our industrial production goes up. If today we claim higher industrial output, it is precisely because our men in the wheels of industry have so behaved themselves and have so worked for the well-being of the country that despite the machinations and intrigues of the capitalist class, despite their greed for more and more profits, it has been possible to bring about a sizeable increase in the industrial output. The credit entirely belongs to the working people of our country. Similarly, if in the agrarian sector of our economy, the production of food has gone up simultaneously raising thereby the total national income, that is also because of the fact that the Indian peasants, however poor and however destitute, however suffering, have, out of sense of patriotic duty, when the country was faced with a yawning food deficit and we were spending our foreign exchange resources in a tremendous way, responded to the call of the Government and the people in order to increase production of crops. It is only because of their devotion to duty, in the cause of the country, that we are today in a position to claim before the whole world that our agricultural production has gone up. I say this because we must remember that it is the people who are paying with their blood, paying with their sweat fort he rebuilding of our country's economy, for the rejuvenation of our nation. Our capitalist friends, who regard themselves as the captains of industry and have produced more ship wrecks than happy sailings, would please note this particular fact that it is these men, Working people, whether in the agricultural sector or the industrial sector, who are responsible for the rise in production and therefore it is they who have brought about an increase in the national income from which they have been denied their legitimate share.

Mr. Deputy Chairman, now we are discussing the question of taxes. The Finance Minister is in a very chastened mood these days. He is very happy in calling himself Robin Hood. I think in Calcutta he called himself Robin Hood who took money from the rich and gave to the poor. I think that he is in a very happy posture of mind today when he makes such speeches. only he forgets that merely by taking money from the rich—and that again he is not doing and I shall come to it later—you don't distribute to the poor. We have seen in the United States, in Germany, in England, even where heavy taxation measures obtain at the same time relatively speaking the poverty of the people continues. Sometimes it so happens that the ruling class, the capitalist class, for their common general interest which is certainly something broader than the interests of, shall we say, the Indian Chamber of Commerce and Industries, when they promote certain broad interests of the class as a whole, where various factors operate, not merely the fluctuations in the stock market, they are obliged to take certain measures which sometimes even evidently and manifestly hit against what appear to be their immediate interest but that should not delude us into thinking that the capitalist class in our country or for that matter that this Government has adopted a policy of making the rick pay for the poor. That is not at all so and the Rs. 16 crores or so, out of which only Rs. 10 crores would come from the direct taxes, should not make us think that there has been a radical change in the direction that we all desire. We welcome the halting step that the Minister takes. We welcome the steps however belated, and we welcome even the pick-pocketing of the capitalists. It requires only a pick-pocket to get Rs. 10 crores from the capitalist class. Surely it does not require a Robin Hood for that Even when they do such things, we welcome such things because if they begin to thrust their hands into the pockets of the rich and go on doing it a time will come when the necessary funds would be available for the reconstruction of our country's economy. This habit we want them to cultivate and I wish the hon. Minister all luck in this pursuit. Only I hope that his next dose of taxation would not be one which hits the poor because as you know, the other taxation which preceded, namely, the Union Excise Duties, most of it hit the poor people. If the next also turns out like that, it would not be good at all, I am not just referring to it as an election stunt. There are naughty people saying naughty things but I hope it is not an election stunt only because I know the problem remains. You have to find the cash for the Second Plan. The poor is burdened with taxation. They are crushed under heavy taxation and the load has become unbearable for them to bear any more. It is the rich classes, who because of the First Five Year Plan and because of the promise of the Second continue to flourish and it is the duty of the Government to go to that class and make them pay for the development of the country's economy.

Mr. Deputy Chairman, here in this connection I would try to establish a case that there is scope for more

[Shri Bhupesh Gupta.]

direct taxation on the rich and what has been done is very little compared to what should be done in the matter. Now as you know, the hon. Minister referred to certain economic situation in the country. During the past few months prices have been galloping all over the land and these gentlemen of the Government are watching them. When delivering the budget this year, the Finance Minister, who is no more there—he is dealing with University Grants or rather the grants of the Exchequer that way—told the House that he was very watchful as to whether the prices were rising. I don't know what results it has produced. It seems that they have been just watching and doing practically nothing to check the rise in the prices. In the last Session of this Parliament, of this House, you will remember that there was the gallant Food Minister, Shri Ajit Prasad Jain, who, in a mood of self-ecstasy, got up to tell the House that the House should wait for another 15 days and he would bring down the prices. I wish the hon. Minister was here. I would ask him, not 15 days but a number of fortnights had passed and what is the result? Such promises are to be made for what? They are made to placate and please us with this kind of big promises or to bluff the country, I don't know. It is for him to explain but the fact remains that the promise has been unfulfilled and the prices continue to rise mocking at all the assurances that the Government has given. Not only this. You know that certain restrictions were put on bank advances by the Reserve Bank, so that the speculation on food items and other things cannot continue and now, just as the harvesting was to start, these restrictions have been abolished by another order of the Reserve Bank. I think the Government would do well to explain to this House as to why it found it necessary to remove the restrictions that had been imposed on the advances, those advances that went into the hands of the speculater who could withhold stocks from the people and create scarcities and force the prices up. I think the Government owes an explanation to the country.

Again the problem of unemployment is very important in this context because reference has been made to it in that House also. I would like to say how is it even today we find that unemployment in the country is growing like a snow-ball, not that I suggest that it is a problem which could be solved overnight. That is not at all my case. I would like to know from the Government whether they are going to check it, whether they are going to reduce it. This is the question that I put to the Government. If I remember aright at the start of the First Plan the number of unemployed persons on the live registers was about 3 lakhs. Today it is over 7 lakhs. Nearly it is double! Government owes an explanation to this House and to the country as to why, after the First Plan and in the first year of the Second Plan, we should have been condemned to this state of affairs where unemployed persons walk in the streets of our cities, towns and our villages. They have to explain this also. If you take the village unemployment into account, a colossal problem is there which challanges certain policies of the Government and I think it is the duty of the Government to explain as to how they are going to combat this situation. Those who regard themselves as Robin Hood will please note this. We are not dealing with Robin Hoods. We are dealing with Finance Minister of a civilized Government. We are not dealing with a Robin Hood who carries on, who goes on in an illegal manner, to grab money from here and there and distributes among the poor. We are dealing with a Finance Minister of our Republic who has got all the weapons of law and the Constitution on his side and who can very well get money whenever, he likes from the richer classes and take such measures and make it possible for the poor to benefit by his policies. Therefore the Robin Hood analogy is a kind of thing which makes one laugh rather than appreciate the direction in which the

Government is moving. Therefore the hon. Robin Hood, the Finance Minister, will kindly note that what we expect of him is positive policies in all directions. We expect fiscal measures of them and measures that will enforce an equitable distribution, a fairer distribution of the national income today that is generated in the country.

Mr. Deputy Chairman, I come to the taxes. Here again let us be clear first that the tax structure of the Central budget is of the order of Rs. 500 crores or say Rs. 525 crores. In that context, a sum of Rs. 1,600 crores means nothing and you understand it. It may be a huge sum for an individual or for any company; but compared to the structure of the Budget, it is not very much. Therefore, let us not think that these measures will bring in very substantial amounts. But whatever comes, we appreciate and whatever measures take us in that direction we also appreciate. Let me make that clear. But you see that between the period from 1950-51 and 1955-56 the taxes of the Centre and the States combined, have gone up from Rs. 635 crores to Rs. 750 crores. And in that rise, in the structure of taxes, the share of the excise duty has gone on increasing all the time. In 1938-39, if you take out the excise duty, you will find it to be Rs. 8:65 crores or 11:7 per cent. of the total revenue. In 1951-52, that is to say, in the first year of the First Five Year Plan, the excise duty accounted for Rs. 85·78 crores or 18·9 per cent. of the total Central revenue. In 1956-57 the excise duty rose to Rs. 170:45 crores or 37·2 per cent. of the Central revenue. Remember, this increase is not due to the increased consumption by the people. I should make that point clear, because it is conceivable that excise duties will fetch more money owing to the consumption going up. But here the increase has been obtained more by increasing the rates of taxation than by any other means. That only shows that the burden on the common people has gone on increasing, by way of increased excise duty on sugar, on kerosene and so on, on matches and things like that.

Sir, I am afraid I will have to tire the House with a bit of statistics and I hope I will be forgiven for this. Here, for instance, the Union excise duty on kerosene was Rs. 0·20 crores or about Rs. 20 lakhs in 1948-49. In 1956-57 it was Rs. 2·50 crores. On sugar it was about Rs. 6·46 crores in 1948-49 and now in 1956-57 it is Rs. 16·75 crores. On vegetable products again, it was Rs. 1·79 crores in 1948-49 and Rs. 3·50 crores in 1956-57. I have given only some of the figures with a view to indicating how the taxes on commodities that go into the daily consumption of the common man have gone on increasing in this regime, over the past few years.

Then I may refer here to customs duty, because customs from an item of the taxes. Import duties in 1947-48 fetched Rs. 56:45 crores and in 1955-56 the import duties fetched Rs. 127:50 crores and the budget estimate for this current year shows it to be a little less, at about Rs. 117 crores. Here, I would like to make one point clear. I do not at all suggest that all the import duties hit the common man. But the point is, the bulk of these import duties have hit the common man and that is my case. Prof. R. N. Bhargava who is not a Communist at all and if he be elected, he will probably sit on that side of the House, in an article entitled "Public Finance on the Increase" mentions customs duty and he says:

> "Many of the duties are aggressive and therefore a burden on the lower income groups."

That is what he has said. I am making this point only to emphasise my contention that the direction of the policy with regard to even customs duties has been against the interest of the people and we have not done enough to change the structure or alter the structure of our customs duty even.

(Shri Bhupesh Gupta.)

Next, Mr. Deputy Chairman, I would like to refer to State taxes, because we have to keep them in view when we are discussing these things. Sales taxes have been increasing all these years. In 1947-48, the year when hon. Member's there conquered the treasury benches, the total yield of sales taxes was Rs. 17·02 crores. In the year 1956-57 it is Rs. 55·83 crores and that only relates to the Part A States. If you take all the States together, then compared to the figure of Rs. 17 crores in 1947-48, it is as much as Rs. 70 crores in 1956-57. Now the percentage of the sales taxes is about 19.3 per cent of the total revenues of the States Budgets. The point I am making here is this. Here you get a picture of how taxes that hit the people whether they be consumers or small traders or businessmen, go on increasing from year to year.

Then again, let us take other taxes. Generally speaking, the tax burden has tremendously increased on the common man and I wish the Government would sometimes give us the figures, without leaving it to us to work them out, for we are liable to commit mistakes in such matters. But we try to depend on the various bulletins of the Reserve Bank and other publications emanating from the Government. Our estimate is that in 1947-48, if you take the earnings of the Union excise duties, the import duties, the State excise duties, general sales tax, entertainment tax and other taxes and duties, land revenue and all that, then they accounted for Rs. 164:31 crores. But in 1956-57 the same items account for Rs. 514·10 crores. This only shows how the tax burden on the people has increased. One can say that it has gone up by nearly 300 per cent. These have been obtained from official publications. I am not including here the municipal taxes and various other taxes that you have in this country. This is the position now. Naturally if a policy is to be changed . . . .

(*Time bell rings.*)

MR. DEPUTY CHAIRMAN: You have taken 25 minutes.

SHRI BHUPESH GUPTA: I know I have taken 25 minutes, but I never knew that the bell would ring after 25 minutes.

MR. DEPUTY CHAIRMAN: You have taken five minutes more than other speakers.

SHRI BHUPESH GUPTA: Give me a little more time.

MR. DEPUTY CHAIRMAN: Take another five minutes and finish your speech.

SHRI BHUPESH GUPTA: It is an economic matter that we are discussing in these Bills.

MR. DEPUTY CHAIRMAN: I am calling upon the Finance Minister to reply at 4-30.

SHRI BHUPESH GUPTA: If the hon. Minister takes one hour, what can I do? I cannot speak within 25 minutes. Let me quietly finish this because it is a little complicated subject.

Due to shortage of time, I cannot give all the details of these figures. The index of profits of all industries in 1947-48 was 191:6 and in 1955-56 it was 319:6. This only shows how the profits have gone up in this period even according to the official figures which are always an underestimation of the actual position. In the first two years of the Congress rule, you reduced or abolished taxes on capital gains which was there in 1948. There was the Excess Profits Tax and others and these were abolished. According to your own calculation, during the first two years of the Congress rule, the total concession that the capitalists got by way of such tax reduction and relief amounted to about Rs. 23 crores, if not more. This is the picture which emerges from Government publications. Since that time, some taxes had been imposed but comparatively, the profits have gone up much higher than what they were. We should tax the profits of the rich classes for the development of the country. They have been given, in the name of incentive, all manner of concessions. In the profits shown, you may include what is shown there plus the other profits which are not shown in the books. As is known, in Calcutta and Bombay, there are plenty of funds in the hands of the businessmen and Government knows about this but we do not know anything officially speaking. Everybody knows about it but the point is when it comes to taxing these people, we do not get any information about it. The companies are shown as either making no profits or as making very little profits while in fact they are making enormous profits. In many British firms in Calcutta, they are shown as making very small profits or no profits at all whereas everybody knows that they are making enormous profits. These things are not taken into account when such calculations are made. Therefore, I say that the rich has got to be taxed and they are in a position to pay. They are made to pay the capital gains tax but Professor Kaldor says that more money could be had through the capital gains tax but here again Government has proceeded in a halting manner. Whereas. Professor Kaldor, says thot this is likely to bring in Rs. 25 to Rs. 40 crores, here we find that it is likely to bring in very little. There will be lots of ways of evading this tax. Whatever else you may or may not say about our capitalist classes, you cannot accuse them of not knowing how to evade the tax. They are pastmasters in that art and may be they have developed it by now into a fine art and the great Income Tax Department has to transfer the officers even and is a party to this kind of thing. I know of cases where just because certain capitalists do not like them, the people have been transferred and Government's action in this regard is one of direct incitement to tax evasion. The hon. Minister himself has said once that if everybody paid the tax, he would be getting about Rs. 1,200 crores in the next five years, that is to say, he will be getting about Rs. 200 crores or so every year. It means that clearly tax evasion according to him is of the order of Rs. 200 crores per year. What kind of a Government is it which cannot detect this thing and get at least a part of it? It speaks very ill of the Government. I know how the Intelligence Department, the Central Intelligence and other Departments work. Whereas they waste money and resources for persecuting political workers, they are unable to bring to book any of these tax evaders. Every telephone that I make from my house is tapped. Mrs. Lakshmi Menon can come to my house and if she telephones from there, she will know at once that it is being recorded. You spend money like that but what about detecting this tax evasion? Cannot they trace some of the tax evaders and plunderers of the nation's resources? That is what I would like to ask the Government to answer.

Mr. Deputy Chairman, super tax is all right but what I would like to see is a ceiling put on the funds. The rest should be taken away by fiscal measures and by compulsory loan. Give no option to the rich whether to give or not. Put a ceiling. It is preposterous, in the economy of our country, that these people should be given dividends of the order of 20 per cent and 25 per cent when people are starving and the workers are denied their wages So, it is very essential to do this thing. (*Time bell rings*). Let me make my proposals, Sir.

Sir, a gift tax should be immediately imposed; a tax on wealth should be there and there should be a tax on expenditure. A motor car is a very good thing; Mr. Parikh can buy one big motor car or buy three small cars but it is a question of expenditure. If I see a person using a motor car for luxury purposes, whether it is a big car or a small car, I should be in a position to tax that car and get the money for our country's development. It is not for the worker to stand in the starvation line when the sons of the rich flourish in their wealth and roll about in motor cars. There-

[Shri Bhupesh Gupta.]

fore, it is not a question of a big or a small car; luxury cars, whether one or two or big or small, should be taxed. I can understand essential users and these may be for private reasons or for anything, like the doctors or others. They may be exempted from taxation and I woult have no quarrel with that.

Mr. Parikh said that Rs. 70 to Rs. 75 crores go to the reserves every year. I do not know how much is actually there but why can't we take this thing? How to take it is a point. Instead of getting a few pennies out of them, get the whole thing from them. The hon. Finance Minister has come and I want to tell him that he is in a position to find out the reserves of these people. The Calcutta Tramway Company, for instance, every year sets apart about £80,000 for its reserve fund when it does not require even fifty per cent. of the sum for replacement annually. Year after year the money in accumulating there and I think the hon. Robin Hood of the Finance Ministry will be well advised to carry out a raid on the Calcutta Tramway Company in the interests of the poor and in the interests of the country.

(*Time bell rings.*)

Now, Sir, I would like to say a few words about foreign exchange.

MR. DEPUTY CHAIRMAN: No. There are five more speakers. Take two or three more minutes and finish by four.

SHRI BHUPESH GUPTA: In the other House, half an hour was given.

MR. DEPUTY CHAIRMAN : But you have taken 35 minutes.

SHRI BHUPESH GUPTA: I know but our House is a greater House. Let me finish foreign exchange. After all, you want constructive suggestions from us and time should not come in the way of constructive suggestions.

I have got lot of statistics about the import of non-essential articles prepared by some of our friends here. According to the list, it seems that there are imports worth about Rs. 18 crores of non-essential goods. We should restrict this. Horses in 1953-54 were imported for Rs. 12,84,000 and it goes on like that. Liquors in 1953-54 were valued at Rs. 58 lakhs. Now, because of prohibition it may be a little less. You should stop this money that goes out. Whisky in 1953-54 accounted for Rs. 52 lakhs and in the ten months of 1955-56, it stands at Rs. 48 lakhs. There are these things like wines, whisky, etc., Prevent such imports coming into the country because they fritter away our foreign exchange resources. Another suggestion is regarding tea. Tea is sold, shall we say, here for four rupees while it fetches at Hamburg Rs. 12. We lose this margin. We get a little over four rupees whereas we should be getting about Rs. 12. We lose in foreign exchange also and this should not be allowed. Why can't we sell our tea directly instead of having to go through the Britishers? That way, we will get the foreign exchange also for the resources of our country. I

4 P.M. will make another suggestion and I hope it would be the last also.

MR. DEPUTY CHAIRMAN: It should be the last.

SHRI BHUPESH GUPTA: Sir, a memorandum was submitted to Prime Minister Jawaharlal Nehru by the Jute Workers' Union of Calcutta and there you will find that the employers have a plan to carry out retrenchment and to carry out some kind of a rationalisation. And for that they will be buying all kinds of things by spending our foreign exchange resources. The sole object of the employers in trying to impose 100 per cent. increase in the workload is to retrench slowly a large number of weavers and spinners as surplus and also to increase the margin of profit by making one man do the work of two while increasing his earnings by 24 per cent At this very moment 10,000 workers have lost their jobs and if this plan is implemented 30,000 workers will be retrenched. And at the same time your foreign exchange resources also will be spent for introducing this scheme of rationalisation which aggravates the problem of unemployment and enables the British in their intensive exploitation. I think such things should be put a stop to. The Prime Minister was met on the 11th of last month and he gave an assurance that the whole matter would receive serious consideration and it seems a copy of the memorandum has been sent to the hon. the Finance Minister also and no consideration has been given and the matter has made no progress to the shame of the Government, to the shame of everybody and therefore . . .(*Time bell rings.*) such things should be stopped. Then you have the Nizam's money; the funds of the princes should be got. The Nizam has made a Trust and . . . . ,

MR. DEPUTY CHAIRMAN: Order, order.

SHRI BHUPESH GUPTA: . . . . . it is for Rs. 34 crores. Therefore, I say that the accumulated wealth of the Indian princes should be taken. It is no use telling us, as he told us the other day, that he has appealed to them.

MR. DEPUTY CHAIRMAN: Order, order. Mr. Himatsingka.

SHRI BHUPESH GUPTA: I would therefore advise my hon. friend, Mr. Robin Hood, that if he really wants to get money, he has got many more avenues to find enough funds for the Second Five-Year Plan.

SHRI P. D. HIMATSINGKA: Sir, the hon. Finance Minister has told us why he has thought fit to bring these Finance Bills in the middle of the year. The Plan contemplated a tax of about Rs. 400 crores and now that the Finance Minister does not want to take recourse to deficit financing naturally the tax has got to be increased and it now comes to about Rs. 1,300 crores. Therefore, money must come from wherever it can be had and some sort of tax has to be imposed.

Now, the proposals have to be examined from that point of view. Some people have acclaimed the proposals as very necessary and well considered, while others have found grounds for criticising them. Whatever may be the taxation measures, if they are applied properly and with sympathy, even measures which are not liked can be made to be appreciated and less objected to. And I have no doubt, as the Finance Minister himself said, that he will see that the measures are sympathetically administered and if that is done, most of the objections that might be and have been put forward to the proposals would be removed. As you may remember, when the Five Year Plan was discussed in this House and in the other House, some of the Members felt that perhaps a very optimistic view might have been taken of the resources that may be available for carrying out the Five-Year Plan. Even now people feel that the Plan has got to be implemented and a lot depends on the implementation of the Plan but the question is, have we taken note correctly of the resources that are available and have we not over-estimated and taken rather an optimistic view? But implementation of the Plan will not be very much affected if instead of five years, a few more months are taken to implement it. What I mean to say is if the resources are not sufficient to carry out the Plan in five years, there is no harm in increasing the period by a few months so that there may not be a very heavy strain on our resources and so that things may not go wrong on account of the heavy strain that may be put thereon.

Another thing that can be looked into very conveniently is whether or not a certain amount of savings can be effected in the expenditure that is being incurred by the Government in its various Departments. It is the opinion of many who understand these things that a lot of waste is going on in various Departments of the Government and if the matter is looked into there may be a very good saving which may be easily available for carrying out the objects that we have in view in the Plan.

[Shri P. D. Himatsingka.]

So far as the proposals in the two Bills are concerned, I have one or two suggestions to make. One is as regards the capital gains tax. Most of the exemptions that were in the previous Act have been removed but I feel that so far as capital gains in respect of compulsory acquisition by Government is concerned, that should still continue to be exempted. When a person sells his capital asset and makes a gain which is called unearned profit he may be taxed and perhaps and he will have no justification in raising any objection. But when a property is acquired which he does not want to sell but which is acquired under compulsion at the instance of the Government for the use of the Government, in the case of such a compulsory acquisition there is no real justification for making the man pay capital gains tax also, especially when he never wanted to part with his property, and in fact he objected thereto but had to part with it because the authorities wanted him to do that. That is one small suggestion so far as capital gains tax is concerned and I think in a case where compulsory acquisition takes place it is for the Government to consider whether or not they will think of giving relief to the unfortunate person who may have to part with his property in spite of himself.

Another suggestion that I have to make is that so far as compulsory deposit is concerned, people who are conservatives and who have put in careful and prudent management and have built up resources, generally use them for the purpose of increasing the volume of business and stabilising the position of the company but here the position is just as if you are going to penalise those companies which have been prudently managed, which have been managed in a conservative manner and which have not frittered away their resources. Some consideration should be shown to such companies that have built up resources and have utilised them in expanding their business so that they may not be called upon to put in these compulsory deposits. Otherwise, wasteful expenditure will be encouraged and management which have not been taking proper care for conserving their resources will get a premium.

Then my friend, Mr. Parikh, said that equity shares had increased in value to the extent, in some cases, of 150 times even depending on the number of years. Here the dividend that is going to be taxed is on the basis of the paid-up capital which does not take into account the reserves built up over a number of years. If you feel that the equity prices have gone up hundred times, fifty times or sixty times, they have gone up simply because these reserves have been built up and the position of the company has improved on account of conservation of the assets. But if you take into account the 6 per cent or 10 per cent or 18 per cent on the basis of the paid-up capital, only then the person whose equity values have increased fifty times or hundred times or more than that does not get any benefit. He really gets the 6 per cent or 10 per cent on the basis of the Rs. 100 that was originally put in. That is therefore another point which needs consideration.

There is another point regarding this stamp duty. I feel that so far as these usance bills are concerned, they are generally for two months. So far as Calcutta is concerned, these usance bills which are negotiated with the Reserve Bank and other Banks are taken by the banks on the signature of two parties, and they are generally for sixty days. The stamp duty has been provided for on the basis of three months, nine months and twelve months. The result will be that, if a usance bill is for twelve months and if the party has to pay the stamp duty that is provided in the Bill or a smaller amount, practically it will be one and a half times if the bill is for two months. Either the amount may be divided on the basis of every two months or the amount should be reduced. Otherwise the rate of borrowing becomes a little heavy. At present the banks generally charge about 6 to 6½ per cent interest and there will be an addition of about 1 per cent more by way of stamp duty. I entirely agree with the hon. Finance Minister when he says that if he increases the bank rate, that will affect him and others in various ways. That is not necessary, but this stamp duty may be examined from the point of view, as I suggested, that the usance bills are generally for two months. Therefore, the incidence of this stamp duty on these bills should be reduced as far as possible.

There is one small matter to which I would like to refer. So far as foreign exchange is concerned, the restrictions that are proposed so far as imports are concerned might go to conserve foreign exchange to a very small extent. What I feel is that most of the imports are for machineries and heavy materials required for the Plan. and Government is the importer in most of the cases. Therefore, I do not know whether there will be much of a saving so far as foreign exchange is concerned. Therefore, if we can take certain other steps so far as that is concerned, perhaps that might solve the problem. I do not know how we can possibly utilise the Rs. 400 crores which is meant as a support for the currency reserve. We have only Rs. 125 crores left. We have utilised about Rs. 200 crores in the last twelve months, and if our imports go on at that rate, perhaps the available amount in our hand might be exhausted very soon, unless we get a loan from the World Bank and foreign aid, which I am sure we will get if properly tackled.

SHRI P. N. SAPRU (Uttar Pradesh): Mr. Deputy Chairman, eloquent speeches have been delivered for and against the proposals embodied in the Finance Bills by respected Members of this House. Mr. Bhupesh Gupta has with his usual eloquence spoken in a vehement manner about the proposals contained in the Bills. Mr. Deputy Chairman, I would like just to indicate very briefly my own point of view, because it is not possible for me to dilate on all the financial implications of this Bill for several reasons. Finance is one of my weakest subjects and I have no head for figures.

I was just reading, when speeches were being made here, a speech at Bombay of a prominent industrialist, Mr. A. D. Shroff. He says: "Summing up the implications of these proposals, there is no doubt that there is a definite and confirmed trend towards a gradual disappearance of democracy in Indian life. Gradual diversion of resources from the private sector to the public sector means that the private sector will gradually disappear. The extension of public sector as a definite objective of the Government is sought to be brought about by insidious methods of subjecting the private sector not only to increasing controls but even depriving the private sector of the resources that it has collected in the past." I was rather surprised, Mr. Deputy Chairman, to read this statement from a prominent industrialist, because I have not been able to discover the connection between democracy and private enterprise. I now know that among a certain group of persons democracy is identified with private enterprise, and that that group has a vocal exponent in this eminent industrialist of Bombay. The big question, however, is whether we want the Five-Year Plan to be implemented or not, because I think that it is on the implementation of the Five-Year Plan that the future of democracy in this country, or for that matter in Asia, rests.

SHRI J. S. BISHT: That is poor faith in democracy.

SHRI P. N. SAPRU: If we are not courageous and if we are not wise enough to move forward with the time forces which we can only visualise dimly will overwhelm us, and it may be that the Party, of which my hon friend Mr. Bhupesh Gupta is the leader, will rule this country and do exactly what it has been doing in other totalitarian countries. If you therefore want this country not to go the totalitarian way, you must be prepared to move, and move forward rapidly, and if you want to move forward rapidly . . .

SHRI J. S. BISHT: Stability.

SHRI P. N. SAPRU: Stability is all right for certain situations, but there are situations in which you want to have is a more dynamic way of doing things. If you delay social and economic reformation in this country or if you delay the industrialisation of the country if you allow reactionary forces to torpedo the Plan, then you may well torpedo democracy itself. The one striking feature about these Finance Bills, speaking from a psychological point of view, is the affirmation of the Finance Minister of his determination to see that this Plan is implemented within the prescribed period of five years and his determination to use the method of taxation, if necessary, for enabling the Plan to be carried through. I will not go into all the details regarding the various taxes here. I would like to indicate my preference for direct taxation to indirect taxation. So far as the poor man in this country is concerned, it is ridiculous to suggest that he should be made to adopt austerity standards. His standard is below the austerity standard. Therefore, my conscience tells me that indirect taxation must be opposed. It is wrong to tax people's food; it is wrong to tax people's clothes; it is wrong to tax people's kerosene oil. But it is not wrong to tax capital gains in the very moderate manner in which they are going to be taxed by these Bills. It is not wrong to tax dividends or to increase the tax on them in the very moderate manner in which it is proposed. It is not wrong in the interests of planning, for planning requires co-ordinated activity between the private and the public sector, the public sector dominating the private sector. It is not wrong, I say, in the interests of the public sector to require that industrial firms shall keep a certain reserve with the Reserve Bank of India or with the Government and that they shall use that reserve in the manner directed by Government. Two hundred years back, in the West, they had the Industrial Revolution. We are trying in the course of a few years to cover centuries and only a super-human effort can enable us to march ahead in these difficult days of the 20th century. If we err too much on the side of caution, we may fail as compared with neighbouring countries in this vast continent in tackling the problems of social justice.

Mr. Deputy Chairman, much has been said about the Second Five-Year Plan. I personally feel a little disappointed with certain aspects of it. I find that there is no adequate provision in that Plan for social security. I think, for example, education has been treated in a sort of manner —not exactly in the manner in which *it should have been treated. I am not* satisfied with it. But I would say this that to the utmost extent possible—may be, we shall fail in my effort to do so; in any case, I am not prepared to visualise our pursuing any other than the democratic method—our effort should be to see that the Five Year Plan is implemented within the period fixed. For that reason, I welcome the powers which the Finance Minister wants to take.

MR. DEPUTY CHAIRMAN: Mr. Akbar Ali Khan. Just five minutes.

SHRI AKBAR ALI KHAN: Sir, as the time is limited and as several others have expressed their opinions and criticisms on these Bills, I would only say that the Finance Minister's coming forward with these two Bills in the middle of the year is something abnormal and I feel that unless there are very strong reasons of which he is the only proper judge, this method and this procedure should not be adopted.

Sir, in my part of the country, Finance Ministers were called jugglers and a person like the late Sir Akbar Hydari one of the best Finance Ministers of his time, was called the 'big juggler'. Without disrespect, to anybody, I find the same thing is true of the Finance Ministers of the Indian Union. It is only on the last occasion that we heard the able speech of Shri Deshmukh regarding the Budget and afterwards while dealing with the

Second Five-Year Plan, we heard an eloquent defence from him of the Five-Year Plan, the deficit financing and all those things. Now within the course of these six or seven months, another able Finance Minister comes in and says something against deficit financing and thinks that the provision made is inadequate to implement the Plan. It is not for a lay man like me to enter into the subtleties of the financial proposals and especially when they are being advocated and handled by a very able and subtle person like Shri Krishnamachari. But what I feel is this. No doubt we are all interested—and very deeply interested—in the implementation of the Second Five-Year Plan and we are prepared to undergo any sacrifice in order to see that it is implemented within the time fixed. But at the same time, it is also to be seen that normal conditions regarding the prices of necessities of life are not so high as to create greater difficulty particularly for a poor and common man of fixed income. It is true—and the Minister has indicated it as one of the reasons for bringing this measure—that the prices are rising and I do hope, and I will be very happy, if by this measure, prices go down and, on the one hand, our agriculturists get an adequate, return and, on the other the general level of prices also does not go up. My apprehension is, probably this measure only will not be enough to achieve this object of controlling prices. Something else will have to be taken. Special attention will have to be given for the greater production, particularly in the region of food and clothing. I am very glad to see in today's papers that India is likely to get a larger share of World Bank aid. I am sure the present Finance Minister will also devote his attention to get as much help as he can from the World Bank and from other countries so that this rise in prices is fully controlled. We should, at the same time, do our best to see that the Plan is implemented in all directions.

One more thing. I heartily join with my learned friend, Dr. Kunzru, in appealing that this visit of the Prime Minister will bring a better understanding between the United States and our country. Then our Finance Minister will also visit the United States and we may get as much help as we can in order to develop our industrial conditions. (*Interruptions.*) Of course, from the Soviet Union also, I do not mind.

SHRI BHUPESH GUPTA: There is King Kothi in Hyderabad.

SHRI AKBAR ALI KHAN: It is certainly there, but you will get a very poor return from King Kothi.

Sir, I would like to say one more thing. The hon. Finance Minister has paid a tribute to the efficiency of his Department. I have got nothing to quarrel on that. I join with him and I congratulate him on this. But I will narrate a small incident and then I will finish. This year, in Hyderabad, an order was received from the Reserve Bank that since November 1, the old promissary notes and security bonds would not be issued, but only the new Indian Government papers would be issued. According to that order, when people went on the 1st of November to get the bonds renewed, it was said that the papers had not been printed and had not been received either from Bombay or Calcutta. This is only a small incident, but it shows that, when an order is given that something should be done all those things necessary to implement that order should be done. I do hope that the Finance Minister will pay attention to this matter.

DR. SHRIMATI SEETA PARMANAND: Mr. Deputy Chairman, while rising to support this Bill, I admit that I cannot be very enthusiastic about it for the simple reason that I feel that in trying to raise money in this way bit by bit, for financing the Five-Year Plan, the other methods and other powers at the disposal of the Government have not been fully tried and exercised. I would like to give one example, Sir. Income-tax, if properly collected, would give the Government twice the amount of money per year—nearly Rs. 30 crores

[Shrimati Seeta Parmanand.]

—than this Bill would give, which is only about Rs. 16 crores. Although the Government is trying to see that income-tax is realised to a higher and higher degree, the expenditure has gone up considerably. The income-tax collection has not been commensurate with the expenditure involved. As some financiers have said, if only one hundred biggest families are properly taxed and if better care is taken to examine their three or four accounts—the Government should explore all avenues at its disposal to see that people should not evade even a single pie—nearly Rs. 10 crores per year can be collected, and the effect of it will be that the people in general will begin to feel that the Government is serious about tackling rich people, and they will themselves try to follow that example of not evading taxes at lower levels.

I would like to submit, Sir, that when the money goes short, it is no doubt the duty of the Finance Ministry to come forward with taxation proposals, and it should consult the Ministry which is mostly concerned with giving out ways as to what taxes could be levied. There should be perfect co-ordination between the other Ministries and the Finance Ministry and it is their duty to suggest various ways and means in order to stop inflation. The most helpful measure to stop inflation, apart from all other measures that could be utilised is to start some consumer stores in the chain store style as in Soviet Union or in China. They should be started in one or two big places as it would be a very difficult task to do it all over the country. Similarly, Sir, the Government can save so much foreign exchange by adopting the method which has already been referred to by Mr. Bhaupesh Gupta, by stopping imports of non-essential commodities—I would call them luxuries—and in other ways too. Many people are sent abroad, particularly students for education, and so much of our foreign exchange is spent away by our countrymen outside. I have some information that it is not properly checked and it is quite possible to get any amount of exchange. Business people have told me that any amount of foreign exchange could be saved by controlling these things properly. This pertains to the Education Ministry with which they can co-ordinate, because it has been suggested times without number that instead of sending so many people for education abroad we could have technical experts here and start a university for educating our students here. And so much foreign exchange can thus be saved. Similarly, Sir, instead of allowing so much money for importing watches and other things, it should be the duty of our Government to start a watch industry here itself, because that is one of the most essential commodities on which so much money is spent and which could be saved. Similarly, Sir, there are leakages in the matter of customs duties etc. The Government should exercise better control over these leakages and only when proper control is exercised, can we save perhaps half the amount that is required for our Second Five-Year Plan. I am told that the Patil Committee has either been set up or it is going to be set up to examine the economic structure of our country. But our experience has been that whenever a committee sits for this purpose, the expenditure goes up. That is revealed by the Budget figures every time. It is said generally that the administration is expanding and all that. Still, Sir, something can be done to reduce our expenditure.

Now, Sir, I would like to ask the Finance Minister only one question. He has said that he does not believe in putting any limit on ceiling of incomes. One can understand the object behind it. So long as the capitalist system exists, the incentive for doing better business is, I suppose, profit. But at the same time, Sir, we know that there are foreign companies which are declaring as much as 60 per cent. on their different shares because of various reasons. Tea is sold at such a high price and our trading corporations are not exercising any control on these things. In the case of manganese, I know in Madhya Pradesh that it is dumped in some places and it is sold to other countries whenever there is any favourable opportunity or when the prices go up. So, if all these measures, that have been suggested are taken, we would not be driven to that state to which the hon. Member from Hyderabad referred—going with a begging bowl to America. If any help comes, it is well and good, but it should be beneath the prestige of this country to draw up its five-year plans only by casting its eyes entirely on the aid that we would get from foreign countries. Thank you, Sir.

SHRI H. P. SAKSENA: Sir, the hon. Finance Minister said somewhere else that he was out to rob rich people of their money in order to give it back to the poor. That is a very laudable object with which I am cent per cent, in agreement and for that reason I support the two Finance Bills, Nos. 2 and 3, that he has placed before this House embodying his taxation proposals. They have my full sympathy, and I do not think there should be any voice raised against these taxation proposals when it is known that they are intended primarily for implementing our plan as well as for raising the low standard of living of the common people. Therefore, we should have no hesitation in supporting the proposals.

Sir, it was very heartening to hear from the Finance Minister that the country was not going to have recourse to any deficit financing in future.

SHRI AKBAR ALI KHAN: No, no. He did not say that, and I do not think he could say that.

SHRI H. P. SAKSENA: At least I interpreted his remarks to mean that, and I have a sort of suspicion in my mind that he had a sort of that feeling and he would stick to it. Deficit financing, as we all know, leads to a rise in prices which has its deadliest effects on our economy, and to which I want to put a complete stop.

Sir, I am very willing to endorse one of the recommendations made by my friend, Mr. Bhupesh Gupta, that the peasants and workers of our country should be given due share in the rise in the national income and in raising the standard of living that we are going to bring about with help of the Second Five-Year Plan. And I have my fullest sympathy and I hope that the day will soon come when the standard of living of the peasants and workers in this country will be raised to an appreciable extent.

Now, capital gains are to be taxed. There can be no two opinions about it. They must be taxed. Then there is the stamp duty on exchange bills. There can be no two opinions about this also.

Then, a very encouraging utterance of the Finance Minister about the Plan was that Plan must go through. This should be acclaimed by all sections of the House. There is to be no tinkering with this; there is to be no change introduced. The Plan has to go through. This should be the slogan henceforth. This slogan should be resounding in our ears that the Plan has got to go through.

I am very much in favour of seeing that indirect taxation is avoided as far as possible. In fact, it will be cruel to see the poor man's bread or the poor man's cloth as well as other necessities of life taxed, and the Finance Minister will be considered to be a successful Finance Minister only when he sees that the rise in prices is checked and is not allowed to rise any further. These taxation proposals are to my mind just like oxygen being administered to the Five Year Plan and they will serve the purpose of vitamin B (*Interruption*). Some of my hon. friends seem to think that oxygen is administered only when a person is dying. Nothing like that. Oxygen is usefully administered in bringing about restoration of lost strength after long sickness. Our sickness is more than 200 years old, and things will improve with the administration of this oxygen. But then I must point out the danger which is high

[Shri H. P. Saksena.]

in the horizon that sometimes our Government has got a tendency to be complacent. That complacency should not be there at all in the implementation of the Five Year Plan.

The point was raised that a warning was given when the Plan was being discussed towards the beginning of this year that the outlay of the plan, *viz*., Rs. 4,800 crores, would not suffice and the reasons were given. It has proved to be so. Plans are never intended to be static. They are always dynamic, and therefore there is nothing to be surprised at when we find that the amount of money allotted for this purpose has not proved sufficient. The Plan was specifically intended to be elastic and to be flexible, and it has proved to be so. Therefore, there should be no complaint or grievance on that score.

My hon. friend, the Finance Minister, thinks that there is enough money in the country. He said that even if one hundred tolas of gold is given by every individual to the Government, it will not be difficult for him to finance the Plan and to provide any further money that may be required for its completion. I must respectfully enquire from the Finance Minister as to how many thousands of persons, or as to how many hundreds of persons even, in the country individually possess one hundred tolas of gold.

SHRIMATI LAKSHMI MENON: He said one hundred rupees worth of gold.

MR. DEPUTY CHAIRMAN: He never said one tola of gold.

SHRI H. P. SAKSENA: It was a very small dose then, and I would like it to be raised to one hundred tolas but it should be confined to only those who have tons of gold in their possession. I agree with the Finance Minister in this respect that there is money enough in the country, but it is so locked up, it is so underground that it is very difficult to have access to that money. It is only an expert Finance Minister like our present Finance Minister who can put his fingers on that money.

With these few words, I support the Bills.

SHRI T. T. KRISHNAMACHARI: Mr. Deputy Chairman, I am grateful to the House for making my task not very difficult. Even my hon. friend, Mr. Bhupesh Gupta, did not direct the vehemence of his attack on anybody in particular, and I am always grateful for small mercies.

Some hon. Members have made very valuable suggestions, particularly my hon. friend, Mr. Parikh. Well, all that I can say is that I am grateful for his suggestions. His suggestions will be seriously examined along with such others as are already with us, and only the suggestions which are useful in our attempt to reconstruct the tax structure would be integrated in the revised tax structure that we are thinking of.

Generally, the hon. Member Mr. Parikh, gave very valuable support for the two measures. I would like to express my gratitude to him for his support.

The hon. Mr. Sinha—he is not here —I should like to express my thanks to him for his very general support for the measure. His speech also contained very valuable suggestions not merely in regard to raising revenue but in regard to the general economic policy followed by Government. One matter which he mentioned and also Mr. Parikh mentioned was with regard to the administration of the rules in regard to deposits that are to be made compulsorily. As I have stated in my opening remarks, I shall certainly see that the provisions are administered liberally and without severity. I am sure many things will have to be taken into account in determining the quantum of the refund that we will have to make of the deposits. If, as my hon. friend Shri Himatsingka mentioned, companies are very prudent and honest, and their expenditure in the future will also be prudent, I don't see any reason why such money as they want should not be returned to them. But it is not a matter of prudence and penalties. It is not a question of adjudging whether a company has been prudently run or imprudently run. Some of these reserves are created largely because of incentives given by the Government. In fact it is generally considered even by people who do not belong to this country, that the development rebates that we are giving are extremely generous and some people are wondering why, in spite of a possible financial stringency and the need for raising our resources, we have not cut down these development rebates. The officers in the administration are alert enough to find out whether these rebates are properly utilized or not and whether a continuance of these rebates is justifiable. But now, when we are changing the whole process and we want more money to be ploughed back into the industries, I would like to give these industrial concerns a chance. If I am giving tax free rebates for various purposes and am allowing reserves to be built up by paying the minimal tax, I am naturally interested to see if all these concessions would enable people to develop industries. The question of a properly run industry or a prudent industry does not really come in.

The fear that has been expressed by my hon. friend Shri Himatsingka was that the mere fact that we are imposing a compulsion would make the firms become more extravagant. If that is the idea, I am afraid we will have to do other things to see that they don't do that. I am grateful to him for suggesting this to me because he knows these companies very well. It is likely that one may say 'Yes, if we put in those reserves, we earn a little more money and some portion of it is refunded and the rest is put in reserve. That might be used in the development of the company'. If on the other hand some body would be narrow-minded enough to treat the assets of a joint stock company as his personnel property and he says: 'All right, the Government is actually dictating to me but I am going to use it, it is my right', then it is not very difficult to check petulance. It is perhaps easier to check petulance than evasion of payments. I would certainly repeat the assurance that I have given that all the proven needs of a company would be taken into account, when an application is made by the company for refund of deposits, and in any event, as I said, until the administration gets to know more of the operation of this measure which is somewhat new, it would be as liberal as possible. The first year is a sufficiently long period when we could try out by being as considerate as possible to the claims of these companies.

I am also thankful to Mr. Bisht for what he said, in particular for his reference to deficit financing, because hon. Members in this House seem to have taken for granted that we are giving up deficit financing altogether. It is not so. Mr. Bisht has said that he welcomes this reduction or rather that there would be some kind of check on deficit financing. It is not a matter of slogan with us that we should indulge in deficit financing to the extent of Rs. 1,200 crores and ergo, go further if there is a need. We shall be very careful about it because we have assigned a definite place in the Plan for deficit financing, that is to say, that the or created money should be used for purposes of expanding the economy until such time as money can be brought back to it either by way of savings or by way of taxation or by way of loans. We thought that for the first two or three years of the Plan, this kind of support would be necessary which is not far different from expanding the monetary basis by expanding bank credits by which you introduce an element of motion into the monetary structure, or what you might call, in economic jargon, an increasing rate of velocity. So, as admittedly deficit financing has its uses in a country where there is not a quick return back to banks by way of investment of savings or increased earnings consequent on the fact that banking, I

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believe, is something which is still not widely known, and the new classes that are getting more money are not classes accustomed to saving in investments, this improvisation is being utilized for a period. But it has certain dangers and the dangers are realised by us and therefore we feel that we should strengthen the economy and supply the needs by larger taxation, and more loans if possible rather than by deficit financing. But one of the effects of our drawing down our Sterling balances about which my hon. friend Dr. Kunzru made a reference has certainly been to tone down the mischief of inflation. Because, by drawing down our Sterling balances to the extent of Rs. 200 crores by way of import of what I consider to be valuable commodities for the purpose of development, we have absorbed from the country, through the banking system, an equivalent amount of money and that is one of the reasons why money is scarce. Banks have not got enough money for financing normal purposes and it has had an anti-inflationary effect which you cannot minimise. Even if it has raised other complications for us which are perhaps easier to deal with than a straightforward inflation, one should rather welcome this drawing down of Sterling balances rapidly at the time when incipient inflation was evident and might have gathered momentum. So the question of drawing down Sterling balances should not be thought of as an unmixed evil. It has certain benefits that go with it, which to me, as a Finance Minister, are welcome. So once again I mention that what Mr. Bisht said is correct. What we are doing is not to give up deficit financing which is not possible but we shall be more careful about deficit financing. Deficit financing is not the sheet-anchor of the financing of this Five Year Plan. It will be used with great care, realising as we do that if it is of the same nature as poison and poison has to be administered in sub-lethal doses and only as and when the economy develops a tolerances for it in its system.

A point was made also by Mr. Bisht about the Hindu undivided family. I am a Hindu belonging, as I suppose, to the Mitakshara clan but I can say . . .

SHRI BHUPESH GUPTA: You should know that at least.

SHRI T. T. KRISHNAMACHARI: At least there is that point of difference between me and my hon. friend opposite. Notwithstanding the fact that this House and the other House spend so much time on Hindu Law, I don't know why we are perpetuating a system which seems to have no validity so far as the future is concerned. Certainly the Hindu joint family has less to contribute by way of strength to the social structure that we are contemplating than any other fancy scheme of ours. If the Hindu joint family is used as a means of evasion, which I am sure it is well, the remedy is not for me to find means of checking evasion through that source, but of blocking the source itself. My hon. friend Mr. Bisht, being a lawyer, knows that it is one of the legal fictions that we are hugging to ourselves when in this year of 1956, with an urban civilization, a person meets only his own needs and that of his wife and children. The joint family is a concept which is fast fading away and we are keeping a legal fiction alive because some people are hugging to it. I have a friend in the other House who, every time, would raise this question of Hindu joint family. Sooner or later, I think the Hindu joint family system must be given its proper place.

SHRI J. S. BISHT: When the State is not able to provide for everybody like widows, orphan, etc.

SHRI T. T. KRISHNAMACHARI: I don't know if it is one of the institutions at all. I don't know if I am part of the world or outside. Sometimes I wonder if I live at all in this world . . . .

SHRI M. GOVINDA REDDY (Mysore): You are very much in this world.

SHRI T. T. KRISHNAMACHARI: But what I say is that the Hindu joint family system hardly exists. The remedy for this is not so much tightening it up but withdrawing the legal recognition from the joint family. And I am quite sure very many people will be happy if this recognition is withdrawn. More people will benefit by it. But anyway, that is neither here nor there.

Another point that was made and which seems to be a common point for many hon. friends, is, to the effect that they do not like raising the duty on watches I admire this new spirit in our people, since they seem to attach great importance to time. I thought, as a nation, we felt that the world is timeless just as it is endless, that time is just something incidental in our life and that it was not a primary factor. But apparently our sense of what may be called punctuality is growing and hon. Members would like to see that this is inculcated in the minds of young people.

SHRI BHUPESH GUPTA: It does not exist in the Secretariat—this new spirit.

SHRI T. T. KRISHNAMACHARI: I am afraid I am getting very near the position of the hon. Member. I am getting deaf and I do not hear him The doctor tells me that I cannot hear high frequency voices.

About watches, Sir, I agree, if I can supply free watches sometime later, to every persons who is literate or who is a voter, it would be a good thing; but I suppose that will be on the border line of corruption. But unfortunately, the position of foreign exchange today needs some check and I have got two courses open to me

[THE VICE-CHAIRMAN (SHRI P. S RAJAGOPAL NAIDU) in the Chair]

I can say: Watch imports will be cut down. But once you do it, the man who imports watches will raise the price because he will demand the price that the market will bear. Then as the price rises, the people will also buy less. I have a watch here and I have had it for some seven years I recently thought whether I should not go in for a new one, not because this is very bad,—it only loses a minute or so in a day—but it does not look nice and I wanted a new shape. Even an old man does indulge occasionally in these things. But I am not sure whether I will go in for a watch now. I hope it will be with me as long as I am here.

SHRI BHUPESH GUPTA: It seems the time goes with the portfolio.

SHRI T. T. KRISHNAMACHARI: I have not changed my watch, and I hope my friend will present me with one if I have to change.

SHRI BHUPESH GUPTA: Mine is twenty years old.

SHRI T. T. KRISHNAMACHARI: The other remedy is to raise the import duty. The choice for the importer is between the two alternatives Either he will restrict the import or pay the tax After all, all these import duties, *per se* not intended to produce revenue, because there will be a certain amount of inhibition of these imports and it will act the other way about. Normally, if the imports are kept on an even keel, it will bring in about Rs 9 crores or Rs. 10 crores. But we can expect a certain amount of decrease in import also in which case you will get only Rs. 6 to 7 crores. So it is a matter of choice and I have exercised it in favour of keeping the imports at a reasonable level and making the thing slightly costly.

My hon. friend Prof. Malkani generally welcomed the proposals. He wanted production to be stepped up, and that is also my intention. He wants guarantee of prices on agricultural produce, if production rises. I think that will be inevitable, it has to be guaranteed. He also touched on one factor which was commonly mentioned in former years, before we had a Plan. We always thought in terms of curtailing governmental

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expenditure. But owing to the Plan, you cannot curtail it, because plan means greater expenditure and therefore greater governmental machinery. I have not heard much of it during the last two or three years. In fact, in an address delivered by him the Auditor-General of the United Kingdom, Sir Frank Tribe mentioned that there was a complete change in the outlook in Members of Parliament in that they no longer wanted restriction of expenditure or cutting down of expenditure but wanted increased expenditure for development and welfare purposes. The basis of the plan is to find more money and to spend it for the benefit of the people. I agree with hon. Members that the money should not be spent for the benefit of the spending classes, namely, the governmental machinery. If anybody is alive to the fact that there is room for cutting down, for economy, both in regard to estimates as well as with regard to expending, I would say I won't give place to anybody else, I will take the place myself. I am quite conscious of it. In fact, I am trying to devote some attention on the expenditure sides to find out means of economy, because economy is undoubtedly essential at a time of development, when expenditure is rising, because, like inflation if you allow it, it will go on multiplying and the number of jobs will multiply. I do not know if hon. Members ever read a foreign journal called "The Economist". There was a very interesting article in that journal sometime ago, about the Parkinson Law, in regard to government service. Government service has got a way of multiplying itself It is preliferation of jobs in Government service. It has no end, I think the hon. Members who read it were rather pleased about it because one or two of them told me about it, and said this general Parkinson Law, so far as Government service was concerned, was applicable to legislators also in a different form or version. They called it "Committology", having different committees, the Estimates Committee, the Public Accounts Committee and other committees, and if there is none else, then a Select Committee. It is endemic in us all. We want to multiply our work. When we multiply work, we think our importance multiplies. For that you want more money to be spent. Therefore, it is a pernicious thing which we have to guard against. I will certainly give the assurance to hon. Members that apart from roving commissions set up here and there in connection with particular projects, the Finance Ministry is now engaged in finding out its own mechanism and ways and means by which it can have an efficiency audit, which can scrutinise the number of officers who are working, the quantum of their work and to see if their number could be reduced.

I started this job, more or less, at home, in my own Ministry. In one particular section, for some reason or other, it was laid down by a high authority that I should have 42 Deputy Secretaries When I took over, there were five or six vacancies and I was told that these must be filled up and that men should be found for them I said, "Do not fill them up." And later on, we were able to reduce the number of Deputy Secretaries by four or five and it is now probably 32 or so. Also I sent out a few senior officers and I can send more such officers, if I could get men to replace them. It is a qualitative assessment of the material that we have and the quantitative assessment of the work that they do. I may mention another Department in which two people connected with my own Ministry, I found, had done little work. I asked one of my officers to find out the nature of the work that they had done for the last 90 days, to put it down very honestly and faithfully and try to assess the quantum of work done and the time they spent on each item of the work. This was put down as 80 to 90 hours, during these 90 days This seemed to be completely wrong —80 to 90 hours in 90 days. So I told the officer to send the sheet to them and ask them to fill up the time that they would have wanted for each particular work. I am perfectly sure that they will make it out now as 270 or 360 hours, but they certainly will not make it into 8 hours for each person for 90 days.

These things are being done and I can give the assurance to the hon. Members that I am always seized of the question. It does not matter in what sector I am asking for savings. I am conscious of the fact that I must put my house in order and I am trying to do it and, to that extent, I am helped because hon. Members have mentioned that fact, so much so, I can tell my sister Ministries that I have got a mandate from the Rajya Sabha and I am certainly going to put down the amount of expenditure to some extent in these Ministries.

Now, I come to the speech of my esteemed friend, Pandit Kunzru. He mentioned that although I said, when I was discussing the Plan in the last Session, that more than Rs. 4,800 crores would be needed, I see to be raising that figure now to something near a precise estimate but without actually mentioning what it would be. That being so, he asked, why I should raise all this extra money when we do not know what it is going to be. The trend is very definite. I can tell my hon. friend that it is very pronounced. Both for the purposes of achieving the targets in the Plan and for accommodating such items as have necessarily to be included in the Plan, additional resources are needed. The reasons are not so much bad estimating because we did not provide, in our estimate of Rs. 4,800 crores an escalator clause. If I had only said that this sum of Rs. 4,800 was subject to an escalator clause,—I am sure my hon. friend would realise that an escalator means 5 per cent., 7 per cent., or 10 per cent., or whatever it may be more—my hon. friend would have understood it. And, if my hon. friend would permit me, and if I could now ask the House to permit me to put an escalator clause, I think Rs. 5,300 or Rs. 5,400 crores would be quite easy to explain. He is afraid that because of foreign exchange difficulties some of the schemes may not be implemented. Sir, in relation to the types of schemes that have to be implemented, undoubtedly the foreign exchange element does prove to be an important factor. Sir, if the scheme is important and has to be implemented then foreign exchange must be found from some other sector which is not quite so important. I am quite sure my hon. friend will concede that human ingenuity could sort of readjust and make resources available for being spent on any portion of the scheme. Normally we have, I take it, an export trade of about 600 crores of rupees or Rs. 550 crores. We tried to augment that recently by some of these bilateral agreements. Assuming that this increase occurs, during the Plan period or even during the remainder of the Plan period, there ought to be available to us more than Rs. 2,000 crores. If, as I said, the shortage in foreign exchange is about Rs. 400 crores, some of the items which we are now importing as a result of the earnings that we make by exports will have to be cut down and utilised for the purposes of the Plan scheme It is really a matter of assessing priorities. If it happens that the Plan scheme is a luxury and, therefore, it ought to be cut out, I agree with my hon. friend, that I should do so but it is a question of assessment. If, on the other hand, I feel that the Plan scheme is a necessity and something else must be cut down, I think the latter must be cut down. I do not say that it is easy; I do not say that it will not cause any other effect on the economy; it would undoubtedly. Anything that is slightly abnormal is bound to have that effect. The criticism of this that my hon. friend, Mr. Akbar Ali, made is abnormal. Even our sitting now is so. It is not normal to sit on a Saturday or to sit beyond 5. Abnormalities go with human life and it is a part of it. Therefore, there are certain expenditures which are normal but the normal can be taken away if circumstances are rendered abnormal. If we have to spend money, then it is a matter of spending on more essential tasks. My

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hon. friend, Pandit Kunzru, mentioned that foreign exchange could not be secured merely by adjusting. Well, he will agree that there are other sources which we can tap and this adjustment need not be made if by merely stretching the two ends, I could make them link up but if that is not possible, I have to take a pair of scissors and find somewhere else bits of ropes, tie them up together and link them up. It may not be such an effective manner and the picture may not be very bright but still it has to be done. I have no desire to use scissors to cut down here and to cut down there if we can stretch the economy and make it expand to the extent of the link being made good. I cannot really understand that there is anything wrong in cutting down some of your imports merely because it will upset the economy to some extent. That is inevitable but the only thing is to guard your actions in regard to the effects of such cutting down. The other point that he mentioned was whether the reduction of imports would lead to a reduction of exports. The answer is 'Yes'. They are absolutely tied down and if it is going to be for a long period, I think, even the nations with which we trade would understand. Normally, you do not cut your imports merely for the purpose of saving foreign exchange, building up something of a balance and things of that nature but you are doing it because it is necessary and I think those countries will also sympathise with us. We may explain our position to them and I don't think there would be any large cutting down of our exports excepting those items which could be cut down. In fact, there are no countries which take our exports merely for the love of it except with regard to that area where we get some kind of a duty preference. If, however, as Mrs. Seeta Parmanand said, we are going to say that we are not going to import anything from any country—well, the idea is merely some form of economic autarchy or rigid control—because that is a luxury. they will not take anything from our country but circumstances like the one which we would be facing or which we are facing are understood by other countries.

The other point that he made was that the revenue effect of these two Bills will hardly have sufficient effect on the prices. I never said that raising the dividends tax or channelling the reserves into deposits or raising the capital gains tax will immediately relieve the pressure on the price structure. The income that we would get is not quite so negligible as all that because, I am not thinking in terms of industrial income. Suppose I say, the net result of this is about Rs. 16 crores—it means Rs. 64 crores for the Plan—then out of the gap of about Rs. 400 or Rs. 500 crores, I have already provided for Rs. 64 crores which is about one-seventh and it is just like this that we can add up to the total amount. I am only thinking of these revenues from the point of view of the general effect on the economy; if more dividends are paid, there is a reaction on wages and other links in the economy. I never said that it is going to have an immediate effect on prices it is not like the case of a woman who wants a child going round a particular tree and then saying, "Oh, I am going to get a child". There is no such immediate relief.

Mention was made about bonus shares and the possibilities of defeating the ends of dividend taxes by means of the issue of bonus shares. Sir, hon. friend know that bonus shares cannot be issued unless the Controller of Capital Issues gives the necessary permission and I think, so long as the Capital Issues organisation acts as a part of the Economic Affairs Department of the Ministry of Finance, it is unlikely that it will ever sanction the issue of any bonus shares without asking the Economic Affairs Department or the Taxation Department as to whether it can do so or not. We are not quite as naive as all that.

My hon. friend Pandit Kunzru, mentioned that one way to keep down prices is to keep deficit financing in check.

SHRI H. N. KUNZRU: And increase production.

SHRI T. T. KRISHNAMACHARI: I say, "Amen".

I have said, Sir, that there are marked tendencies. Somebody mentioned that my colleague, the Food and Agriculture Minister expected a crash. Well, a crash will not come until production shows a spurt. I do not think my colleague is a person who expected a crash all of a sudden when there is going to be no movement in the country either by way of new production or by way of imports. What he expected was that the crops this year may be better and, therefore there may be a drawing down of prices quickly. There are good indications so far as rice is concerned and I hope those indications will proceed. The indications are very clear. That is why like Mr. Malkani we have to think in terms, 'are we prepared to see that the agriculturist is not done out of his proper share in these prices?' The immediate outlook is hopeful: I would only say hopeful because there is always a slip between the cup and the lip.

Mr. Bhupesh Gupta does not expect me to say very much. In his speech he has welcomed the measures which affect the rich and he has hoped that in future Bills affecting small men would not be introduced. Well, let us also hope so. After all, I am as much interested in the small man as he is. He is interested in him as an object for which he will plead in the House and thereby show to him that he his friend. I am interested in him because that is the only purpose for which I am here. I have no other purpose for being where I am except to see that for my brothers and sisters who are in distress we do something to alleviate their distress and to make life a little more cheerful for them. The entire purpose of our function is that and I would assure him that our policy today, tomorrow and the day after will always be to see that the burden on the small man is the minimum that is necessary, that the weight on the small man is taken away as much as is possible.

There is one other point. Somebody mentioned about juggler. Well, I can tell hon. Members that I am not responsible for calling myself a burglar.

SHRI AKBAR ALI KHAN: I said juggler.

SHRI H. P. SAKSENA: I said it.

SHRI T. T. KRISHNAMACHARI: Somebody called me a burglar. I said, 'it is all right; it does not matter. I am an altruistic burglar'. Now, if you say that I have added on to myself the quality of being a juggler also, it does not matter very much. After all, Maha Vishnu had a thousand names: I can have a few.

SHRI H. N. KUNZRU: Can the hon. Minister tell us something about the measures taken by the Government to increase the production of cloth?

SHRI T. T. KRISHNAMACHARI: Yes; so long as the object is only production of cloth. I think every member of Government, every member of my party will agree with me that more cloth should be produced, but so long as it is a question of producing by one means or the other, well, I am afraid you may find a difference. But my own feeling is that every available means of production should be utilised, and we will do that. It is not a question of saying, this is the only way of producing cloth. I am not one of those who say that there is only one way of producing cloth. There are several ways of producing cloth. All those means should be utilised to the fullest extent and all the gains by utilising these means that go to the producer must also be secured. It is not that we are against production of cloth. All of a sudden we will not become members of the nude society. Assuming that we want more machinery to produce cloth, it takes about 18 months. But I am perfectly sure in my mind that by about

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the middle of next year, so far as yarn production is concerned, there would be much more than what we had about that time during the current year and with the development that we are thinking of in the handloom field I think certainly more cloth should be produced. If it is a question of emphasising production at one end, that we are not doing. Production from all sources must be activated and increased.

SHRI H. N. KUNZRU: Is it being increased?

SHRI BHUPESH GUPTA: What about the new rationalisation scheme in the jute industry which will mean frittering away of foreign exchange by imports?

THE VICE-CHAIRMAN (SHRI P. S. RAJAGOPAL NAIDU): You can put all the questions at the end. Please do not interrupt him.

SHRI T. T. KRISHNAMACHARI: That more or less brings me to the end of my story. There are other hon. Members who spokes in support of the measures. My hon. friend, Mr. Saksena, was very kind to me and what my hon. friend, Mr. Sapru, said was, I think, in agreement with what we are doing.

SHRI P. N. SAPRU: I said that it was essential for the success of democracy.

SHRI T. T. KRISHNAMACHARI: I am grateful to him for his support. Even my hon. friend, the hon. Dr. Seeta Parmanand, was charitable at any rate and kind even though not helpful. Well, that practically brings me to the end of my story.

There was one point made on this question of import duty on machinery. The import duty on machinery was 10 per cent. we reduced it to 5¼ and now we have raised it on such types of machinery as have some kind of manufacture in the country or at any rate manufacture which would be undertaken very soon. Also there are certain types of machinery for which everybody is going in. May be in the process of licensing we might stop it but I do not think there is any harm. There such a large number of people wanting to establish sugar factories and wanting to go in for machinery and it will not be difficult for them to pay 5 per cent. extra if they feel it worth while. Every case of increase of duty has been done consistently with the idea that the economy must develop. If the increase in duty will act as a check on the development of the industry, well, there will be no justification for it. If we find that it is checking development, we will stop it. But I do not think that any of these commodities on which duties have been imposed are commodities where either the duties will do any harm or where there is still no local manufacture. We have in sugar local manufacture. I am quite sure in my mind that this increase in duty and probably the checks that we will impose by way of regulations will stimulate local manufacture to a very large extent because ingenuity to manufacture many things that we import does exist in us and it is only the economic factors that operate against it. It will certainly give more confidence and courage to those people who are entrepreneurs and I think in the case of several items manufacture will take place locally.

That is all that I have to say in regard to the various points made by hon. Members. May be I have left out one or two in which case I certainly offer them my apologies for not having answered them.

SHRI BHUPESH GUPTA: I would like the hon. Minister to make one point clear as to why when we are short of foreign exchange the jute industry is allowed a kind of renovation which leads to unemployment and retrenchment, especially when the production could be stepped up by fully using the installed capacity. The matter had been referred to the Prime Minister, to the Government of India and certainly to the hon. Minister for Commerce and Industry and from the Press I find that nothing has been done in this matter although the Prime Minister on 11th November gave an assurance that he will look into this matter.

SHRI T. T. KRISHNAMACHARI: I do not know what the hon. Member has said. I am not telling a thing which is a quip. I am not able to catch the articulation of the hon. Member. That is my misfortune. I think I probably have to have some kind of . . .

SHRI BHUPESH GUPTA: Mr. Vice-Chairman, is that not the way to evade an answer. He can come here; I can go there.

THE VICE-CHAIRMAN (SHRI P. S. RAJAGOPAL NAIDU): Order, order.

SHRI BHUPESH GUPTA: Why is he not answering? Sir, you please communicate to him what I have said in whichever way you think he would listen to.

THE VICE-CHAIRMAN (SHRI P. S. RAJAGOPAL NAIDU): You put it by way of a question. Do not make a speech.

SHRI BHUPESH GUPTA: But the question does not meet his ears.

SHRI T. T. KRISHNAMACHARI: The point of my hon. friend, if I caught him right, is completely without substance. I will not interfere with an industry which is an earner of foreign exchange. I do not know what he says about saving in foreign exchange. What is the use of saving foreign exchange when the industry which itself is an earner of foreign exchange is going down? I hope my hon. friend if he had a little more say in the matter would perhaps . . .

(*Interruption.*)

SHRI BHUPESH GUPTA: Is the hon. Minister aware that it has been pointed out by the jute mill workers that the production could be stepped up by fully using the installed capacity of the jute industry instead of introducing modernisation and spending money for importing such machineries for modernisation? It affects the economy, it affects the foreign exchange, and it hits the labour. Therefore, I am putting that question.

SHRI T. T. KRISHNAMACHARI: My hon friend, Sir, has only one point in view, that is agitation. What he has said has absolutely no basis in fact, because even if we produce it at high cost, we cannot export it.

SHRI BHUPESH GUPTA: My *hon. friend is guided by the jute* industry bosses.

FINANCE (NO. 2) BILL OF 1956

THE VICE-CHAIRMAN (SHRI P. S. RAJAGOPAL NAIDU): The question is:

"That the Bill to increase or modify the rates of duty on certain goods imported into India and to impose duties of excise on certain goods produced or manufactured in India and to increase the stamp duty on bills of exchange, as passed by the Lok Sabha, be taken into consideration."

The motion was adopted.

THE VICE-CHAIRMAN (SHRI P. S. RAJAGOPAL NAIDU): We shall now take up clause by clause consideration of the Finance Bill No. 2.

Clauses 2 to 4, the First Schedule and the Second Schedule were added to the Bill.

Clause 1, the Title and the Enacting Formula were added to the Bill.

SHRI T. T. KRISHNAMACHARI: Sir, I beg to move:

"That the Bill be returned."

THE VICE-CHAIRMAN (SHRI P. S. RAJAGOPAL NAIDU): Motion moved:

"That the Bill be returned."