(1) G.S.R. No. 396 dated the 1st March, 1963.

[*Placed in Library. See* No. LT-967/63].

11.54 hrs.

MESSAGES FROM RAJYA SABHA

Secretary: Sir, I have to report the following messages received from the Secretary of Rajya Sabha:—

(i) "In accordance with the provisions of sub-rule (6) of rule 162 of the Rules of Procedure and Conduct of Business in the Rajya Sabha, I am directed to return herewith the Appropriation (Railways) Bill, 1963, which was passed by the Lok Sabha at its sitting held on the 4th March, 1963, and transmitted to the Rajya Sabha for its recommendations and to state that this House has no recommendations to make to the Lok Sabha in regard to the said Bill."

(ii) "In accordance with the provisions of rule 97 of the Rules of Procedure and Conduct of Business in the Rajya Sabha, I am directed to enclose a copy of the Indian Emigration (Amendment) Bill, 1963, which has been passed by the Rajya Sabha at its sitting held on the 12th March, 1963."

INDIAN EMIGRATION (AMENDMENT) BILL

LAID ON THE TABLE AS PASSED BY RAJYA SABHA

Secretary: Sir, I lay on the Table of the House the Indian Emigration (Amendment) Bill, 1963, as passed by Rajya Sabha.

PUBLIC ACCOUNTS COMMITTEE

EIGHTH REPORT

Shri Tyagi (Dehra Dun): I beg to present the Eighth Report of the Public Accounts Committee on the Appropriation Accounts (Civil), 1960-61 and Audit Report (Civil), 1962.

11.56 hrs.

GENERAL BUDGET—GENERAL DISCUSSION—*contd.*

Mr. Speaker: We shall now take up the general discussion of the General Budget for 1963-64. Out of 20 hours allotted, 15 hours and 45 minutes have been consumed, and the balance is 4 hours and 15 minutes.

Shri Morarka (Jhunjhunu): Every year, the Finance Minister receives both bouquets and brick-bats, after he announces his budget proposals, from the public. This year is no exception. Indeed he has received more brick-bats this year than bouquets. Some of the epithets which are given to his budget are: 'Draconian fare', 'ruthless', 'killing', 'revolutionary', 'unimaginative', 'an affair of the long knives', 'cruelly hurting the masses', 'most barbaric', 'pat and private Dragon', 'stark oppression', 'Tenton hammer' etc.

Most of these compliments he has received are from the rightists whose friend he is supposed to be.

This year's budget is unique in one sense, namely that in the entire fiscal history of this country, it has levied the largest amount of tax, namely Rs. 306 crores.

The need to provide for our defence and development is accepted by each and everyone, not only here but even outside, in London and in other places. This determination of Government is considered highly admirable.

For achieving this twin objective of security and progress, we naturally need huge funds. The Finance Minis-

ter has tried to curtail the need or the requirements of these funds as much as possible. For instance, the National Development Council recommended an outlay of Rs. 1744 crores for the Third year of the Plan, but the Finance Minister has cut it down to Rs. 1651 crores. Similarly, for defence, the Finance Minister has made a provision of Rs. 867 crores for the next year, when China, whose strength we are supposed to match, is already spending Rs. 1200 crores every year for the last few years.

The Government's task in raising these funds is by no means easy. It requires a responsible Government, a popular leader and a bold Finance Minister. In America, some time ago, President Kennedy sent a message to the Congress in which he said:

> "Our security and progress cannot be cheaply purchased; and their price must be found in what we all forgo as well as what we all must pay.".

And recently, he repeated this and said:

> "In National defence and space programme where false economy would seriously jeopardise our national interest or even our national survival—I have proposed expenditure increases.".

In view of this, the increases which are proposed by our Finance Minister and by our Government are by no means unreasonable.

The Finance Minister has four main sources of revenue for raising these funds, namely taxation, borrowing, deficit financing and compulsory savings. He has resorted to all these four this time. He proposes to raise taxation to the extent of Rs. 296 crores, borrowing to the extent of Rs. 400 crores, deficit financing to the extent of Rs. 151 crores and compulsory savings to the tune of Rs. 70 crores.

The main purpose of the new taxation is undoubtedly to raise additional revenues. But the additional purpose is also there, and that has been enunciated by the Finance Minister in his speech. He has said:

> "I had emphasised that in a planned economy taxation policy serves not only the objective of raising resources for the Exchequer but it is also an instrument of economic policy to achieve the wider objectives of promoting the rate of growth of the economy and of correcting imbalances between different sectors of it.".

12 hrs.

In view of this pronounced policy of Government, it is idle for people to criticise the Government by saying that it is trying to accelerate the pace of socialising the means of production in this country. The emergency is certainly a relevant occasion for discretion and economic statesmanship.

Now, whatever the measures of taxation people who do not like them find some criticism or other against them. I give you a few instances. The increased excise duty on petroleum products, automobiles and automobile spares would, according to them, disrupt and disturb the economics of road transport; the duty on kerosene would squeeze the poor; the import duty would fan the inflationary wind and increase the cost of Plan projects; the super profits tax will retard production, kill incentive, tax efficiency, frighten foreign capital and discourage investment; income-tax would upset the household budgets of the middle class and compulsory saving would impose hardship on some families.

Each and everyone of these criticisms be fully met. But since most of the cricism made is against the supper profits tax—it has attracted a lot of criticism both in the press as well as in the public—I would crave your indulgence to deal in greater detail with this new levy. The main criticism against this new levy is that it is a tax on efficiency, it would frighten foreign capital, it would

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prevent capital formation, it would retard production and development and its yield is under-estimated. A tax expert in this country who does not like even the nomenclature, says that it is called super profits tax by a person with a "supreme sense of irony." Other critics say that this tax is a "colossal folly" and still others call it "vicious in the extreme and a technique of the crude rule of the thumb."

Now, let me examine the first criticism, namely, that it would frighten foreign capital. Even without the super profits tax, if you kindly look at the record of foreign capital in this country, you would be simply surprised. There are some figures given in the *Economic Survey* circulated to Members, on page 35 of which there is a table which indicates the performance of foreign capital during the last four years. You would be surprised to know that during these last four years, with the exception of 1960-61, there has been a net outflow of foreign capital from this country rather than an inflow. During six months—April—September—in 1961-62, as much as Rs. 22.7 crores of banking capital alone went out of this country. Private industry capital has also been going on an average of Rs. 5·6 crores every year.

That apart, I would ask of these critics: on what does the inflow of foreign capital depend? Does it depend only on super profits tax, only on the tax policy of Government or does it depend more on the political stability of the country? If our country is at war with China and if political conditions here are not so settled, super profits tax or no super profits tax, foreign capital will not come here. It would come only if it can prosper, only if it can thrive and function in peaceful conditions. But even apart from all these things, it seems we, Indians, are more worried about foreign capital than the foreign people themselves. The reaction of foreign people is that in view of the current difficulties of the Indians, it is necessary to have this tax and British companies must learn to live with this tax. This is their view whereas we feel that this capital would be frightened, our industries would suffer and so on.

The second, and most interesting criticism against this tax is that it is a tax on efficiency. I would like to know which type of income-tax is not a tax on efficiency. You tax only if a person has income. If he has no income, you do not tax him. If he has more income, you tax him at a higher rate. If he has a low income, you tax him at a lower rate. Therefore, if this criticism or argument is to be accepted, then the very basis of income-tax has to be given the go-by.

Another surprising thing is that when we make income the basis of your tax, you say it is a tax on efficiency; when we make capital the basis of tax, you say we are eating into your capital. What then should be the reasonable or progressive basis of taxation I would like to know.

Are all these profits which the companies are making due to good or efficient management? I would submit, no. If that is so, why do two companies with the same capital and under the same good management show different results, why do companies under the same good management make a loss? People delude themselves when they say that the entire profit which the companies are making today is due to efficient or good management. Good and efficient management, no doubt, help, but only up to a point. Beyond that, there are other reasons, other circumstances, which operate and contribute to profit-making.

The main reason why profits are made by companies today is the sheltered nature of our economy. We have no foreign competition. Internal competition is limited. The market is not only assured, but ever expanding. The raw material, where imported, is supplied at a fixed price. The selling price is left to the natural economic forces of supply and demand, and sometimes it is fixed by the Tariff

Commission at rates which are again quite liberal. In view of all these things, if a concern does not make profit, I would say there must be something very seriously wrong with it. But it would be quite wrong to say that it is only because good concerns are there, efficient management is there, they are making profits.

In this connection, it is said that the good companies would be penalised. I wonder how. If the companies were good, if they made profits in the past and they did not follow a reckless policy of frittering away all their profits but transferred some of the profits to the Reserve Fund, if they followed a prudent policy, then on those very reserves today, under the new scheme of taxation, you would get a six per cent allowance. In exempting profits from super tax, we are exempting a six per cent return on your tax-free reserves also. How can it therefore be said that we are penalising the good companies. The good companies under the very scheme of super tax are rewarded, they are not penalised.

The third criticism is that under this scheme of taxation, revenues are very much under-estimated. May be so. I agree that the revenues would be more. So, what? If you think that the rates are high and on merits can prove that, ask for a reduction of the rates. The rates do not become more rigorous if the revenue is more. Similarly, they do not become less rigorous if the revenue is less. On merits you say whether the rates are appropriate or not.

Mr. Speaker: Whom is he addressing, when he says "you say"?

Shri Morarka: I am referring to the people through you.

Mr. Speaker: He might kindly address me. He is not addressing me, nor the Minister.

Shri Morarka: I was saying that merely because the revenues which the proposal might yield are high, the rates of the tax do not become high and unbearable. If the rates are high or unbearable, you must argue on merits and ask for their reduction.

Another threat is given that if this tax is imposed, production will be retarted. I wonder whether it would, but if production is retarded, if it does suffer, then it would prove that the private sector carries on production only for profit. The moment the profit is reduced, not taken away completely, you start stopping production. Your philosophy of production for development, production for employment, production for service, production for satisfying consumers needs, all these things will go to the winds, and the very charge of the Communist Party against the private sector would be fully vindicated that they carry on production only for profit.

Shri Daji (Indor): Not for patriotism.

Shri Morarka: It is said that this tax will prevent capital formation. How is it going to prevent capital formation? It is simple arithmetic and it is quite true that when you take a certain amount of tax from the companies, only the residuary profits would be left in the hands of the company. Profits would be reduced to that extent. But that does not mean that the company cannot pay any dividends or transfer anything to the reserves. Undoubtedly the dividends would suffer. I also agree that transfer to the reserves would suffer. But that does not mean that the development or expansion would necessarily suffer.

It would be interesting for the House to know how much of the industrial expansion that has taken place in recent years has been financed by the reserves of these companies. Most of the expansion has been by borrowed capital, some by equity capital invested by the shareholders and to some extent by the internal resources of the companies themselves. The worst thing

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that may happen is that the internal resources of the company may be reduced. That would undoubtedly be reduced. Still, the other two avenues of finance would remain and there would be no suffering to any large extent so far as development is concerned.

With your permission, Sir, I shall give two examples of two companies which would attract the super profits tax and request the House to determine whether it is going to kill any company in the corporate sector. First is the Century Mills, Bombay. It has a paid up capital of Rs. 3.8 crores and its reserves are Rs. 3.3 crores. During 1961, that company earned a gross profit of Rs. 2.87 crores out of which it provided to pay a tax of Rs. 1.36 crores. If the company were to pay a super-profits tax on this, the total would come to Rs. 1.86 crores by way of taxes, leaving a net profit of Rs. 1.01 crores which works out to 26 per cent on the paid-up capital. Even after paying super profits tax and all the other normal taxes this company would still earn a profit of 26 per cent on the paid-up capital today. Is this 26 per cent less?

Take another example the Indian Iron and Steel Company, IISCO. It has a paid up capital of Rs. 15.14 crores and its reserves are Rs. 26.50 crores. Last year it made a profit of Rs. 9.19 crores and it that time it made a provision for taxation of Rs. 3.96 crores. It will have to pay a tax of Rs. 5·16 crores, now, on this profit, which means, it will still be left with a net profit of Rs. 4.03 crores and this works out to 26·6 per cent on the paid up capital of Rs. 15 and odd crores.

Shri A. P. Jain (Tunkur): The retention prices were then wrongly fixed.

Shri Morarka: I am only talking about the super profits tax. The retention prices apply to steel and not to textiles. My first example was from the textiles and the second from the steel industry.

During 1940-41, the last world war, we had in this country what is called the excess profits tax. The rigours of the excess profits tax were in some respects more severe than the present super profits tax. At that time the rate was 66 and 2|3 per cent. The remaining 33-1|3 per cent was required to be complusorily deposited with the Government. The idea was that the corporations should not have a single pie out of the excess profits earned; the entire amount must go to the Government: two-thirds in the of taxation and one-third in the form of comulsory deposit.

That was no our war. Our country was not in danger. Even then, the people paid that tax without a murmur. Today, when our country is threatened, and only 50 per cent or 60 per cent of super profits is demanded, we are advancing all types of arguments. Sir, you have heard the arguments against this tax, and you have now heard my arguments against that criticism. What I say is this: this is not the time for arguments. This is a tax which is levied on the companies because the country needs the funds, and the companies can afford them. If you do not levy this tax, to that extent the cause of the country would suffer.

There are two difficulties which are likely to arise on account of the super profits tax. Mind you, when I say there are two difficulties, I am not asking for any deduction in the tax. I am not saying that this tax scheme should be modified. One difficulty is in regard to the working capital. When you mop up the funds from the companies, then, to that extent, the company's funds shrink and when the company's funds shrink, the working capital problem arises. You would agree with me that the credit conditions in the market are by no means

easy. It is not quite easy for the companies to borrow money or to raise credits. You know already that the bank rate is 4½ per cent, but even at 4½ per cent the Reserve Bank can lend only up to 50 per cent of the statutory reserve as of the scheduled banks. The Reserve Bank lends at 6 per cent upto the other 50 per cent. If the banks want any loan over and above that amount, then, loan is given at its discretion and at penal rates. This is the position about the Reserve Bank.

Mr. Speaker: The hon. Member's time is up.

Shri Morarka: Kindly give me two minutes more. I have to make two or three points more. So far as the lending rate of commercial banks is concerned, it is already 7 to 7½ per cent. The lending rate of the Industrial Finance Corporation is 7½ per cent and the lending rate of the ICICL is also 6½ to 7 per cent. The high rate of interest indicates the stringency of money in the money market, and therefore, if you want the scheme of super profits tax to succeed and succeed fully and belie all this criticism, you must see that no company is strangulated for want of working capital. You must make arrangements to lend and advance money to the companies freely and at reasonable rates of interest and without any difficulty. If you ensure that, I have not the least doubt in my mind that the scheme of super profits tax would succeed and succeed in spite of all the criticism that the people have made.

There has been a very common criticism which is often repeated here, and that is about the under-estimates that the revenues are under-estimated by the Government. The Public Accounts Committee has also called the attention of the House to this phenomenon. It is true; it has been proved that for the past few years the revenues are underestimated, but I do not understand what harm under-estimation does and to whom. Under-estimation of revenue can do harm only if your revenue needs are limited and if you collect more revenue than you need and fritter away all the extra revenue you collect, but when your revenue needs are unlimited—you have got so many projects and plans, defence and so on—it is not going to make much difference when you collect some more amount.

Apart from that, there is also another difficulty, and that is, in a growing economy, when new companies come into existence, when old projects have to stop production because of import difficulties, there are genuine difficulties in the correct estimation of these revenues. But what I want to say is this. This thing is not peculiar to this country alone. I was reading recently about the American budget, and I was surprised to find the views of one of the senators there. This is what he said:

> "Most Congressmen recognized that Presidents"—that is, the Presidents of the United States of America—"are traditionally and notoriously over-optimistic in estimating the size of budget deficits. Missouri's Cannon complained on the floor of the House that over the past nine years the Administration budget-makers have under-estimated the red ink (that is a deficit) by a net total of 37.5 billion dollars."

I have calculated this amount in rupees and it comes to Rs. 17,812 crores. That was the under-estimation in America.

Coming to the question of arrears, I beg your indulgence to give you one or two quotations in this connnection. Our annual collection of direct taxes comes to Rs. 370 crores and our arrears today are Rs. 132 crores; that means about 35 per cent. I submit that you cannot devise any machinery by which your arrears can be less than

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this. Assessments go on from day to day; arrears arise from day to day and if 35 per cent of the year's revenue is in arrears, that cannot be called high, by any stretch of imagination. I have seen the figures of other countries, but I have no time to quote them. I find that the tax arrears of other countries are much more and represent several years' collection.

The tax law, which appears so simple, is in fact very complicated. It is so complicated that even the great mathematician, the late lamented Albert Einstein once said: that it was beyond him to calculate his tax in U.S. and he had to go to a tax consultant. He said:

> "This is too difficult for a mathematician; it takes a philosopher."

I will give you another quotation indicating how complicated the tax law is about allowances and disallowances. It is very interesting and the House would like to listen. I am quoting from *Time*:

> "The IRS (Internal Revenue Service) ruled that a Hollywood actress could deduct the cost of her expensive wardrobe on the ground that a movie star is required to look well-dressed; but, added the taxmen, she could not deduct the cost of undergarments because the public did not see them."

Mr. Speaker: should not the hon. Member finish with this?

Shri Ravindra Varma (Thiruvella): He may be suggesting a way out.

Shri Morarka: There is yet another example:

> "A taxpayer is permitted to deduct educational expenses if they enable him to keep his job but not if they enable him to get a better job."

Sir, the tax law has its own delicacies and nuances and I assure you that our tax law is not much different.

In conclusion . . . .

Shri Daji: You have gone into the undergarment. Where shall we go now in conclusion?

Shri Morarka: In conclusion, I wish to say only this that these are extraordinary taxes. People are asked to pay them in the name of national security and economic progress. Due to the emergency, the fundamental rights of the people are suspended. The right of Parliament to accountability is in a way qualified and restricted. In these circumstances, the responsibility of the Government for the proper utilisation of the public funds becomes much greater. The least consolation that you can give to the people—and they need this consolation—is by proving to them that their humble contributions are not misused.

12.23 hrs.

RE: UNION TERRITORIES BILL

The Minister of Home Affairs (Shri Lal Bahadur Shastri): Sir, I have been hoping that we might get time for the motion for referring the Union Territories Bill to a Joint Committee but it seems there are other important items of work and this might not be taken up. I am rather keen that it should be referred to the Joint Committee, so that before the other House rises, this motion is considered by them and a Joint Committee is set up. It is needless to add, Sir, that the people in the Union Territories are very keen that this Bill should be passed as early as possible. In fact, I had almost told them that their Advisory Committee meetings were the last. Now if they are made to wait till July, August or September next, it will become very late. So, I shall be grateful to you and to the House