The Economic Weekly

A JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

VOL. I, NO. 15. 9th April. 1949 PRICE: Ans. 8.

CONTENTS

All communications and contributions to be addressed to the Editor, "The Economic Weekly", 13-15, Tamarind Lane, Fort, Bombay Telephone 34843.

MSS should be typed double spaced, on one side of the paper only; a stamped and addressed cover should be enclosed for return of contributions not accepted for publication.

Subscription rates: One year, Rs. 24; Six months, Rs. 12 Post Free for India and Pakistan.

REGD NO. B. 5489

THE BRITISH BUDGET

TO appreciate me recent shift in 'fixation in Britain, it is necessary to realise the basic assumptions of socialist economy. As long as "all the national activities which we (the British) regard as of importance," are to be maintained there can be no appreciable reduction in public expenditure.

At the moment, the Government are taking forty per cent of the national income through taxation. Because the Government are taking eight shillings in the pound as taxation, it does not necessarily follow that the nation has that much less to invest. What the Government take from the people, they spend for the public. To the extent that public revenue and expenditure merely involve tranfer payments, the accounts are self-balancing items.

Even so, it is significant that a socialist Chancellor has been forced to admit that there is no room for any major re-distribution of income through taxation. In the context of capitalist economy, direct taxation of incomes and profits has definite limits. In socialist Britain, this inescapable fact is increasingly being realised. And the British budget is an inevitable consequence of this phenomenon,

More disturbing, though not unexpected, is the other equally significant fact that yields from direct taxation are suffering from the law of diminishing returns. Even with eight shillings in the pound, proceeds from direct taxation may appreciably shrink by 1951-52, if not by 1950-51. Sir Stafford's budget is a significant reminder that, this is what is to be expected in a capitalist economy.

On the assumption that public expenditure does not admit of any material reduction, Authority has to rely on indirect taxation, once direct taxes reach the saturation point. This also is not a new phenomenon. But, what is new, is a significant reminder that the traditional sources of indirect taxation are also showing symptoms of the "disease" of diminishing returns. That is why Sir Stafford has taken a penny a pint off the beer duty, although reduced duties on wine are aimed at helping the liquor trade in France in furtherance of the OEEC plans.

Is this the first, faint, indication of the alarming fact that, in a capitalist economy, even indirect taxation has definite limits? This has not yet created a major problem. John Smith may be consuming less beer now than he used to do in the Elizabethan days, but he has cultivated other habits. He occasionally bets on horses, is fond of dog-racing and is mad about football pools.

Those who are used to getting up the pulpit may frown upon these habits, but even an austere Chancellor must feel satisfied that, as long as he can fatten on these acquired habits of the public, he can go on planning for the establishment of a welfare state. True. But a future Chancellor of the Exchequer may not have this satisfaction ten years hence.

But this is a digression. To revert to the topic, the Chancellor can, for some years yet, rely on possible new sources of indirect taxation to maintain expenditure at current levels. Meanwhile, there is another source of indirect taxation which can be utilised. It has the additional advantage that it can partially reduce expenditure.

Even school girls know that subsidies can obscure but cannot permanently insulate the economy against, inflation. Subsidies have grown to massive proportions in Britain because of the Government's determination to make the necessities of life available to the common man at prices which he can pay, besides the Government's intention to stabilise wages at a certain level.

Last year, Sir Stafford Cripps levied a "once-for-all" special contribution on the richer individuals as an alternative to capital levy. This the Chancellor did in response to the wage-earners' demand that they would accept wage stabilisation only if profits, too, were stabilised. As the process of mulcting the coupon clipper has gone the farthest possible limit, the time has now come for the wage-earner to share his portion of the budget.

Lower subsidies proposed by Sir Stafford mean an increase of .£35 million in indirect taxation. As the increase in wages in 1948 has exceeded the rise in retail prices, the higher food prices consequent upon partial lifting of subsidies, may not warrant a demand for higher wages. More probable it is that consumption will decline,—lower subsidies acting as rationing through prices.

FOREIGN TECHNICIANS, YES —BUT NO FOREIGN CAPITAL

Throughout the war years, millions died, millions more starved in this country. That was how India amassed huge foreign assets, and became a creditor country. Our sterling balances represent our savings; these balances are the obverse side of the bank deposits which have mounted up during the war. India paid too high a price for accumulating these savings. Much more depressing is the possibility that India is now being asked to stint herself once again to ensure tomorrow's jam.

On behalf of the Government of India, the Prime Minister has issued an invitation to foreign capital to play "a constructive and co-operative role in the development of India's economy". This welcome to foreign business interests is based on the assumption that "our national savings will not be enough for the rapid development of the country on the scale we wish."

Whether or not the rate of capital formation in India in the post-war years is adequate, is a theoretical problem which must remain unanswered and indeterminate in the absence of relevant data. This question is intimately bound up with the current level of investment activity. There are various reasons why the tempo of business activity is not as it should be. But the lack of