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Thoughtless Move

THE general objective behind the amendment of the Income-Tax Rules setting limits on certain expenditures by companies is, let it be stated at the outset, unexceptionable. At present these expenditures are deductible from taxable profits and so companies are encouraged to inflate them—in any case, they have little incentive to control them as stringently as they might otherwise—since, in effect, something like one-half or more of the additional expenditure comes out of the Government's tax revenue and only the rest has to be borne by the company. As the Finance Minister pointed out when presenting the 1964-65 Budget: "the provisions of the Income-Tax Act allowing as deductible expenditure amounts spent wholly and exclusively for the purpose of business are being abused in respect or certain types of expenditure. Unduly large amounts are spent on daily allowance, on unnecessary bookings on planes and trains, on advertisement and on the maintenance of guest houses and suites of rooms in hotels outside the specific places of business, on providing conveyances and in paying high rents for accommodation for their officers and directors and in many other ways. . . . this tendency amongst companies is responsible in no small measure for the present high costs and the time has come to put a check on some at least of these expenses[0]. With these views of the Finance Minister we are in the fullest agreement; in fact, we deem it a pity that action along the lines he had proposed should have been so long in coming.

Having said that, we come to the main point of this editorial which is that in putting a ceiling on expenditure by companies on advertising, residential accommodation and travelling, the Finance Ministry has completely ignored, or missed, the distinctive character of expenditure on advertising which sets it apart from the other two types of expenditure. For the advertiser, the purpose of advertising is, of course, to make known some product or service or institution. From this point of view, the maximum now prescribed for advertising expenditure will be claimed to be inadequate to fulfil the legitimate and reasonable purposes of advertising. It is not proposed here to go into this question though, since the advertising requirements of different companies necessarily vary *very* widely depending on the nature of their products or services, the criticism that a uniform maximum rate is unduly harsh on certain companies has much force.

But the restriction on advertising expenditure needs to be judged as much from the point of view of advertising media (we shall be concerned here with the press) as from that of advertisers. This should be obvious if we consider the fact that advertising constitutes a major source of revenue to the press. To put the matter differently, the press is a producer of joint products — it sells copies of newspapers to readers as well as advertising space to advertisers. What the restriction on advertising by companies achieves, in effect, is to circumscribe the market for the second of the two products. The grave implications of this for the press deserve the most careful consideration, but it is clear that no such consideration has been given by those responsible for the decision to amend the Income-Tax Rules. If they had, they would certainly not have imposed the limit on advertising expenditure as casually as that *on* expenditure on residential accommodation and travelling!

It is true, of course, that advertisement expenditure as such has not been pegged, only the expenditure deductible for calculation of tax. Expenditure over the permissible limit will be disallowed and to that extent taxable profit: inflated. This amounts to a tax on advertising above the permissible maximum at the marginal rate of tax applicable to the company. No sophisticated estimates of the price elasticity of advertising are necessary to show that advertising above the deductible maximum will be severely restricted as a consequence.

Reliable data on the economics of the Indian press are notoriously non-existent, the Registrar of Newspapers' copious two-volume annual reports being little better than useless. In the U K the mass circulation dailies almost all derive the major share of their revenue from advertising and for the periodicals, particularly the quality ones, the proportion is even higher. *The Economist,* for instance, earns roughly twice as much from advertising as it does from circulation. The Indian press, with far smaller circulations, is if anything more dependent on advertising. And while advertisers generally follow the principle "to him who has shall be given", in terms of their total revenue it is the smaller papers who depend most on advertisement (excluding, of course, those which are overlly or covertly subsidised by individuals, special interests, political parties and, not least, foreign embassies). It is these papers, again, on whom the advertiser's axe, as he looks around to cut his advertising, will first fall.

This is not the place to debate whether advertising is a desirable influence on the press or not, but it certainly enables newspapers to sell at prices which bear no relation to their costs of production and thus to reach a far larger readership than they would otherwise. Without advertisements this paper, for instance, would cost upwards of Rs 2 per copy. Theoretically, there is, of course, the possibility of exploiting economies of scale through larger circulation, but in practice both such economies and the possibilities of increasing sales have very definite limits, for each newspaper as well as for the press as a whole. In any case, talk of increasing circulation is academic in the present context of newsprint shortage and rationing. It was not so long ago that this paper was officially advised to cut down its size to reduce newsprint consumption!

As an industry producing joint products, the press thus has the supply of one of its products — copies of newspapers — limited by the control on newsprint and the demand for the other — advertisement space — limiteel by the ceiling on companies' advertising expenditure. Neither of these restrictions, it is true, may have been motivated by any wish to interfere with the freedom of the press. Yet insofar as this freedom consists in the right to inform the public of the facts and issues of the day and to express opinions about them, a society in which this right is circumscribed for economic reasons loses very substantially the distinction that sets it apart from societies where the same right is politically circumscribed. Newsprint control is perhaps unavoidable, but the restriction on advertising expenditure by companies is an appallingly thoughtless step. It will, we hope, be withdrawn immediately before it does the deep damage it is capable of.

Verdict in Ceylon

THE results of Ceylon's general election will appear far less decisive or portentous than the right-wing press in Ceylon has made it out to be if it is remembered that in the elections of 1960 the Sree Lanka Freedom Party had polled less than one-third of the total votes. Further, it had got over 100,000 votes less than the United National Party. If in spite of this the SLFP secured 75 seats which, along with six nominated members, gave a majority to the party in the 151-member House and enabled Mrs Bandaranaike to form the Government, it was because of the very effective election pacts which the party had made with parties other than the UNP. Details of the voting in the latest election are not available yet and so the shifts in the political balance revealed by the election remain unclear. But, broadly speaking, it would appear that the major changes have been in the relative positions of the SLFP and the UNP. None of the other parties, certainly not. the genuine leftist parties, appear to have lost any ground to the UNP.

To interpret the defeat of the SLFP as the defeat of the left is clearly inadmissible. The SLFP, like the Congress in India, is an amorphous collection of politicians, not a few as committed to vested interests as any in the UNP and many others with nothing more than opportunism to light their political path. It was no small achievement of Mrs Bandaranaike's that she managed to hold together this incoherent mass by adroit distribution of the loaves and fishes of office. Unfortunately, the same skill did not mark her management of the affairs of State. In fact, if the election results can be said to be a verdict on anything, it was on the colossal inefficiency of Mrs Bandaranaike's Government. Its attempts to clip the wings of the scurrilously anti-Government Lake House group of papers are unforgettable for their clumsiness. The Press Bills had to be repeatedly withdrawn after their introduction in Parliament and redrafted to correct flaws undetected in the original drafts. Only such unmitigated incompetence on the part of the Government could have enabled the UNP to raise the bogey of "marxist dictatorship" and emerge as the champion of civil liberties.

At the time of writing it appears that the UNP will form the Government with support from the SLFP rebels, the Federal Party and the Tamil Congress. But there is no reason why this alliance should prove any more durable than those which Mrs Bandaranaike sought to form when in office. The Tamil Congress's and the Federal Party's honeymoon with the UNP is likely to be short-lived, coming lo an end as soon as the Government faces the Sinhalese vs Tamils issue and the problem of the stateless Indians. Besides, it will he interesting to see how the UNP, with its hard core support coming from the Roman Catholics, confronts the most significant development in Ceylon politics in recent months— the return of the Buddhist monks as a political power to reckon with. In addition, of course, there is the generous legacy of economic problems which the new Government: inherits from its predecessor. All in all, it seems Dudley Senanayake will be over-optimistic to view the result of the elections as a mandate to rule Ceylon undisturbed for the next five years.

Revised Subscription Rates

WITH effect from March 1, 1965 the price of THE ECONOMIC WEEKLY has been raised to 75 Paise. Correspondingly the annual subscription is Rs 36 in India, Pakistan and Ceylon. The half-yearly subscription is Rs 20. Foreign annual subscription rates are 70s and $10.

For the last 16 years, the price of THE ECONOMIC WEEKLY has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control have compelled us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES
Business Manager