

Wealth Tax in India
Its Burden and Impact

by

M. H. GOPAL



1970

ECONOMIC AND SCIENTIFIC RESEARCH FOUNDATION
NEW DELHI-1

Wealth Tax in India
Its Burden and Impact

With the compliments of



ECONOMIC & SCIENTIFIC RESEARCH FOUNDATION
FEDERATION HOUSE, NEW DELHI - 1.

**The views expressed in this study do not necessarily
represent those of the Governing Body of the Foundation**

© ECONOMIC AND SCIENTIFIC RESEARCH FOUNDATION

**PUBLISHED BY THE HON. DIRECTOR, ESRF, FEDERATION HOUSE,
NEW DELHI AND PRINTED BY GRAPHIC AIDS AT THE
CAMBRIDGE PRINTING WORKS, DELHI-6**

Contents

	Page
<i>Foreword</i>	ix
<i>Preface</i>	xi
1. THE TAX BURDEN	1
I. Analysis of the Tax Data	1
I. Assesseees	1
II. Assessed Wealth	7
III. Wealth Tax Charge	13
IV. Wealth per Assessee	17
V. Tax per Assessee	21
II. Estimate of the Tax Burden	23
1. General Wealth Tax	23
2. Effective Burden	25
3. Additional Urban Wealth Tax	26
4. Income Tax Burden	28
5. Aggregate Burden of the Wealth and Income Taxes	30
III. Findings	32
2. IMPACT ON CAPITAL FORMATION	36
1. General observations	36
2. Limitations of the analysis	37
3. The analysis	38
4. Trends in GNP, depreciation and NNP	39
5. Consumption	43
6. Savings	47
7. Capital formation	52
8. Secondary criteria	61
9. Unaccounted money in capital formation	78
10. Findings	82
3. RECOMMENDATIONS	88
A. General Observations	88
B. Specific Suggestions	91
C. Summary of Specific Recommendations	97

List of Charts

	Page
Chart A	2
Chart B	4
Chart C	8
Chart D	9
Chart E	10
Chart F	14
Chart G	15
Chart H	18
Chart I	19
Chart J	22
Chart K	23
Chart L	40
Chart M	44
Chart N	45
Chart O(i)	48
Chart O(ii)	49
Chart P	53
Chart Q	57
Chart R	62

List of Tables

1A	101
1B	102
1C	103
2A	104
2B	105
3A	106
3B	107
3C	108
4A	109
4A(a)	109

(1957-58=100)

4B	Wealth Tax Involved per Assessee Regrouped	110
4B(b)	Indices of Wealth Tax Involved per Assessee Regrouped (1957-58=100)	110
5A	Wealth Tax—Scheduled Rates, Effective Rates and Burden	111
5B	Wealth Tax—Scheduled Rates, Effective Rates and Burden on the Value of Urban Immovable Property in Certain Areas (1965-66 onwards)	113
6	Separate Burden of Income Tax and Wealth Tax Assuming 6%, 9% and 12% Return on Net Wealth (Earned Income for Married Persons with More than One Child)	114
7	Combined Burden of Income Tax and Wealth Tax, Assuming 6%, 9% and 12% Return on Net Wealth. (Earned income for Married Persons with More than One Child)	116
8A	Combined Burden, of Income Tax, Wealth Tax and Additional Wealth Tax in Class 'A' Places Assuming 6%, 9% and 12% Return on Net Wealth (Unearned Income for Married Persons with More than One Child)	117
8B	Percentage of Total Tax Burden (Income Tax, Wealth Tax and Additional Wealth Tax) to Income in Class 'A' Places, Assuming 6%, 9% and 12% Return on Net Wealth (Unearned Income for Married Persons with More than One Child)	118
9	Effective Rates of Income Tax and Wealth Tax at 6%, 9% and 12% Return on Net Wealth (Earned Income for Married Persons with More than One Child)	119
10A	Gross National Product at 1948-49 Prices	121
10B	Indices of Growth of GNP, Depreciation and NNP at 1948-49 Prices	122
11A	Net Domestic Product by Industry of Origin (at Current Prices)	123
11B	Net Domestic Product by Industry of Origin (at 1948-49 Prices)	125
12	Net Domestic Product—Percentage Distribution by Industry of Origin (at Current Prices)	127
13A	Utilisation of Total Resources (at Current Prices)	128
13B	Indices of Utilisation of Total Resources (at Current Prices)	129
13C	Utilisation of Total Resources (at 1948-49 Prices)	131
13D	Indices of Utilisation of Total Resources (at Current Prices)	132
14	Saving, Investment, Income and Capital Formation (at Current Prices)	134
14A	Indices of Saving, Investment, Income and Capital Formation (at Current Prices)	136
15A	Proportion of Consumption and Gross Domestic Capital Formation to Total Resources and Gross Domestic Product (at Current Prices)	138
15B	Proportion of Consumption and Gross Domestic Capital Formation to Total Resources and Gross Domestic Product (at 1948-49 Prices)	139

	Page
16A	Gross and Net Capital Formation (at Current Prices) 140
16B	Gross and Net Capital Formation Indices (at Current Prices) 141
16C	Percentage Distribution of Public and Private Capital Formation (Gross and Net) (at Current Prices) 142
16D	Public and Private Capital Formation (Gross and Net) in the pre-Wealth-Tax and post-Wealth-Tax Period (Average) (at Current Prices) 142
17A	Public and Private Capital Formation (Gross and Net) in the pre-Wealth-Tax and Post-Wealth-Tax Periods (Average) (at Current Prices) 143
17B	Gross Domestic Capital Formation (at Current Prices) 144
17C	Percentage Distribution of Public and Private Capital Formation (Gross and Net) (at Current Prices) 145
17D	Gross and Net Capital Formation—Indices (Current Prices) 145
18	Growth of Companies at Work 146
18A	Growth of Companies at Work (Indices) 147
19	New Issues—Applications Disposed of, Consented and Utilised 148
20	Consents for Capital Issues in Respect of Non-Government Companies 149
21	Capital Issues 150
22	Actual Capital Issues 151
23	Capital and Debenture Issues (New Issues) per Company 152
23A	Indices of Capital and Debenture Issues (New Issues) per Company 153
24	Fluctuations in Share Prices 154
24A	Variations in the Household Sector's Holdings of Corporate Shares and Securities 155
24B	Capital Raised by Non-Government Companies Against Consents as well as under Exemption Order 156
25	Profitability Ratios of Jt. Stock Companies (all industries) 158
25A	Profit Allocation Ratios of Jt. Stock Companies (all Industries) 159
26	Income, Sales, Assets and Profits per Company 160
26A	Income, Sales, Assets and Profits per Company—Indices 161
27	Capital Formation Rates of Jt. Stock Companies 162

APPENDIX I

Savings, Aggregate Investment and Capital in India 1960-61 to 1965-66	163
---	-----

APPENDIX II

Domestic Capital Formation (at Current Prices)	164
--	-----

Foreword

The subject of taxation, everywhere and always, gives rise to abrasive arguments. It is tempting but misleading to give primacy to one aspect of taxation to the exclusion of others. The question of reducing inequalities can be best viewed as part of taxation-development relationship. They are not mutually exclusive goals.

We may or may not agree with what was said by an eminent economist nearly a hundred years ago that "once the principle of graduation is applied to taxation, there is no amount of injustice and folly you cannot commit." Yet, this warning is salutary at the present time in our country, when taxation of all kinds is resorted to or suggested with alacrity by different authorities for varied reasons, not all of them warranted by the needs of planning or even the canons of social justice.

Analysis, rather than conjecture, is the pathway from pragmatism to doctrine and vice-versa. This is true even in such a complex and emotion-charged subject as taxation. In this book Dr. M.H. Gopal, one of our leading economists, with considerable work to his credit on problems of public finance, has analysed the Indian experience of Wealth Tax. This analysis, however, does not deal with the wealth tax on agricultural land.

It must be made clear here that Dr. Gopal's inferences and conclusions do not necessarily reflect those of the Foundation or its Governing Body. The study is, nevertheless, valuable insofar as it provides a painstaking analysis of data not hitherto published. We are, therefore, making it available to students of public finance with a view to initiating debate and discussion.

This Study was completed before the new provisions of the Wealth Tax were placed on the Statute Book through the Finance Act of 1970. As the Prime Minister and Minister for Finance in her Budget Speech of 28th February 1970 observed: "For the individual, who derives his entire income from wealth, the combined effect of income and wealth taxation, as now proposed, will impose an effective ceiling on income after taxation when such income reaches approximately Rs. 25,000 per annum."

The Finance Act of 1970 has enhanced the rates of ordinary wealth tax on an individual's wealth from 0.5 per cent to 1 per cent at the

lowest slab of Rs. 1 to 5 lakh, and from 3 per cent to per 5 cent at the highest slab of over Rs. 20 lakh. The existing additional wealth tax on urban lands and buildings, varying from 1 per cent to 4 per cent, has also been enhanced. The tax on wealth, in combination with income-tax, makes the total taxation exceed the total income at lower levels than before. A private burden resulting in slower economic development has both a social and economic dimension. These new features cannot but intensify the incidence of the tax, as appraised by Dr. Gopal.

New Delhi-1
1st November, 1970

HON. DIRECTOR

Preface

The Wealth or Net Worth Tax has been tried in over a dozen countries such as Sweden, West Germany, Japan, Ceylon, Colombia and Uruguay. In India it was introduced in 1957 and has recently been made almost penal in its rates and scope.

The following essays present Indian experience during 1950-1966. They form part of a larger study, and deal with two facets of the tax (1) its burden, and (2) its impact on capital formation. The study is an empirical analysis of the wealth tax data, the burden being estimated both independently and along with the incidence of the income tax. The impact facet is analysed primarily in the context of savings and investment and secondarily of company finances in order to ascertain the capital formation trends in the private sector. Neither are the conclusions nor is the analysis concerned with savings, capital formation and company finances as such, except so far as these are relevant to the tax issue.

Apart from my own interest in the problem, the study was made by me as the Fiscal Consultant to the Economic and Scientific Research Foundation, New Delhi. I have had the able assistance of Mrs. Nina Sharma, Mr. P. Ramakrishnan, Mr. J.N. Sharma and Mr. M.K. Krishnan.

The data are mainly from official sources. I thank the Union Ministry of Finance, particularly the Central Board of Revenue, the Central Statistical Organisation and the Reserve Bank of India.

For facilities given, for their statistical studies utilised and for the opportunity to study the problem, I thank also Mr. P. Chentsal Rao, and Mr. M. Narayanaswamy, Hon. Director and Consultant respectively of the Foundation. But the responsibility for the interpretations, findings and recommendations is mine.

M. H. GOPAL

New Delhi
1st November 1970

The Tax Burden

I. ANALYSIS OF THE TAX DATA

1. Assesseees

Indian wealth tax statistics are very suggestive. In the course of the decade since the tax was imposed in 1957-58, the aggregate number of assesseees has gone up each year¹, and in 1966-67 was over 200 per cent more than a decade earlier, the index in the latter year being 301.5 with 1957-58 as the base, indicating that new assesseees are continuously brought in. There has also been a steady increase year after year but also marked breaks in the trend. The first break was in 1958-59, the very first year after the tax was levied, when there was a 43-point increase, and the second in 1964-65 with a similar expansion.

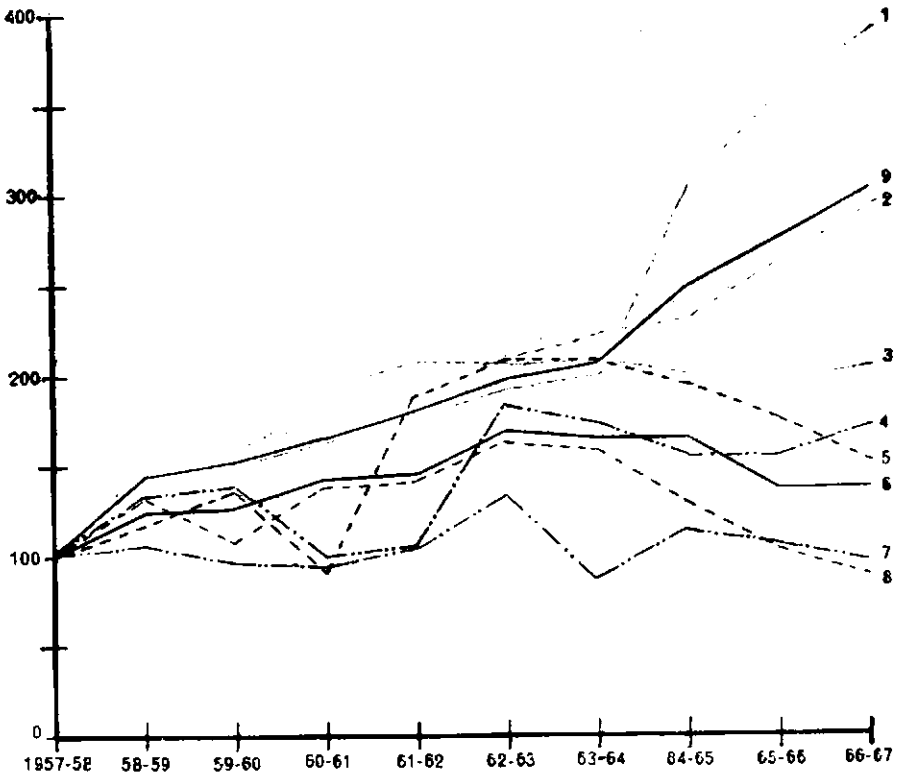
The first increase may be ascribed to the initial enthusiasm and efficiency of the administration in tightening up the new tax net, while the latter, i.e. in 1964-65, was largely due to the lowering of the exemption limit from Rs. 2 lakh to Rs. 1 lakh. This trend in numbers is all the more noteworthy because during the decade there were many ups and downs in the economy, particularly in the industrial and commercial sectors. Considering the *number* assessed, therefore, the wealth tax may be regarded as of satisfying significance.

¹ Table 1A; Chart A

Chart A

Number of Assesseees—Wealth Tax

1. Rs. 2 to 3 lakh (Middle Class)
 2. Rs. 3 to 5 lakh (" ")
 3. Rs. 5 to 10 lakh (Upper Middle Class)
 4. Rs. 10 to 20 lakh (" " ")
 5. Rs. 20 to 25 lakh (Rich Class)
 6. Rs. 25 to 50 lakh (" ")
 7. Rs. 50 lakh to 1 crore (Wealthy Class)
 8. Above Rs. 1 crore (" ")
 9. Total
- (1957-58 = 100)



The break-up of the assessee numbers according to the wealth slabs presents a more interesting picture. The aggregate number may be analysed according to the eight wealth *slabs* as given officially¹ and also by regrouping them into four no less meaningful groups. This grouping is necessarily arbitrary, and within the same group the yield from the wealth held, actual or imputed, varies. In a poor country like India, even Rs. 5 lakh, yielding at the commercial bank deposit rate of 6 per cent an income of Rs. 30,000, places the recipient in the super tax category and among the rich, thereby adding to the political problems of inequality of income and of ceiling on wealth.

Wealth holders with Rs. 1 to 5 lakh may be termed the *Middle Class*; holders of Rs. 5 to 20 lakh may be grouped as the *Upper Middle* and those in the next two slabs having Rs. 20 to 50 lakh of property, the *Rich* and *Wealthy* section, of whom those with over Rs. 1 crore of wealth would, perhaps, be the *Super Rich*. It is this group, particularly the *Super Rich*, which is the target of attack in all non-communist egalitarian-minded societies and of the many redistributive tax laws².

It is useful to repeat that this grouping is adopted because of its socio-economic significance and of the impact of the wealth tax ; that it is in relation to the wealth held and not necessarily the income from it or the use the wealth is put to ; and finally, that the wealthy in India, as grouped above, would not be considered as such in many other countries, for example, in USA³. The classification is, thus, relative to the economic conditions, socio-economic outlook and tax policy in India. It may also be noted that between each group and between each slab the range of wealth included varies and that the last slab of over Rs. 1 crore is open-ended. But for purposes of broad comparison, the grouping of the slabs appears both tenable and significant.

Deferring the vertical study of the slabs which comprise different amounts of wealth in each group, let us look at each group horizontally i.e. over the years⁴.

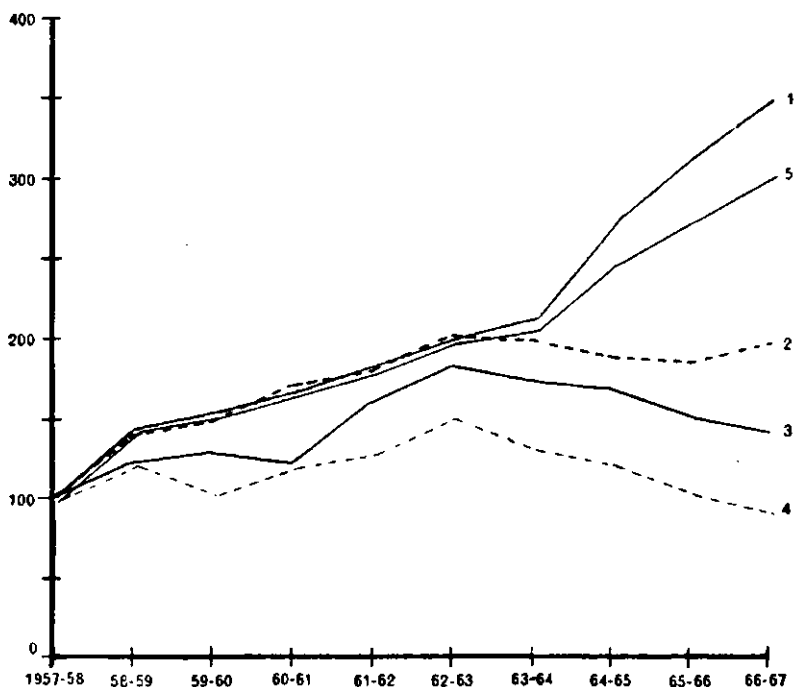
The slab under Rs. 5 lakh—the *Middle Class*—is remarkable for the unbroken expansion in the number of assesseees. In spite of the uninspiring economic situation in the country described earlier there

1. Table 1A; Chart A.
2. An important justification for the wealth tax the world over is this objective.
3. *Vide F. Lundberg, The Rich and the Super Rich*, Nelson, 1968-1969. This book interestingly but not very objectively presents the American situation.
4. Table 3A; Chart B.

Chart B

Wealth Tax—Number of Assessees Regrouped

1. Middle Class (Rs. 2 to 5 lakh)
2. Upper Middle Class (Rs. 5 to 20 lakh)
3. Rich Class (Rs. 20 to 50 lakh)
4. Wealthy Class (Above Rs. 50 lakh)
5. All Classes
(1957-58 = 100)



has been no year in which the assessees were fewer than in the previous one. This observation is true whether we look at the Rs. 2 to 3 lakh slab or the next higher one of Rs. 3 to 5 lakh. In the former there has been a sudden shoot-up in the number of assessees from 1964-65 onwards because of the lowering of the exemption limit, the increase in the aggregate national and, therefore, per-capita wealth, at least at certain levels, the rise in property values on account of inflation, and perhaps partly due to greater experience in administering the tax. Otherwise, and more particularly in the Rs. 3 to 5 lakh group, which

was not structurally much disturbed, there has been a threefold increase from 4,300 to 12,800.

The next group, the *Upper Middle*, comprising the next two slabs, shows different but significant features compared to the others above or below this wealth level. The overall increase in 10 years was only about 100 per cent from 3,400 in 1957-58 to 6,700 in 1966-67; and in-between there have been small ups and downs. For instance, perhaps for the reasons stated earlier, the number in 1958-59 was strikingly larger than in the previous year. While in 1963-64, the number was almost identical with the earlier one, it declined in the next 2 years till it picked up in 1966-67.

These fluctuations over the period become marked when the slabs are considered separately. Thus, the numbers in the Rs. 10 to 20 lakh sub-group have shown greater variations over the years, whereas the slab Rs. 5 to 10 lakh does not show ups and downs to the same extent. Both the groups present declining trends for the 2 years after 1963, picking up slightly in the last year of the decade. This pattern of fluctuations suggests that the changes in the over-all economic climate affected the upper middle slab comprising smaller entrepreneurs and professional people more than it did the less wealthy section. The close correlation between general economic conditions and wealth-holding is sustained even on a closer and wider look. This explanation, if tenable, and I believe it is, assumes significance in view of the burden of the wealth tax and the recent tendency to increase income tax rates on the middle incomes groups. In a mixed economy, where the private sector, specially comprising the middle and small sized units, is regarded as desirable, would it not harm and drive out of business, the middle income groups who might be pressed in between the heavy tax burden, national economic fluctuations and the tendency towards concentration of business ?

The third group, the *Rich*, with Rs. 20 to 50 lakh of wealth, also bears the characteristics found in the second group. Between 1957-58 and 1963-64, the number of assesseees steadily increased, being 75 per cent more in the latter year and from then on decreased in the next two years, being only forty-three per cent larger than that 10 years earlier.

The two slabs within this group indicate differing trends. Whereas the richer of the two namely, Rs. 25 to 50 lakh slab follows the general trend referred to above, that is, an increase till 1962-63 and a decrease thereafter, the less wealthy slab of Rs. 20 to 25 lakh has been uneven regarding the number of assesseees. Thus, in 1960-61 there was about

a 30 per cent decline compared to the previous year, but in the next year the initial numbers more than doubled; in the succeeding two years the numbers remained constant, with a decrease in the succeeding years. This difference in the pattern of behaviour appears traceable to two facts: firstly, the small range of wealth in the first slab—Rs. 5 lakh as compared to Rs. 25 lakh in the other one—making any ironing out of changes difficult, and secondly, the greater susceptibility of the less rich individual to particular changes in the overall economic situation. In other words, the cushionability of such an owner of wealth against economic fluctuations appears to be limited.

In the last of the groups—the *Wealthy*, with property over Rs. 50 lakh—the same trend in numbers, though less marked, is noticeable but only till 1962-63. Thus, in 1960-61 the growth in numbers was 21 per cent but in 1963-64 it was 30 per cent more than in 1957-58. From then on, the number of the wealthy continuously declined.

The changes in the rates and structure of the tax do not appear to have contributed to this decline or to that in any of the wealth groups. The decline appears to be traceable to the changing economic situation in the country at large. It is remarkable that the growth in the numbers of the wealthy was relatively slow between 1957-58 and 1963-64 and the reduction was *relatively* large thereafter, the index being 93 in 1966-67 as against 100 in 1957-58 and 130 in 1963-64. In no other wealth group was the number at the end of the tax decade smaller than at the beginning of the levy in 1957-58. The implication of this trend from the angle of the redistributive objective of the tax may be considered later.

The shifts in the number of assesseees in the two slabs comprising the last group—the *Wealthy* and the *Super Rich*—is, indeed, instructive. The assesseees in the slab of Rs. 50 to 100 lakh have shown more rise and fall in numbers, particularly in the first 5 years of the tax, than those above that limit. Thus, their number rose in the year after the tax, fell in 1959-60, increased again in the next three years and shrank later continuously, whereas among the super rich, variations were more in the *latter* part of the decade. Except for 1963-64 when fluctuations were greater than in the less wealthy category, there has been relative constancy in numbers around 30, while no such feature characterises the less wealthy. This probably arises from three causes. The super-rich have greater capacity to withstand changes in the general economic climate. Secondly, the constancy may also result from the open-endedness of the group, namely, 'above Rs. 1 crore' which conceals many in the upper reaches of the super-rich category who had their wealth reduced but

not enough to relegate them to the lower slab. How much really the assessee numbers were affected by economic changes cannot be determined. Thirdly, the total number is too small to be affected normally by anything but major economic changes.

One striking feature of both these slabs is the mere handful in these categories. Indeed, compared to other countries such as the United States, and even Great Britain, and also in proportion to the population in India, it is revealing that multi-millionaires even in rupee terms should be so few, apart from the wealth holdings themselves being relatively low.

II. Assessed Wealth

Table 1B¹ relates to the wealth of the various groups and slabs according to the assessment made officially. Looking at the aggregate wealth as assessed, what stands out is the marked increase in the very first year after the levy. From then on, the amount assessed, like the number of assessees, steadily increased except for 1963-64, but the rate of growth was slow and, indeed, much slower than that in numbers². In fact, for the whole decade it was only 100 per cent more than in the base year as against a 200 per cent expansion in numbers. The growth disparity between the two—the numbers and the amount—is noticeable in all the years except the initial one, and in some years the disparity is very marked. Thus, while in 1960-61 and 1962-63 the difference was around 4 per cent, it was, from 1964 onwards, 10 to 15-fold greater i.e. the increase in wealth was less than that in numbers. This, however, does not necessarily indicate reduced inequality in wealth or greater administrative efficiency in netting more assessees, if not more wealth, or even greater tax evasion, although any or all these, and perhaps other, reasons such as the overall economic situation affecting not the individual but his wealth may have operated.

In the first group—the *Middle Class*³—the assessed wealth in the 10 years has, like the number of assessees, increased more than threefold, growing all through the years and very nearly doubling in each quinquennium, being Rs. 273 crore in 1957-58, nearly Rs. 520 crore five years later and Rs. 920 crore at the end of the period. In some years as in 1958-59 and 1964 to 66, the expansion has been rapid, compared to the respective previous years. A striking feature is that while in the rest of the assessed groups the volume of wealth decreased

1. Chart C.
2. Chart D.
3. Table 3B; Chart E.

Chart C

Wealth As Per Assessment/Return

1. Rs. 2 to 3 lakh (Middle Class)
 2. Rs. 3 to 5 lakh („ „)
 3. Rs. 5 to 10 lakh (Upper Middle Class)
 4. Rs. 10 to 20 lakh („ „ „)
 5. Rs. 20 to 25 lakh (Rich Class)
 6. Rs. 25 to 50 lakh („ „)
 7. Rs. 50 lakh to 1 crore (Wealthy Class)
 8. Above Rs. 1 crore („ „)
 9. Total
- (1957-58 = 100)

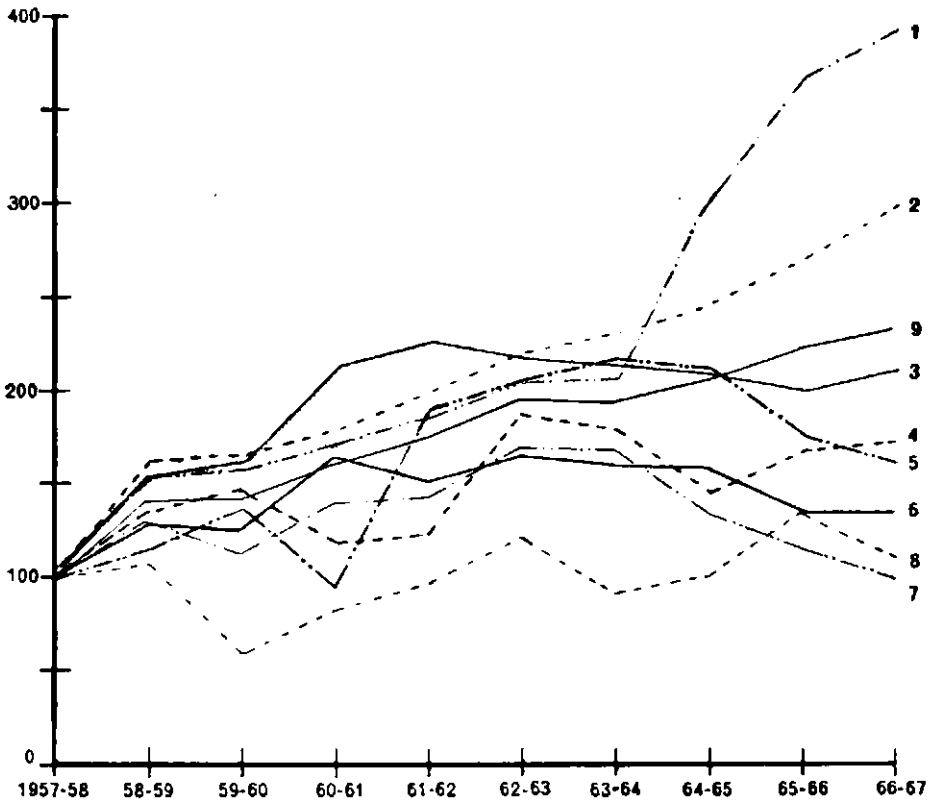
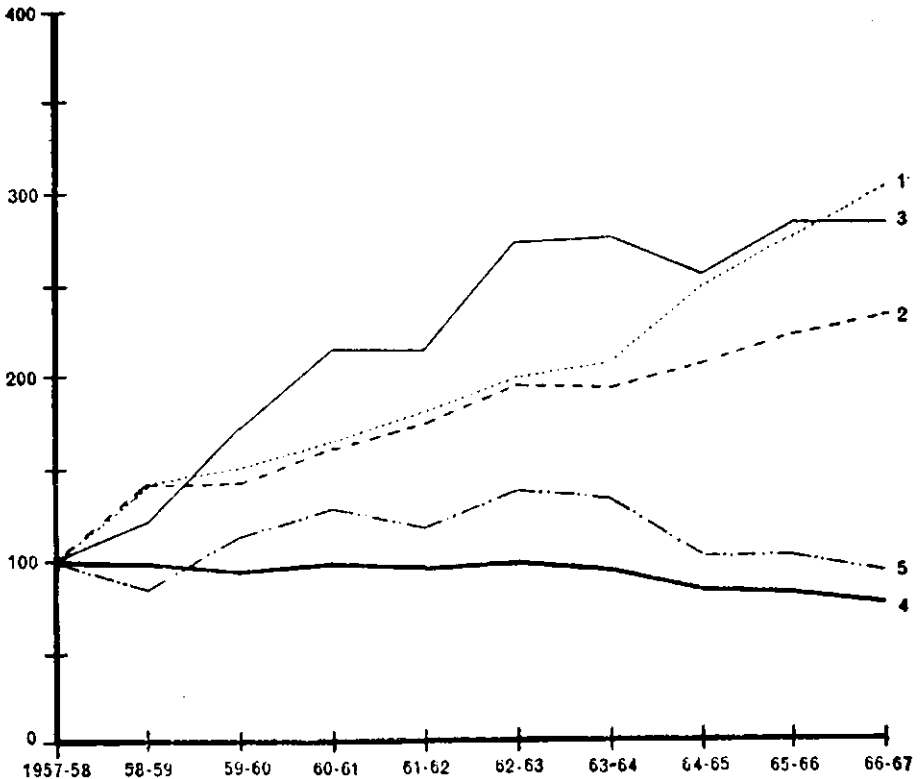


Chart D

Wealth Tax Involved, Wealth Assessed and Number of Assesseees

1. Number of Assesseees
 2. Wealth as per assessment/return
 3. Wealth Tax Involved
 4. Wealth Return per Assessee
 5. Wealth Tax Involved per Assessee
- (1957-58 = 100)

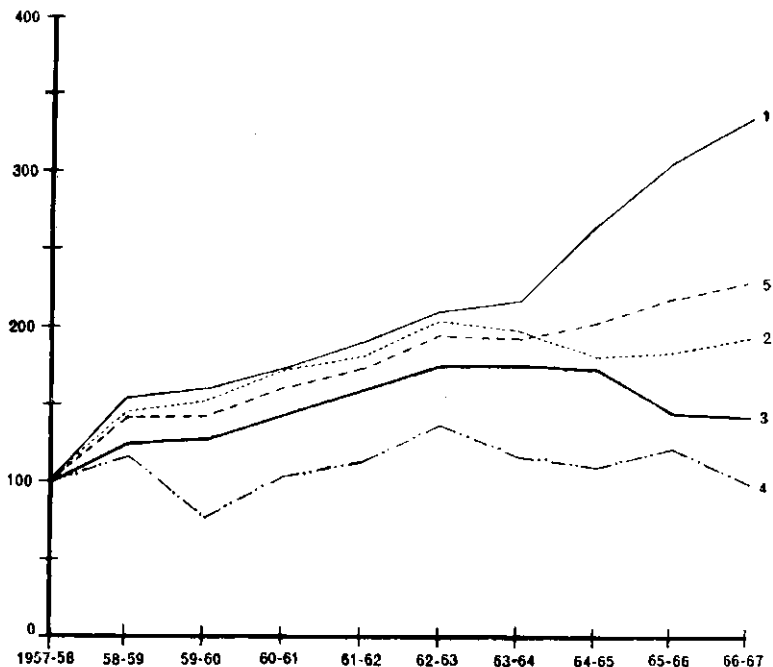


from 1963 onwards and more markedly in 1964-65 perhaps because, as suggested above, of the changing economic conditions, that of the 'middle class' actually showed a marked *increase*. It is difficult to explain this feature except to surmise that the group comprises the non-risk-taking wealth holders, such as in the professions, who, for obvious reasons, do not or cannot evade the tax, perhaps because they are *relatively* more conscious of their social responsibility and also because they cannot *normally* afford the services of tax consultants.

Chart E**Wealth as per Assessment/Return—Regrouped**

1. Middle Class (Rs. 2 to 5 lakh)
2. Upper Middle Class (Rs. 5 to 20 lakh)
3. Rich Class (Rs. 20 to Rs. 50 lakh)
4. Wealthy Class (Above Rs. 50 lakh)
5. All Classes

(1957-58 = 100)



Let us look at the slabs comprising this group. Here, the characteristics of the overall trend and the observations thereon stand out in relief. Thus, in both the slabs the volume of assessed wealth more than doubled by 1962-63; and the first spurt was in 1958-59, the succeeding increases till 1963-64 being slow but steady. There was another spurt in 1964-65, —nearly 100 per cent— but this was largely traceable to the lowering of the tax exemption to Rs. 1 lakh. All the same, the growth in the two succeeding years was considerable, being more than 30 per cent in the Rs. 1 to 3 lakh category, relatively larger than

even in the next slab, where it was less than 25 per cent. Thus, the two noteworthy features of both the slabs in the lowest wealth groups are the increase by spurts and the apparent immunity to economic conditions such as controls affecting the higher wealth groups.

In the *Upper Middle* group, the assessed wealth doubled in the decade, but between 1957-58 and 1966-67 it increased in the first six years, shrinking in the next two and picking up later. This tendency is in contrast to the trend in the *Middle Class* group. Further, in the former, there was close correspondence between the trend in numbers and that in assessed wealth, suggesting that there could not have been much deterring impact of the tax on the number of assesseees or on the volume of their wealth.

The two slabs which form this group, however, show divergent tendencies. The first slab of Rs. 5 to 10 lakh indicates that wealth between 1957-58 and 1966-67 more than doubled, whereas the category of Rs. 10 to 20 lakh showed, at best, a lower rate of growth. In the former, the volume increased twofold within 4 years of the levy. After 1962, however, it slowly decreased in the next four years. On the whole, from 1960 onwards there was relatively less fluctuation, as in the number of assesseees from 1961 onwards.

The wealth slab Rs. 10 to 20 lakh is characterised by greater ups and downs in volume throughout the decade, though in different degrees. For instance, it increased sharply in 1958-59 and then slowed down next year, but in the succeeding two years but one, it expanded, picking up slowly at first but rapidly in 1962-63 and then declining in the next two years, to pick up again towards the close of the decade. This divergent behaviour of the two slabs suggests that the smaller businessman largely represented in the Rs. 10 to 20 lakh slab, was more sensitive to changes in the economic climate, and therefore, the impact of taxation including the wealth tax appears to have been more in this case than in the lower wealth slab.

The third group comprising the *Rich*, with Rs. 20 to 50 lakh of wealth, has its own characteristics. Between the first and last years of the decade, wealth assessed increased by 44 per cent, although in the three years, 1961 to 64, the volume was about 60 per cent larger than in the initial year. In the first three years of the tax, the increase was slow, with a marked growth in the next two years, almost static in the succeeding two, and with a marked reduction in the final two years. Compared to the *Upper Middle* group as a whole, fluctuations in the rich group were less frequent and of lesser magnitude.

The slabs in this group present interesting contrasts. Assessed wealth in the slab of Rs. 20 to 25 lakh grew steadily almost till 1964-65, except for 1960-61 ; but towards the close of the tax decade, the decline in the volume was such that in 1966-67 assessed wealth was only two-thirds higher than at the beginning of the levy, although the volume in 1962 to 65 was more than double that in 1957-58. Yet another feature contrasting this slab with all the others except the *Super Rich* is that in the first year after the wealth tax was levied, the increase in volume was relatively small, unlike in the other groups and slabs where it was very marked. Thus, for instance, in the Rs. 10 to 20 lakh category, the assessed volume was up by over 35 per cent in the second year of the tax, and in the Rs. 25 to 50 lakh slab it was 30 per cent, whereas at the Rs. 20 to 25 lakh level it was around 15 per cent. The Rs. 25 to 50 lakh slab also showed marked unevenness and the largest amount assessed was Rs. 90 crore in 1962-63, that is an increase of a little less than 50 per cent and the minimum was in 1959-60, about 25 per cent more than in the base year.

The last group comprising the *Wealthy* has not only the fewest assesseees but also generally the smallest volume of aggregate wealth. This group, with each assessee holding more than Rs. 50 lakh, showed practically no difference between the first and the last years of the tax decade, in the assessed wealth which was slightly more than Rs. 91 crore in 1957-58 and a little less than Rs. 93 crore in 1966-67. The largest amount assessed was in 1962-63 and the smallest in 1959-60, but in neither case was the deviation in the 1957-58 to 1966-67 levels as marked as in the other groups, although the fluctuations in the volume were more marked after 1962.

Between the two slabs in the 'Wealthy' category, noticeable differences are found. In the slab of Rs. 50 to 100 lakh there is relatively less fluctuation over the entire decade. Thus, in the latter half of the decade there was a continuous downward trend in the amount assessed, whereas in the topmost wealth slab i.e. over Rs. 1 crore it was in the earlier half of the decade, and the amplitude of fluctuations was less pronounced. Further, in 1966-67 the assessed wealth was actually smaller than in 1957-58, but among the 'Super-Rich' it was larger. Again, in 1959-60, the latter were affected by the economic situation much more than the less wealthy in this group ; in fact, the volume of their assessed wealth was Rs. 33 crore compared to Rs. 38 crore in the lower slab, i.e. relative to 1958-59, the wealth of the super-rich shrank by 45 per cent but of the other slab by only 15 per cent. There is, thus, relatively greater stability in the *amount of wealth* held

in the lower slab but greater stability in the *number of assessees* in the richest slab. Two plausible explanations are that the open-endedness of the 'Super-Rich' slab covers up changes in wealth held unless the assessee is shifted to below Rs. 1 crore ; and also that the assessee's larger resources enable him to stand the strain of economic changes better.

III. Wealth Tax Charge

Let us look at the trends in the aggregate tax assessed on each of the groups and slabs. The tax charged on the 'Middle Class'¹ expanded two and a half times even before the lowering of the exemption limit in 1964-65, and by the end of the decade was fourfold more than at the beginning of it. In 1960-61 there was an extraordinary increase in the amount, only to be followed by a considerable decline in the succeeding year, growing thereafter till 1965-66. In the decade *as a whole*, there was almost a steady rise.²

Viewing the slabs separately, there are important differences between the greater and lesser wealth holders in the 'Middle Class'³. The total charged on the lower wealth slab increased sixfold by 1965-66 and although there was a fall in the next year, it was still five times as large as in 1957-58. A feature, interesting in itself and also as a contrast to the Rs. 3 to 5 lakh holders, is the slowness of the increase for five years after 1959 and the two spurts in the next two years, particularly that in 1965-66, in keeping with the trends in the number of assessees and their wealth. The jumps in 1964 and 1965 are due largely to the influx of new assessees and wealth consequent on the lowering of the exemption limit, and partly also to economic factors common to the next slab.

In contrast, the behaviour of the higher wealth slab is different. The tax charged showed two big jumps in the second and third years after the levy and in 1960-61 the amount was the largest in the decade, whereas the charge on the lower slab kept on rising slowly for three more years. It may be noticed that while in all the other wealth slabs—higher or lower—the year 1961-62 was marked either by an increase in or by an almost constant tax charge, the second slab in the 'Middle Class' group showed a marked *reduction*, although there was

1. The sudden decrease in 1958-59 in the tax charged on the Rs. 2-3 lakh category (Vide Table 1C) is inexplicable, nor could it be explained by the tax authorities either.
2. Table 3C, Chart F.
3. Table 1C, Chart G.

Chart F

Wealth Tax Involved—Regrouped

1. Middle Class (Rs. 2 to 5 lakh)
 2. Upper Middle Class (Rs. 5 to 20 lakh)
 3. Rich Class (Rs. 20 to 50 lakh)
 4. Wealthy Class (Above Rs. 50 lakh)
 5. All Classes
- (1957-58 = 100)

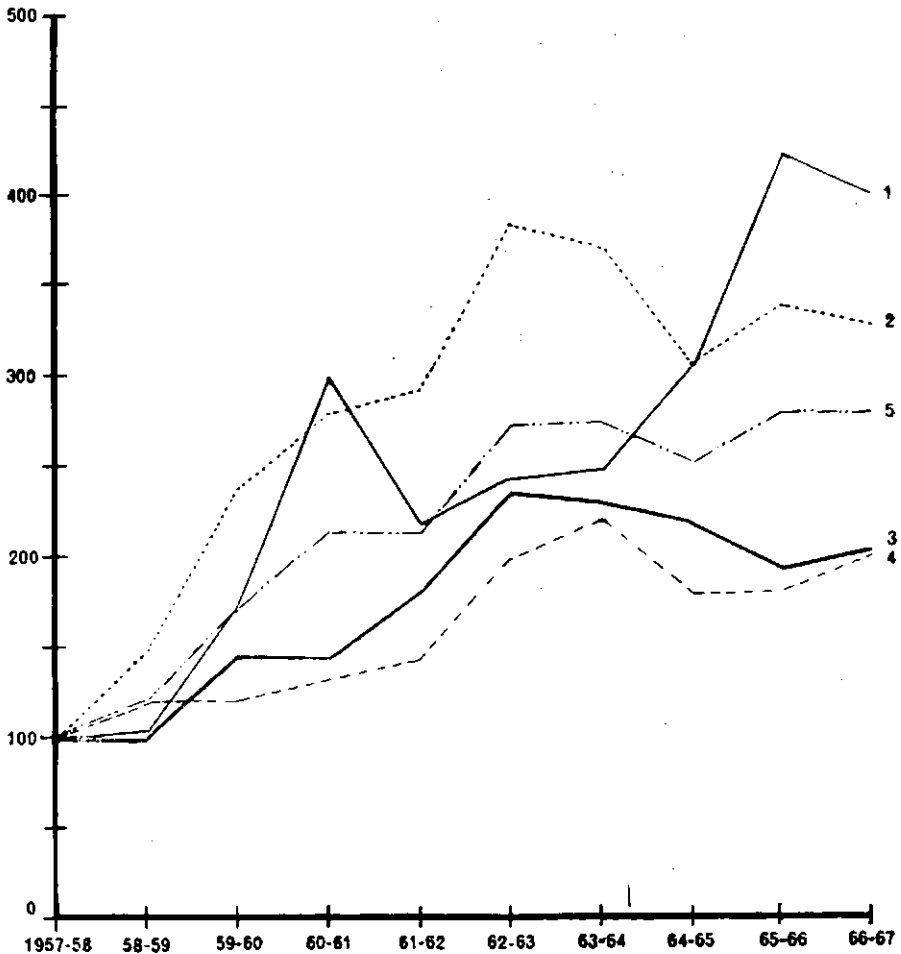
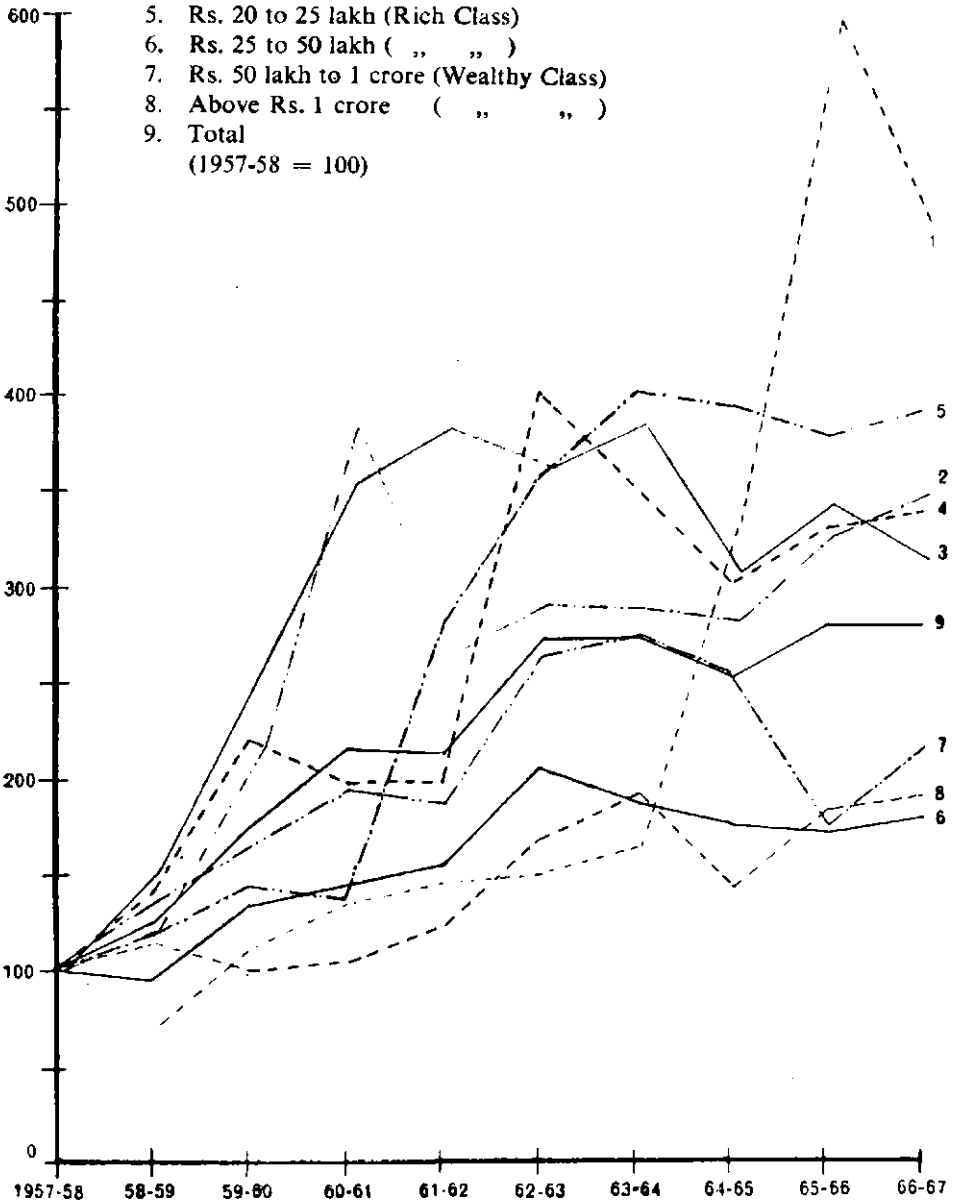


Chart G

Wealth Tax Involved

1. Rs. 2 to 3 lakh (Middle Class)
 2. Rs. 3 to 5 lakh (" ")
 3. Rs. 5 to 10 lakh (Upper Middle Class)
 4. Rs. 10 to 20 lakh (" " ")
 5. Rs. 20 to 25 lakh (Rich Class)
 6. Rs. 25 to 50 lakh (" ")
 7. Rs. 50 lakh to 1 crore (Wealthy Class)
 8. Above Rs. 1 crore (" ")
 9. Total
- (1957-58 = 100)



a rise in the number of assessees and their wealth. This lack of correlation between the numbers, wealth and tax charged is, indeed, strange.

Intriguing differences between the 'Upper Middle group' and the lower one may be noted. The high-water mark in the number, wealth and charge was reached on all these accounts in the same year, 1962-63, but the rates of expansion were different ; the index number of the tax growth was 384, whereas that of the assessees and their wealth was only 200. That is, while the former, representing the total burden, increased more than the other two, it was not as large as that in the lower wealth group. Moreover, whereas the latter fluctuated in the first two years of the decade, the former continued to grow steadily, and in later years was more or less static but for a contraction in 1964-65. The Upper Middle group was characterised in the first few years by spurts in the total tax charge. It is, however, difficult to explain why this was so, since the growth in both the number of assessees and the volume of wealth was *steady* and not in spurts.

Turning to the slabs in this group : it is interesting to contrast the trends in them, and also between them and the lower and higher wealthy categories. In both the wealth slabs, tax charges more than doubled in the course of the decade, but while in the Rs. 5 to 10-lakh slab the charges moved up rapidly in the beginning and were steady in the next four years, with a slight fall in 1964-65, the Rs. 10 to 20-lakh category showed marked fluctuations in the beginning of the decade. The differing trends in the two slabs are found in all the facets—the number of assessees, the wealth assessed and the tax involved. Thus, while there was a continuous increase in numbers in the first slab till 1963-64, with a small retardation, the volume of assessed wealth was almost static but for 1961-62 and 1965-66.

The tax charge nearly doubled by the end of the decade in the group comprising holders of wealth between Rs. 20 and 50 lakh. It had two other features. First, a rise in the earlier half of the decade except in 1960-61, with a fall in the second half. The increase in the tax charge was more than that in the assessed numbers and in the assessed wealth. This appears to be the result largely of the increase in rates and partly of tighter administration. The second feature was that while the high-water mark in the volume of wealth was Rs. 135 crore in 1962-63 compared to Rs. 76 crore in 1957-58, the corresponding figures of the tax charged for these two years were Rs. 191 lakh and Rs. 81 lakh respectively.

The 'Wealthy' group of the over Rs. 50 lakh slab is characterised by a doubling of the *tax charge* between the beginning and the end

of the decade, although there was a decline in the number of assesseees from 82 to 76. The maximum charge was in 1963-64, whereas the largest number of assesseees was in 1962-63 i.e. there was no correlation, even with a time lag, between the number and the tax amount. Further, as in the case of the numbers assessed, the years 1958 to 62 showed steady growth, whereas there were fluctuations after 1963. The tax charged on the holders of Rs. 50 to 100 lakh of wealth, like those above Rs. 1 crore, expanded twofold by 1966-67.

IV. Wealth per Assessee

A more meaningful analysis relates to the wealth and the tax per assessee.

Viewing all the groups as a whole, the per-assessee wealth showed, even at current prices, a rapidly declining trend over the decade.¹ The index in 1966-67 was 76, with 1957-58 as the base. From the second year after the tax, with the assessed wealth almost as in 1957-58, there was no year in which wealth per assessee was even equal to that in the first year. Between 1959-60 and 1962-63 there was a slight rise in the index from 94 to 98, but thereafter it declined continuously and even precipitously. In absolute terms, the wealth was Rs. 5.6 lakh in the first two years of the tax, varied between Rs. 5.2 and 5.5 lakh in the next four years, and touched Rs. 4.2 lakh in 1966-67. Whether this reduction in the wealth per assessee is evidence of the redistributive effect, or of controls and restrictions or of economic, particularly enterpreneurial, set-back is a matter of surmise. It is also likely that with the growing tax burden, particularly of the direct taxes, avoidance and evasion increased. It is, however, certain that the wealth data being prior to tax charged, the levy as such could not have had much effect on the decreasing trend, unless a tax-anticipatory reaction is presumed.

The 'Middle Class' group showed, extraordinary stability in per-assessee wealth except in 1962-63. In fact, but for a 7-point rise in 1958-59 and one of 6 points in 1962-63, the index remained between 97 and 104 throughout the period, in spite of the lowering of the exemption limit in 1964-65. This indicates that the stability was only apparent, because lowering the exemption limit should have brought down the average. Since this did not happen in the Rs. 2 to 5-lakh slab, average wealth must have gone up to some extent. In absolute terms, except for the two years mentioned above, the wealth

1. Tables 4A, 4A(a); Chart H.

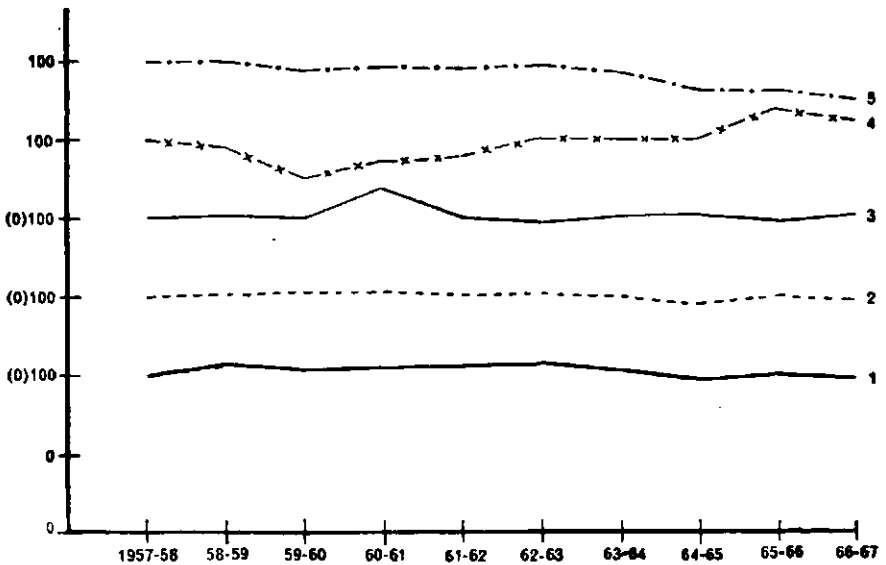
Chart H

Wealth Return per Assessee—Regrouped

1. Middle Class (Rs. 2 to 5 lakh)
2. Upper Middle Class (Rs. 5 to 20 lakh)
3. Rich Class (Rs. 20 to 50 lakh)
4. Wealthy Class (Above Rs. 50 lakh)
5. All Classes

(1957-58 = 100)

Note: In this chart a different origin has been taken for each category so as to avoid overlapping of lines, and to see the trends clearly for purpose of comparison.



per assessee fluctuated between Rs. 2.9 and Rs. 3.1 lakh, which difference is of little consequence.

The remarkable stability in this group is confirmed when the two slabs Rs. 1 to 3 lakh and Rs. 3 to 5 lakh are considered separately¹. In all the ten years, the per-assessee wealth in the first slab did not go above Rs. 2.48 lakh or below Rs. 2.31 lakh which, indeed, is extraordinary, considering that the total assessed wealth fluctuated between Rs. 113 crore and Rs. 443 crore. The same feature is found in the Rs. 3 to 5 lakh slab. In the ten years under study, the wealth per assessee ranged between Rs. 3.7 and Rs. 3.87 lakh, except in 1958-59, when it touched Rs. 4 lakh, and curiously this was when the *total assessed* wealth was up from Rs. 160 crore to Rs. 474 crore, a threefold increase.

1. Table 2A; Chart I

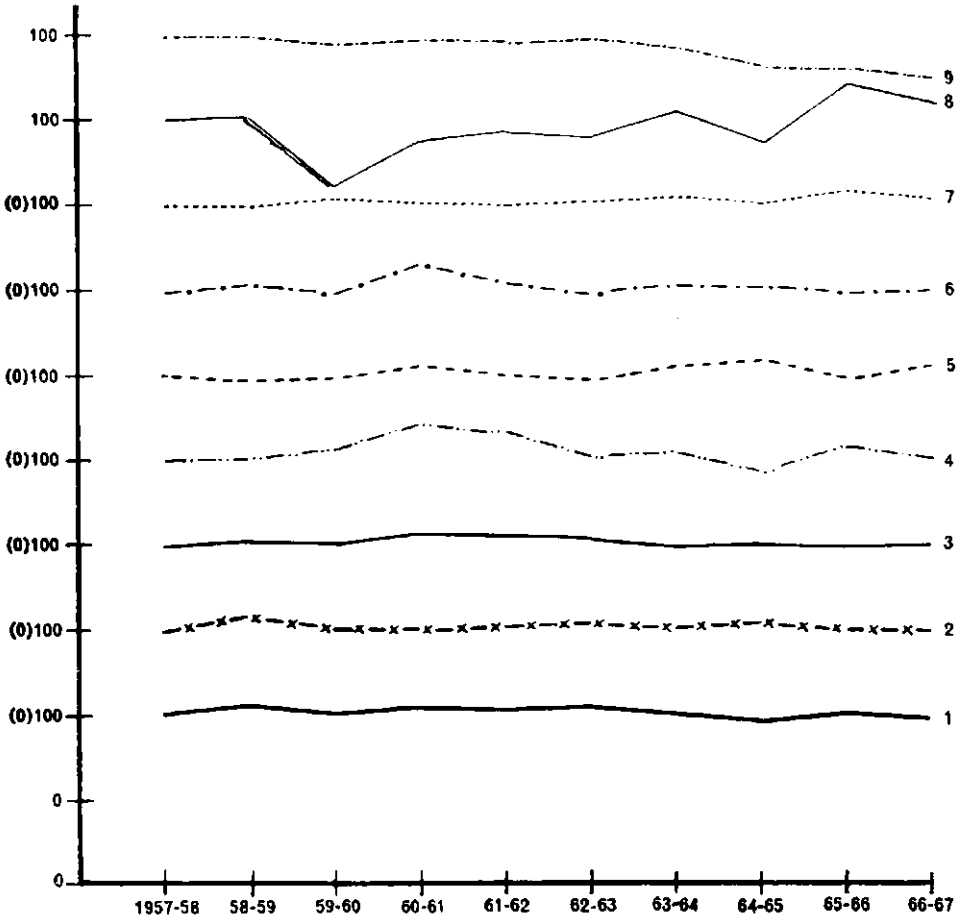
Chart I

Wealth Return per Assessee

1. Rs. 2 to 3 lakh
2. Rs. 3 to 5 lakh
3. Rs. 5 to 10 lakh
4. Rs. 10 to 20 lakh
5. Rs. 20 to 25 lakh
6. Rs. 25 to 50 lakh
7. Rs. 50 lakh to 1 crore
8. Above Rs. 1 crore
9. Total

(1957-58 = 100)

Note: In this chart a different origin has been taken for each category so as to avoid overlapping of lines, and to see the trend clearly for purposes of comparison.



This remarkable constancy of the per-assessee amount, practically in all the groups and in all the slabs, may be ascribed to the corresponding increase in the assessee number. This stability, however, hides the effect of rising prices and the resulting fall in the real wealth per assessee. The implication of the price rise on the wealth tax in this as well as in other slabs is discussed below.

Among the next group of wealth holders, the 'Upper Middle', the trend in the indices of per-assessee wealth, except for a deviation in 1964-65, was also stabilized between 98 and 102. In fact, eight out of ten years showed negligible fluctuations. This is indeed striking when the indices of the total wealth tax involved oscillated between 148 and 384 points and those of the number of assessees between 142 and 201.

The two slabs in this group present, by and large, similar features, and to some extent follow closely the same trend. But the slab Rs. 5 to 10 lakh had greater stability over the years in per-assessee wealth, the range of fluctuation, Rs. 6.5 to 7.1 lakh, being insignificant, whereas slightly greater fluctuation—between Rs. 12.2 and 15.8 lakh—is found in the higher wealth slab of Rs. 10 to 20 lakh.

In the third group—the *Rich*—though the trend is similar, the disturbances are slightly greater. Thus, there was very little change in the first three years; in four others, the index was between 100 and 102 and in a further two 97; and only in 1960-61 did it touch 118.

Such stability is found in greater degree in the Rs. 20-lakh slab than in the Rs. 10 to 20-lakh one. In the former, the smallest volume of assessed wealth was Rs. 21.8 lakh and the largest Rs. 24.6 lakh, the mean being around Rs. 22.2 lakh. In the lower slab, it has varied between Rs. 12.2 and Rs. 15.8 lakh, though mostly in the Rs. 13-lakh region. This, however, does not mean that in real terms the later and the earlier years were fully comparable regarding the value of the wealth held, consumption demands, savings margin or the tax burden, as the rising prices have had their say in the matter.

In contrast with the above, the group as a whole, as well as the slabs in the 'Wealthy' category shows more ups and downs. The *index* moved between 76 in 1959-60 and 118 in 1965-66. In seven of the ten years it was below the base level. The *volume* of wealth per assessee itself fluctuated from Rs. 111.24 lakh in 1957-58 to Rs. 84.47 lakh two years later and to Rs. 130.71 lakh in 1965-66.

These features are more prominent among the super-rich i.e. those with over one crore rupees of wealth than in the fifty-lakh to one crore rupee slab. While in the latter there was, over the decade, practically

little change in the volume of wealth held ranging from Rs. 65.4 lakh to Rs. 69 lakh, except in 1965-66 when it was near Rs. 71 lakh in the richest slab, the lowest volume was Rs. 115 lakh in 1959-60 and the highest nearly Rs. 232 lakh in 1965-66. Since both the slabs represent, by and large, the wealthy who are also actively in business, the difference can be ascribed not to the repercussions of economic conditions such as recession or controls but perhaps to the open-endedness of the super-wealthy slab.

V. Tax per Assessee

Partly because of changes in the volume of wealth, but largely because of the changing tax rates, slightly more violent fluctuations are noticeable in the tax per assessee. Looking at all the assessees as a body, the index of the tax burden over the decade was between 85 in 1958-59 and 138 in 1962-63¹. In terms of amount, the lowest was Rs. 2,500 and the highest Rs. 4,000 in the two years respectively, but in many of the years it was in the Rs. 3,000-range. Further fluctuations were more in the first five years of the tax ; and there was a continuous decrease in volume in the next five. Since major changes in rates, exemptions and new burdens such as the urban wealth tax were made late in the decade, the fluctuations could not be ascribed to tax modifications.

The variations in the amount of the tax per assessee in the 'Middle Class' group are more marked, the index being 73 in 1958-59 and 180 in 1960-61, but, by and large, it was around 117.² In absolute terms the smallest tax charge was Rs. 599 and the largest Rs. 1,484³. In the Rs. 1 to 3-lakh slab, the charge varied from Rs. 279 to Rs. 909, although the representative figure was around Rs. 400. In the slab of Rs. 3 to 5 lakh, fluctuations were more but the amplitude was less.

One interesting feature of the 'Upper Middle' group is that while there were fluctuations between 104 and 191, in no year was the tax amount less than in the first and base year. The amplitude of changes in the two slabs, particularly among the Rs. 10 to 20-lakh group was more marked than in the next two highest classes. Thus, in the former it has ranged between Rs. 12 lakh and Rs. 16 lakh, whereas in *both* the slabs in the 'Rich' group, and particularly in that of Rs. 25 to 50 lakh, it showed greater steadiness. In this group the per-assessee

1. Table 2B; Chart J.

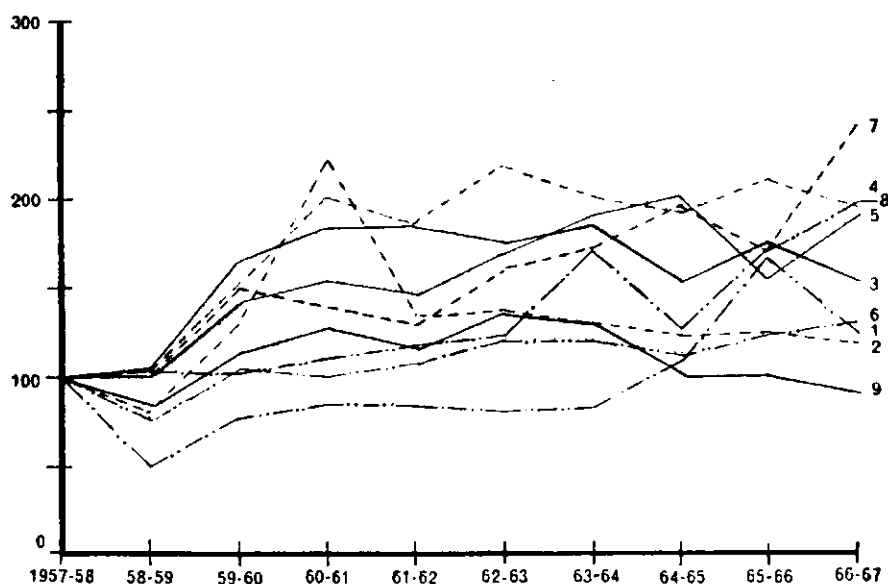
2. Table 4B(b); Chart K.

3. Table 4B.

Chart J

Wealth Tax Involved per Assessee

1. Rs. 2 to 3 lakh (Middle Class)
 2. Rs. 3 to 5 lakh (" ")
 3. Rs. 5 to 10 lakh (Upper Middle Class)
 4. Rs. 10 to 20 lakh (" " ")
 5. Rs. 20 to 25 lakh (Rich Class)
 6. Rs. 25 to 50 lakh (" ")
 7. Rs. 50 lakh to 1 crore (Wealthy Class)
 8. Above Rs. 1 crore (" ")
 9. Total
- (1957-58 = 100)



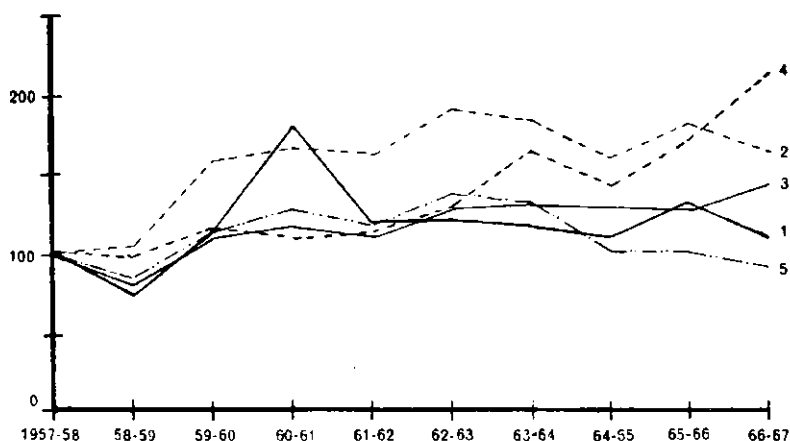
tax index at one extreme was 82 and at the other 143 and in absolute terms Rs. 26.1 thousand and Rs. 45.2 thousand respectively.

Some other features of the tax per assessee in the wealthy group are very significant. Firstly, except for one year there is no year in which the tax charged was lower than in the base year, and although there have been ups and downs in the index, only in a single year has the figure gone beyond 200. The highest touched was 217 in contrast to the 143 of the 'Rich' group in 1966-67. Secondly, there have been only slight fluctuations in the tax charge index in the first five years, but there was a shooting up in the next two years, although this was two years *prior* to the urban wealth tax. The next year saw an equally

Chart K

Wealth Tax Involved per Assessee - Regrouped

1. Middle Class (Rs. 2 to 5 lakh)
 2. Upper Middle Class (Rs. 5 to 20 lakh)
 3. Rich Class (Rs. 20 to 50 lakh)
 4. Wealthy Class (Above Rs. 50 lakh)
 5. All Classes
- (1957-58 = 100)



sudden, though less marked fall, followed by a considerable rise in the last two years. The amount of tax for the group doubled from Rs. 1.5 lakh to Rs. 3.3 lakh in the last year of the decade as against more than double the charge in 1963-64.

II. ESTIMATE OF THE TAX BURDEN

1. General Wealth Tax

In the scheduled rates between 1957-58 and 1969-70, the full period of the operation of the wealth tax, three types of changes in the tax structure may be noticed—in the exemption limit, in the rates themselves and in the slab structure.¹

The exemption limit from 1957-58 to 1963-64 was Rs. 2 lakh and from 1964-65 onwards it has been Rs. 1 lakh. In the context of rising prices, the exempted limit would be much less. Compared to the 1957-58 level, the tax operated at Rs. 71 thousand in 1964-65, Rs. 57

1. Table 5A.

thousand in 1966-67, Rs. 52 thousand in 1968-69 and Rs. 48 thousand in September 1969.

The changes in the scheduled rates have been frequent and significant. The tax was imposed in 1957-58, with half a per cent charge on Rs. 2 lakh to Rs. 12 lakh, one per cent on the next slab and one and a half on the top one of Rs. 22 lakh and over. These rates continued only for one more year. In 1959-60 the charge on the first slab was doubled to one per cent, i.e. a hundred per cent increase, and the other two enhanced by half a per cent in each group, i.e. by 50 per cent and $33\frac{1}{3}$ per cent respectively, so that the marginal rate was two per cent. These rates continued till 1962-63. It should be stressed here that these increases were decidedly regressive.

In 1962 further changes were effected. The rate on the first slab, apparently remained intact, but actually wealth-holders in the Rs. 10 to 12 lakh category were shifted to the upper bracket and charged not merely the earlier higher rate applicable to the slab but also at the new one which added 16 per cent to the tax rate. Thus, for the Rs. 10 to 12-lakh category the scheduled burden was up by 75 per cent. These tax payers were severely discriminated against and doubly taxed firstly, in relation to those left in the first slab and paying 1 per cent; and secondly, compared to those continuing in the second slab and paying only 16 per cent more. This situation was made worse in the course of the next 6 years because of the inflationary impact on their property.

The tax on the third slab increased by 25 per cent over the rate in 1959-62. Here again, a section of the second slab of Rs. 20 to 25 lakh moved up to the top slab, was now charged 2.5 per cent instead of 1.5 as earlier, i.e. an increase of 66 per cent. Thus, there was an absence of changes in tax rates in all slabs either simultaneously or proportionately, and the process of changing the slab and rate structure was discriminatory, affecting particularly the 'Middle' group of wealth-holders.

The rates were altered again in 1964-65. Along with the reduction in the exemption and the rate changes referred to earlier, another regrouping of slabs was made. Under the new dispensation, which has continued till 1970, the three slabs were split into four by the division of the first slab into two, namely, Rs. 5 lakh and below, and Rs. 5 to 10 lakh, the other two continuing as before. Two rate changes were also brought in. The new Rs. 1 to 5-lakh group was charged at half per cent, giving the Rs. 2 to 5-lakh wealth-holders who formerly paid at one per cent, a fifty per cent relief. There was no change in the Rs. 5 to 10-lakh group. In the next higher,

Rs. 10 to 20-lakh slab, rates increased by a quarter per cent, i.e. a rise from 1.75 to 2 per cent, a 14 per cent increase. Above Rs. 20 lakh, no change was effected. Here again, discrimination in rate changes could be noted; for instance, the third slab of the 'Upper Middle' wealth holders was now the target.

These rates and slabs continued till 1969-70, when two more changes were made, an increase of half a per cent in the third slab, raising the tax rate from 2 per cent to 2.5 per cent, an increase of 25 per cent in the burden, and also a similar increase in the top slab to 3 per cent from 2.5 per cent, a 20 per cent addition to the tax load. These additions to the tax burden, directly through rates or indirectly by restructuring the slabs, were in the context of rising prices or falling values i.e. in constant prices, the heavier burden operated e.g. in 1968-69 on a smaller volume of wealth in terms of 1957-58.

The foregoing analysis suggests firstly, that the changes in the rates and slabs during the period 1957 to 69 followed inversely the changes in the real value of wealth. Post-tax wealth had borne the burden both ways : firstly, by more being taken away as tax and by the real worth of post-tax property shrinking in effect. A second feature of the changes was the haphazard discrimination in tax burden increases, especially with regard to the intermediate group of property-holders, since most of the changes pertained to, and to a relatively greater degree, the Rs. 5 to 20-lakh wealth category. Finally, the tax is of little revenue significance and there does not appear to be much logic in the rate or slab changes.

2. Effective Burden

Of greater significance are the *effective* rates and burden.¹ While the former are necessarily less than the scheduled ones because of the exemptions and the slab system, the increase in the tax burden has not always followed that in the latter. Thus, in 1957-58 the effective rate on the first slab was 0.4 per cent as against 0.5, the scheduled rate. In 1959-60 both doubled, but in 1967-68 the highest scheduled rate was five times that on the first slab, whereas the effective rate, though definitely lower than the marginal one, was more than fivefold between the first and the last slabs. Moreover, the changes in the effective charge over the whole period were different from those in the scheduled ones.

The restructuring of the slabs affected the effective burden more than the scheduled rate. Thus, for instance, in 1957-58 with three

1. Table 5A.

slabs, the top effective rate was less than thrice the lowest rate, but not so the scheduled rate. In 1962-63 with the same three slabs, but of different wealth sizes, the top and the bottom rates showed increases in the same ratio in both the types of rates. In 1964-65 again, the changes in the two did not operate alike; for instance, the top rate was five times the bottom one, whereas the top effective rate was more than five times the lower.

Yet another interesting aspect of the comparison is that, by and large, the effective tax burden has steadily increased, for example, on the Rs. 50-lakh wealth group, to a greater extent than the scheduled rates indicate. In 1957-58 and in 1969-70, the latter were 1.5 per cent and 3 per cent respectively, i.e. an increase of 100 per cent, but the effective rate was 1.1 per cent and 2.4 per cent i.e. a rise of 120 per cent; or again, between 1957-59 and 1964-69 the *increase* in the scheduled rates on the 'Rich' (Rs. 50-lakh) group was about 67 per cent but 82 per cent in the effective rates.

In considering the tax burden, therefore, these various aspects have to be borne in mind, from the angle of the patent heaviness as much as from that of the hidden discrimination—no less a burden—between mixed groups.

3. Additional Urban Property Tax

In 1965-66 the additional tax on urban immovable property was introduced. In relation to the tax burden, three basic features of this levy must be stressed because of their discriminatory impact on the tax payer. Firstly, the tax is on *urban* property and not on rural property. Secondly, even in the urban area it is on *immovable* property and so excludes movables and intangible wealth. The limited scope of the tax may have the objectives of shifting wealth and investment to the rural area, reducing concentration in a few regions and augment administrative convenience as in property valuation and tax assessment. But these, like the third one mentioned below, introduced discrimination in the distribution of the tax burden.

The third feature, having the social objective of reducing wealth concentration among individuals, limits the tax to towns and cities with a certain population. This is discrimination based on size. Yet another feature is that of different exemption limits in the slabs—from Rs. 2 lakh in the smallest urban area taxed to Rs. 5 lakh in cities with a population exceeding 16 lakh. The exemption is in addition to the one of two lakh rupees uniform to all slabs. It is not clear

either from the Budget Speech introducing the tax in 1965¹ or from the Act itself what these two lakhs represent, or why this part of exemption should be uniform. For, the prevailing exemption in the general wealth tax was, in this and the following years, *one* lakh rupees, the limit having been reduced from two lakh rupees to one lakh in 1964-65. A consequence of different levels of initial assessed wealth in the first slab has been that the wealth span between the two ends of a slab has been maintained irrespective of the level of wealth or the rate of the charge. Another relieving feature of the urban wealth tax is that, unlike the general one, it has remained unchanged since 1965.

Before comparing the slabs and the rates in the general and urban wealth taxes which reflect on the issue of tax burden, let us look at the rate slabs in the latter.² Each of the urban tax categories has five slabs, which differ from category to category because of the different exemption limits. The initial exemption of Rs. 2 lakh is uniform to all but the additional urban tax exemption differs with Rs. 2 lakh in the smallest and Rs. 5 lakh in the largest of the cities taxed. The Act does not term it an exemption but refers to it as taxed 'Nil', although in his Budget Speech of 1965-66, the Finance Minister himself clearly referred to it as an exemption. This apart, in the lowest taxed category the top rate of 4 per cent applies to immovable property of over Rs. 19 lakh in value. In each of the succeeding categories, both the beginning of the taxed slab and the level at which the maximum rate applies are increased by Rs. 1 lakh, so that in the second category the tax begins at Rs. 3 lakh, in the third at Rs. 4 lakh and in the last at Rs. 5 lakh and the maximum rate applies at Rs. 19, 20, 21 and 22 lakh respectively.

This discrimination in the slab structure is obviously intended to provide for the differing values of the same property in the differing urban areas, but the effect of the discrimination is that the uniform *rate* structure in law has, in practice, discriminatory tax incidence on the same size of the property in the different town categories. For instance, in the first group of towns, 1 per cent tax on property worth Rs. 9 lakh means an effective burden of 0.56 per cent, but in the last category with a population exceeding 16 lakh, it is 0.4 per cent. On a wealth of Rs. 50 lakh, the scheduled rate of 4 per cent means an effective rate of 3.1 per cent in the first category but only 2.8 per cent in the last category i.e. in absolute terms the tax amounts to Rs. 1.54 lakh and Rs. 1.42 lakh respectively.

1. Lok Sabha Debates.

2. Table 5B.

Another effect of the *differing slab structure but uniform rate structure* is tax regression in both the scheduled rates and the effective rates within each category, and more pronouncedly as between the different categories. In introducing the tax in Parliament, the Finance Minister justified it on grounds both of revenue and of social policy. But in both these respects the aims have not been realised, for even the expected revenue of Rs. 1.5 crore has not been raised, while the social policy objective is at present only an academic issue.

4. Income Tax Burden

The wealth imposts, general and urban, are among other taxes affecting the individual, and the levy most closely connected with them in the matter of tax burden is the personal income tax. In fact, when the wealth tax was introduced in India and other countries, such as Japan, an important justification for it was its role in reinforcing the personal income tax to make it more purposeful and effective. Further the wealth tax, like most other taxes, is generally paid out of income, and one of the criticisms has been that together the two taxes impose an almost impossible burden. Let us, therefore, look at the personal income tax in India in the context of the wealth imposts.

We may bypass the scheduled rates of the income tax and concentrate on the effective rates. For illustrative purposes and for assessing the economic burden of the two taxes we may (1) consider incomes above Rs. 48 thousand (2) overlook, for the moment, the differences in the tax rates, relief, etc. between earned and unearned incomes and between unmarried and married individuals etc. and (3) consider married persons with more than one child.

Table 9 presents the effective rates on 8 income slabs in three years and on 6 in two more. In 1957-58, when the wealth tax was first levied, the effective income tax rate on an income of Rs. 48 thousand was 34.2 per cent, on Rs. 10 lakh 88 per cent, and on Rs. 30 lakh 90.6 per cent; and the amount of tax at the three income levels was Rs. 16.4, Rs. 879.6 and Rs. 2,717.1 thousand leaving an after-tax income of Rs. 31.6, Rs. 120.4 and Rs. 282.9 thousand. In 1960-61, there was an all-round reduction in the effective tax rates:— from 34.2 per cent to 31.5 per cent on Rs. 48 thousand, from 88 to 74.4 per cent on Rs. 10 lakh and from 90.6 to 76.1 per cent on Rs. 30 lakh. That is, compared to the Rs. 48-thousand income-level, relatively larger relief was in the top-most bracket. In 1962-63 there was no change in the effective rates on the lowest of these income categories but a slight rise in the

Rs. 10 lakh and Rs. 30 lakh categories, so that in 1960-63, the Rs. 10-lakh income slab paid Rs. 0.3 lakh more as income tax. In 1965-66 the tax on Rs. 48 thousand was raised to 35.8 per cent and that on Rs. 10 lakh reduced to 74.1 per cent. In 1969-70, there was a slight reduction in the effective rate on the former and an increase in the latter —to 78.6 per cent.

Compared to the initial year of the wealth tax, that is 1957-58, the effective income-tax paid in 1965-66 on both Rs. 48 thousand and Rs. 10 lakh was more. It may be also noted that the relative changes in the effective burden have been regressive in that the Rs. 48-thousand income level has been hit relatively more by the rate-changes over the years. In fact, between 1957-58 and 1965-66, while the effective rate on this income level was raised, that on Rs. 10-lakh income was reduced by 14 per cent in rates and Rs. 1.3 lakh in volume. No doubt, the top rates were also reduced. But even considering the income tax alone, the current effective rates are higher than in many other countries, developed or developing, although this fact in itself means little, since a tax system or structure or rate is relative to a country's socio-economic objectives and administrative and economic conditions as much as to the purely technical side of taxation. Another important development in this period was that the degree of progression in the effective tax-rates was toned down in favour of higher incomes. This fact, again, raised important policy issues, not relevant to my present analysis.

Table 9 presents a comparative study of the income and wealth tax rates in the five years following the introduction of the latter tax. The wealth tax effective rates have been calculated by capitalising the income levels ranging from Rs. 48 thousand to Rs. 10 lakh in two years, and from Rs. 48 thousand to Rs. 30 lakh in three more. Capitalisation is on three assumed rates of return—six per cent, representing the commercial bank deposit rate, 9 per cent the commercial bank average loan rate and 12 per cent as the average net return on more risky investments.

On a 6 per cent return, the capitalised income of Rs. 48 thousand paid a wealth tax of Rs. 3,000, that is at 0.38 per cent, in addition to an income tax of Rs. 16.4 thousand, leaving an after-tax income of Rs. 29,000¹. At the same rate of capitalisation, an income of Rs. 10 lakh paid wealth tax at 1.39 per cent, that is Rs. 2.3 lakh and an income tax of Rs. 8.78 lakh totalling a little over 11 lakh, which is more than the income. On a 12 per cent return, the effective wealth

1. Table 6.

tax on Rs. 48,000 income capitalised was at 0.25 per cent or Rs. 1,000 and an income tax of Rs. 16.4 thousand or 34.2 per cent, leaving Rs. 31,000 as the income balance ; and at the Rs. 10-lakh level the wealth tax was 1.28 per cent (Rs. 107 thousand) which, along with the income tax at 88 per cent, raised the tax amount to Rs. 9.9 lakh, leaving a mere Rs. 14,000 with the income recipient.

By 1965-66 the relative position of a Rs. 48,000-income and a Rs. 10 lakh income was, on a 6 per cent capitalisation basis, 0.63 per cent or Rs. 5,000 as wealth tax and 35.8 per cent or Rs. 17,000 as income tax, with a post-tax income of Rs. 26,000 ; the Rs. 10-lakh income paid 2.36 per cent or over Rs. 3.9 lakh as wealth tax, plus an effective income tax of 74.2 per cent or over Rs. 7.4 lakh, making a total of Rs. 11.4 lakh—more than the income. Capitalising even at a 12 per cent rate of return, the wealth and income taxes would take away Rs. 9.3 lakh, with a post-tax balance of Rs. 70,000 out of an income of Rs. 10 lakh.

Table 7 gives the combined income and ordinary wealth tax charges on the higher income groups at 6, 9, 12 per cent return. In 1957-58, a Rs. 5-lakh income, capitalised at 6 per cent, had to pay 105.4 per cent as tax, at 9 per cent capitalisation, 97.1 per cent; and at 12 per cent capitalisation 92.9 per cent, while a Rs. 20-lakh income under all three conditions paid more than the income received, the excess varying from 1.5 per cent to 14 per cent. In 1960-61 the total effective burden was slightly reduced, as at the 6 per cent rate of capitalisation, the Rs. 5-lakh income paid 1.4 per cent more and Rs. 20-lakh income 8.1 per cent more than the total income. By 1962-63, the total tax demand increased considerably, the Rs. 5-lakh income having had to pay 10 per cent more than in 1960-61, that is 11.5 per cent more than the assessed income and the Rs. 20-lakh income being taxed still more. *Without* the additional urban property tax of 1965-66, in 1969-70 the Rs. 5 and Rs. 10-lakh income paid 110 per cent and 125 per cent respectively. In other words, although the wealth tax, in itself and in relation to capital value, appeared to be innocuous and light, the enormity of the tax burden, even apart from the urban wealth tax, is obvious.

5. Aggregate Burden of the Urban Wealth, General Wealth and Income Taxes

Let us look at the burden of the additional wealth tax in urban areas. The impact of the tax will be illustrated with reference to (i) class 'A' city, with the exemption limit of Rs. 5 lakh, in addition to an

untaxed additional Rs. 2 lakh (ii) income capitalised at 6, 9 and 12 per cent as above, and (iii) income of a married person with more than one child.

Tables 8A and 8B give the total burden of the income, wealth and additional urban wealth tax in 1969-70 and 1965-66 as well as the effective burden of income and wealth taxes in three preceding years. On a Rs. 5-lakh income and at 6 per cent return, the burden of the three taxes was 162.6 per cent in 1965-66 and 174.2 per cent in 1969-70. At 12 per cent rate of capitalisation, it was 108.4 per cent and 115.9 per cent in the two years respectively. On a Rs. 10-lakh income on the same 6 per cent and 12 per cent assumption, the burden was 174.4 per cent in 1965-66 and 186.7 per cent in 1969-70 on a 6 per cent basis and 120.3 per cent and 128.4 per cent on a 12 per cent basis. In absolute terms, in 1965-66 a Rs. 5-lakh income capitalised at 6 per cent paid a total of Rs. 8.1 lakh and in 1969-70 Rs. 8.78 lakh as the total tax charge ; and at 12 per cent capitalisation the three taxes on a Rs. 5-lakh income amounted to Rs. 5.4 and Rs. 5.8 lakh in the two years respectively. The situation was worse at the Rs. 10-lakh income level, the total charge in 1965-66 being Rs. 17.4 lakh and Rs. 18.7 lakh on 6 per cent capitalisation basis and Rs. 12.0 lakh and Rs. 12.8 lakh on a 12 per cent basis. The effective burden in the earlier years¹ was comparatively smaller, because the urban wealth tax had not been levied nor had the rates of the other taxes been raised; yet, the burden on account of the income and wealth taxes was formidable. In no other country, developed or developing, with or without the wealth tax, and even under the assumptions made and at any known period was such a burden operative even theoretically.

These observations, however, need to be qualified. For, the effective tax burden described above was a possibility under certain assumed conditions. How far it was and is really operating in practice is difficult to determine unless the Government's tax records are examined—which is perhaps even legally not practicable—or the taxpayer's payments are gone into—which again is not possible. In 1961, the Finance Minister stated in Parliament that some individuals "Say, about 15 or 20 are paying more than 100 per cent. They are paying about 120 per cent". Even if the numbers and the tax burden are just as admitted above, serious rethinking is necessary on grounds of equity, of repercussions on the economy, and, more pointedly, of the morale of the taxpayer and of the entrepreneur.

There are, however, other factors to be considered. Tax avoidance

1. Tables 8A and 8B.

and evasion admittedly are profuse in India, reducing the effective burden. The return on wealth in developing countries, except in the case of certain occupations such as agriculture which did not fall till 1969 within any of the foregoing taxes, appears to be higher than the rates assumed above, thus cushioning the impact. Finally while *prima facie* and purely from the economic equity and expediency viewpoints, taxing away the whole of the income and even more than the income is harmful and unfair, there is the social redistributive purpose behind the wealth taxes and a high income tax.

III. FINDINGS

The findings derived from the foregoing analysis are as under :—

1. While there is a close relationship between the general economic conditions and the volume of wealth held, wealth tax changes in the decade, 1957 to 67, by and large, do not appear to have influenced this relationship, particularly at the higher wealth levels, except to reduce their incomes and the volume of wealth itself in a few cases where the total tax burden exceeds the income. But the effect of the tax combined with the recent changes in income tax structure on the middle income/wealth groups—particularly in a mixed economy where the smaller private unit is to be encouraged—is that this wealth group is pressed hard between the heavy aggregate tax burden, changing economic conditions and the growth of business concentration.

2. While the first three wealth groups are affected in varying degrees by the tax changes, those holding Rs. 20 lakh to Rs. 50 lakh particularly appear to lack the cushionability to face economic changes. The top wealthy group shows few changes over the decade in numbers. The changes in the rates and structure of the tax do not appear to have contributed to the slight fall in their number or that of any of the other wealth groups. The growth in the numbers of the top category was relatively slow. Compared to other countries such as the United States, and in proportion to the population in India, holders of over Rs. 20 lakh, even in rupee terms, are surprisingly few and the aggregate wealth held is comparatively small.

3. Fluctuations in the assessed numbers and assessed wealth are noticeable in all the years, though in some they are very marked. Compared to the 'Upper Middle' group, fluctuations in wealth holdings in the 'Rich' category are less frequent and of lesser magnitude. The top wealth group has the smallest aggregate volume of assessed wealth and the fluctuations in it are more marked. How far the reduction in the wealth held by this group can be ascribed to the

changing economic conditions and how far to the tax burden is difficult to assess because of the open-endedness i.e. the absence of an upper limit in the 'above Rs. 1 crore' category.

4. The aggregate wealth tax charge has doubled in the course of the decade, although there was a fall in the number of assessees and, therefore, there has been no correlation, even with a time-lag, between the number of assessees and the total tax. The wealth per assessee, even at current prices, shows a rapidly declining trend over the decade, but it is doubtful whether this is evidence of the redistributive effect of the tax, or of controls and restrictions, or of any real economic, particularly of entrepreneurial, setback. The remarkable stability in the wealth assessed in the smallest of the tax groups namely, Rs. 1 to 5 lakh is marked throughout the period. This feature is more prominent in the Rs. 20 to 25-lakh category.

5. Partly because of the variations in the volume of assessed wealth, but largely because of changing tax rates, more violent fluctuations are noticeable in the tax per assessee. There has been a steady rise in the tax burden, rapidly in the first six years but relatively slow until 1962-63 when there was a sudden and sharp rise in the burden.

6. Three types of changes in the tax structure may be noticed : in the exemption limit, in the tax rate and in the slab structure. These repeated changes have had great impact on the tax burden. Those in the rates, slabs and exemptions in 1957 to 69 appear to follow inversely the changes in the real value of wealth, placing a double burden on post-tax wealth, firstly, larger tax payments and secondly, reduced real worth of the balance of property.

7. Further, the tax changes have resulted in haphazard discrimination in the increases in the tax burden. This is particularly true of the Rs. 5 to 20-lakh wealth group in which most of the changes were effected and to a greater degree, relatively. Finally, there has been a muddling through with the wealth tax because of the absence of a planned tax policy, since there does not appear to be much logic or necessity behind the rate and slab changes.

8. Although the effective burden is necessarily lower than the scheduled one in view of the exemption and the slabs, the increases in the former have not always followed the one intended in the latter, for example, the changes over the decade in the over Rs. 50 lakh wealth group. This divergence in the burden intended and that operative is heightened by the covert discrimination because of the frequent and haphazard changes in rates and slabs.

9. In terms of tax burden, the additional urban wealth tax has three

basic features making it also discriminative—the distinction between urban and rural, and between movable and immovable wealth, and among the cities themselves according to size. The added discrimination makes the levy more burdensome and inequitable. The differing slab structure makes the urban tax regressive, both in the scheduled rates and the effective rates within each wealth category and more pronouncedly as between the different categories. It is doubtful if wealth taxes—general and urban—have achieved either their revenue or their social objectives.

10. To estimate the *combined* burden of the income and wealth taxes, income categories above Rs. 48,000 have been taken for illustrative purposes; the differences in the income tax relief, etc. have been overlooked and married persons with more than one child have been considered. Comparing the Rs. 48,000 and Rs. 10-lakh income levels in 1957-58 and 1965-66, the effective rate on the former increased, but that on Rs. 10 lakh was reduced by 14 per cent. It is worth noting that during this period the regression in the effective tax rate was in fact modified in favour of higher income and wealth tax levels.

11. The combined income and general wealth tax burden on a Rs. 5-lakh income capitalised at 6 per cent was, in 1957-58, 105.4 per cent and in 1962-63 the burden was 111.5 per cent of the total income. Even without the additional urban wealth tax a Rs. 5-lakh income in 1969-70 paid 119 per cent. Thus, although apparently the wealth tax by itself appears to be innocuous in its rates and in relation to capitalised worth of income, the tax burden in the overall tax setting was enormous.

12. With the urban wealth tax added to the general wealth and income taxes, in a 'A' class city with the exemption limit of Rs. 5 lakh plus Rs. 2 lakh, and unearned income capitalised at 6 per cent, on a married person with more than one child, the burden on wealth of about Rs. 80 lakh was 162.6 per cent in 1965-66 and 174.2 per cent in 1969-70. In the earlier years, the effective burden was comparatively smaller because the urban tax had not been levied, and the other tax rates had not yet been raised. In no other country, developing or developed, with or without the wealth tax, under the foregoing assumption and in any known period was such a burden operative even theoretically.

13. These observations, however, have to be qualified. The effective tax burden described above was a possibility under certain assumed conditions. How far it was and is really operating in *practice* is difficult to determine. In 1961, the Finance Minister

stated in Parliament : "Some individuals, say about 15 or 20, are paying more than 100 per cent. They are paying about 120 per cent." ! Even if the number and the tax burden are as conceded above, serious rethinking is necessary.

14. There are, however, other factors to be considered. Where tax avoidance and evasion are marked, the effective burden is less. The return on wealth in developing countries is, except in certain occupations such as agriculture falling outside the foregoing taxes, higher than the rates assumed above, thus cushioning the impact. Finally, while *prima facie* and purely from the economic equity and expediency view points taxing away the whole of the income and even more is harmful and unfair, there is the social redistributive purpose of the wealth and the high income taxes.

2

Impact on Capital Formation

1. General Observations :

The second major issue of immediate importance to the enquiry on hand but no less significant in the wider context of tax incidence is that of repercussions of the wealth tax on savings and investment.¹

I shall first analyse the trends in national savings and capital formation both in the aggregate and in their sectoral facets *vis-a-vis gross and net* national product and investment. Since my major concern is the effect of a particular tax, the trends in the pre-tax period, 1950-51 to 1956-57, and those in the post-tax years, 1958-59 onwards, will be compared. The year of the levy of the wealth tax, 1957-58, will be taken as the dividing line between these two periods because the wealth tax bill was passed in the Budget Session in 1957 ; it received the President's assent in September 1957 ; and the tax assessment commenced in December that year. Wherever necessary and feasible, the changes in the wealth tax structure and those in savings will be related.

The conclusions from these trends will be checked with those in other facets of the economy, particularly concerning the private sector,

1. The period covered is 1950-51 to 1964-65—seven pre-tax and seven post-tax years—and the aim is to consider if capital formation has been affected *because of* the wealth tax. After 1965, private capital formation has been slowed down but not for tax reasons.

such as the growth and working of the corporate sector, the income, expenditure and appropriation accounts of public companies, their profit allocation and profitability ratios, sources and uses of funds, capital formation rates in the private sector, security prices, and so on.

2. Limitations of the analysis :

Significant limitations in correlating changes in capital formation with the wealth tax must be fully borne in mind. Firstly, no quantitative relationship between the changes in one and those in the other can be established and, therefore, my interest is only in the trends, the quantities being merely a suggestive base. Secondly, and because of this limitation, the aggregates will be converted into proportions and index numbers, although much has been done by the Reserve Bank of India and the Central Statistical Organisation and also by the NCAER in collecting the aggregates. Thirdly, the available data on savings and capital formation are incomplete, not fully reliable and often conflicting even when coming from the same source. For this reason and also because the analysis is of trends, I have tried to reconcile the figures and utilise the best available and as meaningfully as possible.

In correlating tax effects and changes with trends in savings, another set of limitations must also be borne in mind. Capital formation is influenced by the growth in national product, i.e. any circumstance that increases or reduces both the aggregate and the rate of growth of, e.g. GNP, would other things being equal, react on total investment. Thus, a change in the depreciation policy of the Government and of its operation in the private sector would influence the *net* national product. Further, since saving involves reducing consumption expenditure, whether of an individual or of an institution, the propensity to consume and to save is particularly important in the tax-capital formation context, but the former is not accurately ascertainable. Yet another factor directly affecting savings relates to institutions such as banks and investment trusts, which is to induce, collect and invest savings. There are also other considerations, outside the tax element, that influence capital formation. But all these are overlooked in the analysis below.

There is a third set of factors operating on capital formation *vis-a-vis* the wealth tax, namely, the role of other taxes, direct and indirect, in inducing changes in savings and/or in investment ; for example, the personal and the corporation income taxes and various excises and even the general price level affected by the Government's fiscal

and monetary policies, apart from others such as controls, supply limitations and wage levels. Even if only the direct tax elements are considered, it becomes almost impossible to isolate the extent and even the direction of the effects of the various taxes on capital formation. Thus, the wealth tax was levied in India to reduce tax evasion but how far this objective has been realised is difficult to say.

3. The Analysis :

Bearing in mind these limitations, I shall analyse below, in a rough and suggestive way, the effect of the wealth tax on capital formation, by comparing the pre-tax and post-tax periods. This is to test the validity of the principal criticism against the wealth tax, particularly by the private sector, that it has hindered investment. For example, Murarji Vaidya, representing all-India manufacturers claimed¹ in 1957 that the private sector requires tremendous resources in the form of fresh capital and would not be able to raise them. In 1962 Rusi J. Taraporevala in an article² and in 1964 N. Dandekar in Parliament³ made similar observations.

It is important to stress here that the various factors noted above, and many more not referred to, sometimes neutralise and sometimes accentuate any likely depressing effects of taxation on capital formation, but, for the present, all these actions and reactions will be ignored. Aspects of capital-output ratio reacting on investment are not dealt with below.

The analysis will be in four steps :—

The national product—gross, net and domestic—in the aggregate and by origin will be referred to in order to ascertain the trends in their growth, since changes in them react on national savings. One component in GNP, depreciation, is itself savings, though not a net addition to capital. Some others, such as contribution of manufacture and commerce to GNP, represent the considerable part of the direct taxes these sectors bear. The trends in the aggregate and in the components of the NDP in particular are especially meaningful in the context of the wealth tax and capital formation.

1. *Evidence before the Select Committee on Wealth Tax Bill*, p. 123.
2. 'Withdrawal of W.T. Concessions Is Harsh' (*Economic Times*, 3/5/62).
3. Lok Sabha Debates on W.T. Bill, 2/2/64. *Wealth Tax*, p. 11 (Forum of Free Enterprise, Bombay), *Analysis of Kaldor's Report on Indian Tax Reform*, p. 17 (FICCI, New Delhi), Papers by Mr. S. Narayanaswamy and Dr. F.A. Mehta in *Proceedings of the Colloquium on Industrial Development*, Nov. 1966, Madras, pp. 63-84.

Savings—Both absolutely in themselves and relatively to the product pool which generates savings, the trends in the major components such as the public and private sectors and in aggregate consumption would indicate the scope for capital formation, since savings are the surplus over consumption of the national product.

Capital formation—Especially in a partially monetised developing economy this is not necessarily identical in volume or simultaneous with savings, although total national investment may equal total national savings in the long run. Capital formation will be looked at in its aggregate and major componential facets, such as the government and private, and the corporate and non-corporate sectoral shares. The object is to ascertain if, from the overall angle, there have been any appreciable changes in volume and rate of growth, and particularly if private capital formation, especially in the corporate sector, has shown any abnormal or depressing tendencies over the period 1950-65 and in the pre-and post-tax years.

Finally, the foregoing trends, especially in capital formation, will be checked by a number of *supporting tests* relating to the financial structure and policies of the private corporate sector, where capital formation is feared to have been affected.

4. Trends in GNP, Depreciation and NNP :

(a) *Gross National Product* : In the period under review the GNP at factor cost and in 1948-49 prices increased from Rs. 9,105 crore in 1950-51 to Rs. 15,679 crore in 1964-65 (Table 10A). There has been continuing rise in prices during 1950-56; the GNP showed a consistent, though slow, increase, except in 1957-58, when there was a marginal fall only to rise more markedly in the succeeding years. The growth was not comparable to that in many other countries¹, but it showed a noticeable persistence in its upward trend. In the pre-tax years, that is, when the wealth tax did not exist and when the overall tax burden was relatively small, the expansion in GNP was Rs. 2,285 crore, but in the next eight years (1957-65) the *increase* doubled to Rs. 4,353 crore although the tax burden grew steadily and considerably and new 'nuisance'² taxes were imposed (Table 10A).

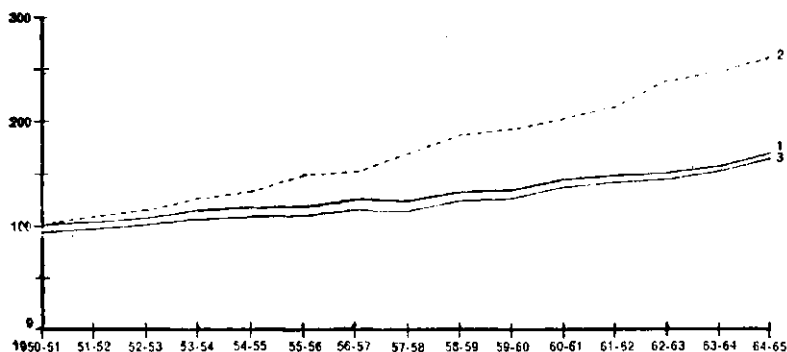
1. For example, in West Germany, where in the decade, 1950-60, the total real GNP doubled, and in current prices nearly trebled (Karl W. Roskamp, *Capital Formation in West Germany* Detroit, 1965), p. 63 and Table 3.
2. *Vide* my Presidential Address at the Lucknow Session of the Indian Economic Conference. (*Indian Economic Journal*, January 1969).

This trend in GNP is set off when the volume is converted into indices with 1950 as the base, the index in 1964-65 being 172 (Table 10B). In the first seven years the index (at 1948-49 prices) rose from 100 to 125, i.e. a growth of 25 per cent, whereas in the 7 years succeeding the Wealth Tax and with 1957-58 as the base, it increased by 38 per cent. This difference between the pre-and post-tax years is clearly brought out in Chart L.

Chart L

Depreciation, Gross National Product and Net National Product
(at 1948-49 prices)

1. Gross National Product
2. Depreciation
3. Net National Product
(1950-51 = 100)



(b) *Depreciation* : The net national product is GNP minus depreciation. The latter, no doubt, does not add to *net* capital formation, but, all the same, it is savings; for, although it is meant to replace existing capital worn out or obsolescent, it involves reducing consumption, and thus adds to disposable income. In the short run, until replacement, it may be and *is* invested.

The depreciation trends in the 15-year period are suggestive. The annual allocation increased *in each successive year* more steadily than even the GNP—from Rs. 225 crore in 1950-51 by more than two and a half times in 1964-65 (Table 10A). Even when in 1957-58 there was a slight fall in the GNP, depreciation allocation (i.e. savings and, in the short run, capital formation) did not diminish. Why this happened or whether it was too much or too little is not material to the issue under consideration. What is relevant is the remarkable growth

in depreciation as the first important source of internal financing. Translated into indices : while GNP expanded by 72 per cent in 15 years, depreciation provision grew by 166 per cent (Table 10B, Chart L). In the pre-tax years this form of saving in 1956-57 was 53 per cent more than in 1950, while compared to 1957-58, the post-tax year, it was 56 per cent more in 1964-65. There was, thus, in the post-Wealth-Tax years a slight improvement in the volume saved annually on this account.

(c) *Net National Product* : Let us look at the net national product in current and in constant prices. Here again, but for a very slight fall in 1957-58—this was when the *wealth tax was first imposed but not yet assessed* and so the tax could have had little to do with the decrease—a steady, though slow, growth in volume may be noted except in 1964-65 when there was a very marked fall in the NNP. In terms of index numbers, the growth in constant prices was 69 per cent over the full period of 15 years but 24 per cent in the pre-tax period with 1950 as the base, and 38 per cent in the post-tax period with 1957-58 as the base (Table 10B and Chart L). In current prices—in which taxes also are assessed and collected—the difference between the two periods is more revealing. Thus, the NNP increased from Rs. 9,530 crore in 1950-51 to Rs. 11,310 crore seven years later (Table 11A) i.e. an expansion of Rs. 1,780 crore, whereas in the period succeeding the tax the increase was from Rs. 12,600 crore in 1958-59 to Rs. 20,080 crore in 1964-65¹ i.e. an addition of Rs. 7,480 crore.

The above analysis emphasises two features of significance to savings and to taxation in general and the wealth tax in particular. Firstly, in the post-Wealth-Tax period, the tax burden could not have had the feared depressing effects on the national product; for, other considerations, more important than the tax burden, were responsible for this. Perhaps² with less of tax burden and certainly with a simpler tax structure the growth in national income might have been more; but this is not relevant at the moment. Secondly, since savings and capital formation are a function of the volume of the national product, net or domestic, and of the volume of consumption—this is dealt with below—there was definitely a larger pool of resources to save from than in the pre-Wealth-Tax years.

The difference in the aggregate volume of *net national* and *net*

1. In 1967-68 NNP is roughly estimated at Rs. 28,000 crore in current prices.

2. This point will be elaborated later.

domestic products was insignificant in the period 1950 to 1965 (Table 11A) and I shall, therefore, consider below the trends in the latter, and at current prices, the main purpose being to ascertain if in the two periods under consideration the contribution of manufacturing, large and small scale, and industry and mining, could have been detrimentally affected as compared to the other components of NDP such as agriculture.¹

The overall NDP in current prices increased by 18 per cent in 1950-56 and by 77 per cent in 1957-65 ; in 1948-49 prices the growth was 24 per cent in the pre-tax period and 38 per cent in the other (Table 11B).

(d) *Components* : Against this trend in the aggregate may be studied the behaviour of the components. The contribution of large-scale manufacturing improved in the course of the post-tax period, although by 1967-68 there was a twofold increase compared to 1958-59 (Table 11A). Similarly, industry and mining increased their share by about a third in the pre-tax years, whereas it more than doubled in the post-tax years. On the other hand, small-scale manufactures and agriculture, the owners in neither of which have generally been under the wealth tax or been bearing even a relatively large tax burden, increased their contribution in the pre-tax period by 8 per cent and 13 per cent and in the post-tax period by 41 per cent and 140 per cent respectively. The larger share of agriculture in 1964-65 and after may be traced partly to seasonal factors and partly to higher prices.

The share of large-scale manufacture and industry and mining in the total NDP is instructive. The former contributed 5.8 per cent, the latter 16 per cent in 1950-51, and 8 per cent and 17.7 per cent in 1956-57 respectively, as against 8.8 per cent and 21.3 per cent in 1965-66 (Table 12). Large-scale manufacturing and industry and mining have, except for a slight fall in 1958-59, been consistently accounting for 8 to 9 per cent and about 20 per cent in the post-tax years, while in the pre-tax years their share had been 5 to 8 per cent and about 17 per cent respectively. This may be compared with small-scale manufacture, agriculture or transport, none of which, in fact, comes under the more important direct taxes to the same extent as large-scale manufacturing and industry or the individuals connected with them do. These 3 components contributed to the NDP

1. The overall tax burden has been lower in agriculture and the wealth tax till 1969 was not operative on this sector. Both the tax burden and the wealth levy affected the wealth holders, by and large, in the large-scale manufacturing and industries sector; hence the look at the components.

8 to 10 per cent, 45 to 51 per cent, and 17 to 19 per cent respectively in the pre-Wealth-Tax period, the actual share in the individual years varying; and in the post-tax years the respective shares were generally less, ranging from 5.2 per cent to 8.2 per cent for small-scale manufacturing, 47.5 to 53.1 per cent in agriculture, and 14.1 to 17.2 per cent for transport. As Table 12 points out, agriculture consistently showed a shrinking contribution, whereas industry and mining not only maintained but even increased their shares.

The significance of this feature is that the sectors of the economy whose contribution to the NDP is relatively small, which bear a relatively larger tax burden, particularly under the direct taxes, and which presumably are most affected by the wealth tax in the individual capacity of their entrepreneurs are those in large-scale manufacturing and industry; but it is they that have been doing better in the post-tax years than either in the pre-tax period or as compared to other sectors of the economy. This is a conclusion of material significance in the context of savings (dealt with below) and of the wealth tax structure and burden.

5. Consumption :

What is available for capital formation is *national resources* in the aggregate or as *Gross Domestic Product*,¹ minus total consumption. Let us, therefore, look at the trends in all the three.

Table 13A presents the volume of consumption in the context of both total resources and GDP. The former comprises GDP plus imports of goods and services, part of which is consumed, part saved and part exported. In the period 1950 to 65 total resources, in current prices, increased from Rs. 11,037 crore to Rs. 13,713 crore in 1956-57 and Rs. 23,916 crore in 1964-65. Or as indices, the increase was from 100 to 124 in the pre-Wealth-Tax period and to 217 in the seventh year during the currency of the tax (Table 13B and Chart M). In constant prices, the index rose by 73 per cent between 1950 and 1965; in 1950-57 by 29 per cent, and in the next seven years also the increase in terms of 1957-58 was of the same order (33%) (Table 13D and Chart N). Throughout the period of fifteen years there was a steady rise in volume both at current and at constant prices.

This trend may be compared with the consumption data. In terms of volume and in current prices, the total consumption claimed is Rs. 9,486 crore in 1950-51, Rs. 11,016 crore in 1956-57 and Rs. 19,184 crore

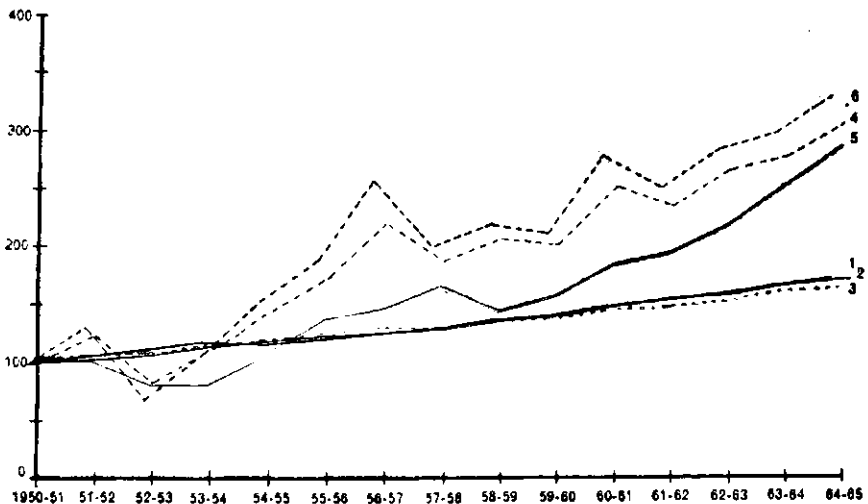
1. This depends on whether the total available or what is ascribable to the community itself is at issue.

not only a continuous rise over the 15 years but also the extent of the rise was considerably less (Table 13D and Chart N). Thus, the consumption index in 1964-65 was only 65 per cent more compared to the current price figure of 102 per cent in terms of 1950-51. Much more significant is the index with 1957-58 as the base ; while at current prices there was a 67 per cent increase, at constant prices the increase was less than half of this.

Chart N

Utilisation of Total Resources (at 1948-49 prices)

1. Total Resources (at 1948-49 prices)
2. Gross Domestic Product (GDP) (at market prices)
3. Consumption (at current prices)
4. Total Gross Domestic Capital Formation (GDCF) (at current prices)
5. Fixed Assets (at current prices)
6. Net Capital Formation (1950-51 = 100)



These trends in consumption, compared with those in total resources, point out the markedly lower rate of growth in the former. Resources expanded more rapidly than consumption did. This feature is more prominent in the second half of the period, as in 1964-65. At current prices consumption increased by 102 per cent, whereas resources were up by 117 per cent. Thus, the savings-potential and savings realised were growing over time and particularly in the post-tax years.

As indicated above, total resources include imports, i.e. goods and services not domestically produced but all the same adding to the volume of savings. Let us, therefore, look at only the gross domestic product (GDP) as representing resources available for consumption or savings so as to enable appreciation of the trends in consumption and the scope for savings even in terms of what is indigenously produced.

The volume of GDP at current prices was in 1950-51 Rs. 10,327 crore and in 1956-57 Rs. 12,543 crore, an increase of 21 per cent in seven years (Table 13A). In 1957-58, it was Rs. 12,845 crore and in 1964-65 it had grown to Rs. 22,424 crore, an increase of 75 per cent in the seven post-tax years. During the whole fifteen-year period the GDP increased by 117 per cent.

This may be compared with the rise in consumption. Between 1950 and 65 aggregate consumption expanded from Rs. 9,486 crore in 1950-51 to Rs. 19,184 crore in 1964-65, that is, a rise of 102 per cent. In the 7 pre-tax years, aggregate consumption indices rose from 100 to 116 as against a rise from 100 to 121 in GDP and 100 to 124 in the total resources, whereas in the post-tax period consumption increased from 100 in 1957-58 to 167 in 1964-65 as compared to the growth from 100 to 175 in GDP and 100 to 169 in total resources (Table 13B and Chart M). During the whole of the fifteen-year period, the rise in consumption was definitely at a slower rate than in the GDP, the pool to draw savings from or the total resources themselves. Charts M and N point out clearly the widening 'savings potential' among the three categories.

Thus, not only was GDP, which is the pool for drawing out resources for consumption and for savings, expanding continuously and markedly in the post-Wealth Tax years, but the scope for saving, i.e. the gap between GDP and consumption, was also increasing. It is significant that there was a steady fall in the proportion of GDP consumed, the extent of the reduction indicating the growth in the volume of savings. In 1950-51, consumption formed 91.9 per cent of GDP and by 1956-57 it had come down to 87.8 per cent. Although it rose by 1 per cent in 1958-59, the post-tax years were marked by 'consumption shrinkage' until in 1964-65 it was 85.6 per cent of GDP. In other words, in the beginning of the period under review, 8.1 per cent of GDP was saved; just before the Wealth Tax it was 12.2 per cent; and by the end of the period the proportion of the GDP saved had risen to 14.4 per cent. The propensity to consume apparently increased in volume, but the increase is traceable partly to a rise in the cost of

of living—a rise of 37 per cent in wholesale prices.¹ This means that (1) the larger volume of GDP consumed was absorbed by rising prices, and, therefore, merely apparent ; (2) in the context of population growth, consumption in real terms, i.e. tangible standards of living, actually declined and (3) relatively more of GDP was saved in the period and especially in the post-tax one.

This conclusion is reinforced by the relationship between resources as total or as GDP and consumption. Thus, at 1948-49 prices, the percentage of the GDP saved was 7.8 in 1950-51, 11.1 in 1956-57 and 11.5 in 1964-65, the volume, of course, growing larger as we move up the years. It may be noted that 5 out of 7 post-tax years had a savings rate of over 10 per cent and the other two very nearly 10 per cent, whereas in the pre-tax years only two years showed a savings rate of over 10 per cent while three had a saving of 8 per cent or less.

The foregoing analysis stresses that although prices steadily rose and the burden of the direct and indirect taxes mounted equally steadily in the 15-year period, particularly in the post-Wealth-Tax years, the volume of national consumption decreased relatively year after year, compared to the sustained growth in domestic product and in total resources, and that, therefore, the scope for saving was getting larger and the volume and the percentage of resources saved in fact increased.

6. Savings :

(a) *Aggregate* : Let us now look at the trends in actual, not merely potential, savings. Annual savings in 1950-51 were Rs. 541.9 crore and in 1956-57 Rs. 1,076 crore (Table 14). There was a marked reduction in the next year, but from 1958-59, the first post-tax year, savings increased from Rs. 931 crore to Rs. 2,055 crore in 1963-64 that is, the index was up from 100 to 379 in 14 years, increasing by 98 per cent in the first seven years and by 158 per cent in the next seven, the post-Wealth-Tax period i.e. 1958-64 (Table 14A and Chart O). In the first part of the period, 1951 to 57, the volume fluctuated even as it shrank in 1957-58, but this trend could not have had anything to do with the wealth tax which at this time did not exist at all, and in 1957-58 it had just been levied but not assessed.

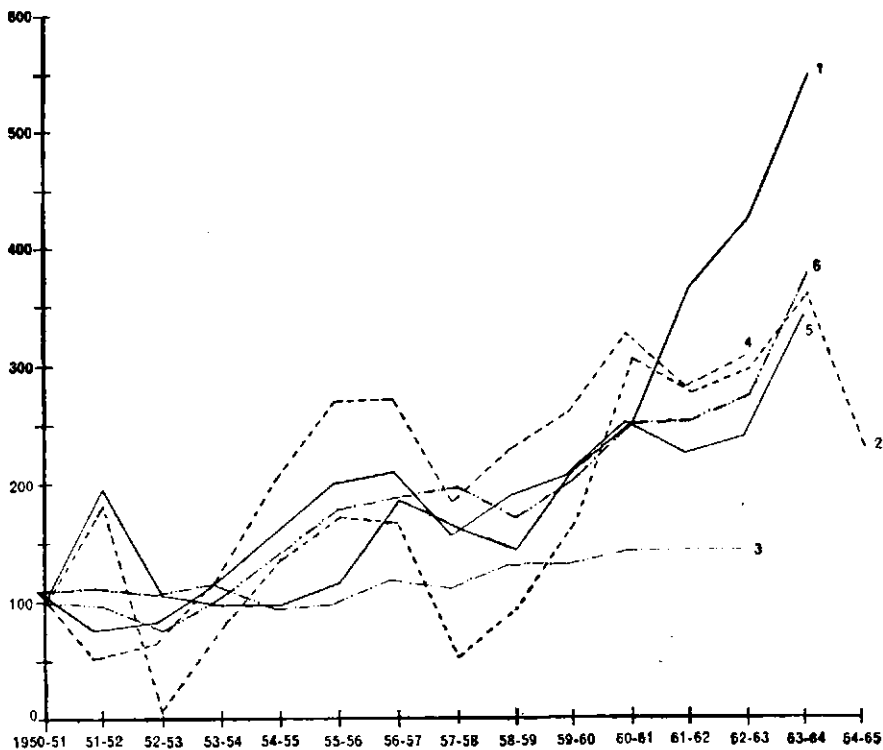
While the national domestic product and the national net product steadily expanded, there have been violent fluctuations in the trend in total savings and in its components as a result of changes in the general economic situation. But the overall trend of total savings in

1. The working class consumer price index was up by 55 per cent between 1950-51 and 1964-65.

Chart O (i)

Indices of Growth of Total Savings and Components

1. Saving—Government Sector
2. Saving—Domestic Corporate Sector
3. Saving—Household Sector, Rural
4. Saving—Household Sector, Urban
5. Saving—Total Household Sector
6. Total Saving
(1950-51 = 100)

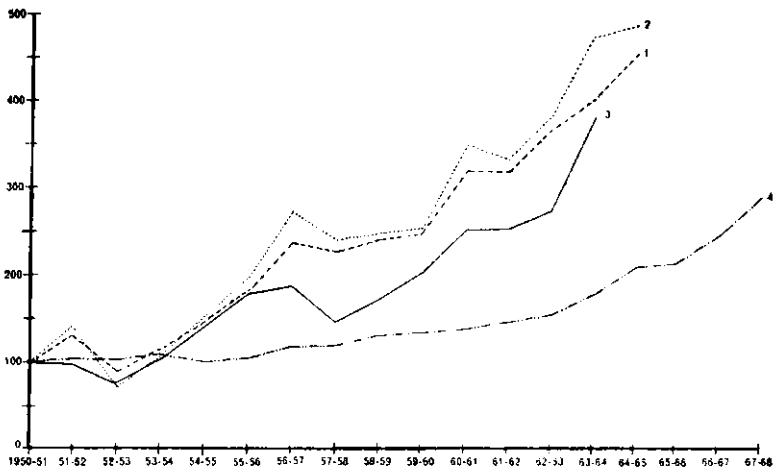


the period 1958 to 64, with which we are concerned, has been definitely upward.

The major sources of savings are the Government, the Domestic Corporate and the Household sectors. In a socialism-oriented State, savings in the public sector have naturally increased enormously over the years, although there have been fluctuations. The volume was Rs. 96 crore in 1950-51, Rs. 177 crore in 1956-57, Rs. 138 crore in 1958-59, Rs. 526.6 crore in 1963-64 and Rs. 550.5 crore in the next year. Two features of this sector stand out. One is the relatively

Chart O (ii)
Gross and Net Capital Formation, Total Savings and National Income

1. Gross Capital Formation
 2. Net Capital Formation
 3. Total Savings
 4. National Income
- (1950-51 = 100)



slow increase—by 84 per cent—in the first seven years. The shrinkage in public sector savings in 1957-59 is significant because corporate savings also shrank about the same time, but the Government sector was not bearing the same tax burden. The shrinkage in neither sector, therefore, could be attributed to the tax factor. The second feature is the relatively more rapid growth in public sector savings after 1958-59. In fact, the index shot up from 100 to 574 in 15 years, rising only by 84 per cent in the first seven years, i.e. an annual average of 12 per cent, and by 251 per cent in the next seven, or 36 per cent annually, with 1950-51 and 1957-58 as the bases respectively in the two sets of years.

Although the current analysis relates to the wealth tax and its effect upon savings and is, therefore, confined to the taxed private sector, it should be stressed here that, from the standpoint of economic growth in the community, what matters is aggregate savings and their utilisation, which includes the Government sector also. Further, as

pointed out below, even in the private sector, particularly in the domestic corporate sector, the overall growth in saving was considerable over the 15-year period, more particularly in the post-Wealth-Tax years.

(b) *Corporate* : Let us look more closely at the performance in the corporate sector. In 1950-51, this sector saved Rs. 35 crore as compared to Rs. 96 crore on Government account and to Rs. 542 crore of the national aggregate (Table 14). In 1952-53, corporate savings touched an all-time low of Rs. 1 crore, but gradually picked up as against the high-water mark of Rs. 63.6 in 1951-52. These seven years, in which corporate savings were relatively retarded, did not have the wealth and other 'nuisance' taxes nor the rising tax burden on corporations and individuals characterizing the years from 1958 onwards. In the post-Wealth-Tax years, corporations saved Rs. 32.4 crore in 1958-59 and Rs. 80.9 crore in 1964-65, touching the all-time high of Rs. 126.2 crore in the previous year. The annual average savings of this sector in 1958-65 was Rs. 87 crore as against Rs. 42 crore in the 1950-57 period. In the first 7 years, the corporate savings index rose from 100 in 1950-51 to 167 in 1956-57, although it fluctuated in between, whereas in the later period it increased from 100 in 1957-58 to 449 in 1964-65.

Three features of domestic corporate savings stand out. Firstly, the volume has been relatively small, compared to aggregate savings in the community. Secondly, it has fluctuated between the years to a much greater extent than Government and household savings or even total savings did. Finally, the amplitude in the fluctuations was more marked when taxes were fewer and the tax burden lower, and in the earlier half of the period under review. As pointed out below, in applying the subsidiary tests to capital formation in the corporate sector, the relatively smaller volume of savings and greater fluctuations must be ascribed to factors other than taxation.

(c) *Household* : The largest contribution in the community is from the *household sector*. In 1950-51 Rs. 411 crore out of Rs. 542 crore of total savings were accounted for by this sector, and in 1956-57 the volume rose to Rs. 841 crore out of Rs. 1,076 crore. While in the first post-Wealth-Tax year, the share of the household sector was Rs. 761 crore out of a national aggregate of Rs. 931 crore, in 1963-64 Rs. 1,402 crore out of Rs. 2,055 crore was from this source. Over the 14-year period, the volume saved by the household sector increased by 241 per cent as against 279 per cent in total savings, 260 per cent in the domestic corporate sector and 449 per cent on Government

account.¹ This sector's share was both absolutely and relatively larger after 1957 than in the earlier half.

The household group comprises two sub-sectors. The *rural one* did not pay until 1969 any wealth tax or even any income tax worth the name, and may, therefore, be regarded, *for purposes of the present investigation*, as the untaxed sector. The volume of savings from this sub-group increased from Rs. 166 crore in 1950-51 to Rs. 237 crore in 1962-63,² that is, an increase of 42 per cent. In the first seven years the increase was only 13 per cent and in the next five years following the wealth tax levy the increase was 32 per cent.³ This may be compared with 67 per cent and 481 per cent in the *corporate sector* and 98 per cent and 88 per cent in aggregate savings in the same period. During the years under review there have been fluctuations, relatively more marked in 1950-57, the later years showing greater steadiness in the volume of rural savings : but, *by and large*, the whole period is marked by stability. Another feature of rural savings is its relatively minor share in total household savings.

The *urban sector* is more important. It contributed a much larger share than its rural counterpart and accounted for the largest single contribution towards total savings in the community. Thus, in 1950-51 Rs. 245 crore out of Rs. 542 crore were from the urban sector, in 1956-57 Rs. 653 crore out of Rs. 1,076 crore, in 1958-59 Rs. 549 crore out of Rs. 931 crore and in 1962-63 Rs. 747 crore out of Rs. 1,498 crore. Further, except for a sudden reduction in 1951-52, urban savings expanded almost continuously after 1950. Thus the increase was proportionately more marked in the earlier period than in the latter, largely because the initial base year, 1950-51, had a small volume. The growth was 167 per cent between 1950 and 1957, compared to 68 per cent in the six years after 1957-58.

The urban sector comprises persons taxed, both directly and indirectly, more heavily than those in the rural sector, and also the wealthier section of the community. It is also characterised by greater disparity in the distribution of wealth and by the larger proportion of the wealth tax assessees. The sector, however, accounted not only for a larger volume of savings, but also, except for 1957-58 when the wealth tax was levied but not collected, almost a steady increase in the volume.

1. This is in line with trends elsewhere, e.g. K.W. Roskamp : *Capital Formation in West Germany*, Chapter II (1948-1960).

2. Data for the later years are not available.

3. Data are not available after 1962-63.

(d) *Broad Conclusions* : The foregoing analysis leads to some broad conclusions significant to capital formation. Firstly, the volume of savings in the aggregate and in their sectoral distribution represents at least the minimum saved in the community ; for, it is most likely that there are unaccounted resources such as 'black money' whose importance in the context of capital formation and the wealth tax will be referred to later. Secondly, household savings are the major source of capital formation ; the trend in their aggregate volume has been, by and large, one of steady and rapid expansion, with the rate of growth increasing *during the heavily-taxed period, 1957 to 64*, indicating the lack of any positive correlation between tax burden and volume and rate of accumulation. Thirdly, a considerable part of private savings comes from the low-taxed rural sector. Fourthly, the more heavily taxed urban sector has saved more in volume and relatively at a higher rate in the *more heavily taxed period*. This suggests that savings being more a function of the volume and rate of growth of the national product and of its components, the tax element, from the angle of aggregate savings and even of sectoral ones, has had limited influence on the volume. Fifthly, even in a mixed economy, where the private sector and private accumulation are important, total savings and the diversion of private incomes and wealth to Government savings are, from the standpoint of economic growth, valid considerations to be borne in mind in any overall fiscal policy and structure.

7. Capital Formation :

Let us now look at the trends in gross and net capital formation over the 15-year period. As pointed out earlier, and as Table 13A indicates, the total resources in the decade and a half more than doubled in current prices, from Rs. 11,037 crore to very nearly Rs. 24,000 crore. Of this increase, the first seven years accounted for 24 per cent, with 1950-51 as 100 and the seven years after the tax for 69 per cent, with 1957-58 as the base (Table 13B).

On the other hand, consumption increased in the period from Rs. 9,500 crore to Rs. 11,000 crore in the pre-tax period and to Rs. 19,000 crore by 1964-65. In terms of indices, there was 16 per cent growth between 1950 and 1956 and 67 per cent expansion in the post-tax years. While the *volume* of consumption increased, for reasons stated earlier¹, its *proportion* to total resources decreased

1. *Vide supra*, Section 5.

from about 86 per cent in 1950-51 to 81 per cent in 1957-58 and 80 per cent in 1964-65 (Table 15A and Chart P).

These trends provide a set-off to those in domestic capital formation, (GDCF), whose total was Rs. 811 crore in 1950-51 and more than four times larger at the end of the period, being Rs. 3,713 crore in 1964-65 (Table 13A). In the pre-tax years, the increase was from Rs. 811 to Rs. 1,927 crore and in the post-tax years from Rs. 1,964 to Rs. 3,713 crore. As indices, these mean an expansion from 100 in 1950-51 to 238 in the pre-tax years and to 458 by 1964-65 with the same base, and 202 with 1957-58 as the base, as against the increase in total resources from 100 to 124 in the pre-tax years and to 217 in 1964-65 and from 100 to 169, if the increase in the total resources in the post-tax years alone is considered (Table 13B and Chart M).

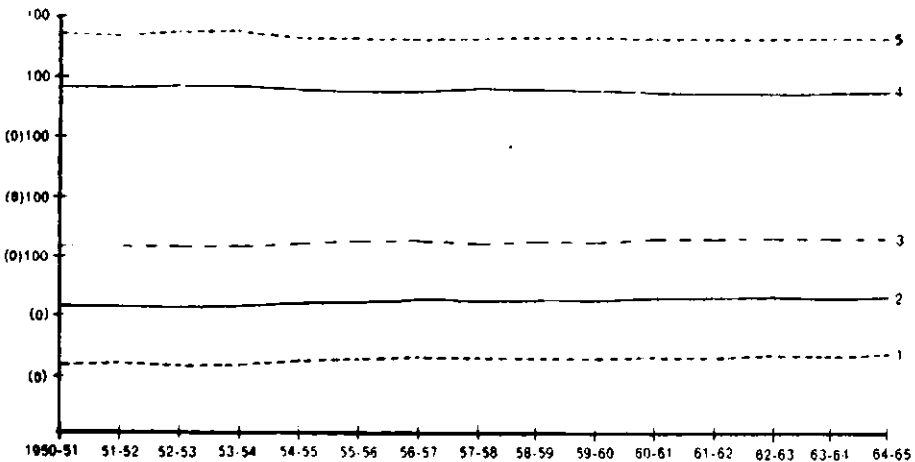
It is true that there have been ups and downs in the volume, and so in the GDCF indices, in individual years as in the whole period. Thus, in

Chart P

Proportion of Consumption and Gross Domestic Capital Formation to Total Resources and Gross Domestic Product (at current prices)

1. Proportion of Gross Domestic Capital Formation (GDCF) to Gross Domestic Product (GDP) at market prices.
2. Proportion of GDCF to Total Resources
3. Savings Potential (= Gross Domestic Product minus Consumption)
4. Proportion of Consumption to GDP at market prices
5. Proportion of Consumption to Total Resources.

Note : Different 'origins' have been used for plotting the graph for each item in this chart, so as to indicate clearly the separate items, and trends for the purpose of comparison.



1952-53, there was a very considerable fall in GDCF as against only a slight reduction in total resources, whereas in 1954-55, in spite of a reduction in the total resources, the volume of GDCF increased markedly. In the post-tax years, not only was the rate of such formation faster than that of resources, but also, except for a temporary halt in growth in 1961-62 (index 320 points compared to 321 in the previous years), there was a rise of 122 points in the post-tax period, compared to 128 points in the earlier 7 years (Table 13B and Chart M).

A more meaningful indication of capital formation is the growth in fixed assets, and let us look at the trends first *at current prices*. Over the whole 15-year period, the volume of fixed assets increased by almost four and a half times, being Rs. 905 crore in 1950-51 and Rs. 4,009 crore in 1964-65 (Table 13A). Of this increase, the first seven years accounted for about Rs. 579 crore and the post-tax seven years for Rs. 2,409 crore. As indices, these work out to a growth from 100 in 1950-51 to 164 in 1956-57 and to 443 in 1964-65 (Table 13B and Chart M). In other words, in terms of annual additions to fixed assets, there was a 64 per cent expansion between 1950 and 1956-57, whereas the increase was 125 per cent between 1957-58 and 1964-65. The growth, by and large, has also been continuous and steady in the 15 years, but it must be stressed that the fluctuations, particularly the reduction both in volume and in proportion, are more in the pre-tax years and almost nil in the post-tax ones, except for a 20-point fall in 1958-59. Thus, whereas in 1952-53 and 1953-54, the indices were 84 and 83 compared to 104 in the previous year and 109 in 1954-55, with corresponding changes in the volume, after 1957 the index number was 177 in 1958-59, compared to 197 and 199 in 1957-58 and 1959-60 respectively. That is, not only was the set-back in fixed assets formation relatively small and also for a short period but the rate of growth in assets-formation in the post-tax years was also more rapid. These features of GDCF and fixed assets are brought out clearly in Chart M. The post-tax years show a remarkable expansion in GDCF and fixed assets absolutely, and also relatively to the pre-tax years and to the total resources. There were, no doubt, fluctuations in both the pre- and the post-tax years, but the explanation must be sought elsewhere than in the imposition of the wealth tax or in the total tax burden.

Since taxes are levied and collected in current prices, the impact should be judged in terms of current prices only. Let us, however, look at these elements in terms of constant prices. At the 1948-49 prices, the total resources available for consumption and capital formation expanded from Rs. 10,240 crore in 1950-51 to Rs. 17,697

crore in 1964-65 (Table 13C). The increase in the first seven years was Rs. 2,961 crore and in the post-tax years a little over Rs. 3,668 crore. In index numbers, this means that there was a 73-per cent growth in total resources over the whole period of which 29 per cent was in the pre-tax years, and the balance in 1958-64; that is, there was a proportionate, though slight, expansion in the post-tax years even at constant prices (Table 13D).

Against this trend in total resources may be placed that in GDCF. Aggregate GDCF increased from Rs. 748 crore in 1950-51 to Rs. 2,278 crore in 1964-65 i.e. a growth of Rs. 1,530 crore or an annual average of Rs. 102 crore (Table 13C). In the seven pre-tax years, the *total* increase was Rs. 897 crore or an annual average of Rs. 128 crore. But 1956-57 appears to have been somewhat abnormal, as evident from the next three years and, therefore, *vis-a-vis* 1957-58 the increase in the pre-tax years was around Rs. 664 crore or an average of Rs. 86 crore. As against this, the total increase in 1958-64 was Rs. 738 crore or an average of Rs. 105 crore—the trends show no abnormality as in 1956-57.

Viewed as index numbers, the GDCF increased from 100 to 305 in fifteen years, of which the first eight accounted for a rise of 89 (in the abnormal year, 1956-57, the index number was 220), whereas in the post-tax years indices were up by 61 per cent, with 1957-58 as the base (Table 13D and Chart N). The apparent slow increase in 1958-64 was because of the larger volume in the base year itself which was double that in 1950-51, the base for the pre-tax years. Viewing from a different angle, the aggregate total of GDCF and the annual average in the pre-tax years were Rs. 7,166 crore and Rs. 1,024 crore respectively, while in 1958-64 the corresponding figures were Rs. 13,077 crore and Rs. 1,868 crore respectively.

The larger part of such capital formation was naturally in fixed assets. These increased from Rs. 835 crore in 1950-51 to Rs. 1,214 crore in 1956-57 and Rs. 1,381 crore in the next year. The assets formed in the first post-tax year accounted for Rs. 1,207 crore and at the end of the period, the volume was Rs. 2,455 crore. In other words, except for a considerable rise in 1962-64 and for a short fall in 1958-59, the annual gross domestic capital formation in the form of fixed assets showed a steadily expanding tendency. The total of fixed-assets-capital formation in the first seven years was Rs. 6,179 crore and the annual average Rs. 883 crore, whereas in 1958-64 the corresponding figures were Rs. 12,241 crore and Rs. 1,749 crore. The marked difference in both the aggregate and the average in the two periods is patent. Represented as indices, fixed assets in 1956-57 formed 45 per cent

more and in the next year 65 per cent more than in 1950-51; but in the next seven years they were 78 per cent more than in the base year, 1957-58, and over the whole period nearly three times larger.

Chart N brings out pointedly the foregoing trends in capital formation, particularly fixed assets, at constant prices over the whole period and especially in the pre and post-tax years. Two significant features of the trends in GDCF and fixed assets are, firstly, that relative slowing down of growth in GDCF did not affect fixed assets formation, particularly from 1958 onwards. Secondly, it is indeed remarkable that GDCF picked up much faster than even GDP. Whether we look at GDCF and fixed assets in current or constant prices, the fact stands out that neither, particularly GDCF, appears to have suffered from the newer taxes and the increase in the tax burden. Thus, as a proportion of gross domestic product, GDCF was 7.9 per cent in 1950-51, 15.4 and 14.3 in 1956-57 and 1957-58 respectively and 16.6 in 1964-65; and as a proportion of the total resources GDCF accounted for 7.8, 14.1, 13.0 and 15.5 in the four years respectively (Table 15A and Chart P). In constant prices also, GDCF was 7.8, 13.5, 11.5 and 13.8 per cent of GDP and as a proportion of total resources was 7.3, 12.5, 10.6 and 12.9 respectively in 1950-51, 1956-57, 1957-58 and 1964-65 (Table 15 B and Chart Q). Naturally, over the 15 years, and more so in the pre and post-tax years, both at current and constant prices, there have been fluctuations in these proportions. But that there should have been a persistent overall rising trend in the share of capital formation is very significant.

We might now consider capital formation from the side of its components. I shall here refer to data from two different sources and consider the trends in each. Such a procedure, though strictly questionable for conclusions regarding volumes and details, would not invalidate the *broad trend* analysis since the trends shown by both are similar, though not identical.

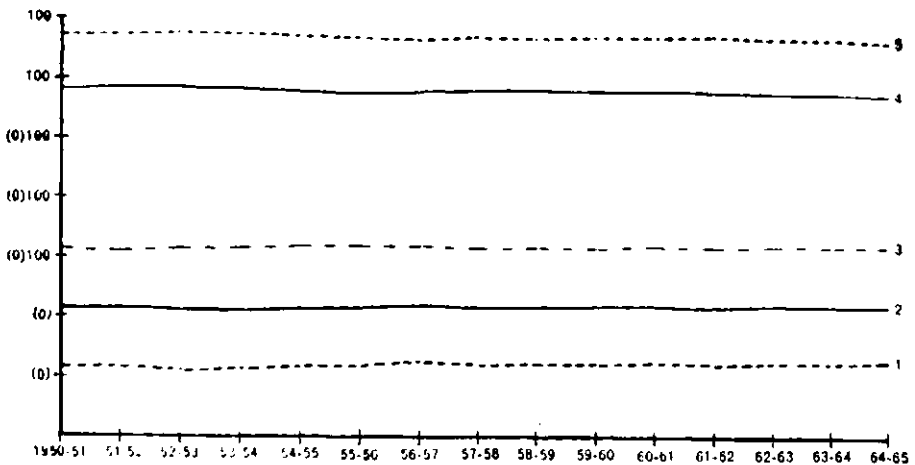
Table 16A provides data for gross and net capital formation under the public and private sector heads for 1950 through 1961-62, although for the aggregate volume, data are available for all the 15 years. Out of Rs. 811 crore of GDCF at current prices in 1950-51, Rs. 223 crore were on public account and Rs. 583 crore on private account. Public GCF increased to Rs. 659 crore by 1956-57 and to Rs. 1,135 crore by 1961-62 out of a total of Rs. 1,927 crore and Rs. 2,600 crore respectively. In other words, while the indices of the *total* GCF increased in the twelve years (1950-51—1961-62) from 100 to 320, *public* GCF increased fivefold (Table 16B). This expansion in the

Chart Q

Proportion of Consumption and Gross Domestic Capital Formation to Total Resources and Gross Domestic Product (at 1948-49 prices)

1. Proportion of Gross Domestic Capital Formation (GDCF) to Gross Domestic Product (GDP) at market prices
2. Proportion of GDCF to Total Resources
3. Savings Potential (= Gross Domestic Product *minus* Consumption)
4. Proportion of Consumption to G.D.P. at market prices
5. Proportion of Consumption to Total Resources

Note : Different 'origins' have been used for plotting the graph for each separate item in this chart so as to indicate clearly the separate trends for the purpose of comparison.



indices on public account need not concern us, because the initial volume of GCF in 1950-51 was small due to the deliberate policy of public sector expansion and further what concerns us, except incidentally, is not public but private capital formation. Private gross capital formation was Rs. 583 crore out of a total of Rs. 811 crore in 1950-51 and Rs. 1,268 crore out of an aggregate of Rs. 5,359 crore in 1956-57, which, as pointed out earlier, was an abnormal year, and Rs. 890 crore in 1957-58 (aggregate Rs. 6,249 crore) and Rs. 1,464 crore in 1961-62 out of a total of nearly Rs. 2,600 crore. In other words, private GCF increased two and a half times in the course of twelve years (1950-1961-62). Unlike public GCF, which almost steadily expanded, private GCF fluctuated over the years and the amplitude of these changes was definitely more marked in the pre-tax years than in the post-tax ones.

Net Capital Formation(NCF) at current prices increased from a total of Rs. 534 crore in 1950-51 to Rs. 1,454 crore in 1956-57 and Rs. 2,613

crore in 1964-65 (Table 16A). Out of the total, public NCF accounted for Rs. 191, Rs. 603 and Rs. 1,075 crore in 1950-51, 1956-57 and 1964-65 respectively. Except for 1958-59, the immediate post-tax year, there was a steady increase year after year in the total volume of net capital formation. As indices this growth was 100 to 489 in the fifteen years and to 335 by 1961-62, whereas the index number of public NCF rose from 100 to 316 by 1956-57 and to 563 by 1961-62 (Table 16B). The private NCF, which particularly interests us, increased a little over twofold in the twelve years compared to the over fivefold increase in the public sector and over a threefold one in total NCF. These different rates of growth in public and private NCF have, however, little significance in assessing the impact of the tax burden. The fluctuations in capital formation on private account were more marked in the pre-tax years, being, for instance, between 35 and 248 points whereas in the post-tax years the range was 134 to 254.

Let us view the capital formation trends from a different angle. Table 16C gives gross and net capital formation at two pre-tax and two post-tax points of time. In 1950-51, public GCF formed 28.2 per cent and private GCF 71.8 per cent of the total, and in 1956-57 the respective percentages were 34.2 and 65.8. In 1958-59 public GCF was about 44 per cent and that on private account 56 per cent and in 1961-62 these percentages practically remained constant. These changes only indicate that the public sector was growing and not that the private sector GCF was shrinking in volume. The net capital formation of the public sector for the four years referred to above was 35.8, 41.5, 53.0 and 40 per cent respectively. This again, emphasises the growing importance of the public sector but not the reduction in private net capital formation.

This point, very significant for our analysis, is brought out clearly by Table 16D. The average gross capital formation at current prices in the 7 pre-tax years was annually Rs. 1,162 crore, of which about Rs. 397 crore were on public account and Rs. 766 crore on private account. The four post-tax years' average was Rs. 1,013 crore on public account and Rs. 1,286 crore on private account, out of a total GCF of Rs. 2,299 crore. This should make clear that while the relative size of the public sector grew, the absolute volume of GCF on the taxed private sector account also expanded very considerably, though not at the same rate as on public account. The average net capital formation in the pre-tax period was a total of Rs. 791 crore, of which Rs. 441 crore were in the private sector and about Rs. 350 crore in the public sector, while the *average* of four post-tax years

was a total of Rs. 1,587 crore, of which Rs. 658 crore and Rs. 929 crore represented respectively the private and public sector components. To my mind, therefore, it is clear that capital formation in the private sector does not indicate any detrimental tax impact.

Let us now look at capital formation in terms of another series of data summarised in Tables 17A, B and C. These are composite in that two C.S.O. estimates, one for 1948 to 1960-61 and the other for 1961 to 65 are pieced together.

According to these figures, the total gross capital formation (GCF) in the pre-tax years was Rs. 10,751 crore giving an average of Rs. 1,536 crore (Table 17A). In the post-tax years (1958 to 1965-66) it increased to Rs. 25,024 crore or an annual average of Rs. 3,128 crore, the latter being double the pre-tax average. Of this volume of GCF, the public sector's share in the period 1950 to 56 was Rs. 2,586 crore, giving an average of Rs. 369 crore as compared to Rs. 11,190 crore in 1958 to 65, with an average of Rs. 1,399 crore. The private sector accounted for Rs. 8,165 crore in the pre-wealth tax period or an average of Rs. 1,166 crore and in the post-tax years the volume had risen to Rs. 13,834 crore or an average of Rs. 1,729 crore. These features, like the others described below, show that not only did the national *aggregate* of GCF increase very greatly but also that the annual *average* showed considerable growth in the post-tax period, and that the same trend was found in the private sector, although naturally not in the same proportion as in the public sector.

Looking a little more in detail : the gross domestic capital formation (GDGF)¹ was Rs. 9,559 crore with an average of Rs. 1,366 crore in the pre-tax years and Rs. 22,389 crore with an average of Rs. 2,799 crore in the period 1958 to 65 (Table 16B). Of this, the public sector accounted for Rs. 2,562 crore, with an average of Rs. 366 crore in 1950-55 and Rs. 10,326 crore with an average of Rs. 1,291 crore in the post-Wealth Tax period. The private sector accounted for Rs. 6,997 crore or an average of Rs. 1,000 crore in the pre-tax period and Rs. 12,063 crore, giving an average of Rs. 1,508 crore in 1958-65, i.e. a fifty per cent increase.

Of this volume of GDGF, construction, which is durable capital, accounted for Rs. 6,700 crore or an annual average of Rs. 1,686 crore in 1958-65. The public sector share in construction in the two periods grew from Rs. 1,971 crore to Rs. 7,060 crore and the average from Rs. 282 crore to Rs. 882 crore while the private sector share expanded from Rs. 4,729 crore to Rs. 6,431 crore in terms of the aggregate

1. Here GDGF refers to gross fixed domestic capital formation.

volume and from Rs. 675 crore to Rs. 804 crore in terms of the annual average.

The GDCF in the form of machinery and equipment, which is very meaningful for economic growth, was Rs. 2,859 crore and Rs. 8,898 crore in the pre and post-tax periods, giving an average of Rs. 408 crore and Rs. 1,112 crore in the two periods. Of this component of GDCF, the private sector accounted for Rs. 2,268 crore in the period 1950 to 56 and Rs. 5,632 crore between 1958 and 65, giving an average of Rs. 324 crore and Rs. 704 crore in the two periods respectively. The public sector share in machinery and equipment increased from Rs. 591 crore to Rs. 3,266 crore and the annual average from Rs. 84 crore to Rs. 408 crore in the same years.

As pointed out above, the expansion in the public sector's contribution to capital formation was very considerable, particularly in terms of percentage growth, as is only natural in any public sector-oriented economy. But, the increase in total GDCF and in the private sector's share was also very marked. Thus, the absolute increase in machinery and equipment between the pre-tax and post-tax periods in the *public sector* was Rs. 2,675 crore, whereas in the *private sector* and in the same period it was larger—Rs. 3,364 crore. Again, the private sector accounted in the pre-tax period, for Rs. 1,677 crore more of machinery and equipment and in 1958-65 for Rs. 2,366 crore *more than the public sector*. Even when the annual averages are considered, the private sector's share in the two periods was Rs. 240 crore and Rs. 296 crore more than the public sector's.

Similar conclusions follow from other analyses of the public and private sector capital formation data. For instance, the aggregate net capital formation (NCF) average in the pre-tax years was Rs. 843 crore, of which the private sector contributed Rs. 637 crore and the public sector Rs. 206 crore, while in the seven post-tax years (1958 to 64) the total net capital formation increased to Rs. 2,069 crore the private sector share to Rs. 996 crore and that of the public sector to Rs. 1,073 crore (Table 17A).

Table 17C presents the percentage distribution of public and private capital formation, gross and net, at current prices at two pre-tax and two post-tax points of time. The relative importance of the private sector steadily diminished and that of the public sector markedly increased both in GCF and NCF, but in terms of volume, the private sector not only maintained its share in capital formation but was in effect also growing in importance.

The trends of the public and private sector shares in net domestic

capital formation at current prices are interesting. The total NDCF increased more than threefold in volume in the two periods—from Rs. 5,902 crore to Rs. 17,357 crore, with the average increasing from Rs. 845 crore to Rs. 2,195 crore. Of this aggregate, the public sector share increased from Rs. 1,443 crore to Rs. 9,587 crore, and on an average from Rs. 206 crore to Rs. 1,198 crore, whereas the share of the private sector expanded from Rs. 4,459 crore to Rs. 7,970 crore, i.e. as an annual average from Rs. 637 crore to Rs. 996 crore. As the *taxed* private sector is our main concern in this analysis, it is necessary to point out that its contribution to NDCF, even in terms of annual average, increased by 50 per cent in the post-Wealth-Tax period.

Viewed as indices, these features present the picture very pointedly and clearly. Table 17D gives the index numbers of the gross and net capital formation at current prices over a 16-year period (1950 to 65) during which the aggregate GCF increased from 100 to 381. The first seven years¹ had an increase of 113 points and the seven post-tax years 178 points. The private sector indices increased in the first seven years by 93 points and in the post-tax years by 101 points. The public sector share rose more than eightfold over the 15 years, of which the first seven years accounted for an increase of 196 points. NCF increased by over six-times in the aggregate during this period, the first seven years accounting for more than half. NCF in the private sector expanded from 100 to 334 over the whole period (See also Chart R).

There was, however, a marked slowing down of growth and also greater fluctuations in the post-tax years. In view of the continuance of the wealth-tax and the steadily mounting overall tax burden, these fluctuations in 1958 to 64 cannot be ascribed to taxation, but appear to reflect the changes in the economic situation such as devaluation and rising prices.

8. Secondary Criteria :

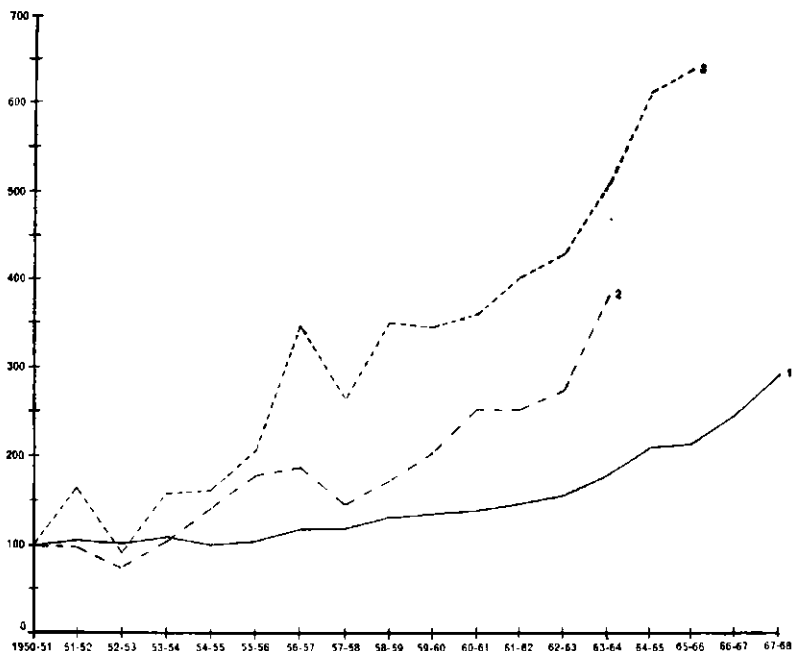
So far the analysis has been of savings and capital formation directly in themselves. Let us now look at the other criteria relating to investment and income in the private sector in order to examine the view that in the last few years—for my purposes 1950 to 1964—capital formation has been adversely affected, a major disincentive being heavy taxation. In doing so, the limitation to be borne in mind is that all the necessary data are not available for the full period of

1. 1965-66 is omitted here as the earlier comparisons have been on a seven-year basis.

Chart R

Net Domestic Product, Savings and Net Capital Formation (at current prices)

1. Net Domestic Product
 2. Savings
 3. Net Capital Formation
- (1950-51 = 100)



1950 to 1964, though regarding some heads, information till 1967-68 is available.

(a) *Company growth :*

The growth of companies, Government and non-Government, is a convenient starting point, since both participate in capital formation.¹ As Table 18 shows, there was a marked fall in the total number of companies from 28,532 in 1950-51 and 29,874 in 1955-56 to 26,715 in 1964-65. The decline in the seven years from 1955-56 was slow and steady, the numbers touching an all-time low in 1961-62, but gradually picking up in the succeeding years. Government companies showed

1. This analysis deals with company finances, only to the extent they are relevant to the tax-capital-formation issue and not in a detailed manner.

an unbroken growth. Non-Government companies, however, continuously grew fewer, from 29,813 in 1955-56 to 24,821 in 1961-62, gradually picking up till they numbered 27,460 in 1967-68. Thus, the public and private sector companies' growth trends were different.

This pattern of expansion in non-Government companies may *prima facie* suggest that there was an overall set-back in the private sector. That this was not the case is made clear from the behaviour of their capital funds. The aggregate paid-up capital of all the companies—Government and non-Government—increased from Rs. 775 crore in 1950-51 and Rs. 1,024 crore in 1955-56 to Rs. 2,709 crore in 1964-65 and Rs. 3,403 crore in 1967-68. In not even a single year was there a decline in paid-up capital in spite of the reduction in the number of companies. A large part of the capital increase was, no doubt, in Government companies where the volume expanded from Rs. 66 crore in 1955-56 to Rs. 1,115 crore in 1964-65 and to Rs. 1,532 crore in 1967-68, i.e. the paid-up capital multiplied about seventeenfold by 1964-65 and twentythree times by 1967-68. But non-Government companies also grew consistently over the period though at much lower rate. The total volume of their paid-up capital in 1955-56 was Rs. 958 crore and in 1964-65 nearly Rs. 1,594 crore, and by 1967-68 the amount was nearly double that twelve years earlier, in spite of smaller numbers and of the undoubted increase in the overall tax burden, particularly on the richer sections.

These trends in numbers and paid-up capital are clearly brought but in Table 18A presenting the changes as indices. With 1955-56 as the base, the indices of the *total* number of companies declined to 89.4 in 1964-65 and rose to 92.7 in 1967-68, whereas, with the same base, paid-up capital had an index of 264.5 in 1964-65 and 338.9 in 1967-68, more than a threefold increase in twelve years (1956 to 68). The Government companies' indices of numbers were up from 100 in 1955-56 to 399 in 1964-65 and to 395 in 1967-68, compared to the phenomenal growth in their paid-up capital from 100 in 1955-56 to nearly 1,700 in 1964-65 and over 2,300 by 1967-68. The private sector units did not expand to any comparable extent, but yet their paid-up capital showed a consistent, continuous and steady expansion compared to the fluctuations in their numbers. Thus, while the indices of their number were 100, 89 and 92 in 1955-56, 1964-65 and 1967-68 respectively, those of paid-up capital in the very same years were 100, 166 and 195.

It is thus clear that the private sector companies were not inhibited from expansion regarding their capital. In fact, this pattern of company

growth is an indication that the structure of the capital market and of the joint stock sector was changing perceptibly and that there was both a steady expansion and consolidation of the private corporate sector. Further, in 1961 to 67,¹ there was a *net* addition of 1,342 public and private limited companies, while paid-up capital increased by Rs. 500 crore. This means that, although the overall numbers declined, paid-up capital expanded substantially ; i.e. *6 per cent fall in numbers but 60 per cent rise in capital*². This growth was in step with private investment activity in, for example, organised industry and mining³ as under :—

	<i>Total investment Industry and Mining</i>
1951-56 (I Plan period)	Rs. 233 crore
1956-61 (II Plan period)	Rs. 850 „
1961-66 (III Plan period)	Rs. 1,050 „

(b) *Capital issues* :⁴

New capital issues in this period are another criterion, because to a considerable extent the applications and consents indicate the investment and intentions and opportunities of the entrepreneurs and also that the applications were not spurious.

The number of applications disposed of between 1952⁵ and 1964 ranged from 225 in 1965 to 484 in 1957, the fluctuations being marked throughout the period (Table 19). In terms of amount, the largest total applied for was Rs. 662 crore in 1962 and the smallest Rs. 90 crore in 1953; and here again, the fluctuations were marked in depth and in frequency, but these did not correspond with changes in numbers.

The number of consents granted in the fourteen years fluctuated violently between 220 in 1954 and 447 in 1962. In the pre-Wealth

1. Though this begins three years after the post-tax year 1958, and 1967 marks 3 years beyond the seven-year period 1958-65, I am considering the data in order to follow the private sector's growth-trend.
2. *Bank of India Bulletin*, June 1968, Vol. 6, No. 6, p. 82.
I have profusely quoted from this excellent editorial article—For more details regarding companies *vide R.B.I. Bulletins, Financial Statistics of Joint Stock Companies in India 1950-51—1962-63* (R.B.I. 1967).
3. *Fourth Plan—A Draft Outline*, p. 11.
4. A succinct but weighty analysis in 'Capital Issues in the private sector in the Third Plan 1961-66', *R.B.I. Bulletin*, June 1967.
5. Data are not available for 1950 and 1951. Applications indicate the entrepreneur's intention regarding growth, and consents the scope for expansion as agreed to by the permitting authority.

tax period the degree of fluctuations was relatively less, the largest number being 343 and the lowest 220, whereas in the post-tax years the largest and the fewest were 447 and 257 respectively. It should be noted that in six out of seven pre-Wealth-Tax years consents numbered *less* than 300, while in four out of seven post-tax years the numbers *exceeded* 300 and in two even 400. The average number of consents in the pre-tax period was 283 and in the post-tax years 333. Further, both the applications and the consents relating to new issues were over 800 in 1966, which year was notable for the high tax-burden, apart from the concessions granted to new undertakings.

The amount involved in these consents in the fourteen years ranged from Rs. 39.8 crore in 1952 to Rs. 544 crore in 1963. Until 1957, the largest volume of consents was for Rs. 230 crore and the average Rs. 114 crore, whereas in the post-tax years, even in the immediate post-tax year, 1958, consents amounted to Rs. 423 crore and fluctuated between Rs. 203 crore and Rs. 544 crore, with an average of Rs. 355 crore.

Table 20 presents consents in respect of *non-Government companies*. The total amount in 1956-60, as an annual average was Rs. 139 crore, compared to Rs. 207 crore for 1961-65. Until 1963, the annual consents increased markedly, with a small break in 1964, though it was then still larger than prior to 1963. Omitting bonus and miscellaneous issues, the total of equity and preference shares and debentures averaged Rs. 95 crore in 1956-60, increasing in the next two and decreasing in 1963-64, and markedly shrinking in 1965 and 1966. The annual average in 1961-65 was Rs. 132.5 crore, compared to Rs. 95.6 crore in 1956-60.

Of this total, equities accounted for the major portion in all the years. The annual average of equities in 1956-60 was Rs. 72.5 crore, while that in 1961-65 was 35 per cent more. In 1961-63 there was a continuous increase in the consents for equities with a very marked fall in 1965. In 1964, the volume was almost equivalent to that in 1961 and nearly 40 per cent more than the average for 1956-60.

Compared to this, the preference issues were small in amount, with an average of Rs. 9.5 crore in 1956-60 and of Rs. 10 crore in 1961-65, there being little change in the two periods. The annual average of debenture issues was Rs. 15.3 crore in 1959-60, compared to Rs. 25.3 crore in 1961-65, the fluctuations in individual years being between Rs. 15.4 crore and Rs. 43.3 crore but in no year less than the average for 1956-60.

The larger share of the total consents in both the periods was on

private account, the Government sector accounting in the pre-tax years for Rs. 115.5 crore as compared to Rs. 687.8 crore in the private sector (Table 19). The average for the two sectors in the pre-tax years was Rs. 16 crore and Rs. 98 crore respectively. In the post-tax years there was, no doubt, an increase in the Government share, being Rs. 54 crore in 1959 and Rs. 333 crore in 1958, compared to the two limits of Rs. 89 crore and Rs. 238 crore on private account in 1958 and 1963. The average in the period 1958 to 64 for the Government sector was Rs. 175 crore and for the private one Rs. 179.5 crore. Further, in the post-tax years as in the pre-tax ones, there was, except for 1964 and 1965 a *steady increase* in the consents granted to the private sector. Between 1956 and 60, consents amounted to an average of Rs. 95.6 crore, in 1961 to Rs. 132.7 crore and in 1962 to Rs. 163.1 crore.¹ The post-Wealth-Tax years, 1960 to 62, characterised by boom conditions, had an upsurge in capital consents. From 1963, the volume of consents began to shrink till it came down to Rs. 66.0 crore in 1966.

Table 21 presents issues grouped under the 'initial' and 'right' heads. It is, again, meaningful that the volume of initial issues in the period 1961 to 65 showed, except for 1962-63 a growing volume till 1964-65 and a reduction in the next two years with a pick-up in 1967-68. But in all these years, barring 1962-63, the absolute volume was larger than in 1961-62 which was a boom year. Of the total initial issues, debentures increased from Rs. 3.7 crore in 1961-62 to Rs. 19.4 crore in 1964-65, being around Rs. 9.5 crore in 1963-64 and 1965-66. What is striking is that, except for 1964-65 and after 1966, there was no phenomenal increase in the debenture issues and so there was no *growing resort to this form of capital*. The share of the ordinary and preference shares in initial capital issues increased from Rs. 27.9 crore in 1961-62 to Rs. 52.2 crore in 1964-65, and though it decreased in the next two years the volume was still as considerable in 1966-67 as it was in 1962-63. On the other hand, capital issues as 'rights' diminished substantially from Rs. 35.9 crore in 1961-62 continuously to Rs. 9.3 crore in 1966-67.

To turn to the *utilisation of consents*, there are few data for the pre-tax period, but in the post-tax years the volume utilised by the combined Government and non-Government sectors accounted for a total of Rs. 325 crore in 1958, declining in the next three years but rapidly picking up in the succeeding three, ranging in 1959-61 between Rs. 154 and 194 crore and in 1962-64 around Rs. 278 crore (Table 19).

1. Includes Rs. 30 crore in Oil India, Table 20.

The number of companies involved in the actual capital issues was in 1959-60 an average of 63 per year, whereas in 1961-65 the average was more than double, being 135 (Table 22). Of this, 52 companies, on an average, issued equity shares of the value of Rs. 27.1 crore during the period 1956 to 60, 18 issued preference shares valued at Rs. 6.1 crore and 5 issued debentures worth Rs. 3.8 crore. Compared to this, the annual average for 1961 to 65 was for equities 121 companies and Rs. 52.4 crore, preference shares 32 companies and Rs. 6 crore and debentures by 7 companies for Rs. 14.6 crore. Even on the average, more companies and more capital were involved in equity issues than in the fixed return preference shares and debentures. Although the number of companies issuing preference shares was larger, the amount involved was smaller. Thus, the total preference shares in 1956-60 was Rs. 30.8 crore as against Rs. 30 crore in 1961-65, whereas the total of equity issues was Rs. 135.3 crore in 1959-60 and Rs. 262 crore in 1961-65. It is also interesting that, although there was a decline in the volume of equities from 153 in 1961 to 88 in 1965, there was still in the first three years a substantial volume issued. On the other hand, the volume of preference shares was except in 1965, relatively small.

The debentures showed a different picture. The annual average in the period 1956 to 60 was 5 companies and Rs. 3.8 crore, and in 1961 to 65 it was 7 companies and Rs. 14.6 crore. Three interesting features of the debentures issued may be noted. Firstly, the number of companies and the amount annually involved fluctuated violently. Thus, in 1961, two companies issued Rs. 1.1 crore worth of debentures; in the next year 9 companies issued Rs. 38 crore, including Rs. 30 crore by Oil India Ltd., while in the very next year the volume was down to Rs. 3 crore. Secondly, the average per company varied in the different years, for example, in 1963 it was Rs. 0.75 crore and in 1965 Rs. 1.8 crore; the average per company in the period 1956 to 60 was Rs. 0.76 crore but Rs. 2.1 crore in 1961-65. Thirdly, by and large, in comparison with the equity issues, and even with the preference shares, the average for debentures—both in terms of numbers and value was not very large.

What is more significant to the capital formation issue and to the role of equities is the premium on issues. The annual average premium on issues during the years 1956 to 60 was 5 companies with Rs. 3 crore, whereas in the period 1961-65, 21 companies accounted for Rs. 4.2 crore. The largest number of companies in any particular year with a premium on their issues varied from 39 in 1962 with a

premium of Rs. 6.2 crore and the minimum of 5 companies accounting for Rs. 1.2 crore as premium. There was no logical relationship between the number of companies and the amount of premium, on as between different years in both the numbers and the volume. Another significant feature is that until 1964, or even 1965, there were a few companies whose capital issues were at a premium and that they numbered on an average about 9 per cent of the total number of companies in the period 1956 to 60 and about thrice as much as during 1961 to 65.

Let us look at the *composition of the new issues*, which reflects better the state of the capital market : "During the Second Plan period (1956 to 60), shares and debentures (other than bonus shares) formed 69 per cent of the total consents for capital issues ; this proportion rose to as high as 72-74 per cent during the years 1961 and 1962, when the buoyant conditions in the capital market attracted enthusiastic response from the investing public"¹. Thereafter, the private sector shifted more to debt financing. Thus, the proportion of shares and debentures was 59 per cent in 1964, 52 per cent in 1965 and 24 per cent in 1966. This development will be explained below. We may also note that the *number* of companies going to the market with new issues followed the trend in the *amounts*, for example, in 1960-66, the numbers were respectively 161, 156, 117, 127, 116 and 95.

That *after* 1962-63, the private sector has been finding it relatively difficult to raise adequate fresh capital from the market, that equity subscriptions and equity prices have been generally shrinking and that debentures and preference shares have been *relatively* more popular are facts. Let us ask why this situation has risen. The capital market changes commenced five or six years *after* the levy of the wealth tax and during these years the market was not depressed but was actually in a boom. Only after 1962 equity prices were down, the overall depreciation being 22 per cent, because, to quote a reputed financial periodical² : "A considerable part of the decline in share prices served as a corrective to the earlier *boom conditions* which the share market witnessed during the preceeding four-year period from 1958-59 to 1961-62³, when there was a sharp increase of about

1. 'Trends in Capital Issues in Recent Years' *Bank of India Bulletin op. cit.* p. 85) also refer to Table 20.
2. *Ibid* p. 84 Italics are mine.
3. This means that for five years after the wealth tax was imposed the capital market was in a boom ; but this was no more due to the tax than the depression that followed.

47 per cent in equity values as represented by the R.B.I. index of variable dividend industrial securities. Moreover, the supply bottlenecks arising out of low agricultural output created many *imbalances in the economy* and reacted on the capital market and enterprise.”

There were, again, the Chinese and Pakistani troubles in 1962 and 1965, severe inflation since 1960, recession later and the difficulties in foreign aid—all leading to strains and stresses. These reacted both on investors and entrepreneurs. “While no conclusive evidence can be had on the preference pattern of the subscribing public as between equities and less risk-bearing securities, a marked shift in favour of the latter by the issuing companies had taken place.¹ *Entrepreneurs themselves preferred* to issue more of preference shares and debentures than equities. Even during the boom period of 1959-60 to 1961-62, the promoters kept a substantial part of the shares in their hands, even when public response was assured” ; for example one-third of the total issues is stated² to have been for the promoters, 55 per cent to the public and the balance for foreign collaborators. The approach to the public was more by old established companies who showed greater confidence in public response, the *new ones being reluctant to come to the market* without substantial firm commitment or underwriting. Only those companies which were in dire need of external finances came to the market, issued large amounts of fixed income yielding securities and offered almost the full amount to the public for subscription. At the same time, only a decreasing proportion of the equity capital was offered to the public, except perhaps in 1965.

Yet another factor—certainly not the tax one—was the significant structural changes in the overall pattern of financing investment, namely, the private sector’s growing reliance on internal financing.³ This arose from two considerations : First, with the expanding development programmes, shrinking competition due to import and other restrictions and concessions to induce private sector expansion, a sheltered market and substantial demand had been built up. Secondly, and as a result of the first, resources had accumulated, facilitating internal financing to a greater extent than before 1957.

There were also reasons from the savers’ side. For example, other increasingly attractive forms of assets such as bank deposits and

1. *Bank of India Bulletin op. cit.* Italics are mine.

2. *Ibid.*

3. For example, external sources declined from 55.3 per cent in the First Plan period to 50.9 per cent in the Third Plan period.

government securities came up as alternatives to corporate securities. This reduced the funds available *directly* to the private sector, but from the *aggregate national* angle and even from that of their availability to the corporate sector indirectly through financial intermediaries, capital formation was not reduced.

This, however, does not mean that the capital market since 1964-65 is not depressed or that the overall tax factor, particularly the heavy dose in recent years, has not contributed its share to the stagnation, or even that the tax structure requires no modification. It simply emphasises that no direct and positive correlation is established between the tax factor and the capital market conditions from 1958 to 1964. Even where the response to equities has been poor and that to preference shares and debentures better, *risk-taking may have been affected but not capital formation.*

Table 23 gives details about ordinary, preference and bonus shares, and debentures over a 16-year period. As the number of companies analysed by the RBI during the period is not uniform, the per-company average in the pre and post-Wealth-Tax years are presented to facilitate comparability. In the *pre-tax period* the new issues of ordinary shares averaged Rs. 1.14 lakh, the amount in any particular year ranging from Rs. 0.34 lakh to Rs. 2.53 lakh and in 4 out of the 7 years the amount being below one lakh rupees. Compared to this, the average volume of new issues in 1958 to 64 was Rs. 1.87 lakh or almost one and a half times the pre-Wealth-Tax average, and it fluctuated between Rs. 1.29 lakh in 1964-65 and Rs. 2.38 lakh in 1961-62.

The rise in the volume of preference shares and debentures taken up by the public is indicated below¹ :—

Period	Annual average	
	No.	Value in Rs. crore
<i>Preference Issues</i>		
1956—60	18	6.1
1961—63	22	3.3
1964—66	46	
<i>Debentures</i>		
1961—63		4.0
1963—64		14.3

1. *Bank of India Bulletins, op. cit.* p. 86.

The pre-Wealth-Tax annual average of preference shares (new issues) was slightly lower than in the post-tax years, being Rs. 0.28 lakh as compared to Rs. 0.29 lakh. In the years 1951 to 57 these issues ranged from Rs. 0.05 lakh to Rs. 0.47 lakh, whereas in the post-tax years the range was Rs. 0.08 lakh to Rs. 0.74 lakh. The post-tax average of debentures issued was nearly double that of the pre-Wealth-Tax one, the issues per company being Rs. 0.13 lakh to Rs. 0.66 lakh in 1951-57, compared to Rs. 0.33 and Rs. 0.93 lakh in the post-tax years. It may again be noted that the debentures add to capital formation, though not to risk capital.¹

Looking at the per-company aggregate of the shares and debentures of new issues during the 16-year period, the capital contributed in the post-tax years was markedly more. In 1958-64, the average was Rs. 2.71 lakh, compared to Rs. 1.72 lakh in the previous period. The range of variation was between Rs. 2.25 lakh and Rs. 3.25 in the post-tax years, and in none of these years was the average less than Rs. 2.25 lakh, whereas prior to 1957 only in two out of 7 years did the per-company figure reach Rs. 2.25 lakh.

Capital formation in terms of the volume of share and debenture issues per company are shown as index numbers in Table 23A and the observations based on the per-company absolute figures stand out. The indices of the total of ordinary and preference shares and debentures rose from 100 in 1951 to 240 in 1957, with 3 out of 7 years (1952-54) being considerably below the base year, whereas in the post-tax period the index number in 5 out of 7 years was more than double that in 1951. As indices, the response to debenture issues is markedly better in the higher tax period than in the pre-tax years. Similar trends are found in the response to ordinary and preference shares.

The distinction between capital formation i.e. making savings available for investment, and entrepreneurship i.e. risking the investment may be repeated here. What matters for the current analysis is the former.

It is *true* that after 1962-63, equity capital has been relatively less depended upon by the entrepreneur and less sought by the saver, its proportion over time declining from 59 per cent in 1962-63 to 43 per cent in 1963-64 and further to 36 per cent in 1964-65. But, aggregate capital formation—Government and private, and that on private account as equities and non-equities—does not appear to have been affected in the period under review, 1950 to 64 ; and to the extent

1. The bonus issues are of little significance for my analysis.

it has been reduced, the main causal factors are other than the wealth tax or even the total tax burden.

Very suggestive of the capital market situation are the trends in share prices presented in Table 24. With 1952-53 as the base, the indices of equity prices in 1957 and 1964-65 have been between 125 and 164. In the first five years there was a steady rise but even in 1964-65, the index was 64 per cent more than in the base year and nearly 40 points more than in 1957-58. The *rise* in the period 1957 to 61 should be ascribed to the prevailing economic conditions, as *this also was the wealth tax period*, and the *fall* in prices after 1961, with the Wealth Tax still operating, should be ascribed again to the prevailing political and economic stresses and strains.

The price indices of preference shares in the period 1957 to 1964-65 indicate that these shares were less in demand than the equities. Further, the fluctuations in the preference share prices had a smaller range, between 81.3 and 92.3. The highest market prices in this period was in 1959-60 and thereafter prices almost steadily declined. The debenture prices behaved differently, but their main feature was an extraordinary stability around the base-year level, the variation being between 97.6 and 101.8. The conclusion, therefore, is clear that the equity shares had a larger demand in the market relative to the fixed-return-bearing debentures and the less risky preference shares.

Data in Table 24A relate to capital raised against consents and under exemption order. In current prices, the annual average for the period 1950 to 56 was Rs. 42 crore, for 1957-60 Rs. 72 crore, and for 1961-65 Rs. 99 crore i.e. in the heavily taxed years after 1961, the household sector's holdings were more than twofold than in the pre-tax years. The fluctuations in the pre-tax years were very marked, being between Rs. 15.35 crore and Rs. 68.23 crore, whereas in 1961-65, the variation was between Rs. 94 crore and Rs. 108 crore.

Let us look at the total raised and its two 'initial' and 'further' segments (Table 24B). Of the aggregate average of Rs. 72.3 crore in 1957-60 public companies accounted for Rs. 52.3 crore and private ones for Rs. 19.9 crore. In 1961-65, public and private companies raised Rs. 83.8 crore and Rs. 15.5 crore respectively, making the annual average of Rs. 99.3 crore. The amount raised by private companies declined after 1961, but that raised by public companies was on the rise.

Of this, 'initial' ordinary shares in the period 1957 to 60 averaged annually Rs. 20 crore as against Rs. 34.7 crore in 1961-65, the volume

in 1964 touching Rs. 42.5 crore. The amount ascribable to private sector account was up by 75 per cent. On the other hand, preference shares averaged Rs. 8.7 crores in 1957-60 and Rs. 1.8 crore in 1961-65. Of this, the public companies' share rose from Rs. 0.7 crore to Rs. 1.7 crore in the two periods.

'Further' issues showed a similar trend, the annual average in the period 1957-60 being Rs. 35.2 crore for ordinary shares, Rs. 5.5 crore for preference shares and Rs. 10.5 crore for debentures. Whereas the average for ordinary shares in the period 1961-65 rose to Rs. 39.8 crore, that for preference shares declined to Rs. 3.5 crore, while the average for debentures increased to Rs. 19.5 crore. Public companies expanded the volume of their ordinary shares from Rs. 26 crore to Rs. 30 crore, preference shares shrank from Rs. 5.1 crore to Rs. 3.1 crore, but debentures increased from Rs. 10.2 crore to Rs. 19.2 crore.

In other words, public companies actually raised, on an average, nearly twofold more in the period 1961 to 65, as ordinary shares (initial and further); their preference shares (initials and further) were Rs. 6.2 crore in the years 1957 to 60 and Rs. 5 crore in the period 1961 to 65. While fixed-return debentures raised as "further" issues increased,¹ there was also appreciable expansion in the risk-bearing ordinary capital under both initial and further heads.

It is true that the capital market was getting sluggish after 1962² but this was explained by the indirect flow of savings through intermediaries. To quote the Reserve Bank³ : "Despite the depressed conditions on the capital market, the L.I.C. and the U.T.I. have been able to channelise sizable portions of savings of individuals for investment in stock exchange securities and in future they would play an important role in institutionalising investment in these securities." And this is what all financial intermediaries do, through underwriting or otherwise. This means that savings were still available for capital formation even as risk capital, partly directly and partly indirectly through U.T.I.

(c) *Profits Criterion* ;

Private business is motivated by profitability. Since profits indicate the success of the undertaking, and their utilisation is an

1. No initial issues were floated.

2. *Vide R.B.I. Bulletin*, June, 1967. "Capital Issues in the Private Sector in the Third Plan, 1961-65", Tables 18 and 19.

3. *Ibid.* p. 739.

important (internal) source of capital formation, two aspects may be scanned—profitability ratios and profits allocation¹.

Taking an *overall* view of non-Government companies in all industries, gross profits as percentage of sales were up from 7.2 per cent in 1952 to 10.6 per cent in 1955, and in four out of six years were around 9 per cent. In the post-tax years the ratio was between 9.9 per cent and 10.3 per cent and in five out of six years 10 per cent or over. In other words, gross profits as a ratio of sales were higher after 1957.

In terms of total capital employed, gross profits in the period 1950 to 55 rose from 7.6 per cent to 10.7 per cent, and in only two out of six pre-tax years were they over 10 per cent, while after 1957 the range was from 9.8 per cent to 10.7 per cent and in five out of six years the percentage exceeded 10 per cent. *As percentage of net worth, profits after tax* varied from 5.7 per cent in 1952 to 9.6 per cent in 1951, while in the post-tax years the range was at a higher level, between 8.7 and 11 per cent, and in three out of six years it exceeded 10 per cent. These profitability ratios indicate that from the profits angle the private sector was decidedly better off in the post-Wealth-Tax period.

Let us now look at *profit allocations* for taxes, dividends and retention. Tax provision is influenced mainly by tax rates and profit volume. Retained profits are the major source of internal financing, while distributed profits (i.e. the yield rate) induce external capital flow into business.

In the pre-Wealth-Tax years, tax provision out of profits before tax varied from 39 per cent in 1955 to 44 per cent in 1952. But in the post-Wealth-Tax years the range was wider—36.6 per cent in 1959 and 52.3 per cent in 1962-63. From the angle of the Wealth Tax and its impact, it may be noted that almost till 1962-63, i.e. *for about 5 years after the tax*, the proportion of profits for tax payments was *not* markedly higher than in the pre-Wealth-Tax years. Profits retained before tax varied from 12 per cent to 29 per cent in the pre-Wealth-Tax period, whereas in the post-Wealth-Tax one they were between 16 per cent in 1962 and 24 per cent in 1960. But there was extraordinary stability in the ratio of retained profits in the post-Wealth Tax years, the ratio in three out of six years being around 38 per cent, and in the remaining three between 34 per cent and 38 per cent. When this steady percentage of retained profits is related to the profitability ratio explained earlier, the enlarged internal capital formation in the post-Wealth-Tax period stands out.

1. Tables 25 and 25A.

The portion of *profits distributed as dividends* fluctuated more in the pre-Wealth-Tax years, between 32 per cent and 44 per cent, while in the post-Wealth-Tax years it was above 30 per cent. After 1964, the proportion slightly increased in the next two years but, by and large, the dividends policy in the pre-and post-Wealth-Tax years was the same. Similar conclusions can be derived from dividends as percentage of profits after tax. The proportion in the pre-Wealth-Tax years varied from 52 per cent to 79 per cent, whereas in the post-Wealth-Tax decade there was an unusual stability in the distributed profits after tax.

Viewed *in terms of net worth*, the proportion of dividends in 1959-61 was, again, remarkably stable around 6.6 per cent and also in the succeeding six years, though at a lower level, around 5.7 per cent. Ordinary dividends as percentage of ordinary paid-up capital in the post-Wealth-Tax years, clustered round 11 per cent, varying between 9.6 per cent in 1966-67 and 12 per cent in 1960-61. Similar stability in aggregate dividends in terms of total paid-up capital may be observed between 1960-61 and 1966-67, although in the last two years there was a marginal decline.

This analysis of profits indicates that, by and large and in terms of all industries, the proportion of profits before or after tax, and in terms of sales, net worth, capital employed, etc. and also profit allocation among taxes, dividends and retention did not change materially in the post-Wealth-Tax years, either among themselves or even in comparison with the pre-Wealth-Tax years.

(d) *Income, Sales, Net Worth etc. :*

The implications of the foregoing feature stand out when it is placed against the aggregate volumes of income, sales, profits etc. between 1950 and 1966-67. Table 26A presents income, sales, assets and profits per company as indices and Table 26 as aggregates. The total income per company has, except for 1953 and 1954, and 1961 and 1962, steadily gone up over the whole period from Rs. 129.7 crore in 1950 to Rs. 366 crore in 1965-66—an increase of 182 per cent. Of this, in the pre-Wealth-Tax period, the increase was Rs. 60 lakh per company and in the period 1958 to 64, i.e. in the same time-span, Rs. 114 lakh, or as indices, a rise of 46 points in the seven pre-Wealth-Tax years and of 88 points in the seven post-tax years.

The sales per company were up from Rs. 111 lakh in 1950 to Rs. 291 lakh in 1964-65 i.e. an increase of 163 per cent. As in the total income, so in sales there have been ups and downs in individual

years, but overall there has been a continuous increase in 1950-64 and to a more marked extent in the next two years. Of this increase, sales went up by Rs. 52 lakh per company in the pre-Wealth-Tax years and by more than Rs. 100 lakh in the post-Wealth-Tax ones and Rs. 142 lakh by 1966-67. In terms of index numbers, there was a 46-point rise in the seven years before the tax and of 94 points in 1958-64.

The trends in *total net assets* are more telling. The volume of net assets per company in the pre-Wealth-Tax years was up by 42 points and in the post-Wealth-Tax years by 67 points between 1958 and 1964, by 120 points by 1966, while over the whole period of 17 years, the wealth-tax increase was by 188 per cent. In absolute terms, this means that between 1950 and 1956, the total net assets per company went up by Rs. 50 lakh and in the years 1958 to 61 i.e. when the Wealth Tax and other direct taxes were growing heavier, the net assets increased by Rs. 141 lakh. And net assets are, after, all, capital formation in the form of internal financing.

Let us look at the *profits per company* over the 17-year period. Profits *before* tax were Rs. 8.5 lakh in 1950, Rs. 12.2 lakh in 1958, Rs. 22.5 lakh in 1964 and 22.0 lakh in 1966-67. Except for 1952 and 1953, when there was a sudden decline in profits and for a marginal fall in 1957 and in 1961, an extraordinary consistency is evident in the increase in the volume of profits per company. In other words, in the 17-year period, profits before tax increased by 159 per cent and by the end of the 7-year period after the Wealth Tax by 165 per cent. With 1950 as the base, the seven pre-Wealth-Tax years accounted for 54 points of this increase and the seven post-Wealth-Tax years for about 120 points. New taxes were levied and old ones made heavier in the post-Wealth-Tax years, but this does not appear to have affected very much the relative profits position between the beginning and the end of the period under study. Thus, profits *after* tax were Rs. 5.1 lakh in 1950, Rs. 7.2 lakh in 1956, Rs. 6.6 lakh in 1958 and Rs. 11.1 lakh and Rs. 11.6 lakh in 1964-65 and 1966-67 respectively. This means that although there have been ups and downs in the per-company profits after tax, there was over the seven years before tax a 41 per cent increase in the volume and between 1958 and 1964, the growth was slightly more than double this.

When the extraordinary steadiness in the *percentages* of retained profits both before and after taxes is related to the equally marked increase in the *volume* of profits per company, both before and after tax, it is clear that the scope for internal capital formation was not reduced by the tax measures but in fact increased in the post-Wealth-Tax

period. The trends in the total net assets described earlier bear out this conclusion.

Let us now look at the *capital formation rates of joint-stock companies* as given in Table 27. In the light of the foregoing analysis, this table is at first sight a little puzzling, for, the fluctuations in the percentages of capital formation are considerable over the whole period. Gross fixed assets formation was 5.8 per cent in 1951 and steadily increased to 16.4 per cent i.e. threefold by 1957, while net fixed assets expanded more markedly from 2.5 per cent to 20.5 per cent in the same period. From 1958 to 1966-67 both gross and net fixed assets formation fluctuated between 7.5 per cent and 11.7 per cent in the case of gross figures, and 4.7 per cent and 12.6 per cent in the case of net assets. Two facets, however, stand out in these changes. Firstly, after 1957, there was a sharp fall in the percentage in both the gross and net accounts. Secondly, that from 1961 onwards there was relative stability in gross fixed assets formation and not to the same extent in net fixed assets.

The behaviour of inventory accumulation is understandably unsteady but it was more unsteady prior to 1957, the variation being 27 per cent between the maximum and minimum, compared to 16 per cent in the post-Wealth-Tax years. Gross capital formation showed very wide fluctuations in the pre-Wealth-Tax years between 3 per cent and 16.9 per cent, whereas in the post-Wealth-Tax years the range was between 6.1 per cent and 10.7 per cent, i.e. there was relatively greater stability. A similar trend is found in net capital formation, the post-Wealth-Tax years fluctuations being between -0.5 per cent in 1952 and 20.2 per cent in 1956, and in the post-Wealth-Tax years between 4.4 per cent and 9.9 per cent although, generally, it was in the 8 per cent and 9 per cent region. If the average net capital formation in 1951 to 56 is compared with that of six post-Wealth-Tax years, 1958 to 64, the percentage is almost identical—8.4 per cent and 8 per cent respectively in the two periods. It is remarkable that the average for all the post-Wealth-Tax years for which data are available i.e. 1958 to 1966, is 8.3 per cent.

(e) Overall Conclusions

Companies have expanded their capital, though their numbers have declined, and this is the result of the consolidation process. From almost all angles, capital issues, and particularly equities, have in the period 1958 to 64 and even a little later, largely held their own, and where the fixed return contributions have increased, it is due not a

little to the companies themselves. Internal financing has been growing in volume and in importance.¹ Company profits and their allocation have not been materially depressed or changed. Income, sales, assets and profits have, *in the heavily taxed period*, expanded.

The secondary criteria clearly point out that capital formation in the private sector has not been affected in the Wealth-Tax years; that, in fact, there has been an overall, increasing trend in investment. Though, in very recent years, the *form* of capital receipts has changed relatively from external to internal financing, from direct flow of savings from the saver to indirect flow through financial institutions including underwriters, and from contributions to risk capital (equities) to fixed return forms (preference shares and debentures). Neither this trend nor the retardations in particular years are traceable to the Wealth Tax or even to the overall tax burden; the causes must be sought in the larger sphere of economic and political conditions.

9. Unaccounted Money in Capital Formation :

There is, however, one aspect of the current economic situation that high taxation has probably affected, thereby reacting on capital formation, and that is unaccounted money. During the last two decades, this form of income and wealth has been growing in volume in spite of tighter tax laws and improved tax administration. Since the major economic difference between income and wealth is one not of kind but only of form—whether it is flow over time or a fund at a particular point of time—such unaccounted money becomes income at one stage and wealth at another, thus making its analysis germane here.

Facts about concealed income and wealth are meagre but even the very limited data throw some light on the role of such income in capital formation. Evasion in India is widespread³, but its dimensions are uncertain, the estimates of concealment ranging from

1. This appears to be the trend in other countries too, *vide* Karl W. Roskamp, *op. cit.* Ch. III and Simon Kuznets : *Capital in the American Economy—its Formation and Financing* (N.B.E.R., Princeton, 1961) Ch. V.
2. My objective here is restricted to the capital formation facet of such money. The recently appointed Wanchoo Committee's findings may be awaited for more data.
3. It is sad but true that "While in the Western countries evasion is regarded as a social crime by society, in India it is regarded as a feat of intelligence and cleverness evoking admiration". Mahavir Tyagi, *Report of the Working Group on Central Direct Tax Administration*, p. 204, January 1968, Administrative Reforms Commission, New Delhi, mimeographed.

Nicholas Kaldor's Rs. 200 to Rs. 300 crore, when the evil was still young, to the Central Board of Revenues' Rs. 20 to Rs. 30 crores.¹ Along with some other estimates,² a rough approximation of the amount of evaded income that may contribute to capital formation could be inferred.

In 1948-49 the Varadachariar Commission³ estimated the concealed but detected disclosed income in 1940 to 46 at Rs. 48 crore or an annual average of Rs. 8 crore. Under the Voluntary Disclosures Scheme of 1951 the amount disclosed was Rs. 118 crore in 11 years or an annual average of Rs. 11 crore. In 1963-64, the detected income was Rs. 80.7 crore for four years i.e. an average of Rs. 20 crore. Under the 1965 Voluntary Disclosures Scheme No. 1, income disclosed by 2,001 evaders amounted to Rs. 52.2 crore or per evader Rs. 2.6 lakh ; and under Scheme No. 2, the disclosure was Rs. 145 crore by 113,000 persons.⁴ Between 1966-67 and 1968-69, concealed income *discovered* was Rs. 120.76 crore and voluntary disclosures another Rs. 42.29 crore⁵.

Four important features, relevant to us, about unaccounted money in India are clear. Firstly, the aggregate and the annual average tax-evading income is growing rapidly over the years, although possibly more efficient detection explains a part of this increased disclosures. There is unmistakable evidence of increased tax evasion in the country, and in spite of several measures taken by the Government, this continues on a disturbing scale.⁶ Secondly, a major part of this evasion is concentrated in the higher income groups comprising the wealth tax and higher income tax assesseees. For example, under the Disclosure Scheme of 1951 referred to earlier, the tax rate attracted by the detected incomes was 60 per cent, which means that the total

1. *Vide ARC Tyagi Report* p. 195-96. Also see *Report of the Direct Taxes Administration Enquiry Committee*. 1958-59, Ch. 7 (Manager of Publications, New Delhi, 1959).
2. *Vide* e.g. Rs. 61.31 crore in G.S. Sahota : *Indian Tax Structure and Economic Development* pp. 41-51, specially pages 50-51 where Sahota considers Rs. 61 crores in 1957-58 as in addition to whatever was in 1951-52 (Asia Publishing House, Bombay, 1961) Rs. 38 crore in Jacob Eapen "Incidence of Tax and Tax Evasion" (*Second All India Conference of Tax Executives*) *Report of the Taxation Enquiry Commission*, 1953, etc. Vol. II, Ch. XII.
3. *ARC. Tyagi Report* pp. 197-199.
4. *Report of the Income Tax Investigation Commission*, 1948-49, (Manager of Publications, New Delhi, 1949).
5. *UNI Report*, New Delhi, March 6, 1970 (*Times of India*, March 7, 1970).
6. *Ibid* ; "The evasion is concentrated in upper income brackets and it is relatively insignificant in the lower income brackets".

incomes of the evader must have been at least Rs. 50,000¹. This is endorsed by an experienced direct tax administrator's observation² that tax payers with incomes over Rs. 50,000 and numbering 30,000 pose the problem of evasion and avoidance to a substantial extent. Thirdly, tax-evasion is a perennial problem and has to be fought either by splitting out the sectors where evasion is concentrated and punishing them, (i.e. the stick), or by inducing the funds to flow to open and legitimate uses, as, for instance, the Disclosures Schemes in their own way attempted, (i.e. the carrot). Finally, the income concealed but later discovered and the tax evaded but later assessed represent only a part of the unaccounted funds. To quote the Public Accounts Committee³, "Large sums have still not been detected and brought under the tax net". The Taxation Enquiry Commission³ referred to the 600 per cent difference between the returned income and the cases of 'attempted evasion'. Considering even this as an understatement of the real position, the Commission observe : "The quantum of evasion which actually takes place and goes undetected could rightly be estimated at a very high figure indeed".

What is the likely order of such concealment? Of the 15 years under study—1950 to 64—11 years gave an average of Rs. 11 crore, and four more of Rs. 20 crore. Three others (1966 to 1968) gave an average of Rs. 55 crore. It may be pointed out that the volume of unaccounted money as the 'discovered' trend suggests is consistently increasing. Informal discussions with knowledgeable persons—tax administrators and consultants, chartered accountants and even 'private individuals'—indicate that, as in an iceberg the undetected part of income may be *at least* double that discovered. It would, therefore, be a tenable inference that the *annual average* of the still unaccounted funds would be around Rs. 50 to Rs. 80 crore over a eighteen-year period⁴. Perhaps a part of it is held by sections not normally liable to the wealth tax. Not all but a substantial part of these funds is idle and not productively employed. It should be the aim to put these to more productive uses of capital⁵.

1. R.N. Jain : "Evasion and Avoidance" *Taxation and Economic Development*, p. 46 (Institute of Chartered Accountants of India, New Delhi, 1968).
2. *Report*. 1963-64, (Lok Sabha Secretariat, 1964, October).
3. *Report*. Vol. II, p. 188, Italics mine.
4. It would be no surprise if this is indeed a very low estimate. The 1953-54 *Report of the Taxation Enquiry Commission*. Vol. II, *op. cit.*
5. R.N. Jain : *op. cit.* p. 41.

Of the many causes inducing evasion, the legal facet of the penal sections of the Income and Wealth Tax Acts and the administrative facets, such as hesitation to prosecute¹ do not concern us; but two others do, namely, the high rate and burden of personal taxation and the pervasive flow of unaccounted money which compels certain transactions to be kept out of the books.²

Let us consider what happens to concealed income. For social, legal and tax reasons, it cannot come out into the open and be used as capital for normal operations. It has, therefore, to be utilised in unsocial, less productive and more wasteful ways,³ such as deposits with indigenous bankers and in fictitious names, purchase of gold and jewellery and keeping them in secret vaults at home, hoarding of grains and scarce goods, and purchasing at black-market prices of unauthorised foreign exchange, permits and licenses. To some extent, these and similar uses may add to capital formation but certainly not to the extent the same wealth could serve as 'open' capital. "In some cases where searches were carried out by the Income Tax Department," observes a top tax administrator⁴, "documentary evidence has come into our possession to show that there were actual offers for certain properties for twice or thrice the amount for which they were later on got registered. This shows the huge amount of money that passes in property transactions."

It has been pointed out earlier⁵ that, at certain levels, the combined Income and Wealth Tax burden is very high. In material terms, this burden may have only a marginal effect on capital formation, but psychologically the impact, real or fancied, is considerable. There is a great deal of truth in the conclusion that the high rate of taxation is not the true cause of evasion, for, among other reasons, there are also the tangible and intangible costs of concealing the income. "A study of the figures of detected, concealed income", observe the ARC Working Group,⁶ "shows that, at least in India⁷, an increase in the rates of taxation was not followed by an increase

1. *Direct Taxes Administration Enquiry Report—op. cit.* p. 150. Also *ARC Tyagi Report* p. 200.

2. *Ibid.*

3. *Ibid.* For detailed enumeration *vide ARC Tyagi Report* pp 206 and ff.

4. *Ibid.* R.N. Jain. *op. cit.* p. 45.

5. *Supra.* pp. 27-28.

6. *ARC Tyagi Report.* p. 201. For a contrary view, *vide* R.N. Jain. *op. cit.*

7. Recent empirical investigations in taxation in other countries and modern tax theory have begun to doubt if taxation has really all the dampening effect ascribed.

in the tax evasion, nor a decrease in the rate has brought about a higher tax responsiveness." Nor are tax rates by themselves to blame for the large extent of evasion.

All the same, respect for law and response to social standards of conduct are largely psychological, and *even if* only one of the reasons for evasion is high taxation, any reduction of the burden at the top income and wealth levels should normally bring out a large portion of unaccounted money as demonstrated by the Disclosure Schemes, and divert it into more productive channels. The revenue lost by limiting the direct tax rate to 80 or 90 per cent of total income, as suggested by me would involve relatively small amounts, while four marked advantages may be gained : an addition to capital formation and better utilisation of unaccounted money and its indirect consequences on underground uses such as artificial scarcity and price rise ; the tax revenues assessed in the disclosed income and wealth, the saving, perhaps considerable, in administrative costs; and the avoidance of certainly very considerable irritation both to the assesseees and to the tax office.

A conclusion, different from the above but no less important and relevant to capital formation may be reiterated here. Even if the Wealth Tax is totally abolished, the income released to the private sector, in terms of the volume of savings and investment, is very small,—around Rs. 15 crores,—and therefore, of very minor importance the context of the aggregate net national (Rs. 2,947 crore), or even the private sector (Rs. 1,286 crore) capital formation¹. And even with the reduction of the combined income and wealth tax burden to 80 per cent or 90 per cent of the total incomes, the additional amount released for investment is not of much consequence². But so too would be the public revenue lost.

No doubt, the plea that the two taxes, *as described earlier*, have reduced capital formation, and, therefore, production and growth cannot be sustained. Equally ill-advised would the Government be if it brushed aside the psychological repercussions of the taxes *vis-a-vis* savings and enterprise in a mixed economy.

10. Findings

(1) The second major issue relates to the effect of the wealth tax on savings and investment. Varied factors operate on capital formation, and one factor sometimes neutralises the reactions of the

1. In 1964-65, the last year referred to in this report.

2. *Supra* Ch. 1. Page 96.

others and sometimes accentuates them. In assessing the effects, the year 1957-58 is taken as the line dividing the pre-Wealth-Tax trends and the post-tax years.

(2) Limitations :

(a) No quantitative relationship between the changes in the wealth tax and those in capital formation can be established—Only trends are, therefore, considered, the quantities being merely a suggestive base.

(b) The available data on savings and capital formation are incomplete and often conflicting even when coming from the same source.

(c) The wealth tax was levied in India largely to reduce tax-evasion, but how far this objective has been realised is difficult to say.

(d) It is impossible to isolate the extent and even the direction of the effects of the various taxes on capital formation.

(3) National Income :

The aggregate national income at current prices and with 1950-51 as the base-year increased by 5 per cent in 1955-56 and by 19 per cent in 1966-67 and in 1967-68 was nearly thrice that in 1950-51 and nearly two and a quarter times that in 1958-59. In fact, the index was 132 in 1958-59, 140 in 1960-61 and 295 in 1967-68.

(4) Savings :

(a) In the pre-tax years depreciation—a form of savings and internal capital formation—was 53 per cent more than in 1950, while in 1964-65 it was 56 per cent larger compared to 1957-58.

(b) *The total savings* in the community with 1950-51 as the base gave the index number 179.1 for 1955-56, 171.9 for 1958-59 and 379.2 for 1963-64. In 1957-58 there was a reduction both in its volume and its proportion to national income. In the pre-tax period, the proportion of total savings to national income rose almost continuously from 5.7 to 9.5 per cent, declining in 1957-58, and later increasing to 12.0 per cent of the growing national income in current prices. In absolute terms, this meant an increase from Rs. 542 crore to Rs. 1,076 crore in the pre-Wealth-Tax period and from Rs. 931 crore in 1958-59 to Rs. 2,055 crore in 1963-64.

(c) Although the *volume* of consumption expanded, its *proportion* to total resources decreased from about 86 per cent in 1950-51 to 81 per cent in 1957-58 and 80 per cent in 1964-65. The 'savings potential' and 'savings realised' were *growing* over time, particularly in the post-tax years.

(d) Looking at the *components*, savings on Government account increased from Rs. 96 crore to Rs. 176 crore, or as indices from 100 to 184 in the pre-tax period, and rose from Rs. 138 crore in 1958-59 to Rs. 527 crore in 1953-54, the index being 144 and 549 respectively; savings in the domestic corporate sector were Rs. 35 crore in 1950-51, Rs. 58.5 crore in 1956-57, Rs. 32.4 crore in 1958-59 and Rs. 126.2 crore in 1963-64.

(e) Looking at the household sector whose savings are the largest, the rise between 1950-51 and 1967-68 was from 100 to 421 or from Rs. 411 crore to Rs. 1,730 crore. Of this, the volume doubled in the pre-tax years, from Rs. 411 crore in 1950-51 to Rs. 841 crore in 1956-57 and, again, in the post-tax period from Rs. 761 crore in 1958-59 to Rs. 1,400 crore in 1963-64. Apparently, the proportion of household savings to total savings showed a decline in the post-tax period, for instance, from 81.7 per cent in 1958-59 to 67.2 per cent in 1963-64 (and 81.5 per cent in 1967-68), compared with 75.9 per cent in 1950-51 and 78.2 per cent in 1956-57; but the proportion is a function not only of what is saved but also of the aggregate rise in national income.

(f) The break-up of the household sector into rural and urban units indicates that in the former, to which until recently the Wealth Tax did not apply nor much of the Income Tax, savings increased slowly between 1950 and 1962-63—from 100 to 143 (index) and from Rs. 166 crore in 1950-51 in the pre-tax period to Rs. 188 crore in 1956-57 and from Rs. 212 crore in 1958-59 to Rs. 237 crore in 1962-63. On the other hand, the index for the urban household sector, part of which bears the income and wealth taxes, increased from 100 to 305 between 1950 and 1962 (i.e. from Rs. 245 crore to Rs. 747 crore), of which the rise in the pre-tax period was from Rs. 245 to Rs. 654 crore and in the post-tax period from Rs. 549 to Rs. 747 crore. It is thus clear that the trend in capital formation could not have been affected in the post-Wealth Tax period.

(5) Capital Formation :

Gross capital formation increased from an index of 100 (1950-51) to 182 in 1955-56 and 238 in 1956-57 and from 242 in 1958-59 to 458 in 1964-65. In other words, in both the periods, before and after the tax, there was almost a similar *rate* of increase and volume was more in the latter. The Tax years were thus no different from the earlier ones. When *net capital formation* is considered, the trend is identical, the index in 1955-56 being 193.6, in 1960-61 350.2, and in 1967-68 (provisional) 565.7.

(6) There are other influences on capital formation such as extension of banking facilities and investment agencies like the Unit Trust, facilitating the freer flow of funds from consumption or idle holding to saving and investment. It is difficult to assess their part in capital formation *vis-a-vis* the more easily discernible tax factor.

(7) Secondary Criteria :

The conclusions are, by and large, confirmed by other criteria regarding the behaviour of savings and investment such as *trends* in companies' growth and expansion, forms of capital raised, security prices, profitability and profit allocation and sources and uses of funds.

There have been in individual years fluctuations in all these, but there is no definite evidence that these changes were caused by tax factors.

(a) The capital position of the non-government companies shows no overall set-back, although the growth rate was much lower than that of the Government companies. Private sector companies were not inhibited from adding to their capital. The pattern of company growth indicates that the structure of the capital market and of the joint-stock sector was changing perceptibly and that there was both steady expansion and consolidation of the private corporate sector.

(b) The private sector accounted for a larger share of the total consents of capital issues, both in the pre-Wealth-Tax and in the post-Wealth-Tax periods.

(c) After 1962-63, the private sector has been finding it *relatively* difficult to raise adequate fresh capital direct from the market; equity subscriptions and equity prices have been shrinking; and debentures and preference shares have been *relatively* growing. But these changes commenced five or six years *after* the levy of the Wealth-Tax and appear to be a corrective to the boom conditions of 1960-61. Certain economic and political factors like low agricultural output, inflation, recession and the Sino-Indian and Indo-Pak conflicts in 1962 and in 1965 affected the capital market and enterprise.

(d) There was a marked shift in favour of the less risk-bearing securities by the subscribing public. Confidence in public response was shown by the old established companies while the new ones were themselves relatively reluctant to go to the market.

(e) There was a significant change in the pattern of financing, i.e. the growing reliance on internal financing by the private sector. This

was not due to the Wealth Tax, but to the availability of the funds accumulated in sheltered market and expanding demand.

(f) The response to debenture and ordinary and preference share issues has been markedly better in the post-Wealth-Tax years, compared to the pre-Wealth-Tax period. After 1962-63 the proportion of equity capital to total capital declined but this cannot be ascribed to the Wealth Tax or even to the total tax burden. The fall in the prices of shares after 1961-62 is related to the prevailing political and economic stresses and strains.

(g) The ratio of gross profits to sales was higher in the post-Wealth-Tax period. From the profits angle, the private sector was decidedly better off in this period. When retained profits are related to the profitability ratios, the features of enlarged internal capital formation in the post-Wealth-Tax period stand out.

(h) The profits position of the corporate sector does not seem to have been affected in the post-Wealth-Tax period in which other taxes also were heavy. In spite of tax measures, the percentage increased in the post-Wealth-Tax period.

(8) I, therefore, think that capital formation in the national aggregate has not been affected to any appreciable degree, certainly not to the degree claimed by the critics of the tax, and that, in tangible financial terms, the Wealth and Income taxes, particularly the former, have not substantially reduced private savings in the community. The volume of the wealth tax in 1958-59 was Rs. 4.7 crore and in 1966-67 Rs. 10.9 crore. Of this, Rs. 3.9 crore was charged to the wealth group—over Rs. 20 lakh i.e. what has been termed earlier the 'rich' and 'wealthy' groups. This volume in terms of the national income of Rs. 12,600 crore in 1958-59 and Rs. 23,647 crore in 1966-67, or even of the disposable income, was a very small fraction. Materially, therefore, even if this amount had not been mulcted by the taxes, the increase in savings and capital formation in terms of the national income would have been inconsiderable.

(9) Unaccounted Money as Capital :

(a) In the last two decades, unaccounted money seems to be growing in volume annually. A major part of tax evasion is probably concentrated in the higher income groups comprising the Wealth Tax and higher Income Tax assesseees. To some extent, unaccounted money, utilised in unsocial, less productive and more wasteful ways, may add to capital formation but certainly not to the extent the same wealth could serve as 'open' or legitimate capital.

(b) The abolition or even the reduction of the wealth tax is likely to 'regularise' these funds, and thus add at least a large portion of these funds to capital formation in the private sector.

(10) The Wealth Tax, even if totally abolished, would release not much more than Rs. 15 to Rs. 20 crore, and, under the changes suggested by me, about Rs. 2 crore. This amount could have materially, a marginal or even negligible effect on capital formation. But psychologically, the impact of the gesture would be tremendous.

3

*Recommendations*¹

A. General Observations :

Of the direct Union taxes, the corporation tax is not on individuals or wealth, while the Estate Duty is a levy on wealth but at irregular intervals and the gift tax, though on wealth, is intended to fill the loopholes in the Estate Duty. None of these, therefore, falls under the present study, particularly with reference to these recommendations. The personal income tax, which mainly contributes to the total direct tax burden, is considered below but only so far as the income and wealth taxes go together. This means that many facets of the Income Tax such as modifications in definitions, scope, structure, rates, and allowances, important and urgent as they are, are excluded from my recommendations.

Attention may be drawn here to a useful lesson from Canada. Canada's 1969 *White Paper on Tax Reform*² proposes to broaden the income tax base, reduce the top marginal rates and spread the reduction over five years but at the same time increase personal exemptions

1. These recommendations indicate the broad direction of reform and therefore, are open to adjustments. The rationale, feasibility etc. of the Wealth Tax are not discussed. They will be taken up in a later essay.
2. Presented to the Canadian House of Commons on 7th November, 1969 (Ministry of Finance, Ottawa, 1969).

and also the tax rates in the lower brackets.¹ The current tax imposed both by the Dominion and the Provinces comprises a Federal tax of 37.5 per cent on incomes above \$ 24,000² and of 60 per cent on over \$ 400,000 income, and along with the Provincial tax³, the marginal rates are 51.5 per cent and 82.4 per cent respectively. The Federal rate is to be *reduced by a third*, to 40 per cent and the combined one by *38 per cent* to 51.2 per cent over a period *in general stages*. The first four years, during which the revenue from taxing capital gains is expected to increase significantly year by year with the Capital Gains Tax biting deeper into taxable income, Federal rates will continue in excess of 40 per cent and the combined ones in excess of 51.2 per cent⁴. In the first year of the reform, new rates on the foregoing income brackets would range between 40 per cent and 64 per cent (Federal) and 51 per cent and 82 per cent (combined), and in each of the succeeding four years the rates would be reduced by one-quarter of the excess over 40 per cent and 51.25 per cent.

1. E.g. on incomes of \$500, the old and the now combined rates are 14.8 per cent, and 21.76 per cent, and on \$10,000, 30.9 per cent and 35.84 per cent.
2. The following is an extract from the rate schedule.

Income bracket	Current		Proposed		
	Federal Tax	+ Provincial = Total	Federal Tax	+ Provincial = Total	
	Rate on income in bracket				
\$	%	%	%	%	
0— 500	11.72	14.80	21.76	17	
4,000— 5,000	22.50	28.66	30.72	24	
24,000— 35,000	37.50	51.50	31.20	40	
85,000—120,000	48.75	66.95	66.56	52	
200,000—400,000	56.25	77.25	76.80	60	
over 400,000	60.00	82.40	81.92	64	

Source : *Analysis of White Paper*. Table 2 (Canadian Tax Foundation, Toronto, Nov. 1969).

3. The burden is not to exceed 28 per cent of the Federal rate.
4. *White Paper*, paras 10 and 305.

Apparently, the reduction in the marginal rate, e.g. from 82.4 per cent to 51.2 per cent, is considerable, particularly since no wealth tax is levied in Canada, but to some extent the concession is neutralised by the extended base, the Capital Gains Tax's bite and the gradualness of the change. All the same, the Canadian reform points to the need for serious rethinking about the rate structure and tax burden in India. In doing so, three important differences between the two economies should be stressed. Firstly, India has, rightly or wrongly, accepted wealth redistribution as an objective, whereas Canada seeks to achieve it through the normal progressive taxation and larger social welfare expenditure devices. Secondly, the latter is very largely a free enterprise economy, whereas in India's socialism-oriented mixed economy the public sector is steadily growing larger both absolutely and relatively. Thirdly, Canada, being a developed economy, needs no induced acceleration of capital formation but India urgently requires such an incentive, more particularly in relation to the private sector which, at the moment, is uncertain about the tax effects and the contemplated steps.

My recommendations have the Canadian proposals and Indian conditions in mind.

Two alternatives to facilitate reducing the burden are suggested :

(1) *In the near future*, the combined burden of the two direct taxes should not exceed 80 per cent of the total income.¹ (2) But *as a first step*, and immediately, the limit may be put at 90 per cent for two important reasons. Firstly, the current effective income tax rate, on incomes of over Rs. 5 lakh, for example, is around 75 per cent². As my suggestion (see below) is to have the top wealth tax rate at 2 per cent, equivalent to 28.5 per cent on the yield from the assessed wealth³, the effective income tax rate would be reduced from around 75 per cent to 52 per cent. If the combined burden is to be around 80 per cent such a change at one stroke may be too much in the present Indian context. Realism, therefore, cautions a smaller reduction and a slower reform.

Secondly, any tax or other policy concession should be *earned* by the beneficiary. If the individual wealth-holder, saver and investor adequately responds to the first step of the concession, through increases

-
1. This would result in the Income Tax being around 52 per cent—higher than that suggested by Nicholas Kaldor—and the Wealth Tax about 28 per cent of the income from wealth.
 2. *Vide* Table 6.
 3. *Vide* page 94 footnote 2.

in savings, investment and economic expansion, then only the further reduction to 80 per cent may be considered. In other words, any concession should be a *reward* for performance and not for promises.

In terms of the loss of revenue neither of these proposals is of great significance. As explained below, the 90 per cent tax limit on an income of around 5 lakhs and on the corresponding wealth involves a loss of Rs. 2 crore, and at 80 per cent tax limit Rs. 3.56 crore in relation to the 1969-70 budget, with the income and wealth taxes accounting for around Rs. 360 crore, i.e. a loss of 0.6 per cent and 1.0 per cent of the total wealth and income tax revenues. In view of the very small difference between the two in terms of revenue lost, and the fillip to the private sector, I personally prefer the 80 per cent limit, but for the reasons stated above, it may be discreet to think in terms of the upper tax limit of 90 per cent ; and it is on this basis that the following suggestions are made.

B. Specific Suggestions :

1. *The total tax burden of the personal income and wealth taxes together should not exceed in any case 90 per cent of the total income.*

Similar tax structures are current in countries such as Sweden¹, where the Net Worth (wealth) tax is operative; and they have also the backing of tax theorists such as the Shoup Mission in Japan² and the Kaldor proposals in India³. This reduction in the maximum burden would leave in the hands of the recipient-cum-owner a *tenth* of the income to spend, save and invest, and even in the top income and wealth brackets, this would not be too large an amount.⁴

It has been pointed⁵ out that the combined weight of the income and wealth taxes in some cases exceeds total income, and this appears unwise from any angle but of ideology. *Economically* such a burden encourages avoidance, e.g. through fictitious transfers, concealable

1. M. Norr and others : *Taxation in Sweden* (International Program in Taxation, Harvard University 1959, pp. 615 and ff).
2. *Report on Japanese Taxation*. Vol. I. pp. 81 (General Headquarters, Japan, 1949).
3. Nicholas Kaldor : *Indian Tax Reform* (1956).
4. In most countries when the Net Worth/Wealth tax has been tried, the rate, and so the burden, has been generally low enough to be paid out of the income, accruing or presumed, from the wealth. For a summary of the position, *vide* Noboru Yanabe : 'The Taxation of Net Wealth' (*I.M.F. Staff Papers*, 1967/1, pp. 139-140). This is not so by itself but in the context of the total direct tax burden.
5. *Supra* page 26 and Table 7.

forms and estate splitting and evasion such as through concealment and flight of capital out of the country. The burden also leaves little scope and less incentive for larger savings and investment in the top wealth brackets of the private sector, although my analysis indicates¹ that this effect is quantitatively insignificant in India. Further, the burden discourages innovation and risky investments, so necessary for economic growth. Finally, there are the repercussions of rising prices, reducing effectively the residue of assessed wealth and income in the hands of the recipients, thus making the tax charge in real terms all the heavier.

The *psychological consequences* are that the heavy burden naturally demoralises the wealthy entrepreneurs who, in a developing mixed economy, form the dynamic side of the private sector². The willingness to use savings depends more on their attitudes and the elusive element of confidence in the current and prospective tax policies and their administration. This underscores that the desire to invest is more important than the flow of savings. As Dan Throop Smith puts it³: "Those concerned with tax policy must go beyond mechanistic analysis and learn to live with a little uncertainty (and realism) themselves. Their policies, their statements, and our tax system must take account of attitudes and confidence, even when irrational, if we are to minimise the tax restraints on sustainable economic growth."

Finally, there is no less important *equity angle* to look at the burden. Whatever the justification for the redistribution of wealth, the means to achieve it probably lie, to a large extent, in other and more direct measure such as ceilings on incomes and wealth. Moreover the range of inequalities is so pronounced in India that mere tax measures are inadequate, and the achievements of fiscal policy during the last two decades in reducing inequalities has, indeed, been little. While, therefore, in theory, taxation does serve a redistributive purpose, in practice⁴ and from the angle of vertical tax equity, direct taxation

1. *Vide* the chapter on 'The Wealth Tax and Capital Formation'.
2. It is worth repeating that wherever the private sector of any considerable dimension is allowed to operate—be it in a mixed economy like India's or a freer economy like U.S.A.'s—the psychological breaking point in the long run is reached when the income tax burden apart from other direct taxes, is around 50 to 60 per cent of the income. Confiscatory taxation—in the present case on the income plus wealth tax account—should be avoided.
3. *Proceedings of the American Economic Association*, 1962, p. 322.
4. In advanced economies such as West Germany's fiscal instruments may play a more effective role, *vide* K.W. Roskamp : *Capital Formation in Germany* (Detroit, 1965).

even mulcting only 100 per cent of the income and not more, though in a few cases only, finds no justification either on grounds of equity or of expediency or of administrative feasibility.

2. The operation of a 90 per cent limit (or of 80 per cent with the necessary adjustments) offers *two alternatives to achieve it* : (a) *Abolishing the Wealth Tax altogether* (b) *Retaining it but changing the structure of the Wealth and Income taxes.*

(a) Abolishing the Wealth Tax

This is perhaps the rational way out, but there are difficulties in accepting it. The revenue lost would be negligible, but the income tax marginal rate would still remain very high. One of the drawbacks of the present income tax structure is not so much the *effective* burden as the high marginal rate which discourages high earnings. Further some merits in theory may also be claimed for the Wealth Tax. For instance, it makes the assessment of the income tax tighter³ and the receipts larger. It is, however, not clear whether quantitatively this has actually happened in India or elsewhere, but in the long run and with more data about wealth in the community and with better administration, perhaps this claim may be realised. Moreover, the wealth tax may also reduce the unproductive use of wealth⁴. This again, is theoretically valid and perhaps partially realisable, although the problem of preventing evasion in the form of shifts of wealth, in forms of wealth and between areas and wealth-splitting would be, as it is now, formidable. The tax on urban wealth is intended to reduce concentration of immovable property in urban areas, but this claim is still to be proved by experience.

What is really most in favour of the wealth tax is its socio-political and socio-economic facets⁵. In a socialistic pattern of society with an accepted social purpose—whose rationale, feasibility and forms are

1. These aspects are analysed in detail in another part of the study.
2. *Report of the Royal Commission on Taxation in Canada*. Vol. III. p. 27, (Queens Printer, Ottawa, 1966).
3. Nicholas Kaldor : *op. cit.* Chapter II. S. Boothalingam : *Final Report on Rationalisation and Simplification of the Tax Structure* (1967) pp. 54-55.
4. This and other grounds are summarized in Noboru Tanabe 'The Taxation of Net Wealth, (*I.M.F. Staff Papers*, 1967/1).
5. Compare a British view during the public debate regarding its introduction : 'The best case for a Wealth Tax appears to be based on social grounds, as a means of gradually eliminating large fortunes and the current degree of inequality of wealth distribution' *British Tax Review* Nov.-Dec. 1963, p. 380).

not relevant here—a sop to Demos is essential and thus arise the objectives of redistributing wealth and of reducing inequalities. This means the Wealth Tax has to stay though for non-economic reasons. This and the effective overall tax limit of 90 per cent require changes both in the Wealth Tax structurally and in the Income Tax operationally.

(b) Changes in the Wealth Tax

(i) *Raise the exemption limit from Rs. 1 to 2 lakh as in the early years of the tax.*

It has been pointed out above that the rise in prices has reduced the exemption of Rs. 1 lakh to Rs. 48,000 in constant prices, and this low limit, even in a poor country like India, is not reasonable. The recommended limit of two lakh rupees means, assuming a 6 per cent return—often the return on property is lower—an equivalent of Rs. 12,000 per annum, or in constant prices, Rs. 6,000. This income is on a par with the lower middle class incomes and just above the income tax exemption limit of Rs. 4,800.¹ Moreover, raising the exemption limit would not cause much loss of revenue as the total tax charge on assesseees under Rs. 3 lakh in 1966-67 was around Rs. 130 lakh, only a part of this being attributable to those below two lakhs. By reducing the number of assesseees, administrative economy in time and costs could be effected.

(ii) *Reduce the maximum rate on top slab to two per cent so that the rates would be $\frac{1}{2}$, 1, $1\frac{1}{2}$ and 2 per cent on the four slabs. Assuming a return of 6 per cent on the assessed wealth, the rates in terms of the presumed income would approximate to 4, 10, 17 and 28 per cent on the slabs in (ii) and at rates in (iii)². The relatively slow*

1. For a married assessee with wife and more than one child.

2. The following illustrates the volume and rate of the burden.

Re-structured wealth between (Rs.)	Suggested scheduled rate	Effective rate	Total effective burden in rupees	6% return on net wealth assessed in Rs.	Total/effective burden as percentage of return on net wealth (approx.)
Exemption Limit Rs. 2 lakh.					
2,00,000— 4,00,000	0.5	0.25	1,000	24,000	$4\frac{1}{8}$
4,00,001— 8,00,000	1.0	0.63	5,000	48,000	$10\frac{1}{2}$
8,00,001—15,00,000	1.5	1.03	15,500	90,000	$17\frac{1}{4}$
Above 15,00,000	2.0	—	—	—	—
On 50 lakh	2.0	1.71	85,500	3,00,000	$28\frac{1}{2}$

graduation in the rates is only apparent as the changes in the return indicate.

These rates may be compared with the rates operative in countries which have or had the wealth tax¹.

Progressive Rates (% of wealth)

Switzerland	0.2 to 0.6	Ceylon	0.5 to 2.0
Colombia	0.1 ,, 1.5	Pakistan	1.0 ,, 2.0
Norway	0.6 ,, 1.7	Denmark	1.2 ,, 2.3
Sweden	0.5 ,, 1.8	Japan	0.5 ,, 3.0
Finland	0.4 ,, 2.0		

Proportional Rate

Netherlands	0.5	Uruguay	1.0
Luxembourg	0.5	Germany	1.0

(iii) *Restructure the wealth slabs into Rs. 2 to 4 lakh, Rs. 4 to 8 lakh, Rs. 8 to 15 lakh and above Rs. 15 lakh.*

This only slightly readjusts the existing slab structure. In terms of the readjustment, the effective wealth tax burden, particularly at the lower levels, would be similar to the income tax rates on the corresponding income as in (ii) above.

(c) Changes in Income Tax

As stated above, the 90 per cent limit, while retaining the wealth tax, requires *in effect* changes in the Income Tax rates applicable to the top Wealth Tax assessees.

(i) *Reduce the topmost effective rate to 62 per cent, with corresponding adjustments in the other rates;* (ii) *Apply this rate to the total income so that* (iii) *the current distinction between the marginal and the effective rates disappears.* In other words, replace the slice system of income tax assessment by making the concerned rate effective to the total income bracket except for the initial exemption and other common allowances. This means lowering the current rates and readjusting them between around 5 per cent at the bottom and about 62 per cent at the top². In other words, the highest effective income tax rate on the total income (less exemption, allowances etc.) would in effect be 62 per cent plus a wealth tax of 2 per cent on total wealth, less any allowance etc., (equivalent to a round 28 per cent on the income from

1. Noboru Tanabe ; *op. cit.* page 142.

2. Compare Shoup Commission's recommendation for Japan (*op. cit.*) Vol. I, page 56.

it)—in all 90 per cent. This change in income tax rate means considerable reduction in the current (1969-70) effective rates on incomes above Rs. 5 lakh¹ and I believe the change is worth trying.

Income Tax revenue involved

Category over Rs. 5 lakh	(Rs. crore)					
	1964-65			1969-70 (B.E.)*		
	Tax Payable	Loss		Tax Payable	Loss	
		At 62%	At 52%		At 62%	At 52%
	(1)	(2)		(1)	(2)	
Individuals + H.U.F.'s**	11.25	1.95	3.45	11.61	2.01	3.56
Overall percentage of income + wealth tax revenue lost	—	—	—	—	0.6	1.0

*B.E. = Budget Estimate

**H.U.F. = Hindu Undivided Family

Note: The proportion of individuals + HUF in 1964-65 has been assumed for 1969-70 also. The total I-T demand for all categories and all incomes in the two years, was Rs. 342.48 crore and (B.E.) Rs. 345 crore respectively. The wealth tax yield is taken as Rs. 15 crore.

- (1) Tax limit of 90 per cent, less the wealth tax burden of 28 per cent on the return from wealth = 62 per cent on income tax account.
- (2) Similarly, 80 per cent less 28 per cent = 52 per cent.

The abandonment of the 'slice system' involves some inequity and is also patently retrograde in fiscal theory, but so long as the effective rates apply to the total income the administration will have exchanged equity for expediency and administrative efficiency, without much loss of revenue. I doubt the wisdom of the current over-emphasis on equity in a developing economy². The taxpayer, too, will have

1. *Vide* Table 6.

2. *Vide* my Presidential Address at the Lucknow Session of the Indian Economic Conference, (*Indian Economic Journal* Jan. 1959) and my 'A Realistic Tax Structure for India' p. 42 (Vora and Co., Bombay, 1959).

gained in certainty and simplicity and in the confidence that overall he now pays relatively less, even with the Wealth Tax. He now has the assurance that if he were to risk and earn more in the topmost brackets, he need not pay the forbidding marginal rate and the more demoralising tax burden exceeding his income, since the effective one on the additional income would not be more than 55 per cent under the Income Tax nor more than 2 per cent under the Wealth Tax on any accumulation. Even under the 90 per cent effective combined wealth and income tax rate, the incentive not merely remains but increases because there is a clear residue of 10 per cent. To the State it is easier to charge and to the tax payer easier to calculate.

(d) Any general reduction of the Income Tax rates even restricted to individuals and H.U.F. (not all of whom pay the Wealth Tax) and certainly at the level considered above, leads to undue advantage to the non-wealthtax-paying assesseees, administrative difficulties, greater tax avoidance and other consequences. The simple, but temporarily no less effective, way of reducing the combined wealth and income tax burden is, therefore, to operate the 90/80 per cent limit by assessing the taxes as at present but refunding or readjusting the excess paid. The reform could, thus, be effected with minimum administrative disturbance, until the changes prove themselves, which may take 2 to 3 years, depending on the tax payers' response and the Administrations' efficiency.

(e) Meanwhile there should be a thorough review of fiscal policy in general and the income and wealth taxes in particular *vis-a-vis* their effects on the economy and the scope for structural reform¹. The Royal Commission on Taxation in Canada² with its *Studies* in particular may well serve as a model.

C. Summary of specific recommendations :

1. The combined burden of the personal income and wealth taxes should *in the near future* not exceed in any case 80 per cent of the total assessable income, but immediately and in the prevailing Indian context, the limit had better be 90 per cent.

2. (a) The total abolition of the wealth tax is economically the best way out.

-
1. In my 1958 Presidential Address (*op. cit.*) I had suggested that the enquiry may come off in 1966-67 usefully, about 15 years after the Mathai Commission.
 2. 1966. Queen's Printer, Ottawa. The Report in 6 volumes and with 27 *Published Studies* is a remarkable document.

- (b) Because of non-economic considerations, however, retain the wealth tax but with modifications as under :
 - (i) Raise the exemption limit to Rs. 2 lakh as in the early years of the tax.
 - (ii) Reduce the maximum rate on the top slab to 2 per cent.
 - (iii) Re-structure the wealth slabs into Rs. 2 to Rs. 4 lakh, Rs. 4 to 8 lakh, Rs. 8 to 15 lakh and over Rs. 15 lakh, with tax rates of $\frac{1}{2}$, 1, $1\frac{1}{2}$ and 2 per cent.
- 3. *Consequent changes in Income Tax* as operative on top assesseees :
 - (i) Reduce the top effective rate to 62 per cent.
 - (ii) Apply this rate to the *total* income assessed.
 - (iii) Replace the slice/slab system of rate-application by the older block system.
- 4. In order to minimise disturbance in current tax administration and to treat the modifications as experimental, the wealth tax may be assessed as at present, but relief given through refunds or readjustments of excess payments towards future demands.
- 5. Have a thorough enquiry, on the 1966 Canadian model, into the tax system, particularly into the income and wealth taxes.

Tables

TABLE 1A
Number of Assesseees (Wealth Tax)

Year	Net wealth between								Total
	Rs. 2 to 3 lakh	Rs. 3 to 5 lakh	Rs. 5 to 10 lakh	Rs. 10 to 20 lakh	Rs. 20 to 25 lakh	Rs. 25 to 50 lakh	Rs. 50 lakh to 1 crore	Above Rs. 1 crore	
1957-58	4,812 (100)	4,337 (100)	2,544 (100)	876 (100)	96 (100)	161 (100)	52 (100)	30 (100)	12,908 (100)
1958-59	6,855 (142)	6,311 (146)	3,692 (145)	1,177 (134)	114 (119)	202 (125)	69 (133)	32 (107)	18,452 (143)
1959-60	7,190 (149)	6,879 (159)	3,934 (155)	1,214 (139)	132 (137)	203 (126)	56 (108)	29 (97)	19,637 (152)
1960-61	7,733 (161)	7,497 (173)	4,885 (192)	870 (99)	86 (90)	229 (142)	71 (137)	28 (93)	21,399 (166)
1961-62	8,458 (176)	8,228 (190)	5,271 (207)	923 (105)	181 (189)	232 (144)	74 (142)	31 (103)	23,398 (181)
1962-63	9,175 (191)	9,068 (209)	5,259 (207)	1,600 (183)	201 (209)	271 (168)	85 (163)	40 (133)	25,699 (199)
1963-64	9,667 (201)	9,617 (222)	5,324 (209)	1,516 (173)	201 (209)	250 (155)	83 (160)	26 (87)	26,684 (207)
1964-65	14,835 (308)	10,083 (232)	5,141 (202)	1,366 (156)	187 (195)	249 (155)	67 (129)	34 (113)	31,962 (248)
1965-66	17,269 (359)	11,401 (263)	5,011 (197)	1,357 (155)	170 (177)	221 (137)	54 (104)	32 (107)	35,515 (275)
1966-67	18,962 (394)	12,792 (295)	5,234 (206)	1,497 (171)	147 (153)	220 (137)	47 (90)	29 (97)	38,928 (302)

Note—Figures in brackets are index numbers —1957-58 = 100

TABLE 1B
Wealth as per Assessment/Return (Rs. crore)

Year	Net wealth between								Total
	Rs. 2 to 3 lakh	Rs. 3 to 5 lakh	Rs. 5 to 10 lakh	Rs. 10 to 20 lakh	Rs. 20 to 25 lakh	Rs. 25 to 50 lakh	Rs. 50 lakh to 1 crore	Above Rs. 1 crore	
1957-58	113.34 (100)	160.51 (100)	167.42 (100)	114.39 (100)	21.69 (100)	54.47 (100)	34.30 (100)	56.92 (100)	723.04 (100)
1958-59	169.32 (149)	252.90 (158)	251.33 (150)	155.82 (136)	24.91 (115)	70.31 (129)	45.16 (132)	61.73 (108)	1,031.48 (143)
1959-60	173.41 (153)	260.71 (162)	263.32 (157)	169.17 (148)	29.66 (137)	68.88 (126)	38.43 (112)	33.37 (59)	1,036.95 (143)
1960-61	191.94 (169)	282.97 (176)	347.79 (208)	137.33 (120)	20.59 (95)	89.11 (164)	47.75 (139)	46.19 (81)	1,163.67 (161)
1961-62	206.65 (182)	313.81 (196)	371.27 (222)	141.49 (124)	40.71 (188)	82.02 (151)	48.95 (143)	54.63 (96)	1,259.53 (174)
1962-63	227.56 (201)	348.10 (217)	359.46 (215)	214.12 (187)	44.57 (205)	90.40 (166)	57.66 (168)	68.23 (120)	1,410.10 (195)
1963-64	230.15 (203)	365.79 (228)	349.21 (209)	205.94 (180)	47.31 (218)	87.22 (160)	57.27 (167)	51.40 (90)	1,394.29 (193)
1964-65	342.36 (302)	390.42 (243)	343.10 (205)	167.60 (147)	46.12 (213)	86.16 (158)	45.16 (132)	56.00 (98)	1,476.92 (204)
1965-66	416.25 (367)	428.41 (267)	330.57 (197)	190.89 (167)	38.05 (175)	73.89 (136)	38.30 (112)	74.11 (130)	1,590.47 (220)
1966-67	443.55 (391)	474.77 (296)	348.54 (208)	196.86 (172)	35.11 (162)	74.28 (136)	32.10 (94)	60.71 (107)	1,665.92 (230)

Note : Figures in brackets are index numbers—1957-58=100

TABLE 1C
Wealth Tax Involved (Rs. lakh)

Year	Net wealth between								Total
	Rs. 2 to 3 lakh	Rs. 3 to 5 lakh	Rs. 5 to 10 lakh	Rs. 10 to 20 lakh	Rs. 20 to 25 lakh	Rs. 25 to 50 lakh	Rs. 50 lakh to 1 crore	Above Rs. 1 crore	
1957-58	26.09 (100)	49.49 (100)	61.96 (100)	58.17 (100)	15.32 (100)	66.15 (100)	36.81 (100)	72.40 (100)	386.39 (100)
1958-59	19.14 (73)	59.71 (121)	94.96 (153)	82.60 (142)	18.31 (120)	64.14 (97)	49.82 (135)	81.53 (113)	470.21 (122)
1959-60	30.01 (115)	101.73 (206)	158.82 (256)	127.83 (220)	29.86 (195)	88.46 (134)	59.87 (163)	71.97 (99)	668.55 (173)
1960-61	36.21 (139)	189.85 (384)	220.32 (356)	116.53 (200)	21.33 (139)	96.43 (146)	70.61 (192)	74.90 (103)	826.18 (214)
1961-62	38.78 (149)	127.81 (258)	238.51 (385)	115.84 (199)	42.74 (279)	104.15 (157)	68.66 (187)	88.75 (123)	825.24 (214)
1962-63	40.74 (156)	144.78 (293)	226.96 (366)	234.15 (403)	54.96 (359)	136.78 (207)	97.05 (264)	120.95 (167)	1,056.37 (273)
1963-64	44.00 (169)	145.00 (293)	241.00 (389)	205.00 (352)	62.00 (405)	126.00 (190)	102.00 (277)	139.00 (192)	1,064.00 (275)
1964-65	89 (341)	143 (289)	194 (313)	177 (304)	61 (398)	118 (178)	93 (253)	105 (145)	980 (254)
1965-66	157 (602)	164 (331)	216 (349)	193 (332)	43 (281)	116 (175)	66 (179)	133 (184)	1,088 (282)
1966-67	129 (494)	175 (354)	199 (321)	199 (342)	45 (294)	121 (183)	80 (217)	140 (193)	1,088 (282)

Note : Figures in brackets are index numbers—1957-58=100.

TABLE 2A
Wealth Return per Assessee (Rs. lakh)

Year	Net wealth between								Total
	Rs. 2 to 3 lakh	Rs. 3 to 5 lakh	Rs. 5 to 10 lakh	Rs. 10 to 20 lakh	Rs. 20 to 25 lakh	Rs. 25 to 50 lakh	Rs. 50 lakh to 1 crore	Above Rs. 1 crore	
1957-58	2.36 (100)	3.70 (100)	6.58 (100)	13.06 (100)	22.59 (100)	33.83 (100)	65.96 (100)	189.73 (100)	5.60 (100)
1958-59	2.47 (105)	4.01 (108)	6.81 (103)	13.24 (101)	21.85 (97)	34.81 (103)	65.45 (99)	192.91 (102)	5.59 (100)
1959-60	2.41 (102)	3.79 (102)	6.69 (102)	13.93 (107)	22.47 (99)	33.93 (100)	68.63 (104)	115.07 (61)	5.28 (94)
1960-61	2.48 (105)	3.77 (102)	7.12 (108)	15.79 (121)	23.94 (106)	38.91 (115)	67.25 (102)	164.96 (87)	5.44 (97)
1961-62	2.44 (103)	3.81 (103)	7.04 (107)	15.33 (117)	22.49 (100)	35.35 (104)	66.15 (100)	176.23 (93)	5.38 (96)
1962-63	2.48 (105)	3.84 (104)	6.84 (104)	13.38 (102)	22.17 (98)	33.36 (99)	67.84 (103)	170.58 (90)	5.49 (98)
1963-64	2.38 (101)	3.80 (103)	6.56 (100)	13.58 (104)	23.54 (104)	34.89 (103)	69.00 (105)	197.69 (104)	5.23 (93)
1964-65	2.31 (98)	3.87 (105)	6.67 (101)	12.27 (94)	24.66 (109)	34.60 (102)	67.40 (102)	164.71 (87)	4.62 (82)
1965-66	2.41 (102)	3.76 (102)	6.60 (100)	14.07 (108)	22.38 (99)	33.43 (99)	70.93 (108)	231.59 (122)	4.48 (80)
1966-67	2.34 (99)	3.71 (100)	6.66 (101)	13.15 (101)	23.88 (106)	33.76 (100)	68.30 (104)	209.34 (110)	4.28 (76)

Note : Figures in brackets are index numbers—1957-58=100.

TABLE 2B
Wealth Tax Involved per Assessee (Rs.)

Year	Net wealth between								Total
	Rs. 2 to 3 lakh	Rs. 3 to 5 lakh	Rs. 5 to 10 lakh	Rs. 10 to 20 lakh	Rs. 20 to 25 lakh	Rs. 25 to 50 lakh	Rs. 50 lakh to 1 crore	Above Rs. 1 crore	
1957-58	542 (100)	1,141 (100)	2,435 (100)	6,640 (100)	15,958 (100)	41,087 (100)	70,788 (100)	2,41,333 (100)	2,993 (100)
1958-59	279 (51)	946 (83)	2,572 (106)	7,018 (106)	16,061 (101)	31,752 (77)	72,203 (102)	2,54,781 (106)	2,548 (85)
1959-60	417 (77)	1,479 (130)	4,037 (166)	10,530 (159)	22,621 (142)	43,576 (106)	1,06,911 (151)	2,48,172 (103)	3,405 (114)
1960-61	468 (86)	2,532 (222)	4,510 (185)	13,394 (202)	24,802 (155)	42,109 (102)	99,451 (140)	2,67,500 (111)	3,861 (129)
1961-62	459 (85)	1,553 (136)	4,525 (186)	12,550 (189)	23,613 (148)	44,892 (109)	92,784 (131)	2,86,290 (119)	3,527 (118)
1962-63	444 (82)	1,597 (140)	4,316 (177)	14,634 (220)	27,343 (171)	50,472 (123)	1,14,177 (161)	3,02,375 (125)	4,126 (138)
1963-64	455 (84)	1,508 (132)	4,527 (186)	13,522 (204)	30,846 (193)	50,400 (123)	1,22,892 (174)	5,34,615 (222)	3,987 (133)
1964-65	600 (111)	1,418 (124)	3,774 (155)	12,958 (195)	32,620 (204)	47,390 (115)	1,38,806 (196)	3,08,824 (128)	3,066 (102)
1965-66	909 (168)	1,438 (126)	4,311 (177)	14,223 (214)	25,294 (159)	52,489 (128)	1,22,222 (173)	4,15,625 (172)	3,063 (102)
1966-67	680 (125)	1,368 (120)	3,802 (156)	13,293 (200)	30,612 (192)	55,000 (134)	1,70,213 (240)	4,82,759 (200)	2,795 (93)

Note : Figures in brackets are index numbers—1957-58=100

TABLE 3A
Number of Assesseees (Wealth Tax)—Regrouped

Year	The Middle Class (Rs. 2 to 5 lakh)	The Upper Middle Class (Rs. 5 to 20 lakh)	The Rich Class (Rs. 20 to 50 lakh)	The Wealthy Class (Above Rs. 50 lakh)	Total
1957-58	9,149 (100)	3,420 (100)	257 (100)	82 (100)	12,908 (100)
1958-59	13,166 (144)	4,869 (142)	316 (123)	101 (123)	18,452 (143)
1959-60	14,069 (154)	5,148 (151)	335 (130)	85 (104)	19,637 (152)
1960-61	15,230 (166)	5,755 (168)	315 (123)	99 (121)	21,399 (166)
1961-62	16,686 (182)	6,194 (181)	413 (161)	105 (128)	23,398 (181)
1962-63	18,243 (199)	6,859 (201)	472 (184)	125 (152)	25,699 (199)
1963-64	19,284 (211)	6,840 (200)	451 (175)	109 (133)	26,684 (207)
1964-65	24,918 (272)	6,507 (190)	436 (170)	101 (123)	31,962 (248)
1965-66	28,670 (313)	6,368 (186)	391 (152)	86 (105)	35,515 (275)
1966-67	31,754 (347)	6,731 (197)	367 (143)	76 (93)	38,928 (302)

Note : Figures in brackets are index numbers—1957-58=100.

TABLE 3B
Wealth as per Assessment/Return—Regrouped

(Rs. crore)

Year	The Middle Class (Rs. 2 to 5 lakh)	The Upper Middle Class (Rs. 5 to 20 lakh)	The Rich Class (Rs. 20 to 50 lakh)	The Wealthy Class (Above Rs. 50 lakh)	Total
1957-58	273.85 (100)	281.81 (100)	76.16 (100)	91.22 (100)	723.04 (100)
1958-59	422.22 (154)	407.15 (144)	95.22 (125)	106.89 (117)	1,031.48 (143)
1959-60	434.12 (159)	432.49 (153)	98.54 (129)	71.80 (79)	1,036.95 (143)
1960-61	474.91 (173)	485.12 (173)	109.70 (144)	93.94 (103)	1,163.67 (161)
1961-62	520.46 (190)	512.76 (182)	122.73 (161)	103.58 (114)	1,259.53 (174)
1962-63	575.66 (210)	573.58 (204)	134.97 (177)	125.89 (138)	1,410.10 (195)
1963-64	595.94 (218)	555.15 (197)	134.53 (177)	108.67 (119)	1,394.29 (193)
1964-65	732.78 (268)	510.70 (181)	132.28 (174)	101.16 (111)	1,476.92 (204)
1965-66	844.66 (308)	521.46 (185)	111.94 (147)	112.41 (123)	1,590.47 (220)
1966-67	918.32 (335)	545.40 (194)	109.39 (144)	92.81 (102)	1,665.92 (230)

Note : Figures in brackets are index numbers—1957-58=100.

TABLE 3C
Wealth Tax Involved—Regrouped

(Rs. lakh)

Year	The Middle Class (Rs. 2 to 5 lakh)	The Upper Middle Class (Rs. 5 to 20 lakh)	The Rich Class (Rs. 20 to 50 lakh)	The Wealthy Class (Above Rs. 50 lakh)	Total
1957-58	75.58 (100)	120.13 (100)	81.47 (100)	109.21 (100)	386.39 (100)
1958-59	78.85 (104)	177.56 (148)	82.45 (101)	131.35 (120)	470.21 (122)
1959-60	131.74 (174)	286.65 (239)	118.32 (145)	131.84 (121)	668.55 (173)
1960-61	226.06 (299)	336.85 (280)	117.76 (145)	145.51 (133)	826.18 (214)
1961-62	166.59 (220)	354.35 (295)	146.89 (180)	157.41 (144)	825.24 (214)
1962-63	185.52 (245)	461.11 (384)	191.74 (235)	218.00 (200)	1,056.37 (273)
1963-64	189.00 (250)	446.00 (371)	188.00 (231)	241.00 (221)	1,064.00 (275)
1964-65	232.00 (307)	371.00 (309)	179.00 (220)	198.00 (181)	980.00 (254)
1965-66	321.00 (425)	409.00 (340)	159.00 (195)	199.00 (182)	1,088.00 (282)
1966-67	304.00 (402)	398.00 (331)	166.00 (204)	220.00 (201)	1,088.00 (282)

Note : Figures in brackets are index numbers—1957-58=100.

TABLE 4A
Wealth Return per Assessee—Regrouped

(Rs. Lakh)

Year	The Middle Class (Rs. 2 to 5 lakh)	The Upper Middle Class (Rs. 5 to 20 lakh)	The Rich Class (Rs. 20 to 50 lakh)	The Wealthy Class (Above Rs. 50 lakh)	All Classes
1957-58	2.99	8.24	29.63	111.24	5.60
1958-59	3.21	8.36	30.13	105.83	5.59
1959-60	3.09	8.40	29.41	84.47	5.28
1960-61	3.12	8.43	34.83	94.89	5.44
1961-62	3.12	8.28	29.72	98.65	5.38
1962-63	3.16	8.36	28.60	100.71	5.49
1963-64	3.09	8.12	29.83	99.70	5.23
1964-65	2.94	7.85	30.34	100.16	4.62
1965-66	2.95	8.19	28.63	130.71	4.48
1966-67	2.89	8.10	29.81	122.12	4.28

TABLE 4A (a)
Indices of Wealth Return per Assessee—Regrouped

(1957-58 = 100)

Year	The Middle Class (Rs. 2 to 5 lakh)	The Upper Middle Class (Rs. 5 to 20 lakh)	The Rich Class (Rs. 20 to 50 lakh)	The Wealthy Class (Above Rs. 50 lakh)	All Classes
1957-58	100	100	100	100	100
1958-59	107	101	102	95	100
1959-60	103	102	99	76	94
1960-61	104	102	118	85	97
1961-62	104	100	100	89	96
1962-63	106	101	97	91	98
1963-64	103	99	101	90	93
1964-65	98	95	102	90	82
1965-66	99	99	97	118	80
1966-67	97	98	101	110	76

TABLE 4B
Wealth Tax Involved per Assessee—Regrouped

(Rs.)

Year	The Middle Class (Rs. 2 to 5 lakh)	The Upper Middle Class (Rs. 5 to 20 lakh)	The Rich Class (Rs. 20 to 50 lakh)	The Wealthy Class (Above Rs. 50 lakh)	All Classes
1957-58	826	3,513	31,700	1,33,183	2,993
1958-59	599	3,647	26,092	1,30,050	2,548
1959-60	936	5,568	35,319	1,55,106	3,405
1960-61	1,484	5,853	37,384	1,46,980	3,861
1961-62	998	5,721	35,567	1,49,914	3,527
1962-63	1,017	6,723	40,623	1,74,400	4,126
1963-64	980	6,520	41,685	2,21,101	3,987
1964-65	931	5,702	41,055	1,96,040	3,066
1965-66	1,120	6,423	40,665	2,31,395	3,063
1966-67	957	5,913	45,232	2,89,474	2,795

TABLE 4B(b)
Indices of Wealth Tax Involved per Assessee—Regrouped

(1957-58=100)

Year	The Middle Class (Rs. 2 to 5 lakh)	The Upper Middle Class (Rs. 5 to 20 lakh)	The Rich Class (Rs. 20 to 50 lakh)	The Wealthy Class (Above Rs. 50 lakh)	All Classes
1957-58	100	100	100	100	100
1958-59	73	104	82	98	85
1959-60	113	158	111	116	114
1960-61	180	167	118	110	129
1961-62	121	163	112	113	118
1962-63	123	191	128	131	138
1963-64	119	186	131	166	133
1964-65	113	162	130	147	102
1965-66	136	183	128	174	102
1966-67	116	168	143	217	93

TABLE 5A
Wealth Tax-Scheduled Rates, Effective Rates and Burden

Wealth between (Rs.)	1957-58			1958-59			1959-60			1960-61			1961-62		
	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3
	Exemption Limit														
	Rs. 2 lakh			Rs. 2 lakh			Rs. 2 lakh			Rs. 2 lakh			Rs. 2 lakh		
2,00,001—12,00,000	0.5%	0.4%	5,000	0.5%	0.4%	5,000	1.0%	0.8%	10,000	1.0%	0.8%	10,000	1.0%	0.8%	10,000
12,00,001—22,00,000	1.0%	0.7%	15,000	1.0%	0.7%	15,000	1.5%	1.1%	25,000	1.5%	1.1%	25,000	1.5%	1.1%	25,000
Above 22,00,000	1.5%			1.5%			2.0%			2.0%			2.0%		
On Rs. 50 lakh	1.5%	1.1%	57,000	1.5%	1.1%	57,000	2.0%	1.6%	81,000	2.0%	1.6%	81,000	2.0%	1.6%	81,000
	Exemption Limit														
	1962-63						1963-64								
				1	2	3	1	2	3	1	2	3	1	2	3
	Exemption Limit														
				Rs. 2 lakh			Rs. 2 lakh						Rs. 2 lakh		
2,00,001—10,00,000				1.1%	0.8%	8,000		1.0%			0.3%		8,000		
10,00,001—20,00,000				1.75%	1.3%	25,500		1.75%			1.3%		25,500		
Above 20,00,000				2.5%				2.5%			2.5%				
On Rs. 50 lakh				2.5%	2.0%	100,500		2.5%			2.0%		100,500		

TABLE 5A (Contd.)

Wealth between (Rs.)	1964-65			1965-66			1966-67		
	1	2	3	1	2	3	1	2	3
	Exemption Limit								
	Rs. 1 lakh			Rs. 1 lakh			Rs. 1 lakh		
1,00,001— 5,00,000	0.5%	0.4%	2,000	0.5%	0.4%	2,000	0.5%	0.4%	2,000
5,00,001—10,00,000	1.0%	0.7%	7,000	1.0%	0.7%	7,000	1.0%	0.7%	7,000
10,00,001—20,00,000	2.0%	1.35%	27,000	2.0%	1.35%	27,000	2.0%	1.35%	27,000
Above 20,00,000	2.5%			2.5%			2.5%		
On Rs. 50 lakh	2.5%	2.0%	1,02,000	2.5%	2.0%	1,02,000	2.5%	2.0%	1,02,000
	1967-68			1968-69			1969-70		
	1	2	3	1	2	3	1	2	3
	Exemption Limit								
	Rs. 1 lakh			Rs. 1 lakh			Rs. 1 lakh		
1,00,001— 5,00,000	0.5%	0.4%	2,000	0.5%	0.4%	2,000	0.5%	0.4%	2,000
5,00,001—10,00,000	1.0%	0.7%	7,000	1.0%	0.7%	7,000	1.0%	0.7%	7,000
10,00,001—20,00,000	2.0%	1.35%	27,000	2.0%	1.35%	27,000	2.5%	1.6%	32,000
Above 20,00,000	2.5%			2.5%			3.0%		
On Rs. 50 lakh	2.5%	2.0%	1,02,000	2.5%	2.0%	1,02,000	3.0%	2.4%	1,22,000

1 Scheduled Rate 2 Effective Rate 3 Effective Burden in Rupees

Note : The effective rate and burden are in relation to the maximum amount of the range.

TABLE 5B

Wealth Tax—Scheduled Rates, Effective Rates and Burden on the value of Urban Immovable Property in Certain Areas (1965-66 onwards)

Wealth Between Rs.	Scheduled Rate	Effective Rate	Effective Burden (Rs.)
Exemption Limit Rs. 2 Lakh (population between 1 lakh and 4 lakh)			
2,00,001— 4,00,000	Nil		
4,00,001— 9,00,000	1%	0.56%	5,000
9,00,001—14,00,000	2%	1.07%	15,000
14,00,001—19,00,000	3%	1.58%	30,000
Above 19,00,000	4%		
On Rs. 50 lakh	4%	3.1 %	1,54,000
Exemption Limit Rs. 3 Lakh (population between 4 lakh and 8 lakh)			
3,00,001— 5,00,000	Nil		
5,00,001—1,00,00,000	1%	0.50%	5,000
10,00,001—15,00,000	2%	1.00%	15,000
15,00,001—20,00,000	3%	1.50%	30,000
Above 20,00,000	4%		
On Rs. 50 lakh	4%	3.0%	1,50,000
Exemption Limit Rs. 4 lakh (population between 8 lakh and 16 lakh)			
4,00,001— 6,00,000	Nil		
6,00,001—11,00,000	1%	0.45%	5,000
11,00,001—16,00,000	2%	0.94%	15,000
16,00,001—21,00,000	3%	1.43%	30,000
Above 21,00,000	4%		
On Rs. 50 lakh	4%	2.9 %	1,46,000
Exemption Limit Rs. 5 lakh (population exceeding 16 lakh)			
5,00,001— 7,00,000	Nil		
7,00,001—12,00,000	1%	0.42%	5,000
12,00,001—17,00,000	2%	0.88%	15,000
17,00,001—22,00,000	3%	1.36%	30,000
Above 22,00,000	4%		
On Rs. 50 lakh	4%	2.8%	1,42,000

Note : The effective rate and burden are in relation to the maximum amount of the range.

TABLE 6
Separate Burden of Income Tax and Wealth Tax Assuming 6%, 9%, and 12% Return on Net Wealth
 (Earned income for married persons with more than one child)

(Rs.'000)

Income (Rs.)	1957-58							
	Income Tax Effective Rate	Income Tax Effective Burden	Wealth Tax Burden at 6% Return	Wealth Tax Effective Rate at 6% Return	Wealth Tax Burden at 9% Return	Wealth Tax Effective Rate at 9% Return	Wealth Tax Burden at 12% Return	Wealth Tax Effective Rate at 12% Return
48,000	(34.2)	16.4	3.0	(0.38)	1.7	(0.31)	1.0	(0.25)
60,000	(40.3)	24.2	4.0	(0.40)	2.3	(0.35)	1.5	(0.30)
72,000	(45.7)	32.9	5.0	(0.42)	3.0	(0.38)	2.0	(0.33)
1,00,000	(55.0)	55.0	9.7	(0.58)	4.5	(0.40)	3.2	(0.38)
5,00,000	(84.0)	420.2	107.0	(1.28)	65.3	(1.18)	44.5	(1.07)
10,00,000	(88.0)	879.6	232.0	(1.39)	133.7	(1.20)	107.0	(1.28)
20,00,000	(89.9)	1798.4	482.0	(1.45)	315.3	(1.42)	232.0	(1.39)
30,00,000	(90.6)	2717.1	732.0	(1.46)	482.0	(1.45)	357.0	(1.43)
				1960-61				
48,000	(31.5)	15.1	6.0	(0.75)	3.3	(0.62)	2.0	(0.50)
60,000	(37.7)	22.6	8.0	(0.80)	4.7	(0.70)	3.0	(0.60)
72,000	(42.9)	30.9	10.0	(0.83)	6.0	(0.75)	4.0	(0.67)
1,00,000	(51.5)	51.5	17.0	(1.02)	9.1	(0.82)	6.3	(0.76)
5,00,000	(71.9)	359.5	147.7	(1.77)	92.1	(1.66)	64.3	(1.54)
10,00,000	(74.4)	744.5	314.3	(1.89)	203.2	(1.83)	147.7	(1.77)
20,00,000	(75.7)	1514.5	647.7	(1.94)	425.4	(1.91)	314.3	(1.89)
30,00,000	(76.1)	2284.5	981.0	(1.96)	647.7	(1.94)	481.0	(1.92)

1962-63								
48,000	(31.5)	15.1	6.0	(0.75)	3.3	(0.62)	2.0	(0.50)
60,000	(37.7)	22.6	8.0	(0.80)	4.7	(0.70)	3.0	(0.60)
72,000	(42.9)	30.9	11.5	(0.96)	6.0	(0.75)	4.0	(0.67)
1,00,000	(51.5)	51.5	19.7	(1.18)	9.9	(0.90)	6.3	(0.76)
5,00,000	(74.7)	373.5	183.8	(2.20)	114.4	(2.06)	79.7	(1.91)
10,00,000	(77.6)	776.0	392.2	(2.35)	253.3	(2.28)	183.8	(2.21)
20,00,000	(79.0)	1581.0	808.8	(2.43)	531.1	(2.39)	392.2	(2.35)
30,00,000	(79.5)	2386.0	1225.5	(2.45)	808.8	(2.43)	600.5	(2.40)
1965-66								
48,000	(35.80)	17.2	5.0	(0.63)	2.3	(0.44)	1.0	(0.25)
60,000	(40.31)	24.2	7.0	(0.70)	3.7	(0.55)	2.0	(0.40)
72,000	(44.70)	32.2	11.0	(0.92)	5.0	(0.63)	3.0	(0.50)
1,00,000	(51.66)	51.7	20.3	(1.22)	9.8	(0.88)	5.3	(0.64)
5,00,000	(70.46)	352.3	185.3	(2.22)	115.9	(2.09)	81.2	(1.95)
10,00,000	(74.18)	741.8	393.7	(2.36)	254.7	(2.29)	185.3	(2.22)
1969-70								
48,000	(33.83)	16.2	5.0	(0.63)	2.3	(0.44)	1.0	(0.25)
60,000	(39.89)	23.9	7.0	(0.70)	3.7	(0.55)	2.0	(0.40)
72,000	(44.40)	32.0	12.0	(1.00)	5.0	(0.63)	3.0	(0.50)
1,00,000	(51.99)	52.0	23.7	(1.42)	9.8	(0.88)	5.3	(0.64)
5,00,000	(74.75)	373.7	222.0	(2.66)	138.7	(2.50)	97.0	(2.33)
10,00,000	(78.62)	786.2	472.0	(2.83)	305.3	(2.75)	222.0	(2.66)

TABLE 7
Combined Burden of Income Tax and Wealth Tax Assuming 6%, 9%, and 12% Return on Net Wealth
 (Earned income for married persons with more than one child)

(Rs. lakh)

Income Level (Rs.)	Total Effective Burden at														
	1957-58			1960-61			1962-63			1965-66			1969-70		
	6%	9%	12%	6%	9%	12%	6%	9%	12%	6%	9%	12%	6%	9%	12%
48,000	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
60,000	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
72,000	0.4	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.3
1,00,000	0.6	0.6	0.6	0.7	0.6	0.6	0.7	0.6	0.6	0.7	0.6	0.6	0.8	0.6	0.6
5,00,000	5.3	4.9	4.6	5.1	4.5	4.2	5.6	4.9	4.5	5.4	4.7	4.3	6.0	5.1	4.7
	(105.4)	(97.1)	(92.9)	(101.4)	(96.3)	(84.8)	(111.5)	(97.6)	(96.6)	(107.5)	(98.6)	(86.7)	(119.1)	(102.5)	(94.1)
10,00,000	11.1	10.1	9.9	10.6	9.5	8.9	11.4	10.3	9.6	11.4	9.9	9.3	12.6	10.9	10.1
	(111.2)	(101.3)	(98.7)	(105.9)	(94.8)	(89.2)	(114.3)	(102.9)	(96.0)	(113.6)	(99.7)	(92.7)	(125.8)	(109.1)	(100.8)
20,00,000	22.8	21.1	20.3	21.6	19.4	18.3	23.9	21.1	19.7	—	—	—	—	—	—
	(114.0)	(105.7)	(101.5)	(108.1)	(97.0)	(91.4)	(119.5)	(105.6)	(98.7)						
30,00,000	34.5	32.0	30.7	32.7	29.3	27.7	36.1	31.9	29.9	—	—	—	—	—	—
	(115.0)	(106.6)	(102.5)	(108.8)	(97.7)	(92.2)	(120.4)	(106.5)	(99.5)						

Note : Figures in brackets are percentages of Tax to Total Income. The total effective burden at the three rates is exclusive of the Additional Wealth Tax on the value of urban immovable property in certain areas from 1965-66 onwards.

TABLE 8A

Combined Burden of Income Tax, Wealth Tax and Additional Wealth Tax in Class 'A' Places Assuming 6%, 9% and 12% Return on Net Wealth

(Unearned income for married persons with more than one child)

(Rs. lakh)

Income Level (Rs.)	Total Effective Burden at														
	1957-58			1960-61			1962-63			1965-66			1969-70		
	6%	9%	12%	6%	9%	12%	6%	9%	12%	6%	9%	12%	6%	9%	12%
5,00,000	5.3	4.9	4.6	5.4	4.9	4.6	5.8	5.1	4.7	8.1	6.3	5.4	8.7	6.8	5.8
10,00,000	11.1	10.1	9.9	11.3	10.2	9.6	12.1	10.7	10.0	17.4	13.8	12.0	18.7	14.8	12.8
20,00,000	22.8	21.1	20.3	23.0	20.8	19.7	24.6	21.9	20.5	—	—	—	—	—	—
30,00,000	34.5	32.0	30.7	34.8	31.4	29.8	37.2	33.0	31.0	—	—	—	—	—	—

TABLE 8B
Percentage of Total Tax Burden (Income Tax, Wealth Tax and Additional Wealth Tax) to Income in Class 'A' Places Assuming
6%, 9% and 12% Return on Net Wealth
 (Unearned Income for married persons with more than one child)

Income Level (Rs.)	Total Effective Burden at														
	1957-58			1960-61			1962-63			1965-66			1969-70		
	6%	9%	12%	6%	9%	12%	6%	9%	12%	6%	9%	12%	6%	9%	12%
5,00,000	105.4	97.1	92.9	108.5	97.4	91.8	115.7	101.8	94.9	162.6	126.5	108.4	174.2	135.3	115.9
10,00,000	111.2	101.3	98.7	112.9	101.8	96.2	120.7	106.8	99.9	174.4	138.3	120.3	186.7	147.8	128.4
20,00,000	114.0	105.7	101.5	115.1	104.0	98.5	123.2	109.3	102.3	—	—	—	—	—	—
30,00,000	115.0	106.6	102.5	115.9	104.7	99.2	124.0	110.1	103.2	—	—	—	—	—	—

TABLE 9
Effective Rates of Income Tax and Wealth Tax at 6%, 9% and 12% Return on Net Wealth
(Earned income for married persons with more than one child)

Income (Rs.)	1957-58				1960-61				1962-63			
	I.T. Effective Rate	W.T. Effective Rate at 6%	W.T. Effective Rate at 9%	W.T. Effective Rate at 12%	I.T. Effective Rate	W.T. Effective Rate at 6%	W.T. Effective Rate at 9%	W.T. Effective Rate at 12%	I.T. Effective Rate	W.T. Effective Rate at 6%	W.T. Effective Rate at 9%	W.T. Effective Rate at 12%
48,000	34.2	0.38	0.31	0.25	31.5	0.75	0.62	0.50	31.5	0.75	0.62	0.50
60,000	40.3	0.40	0.35	0.30	37.7	0.80	0.70	0.60	37.7	0.80	0.70	0.60
72,000	45.7	0.42	0.38	0.33	42.9	0.83	0.75	0.67	42.9	0.96	0.75	0.67
1,00,000	55.0	0.58	0.40	0.38	51.5	1.02	0.82	0.76	51.5	1.18	0.90	0.76
5,00,000	84.0	1.28	1.18	1.07	71.9	1.77	1.66	1.54	74.7	2.20	2.06	1.91
10,00,000	88.0	1.39	1.20	1.28	74.4	1.89	1.83	1.77	77.6	2.35	2.28	2.21
20,00,000	89.9	1.45	1.42	1.39	75.7	1.94	1.91	1.89	79.0	2.43	2.39	2.35
30,00,000	90.6	1.46	1.45	1.43	76.1	1.96	1.94	1.92	79.5	2.45	2.43	2.40

TABLE 9. (Contd.)

Income (Rs.)	1965-66				1969-70			
	I.T. Effective Rate	W.T. Effective Rate at 6%	W.T. Effective Rate at 9%	W.T. Effective Rate at 12%	I.T. Effective Rate	W.T. Effective Rate at 6%	W.T. Effective Rate at 9%	W.T. Effective Rate at 12%
48,000	35.80	0.63	0.44	0.25	33.83	0.63	0.44	0.25
60,000	40.31	0.70	0.55	0.40	39.89	0.70	0.55	0.40
72,000	44.70	0.92	0.63	0.50	44.40	1.00	0.63	0.50
1,00,000	51.66	1.22	0.88	0.64	51.99	1.42	0.88	0.64
5,00,000	70.46	2.22	2.09	1.95	74.75	2.66	2.50	2.33
10,00,000	74.18	2.36	2.29	2.22	78.62	2.83	2.75	2.66
20,00,000	—	—	—	—	—	—	—	—
30,00,000	—	—	—	—	—	—	—	—

Note : The W.T. effective rates calculated are exclusive of the Additional Wealth Tax on the value of urban immovable property in certain areas from 1965-66 onwards.

TABLE 10A
Gross National Product at 1948-49 Prices

(Rs. crore)

Year	G.N.P. at factor cost	Depreciation	N.N.P. at factor cost
1950-51	9,105	255	8,850
1951-52	9,377	277	9,100
1952-53	9,750	290	9,460
1953-54	10,354	324	10,030
1954-55	10,618	338	10,280
1955-56	10,860	380	10,480
1956-57	11,390	390	11,000
1957-58	11,326	436	10,890
1958-59	12,133	483	11,650
1959-60	12,356	456	11,860
1960-61	13,254	524	12,730
1961-62	13,614	554	13,060
1962-63	13,930	620	13,310
1963-64	14,609	639	13,970
1964-65	15,679	679	15,000

Source : "Indian Economic Growth, 1948-49 to 1964-65, Dimensions and Determinants" by R.M. Lal and D.K. Makvana (Cyclostyled), Table 4. (referred to in succeeding tables 'Lal and Makvana').

TABLE 10B
Indices of Growth of G.N.P., Depreciation and N.N.P. at 1948-49 Prices

Year	1950-51=100			1957-58=100		
	G.N.P. at factor cost	Depreciation	N.N.P. at factor cost	G.N.P. at factor cost	Depreciation	N.N.P. at factor cost
1950-51	100	100	100			
1951-52	103	109	103			
1952-53	107	114	107			
1953-54	114	127	113			
1954-55	117	133	116			
1955-56	119	149	118			
1956-57	125	153	124			
1957-58	124	171	123	100	100	100
1958-59	133	189	132	107	111	107
1959-60	136	195	134	109	114	109
1960-61	146	205	144	117	120	117
1961-62	150	217	148	120	127	120
1962-63	153	243	150	123	142	122
1963-64	160	251	158	129	147	128
1964-65	172	266	169	138	156	138

Source : Calculated from Lal and Makvana, Table 4.

TABLE 11A
Net Domestic Product by Industry of Origin at Current Prices

(Rs. crore)

	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
Large scale manufacturing	550	640	640	690	750	780	990	980
Small scale manufacturing	910	950	970	980	960	970	980	1,000
Real estate and ownership of dwellings	410	410	430	440	450	460	480	490
Agriculture— <i>Sub-Total</i>	4,890	5,020	4,810	5,310	4,350	4,520	5,520	5,280
Industry, Mining, etc.— <i>Sub-Total</i>	1,530	1,680	1,700	1,770	1,800	1,850	2,000	2,120
Transport and Communications— <i>Sub Total</i>	1,690	1,790	1,780	1,800	1,810	1,880	1,960	2,070
Others— <i>Sub-Total</i>	1,440	1,500	1,540	1,600	1,650	1,730	1,820	1,930
<i>Total Net Domestic Product</i>	9,550	9,990	9,830	10,480	9,610	9,980	11,300	11,400
Net National Product	9,530	9,970	9,820	10,480	9,610	9,980	11,310	11,390
Gross National Product	N.A.	N.A.	N.A.	N.A.	N.A.	9,971	11,459	11,564

TABLE 11A (Contd).

(Rs. crore)

	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68
Large scale manufacturing	1,000	1,110	1,071	1,176	1,298	1,518	1,686	1,822	2,044	2,050
Small scale manufacturing	1,030	1,070	785	864	942	1,082	1,182	1,225	1,323	1,456
Real estate and ownership of dwellings	500	520	386	403	447	528	563	585	662	652
Agriculture— <i>Sub-Total</i>	6,240	6,250	6,822	7,053	7,198	8,360	10,213	9,846	11,755	14,973
Industry, Mining, etc.— <i>Sub-Total</i>	2,170	2,320	2,688	2,919	3,206	3,705	4,093	4,434	4,826	5,109
Transport and Communication— <i>Sub-Total</i>	2,150	2,230	1,883	2,044	2,230	2,512	2,946	3,187	3,687	4,122
Others— <i>Sub-Total</i>	2,060	2,180	1,987	2,145	2,365	2,654	2,977	3,286	3,634	3,983
<i>Total Net Domestic Products</i>	12,620	12,980	13,380	14,161	14,999	17,231	20,229	20,753	23,902	28,187
Net National Product	12,600	12,950	13,308	14,063	14,891	17,119	20,080	20,586	23,647	27,922
Gross National Product	12,986	13,342	14,044	14,874	15,821	18,113	21,196	21,799	25,002	N.A.

- Sources : (a) *Estimates of National Income, 1948-49 to 1962-63, C.S.O., Feb. 1964*
 (b) *Estimates of National Product (Revised Series), 1960-61 to 1967-68, C.S.O., March 1969*
 (c) *Estimates of Gross National Product from 1955-56 to 1958-60 are from Table 7.7 of National Income Statistics, Estimates of Gross Capital Formation in India 1948-49 to 1960-61, C.S.O. 1961 (Cyclostyled)*

TABLE 11B
Net Domestic Product by Industry of Origin at 1948-49 Prices

(Rs. crore)

	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
Large Scale manufacturing								
Small scale manufacturing								
Real estate and ownership of dwellings								
Agriculture— <i>Sub-Total</i>	4,340	4,440	4,600	4,980	5,030	5,020	5,250	5,010
Industry, Mining, etc.,— <i>Sub-Total</i>	1,480	1,520	1,580	1,650	1,700	1,760	1,840	1,860
Transport and Communication— <i>Sub-Total</i>	1,660	1,730	1,790	1,830	1,910	1,970	2,080	2,110
Others— <i>Sub-Total</i>	1,390	1,430	1,500	1,570	1,640	1,730	1,820	1,920
Total Net Domestic Product	6,870	9,120	9,470	10,030	10,280	10,480	10,990	10,900
	(100.0)	(102.8)	(106.8)	(113.1)	(115.9)	(118.2)	(123.9)	(122.9)
Net National Product	8,850	9,100	9,460	10,030	10,280	10,480	11,000	10,890
Gross National Product	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

TABLE 11B (Contd.)

(Rs. crore)

	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68
Large scale manufacturing										
Small scale manufacturing										
Real estate and ownership of dwellings										
Agriculture— <i>Sub-Total</i>	5,560	5,510	5,900	5,910	5,790	5,960	6,490	5,710	5,780	6,880
Industry, Mining, etc.— <i>Sub-Total</i>	1,880	1,970	2,110	2,200	2,300	2,430	2,540	2,680	2,740	2,750
Transport and Communications— <i>Sub-Total</i>	2,190	2,270	2,450	2,550	2,640	2,780	2,940	2,950	3,010	3,170
Others— <i>Sub-Total</i>	2,040	2,140	2,320	2,470	2,660	2,870	3,120	3,420	3,710	3,930
Total Net Domestic Product	11,670	11,890	12,780	13,130	13,390	14,040	15,090	14,760	15,240	16,730
	(131.6)	(134.0)	(144.1)	(148.0)	(151.0)	(158.3)	(170.1)	(166.4)	(171.8)	(188.6)
Net National Product	11,650	11,860	12,730	13,060	13,300	13,950	14,980	14,640	15,050	16,520
Gross National Product	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Sources : (a) *Estimates of National Income, 1948-49 to 1962-63, op. cit.*
 (b) *Estimates of National Product, 1960-61 to 1967-68, op. cit.*

Note : Figures in brackets are index numbers—1950-51 = 100.

TABLE 12
Net Domestic Product—Percentage Distribution by Industry of Origin (at Current Prices)

Year	Large Scale Manufacturing	Small Scale Manufacturing	Real Estate and Ownership of Dwellings	Agriculture	Industry, Mining etc.	Transport and Communications	Others	Net Domestic Product
1950-51	5.8	9.5	4.3	51.2	16.0	17.7	15.1	100.0
1951-52	6.4	9.5	4.1	50.3	16.8	17.9	15.0	100.0
1952-53	6.5	9.9	4.4	48.9	17.3	18.1	15.7	100.0
1953-54	6.6	9.4	4.2	50.7	16.9	17.2	15.3	100.0
1954-55	7.8	10.0	4.7	45.3	18.7	18.8	17.2	100.0
1955-56	7.8	9.7	4.6	45.3	18.5	18.8	17.3	100.0
1956-57	8.0	8.7	4.2	48.8	17.7	17.3	16.1	100.0
1957-58	8.6	8.8	4.3	46.3	18.6	18.2	16.9	100.0
1958-59	7.9	8.2	4.0	49.5	17.2	17.0	16.3	100.0
1959-60	8.6	8.2	4.0	48.1	17.9	17.2	16.8	100.0
1960-61	8.0	5.9	2.9	51.0	20.1	14.1	14.8	100.0
1961-62	8.3	6.1	2.9	49.8	20.6	14.4	15.2	100.0
1962-63	8.6	6.3	3.0	48.0	21.4	14.9	15.7	100.0
1963-64	8.8	6.3	3.1	48.5	21.5	14.6	15.4	100.0
1964-65	8.3	5.9	2.8	50.5	20.2	14.6	14.7	100.0
1965-66	8.8	5.9	2.8	47.5	21.3	15.4	15.8	100.0
1966-67	8.4	5.5	2.6	49.2	20.2	15.4	15.2	100.0
1967-68	7.3	5.2	2.3	53.1	18.2	14.6	14.1	100.0

Source : (a) *Estimates of Natural Income*—1948-49 to 1962-63, C.S.O., Feb. 1964.
 (b) *Estimates of Natural Product* (Revised series), 1960-61 to 1967-68, C.S.O., March, 1969.

TABLE 13A
Utilisation of Total Resources (at current Prices)

(Rs. crore)

Year	Total Resources	G.D.P. at Market Prices	Consumption	Savings	Gross Domestic Capital Formation		Net Capital Formation
					Total	of which fixed assets	
1950-51	11,037	10,327	9,486	541.9	811	905	534
1951-52	11,935	10,895	10,016	529.4	1,069	941	754
1952-53	11,386	10,686	9,949	408.3	727	756	391
1953-54	12,059	11,409	10,488	565.0	931	749	562
1954-55	11,366	10,616	9,469	764.2	1,197	990	811
1955-56	11,980	11,140	9,742	970.5	1,478	1,337	1,034
1956-57	13,713	12,543	11,016	1,076.4	1,927	1,484	1,454
1957-58	14,145	12,845	11,503	798.8	1,842	1,782	1,287
1958-59	15,303	14,203	12,619	931.4	1,964	1,600	1,331
1959-60	15,707	14,697	12,899	1,102.0	2,028	1,802	1,360
1960-61	17,069	15,874	13,673	1,371.9	2,606	2,225	1,870
1961-62	17,846	16,760	14,445	1,373.8	2,599	2,449	1,787
1962-63	18,853	17,665	15,085	1,498.4	2,983	2,820	2,053
1963-64	21,192	19,857	16,935	2,054.9	3,272	3,375	2,281
1964-65	23,916	22,424	19,184	n.a.	3,713	4,009	2,613
1965-66	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1966-67	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1967-68	n.a.	n.a.	n.a.	2,120.5	n.a.	n.a.	n.a.

Sources : (1) Lal and Makvana. *op. cit.*

(2) Figures for Savings are from *Reserve Bank of India Bulletins*, March, 1965 and September 1969.

TABLE 13B
Indices of Utilisation of Total Resources
(at current prices)

(1950-51 = 100)

Year	Total Resources	G.D.P. at Market Prices	Consumption	Savings	Gross Domestic Capital Formation		Net Capital Formation
					Total	of which fixed assets	
1950-51	100	100	100	100	100	100	100
1951-52	108	106	106	97.7	132	104	141.2
1952-53	103	103	105	75.3	90	84	73.2
1953-54	109	110	111	104.3	115	83	105.2
1954-55	103	103	100	141.0	148	109	151.9
1955-56	109	108	103	179.1	182	148	193.6
1956-57	124	121	116	198.6	238	164	272.3
1957-58	128	124	121	147.2	227	197	241.0
1958-59	139	138	133	171.9	242	177	249.2
1959-60	142	142	136	203.4	250	199	254.7
1960-61	155	154	144	253.2	321	246	350.2
1961-62	162	162	152	253.5	320	271	334.6
1962-63	171	171	159	276.5	368	312	384.4
1963-64	192	192	179	379.2	403	373	427.1
1964-65	217	217	202	—	458	443	489.3
1965-66	—	—	—	—	—	—	—
1966-67	—	—	—	—	—	—	—
1967-68	—	—	—	391.3	—	—	—

Sources : (a) Calculated from Lal and Makvana, *op. cit.*

(b) Figures for savings calculated from *Reserve Bank of India Bulletins* March, 1965 and September, 1969.

TABLE 13B (Contd.)
Indices of Utilisation of Total Resources
 (at Current Prices)

(1957-58 = 100)

Year	Total Resources	G.D.P. at Market Prices	Consumption	Savings	Gross Domestic Capital Formation	
					Total	of which fixed assets
1957-58	100	100	100	100	100	100
1958-59	108	111	110	116.7	107	90
1959-60	111	114	112	138.1	110	101
1960-61	121	124	119	172.0	141	125
1961-62	126	130	126	172.2	141	137
1962-63	133	138	131	187.8	162	158
1963-64	150	155	147	257.6	178	189
1964-65	169	175	167	—	202	225
1965-66	—	—	—	—	—	—
1966-67	—	—	—	—	—	—
1967-68	—	—	—	265.8	—	—

Sources : (a) Calculated from Lal and Makvana, *op. cit.*

(b) Figures for savings calculated from *Reserve Bank of India Bulletins*, March, 1965 and September, 1969.

TABLE 13C
Utilisation of Total Resources
(at 1948-49 Prices)

(Rs. crore)

Total	Total Resources	G.D.P. at Market Prices	Consumption	Gross Domestic Capital Formation		Export of goods and services	Net Capital Formation
				Total	of which Fixed Assets		
1950-51	10,240	9,589	8,843	748	835	649	493
1951-52	10,741	9,941	9,319	925	825	503	648
1952-53	10,842	10,295	9,619	626	650	597	337
1953-54	11,469	10,918	10,047	840	656	582	516
1954-55	12,012	11,354	10,267	1,085	864	660	917
1955-56	12,452	11,702	10,424	1,297	1,135	731	917
1956-57	13,201	12,201	10,843	1,645	1,214	713	1,254
1957-58	13,328	12,280	11,220	1,412	1,381	696	976
1958-59	14,029	13,127	11,852	1,540	1,207	637	1,057
1959-60	14,353	13,459	12,144	1,519	1,327	690	1,023
1960-61	15,292	14,288	12,779	1,876	1,573	637	1,352
1961-62	15,704	14,806	13,288	1,774	1,658	642	1,221
1962-63	16,319	15,277	13,623	2,000	1,864	696	1,379
1963-64	17,249	16,118	14,338	2,090	2,157	821	1,451
1964-65	17,697	16,464	14,573	2,278	2,455	846	1,599

Source : Lal and Makvana, *op. cit.*

TABLE 13D
Indices of Utilisation of Total Resources
 (at current prices)

(1950-51 = 100)

Year	Total Resources	G.D.P. at Market Prices	Consumption	Gross Domestic Capital Formation		Net Capital Formation
				Total	of which Fixed Assets	
1950-51	100	100	100	100	100	100
1951-52	105	104	105	124	99	131.4
1952-53	106	107	109	84	78	68.4
1953-54	112	114	114	112	79	104.7
1954-55	117	118	116	145	103	151.7
1955-56	122	122	118	173	136	186.0
1956-57	129	127	123	220	145	254.4
1957-58	130	128	127	189	165	196.0
1958-59	137	137	134	206	145	214.4
1959-60	140	140	137	203	159	207.5
1960-61	149	149	145	251	188	274.2
1961-62	153	154	150	237	199	247.7
1962-63	159	159	154	267	223	279.7
1963-64	168	168	162	279	258	294.3
1964-65	173	172	165	305	294	324.3

Sources : (1) Figures calculated from Lal and Makvana *op. cit.*

(2) Figures for savings calculated from *Reserve Bank of India Bulletin*, March, 1965 and September, 1969.

TABLE 13D (contd.)
Indices of Utilisation of Total Resources
 (at 1948-49 prices)

(1957-58=100)

Year	Total Resources	G.D.P. at Market Prices	Consumption	Gross Domestic Capital Formation		Net Capital Formation
				Total	of which Fixed Assets	
1957-58	100	100	100	100	100	100
1958-59	105	107	106	109	87	108.3
1959-60	108	110	108	108	96	104.8
1960-61	115	116	114	133	114	138.5
1961-62	118	121	118	126	120	125.1
1962-63	122	124	121	142	135	141.3
1963-64	129	131	128	148	156	148.7
1964-65	133	134	130	161	178	163.8

Sources : (1) Figures calculated from Lal and Makvana, *op. cit.*
 (2) Figures for savings calculated from the *Reserve Bank of India Bulletins*, March, 1965 and September, 1969.

TABLE 14
 Saving, Investment, Income and Capital Formation (at current prices)

(Rs. crore)

Year	S A V I N G					Total Saving	Aggregate Investment	National Income	Capital Formation		Household Saving as proportion of Total Saving	Total Saving as proportion of National Income
	Government Sector	Domestic Corporate Sector	Household Sector						Gross	Net		
			Rural	Urban	Total							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1950-51	95.9	35.0	166.3	244.7	411.0	541.9	534.0	9,530	811	534	75.9	5.7
1951-52	187.0	63.6	170.7	108.1	278.8	529.4	753.8	9,970	1,069	754	52.7	5.3
1952-53	102.1	1.1	163.5	141.6	305.1	408.3	391.3	9,820	727	391	74.7	4.2
1953-54	92.6	25.9	180.5	266.0	446.5	565.0	561.5	10,480	931	562	79.0	5.4
1954-55	93.4	50.3	147.9	472.6	620.5	764.2	810.7	9,610	1,197	811	81.2	8.0
1955-56	111.4	60.0	153.7	645.4	799.1	970.5	1,033.7	9,980	1,478	104	82.3	9.7
1956-57	176.7	58.5	187.7	653.5	841.2	1,076.4	1,454.3	11,310	1,927	1,454	78.2	9.5
1957-58	156.7	18.0	179.5	443.6	623.1	797.8	1,286.9	11,390	1,842	1,287	78.2	7.0
1958-59	138.0	32.4	212.2	548.8	761.0	931.4	1,330.7	12,600	1,964	1,331	81.7	7.0
1959-60	202.8	57.6	212.5	629.1	841.6	1,102.0	1,360.3	12,950	2,028	1,360	76.4	8.5
1960-61	239.4	106.7	234.3	791.5	1,025.8	1,371.9	1,869.2	13,308	2,606	1,870	74.8	10.2
1961-62	353.8	97.8	236.6	685.6	922.2	1,373.8	1,755.1	14,063	2,599	787	67.2	9.6
1962-63	410.1	104.7	237.0	746.5	983.6	1,498.4	1,951.9	14,891	2,983	2,053	65.6	9.9

1963-64	526.6	126.2	N.A.	N.A.	1,402.1	2,054.9	N.A.	17,119	3,272	2,543	67.2	12.0
1964-65	550.5	80.9	N.A.	N.A.	N.A.	N.A.	N.A.	20,080	3,712	2,613	N.A.	N.A.
1965-66	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	20,586	N.A.	N.A.	N.A.	N.A.
1966-67	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	23,647	N.A.	N.A.	N.A.	N.A.
1967-68	306.9	83.7	N.A.	N.A.	1,729.9	2,120.5	N.A.	27,922	N.A.	3,021	81.5	7.6

Sources :(a) The estimates of saving and aggregate investment are from *RBI Bulletins*, March, 1965 and Sept. 1969.

(b) The National Income figures are from *Estimates of National Income* 1948-49 to 1964-65., C.S.O. Feb. 1964 and *Estimates of National Product* (Revised) 1960-61 to 1967-68., C.S.O., March, 1969.

(c) The estimates of Gross and Net Capital Formation are from Lal and Makvana, *op. cit.* (except for Net Capital Formation figures in 1963-64 and 1967-68 which are from *RBI Bulletins*).

TABLE 14A
Indices of Saving, Investment, Income and Capital Formation
 (at current prices)

(1950-51 = 100)

Year	SAVING						Aggregate Investment	National Income	CAPITAL FORMATION	
	Government Sector	Domestic Corporate Sector	Household Sector			Total Saving			Gross	Net
			Rural	Urban	Total					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1950-51	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1951-52	195.0	181.7	102.6	44.2	67.8	97.7	141.2	104.6	131.8	141.2
1952-53	106.5	3.1	98.3	57.9	74.2	75.3	73.3	103.0	89.6	73.2
1953-54	96.6	74.0	108.5	108.7	108.6	104.3	105.1	110.0	114.8	105.2
1954-55	97.4	143.7	88.9	193.1	151.0	141.0	151.8	100.8	147.6	151.9
1955-56	116.2	171.4	92.4	263.8	194.4	179.1	193.6	104.7	182.2	193.6
1956-57	184.3	167.1	112.9	267.1	204.7	188.6	272.3	118.7	237.6	272.3
1957-58	163.4	51.4	107.9	181.3	151.6	147.2	241.0	119.5	227.1	241.0
1958-59	143.9	92.6	127.6	224.3	185.2	171.9	249.2	132.2	242.2	249.3
1959-60	211.5	164.6	127.8	257.1	204.8	203.4	254.7	135.9	250.1	254.7
1960-61	249.6	304.9	140.9	323.5	249.6	253.0	350.0	139.6	321.3	350.2
1961-62	368.9	279.4	142.3	280.2	224.4	253.5	327.7	147.7	320.5	334.6

1962-63	427.6	299.1	142.5	305.1	239.3	265.5	365.5	156.3	367.8	384.5
1963-64	549.1	360.6	N.A.	N.A.	341.1	379.2	N.A.	179.6	403.5	476.2
1964-65	574.0	231.1	N.A.	N.A.	N.A.	N.A.	N.A.	210.7	457.7	489.3
1965-66	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	216.0	N.A.	N.A.
1966-67	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	248.1	N.A.	N.A.
1967-68	320.0	239.1	N.A.	N.A.	420.9	391.3	N.A.	293.0	N.A.	565.7

Source : as in Table 14.

TABLE 15A

Proportion of Consumption and Gross Domestic Capital Formation to Total Resources and Gross Domestic Product

(at current Prices)

Year	Consumption as percentage of total resources %	Consumption as percentage of G.D.P. at market prices %	Savings* potential %	Proportion of G.D.C.F. to total resources %	Proportion of G.D.C.F. to G.D.P. at market prices %
1950-51	85.9	91.9	8.1	7.8	7.9
1951-52	83.9	91.9	8.1	7.0	9.8
1952-53	87.4	93.1	6.9	6.4	6.8
1953-54	87.0	91.9	8.1	7.7	8.2
1954-55	83.3	89.2	10.8	10.5	11.3
1955-56	81.3	87.5	12.5	12.3	13.3
1956-57	80.3	87.8	12.2	14.1	15.4
1957-58	81.3	89.6	10.4	13.0	14.3
1958-59	82.5	88.8	11.2	12.8	13.8
1959-60	82.1	87.8	12.2	12.9	13.8
1960-61	80.1	86.1	13.9	15.3	16.4
1961-62	80.9	86.2	13.8	14.6	15.5
1962-63	80.0	85.4	14.6	15.8	16.9
1963-64	79.9	85.3	14.7	15.4	16.5
1964-65	80.2	85.6	14.4	15.5	16.6

*Savings Potential = Gross Domestic Product minus Consumption.

Source : Lal and Makvana, *op. cit.*

TABLE 15B

Proportion of Consumption and Gross Domestic Capital Formation to Total Resources and Gross Domestic Product

(at 1948-49 Prices)

Year	Consumption as percentage of Total Resources %	Consumption as percentage of G.D.P. at market prices %	Savings* potential %	Proportion of G.D.C.F. to Total Resources %	Proportion of G.D.C.F. to G.D.P. at market prices %
1950-51	86.4	92.2	7.8	7.3	7.8
1951-52	86.7	93.7	6.3	8.6	9.3
1952-53	88.7	93.4	6.6	5.8	6.1
1953-54	87.6	92.0	8.0	7.3	7.7
1954-55	85.5	90.4	9.6	9.0	9.6
1955-56	83.7	89.1	10.9	10.4	11.1
1956-57	82.1	88.9	11.1	12.5	13.5
1957-58	84.2	91.4	8.6	10.6	11.5
1958-59	84.5	90.3	9.7	11.0	11.7
1959-60	84.6	90.2	9.8	10.6	11.3
1960-61	83.6	89.4	10.6	12.3	13.1
1961-62	84.6	89.7	10.3	11.3	12.0
1962-63	83.5	89.2	10.8	12.3	13.1
1963-64	83.1	89.0	11.0	12.1	13.0
1964-65	82.3	88.5	11.5	12.9	13.8

*Savings Potential = Gross Domestic Product *minus* Consumption

Source : Lal and Makvana, *op. cit.*

TABLE 16A
Gross and Net Capital Formation

(Rs. crore)

Year	Gross Capital Formation (at current prices)			Net Capital Formation (at current prices)		
	Public	Private	Total	Public	Private	Total
1950-51	223	583	811	191	343	534
1951-52	289	780	1,069	247	507	754
1952-53	317	410	727	272	119	391
1953-54	334	597	931	291	271	562
1954-55	406	791	1,197	355	456	811
1955-56	548	930	1,478	495	539	1,034
1956-57	659	1,268	1,927	603	851	1,454
1957-58	952	890	1,842	865	422	1,287
1958-59	862	1,102	1,964	745	586	1,331
1959-60	995	1,033	2,028	900	460	1,360
1960-61	1,060	1,546	2,606	996	874	1,870
1961-62	1,133	1,464	2,599	1,075	714	1,787
1962-63			2,983			2,053
1963-64			3,272			2,281
1964-65			3,712			2,613

Source : Lal and Makvana, *op. cit*

TABLE 16B
Gross and Net Capital Formation—Indices
 (At current prices)

(1950-51 = 100)

Year	Gross Capital Formation			Net Capital Formation		
	Public	Private	Total	Public	Private	Total
1950-51	100.0	100.0	100.0	100.0	100.0	100.0
1951-52	129.6	133.8	131.8	129.3	147.8	141.2
1952-53	142.2	70.3	89.6	142.4	34.7	73.2
1953-54	149.8	102.4	114.8	152.3	79.0	105.2
1954-55	182.1	135.7	147.6	185.9	132.9	151.9
1955-56	245.7	159.5	182.2	259.2	157.1	193.6
1956-57	295.5	217.5	237.6	315.7	248.1	272.3
1957-58	426.9	152.7	227.1	452.9	123.0	241.0
1958-59	386.5	189.0	242.2	390.0	170.8	249.2
1959-60	446.2	177.2	250.1	471.2	134.1	254.7
1960-61	475.3	265.2	321.3	521.5	254.8	350.2
1961-62	509.0	251.1	320.5	562.8	208.2	334.6
1962-63	N.A.	N.A.	367.8	N.A.	N.A.	384.4
1963-64	N.A.	N.A.	403.4	N.A.	N.A.	427.1
1964-65	N.A.	N.A.	457.7	N.A.	N.A.	489.3

Source : Lal and Makvana, *op. cit.*

TABLE 16C
Percentage Distribution of Public and Private Capital Formation (Gross and Net)
(Current Prices)

Year	Gross Capital Formation			Net Capital Formation		
	Public	Private	Total	Public	Private	Total
1950-51	28.2	71.8	100.0	35.8	64.2	100.0
1956-57 (Pre-tax year)	34.2	65.8	100.0	41.5	58.5	100.0
1958-59 (Post-tax year)	43.9	56.1	100.0	56.0	44.0	100.0
1961-62	43.7	56.3	100.0	60.1	39.9	100.0

TABLE 16D
Public and Private Capital Formation (Gross and Net) in the Pre-Wealth-Tax
and Post-Wealth-Tax Period (Average) (Current Prices)

(Rs. crores)

Year	Gross Capital Formation			Net Capital Formation		
	Public	Private	Total	Public	Private	Total
Pre-tax (7 years)	396.6	765.6	1,162.1	350.6	440.8	791.4
Post-tax (4 years)	1,013.0	1,286.2	2,299.2	929.0	658.5	1,587.0

Note : Figures worked out from Lal and Makvana, *op. cit.*

TABLE 17A

1. Public and Private Capital Formation (Gross and Net) in the Pre-Wealth-Tax and Post-Wealth-Tax Period (Average) (Current Prices)

(Rs. crore)

Year	Gross Capital Formation			Net Capital Formation		
	Public	Private	Total	Public	Private	Total
Pre-tax (7 years)	369	1,166	1,536	206	637	843
Post-tax (7 years)	1,272	1,692	2,964	1,073	996	2,069

Note : Figures of Public and Private Net Capital Formation have been worked out on the basis of the proportion of public and private total Gross Capital Formation between 1950-51 and 1959-60.

Source : *Estimates of Gross Capital Formation in India, 1948-49 to 1960-61, op cit.*; *Capital Formation in India 1960-61 to 1965-66, op. cit.*

TABLE 17B
Gross Domestic Capital Formation
(at current prices)

(Rs. crore)

Items	Pre-Wealth- Tax Period (1950-51 to 1956-57)	Pre-Wealth- Tax Period Average	Post-Wealth- Tax Period (1958-59 to 1965-66)	Post-Wealth- Tax Period Average
1. Gross Domestic Capital Formation in Construction of which	6,700	957	13,491	1,686
(i) Public Sector	1,971	282	7,060	882
(ii) Private Sector	4,729	675	6,431	804
2. Gross Domestic Capital Formation in Machinery and Equipment of which	2,859	408	8,898	1,112
(i) Public Sector	591	84	3,266	408
(ii) Private Sector	2,268	324	5,632	704
3. Gross Domestic Capital Formation of which	9,559	1,366	22,389	2,799
(i) Public Sector	2,562	366	10,326	1,291
(ii) Private Sector	6,997	1,000	12,063	1,508
4. Changes in Stocks of which	1,192	170	2,635	329
(i) Public Sector	24	3	864	108
(ii) Private Sector	1,169	167	1,771	221
5. Total Gross Capital Formation of which	10,751	1,536	25,024	3,128
(i) Public Sector	2,586	370	11,190	1,399
(ii) Private Sector	8,165	1,166	13,834	1,729

Source : Calculated from *Estimates of Gross Capital Formation in India, 1948-49 to 1960-61, op. cit.*
Capital Formation in India 1960-61 to 1965-66, op. cit.

TABLE 17C

2. Percentage Distribution of Public and Private Capital Formation (Gross and Net) (Current Prices)

Year	Gross Capital Formation			Net Capital Formation		
	Public	Private	Total	Public	Private	Total
1950-51	19.7	80.3	100.0	19.7	80.3	100.0
1956-57	27.5	72.5	100.0	27.5	72.5	100.0
1958-59	32.2	67.8	100.0	32.2	67.8	100.0
1965-66	53.5	46.5	100.0	53.5	46.5	100.0

TABLE 17D

Gross and Net Capital Formation—Indices (Current Prices)

Year	Gross Capital Formation			Net Capital Formation		
	Public	Private	Total	Public	Private	Total
1950-51	100.0	100.0	100.0	100.0	100.0	100.0
1951-52	129.7	130.0	129.1	165.3	164.7	164.8
1952-53	106.3	98.1	99.7	97.9	90.9	92.3
1953-54	125.2	130.8	129.7	152.6	160.0	158.5
1954-55	193.2	118.1	133.0	235.8	144.2	162.3
1955-56	214.0	138.4	153.4	286.3	185.4	205.4
1956-57	296.4	192.8	213.3	481.1	313.0	346.2
1957-58	351.3	140.7	182.3	508.4	203.6	264.0
1958-59	364.4	189.0	223.7	569.5	295.8	350.0
1959-60	442.3	172.3	225.8	678.9	264.4	346.5
1960-61	550.5	150.9	220.1	1,047.4	191.7	361.0
1961-62	500.9	181.6	244.7	1,032.6	248.1	403.3
1962-63	631.1	178.2	267.8	1,306.3	216.6	432.3
1963-64	729.3	202.0	306.3	1,523.2	259.5	509.6
1964-65	841.4	242.1	360.7	1,748.4	334.0	614.0
1965-66	1,030.2	221.0	381.0	2,185.3	260.0	641.0

Note : The Indices of Public and Private Net Capital Formation have been worked out on the basis of the proportion of Public and Private to total Gross Capital Formation between 1950-51 and 1959-60.

Source : *Estimates of Gross Capital Formation in India, 1948-49 to 1960-61, op. cit.*; *Capital Formation in India, 1960-61 to 1965-66, op. cit.*

TABLE 18
Growth of Companies at Work

(Rs. crore)

Year	Government Companies		Non-Government Companies		Total	
	No.	Paid-up Capital	No.	Paid-up Capital	No.	Paid-up Capital
1950-51	—	—	—	—	28,532	775
1955-56	61	66	29,813	958	29,874	1,024
1956-57	74	73	29,283	1,005	29,357	1,078
1957-58	91	257	28,189	1,050	28,280	1,306
1958-59	104	429	27,299	1,087	27,403	1,515
1959-60	125	477	26,772	1,142	26,897	1,619
1960-61	142	547	26,007	1,271	26,149	1,818
1961-62	154	630	24,821	1,389	24,975	2,019
1962-63	160	786	25,462	1,470	25,622	2,256
1963-64	176	961	25,826	1,499	26,060	2,511
1964-65	183	1,115	26,532	1,594	26,715	2,709
1965-66	212	1,214	26,929	1,661	27,141	2,875
1966-67	232	1,392	27,014	1,762	27,246	3,154
1967-68	241	1,532	27,460	1,871	27,701	3,403

Note : Average paid-up capital of a government company rose from Rs. 108.20 lakh in 1955-56 to Rs. 635.68 lakh in 1967-68.

Average paid-up capital of a non-government company rose from Rs. 3.21 lakh in 1955-56 to Rs. 6.81 lakh in 1967-68.

Average paid-up capital of a company (Govt. and Non-Govt.) rose from Rs. 3.43 lakh in 1955-56 to Rs. 12.28 lakh in 1967-68.

Source : *Company News and Notes.*

Economic Survey, Govt. of India, 1967-68.

TABLE 18A
Growth of Companies at Work Indices

(1955-56=100)

Year	Government Companies		Non-Government Companies		Total	
	No.	Paid-up Capital	No.	Paid-up Capital	No.	Paid-up Capital
1955-56	100.0	100.0	100.0	100.0	100.0	100.0
1956-57	121.3	110.6	98.2	104.9	98.3	105.3
1957-58	149.2	389.4	94.6	109.6	94.7	127.5
1958-59	170.5	650.0	91.6	113.5	91.7	147.9
1959-60	204.9	722.7	89.8	119.2	90.0	158.1
1960-61	232.8	828.8	87.2	132.7	87.5	177.5
1961-62	252.5	954.5	83.2	145.0	83.6	197.2
1962-63	262.2	1190.9	85.4	153.4	85.8	220.3
1963-64	288.5	1456.1	86.6	156.5	87.2	245.2
1964-65	300.0	1689.3	89.0	166.4	89.4	264.5
1965-66	347.5	1839.4	90.3	173.4	90.8	280.8
1966-67	380.3	2109.1	90.6	183.9	91.2	308.0
1967-68	395.1	2321.2	92.1	195.3	92.7	338.9

Source : *Company News and Notes*
Economic Survey, Govt. of India, 1967-68.

TABLE 19
New Issues--Applications Disposed of, Consented and Utilised

(Rs. crore)

Year	Applications Disposed of		Consents granted			Utilised	
	No.	Amount	No.	Govt. Cos.	Non-Govt. Cos.	Total	Capital Paid-up
1951	n.a.	n.a.	343	3.1	56.5	59.6	n.a.
1952	326	152.3	254	6.6	33.2	39.8	n.a.
1953	272	89.8	232	9.5	71.9	81.4	n.a.
1954	267	117.0	220	9.3	101.3	110.6	n.a.
1955	374	151.4	289	6.6	118.8	125.4	n.a.
1956	362	254.5	297	59.4	170.8	230.2	n.a.
1957	484	182.7	345	18.0	135.3	153.3	191.2
1958	304	430.4	282	333.5	89.5	423.0	325.4
1959	286	206.5	264	53.9	149.6	203.5	193.9
1960	327	292.5	314	139.5	150.1	289.6	188.1
1961	374	284.6	358	63.0	185.1	248.0	153.6
1962	460	662.2	447	162.0	219.5	381.5	278.0
1963	443	609.6	410	306.8	237.6	544.4	277.6
1964	277	414.6	257	167.5	224.8	392.3	278.3
1965	225	340.2	213	109.3	166.5	275.8	226.3
1966	853	462.5	842	181.7	277.5	459.2	273.6

Source : *Company News and Notes.*
Economic Survey—Govt. of India, 1967-68

TABLE 20
Consents for Capital Issues in Respect of Non-Government Companies

(Rs. crore)

Year	Total Amount	Bonus Issues	Misc. Issues	of which shares (other than Bonus) & Debentures				Percentage of (7) to (1)
				Equity	Preference	Debentures	Total	
	1	2	3	4	5	6	7	8
1956-60 (Annual average)	139.0	7.6	35.8	72.5	9.5	15.3	95.6	68.8
1961	185.1	10.4	42.0	102.3	8.7	21.2	132.7	71.7
1962	219.2	13.5	42.9	113.8	6.0	43.3	163.1	74.3
1963	237.6	10.8	85.4	114.3	11.7	15.4	141.4	59.3
1964	224.8	4.1	81.8	101.7	11.8	25.4	138.9	61.8
1965	166.5	4.9	75.3	53.4	11.9	21.0	86.3	51.6
1961-65 (Annual average)	206.7	8.8	65.5	97.2	10.0	25.3	132.5	64.1
1966	277.5	147.0	64.5	—	—	—	66.0	24.5

Source : *Bank of India Bulletin*, Vol. 6, June, 1968
R.B.I. Bulletin, June, 1967 and Feb., 1968

TABLE 21
Capital Issues

(Rs. crore)

Year ended	INITIAL			Rights	Total (Initial and Rights)
	Ordinary and Preference Shares	Debentures	Total		
1961-62	27.9	3.7	31.6	35.9	67.5
1962-63	22.3	4.6	26.9	32.8	59.7
1963-64	48.2	9.7	57.9	18.0	75.9
1964-65	52.2	19.4	71.6	17.6	89.2
1965-66	39.5	9.3	48.8	17.0	65.8
1966-67	22.0	15.9	37.9	8.3	46.2
1967-68	41.6	17.4	59.0	17.9	76.9

Source : *Bank of India Bulletin*, Vol. 6, June, 1968.
The Economic Times, 3rd July, 1967 and 1st July, 1968.

TABLE 22
Actual Capital Issues

(Rs. crore)

Year	Total No. of companies	Equity		Preference Shares		Debentures		Total		Premium on Issues		Total Including Premium amount
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	
Total 1956-60 (Annual Average 1956-60)	315	260	135.3	90	30.8	27	19.3	377	185.1	28	15.2	200.3
1961	63	52	27.1	18	6.1	5	3.8	75	37.0	5	3.0	40.0
1962	160	153	54.5	25	4.5	2	1.1	180	60.0	24	4.4	64.5
1963	156	145	57.0	20	2.6	9	38.0*	174	97.6*	39	6.2	103.8
1964	117	107	44.0	21	2.9	4	3.0	132	49.9	17	2.8	52.7
1965	127	110	65.4	41	6.6	9	9.5	160	81.5	14	3.7	85.2
1965	116	88	41.2	55	13.4	12	21.9	155	76.3	9	3.8	80.1
Total (1961-65) Annual Average (1961-65)	676	603	262.1	162	30.0	36	73.3	801	365.4	103	20.9	386.3
1966	135	121	52.4	32	6.0	7	14.6	160	73.1	21	4.2	77.3
1966	95	74	31.7	43	5.5	12	17.4	132	60.0	5	1.2	61.2

*Includes debenture issues of Rs. 30 crore by Oil India Ltd.

Source : *Bank of India Bulletin*, Vol. 6, No. 6, June, 1968
R.B.I. Bulletin, June, 1967, Feb., 1968.

TABLE 23
Capital and Debentures Issues (New Issues) per Company

(Rs. lakh)

Year	Ordinary Shares	Preference Shares	Debentures	Total (2 + 3 + 4)	Bonus Issues
(1)	(2)	(3)	(4)	(5)	(6)
1951	0.69	0.27	0.30	1.26	0.51
1952	0.34	0.28	0.24	0.86	0.31
1953	0.73	0.07	0.22	1.02	1.90
1954	0.62	0.05	0.43	1.10	0.73
1955	1.13	0.45	0.66	2.24	0.32
1956	1.91	0.47	0.13	2.51	0.58
1957	2.53	0.36	0.14	3.03	0.54
1958	1.83	0.40	0.59	2.83	0.84
1959	2.00	0.74	0.50	3.25	0.06
1960	1.96	0.17	0.50	2.65	0.07
1961-62	2.38	0.20	0.39	2.97	0.51
1962-63	1.84	0.08	0.33	2.25	1.01
1963-64	1.79	0.19	0.62	2.59	0.53
1964-65	1.29	0.22	0.93	2.44	0.20
1965-66	1.22	0.36	1.29	2.87	0.70
1966-67	1.28	0.41	0.89	2.58	6.67

Source : Figures worked out from *RBI Bulletin*, Sept., 1957, June, 1962, Dec., 1967 and Aug., 1969.

TABLE 23A
Indices of Capital and Debenture Issues (New Issues) per Company
 (1951=100)

Year	Ordinary Shares	Preference Shares	Debentures	Total	Bonus Issues
1951	100.0	100.0	100.0	100.0	100.0
1952	49.3	103.7	80.0	68.3	60.8
1953	105.8	25.9	73.3	81.0	372.5
1954	89.9	18.5	143.3	87.3	143.1
1955	163.8	166.7	220.0	177.8	62.7
1956	276.8	174.1	43.3	199.2	113.7
1957	366.7	133.3	46.7	240.5	105.9
1958	265.2	148.1	196.7	224.6	164.7
1959	289.8	274.1	166.7	257.9	11.8
1960	284.1	63.0	166.7	208.7	13.7
1961-62	344.9	74.1	130.0	235.7	100.0
1962-63	266.7	29.6	110.0	178.6	198.0
1963-64	259.4	70.4	206.7	205.6	103.9
1964-65	187.0	81.5	310.0	193.6	39.2
1965-66	176.8	133.3	430.0	227.8	137.2
1966-67	185.5	151.9	296.7	204.8	1307.8

Source : Worked out from *RBI Bulletin*, Sept., 1957, June, 1962, Dec., 1967 and Aug., 1969.

TABLE 24
Fluctuations in Share Prices

Year	Equities	Preference Shares	Debentures
	R.B.I. Index	R.B.I. Index	R.B.I. Index
Base 1952-53 = 100			
1957-58	125.4	88.0	99.6
1958-59	137.3	87.2	100.1
1959-60	155.3	92.3	101.8
1960-61	171.7	87.2	100.8
1961-62	183.7	83.2	101.1
1962-63	179.5	81.3	99.2
1963-64	167.1	81.6	97.6
1964-65	163.9	81.8	98.3
Base 1961-62 = 100			
1964-65	86.1	101.5	95.7
1965-66	76.7	94.4	93.9
1966-67	80.2	90.0	91.8
1967-68	76.7	87.1	91.5

Source : Reserve Bank of India Bulletin, op. cit.

TABLE 24A

Variations in the Household Sector's Holdings of Corporate Shares and Securities

(Capital Raised by Non-Government Companies Against Consents as well as under Exemption Order in Current Prices)

(Rs. crore)

Year		Year	
1950-51	43.74	1957-60	72.32
		(Annual Average)	
1951-52	21.55	1961	101.34
1952-53	15.35	1962	108.29
1953-54	45.49	1963	94.15
1954-55	58.89	1964	94.07
1955-56	42.12	1965	98.73
1956-57	68.23	1961-65	99.31
1950-56	42.00	(Annual Average)	
(Annual Average)			
1957-58	64.71		

Source : Reserve Bank of India Bulletin, March, 1960, p. 315, and June, 1967, p. 721

TABLE 24B
Capital Raised by Non-Government Companies Against Consents as well as under Exemption Order

(Rs. crore)

Year	Companies	Capital Raised					
		Initial		Further			Total
		Ordinary Shares	Preference Shares	Ordinary Shares	Preference Shares	Debentures	
(1)	(2)	(3)	(4)	(5)	(6)		
1957-60 (Annual Average)	Public	9.94	0.71	26.28	5.16	10.27	52.36
	Private	10.27	0.16	8.94	0.34	0.25	19.96
	Total	20.21	0.87	35.22	5.50	10.52	72.32
1961	Public	25.33	1.72	36.65	3.90	11.84	79.44
	Private	10.62	0.10	10.42	0.16	0.60	21.90
	Total	35.95	1.82	47.07	4.06	12.44	101.34
1962	Public	26.67	1.05	34.82	1.27	29.73	93.54
	Private	4.79	0.01	9.64	0.14	0.17	14.75
	Total	31.46	1.06	44.46	1.41	29.90	108.29
1963	Public	27.92	1.43	24.92	1.86	22.70	78.83
	Private	4.27	0.03	10.33	0.39	0.30	15.32
	Total	32.19	1.46	35.25	2.25	23.00	94.15

1964	Public	39.19	2.41	26.52	2.16	10.97	81.25
	Private	3.33	0.06	9.15	0.18	0.10	12.82
	Total	42.52	2.47	35.67	2.34	11.07	94.07
1965	Public	27.63	2.11	27.99	7.22	21.22	86.07
	Private	3.62	0.13	8.52	0.39	—	12.66
	Total	31.25	2.24	36.51	7.61	21.12	98.73
1961-65 (Annual Average)	Public	29.35	1.74	30.18	3.28	19.27	83.82
	Private	5.33	0.07	9.61	0.25	0.23	15.49
	Total	34.68	1.81	39.79	3.53	19.50	99.31

Note : Data in the table relate to capital raised in a particular year against consents granted during that year as well as earlier years. Bonus shares are excluded from these data.

Source : *Reserve Bank of India Bulletin*, June, 1967, p. 721.

TABLE 25
Profitability Ratios of Joint Stock Companies (All Industries)

Year	(1)	(2)	(3)	(4)	(5)	(6)	
(a)	1950	9.6	9.0	7.7	N.A.	N.A.	N.A.
	1951	9.7	10.7	9.6	N.A.	N.A.	N.A.
	1952	7.2	7.6	5.7	N.A.	N.A.	N.A.
	1953	8.8	8.4	6.8	N.A.	N.A.	N.A.
	1954	9.6	9.1	7.8	N.A.	N.A.	N.A.
	1955	10.6	10.2	9.4	N.A.	N.A.	N.A.
(b)	1956	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
	1957	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
	1958	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
	1959	10.0	9.8	10.5	6.5	N.A.	10.9
(c)	1960-61	10.3	10.2	11.0	6.6	12.0	11.2
	1961-62	10.1	10.1	10.0	6.4	11.8	11.0
	1962-63	10.1	10.2	8.7	5.8	10.8	10.1
	1963-64	10.2	10.7	9.5	5.8	11.2	10.5
	1964-65	9.9	10.4	9.3	5.7	11.3	10.7
	1965-66	9.4	9.9	8.7	5.6	11.3	10.6
(d)	1966-67	9.6	9.3	8.8	5.5	9.6	9.1

- (1) Gross Profits as *percentage* of sales
 (2) Gross Profits as *percentage* of total capital employed
 (3) Profits after tax as *percentage* of net worth
 (4) Dividends as *percentage* of net worth
 (5) Ordinary dividends as *percentage* of ordinary paid-up capital
 (6) Total dividends as *percentage* of total paid-up capital.

N.A. = Not available.

Source : *Reserve Bank of India Bulletin*, Sept., 1957, June, 1962, Dec., 1967 and Aug., 1969.

Note : (a) 750 companies (b) 1,001 companies (c) 1,333 companies and (d) 1,501 companies

TABLE 25A
Profit Allocation Ratios of Joint Stock Companies (All Industries)

Year	(1)	(2)	(3)	(4)	(5)	
(a) {	1950	40.0	37.0	23.0	62.0	38.0
	1951	40.0	32.0	29.0	52.0	48.0
	1952	44.0	44.0	12.0	79.0	21.0
	1953	41.0	40.0	19.0	68.0	32.0
	1954	42.0	37.0	21.0	64.0	36.0
	1955	39.0	33.0	28.0	54.0	46.0
(b) {	1956	N.A.	N.A.	N.A.	N.A.	N.A.
	1957	N.A.	N.A.	N.A.	N.A.	N.A.
	1958	N.A.	N.A.	N.A.	N.A.	N.A.
	1959	36.6	39.5	24.0	62.2	37.8
(c) {	1960-61	38.6	36.9	24.5	60.1	39.9
	1961-62	43.7	35.8	20.5	63.6	36.4
	1962-63	52.3	31.6	16.1	66.2	33.8
	1963-64	51.0	30.0	19.0	61.3	38.7
	1964-65	50.5	30.4	19.0	61.5	38.5
	1965-66	51.0	31.4	17.6	64.1	35.9
(d)	1966-67	47.5	32.4	20.1	61.6	38.4

- (1) Tax provision as *percentage* of profits before tax
(2) Dividends as *percentage* of profits before tax
(3) Profits retained as *percentage* of profits before tax
(4) Dividends as *percentage* of profits after tax
(5) Profits retained as *percentage* of profits after tax

N.A. = Not Available.

Source : Reserve Bank of India Bulletin, Sept., 1957, June, 1962, Dec., 1967 and Aug., 1969.

Note : (a) 750 companies (b) 1,001 companies (c) 1,333 companies and (d) 1,501 companies

TABLE 26
Income, Sales, Assets and Profits per Company

(Rs. lakh)

Year	Total Income	Sales	Total Net Assets	Profits Before Tax	Profits After Tax
1950	129.75	110.14	118.14	8.49	5.14
1951	168.59	144.87	131.03	11.35	6.87
1952	163.00	139.23	131.23	7.43	4.14
1953	151.20	128.52	134.61	8.75	5.15
1954	161.42	137.44	144.18	10.46	6.11
1955	166.84	145.03	145.06	11.84	6.80
1956	189.67	162.22	168.16	13.12	7.24
1957	207.67	177.22	187.94	10.90	5.68
1958	216.55	186.77	199.56	12.25	6.60
1959	233.66	204.49	209.57	16.32	10.36
1960	263.38	227.09	229.47	18.75	11.56
1961-62	246.82	214.46	215.00	17.48	9.84
1962-63	270.32	236.03	234.35	19.18	9.15
1963-64	299.87	265.79	255.06	21.75	10.65
1964-65	330.80	291.23	279.13	22.48	11.12
1965-66	366.26	320.58	304.79	22.29	10.92
1966-67	339.33	328.91	340.80	22.02	11.56

Source : Figures worked out from *RBI Bulletin*, Sept., 1957, June, 1962, Dec., 1967 and Aug., 1969.

TABLE 26A
Income, Sales, Assets and Profits per Company—Indices

(1950=100)

Year	Total Income	Sales	Total Net Assets	Profits before Tax	Profits after Tax
1950	100.0	100.0	100.0	100.0	100.0
1951	129.9	130.8	110.9	133.7	133.7
1952	125.6	125.7	111.1	87.5	80.5
1953	116.5	116.1	113.9	103.1	100.2
1954	124.4	124.1	122.0	123.2	118.9
1955	128.6	131.0	122.8	139.4	132.3
1956	146.2	146.5	142.3	154.5	140.9
1957	160.1	160.0	159.1	128.4	110.5
1958	166.9	168.7	168.9	144.3	128.4
1959	180.1	184.7	177.4	192.2	201.6
1960	203.0	205.1	194.2	220.8	224.9
1961-62	190.2	193.7	182.0	205.9	191.4
1962-63	208.3	213.1	198.4	225.9	178.0
1963-64	231.1	240.0	215.9	256.2	207.2
1964-65	255.0	263.0	236.3	264.8	216.3
1965-66	282.3	289.5	258.0	262.5	212.4
1966-67	382.3	297.0	288.5	259.4	224.9

Source : Worked out from *Reserve Bank of India Bulletin*, Sept., 1957, June, 1962, Dec., 1967 and Aug., 1969.

TABLE 27
Capital Formation Rates of Joint Stock Companies

(Per cent per annum)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67
1. Gross Fixed Assets Formation	5.8	7.8	7.6	9.3	10.1	14.6	16.4	11.7	7.5	8.0	10.3	9.6	10.6	9.2	8.7	10.2
2. Net Fixed Assets Formation	2.5	7.0	7.2	9.9	13.9	18.8	20.5	12.6	5.6	4.7	8.5	7.7	9.1	6.7	6.5	8.6
3. Inventory Accumulation	21.5	(—)5.3	(—)4.3	3.3	7.3	22.0	10.0	0.9	2.6	17.1	10.9	8.8	7.0	9.4	12.9	11.8
4. Gross Capital Formation	11.1	3.0	3.6	7.4	9.7	16.9	14.3	8.4	6.1	10.6	10.5	9.3	9.6	9.3	9.9	10.7
5. Net Capital Formation	11.7	(—)0.5	1.5	6.8	10.9	20.2	15.8	7.6	4.4	9.6	9.5	8.2	8.2	7.8	9.2	9.9

Note :—(a) Between 1951 and 1955 data is for 750 companies

(b) Between 1955 and 1960 data is for 1,001 companies; between 1961-62 and 1965-66—1,333 companies; 1966-67—1,501 companies

Source : *Reserve Bank of India Bulletin* September, 1957, June, 1962, Dec., 1967 and Aug., 1969.
Figures of rates between 1951 and 1955 have been worked out from absolute figures.

APPENDIX 1
Saving, Aggregate Investment and Capital Formation in India
 1960-61 to 1965-66

(Rs. crore)

Year	Saving (Net)				Aggregate Investment	Capital Formation	
	Public Sector	Private Corporate Sector	Household Sector	Total Saving		Gross	Net
1960-61	316	117	751	1,184	1,665	2,401	1,665
1961-62	371	135	838	1,344	1,689	2,500	1,689
1962-63	412	141	927	1,480	1,920	2,850	1,920
1963-64	544	148	1,211	1,903	2,353	3,347	2,353
1964-65	609	108	1,364	2,081	2,681	3,799	2,681
1965-66	570	105	1,811	2,486	3,056	4,269	3,056

- Sources :** (a) *National Income Statistics, Estimates of Saving in India 1960-61 to 1965-66*, C.S.O., Govt. of India, 1969.
 (b) *National Income Statistics, Estimates of Capital Formation in India, 1960-61 to 1965-66*, C.S.O., Govt. of India, 1969.

APPENDIX II
Domestic Capital Formation
(at current prices)

	(Rs. crore)					
Item	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
1. Gross Domestic Capital Formation in Construc-						
tion of which	1,318	1,456	1,569	1,766	1,987	2,220
(i) Public Sector	678	754	915	1,148	1,250	1,409
(ii) Private Sector	640	702	654	618	737	811
2. Gross Domestic Capital Formation in Machinery	752	918	1,080	1,329	1,569	1,778
and Equipment of which						
(i) Public Sector	379	351	396	414	570	673
(ii) Private Sector	373	567	684	915	999	1,105
3. Gross Domestic Fixed Capital Formation of which	2,070	2,374	2,649	3,095	3,556	3,998
(i) Public Sector	1,057	1,105	1,311	1,562	1,820	2,082
(ii) Private Sector	1,013	1,269	1,338	1,533	1,736	1,916
4. Changes in Stocks of which	331	126	201	252	243	271
(i) Public Sector	87	40	133	119	125	169
(ii) Private Sector	244	86	68	133	118	102
5. Total Gross Domestic Capital Formation of which	2,401	2,500	2,850	3,347	3,799	4,269
(i) Public Sector	1,144	1,145	1,444	1,681	1,945	2,251
(ii) Private Sector	1,257	1,355	1,406	1,666	1,854	2,018

Source : *National Income Statistics, Estimates of Capital Formation in India, 1960-61 to 1965-66, C.S.O., Govt. of India, 1969.*

Select Bibliography

1. Aaron, Henry—'Some Criteria of Tax Burden Indices' (*National Tax Journal* Sept., 1966)
2. (Tyagi) *Report of the Working Group on Central Direct Taxes*, (Administrative Reforms Commission, New Delhi, Jan., 1968)
3. 'Trends in Capital Issues in Recent Years' (*Bank of India Bulletin*, June, 1968)
4. V.V. Bhatt—'Estimates of Saving and Investment in the Indian Economy, 1950-51 to 1958-59' (*Reserve Bank of India Bulletin*, Aug., 1961)
5. Break, G.F. and Turvey, R.—*Studies in Greek Taxation*, pp. 162-180 (Centre of Planning and Economic Research, Athens 1964)
6. (Canadian) *White Paper on Tax Reform*. Ministry of Finance (Tax Memo, Canadian Tax Foundation, Toronto, 1969)
7. (Carter) *Report of the Canadian Royal Commission on Taxation*, Vol. III, pp. 27 and ff. (Ottawa, 1969)
8. '*Capital Formation in India, 1960-66*'. C.S.O., Govt. of India, New Delhi, 1968)
9. *Committee on Income Distribution, Member Secretary's Report*, C.S.O., New Delhi, 1962. (Cyclostyled)
10. '*Saving in India, 1960-61 to 1965-66*', C.S.O., Govt. of India, New Delhi, 1968)
11. Detiger, J.G.—'Taxes on Property' (*Public Finance*, Nos. 3-4, 1960)
12. Due, John F : 'Net Worth Taxation', (*Public Finance*, Hague, Nos. 3-4, 1960)
13. 'Wealth Tax on Urban Property' (*Eastern Economist*, March 3, 1965)
14. 'What about Wealth Tax' (*Eastern Economist*, April 4, 1968)
15. 'Agricultural Wealth Tax' (*Economic Times*, March 9th and 20th, 1969)
16. 'How will the State tax the Rich' (*The Economist*, Dec. 23, 1967)
17. 'Incentives and Taxation' (*The Economist*, Oct. 14, 1967)
18. 'Squeezing the Rich' (*The Economist*, March 23, 1968)
19. 'Taxing Britain's Wealth-I—The Indispensable Status Quo' (*The Economist*, Jan. 16, 1966)

20. 'Taxing Britain's Wealth-I—The Case for a Capital Tax' (*The Economist*, Jan. 22, 1966)
21. 'Wealth Tax—Raising a Ghost' (*The Economist*, Oct. 5, 1968)
22. Eigner, R.M.—'Indian Income, Wealth and Expenditure Taxes' (*National Tax Journal*, June, 1959)
- 22a. *Evidence before the Select Committee on the Wealth Tax Bill, 1957.*
23. *Kaldor's Report on Indian Tax Reform—An Analysis*, (Federation of Indian Chambers of Commerce and Industry, New Delhi, 1957)
24. *Seminar on Fiscal and Monetary Policies—Proceedings*. (Federation of Indian Chambers of Commerce and Industry, Jan. 1968)
25. Fisher, J.A.—'Taxation of Personal Incomes and Net Worth in Norway' (*National Tax Journal*, 1958, Vol. XI)
26. *The Wealth Tax* (Forum of Free Enterprise)
27. Forget, C.E.—'The Relative Importance of Wealth Taxation in the Revenue System' (*Special Tax Conference Report*, Canadian Tax Foundation, Toronto, 1968)
28. Tax rules, amendments, notifications etc. (Gazette of India, New Delhi)
29. Goode, R.—'Income, Consumption and Property as bases for Taxation' (*American Economic Association Proceedings*, May, 1962)
30. Goode, R.—'New Systems of Direct Taxation in Ceylon' (*National Tax Journal*, No. 4, 1960)
31. Gore, M.S.—'The Role of Savings and Wealth in Southern Asia and the West' (*Unesco Symposium* edited by Lambert and Hoselitz, Paris, 1962)
32. All-India Statistics of Direct Taxes (Central Board of Direct Taxes, Govt. of India, New Delhi, different years)
33. Statistical Data Re : Wealth, Estate and Gift Taxes (Directorate of Inspection Research, Statistics and Publication), Govt. of India, New Delhi, cyclostyled
34. *Report of the Committee on Distribution of Income and Wealth* (Planning Commission, Govt. of India, New Delhi, 1964)
35. Gulati, I.S.—*Capital Taxation in a Developing Economy* (Orient Longmans, 1957)

36. Harriss, C. Lowell—'Economic Effects of Estate and Gifts Taxation' in *Federal Taxation for Economic Growth and Stability*, U.S. Govt., 1955)
37. *Taxation in Colombia* (World Tax Series, Harvard University, Chicago, 1964)
38. *Taxation in Federal Republic of Germany* (World Tax Series, Harvard University, Chicago, 1963)
39. *Taxation in India* (World Tax Series, Harvard University, Boston, 1960)
40. *Taxation in Sweden* (World Tax Series, Harvard University Boston, 1959)
41. Hansen, B.—'Aspects of Property Taxation—A General Report' (*Public Finance*, Nos. 3-4, 1960)
42. Helliwell, John. E.—*Taxation and Investment*, A Study of Capital Expenditure Decisions in Large Corporations (Carter Commission Studies, 1964)
43. Hill, T.P.—'Income, Savings and Net Worth' (*Oxford University Bulletin of Statistics*, May, 1955)
- 43a. Houthakker, H.S.—'On some determinants of Saving in Developed and Underdeveloped Countries' (in *Problems in Economic Development* edited by E.A.G. Robinson (American Economic Association, Macmillan, 1966)
44. Illersic, A.R.—'Wealth Tax : Fiscal or Social Justice' (*Canadian Tax Journal*, Nov. and Dec., 1968)
45. A.C.S. Iyengar : *The Three New Taxes* (Eastern Law House, Calcutta, 1966)
46. Jameson, M.B.—'Death and Gift Taxes' (*Canadian Tax Journal*, Nov. and Dec., 1957)
47. Jarach, D.—'Taxes on Net Wealth, Inheritances and Gifts in *Fiscal Policy for Economic Growth in Latin America*, 1962 Santiago Conference Report (Baltimore, 1965)
48. Kaldor, N.—*Essays on Economic Policy*, Vol. I, pp. 240 and ff. (Allen and Unwin, 1966)
49. Kaldor, N.—'Indian Tax Reform' (Ministry of Finance, New Delhi, 1956)
50. Kaldor, N.—'Reform of Personal Taxation' (*The Accountant*, April 15, 1958)

51. Kaldor, N.—*Suggestions for a Comprehensive Reform of Direct Taxation* (Government of Ceylon, Colombo, 1960)
52. Kaldor N.—‘*Tax Reform in India*’—Address to the Consultative Committee of Parliament, December 16, 1958, (*Economic Weekly*, Jan., 1959)
53. Kuznets, Simon—*Capital Formation in the American Economy* (NBER, 1961)
54. Lampman, R.J.—*The Share of Top Wealth Holders in National Wealth* (NBER, 1962)
- 54a. Lampman, R.L.—‘Changes in the Share of Wealth held by Top Wealth Holders, 1922-56’ (*Review of Economics and Statistics* Nov., 1959)
55. *Lok Sabha Debates*, Vol. 36, December 1st and 2nd, 1959, New Delhi
56. ‘Agricultural Wealth Tax’ (*Lok Sabha Debates*, March, 1969)
57. *Lok Sabha Debates*, 1957 May and ff, July 1957
58. *Lok Sabha Select Committee Report on the Wealth Tax Bill, 1957*
59. Lydall, H.F. and Lansing, J.B.—‘A Comparison of the Distribution of Personal Income and Wealth in U.S. and G.B.’ (*American Economic Review*, March, 1959)
60. Lydall, H.F. and Tipping, A.G.—‘The Distribution of Personal Wealth in Britain’ (*Oxford University Bulletin of Statistics*, 1961)
61. Meade, J.E.—*Efficiency, Equality and Ownership of Property*, (Allen and Unwin, 1964)
62. Merritt, A.J.—‘The Mirage of the Wealth Tax’ (*The Director*, Nov., 1968)
63. Meyers, Stewart C.—‘Taxes, Corporate Financial Policy and the Return to Investors’ (NTJ, Dec., 1967)
64. Millan B.—*Taxes for a Prosperous Society* (Fabian Research Series 234, 1963)
65. Mukherjee, M. and Sastry, N.S.E.R.—‘An Estimate of the Tangible Wealth of India’ (*Income and Wealth Series*, Vol. VIII, 1959)
66. D.H. and H.D. Nanavati—*The Estate Duties Act*, (N.M. Tripathi, Bombay, 1964)
67. *Proceedings of the Colloquium on Industrial Development*. Nov. 1966, Madras (Observations by S. Narayanaswamy and by F.A. Mehta)

68. *Savings in India during the Plan Period* (NCAER, New Delhi, June, 1965)
69. Peacock, Alan, T.—'Economics of a Net Worth Tax for Britain' (*British Tax Review*, Nov. and Dec., 1963)
70. Peters, G.H.—Income Redistribution through Taxation and Social Sciences (in *Income and Wealth Series*, Vol. X.)
71. R. Chandra Prakash—'Wealth Tax on Agricultural Property' (*Eastern Economist*, May 2, 1969)
72. *Proceedings of the Seminar on Taxation of Agricultural Land and Income*, 1969 (Vallabh Vidyanagar, 1969)
73. 'Capital Issues in the Private Sector in the Third Plan Period, 1961-65' (*Reserve Bank of India Bulletin*, June, 1967)
74. 'Estimates of Tangible Wealth in India' (*Reserve Bank of India Bulletin*, Jan., 1963)
75. 'Savings Estimate 1950-51 to 1962-63' (*Reserve Bank of India Bulletin*, March, 1965)
76. Rudick, H.J.—'What Alternative to Estate and Gift Taxes?' (*California Law Review*, March, 1950)
77. Sandstrom, K.G.A.—*A Survey of Swedish Taxes on Income and Capital*. (Swedish Institute of Foreign Law, Stockholm, 1957)
78. Shoup, C.S.—*Federal Estate and Gift Taxes* (Brookings Institution, Washington, Dec., 1966)
79. (Carl Shoup Commission) *Report on Japanese Taxation*, Vols. I and II (General Headquarters, Tokyo, 1949-50).
80. Slesinger, R.—'Fiscal Policy Considerations for Underdeveloped Economies' (*Kyklos*, No. 3, 1962)
81. Smith, Dan T.—'Capital Formation and the use of Capital' (*American Economic Association Papers* etc. Dec., 1962)
82. Stiglitz, J.G.—'The Effects of Income, Wealth and Capital Gains Taxation on Risk-taking. (*Quarterly Journal of Economics*, May, 1969)
83. Tait, A.A.—*The Taxation of Personal Wealth* (University of Illinois Press, Urbana, 1967)
84. Tanabe, N.—'The Taxation of Net Wealth' (*IMF Staff Papers*, March, 1967)
85. Titonus, R.M.—*Income Distribution and Social Change* (Allen and Unwin, 1962)

86. Tress, R.C.—'A Wealth Tax is Wealth Tax' (*British Tax Review* Nos. 3-4, 1960)
87. Ture, N.B.—'The Study of Tax Policies for Economic Growth' (*Public Finance*, No. 1, 1963)
88. Watt, D.—'The Wealth Tax Bogy' (*Economic Times*, Sept. 2, 1969)
89. Williamson, J.G.—'Personal Savings in Developing Nations' (*Economic Record*, June, 1968)
90. Wheatcroft, G.S.A.—'Administrative Problems of a Wealth Tax' (*British Tax Review*, Nov. and Dec., 1963)
91. Wright, L.C.—'Personal Wealth in Scotland and Great Britain' (*The Three Banks Review*, Sept., 1968)
92. Zamda, Y.—Notes on Income Growth and the Rate of Saving in Japan (*Ibid.* Vol. V.)

Recent Publications

The Exporting Mills

There are about eighty textile mills which are regularly engaged in exports. It is what these mills do or can be induced to do in regard to production, pricing and marketing abroad that can lift India's textile exports—presently worth over Rs. 100 crore—out of decline or stagnation. To evolve a proper export strategy, this study provides the essential profiles of their investments, profitability, finance, unit size, scale of operation, equipment and technology in relation to export performance. The findings of this study should prove useful to Government, financial institutions, technologists and the exporting mills of to-day and tomorrow.

The Essential Parkinson

This publication consists of the six lectures delivered by Dr. C. Northcote Parkinson when he toured India early this year at the invitation of the Foundation. In his own inimitable way, Dr. Parkinson has poked on leadership in industry, overhigh overheads, East and West, hree of his own laws, advertising and the commercial pursuit of excellence.

Aluminium Industry in India

This study analyses the performance of the Indian aluminium industry vis-a-vis the world's and estimates the likely demand for aluminium and its supply during the Fourth and Fifth Five-Year Plans, covering the period 1969-70 to 1978-79.

Factors responsible for the industry's high rate of growth in India, and the world in general, production and consumption trends and the estimated world production in 1973-74 and 1978-79 are some of the aspects dealt with in the study. An inter-country comparison has also been made of the per-capita production and consumption of primary aluminium, and consumer price in India compared with that in other countries. A special feature of the study is a discussion of the problems of the industry in India, which includes estimates of the incidence of indirect taxes and duties on the consumer price of the metal.

Forthcoming Publications

TOP 300 COMPANIES

A Five-Year Review

In this survey, the fourth in the series, 300 of India's top companies are ranked on the basis of their 1967-68 sales and studied in depth for five years from 1963-64 to 1967-68. Such of the Government companies whose 1967-68 sales are larger than those of the 300th company are also considered. As in previous years, data on top foreign companies are given to add a useful dimension.

Apart from a general assessment of the top 300 companies in the five-year period, over 50 statistical statements are given in the volume, investigating three main areas :

- (a) Inventory holding of companies in relation to sales and assets; finished goods in relation to sales and inventory
- (b) Financing of inventory; the different types of "debts" contracted by companies in relation to equity, and
- (c) Profitability of companies in relation to sales, capital employed etc.

The central tendency in the different industry and size groups and the extent of variations are brought out specifically. Where possible, similar statistics are given for comparable industry groups for a cross section of countries, as also for the Government companies in India.

The Garment Industry in India

The world's garment industry is the most modern and dynamic out-growth of the old and established textile industry. The growth of the world trade in garments has in recent years outpaced the trade in fabrics and yarns. The developing countries have made a striking contribution towards this. The Indian garment industry, however, is in an early but "up-and-coming" phase. Against the international background of production and trade in garments, this study is an up-to-date account of the problems of the garment industry in India. In the light of field studies in Bombay and overseas market analysis, its export potential has been assessed and a scheme outlined for export promotion. It is probably the first study of its kind in India.

EXPORT SURVEY

Textiles and Made-up Garments

The Indian textile industry which made a good start in the export field in the Fifties lost much ground in the Sixties. How to arrest this downward trend and secure for the industry its rightful place in the world's trade in textiles and clothing is the question which the E.S.R.F. survey team has answered in its report on Textiles and Made-up Garments. The report deals with cotton and other textiles, both and yarn and fabrics, and clothing made of cotton and man-made blended fibres.

World trade in synthetic fabrics and clothing is expanding rapidly, while India's production and export is almost wholly in cotton. Added to this, India's export markets are shrinking and the competition is getting more severe. The report examines in detail in which market and for what reasons India's products have been elbowed out. Based on field study in over twenty overseas markets, the report has outlined a strategy for developing textile exports, with suggestions for action both by the Government and the industry.

Special studies include handlooms and clothing. What should be done to make Indian clothing trade more competitive has been dealt with in detail.

Other Titles in Preparation

Civic Amenities of Metropolitan Bombay

This is a data-book of basic information on the availability or deficiency of a wide range of amenities, bound to be useful in formulating any action programme of urban renewal.

ESRF Monographs

Trends in Income Distribution

This study examines such problems as whether the distribution of income in different countries has become more equal, over which ranges of income-scale the most important shifts have taken place and how the position at the two extremes of scales has changed.

Managerial Manpower in India

This study examines the relationship between total employment and the number of managers in different companies and also the functional distribution of managers. An estimate has also been made of the requirement of managers in the factory sector in 1980.

List of Publications

1. Research, Technology & Industry
2. Foreign Capital in India, 1956-60
3. Perspectives for India's Trade with Developing Countries
4. The Structure of Indian Imports 1957-64
5. Research & Industry—Seven Case Histories
6. Top 200 Companies : 1964
7. Textiles, 1960-75
8. Top 200 Companies : 1965
9. Productivity, Wages and Prices in Indian Industry, 1953-63
10. Top 200 Companies : 1966-67
11. Taxation and Inflation in India, 1955-65
12. The Performance of Government Undertakings, 1958-65
13. Pulp and Paper—Prospects for 1975
14. Changes in the Locational Pattern of Select Indian Industries, 1950-65.
15. And Miles To Go...
16. The Exporting Mills
17. The Essential Parkinson

Index

Assessed Wealth, 7

Assesseees

- and wealth assessed, 7
- no. of, 1, 4, 7, 32-33, 101
- the middle class, 3-5, 17, 21
- the rich, 5, 6, 26, 32
- the super rich, 3, 6, 32
- upper middle class, 3, 5, 21
- wealth slab, 3

Capital Formation

- aggregate, 59
- as proportion of GDP, 56, 57
- as proportion of resources, 53-54, 56, 57
- components of, 56, 71, 164
- fluctuations, 61
- gross, 49, 52-53, 55-57, 61, 77, 84, 140-41, 144-45, 163-64
- impact of tax, 59
- influence of banks, 84
- internal, 76, 77
- in machinery and equipment, 59, 164
- joint stock companies, 77
- limitations of analysis 37, 38, 83
- net 49, 52, 57-59, 61, 62, 77, 84, 140-43, 146, 163
- pre-tax years, 40, 143
- private sector, 57, 58, 59, 61, 78, 142-43, 145
- post tax years, 40, 143
- public sector, 56, 58, 59, 61, 142, 143, 145
- scope of analysis, 38, 39
- tax impact, 59
- trends in, 52, 53, 55, 59, 62, 84
- unaccounted money, 78, 79, 81, 84

Capital Issues

- amount, 64, 65, 150
- applications for, 64, 148
- bonus 152-53
- consents for, 64, 66, 84, 148-49
- debentures, 65, 66, 68, 70, 71, 77, 151-53
- equity, 65, 66, 69, 77, 84, 151-53
- further, 13, 156-57
- initial, 66, 156
- market changes, 68, 69
- new issues, 65, 68, 70, 71, 148, 152-53
- no. of companies involved, 67

- preference issue, 65-66, 69, 70, 71, 150-52
- premium on, 67-68, 151-52
- rights, 150

Capital Market, 71

- capital raised, 71, 156
- debenture issues, 73, 84-85
- factors affecting, 84
- share prices, 71-72, 84-85
- structure of, 84-85
- supply of savings, 73

Companies

- aggregate paid up capital, 63-64
- assets of, 160
- assets indices, 75, 76, 78, 161
- capital issues of, 64, 66, 70, 71
- capital raised, 72
- growth of, 62, 84, 146-47
- government, 62-64, 66, 72, 73
- income, 160
- income indices, 75, 78, 161
- internal finances, 69
- inventory accumulation, 77, 78
- investment, 64
- no. of companies, 62-84
- non-government, 62-64, 65, 66, 84, 149
- profits, 74-76
- rate of capital formation, 76-77, 162
- sales indices, 75-76, 78, 161

Consumption

- at constant prices, 44-45, 54, 55
- at current prices, 44, 52
- growth relative to GDP, 46
- growth relative to total resources, 46, 53, 57
- proportion of GDP, 53, 57
- proportion of total resources, 138-39
- trends in, 43, 44, 52

Depreciation

- trends in, 40-41

Dividends

- ratio to net worth, 75
- ratio to paid-up capital, 75

Exemption Limit, 1

- lowering of, 4, 13, 21-23, 26

Fixed Assets

- fluctuations in, 71
- gross, 164
- impact of wealth tax, 54
- trends in, 54-56

GDP

- proportion of total resources, 138-39
- volume of, 45-46, 121

GNP

- indices of growth, 122
- post tax years, 40
- pre tax years, 40
- trends in, 39-40

Impact of Wealth-Tax

- findings, 82

Income-tax

- and wealth tax rates, 29, 30,
- burden, 28-30, 33, 116 117, 119
- effective rates, 28, 29
- in Canada, 88, 90
- recommended reform, 90 et. seq.
- revision of rates, 90, 95

National Income

- savings as proportion of, 83

National Resources

- aggregate of, 43
- growth of, 52, 54, 55
- trends in, 43
- utilisation, 128-132

Net Domestic Product

- by industry of origin, 123, 125, 127
- components of, 42-43
- growth of, 47
- trends in, 42, 62

Net National Product

- growth of, 47
- trends in, 41

Profits

- allocation by companies, 159
- as percent of sales, 74, 85
- as return on capital, 74
- as source of savings, 73, 85
- dividends distribution from, 75
- of joint stock companies, 148
- percent of net worth, 74
- retained, 74, 85
- tax allocation from, 74, 77

Savings

- aggregate, 47, 83, 163
- and investment, 134, 163
- as proportion of GDP, 46, 47
- as proportion of national income, 83
- availability of, 69
- bank deposits, 69
- capital formation, 134
- components, 48, 83, 163
- corporate sector, 49-50, 83, 163
- depreciation, 83
- findings on, 83
- fluctuations in, 47-48, 50
- growth indices, 48, 62
- household sector, 48, 50, 52, 83, 163
- post wealth tax, 46, 47, 50
- potential, 45, 53, 83
- pre-wealth tax, 46, 47, 50
- public sector, 48, 49, 50, 83, 163
- realised, 45, 83
- rural sector, 51, 52, 84
- unaccounted, 52
- urban sector, 51, 52, 84

Shares & Securities

- amounts raised, 64
- further issues, 73, 156-57
- household sector's holdings, 151
- initial issues, 72-73
- prices, 72, 154

Urban Property Tax

- discriminatory impact of, 26, 27, 33,34
- exemption limits, 26
- objectives, 28
- slabs, 26, 27

Wealth

- assessed, 7-13, 32, 33
- classification of holders, 3
- middle class, 7-11
- no. of assessees, 9, 32, 106
- per assessee, 17, 18, 20, 33
- per assessment, 8, 10, 102, 107
- return per assessee, 104, 109
- rich group, 11-13, 20, 32
- super rich, 12, 13, 32
- upper middle group, 11, 20, 32

Wealth Tax

- and economic growth, 52
- and income tax rates, 29, 30
- and internal capital formation, 76, 78, 85
- and overall fiscal policy, 52
- burden, 22, 23, 25-28, 30, 33, 111, 113, 114, 117, 118
- effect on capital formation, 69-71
- exemption, 26

- exemption limits, 20-23, 33
- evasion of, 31
- findings on, 32-35
- involved, 103, 108
- impact on savings, 52
- impact on tax provisions, 74-75
- impact of tax, 54
- per assessee, 110
- pre and post tax effects, 39-41
- rates, 22, 24, 32, 33, 111, 113, 119
- recommended reform, 90 et. seq.
- slabs, 22, 23, 25, 33

Wealth Tax Charge

- aggregate, 32
- higher wealth slabs, 13, 15, 16, 17, 20, 21
- indices of, 14, 15
- middle class, 13, 15, 19, 23
- per assessee, 17, 19, 20-23
- super rich, 20, 21
- the rich, 20, 21
- upper middle group, 15, 20, 21, 24-25

ERRATUM

P. 26 For “Additional Urban Property Tax” please read “Additional Urban Wealth Tax.”