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Indian National Congress and the Indian
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of 1947-48

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Raghavendra Chattopadhyay

The period of the Interim Government of 1946-47 is usually discussed in the existing historiography only in connection with the issues involved in the process of the Transfer of Power. The power struggle between the Congress and the Muslim League is a favoured topic. We draw a blank if we search for any discussion on the economic steps taken during this first experiment in self-government for the sub-continent. Occasionally one finds a mention of the formation of the Advisory Planning Board by Jawaharlal Nehru as the leader of the first Interim Government. The budget controversy, however, is seldom mentioned in the literature. The present article attempts to fill in the gap and establish that Nehru's own 'tryst with destiny' actually began a few months before the sub-continent achieved its freedom from British rule.

The first Interim Government after the general election of 1946 in British India was formed by the Indian National Congress in September 1946. The Muslim League had initially declined the offer by Lord Wavell, the Viceroy, and then joined the Ministry in November 1946. The relation between the Congress and the League, never congenial, was at a particularly low ebb at that time. The persistent refusal by the latter to accept the Cabinet Mission's plan and to join the Constituent Assembly proposed by the Mission did not help the relation. However, the League's decision

to join the Ministry in November 1946 necessitated a redistribution of government portfolios hitherto held by the Congress members. The League demanded at least one of the major portfolios like Home, Defence or Finance. Wavell suggested to the Congress to give up the Home Department which Sardar Vallabhbhai Patel strongly refused to part with. As an alternative, the Congress offered Finance, till then held by Dr. John Matthai, to the League hoping that because of the technical nature of the subject, the latter would either decline the offer or 'soon make a fool of themselves in it'². In this judgement the Congress leaders proved entirely wrong. The Muslim League not only accepted the Finance portfolio but Liaquat Ali Khan, its nominee to that post, performed his task so well that the Congress was later to regret its own decision. It is not only that Liaquat used the key position of Finance effectively enough to intervene in the work of all those Departments which were headed by the Congress members, but he gave a 'shock' when he presented the Budget for the year 1947-48 to the Legislative Assembly.³

Removal of economic inequalities and transition to a socialist pattern of society were stated as the two major objectives of Congress policy since at least 1929. Its election manifesto of 1946 also reflected this emphasis.⁴ Moreover, during and after the war, the Congress, through its leaders like Nehru and Azad, had publicly denounced those industrialists and businessmen who had taken advantage of the war situation to make money through profiteering. It had in fact demanded strong action from the Government against these people who had not only earned excess profit during the war but also evaded a large amount of income tax by avoiding disclosure of their earnings.⁵

Liaquat Ali Khan apparently took the Congress at its words and framed a budget ostensibly based on Congress declarations. He introduced proposals to impose new taxes on business activities and to appoint a Commission to enquire into allegations regarding unpaid taxes and devise possible means of their recovery from businessmen and industrialists. He openly said that his proposals were based on the declarations of responsible Congress leaders, and 'admitted that but for the statements that Jawaharlal had made, he might never have thought about the matter'.⁶

Liaquat's Budget estimated a total expenditure of Rs.327.88 crores against an estimated total revenue of Rs.279.42 crores at the existing levels of taxation. This would leave a prospective gap of Rs.48.46 crores as a deficit for the year 1947-48.⁷ But, in deference to the long-standing demand of Indian nationalists, Liaquat proposed the abolition of the Salt Tax. This, in his assessment, would entail a loss of Rs.8.25 crores as revenue. He also raised the minimum level of income for taxation from Rs.2,000 to Rs.2,500 per annum, leading to a further loss of revenue of Rs.25 lakhs. Thus the total deficit in his Budget amounted to nearly Rs.57 crores.

To meet the budgetary deficit, he proposed some new taxes, direct as well as indirect, aimed at extracting revenue from big business, both Indian and foreign-owned. The most important of these was a special income tax of 25 per cent on business profits exceeding Rs.100,000 per annum. He emphasised that the minimum level of Rs.100,000 corresponded to the 'standard profit' defined by the Excess Profits Tax Act introduced by the Government during the war years. The yield of revenue under this heading was estimated at Rs.30 crores for the budgetary year.

The second direct tax proposed was a capital gains tax to yield a further revenue of Rs.3.5 crores. This tax was aimed against those who were making quick money by transfer of capital assets which had undergone rapid revaluation due to the war situation. To spare ordinary individuals with moderate asset holdings, Liaquat proposed a relief from the taxation of profits made from capital transfer up to Rs.5,000 a year. The proposal also distinguished between gains made from the disposal of capital assets held for two years or less and those held for more than two years. The latter were exempted from the 'super-

Yet another direct tax devised to yield further revenue was the corporation tax. This was increased from one anna to two annas (i.e. from 1/16 to 1/8 of a rupee) to yield Rs.4 crores for the year. While raising the minimum level of income from Rs.2,000 to Rs.2,500 for income tax, Liaquat also intended to change the structure of super-tax rates applicable to high individual incomes. The existing maximum rate of 62 per cent super-tax was applicable beyond Rs.350,000 for unearned income and beyond Rs.500,000 for earned income. He proposed to lower the limit to the level of Rs.120,000 for the unearned income and Rs.150,000 for the latter. This, he estimated could yield an additional revenue of Rs.2.5 crores for the year.⁸

Among the indirect taxes, it was proposed to increase the export duty on tea from two annas to four annas (from 12.5 per cent to 25 per cent of a rupee) per pound. This was estimated to yield additional revenue to the extent of Rs.4 crores but as pointed out by the Finance Minister, the duty was of a 'temporary nature' and it might be necessary to reduce the rate if there was any danger of curtailment of India's exports of tea due to this duty.⁹

While the abolition of the Salt Tax and increasing the minimum level of income for taxation were intended to bring some relief to the poorer sections of the population, Liaquat's new taxes were directed against big business and other excessively wealthy people. In fact he had another arrow pointed at big business. Archibald Rowland, the last British Finance Member, had imposed in the preceding year a new tax on business dividends aimed not so much at raising revenue as at discouraging the dissipation of a company's resources through payments of excessive dividends. Under Rowland's scheme, 62 per cent of the earnings of a company were allowed for dividends. Liaquat intended to decrease this rate to 42 per cent through taxation. No yield was estimated from this tax on dividend as the measure was a deterrent one, and it was expected that the companies would keep their dividend within the limit to avoid paying this tax. The total amount of extra revenue expected from all these new taxes was estimated after deduction of 4 crores of rupees as provincial share to be nearly 40 crores of rupees leaving a deficit of Rs.16 crores in balance.

The Budget really stirred up the entire business community, both Indian and British, who were soon up in arms against Liaquat. The stock exchanges in Calcutta, Bombay and Madras were closed indefinitely in protest against the tax proposals.¹⁰ The big business houses, and the Press under their control, denounced the Budget as a murderous one intended to destroy the economy by choking off all business activities in the country.¹¹ The Budget was so obviously directed against big business that the reaction of the latter was hardly surprising. We do not intend analysing the merits or demerits of that Budget here. The Finance Minister in fact defended his case very well indeed in the Assembly.¹² However, what is more relevant for the

purpose of our present argument is to study the Congress's reaction to the proposals contained in Liaquat's Budget.

Before framing his Budget, Liaquat had discussed its underlying principles with his Cabinet colleagues. He had pointed out that his principles were based on the declarations of the Congress leaders against profiteering by big business, and the Congress Members had found no difficulty in approving them. After preparing the Budget, Liaquat, on Wavell's advice, discussed it with Nehru and Matthai (now holding the portfolio of Transport) and both of them appeared to be in agreement with the proposals.¹³ By convention, the Budget was placed before the Cabinet the day before its presentation to the Assembly. Apparently the proposals 'went down quite well' at the Cabinet meeting.¹⁴ But once the Budget was published and the reaction of big business was known, the Congress members in the Cabinet changed their attitude.

The leaders of the Congress now came out in public to denounce the Budget as a 'clever device' for discrediting the party by giving a 'most unpractical turn to both the Congress demands; that is, those for Governmental action against profiteer and tax evasion'.¹⁵ Liaquat's taxation measures, they argued, 'would have impoverished all rich men and done permanent damage to Commerce and Industry'. Congress leaders like Patel and Rajagopalachari were violently opposed to the Budget and felt that Liaquat was 'more concerned to harass industrialists and businessmen than to serve the interests of the country'. They even charged that the Budget was based on communal considerations motivated to harm the members of the business community, the majority of whom were Hindus!¹⁶ Many other Congress leaders who participated in the discussions on the Budget in the Assembly spoke in similar terms in defence of business interests.¹⁷

The reaction of the right-wing elements in the Congress leadership like Patel and Rajagopalachari was not surprising. They were well known for their pro-capitalist views. The reactions of the socialists in the Congress were also predictable. They were clearly happy with what a section of the Press called 'the poor man's Budget'.¹⁸ But surprising indeed was the reaction of Nehru, the champion of Congress socialism, who now joined Patel and Bhabha in writing to the Viceroy a few days after the Budget was published, dissenting from the record of the Cabinet meeting that had earlier endorsed it.¹⁹ This was, of course, a desperate move by the Congress leadership, including Nehru, to deny their responsibility, as Cabinet members, of defending the Budget. Nehru's desperation was evident in his inaugural address to the annual session of the Federation of Indian Chambers of Commerce and Industries when he said that although it was 'not proper' for him as a member of the Government 'to discuss proposals of Government' there, he was sure that if the members of the FICCI pointed out anything that could be done better or anything that was 'injurious to the country's cause', that would 'produce an effect' on the Finance Member and he would 'think about it and consider' how he could 'find some way' to placate them.²⁰ The members of the FICCI who were already up in arms against Liaquat's Budget could expect no better encouragement from Nehru. Nehru was, in saying this, obviously dissociating himself and by implication his Party from Liaquat's Budget. Liaquat, on the other hand, legitimately claimed that the Budget was the responsibility of the entire Cabinet and not of the Finance Member alone.²¹

The Budget was of course supported wholeheartedly by all Muslim League members of the Cabinet and the Assembly. Many of the Congress 'back-benchers' in the Assembly also lent their support to this 'poor man's budget'.²² But there was at least one non-League Indian Cabinet Member to defend it in public. John Matthai, representing Christian minority in the Cabinet and until then a close associate of Nehru and other Congress colleagues, pointed out in his speech in the Assembly that in spite of the new proposed taxes the burden of direct taxation upon industry and trade was actually Rs.40 crores less than the burden in the previous year. He challenged the contention of its critics that the tax rates would discourage new investment by lowering the expected rate of return to Capital. He also warned the business community that if private enterprise put their money into business at much higher rates of return than the Government could allow; then, 'the country would have to face seriously the question whether it (was) in its interest to continue private enterprise; whether it (was) in its interest that capitalism should have a longer lease of life'.²³ Matthai was never known for his sympathy to the cause of socialism. His outburst could only have been an expression of disgust.

Liaquat did not succeed in getting his tax proposals approved by the Assembly without modification. In the face of stiff opposition from the supporters of big business, he himself suggested that the Tax bills be sent up to a Select Committee of the Legislature for further examination.²⁴ Big business and its related interest groups tried to manipulate the Select Committee but failed.²⁵ The Committee approved the Bills with minor modifications to the proposals for the tax on business profits - the rate was lowered from the proposed 25% to 20%. Even this did not solve the problem for Liaquat. Many of the supporters of bi

business within the Congress in the Assembly appeared determined to oppose the Bill. After its defeat in the Select Committee, the Congress was anxious to avoid any further loss of face and a possible split within its ranks on this issue. It now demanded a new discussion in the Cabinet on Liaquat's proposals. The latter objected to reopening the discussion in the Cabinet but had to agree to the Viceroy's advice to the effect that he should have informal talks with his Cabinet Colleagues.²⁶

Big business continued to mount pressure on Liaquat through the Congress.²⁷ Ultimately, / ^{Liaquat} was compelled to accept drastic modifications which reduced the anticipated yield of the new taxes by over 50 per cent. The chief modification made was in his tax proposal on business profits. The tax abatement of Rs.1 lakh, as proposed initially, was replaced by an abatement of 6 per cent on capital, and the tax rate was reduced from 25 per cent of the profit to 16.75 per cent on residue profit after abatement. The exemption limit for capital gains tax was also raised from Rs.5,000 to Rs.15,000.²⁸

The controversy over Liaquat Ali Khan's Budget proposals exposed very clearly the stand of the dominant leadership of the Congress on the question of socio-economic reforms. Whatever might have been Liaquat's 'real' intention in proposing such an anti-capitalist budget - Maulana Azad thought it was to discredit the Congress - his public declarations were aimed at moral and social objectives of a progressive nature. He opened his Budget speech by saying that unlike his predecessors - the British Finance Members - he did not take his task merely as that of balancing revenue and expenditure, but 'to even out the glaring disparities between the income levels of the few who were the wealthy class and the poverty-stricken masses'.²⁹

By contrast the Congress as a Party and Nehru in particular, stand discredited by their attempt to subvert the Budget. The disparity between their oft-repeated profession of egalitarianism and social justice and the actual nature of the policies they adopted needs no further exposition. While arguments may be found to justify Nehru's role, the fact remains that in the name of the unity of the Congress Party, he was ready to sacrifice not only his socialist ideals but even abdicate his sense of responsibility. Within the Cabinet of the Interim Government the majority were in support of the Budget. Even Rajendra Prasad, a 'rightist', who was the Food Minister, supported it.³⁰ Had Liaquat undertaken to force a vote on the issue in the Assembly, he would perhaps have carried the day. (In fact, Liaquat was persuaded by Wavell not to 'fight the battle in the Assembly', where he considered himself to be on a 'strong wicket' to prevent Wavell's successor Lord Mountbatten, from the embarrassment of a contentious Cabinet meeting at once. Mountbatten was to take over from Wavell in two days' time.³¹) Yet Nehru found it fit to side with Patel and Rajagopalachari in denouncing Liaquat's proposals.

But it was not only on the question of this Budget that the Congress leadership revealed its sympathy for the Indian business community. Liaquat's proposal to set up a Taxation Enquiry Committee was also not pursued by the composite Interim Government. The 'black marketeers' of the war period thus enjoyed complete reprieve from any punitive action from the state. After Independence nothing more was heard about the proposal.

Another illustration of the Congress's kooziness to defend the bourgeoisie during the period of the Interim Government is the history of the Commodity Prices Board. Liaquat, in his crusade against price manipulation by big business, set up this Board in February 1947 to advise the Central Government in regard to price fixation of controlled commodities and also to suggest what new commodities should be brought under Governmental price control. He justified the appointment of the Board on the ground that 'there was no co-relation between the prices of commodities of various kinds' and that it was necessary to have a 'scientific method of stabilisation of prices'.³²

The Commodity Prices Board consisted of two members; Mr. A.D. Gorwala, I.C.S. as its President, and Professor D.R. Gadgil of Gokhale Institute of Politics and Economics as a Member.³³ The Board was abolished in September 1947 when they both resigned in protest against the way in which its recommendations were treated by the Congress Government of what had become by then independent India. N.V. Sovani, who was a close associate of Dr. Gadgil in the Gokhale Institute, wrote on the issue that 'the programme of action visualised by this Board through the various reports it submitted, was a middle of the line programme which refused to allow the capitalists to reap undue profits but did not necessarily lead in the direction of the extinction of private enterprise, or even any large step in the socialisation of industry'.³⁴ Yet the work of the Board, in Sovani's words, 'got support only from the Muslim League members and the Departments controlled by them. The Congress Party felt it necessary to nullify the work of the Board and succeeded in reducing it to impotence'. To substantiate his observation, Sovani went on to cite examples of different decontrolling measures adopted by the Congress Government immediately after coming to power in total disregard of all recommendations of the Board.³⁵

The Interim Government was the first real test of Nehru's, and the Congress's, attitude towards the social and economic inequalities which they had decried so much in the past. They had always declared that economic prosperity and its equitable distribution were the key to solving the country's different social problems. Even during the regime of the Interim Government, when the entire sub-continent was embroiled in communal strife, Nehru considered that of all India's problems the economic one was the most serious'.³⁶ That he attached the highest importance to the economic remedy is evident from his initiative to set up the Advisory Planning Board. Planning was the talismanic concept to him to solve all economic and social problems. He was often angry with the Muslim League on the ground that his efforts for 'forward planning' which entailed planning for a unified India were being thwarted by the separatist policies of the latter.³⁷

Nehru's stand on the question of curtailment of rampant profiteering by the business community showed his lack of commitment to fight for his professed ideals. The support he gave to big business in its attempt to subvert Liaquat's budgeting and other proposals, shows how easily he wilted under pressure.

This criticism against Nehru may sound harsh. Like M.R. Masani, one could argue that Liaquat's taxes would have hindered the growth of industries while the Government was not in a position to participate in industrial production on a large scale. While this observation may have some force in terms of the ideological perspective from which it was made, it does nothing to take away from Matthai's argument about the relative lightness of the burden of tax on big business compared to that of the previous year. Moreover, as Liaquat pointed out, the

Congress itself had been worried about unscrupulous profiteering by the business community during and after the war. Many members in the Assembly, speaking in support of Liaquat, cited information relating to the share markets as examples of wartime profits. Most of the shares of established companies had gone up by 300 to 600 per cent over the years since the end of the war. One example given was that of the Tatas whose shares with a face value of Rs.100 were being quoted at about Rs.2,000 - a 400 per cent increase over 1938-39.³⁸

Liaquat's measures were so appropriate that even Pethick-Lawrence, the British Secretary of State for India and Burma, had to admit it. 'There can surely be no doubt', he wrote, 'that any Government in India which looks for popular support must use its fiscal machine to correct in some measure the enormous disparities in wealth and the accompanying concentration of economic power in a relatively few hands'.³⁹ This observation gains in significance when we remember that Liaquat's Budget also affected British interests very adversely. Not only that the British companies in India would have to bear their share of the tax burden, the doubling of the export duty on tea was directly going to hit the United Kingdom, the largest importer of Indian tea, the industry itself being overwhelmingly owned by the British capitalists.

Liaquat Ali Khan's professions in 1947 should be studied in terms of the contemporary situation. In February-March 1947, Pakistan was still a dream. Liaquat's views on India as he saw it at that time deserves close scrutiny. A few examples may be given here from his budget speech. He opened his speech by proudly showing that he was the first Indian Finance Member in British India to formulate a budget and then proclaimed the norm of social justice as the basis of his budget by pointing out that

'India was a land of glaring contrasts and disparities where on the one hand a class of multi-millioners were rolling in wealth and holding the economy of the country in their grip by exploiting for their own profit the labour of the poorer class, and on the other hand were the vast multitudes who eked out, somehow or other, a miserable existence precariously near the starvation line.... A set of conditions the war etc. in which the few were able to wield such vast power over the many could hardly be regarded as anything but a negation of the principles of social justice'.⁴⁰ In his summing up speech he said again, while criticising big business for its opposition to his proposals, that 'In the changing India we cannot hope to get those profits that were made in the past. Every one has got to make a sacrifice - if you can call it a sacrifice - for the general good of the masses of this country If they big business do not help us India will still be industrialised. If Russia could industrialise in a short period why not India? We do not want to stifle private enterprise, but if private enterprise is not willing to take up a helpful attitude and assist us in the economic improvement of this country there are other methods by which we will have to do it'.⁴¹ Here he echoed Matthai. Neither Liaquat nor Matthai were socialists. What Liaquat attempted at was a sound state policy acceptable in populist terms. As we showed above, even the British understood the political logic behind this stand. That Nehru also saw it in the same light is evident from his initial agreement with Liaquat's proposals. He succumbed later under pressure from big business.

Episodes surrounding Liaquat Ali Khan's Budget, especially the failure of the Congress to support it, thus afford us interesting insights into the contradictions of the Congress and particularly those of its leadership. Nehru's commitment to socialism surely looks rather anaemic in the light of these events. The reaction of the bourgeoisie was expected. But if we accept Matthai's contention then the vehemence of their challenge shows greater concern with laying down a proper relation of power between big business and the new government, rather than any immediate financial difficulties.

The Budget was the first confrontation between the newly emerging Indian state - the British decision to withdraw from India before 1948 was already declared - and the Indian capitalist class which was striving hard to establish itself as the most important force in India within the power structure of the state. It was probably the recognition of the importance of this confrontation, rather than the budget itself, that made the latter challenge so vigorously the authority of the state to control and curb the power of big business in India. The bourgeoisie won this first battle decisively. The Congress and Nehru, its leader, strengthened the position of this class by siding with them against Liaquat's Budget.

NOTES

1. This is a revised version of a seminar given in Centre for Studies in Social Sciences, Calcutta in November 1985. I am particularly grateful to Barun De and Partha Chatterjee for their comments on the draft. The subject forms a section of my unpublished thesis, The Idea of Planning in India, 1930-1951. (The Australian National University, 1985).
2. Maulana Abul Kalam Azad, India Wins Freedom, (Orient Longman, India, 1959), p.166.
3. Ibid., p.175.
4. See, A.M. Zaidi and S.M. Zaidi (eds.), The Encyclopaedia of Indian National Congress, (New Delhi, 1981), Vol.12, pp.530-37.
5. See Azad (1959), p.175.
6. Ibid., p.176.
7. See, Government of India publication, Legislative Assembly Debates, /hereafter L.A.D., 1947, p.1323.
8. Ibid., pp.1334-36.
9. Ibid., p.1336.
10. See, N. Mensergh (ed.) India. The Transfer of Power 1942-47, (London, 1970-80) /hereafter T.P., Vol.IX, Document No.494, (Wavell's report to Pethick-Lawrence dated 5 March 1947).
11. See, e.g. editorials in Hindustan Times and The Statesman dated 2 and 3 March 1947.
12. See, Liaquat's speech in the Assembly rounding up the discussion on the Budget in L.A.D., 1947, pp.1504-8. Also see Penderal Moon (ed.) Wavell, The Viceroy's Journal (Oxford, 1973), p.430.
13. See, Wavell's report to Pethick-Lawrence dated 19 February 1947 in T.P., Vol.IX, Doc. 434.
14. See Moon (1973), Wavell's diary dated 28 February 1947, p.424.
15. Azad (1959), p.175.

16. Ibid., p.176.
17. See, e.g. the speeches by Sri Prakasha, Krishna Dutt Paliwal, D.P. Karmakar and others in the General Budget Session in L.A.D., 1947.
18. See T.P., Vol.IX, Doc.494 & 526.
19. Moon (1973), p.425.
20. See the report in The Statesman, 4 March 1947, p.1.
21. T.P., Vol.IX, Doc. 494 & 526.
22. e.g. Sardar Mangal Singh in his speech in the Assembly, described the criticisms against the tax proposals as the 'howl of the millionaires'. See The Statesman, 3 March 1947.
23. See, L.A.D., 1947, p.1470.
24. Ibid., p.1505.
25. See, Moon (1973), p.430.
26. T.P., Vol.IX, Doc.561.
27. T.P., Vol.X, Doc.59.
28. Ibid., Doc.204.
29. See, L.A.D. 1947, p.1315.
30. T.P., Vol.X, Doc.204.
31. Moon (1973), p.430.
32. See, N.V. Sovani (ed.), Reports of the Commodity Prices Board (Gokhale Institute of Politics and Economics, 1948), p.X.
33. Ibid., p.X.
34. See, N.V. Sovani, Planning of Post-War Economic Development in India (Gokhale Institute of Politics and Economics, 1951), p.59.

35. Ibid., p.59; also see D.R. Gadgil's comment in the foreward of N.V. Sovani's Post-War Inflation in India - A Survey (Gokhale Institute, 1949), pp.VI-VII.
36. Sec, T.P., Vol.X, Doc.59.
37. Ibid.
38. Sec, L.A.D., 1947, p.1484 (speech by Muhammad Nauman on 4 March 1947).
39. Sec, T.P., Vol.IX, Doc.533.
40. L.A.D., 1947, p.1332.
41. Ibid., p.1508.