

Return of the Saar

"RE-INCORPORATION of the Saar into Germany was a foregone conclusion. This rich territory has been in dispute between France and Gerittany throughout modern history. Its alliance has been a source of irritation between the two countries. But the Saarlanders have never shown any doubt that their affinity is with Germany. They do not favour either an autonomous status or incorporation with France. Last October, a referendum was held in the Saar. It rejected the proposed statute for Europeanisation of the territory. In January last, the Saar Parmanent voted decisively in favour of political and economic integration with Germany. France and West Germany started negotiations about the future of the Saar. Agreement has now been reached lor the return of the Saar to Germany. Both Bonn and Paris have expressed hopes that the return of the Saar to Germany will further cordial relations between the two countries.

Conditions to-day are different from those prevailing in 1935. Then, the Nazis exploited the Saar plebiscite as a symbol of militant German nationalism. No such fears are now entertained by France, as NATO and EDC are guarantes against any revival of German militarism. Return of the Saar to Germany will mean some economic loss to France. Hut France has been assured of coal from the Saar. With the European steel pool in operation, the Saar's steel reserves are not likely to cause any worry jo France.

Tobacco Excise and Cigarettes

IF people in Britain did not smoke or drink, it is hard to imagine how the Government would manage to meet its expenditure, so intimately has the revenue system been associated with the taxes on tobacco and spirits for generations. Drink is out from reckoning in the Indian tax system, without even so much as by your leave from the Finance Minister. Tobacco, however, occupies a position in the Indian economy which does not enable it to be used so readily as a major prop of the Indian tax system. The Taxation Enquiry Committee (1924-25) was struck by the fact that though the use of tobacco in India was even more wide* spread than in many of the countries in which it was one of the main props of the tax system, it had not been subjected to any internal tax-

tion whatsoever. Indeed, the Committee found that the lack of reliance on this , which could be borne so easily was the feature which distinguished the fiscal system of India from those of most other civilized countries.

Tax on tobacco is not open to the usual objections against indirect taxes but there are other difficulties. For the very reason that the use of tobacco is so widespread, its *end Uses* are so many tobacco can be made into cigars, cigarettes or bidis; it can be smoked in hooklias; it can be chewed. Though different varieties of tobacco are particularly suited for these different uses, the possible range of substitution among them makes it difficult to charge different rates for different types of tobacco without the risk of the varieties being shifted to other uses. This alone calls for very fine adjustment of rates. Rut the situation is further complicated because India also happens to be one of the largest growers of tobacco and a sizeable exporter. The necessity of maintaining exports ;and of relating the duty to fluctuating prices makes the adjustment of rates of tax extremely complex.

Welt those days have passed, the Central Excise on tobacco has proved a fairly productive source of revenue. It was not until the war, however that the excise duty was imposed on tobacco. In the first year of the duty 1943-44, the revenue collected was lis, 9.65 crores. In the very next year, the rates of duty were raised and collection jumped to Ks. 20.82 crores. And it went on rising until Rs ;35.39crores were collected in 1951-52- Then there was a slight decline, following the general recession of 1952. This illustrates another aspect of tobacco duty; in the absence of any change in duty. fluctuations of revenue from this source are a good index of sales and of money incomes in the country. The collections of 1951-52 remains a peak. Another peak seems to be in the offing, judging from the increasing sales of cigarettes, to which the Chairman of the Imperial Tobacco Company referred in his address at thy Annual General Meeting of the Company last week. The point that the Chairman seems to make, though he does not say so in so many words, is that taxing tobacco is a specialist's job to which manufacturers of cigarettes have a valuable contribution to make. He concedes the right of a Government to tax tobacco and its products and

suggests that;his company and the Government have a common interest In; developing It." into a sound revenue producing source, which should not be damaged. And it can he damaged permanently, if due attention, is not paid to the incidence of this tax on different types of tobacco and grades of products.

Mopping Up Excess Income

EXCISE DUTY on cigarettes, graded according to quality and price, is a most civilized manner of painless extraction of income from consumers and it could be made to yield the most, if the principles of scientific extraction are followed carefully. Too many changes are bad and the tax has to be adjusted to the buying habits of the people which follow a fairly stable pattern. A high proportion of the sale of cigarettes, for instance, is *in the form of a single cigarette for a single coin*. The scale of duties has to be adjusted to these hafats, the strength of which is the basis of taxability. Growth of demand, however, observed everywhere in the consumption of habit forming commodities like tobacco is a factor that operates by itself And its effect has to be eliminated, before one can judge the effect, of other factors e.g. variations in duty or money incomes, on revenue from this source.

From the expanding volume of sales reported by Imperial Tobacco, despite recent increases in duty, the inference is not unwarranted that barring the general growth factor demand for cigarettes is income elastic rather than price clastic. But a priori deductions are of *very little use* and the Chairman's suggestion that experience of manufacturers like the Imperial Tobacco should be drawn upon for devising changes in the tax on tobacco can be endorsed without reservation. Unfortunately, central excise is not the only tax on tobacco; much greater complications are created by sales taxes, the varying rates of these faxes imposed by the States and the different conditions attaching to them. A greater uniformity is desirable in the case of all sales faxes, but in a vital revenue earningy item like the tax on tobacco, its utility can hardly be exaggerated, if us full potentialities are to be exploited. With increasing money incomes and threat of inflationary pressures, this convenient and highly effective device for mopping up excess purchasing power certainly needs to be exploited much more fully than has been attempted so far.