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FIRST SESSION

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**BUDGET SPEECH**

by

*The Honourable, the Minister of Finance  
Dr. Charles Jacob, Jr.*

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**INTRODUCTION**

Your Honour, this is the first Budget to be presented to the Legislature of this country by an elected representative of the people. Because of this fact, the occasion is not without some historic importance. The significance of this break with the colonial past will begin to be felt almost immediately, as the ground is now being laid to strengthen our economic position and raise living standards by accelerating the rate of economic growth through our own efforts.

2. No poor country like ours, however, can hope to lift itself up by its own bootstraps. It must seek help from external sources, mainly from the developed countries; but it must make sure that such aid is not used to create an economy which is slavishly complementary to, or merely an appendage of, that of the lending countries. We have to aim at the creation of an internally-balanced, diversified, self-sustaining economy.

3. Many colonies and former colonies know, to their cost, that foreign investment and foreign aid in the past have often meant no more than the creation of new sources of supply to suit the needs of the foreign powers: the metropolitan-colonial relationship was left unchanged; and there was contributed little, if anything, to the alleviation of the poverty and backwardness of the native populations.

4. More recently, there have been welcome signs of a change, in that some of the leading powers have been paying increasing attention to the need for a balanced expansion and diversification of the

underdeveloped countries. We, on our part, shall certainly make every effort to obtain foreign economic aid for our development and shall welcome, and be grateful for, all the financial assistance that we can get on reasonable terms, and without political, military or other strings.

5. But foreign aid is no substitute for self-determination, either economic or political; nor is it a substitute for a determined effort to devote as much of our resources as we can to accelerate our rate of economic progress in directions that are best suited to the continuous improvement in the living standards of the masses. Our most important task is to diversify our economy, so as to be less dependent on a few staple exports, which are exposed to the vagaries of the world market, and less dependent also on imports for so many of our essential needs. Indeed, the greater the effort and determination that we put into this task ourselves the more substantial the kind and amount of foreign assistance we can hope for. The world, as always, is more likely to help those who help themselves.

6. With the approach to Independence, it is natural and inevitable that the role of the Government as a producer and as a provider of services should expand. Indeed, the freedom to decide on the best allocation of the country's resources -- what should be left to private disposal, what used to meet present communal needs and what devoted to the future development of the nation -- is the most valuable benefit that flows from political independence. It is the very essence of the policy of overall economic planning to which this Government is committed. The expansion of the scope of publicly-provided services has been everywhere remarkable in recent decades even in those countries, such as the United States, whose philosophy rejects the idea of overall economic planning, and this fact is clearly reflected in the size of their budgets. In our case, the expansion of the public sector will proceed in one additional direction -- public enterprise will play a greater role in the production of goods and services.

7. In order that you may understand the economic and financial context of the proposals which I shall put before you later in this speech, I should like now to tell you something about the significant economic and financial data by which they are conditioned. The year 1961 has turned out in some respects to be as prosperous as 1960 was. Although the weather last year was less favourable for agriculture than in the year before, exports of domestic produce have been higher (\$142mn. as compared with \$125mn. in 1960) -- sugar and its by-products about the same, and rice, some \$4mn. (25%) higher, reflecting

the exceptionally good crops of the previous year; and minerals, some \$14mn. more, the result of the growing output of manganese and alumina. Contrary to expectations, imports (\$153mn.) did not slip back in 1961 after the sharp increase (by one-third) the year before, but were some \$6mn. higher than in 1960. The indications are that the country's total production — the gross domestic product at factor cost — was certainly, in spite of less favourable weather, at least as high as in 1960 and probably in the vicinity of \$245mn. apparently lower in agriculture but certainly higher in minerals. Capital inflow from abroad and investment continued at a high level in spite of the completion of the major manganese and alumina developments. The firmer elements of our international balance of payments (e.g. the visible balance of trade had improved by some \$10mn. as compared with 1960) suggested no cause for disquietude. But, paradoxically, we were running down our external reserves. This showed up most dramatically in the external reserves of the commercial banks, which swung to a negative position, necessitating a tightening of their credit. It appears that while foreigners continued to invest money in our country, some of our own residents were increasing the scale of their investments abroad to an extent which our balance of international payments could not support. This is the first significant fact I should like you to bear in mind during the rest of this discourse.

8. The other significant fact I must bring to your attention is the state of the Government's finances in relation to the Development Programme. The Government has virtually no reserves. Nominally the reserves stand at \$5.2mn., but the greater part is tied up in advances and working capital for Government enterprise. Now, consider the possible consequences of this in a narrowly based economy such as ours, where a large part of our production depends on the vagaries of the external market for two major industries (sugar and bauxite) — a mild recession in only one of which could very easily curtail the Government's revenues in any year by its direct and indirect effects by as much as 10% (\$6mn.). Consider, also, that while on the one hand the major recent industrial developments are now tax-holidaying, on the other hand the Development Programme is throwing huge expenditures on the Recurrent Budget by way of debt charges and the departmental facilities required to service these projects, and at the same time a rapidly growing population is continually expanding the cost of the social services. To translate these facts into figures: revenue in 1962 is not expected to be more than \$2mn. higher than in 1960, but recurrent expenditure will be some \$15mn. higher — \$2½mn. more in debt charges; \$2mn. more for agriculture, drainage, irrigation and land settlement services for development projects; \$1½mn. more on the maintenance of sea defences, roads and buildings; \$4mn. more on educational institutions and social services; together with \$3½mn.

more for increased rates of remuneration to Government employees.

9. The ability of any government to cater for social and developmental needs clearly depends on its will to secure public revenue for discharging these functions. Taxation is thus not an end in itself; rather it is the essential means for attaining those social and economic objectives which give effect to the nation's highest aspirations. In countries in which the power of the government to collect revenue is small — either because of corruption or inefficiency of the public administration, or because of the unwillingness of the political leadership to impair in any way the privileged treatment of powerful vested interests — these aspirations must of necessity remain unfulfilled; and despite all the brave talk of economic and social development, their peoples are condemned to continued misery and to both economic and cultural stagnation. Taxation must therefore not only be an efficient producer of revenue to finance public services and desirable economic activity, but also serve the subsidiary purpose of redistributing wealth and income.

#### THE CASE FOR TAX REFORM

10. In British Guiana we are relatively fortunate at least in relation to many independent countries of Latin America in that there is a well-run administration for levying and collecting a progressive tax on incomes and on inheritance. Unfortunately, similar tribute cannot be paid in respect of import and excise duties, but I give notice that maladministration and irregularities will no longer be tolerated in the Customs and Excise Department, which is now responsible for about one-third of our total revenue. Our tax system, nevertheless, from the point of view of fairness and equity, and of equal treatment of all citizens in relation to their true economic power or ability to pay, reveals very important gaps. The first duty of the Government is, wherever possible, to bridge these gaps and to increase the efficiency as well as the fairness of the fiscal system.

11. To assist the Government to fulfil its duty in this respect, Mr. Nicholas Kaldor, a Fellow of King's College, University of Cambridge, and a noted authority on fiscal matters, was invited under a United Nations Technical Assistance project to advise on our tax structure. According to his findings, the most important reform (at least from the long-run point of view) is to broaden the scope of direct taxation through the introduction of a tax on capital gains, an annual tax on net property, and a tax on gifts. These capital taxes, together with the existing income tax, will constitute a comprehensive and integrated system of progressive, direct taxation which will ensure that the tax burden imposed on the various members of the

community is in fair approximation to their true taxable capacity.

12. The taxes which I shall propose later exist in varying forms in the fiscal systems of a number of Western countries, including those of Scandinavia, and have recently been introduced in India and Ceylon. Since these taxes are new, as far as we are concerned, I propose to devote some time in this speech to a statement of the case for them.

13. There is a great deal of ignorance and confusion on the part of some people where the question of income taxation is concerned. This is not wholly their fault, but partly that of the existing social order. If we believe in a fair and just society, and wish to do more than merely talk about it, we must end fiscal discrimination in favour of particular classes. Everyone should contribute to the cost of government according to his ability to pay. But this ability has been based on a restricted definition of income. And any tax system based on a too narrow concept of income is bound to mete out unequal treatment to the different classes of taxpayers. It is the settled policy of this Government, therefore, to adopt a more comprehensive definition of income as the tax base in order to inaugurate a more equitable system of taxation. Social justice demands that the burden of taxation be allocated fairly between the different members of the community.

If those who make capital gains are required to pay nothing — as at present — while wage- and salary-earners pay a fair share of the burden of taxation, there is a clear case of inequity between the two groups, resting on the restricted definition of taxable income. The exclusion of capital gains from the scope of income taxation cannot be defended on grounds of equity since it involves the privileged treatment of a particular class of taxpayer as against others. The defect of our present income tax is that it excludes one important category of income — capital gains — and is therefore weighted in favour of the propertied class.

15. My Party has long recognised the need for tax reform in British Guiana for two major reasons. The first is the problem of underdevelopment. To overcome this, current revenue from taxation must be higher to meet the needs of a dynamic community with a rapid growth of population and its requirements for speedy economic and social development. The inadequacy of public revenue restricts expenditure in such fields as health and education and makes impossible the financing of developmental projects.

16. The second major reason for fiscal reform is to curb economic inequality by redistributing wealth and income in the interests of

social stability and the constitutional evolution of a peaceful, democratic society.

17. The existing tax system is unjust in its incidence because it discriminates in favour of income from ownership of capital as against income from work. This weighting of the income tax basis in favour of the wealthy classes retards the growth of the economy in that it directs a considerable proportion of the national resources not to desirable development and essential social services, but to conspicuous consumption and speculation in real estate. Luxury consumption, which means high national expenditure on non-essential imports, burdens the balance-of-payments unjustifiably. An impartial system of progressive taxation, which distributes the burden equitably between those who derive income from property and those who get their incomes from work is an urgent necessity.

18. I wish to emphasize, for the benefit of those who might characterize the fiscal reforms as disincentives to development, that, on the contrary, such reforms would mean a diversion of resources from undesirable consumption (in our present circumstances) and speculation to worthwhile investment, and thus to a rational allocation of scarce national resources. Another desirable but long-term effect of the reforms, not to be measured in quantitative terms by their revenue yield, is the degree of national consciousness and class cooperation which they would induce.

19. Since our income tax operates in a discriminatory fashion between the different kinds of income-receivers, the reforms are also intended to make a contribution to the democratic ideal of equality of treatment of all citizens. Honourable Members should bear in mind that the taxation of income and profits and other personal and direct taxes constitutes only a part of the total taxes imposed by the Government. The great bulk of indirect taxes on commodities and transactions (which make up the remainder) very largely falls on the great mass of consumers who derive their income from work and not from property. If we take both direct and indirect taxes into account, there is little doubt that the owners of capital do not bear as much of the burden which an impartial allocation would require.

20. This Government regards the effective taxation of capital profits as an essential feature of an equitable system of income taxation, because such gains are an important source of income of the large owners of property. Moreover so long as this discrimination is maintained and such gains remain untaxed, there are innumerable kinds of manipulations by which a taxpayer can dress up taxable income as if it were in the nature of a tax-free capital profit and thereby

reduce his tax liability even further. The exemption of capital gains from taxation, which obtains in Britain and her colonial empire, is the single most glaring feature of "one law for the rich and another law for the poor" -- an inequity peculiar to many Western nations, some of which do not tax such gains as fully as fairness demands. In the United States capital gains have long been brought within the scope of taxation, and former British colonies like India and Ceylon have done the same thing since their independence.

21. The other major gap in our tax system is that it gives no recognition to the taxable capacity inherent in the ownership of property (or capital wealth). A system of taxation based partly on income and partly on net property is more equitable than one based on income alone or on property alone. The reason for this is that the possession of disposable wealth endows a man with spending power quite apart from the money income which such wealth yields. A man who possesses \$100,000 in forms of wealth that yield no income is clearly better off than another man who possesses neither wealth nor income, even though he is not as well off as a third man with similar wealth and a yearly money income. Yet the first man pays no more direct taxes than the second. Without a supplementary tax on property imposed alongside a tax on income, it is impossible to do justice, not only between wage- and salary-earners on the one hand and property-owners on the other, but also between different property-owners. Some countries recognize the fact that income from property (so-called unearned income) possesses a greater taxable capacity than income from work (earned income) and attempt to make allowance for this by taxing income from work at a lower rate. But this does not adequately compensate for the greater benefits derived from the possession of property. And this is why Norway, Sweden, Denmark and many of the other progressive countries do not recognize money income alone as a true yardstick of taxable capacity.

22. Moreover, from the point of view of administrative efficiency, it has been experienced in these countries that an annual tax on net property improves the efficiency of income tax administration. It is proposed, therefore, to introduce a tax on net property owned (assets minus liabilities) which will embrace assets of all kinds, not merely real property. This tax will be a relatively modest one as it is a supplement to, and not a substitute for, income tax. It completes income tax, the top rate of which will not be increased.

23. Finally, Your Honour, there is need to buttress the existing Estate Duty by a gift tax, for gratuitous transfers inter vivos. The need to limit by the instrument of taxation the right of an individual to pass on his property to his heirs and successors is no longer

disputed today: it is desirable to avoid the ill-effects of an increasing concentration of wealth in the hands of a few privileged families. If the right to pass on a fortune is limited, through a progressive Estate Duty, it is quite logical to limit also the transfer of property by inter vivos gifts. If this is not done, there will be continued avoidance of the inheritance tax (Estate Duty) by gratuitous transfers of property during the lifetime of the donor in spite of the provision in the Estate Duty Ordinance which makes such transfers exigible to estate duty if made within three years of death. The proposed gift tax, then, is to close a loophole in our Estate Duty legislation and bring it in line with the tax policy of a large number of countries, including the United States, Australia, Canada, India and Ceylon.

24. The proposals for all of these new taxes aim at broadening the base of taxation through bringing to charge wealth accrual now exempt from taxation. Progressive personal taxation and death duties have not succeeded in bringing about the degree of distribution of wealth and income that was their avowed objective. The reason is to be found in the numerous loopholes of various kinds that have been tolerated and, in some cases, deliberately nurtured by past legislatures, and the inability of the tax administration to force a full disclosure of wealth and income. Honourable Members will, I am sure, welcome these proposals to counter avoidance and evasion and to strengthen the hands of the tax authorities.

25. In addition to a more equitable fiscal system, we also need one of greater efficiency of tax administration if we are to fulfil our national aspirations. The case for these new taxes — the tax on capital gains, the annual tax on net property, and the tax on gifts — is thus very powerful from the point of view of enforcement. All of the taxes are self-checking in character, both in the sense that concealment of items to minimize liability to some taxes may involve an added liability with regard to others or disclose evasion of another tax, and in the sense that information furnished by a taxpayer for the purpose of preventing overassessment with regard to his own liabilities automatically brings to light hidden receipts and gains made by other taxpayers.

26. For example, gift taxation discloses capital transactions and thereby limits the evasion of income and inheritance taxes, and assists in the administration of the net property and capital gains taxes. The net property tax forces the disclosure of the balance sheet (assets less liabilities) of the better-off individual each year



and this needs to be reconciled with his profits and with his property transactions reported for the capital gains tax. In summary, the new and old taxes will provide a system of taxation which is as complete, just and efficient as human ingenuity can make it.

#### REVIEW OF EXISTING TAXES AND THEIR REFORM

27. Apart from the proposed three major additions to our tax system, I intend to increase the efficiency of the fiscal instrument by a series of new provisions in the Income Tax Ordinance to counter other forms of avoidance and evasion and to abolish existing anomalies.

28. One of the new provisions relates to the taxation of companies owned by non-residents. It is well known that companies which are merely branches or subsidiaries of companies resident abroad can understate their true profits by over-invoicing imports or under-invoicing exports, in so far as they trade with their associated overseas companies. I propose therefore to strengthen the Income Tax Ordinance by additional provisions under section 33 whereby the taxable profits of any such company will be deemed to be not less proportionately to its turnover than the total profits of the entire group of associated companies are in relation to their total turnover -- unless the company can prove to the satisfaction of the Commissioner of Inland Revenue that no significant part of its transactions was conducted with or influenced by non-resident associated companies.

29. I propose, also, to have Section 48(3) of the Income Tax Ordinance amended to permit a provisional assessment based on a percentage of the actual or estimated turnover of businesses or on a fair estimate of professional or vocational incomes if tax returns are not made by the due date. This will increase the expedition and the efficiency of the income tax levy.

30. Appropriate amendments will be made to provide for a minimum income tax payment based on an assumed income of 2% of turnover in the case of mining, manufacturing or mercantile business (not agriculture), even where a loss occurs -- adjustable, however, against future profits, so that unless the business carries forward losses indefinitely, tax over its life will fall only on profits. Businesses will no longer be able

to operate year after year without paying anything in tax, by showing a continuing loss in their accounts.

31. With regard to the treatment of trade losses, the existing law provides that a business loss can be set off against income from other sources in the same year and that in so far as it cannot be so set off, it can be carried forward indefinitely, but only against future income from the same source. These provisions are still open to a great deal of abuse in that it is possible for a taxpayer to build up assets by incurring continued losses in one business and financing it by saving in tax from his income from other sources. I therefore propose that the provisions should be further restricted by allowing only the indefinite carry forward of loss from the same source, but disallowing the set-off of loss against other income in the same year. I regard such a restriction as particularly important since otherwise some of the businesses which are now enjoying tax holidays (and which show losses for a number of years after the end of the tax holiday period on account of their right to treat all capital expenditure incurred during the tax holiday period as if it had been incurred in the year preceding the first year of assessment) would be able to offset these losses against other profits, with the result that revenue would be further reduced when the tax holiday period comes to an end. On the other hand I do not feel in view of this change, that the current restrictions which limit the set-off of past losses to one-half of the tax liability in any year are justified in the case of those enterprises which would be liable to the minimum annual contribution recommended above. This will require amendments to the existing Section 15 of the Income Tax Ordinance.

32. The current tax holiday provisions for the encouragement of new enterprises are excessive and of doubtful efficacy in promoting the industrial development of British Guiana. These privileges not only allow a complete tax holiday for 5 years, but also allow all capital expenditure incurred during these five years to qualify both for initial and depreciation allowances after the tax holiday period comes to an end. My own feeling is that if foreign enterprises wish to come here they will do so when it is to their advantage — which means when the opportunities for making profits are sufficiently large as not to be seriously affected by questions of taxation. It must also be remembered that in a great many cases the benefits of these tax exemptions do not accrue to the companies or their shareholders but to foreign Governments which are thereby enabled to tax the profits originating in British Guiana without having to allow for double taxation relief. I therefore recommend that the whole of the existing Section 2 be withdrawn and replaced by a new provision under which

pioneering businesses which are primarily concerned with mining, manufacturing or processing activities will be allowed to write-off 70% of any capital expenditure incurred during the first five years of their operation in British Guiana as a charge on their current profit. This would also mean that any dividend paid by such companies would be taxable irrespective of whether the company as such is chargeable to tax or not. The existing privileges of companies which have already been granted tax holidays will of course be protected.

33. The existing provisions relating to initial allowances introduced in 1951 provide for an allowance of 40% which is in addition to the depreciation allowance (normally 10%) which is given in the first year. These provisions are unduly generous and involve a serious loss of tax (particularly in the case of foreign companies), which averaged \$500,000 in recent years. It is therefore proposed to reduce initial allowances for non-tax-holiday companies to 20% from the existing 40%.

34. It is my conviction that some restriction should be placed on deductible expenses of businesses, and I therefore propose that the powers of the Commissioner be strengthened by appropriately amending Section 12 of the Income Tax Ordinance. Entertainment expenditure will be explicitly disallowed by adding to Section 14 of the Ordinance. Expenditure on advertising will only be allowed as a business expense in so far as it relates to the sale of such goods and services which produce income for the year in question and not to general or "prestige" advertising and to a limit not exceeding  $\frac{1}{4}$  of 1% of turnover.

35. At present the profits of a business partnership must be assessed and charged individually on each partner. This often creates difficulties, e.g., when a person resigns or goes abroad, etc., since a tax due cannot be recovered on the assets of the business as such. I propose, therefore, that the methods of assessing business partnerships should be assimilated to the methods in force in the case of companies: that is to say, the profits of the partnership should be assessed as such (at the 45% rate) and a certificate be issued to each individual partner entitling him to a recovery of tax on his aliquot share of the profits in exactly the analogous manner to the tax deducted on the dividend of the shareholder. The appropriate addition to the Income Tax Ordinance will be made.

36. The existing provisions in respect of directors' emoluments are open to abuse in the case of private companies which frequently appoint family members as directors with considerable emoluments so as to reduce the business liability to tax. It is proposed, therefore, to introduce

provisions to disallow as an expense any excessive charge for directors' fees.

37. In order to improve the collection of tax on the income of non-residents chargeable to income tax under the existing law, I propose the repeal of Section 39 of the Ordinance and the substitution thereof of provisions for the deduction of tax at the appropriate rates on every dollar of interest, dividend, rent, royalty, annuity or annual payment payable to a non-resident person and at 45% to a non-resident company.

38. It is proposed to amend the Income Tax Ordinance to provide that compensation received for the termination of any contract of employment or service shall be chargeable income. The amendment will also prevent the avoidance of tax by the payment of medical, dental or optical expenses or any passages to directors other than "wholetime service directors" and of expense allowances which are not in fact spent in the production of chargeable income.

39. Because of a Court ruling that a person once assessed cannot be required to furnish additional information except he appears to have been underassessed, I propose to have the existing law amended to permit relevant additional information to be supplied whether or not a person has been previously assessed. Other amendments to the Income Tax Ordinance will provide that non-compliance with a requirement by the Commissioner for the keeping of records, books or accounts for purposes of the tax shall constitute an offence against the Ordinance; that non-compliance with a requirement by the Commissioner for objectors to his assessment to furnish particulars and to produce documents relating to income, assets and liabilities shall constitute an offence; and that there shall no longer be the five-year time limit for assessment of tax on income in cases where tax has been escaped by fraud or gross or wilful neglect. It is also proposed to revise the penalty for late payment of tax from 5% flat to 12% per annum in the first year and to 15% per annum thereafter on the unpaid amount.

40. The history of taxation in British Guiana has been one of avoidance and evasion. Our tax system is a fantastic tangle of inequities, special preferences, and loopholes through which the economy is forced to gasp for breath. Effective action will now be taken to strengthen the hands of the Revenue in regard to prosecutions for tax offences. I have already outlined a number of steps to be taken to counter avoidance by

plugging up loopholes in the existing law. Revenue enforcement cannot be allowed to remain in its present weak position, in which it is incumbent on the Commissioner of Inland Revenue to prove that a person "knowingly" made a false statement or a false declaration. Documentary proof of such "knowledge" is in general impossible to obtain. It is therefore proposed to amend the law to provide for the circumstances in which such knowledge must be presumed.

41. A Bill will be introduced shortly proposing the amendments I have discussed above and certain other minor amendments designed to increase the efficiency of the income tax levy. This Bill will also propose certain amendments to the rates of tax and the personal tax allowances, which I shall discuss later in my speech, and will also contain the Pay-As-You-Earn provisions.

## RESULTS OF 1961 RECURRENT BUDGET

42. The 1961 Estimates as approved by the Legislative Council called for an expenditure of \$54.95mn. Supplementary estimates during the year added \$4.9mn., so that the total 1961 provision was \$59.85mn. The Revised Estimates of actual expenditure during the year were some \$2.45mn. less than this — a total of \$57.40mn. The net additional expenditure over the original appropriations was therefore \$2.45mn.

43. The Approved 1961 Estimates made no provision for the increases in the rates of wages and of "B" and "C" salary scales approved late in 1960 and early in 1961. These increases account for about \$1mn. of the 1961 expenditure. Also, no provision was made for the deferred income-tax liability of the British Guiana Electricity Corporation (\$0.7mn.) shown as a revenue receipt but treated on the expenditure side as a loan from the Government to the Corporation to help finance the purchase of the Georgetown electricity undertaking. The major (over \$50,000) items of other supplementary provision were: net deficiency of the transport services (\$464,000); pensions and gratuities (\$417,000); reorganisation of the ministries (\$275,000); refunds of revenue (a contra item of \$225,000); maintenance of public roads (\$180,000); leave passages (\$150,000); medical staff (\$145,000); losses on the Milk Pasteurisation Plant (\$104,000); losses on B.G. Airways (\$84,000); printing stamps (\$70,000); the conveyance of mail (\$60,000); Customs overtime (\$50,000); rates on Government property (\$51,000); telephone installations, etc. (\$54,000); and veterinary preventive measures (\$50,000).

44. The Revised Estimates of revenue (\$60.2mn.) in 1961 are \$3.6mn. more than the Approved Estimates. Of this increase \$2.3mn. is attributable to import duties and \$0.6mn. to income tax. Contrary to expectations (evidence of heavy stocking of consumer goods and exceptionally heavy imports of capital goods suggested that there was a good probability of some slipping in the level of imports in 1961) the sharp increase in imports and import duties (25%) between 1959 and 1960 has been followed by an increase of 5% between 1960 and 1961 — an increase of nearly one-third since 1959. The increase in the income-tax yield over the estimate (\$0.6mn. or about 3%) is within the normal margin of error in making income-tax estimates (almost invariably and inevitably on the low side) on the basis of enquiries from the large export companies in advance of the completion of their final accounts for the year. The remainder of the revenue estimates, which amount to about one-third of the total, accounts for \$0.7mn. more than the Approved Estimates, the noticeable upward variations being the rum excise (\$450,000), royalties (\$250,000), estate duty (\$150,000), and telephone charges (\$130,000). Export duty yielded \$150,000 less than

the Approved Estimates.

45. The revised estimate of the 1961 surplus is \$2.8mn. -- compared with the original estimate of \$1.7mn. This surplus will not be available for transfer to the Development Fund since it will in effect be absorbed by retrospective payments of increased salaries for 1961.

#### 1962 RECURRENT ESTIMATES

46. The 1962 Draft Estimates of Expenditure call for provision of \$65.6mn. -- including \$2.6mn. for revised salaries and cost-of-living allowances to pensioners. The proposed provision is \$8.2mn. more than the 1961 Revised Estimates of which increased rates of salary and debt charges account for nearly one-half. About \$4mn. of this added provision falls under "Personal Emoluments" votes -- \$2.6mn. for increased salaries etc.; \$0.9mn. for additional teachers, teachers' salary increments, etc., in the primary schools; and \$0.4mn. for new posts. Under "Other Charges" votes (also increased by about \$4mn.), the public debt accounts for an increase of \$1.4mn.; services for development schemes for \$0.8mn.; the maintenance of roads, buildings and sea defences for \$0.7mn.; and civil aviation for \$0.3mn.

47. Major increases in expenditure are proposed under Legislature (\$130,000 more than last year's) -- due to the doubling of the size of its membership; under the Premier (\$150,000 more) -- due to provision for a full year's working of the new Ministry and provision for a Central Planning Division; under the Ministry of Natural Resources (\$600,000 more) -- due to the expansion of land settlement (e.g. for Black Bush Polder), agriculture, drainage and irrigation services under the impact of the Development Programme; under the Ministry of Works and Hydraulics (\$870,000 more) -- increased provision for the maintenance of roads and buildings mainly; under the Ministry of Home Affairs -- \$160,000 more on Fire Protection and Prisons, offset by savings on last year's extraordinary expenditure on the population census and the general elections; under the Ministry of Labour, Health and Housing (\$260,000 more) -- mainly on salaries of medical staff; under the Ministry of Finance (\$160,000 more) -- including increases of \$250,000 for the Overseas Service Aid Scheme (against which there is a corresponding revenue item) and of \$30,000 for increased staff for the Accountant General's Department partly offset by savings on leave passages; under the Ministry of Social Development and Education (increase of \$1,830,000) -- mainly for educational institutions (including an allocation of \$225,000 for a College of Liberal Arts and Science for British Guiana), old age pensions and public assistance; under the Ministry of Communications (\$260,000

more) — reflecting an increase of \$370,000 under Civil Aviation, offset partly by savings on other heads; under Audit (\$40,000) for improving the efficiency of the audit services; under Public Prosecutions (\$60,000) — a new service partly offset by saving under Attorney General; under the Public Debt (\$1,400,000) — reflecting the growing burden of debt charges consequent on loan financing for our development programme; and \$2.6mn. under Revision of Salaries, etc.

48. The estimates of 1962 revenue are lower than the revised estimates for 1961 — \$58.5mn. as compared with \$60.2mn. It appears that sugar profits will be down and that the taxable profits of the bauxite industry will be reduced by heavy initial allowances. It is estimated, therefore, that income tax will not yield more than \$18mn. (\$1.1mn. less than last year's revised estimate). It is difficult to say what the yield of import duties will be this year. If the credit squeeze continues, it may well be substantially below last year's. The estimates assume that import duty will yield \$21.0mn. — \$1 $\frac{1}{4}$ mn. less than the yield last year. Other tax revenue (the only large item being the rum excise — \$5.0mn.) has been assumed to be the same as last year's. Non-tax revenue should be about \$1mn. higher than this year's, the main increases being under currency profits (\$356,000), overseas aid scheme (a new contra item — \$250,000) and interest, rent and royalties (\$110,000).

49. With revenue at \$58.5mn. and expenditure at \$65.6mn., there will be a deficiency of revenue over expenditure of \$7.1mn.

#### DEVELOPMENT EXPENDITURE

50. The Revised Estimates of Development Expenditure last year totalled \$22mn., of which \$2.4mn. was financed from the balance at credit of the Development Fund (reflecting the large revenue contribution of the previous year) at the end of 1960, \$6.4mn. from Colonial Development and Welfare grants, \$0.2mn. from United Nations Special Fund grants, \$2.5mn. from a local loan raised during the year and \$8.0mn. from 1961 drawings on the United Kingdom Exchequer Loan. The Development Fund was therefore apparently overdrawn to the extent of \$2.5mn. at 31st December, 1961. However, an additional drawing of \$1mn. on the Exchequer Loan towards 1961 expenditure was approved and effected early in January this year; there are outstanding claims (\$0.9mn.) for reimbursements against the loan from the International Bank for Reconstruction and Development for the Credit Corporation; and it is more than likely that the actual expenditure last year was somewhat less than the revised estimates. It is probable therefore that 1961 development expenditure is fully financed.



51. Of the expenditure of \$22mn., the Black Bush and the Tapakuma drainage and irrigation schemes account for nearly \$3.7mn.; roads for \$2.9mn.; industry and credit for \$2.8mn., including \$2mn. for the Credit Corporation; sea and river defences for \$2.2mn.; the transport services for \$1.3mn.; housing for \$1mn.; schools for \$0.9mn.; agriculture and land development schemes for \$1.6mn.; electricity development for \$0.7mn.; and geological surveys for \$0.5mn.

52. The proposals by Ministries for development expenditure in 1962 total some \$41mn. For financing this expenditure we can count on \$6.4mn. from Colonial Development and Welfare grants; \$0.1mn. from United Nations Special Fund grants; \$2.0mn. from local borrowing; \$8mn. from United Kingdom Exchequer Loans; \$1mn. from the loan from the International Bank for the Credit Corporation; and \$2.5mn. from contractor-finance for the Parika-Bartica road — a total of \$20mn. With a budget deficit of \$7.1mn., we cannot count on any revenue contribution to the Development Fund. To meet all the requests of Ministries would therefore require an additional \$21mn., for which there are no funds in sight.

53. Provision for an expenditure of \$31.6mn. has been included in the Draft Estimates. This is a feasible level of expenditure and includes continuing commitments of some \$15mn. However, inability to finance expenditure of this size will necessitate reserving \$11.6mn. of expenditure.

54. Of the \$31.6mn. expenditure for which provision is included in the Draft Estimates, \$8mn. is for drainage and irrigation works (about half for Tapakuma); \$5.3mn. for roads (the bulk for Parika-Bartica); \$3mn. for transport and harbour services (including \$1.0mn. for the third ferry ship); \$2mn. for industry and credit (through the Credit Corporation); \$1.3mn. for sea defences; \$1.8mn. for electricity development (including \$0.4mn. for electrification of the Esse-quiibo Coast in the vicinity of Anna Regina); \$1.9mn. for housing; \$1.7mn. for schools, etc.; \$1.7mn. for agriculture and geological surveys; \$1mn. for land development.

55. There is a gap between the cost of the original programme and the foreseeable sources of finance of the order of \$18mn. Moreover, because of increased costs of labour and materials, the cost of the original programme has been inflated by some \$25mn. In order, therefore, to complete the original programme as planned, which the Government considers inadequate for the needs of the country, additional finance to the tune of some \$43mn. has to be found. The urgency of finding new sources of capital for development forms part

of the background to the proposals in this budget speech.

#### TAX PROPOSALS

56. Your Honour, the new taxes will have substantial long-term effects on revenue, but their immediate effect may be small, and cannot be estimated reliably. In the current financial year, their yield may be of the order of \$1.0mn. (largely from the net property tax). But we have immediate problems to face: (1) the economic position of the country; and (2) the financial position of the Government.

57. With regard to the first, there was a capital outflow in 1961. Indeed, there is evidence that it started earlier -- perhaps as early as 1953. I do not propose to deal here with this capital flight except to say that there was absolutely no justification for it. The small financial and speculative class and their allies, which up to 1953 controlled the destiny of this country (with a break of some four months in that year), and again during the period of puppet rule that ended in 1957, used their propaganda media (press, radio, etc.) to generate fear for this utterly disloyal purpose, in the hope of regaining political power even at the cost of economic ruin. This cynical, self-seeking and greedy clique is still active. Their exertions have caused the depletion of our international reserves and forced the banks to follow a restrictive credit policy; but we have now taken firm action to frustrate their evil intentions.

58. The extension of Exchange Control to cover sterling area countries has been forced on the Government because of this outward movement of capital. Our international reserves have fallen by some \$15mn. in the last two years. This form of control is not unique to British Guiana; nor is it the prelude to anything sinister, as enemies of the Government would have the people believe. Indeed, such controls exist in countries of the Western Hemisphere, as well as in Australia, New Zealand, India, Ceylon and Ghana. Only last week the British Colonial Secretary, while in Trinidad, was reported to have supported the Government's exchange-control policy. Mr. Reginald Maudling said:

"Exchange controls are disliked by investors. But they are necessary things. Every country must have the right to control its finances by laws if necessary."

59. Because of the precarious state of our international reserves, it is necessary to impose restraints on the expenditure of

foreign exchange. To supplement the exchange restrictions on outward capital movements, two courses are open: import restrictions and tariff control. In the particular circumstances, the latter is the more effective instrument because it meets both balance-of-payments and financial considerations. An increase in import duties will not only restrain imports but also benefit the revenue.

60. I should like to explain, Your Honour, that the country's balance of international payments cannot in itself be regarded as unfavourable, since the inflow of foreign capital has so far exceeded the deficit on current account by a few million dollars in recent years, and promises to do so in the year just ended. But British Guiana is so highly dependent on a few staple exports, exposed to the vagaries of the world market, that it is highly desirable to generate a surplus for the sake of building up reserves, even at the cost of current consumption.

61. In deciding on the new taxes to be imposed, I have had a number of considerations in mind. First of all, we must do all we can to avoid any deterioration in the balance-of-payments situation by taking stern measures to import less of the luxury consumer goods without disturbing imports of essential consumer goods. Some of the taxes have been imposed on non-essential goods with this aim in view.

62. There are other classes of goods which are produced here and which need not be imported. The effective implementation of a policy of import substitution, which is essential in the circumstances of a developing economy, is best achieved by tariff control. Those who have developed a preference or taste for imported goods in spite of the existence of local substitutes, will still be able to use the former; but they will have to pay for the "pleasure" to be derived from such consumption.

63. With a deficit on the Recurrent Budget of \$7.1mn. and the inadequacy of funds to finance 1962 development expenditure, the items upon which increased duties will be levied have been chosen after most careful consideration as to the fairest and most practicable means of raising the additional revenue. Should any Honourable Member of the Opposition object to any particular item, I would remind him that all taxation is unpopular and that Governments will always be obliged to tax so long as they have to spend. But this Government, unlike others of the colonial age, will, as I have said before, also use the tax tool as an instrument for the redistribution of wealth and income towards greater equality and for the promotion of a higher level of economic activity. I hope, therefore, that those who may be moved to

criticize the proposals will put forward constructive alternatives to yield an equivalent amount of revenue to enable the Government to discharge its duties to the people.

64. Existing import duties yield \$22mn. annually, which is 14% of the total value of imports and 18% of the value of dutiable imports. It is proposed to increase the rates of duty to yield \$6.5mn. on the present level of imports. This increase will be concentrated on \$40mn. of imports, which at present yield \$12mn. in duty and comprise less-essential goods either in the sense that they are not necessities of life (e.g. alcoholic drinks, tobacco, concentrates for non-alcoholic drinks, tea, motor spirit, perfumery, cosmetics, the more expensive dress fabrics, footwear and other apparel, glassware and chinaware, jewellery, radios, refrigerators and other household electrical appliances and motor cars) or in the sense that adequate substitutes can be supplied from local production (e.g. meat, fish, butter, milk, cheese, fruit, fruit juices, jams, coffee, confectionery, prepared paints, toilet soap, paper bags and some varieties of clothing). The increased rate of duty on milk will not apply to condensed milk or to milk-based infant foods; and local pasteurised milk will be reduced in price by 2¢ a pint. While therefore the cost of hard drinks will rise, the Government will, in compensation, lower the cost of fresh milk, which I am sure Honourable Members will agree is a more nutritious substitute whatever doubts they may have about its capacity to please certain palates. The import duty on outboard motors (3% and 10% yielding \$10,000 per annum) will be removed. The actual yield of these proposals will be less than the \$6.5mn. mentioned above, since there will be some curtailment in the volume of such imports -- benefiting both local production and the country's international balance of payments; but the revenue yield should not be less than \$5.5mn. The increased duties will add 17% to the c.i.f. value of these imports and bring the average ad valorem rate of duty on these goods to nearly 50%. The average retail price should not rise by more than 10%. However, many of the items do not enter into the working-class budget, and therefore the increase in the Urban Consumer Price Index (which is an index of changes in the working-class cost-of-living) will be approximately 1%.

65. A modest export duty will be levied on Greenheart to yield \$125,000 on the present level of exports. The duty is equivalent to about 4% of the f.o.b. value of the Greenheart. The yield to the revenue will be less than the increment in duty since the duty is a deductible expense for income-tax purposes. However, for the purpose

of estimating the increased yield of export duty per se, the revenue effect may be put at \$0.1mn.

66. There will be a complementary increase in excise duties on rum and other spirits and on beer to yield \$3mn. at the present level of consumption. The increase in duty on rum (from \$9.60 to \$14.40 a proof gallon) will add about 50¢ to the retail price of a bottle, an increase of about 25%; and the increase on beer (from 75¢ to \$1.40 a liquid gallon) will add about 4¢ to the retail price of a bottle, an increase of about 15%. There will be some curtailment of consumption -- which is socially desirable -- but the actual yield should not be less than \$2.5mn.

67. The following licence duties will be increased: Motor Vehicle Drivers -- from \$1 to \$3, which for 25,000 drivers should yield an additional \$50,000 in revenue; Moneylenders -- from \$150 to \$250; Pawnbrokers -- from \$480 to \$750 in Georgetown, \$120 to \$500 in New Amsterdam, and \$60 to \$200 elsewhere; Bonded warehouses -- from \$120 to \$200; Liquor Licences -- from \$480 to \$600 for spirit shops in Georgetown and from \$150 to \$200 in other areas, from \$480 to \$600 for urban restaurants (rural restaurants to remain at \$480), and for hotels from \$550, \$480, \$170 and \$120 for first-class and second-class in Georgetown and for first-class in New Amsterdam and other, respectively, to \$700, \$600, \$200 and \$150. This entire section should yield increased revenue of some \$100,000 per annum.

68. Auction dues (at present 2% by buyer and 1% by seller) will be increased to 3% and 2% respectively.

69. Stamp duties will be increased as follows: on affidavits, etc. -- from 36¢ to 50¢; on agreements -- from 24¢ to \$1.00; on receipts -- 5¢ from \$10 to less than \$250, 25¢ from \$250 to less than \$1,000, and \$1.00 on \$1,000 and over. The increased revenue might be \$50,000 per annum.

70. The increases in import duties, excise duties, licence duties, etc., discussed above will help to solve the second problem we have to face -- the tight financial situation of the Government. But they will provide only \$8.25mn. towards a prospective deficit of \$7.1mn. on the Recurrent Budget and a shortfall of finance for development expenditure of \$11.6mn. -- sufficient to cover the first and to contribute \$1.15mn. towards the second. This is still far short of the requirements of the Development Budget and below even the modest annual target contribution (\$3mn.) to the Development Fund. My further tax proposals include adjustments to the income tax levy and the in-

roduction of the capital gains, the net property and the gift taxes, to which I referred earlier in my speech.

71. It is proposed to reduce the personal and wife allowances from \$900 to \$750 and from \$700 to \$600 respectively; to provide a flat allowance for each child of \$300 (in place of the present 3-tier system, \$250/350/500, according to age); and to limit to four, the number of allowances for dependent relatives and children, other than minor children, of the taxpayer.

72. These allowances are high in relation to our economic circumstances with the result that only a minority are liable to income tax. Although in a democracy, it is desirable that as many people as possible should share the common burden of direct taxation, I wish to make it quite clear, Your Honour, that the burden to be placed on those previously exempt is only a very modest one. The concept of equity which I have kept in mind is that taxes should be levied on people in accordance with their ability to pay. The effect of the proposals in increasing tax liability will be progressively greater the higher the income of the taxpayer.

73. It is also proposed to split the present 12% and 24% rate-bands (\$2,400 each) into four \$1,200 bands with rates of 12, 18, 24 and 30 per cent. This smoothing out of the rate schedule was recommended some years ago in the Nicholas Report. The ceiling rate will remain at 60%.

74. These changes will yield about \$1mn., an increase of 30% on the present yield of \$3.5mn. I should add that a married man receiving the minimum wage of \$3.04 a day will not have to pay income tax. Indeed, even if he had no children or life insurance, he would have to earn regularly more than \$5 a day to pay any tax.

75. The Government had previously agreed to the introduction of the Pay-As-You-Earn system of tax collection, which will apply to persons in receipt of wages, salaries and pensions. This will be introduced with effect from 1st January, 1963. Under the Pay-As-You-Earn system the employer withholds tax at the time of making payment of wages, salary, pension, etc., and pays it over to the Commissioner of Inland Revenue from time to time, as prescribed. Failure of an employer to deduct or to remit tax to the Commissioner will be an offence. Tax withheld but not yet paid over will be held in trust by the employer and will not be subject to attachment in respect of debt, liability or bankruptcy of the withholder. The employer will be required to supply the person from whose emoluments tax is withheld

with a statement in this regard and to furnish to the Commissioner prescribed returns.

76. Because of the increase in interest rates, Life Insurance Companies have been able to invest premium income on very favourable terms in recent years. The Government feels, in the circumstances, that income tax at the very low rate of 15% on these companies is no longer justified and proposes, therefore, to raise it to 30%.

77. The Government proposes to take administrative action under the Exchange Control Ordinance to prevent the issue of bearer bonds in the future and to ensure that interest on past issues cannot evade tax.

78. It is proposed to raise, where necessary, the rates of interest on loans and advances to bring them in line with the rates at which the Government can borrow.

79. The annual yield from the measures to be taken in regard to Life Insurance Companies and bearer bonds should be something like \$150,000. A token amount of \$100,000 can be added for the immediate revenue yield of the amendments to the Income Tax Ordinance and the Income Tax (In Aid of Industry) Ordinance, which I discussed in the section of my speech dealing with Existing Taxes and Their Reform. In the long run these amendments should yield substantial revenue, but it is impossible to predict its order of magnitude in the immediate future.

80. With regard to the new capital taxes, I now wish to explain that the capital gains tax is merely an extension of income tax to capital profits -- by redefining taxable income to include capital profits from the disposal (whether for valuable consideration or not) of real property and valuable rights to property; of shares, debentures and other rights to money; of furniture, jewellery and other high-value personal property; of businesses as going concerns; and of the fixed assets of businesses.

81. The capital gain will be defined as the excess of the value of the property at the time of disposal over its value at the time of acquisition, or at January 1, 1956, whichever is the later date -- sales for full consideration providing conclusive evidence of this or, in their absence, valuation at market prices (e.g. for estate or gift-tax purposes). Gains from the sale of furniture etc., of which the value on sale is less than \$5,000 will be exempt; as will be also the gains from the sale of owner-occupied houses, the proceeds

of which are in greater part re-invested in another principal residence within twelve months. Capital gains will be taxed at ordinary income-tax rates, but the highest rate of tax will be 45% (not 50% and 60% as for other income); and, if the property was held for more than three years, may be spread for tax purposes over the period of ownership but not exceeding five years prior to disposal. Capital losses may be offset against capital profits (present or future) but not against revenue profits or other income, except that on death such losses may be offset backwards against capital gains or other taxed income up to five years prior to death.

82. The annual property tax is one on net worth — the value of the assets of an individual less his liabilities. The assets for the purposes of the tax will be defined to include the same classes of property as will be subject to the capital gains tax plus cash and bank deposits (which, though not mentioned in connection with the capital gains tax, since of their nature they cannot give rise to capital gains, are of course assets). Liabilities will include all debts. The basis of valuation of the assets will be their book value, that is, the cost of acquisition of each asset plus any subsequent capital expenditure on its improvement. The initial balance sheet of assets and liabilities will be set up as of January 1, 1956 (to mesh with the capital gains base date), any assets acquired prior to that date being valued on the owner's declaration at the current market value at that date, and any assets acquired or improvements to assets effected after that date being valued at actual cost. The valuation of liabilities will not ordinarily present any difficulty since they are usually fixed in money terms. The tax will be levied on the excess of assets over liabilities current at the time of the levy. The initial valuation (of assets and improvements prior to January 1, 1956) will rest on the owner's declaration, it being understood that the same valuation will be used for the capital gains tax (so that under-declarations will gain the owner nothing).

83. The following rate schedule is proposed:

|                                |    |                             |
|--------------------------------|----|-----------------------------|
| on first \$ 50,000 of property | .. | nil                         |
| on next \$150,000 of property  | .. | $\frac{1}{2}\%$ per annum   |
| on next \$300,000 of property  | .. | $\frac{3}{4}\%$ per annum   |
| on next \$500,000 of property  | .. | 1% per annum and            |
| on the remainder               | .. | $1\frac{1}{2}\%$ per annum. |

Companies will be taxed at the flat rate of  $\frac{1}{2}\%$  of their net assets (written down, but excluding initial allowances).



84. The rate schedule proposed will, I am sure, be generally agreed to be a modest one. Some may say, however, in spite of the fact that the weight of the proposed tax is not heavy, that it is being introduced with some sinister motive, as a political instrument for the exploitation or "expropriation" of property. I wish to give this formal assurance: the Government categorically denies any intention to penalize the owners of property. This measure is principally aimed at closing existing gaps so as to provide a comprehensive and effective system of taxation, which more and more progressive governments are adopting. Mr. Kaldor, the Government's Fiscal Adviser, recommended that the schedule of rates for the net property tax be not increased, and I am glad to give this Government's undertaking that the rates will remain as now proposed.

85. The gift tax, as indicated earlier, is a necessary complement to an inheritance tax, that is, a tax on either the estate of a deceased person (estate duty) or on the heir or legatee (succession duty). It is essential that the gift tax, if it is effectively to prevent avoidance of the inheritance tax, should have the same character as the latter: if the inheritance tax is levied on the donor (i.e., the deceased or, more correctly, his estate), the gift tax should be similarly levied. (On grounds of equity, a tax levied on the donee is more just in principle than one levied on the donor, since the former tax relates to benefits received). Because of the existence of the estate-duty type of inheritance tax in this country, I propose that the new gift tax should be levied on the donor as is the case in the United States, Australia, and a number of other countries.

86. In America, the gift tax was supposed to check avoidance of the estate tax, but the effect has been to encourage taxpayers to combine the two taxes in such a way, because of different rate schedules, as to reduce sharply the total taxes paid on transfer of property by gift. There will be no such loophole in our legislation. Although liability for the gift tax will be on the donor, there will be a provision to make the donee liable if it is not possible to collect from the former. Without this provision, there is a potential loophole for an individual to avoid the gift tax by "giving away" his whole property and becoming "bankrupt".

87. The tax on gifts will be such that the rates mesh with those of the existing Estate Duty — the taxpayer's position being the same whether he makes inter vivos transfers or bequests on death. The tax is intended to apply to capital gifts, but it is impracticable to separate these from income gifts. It is proposed, therefore, to meet this by providing an exemption limit (\$2,000 per annum) which is all

that is practicable.

88. It is difficult to say what all the new capital taxes will yield, but it should not be less than \$1mn.

89. In brief the tax proposals I have just discussed should yield some \$10.5mn. in additional revenue this year and convert the deficit on the Recurrent Budget as presented to a surplus of \$3.4mn. — very little more than sufficient to provide our target contribution to the Development Fund.

## DEVELOPMENT OUT OF INTERNAL RESOURCES

90. Your Honour, I come now to the important matter of promoting development by our own efforts, out of internal resources. One of the basic aims of budgetary policy is to stimulate economic development by making that scarce factor of production — money — available, so that unemployment might be reduced and ultimately banished. In order to increase the flow of resources for developmental purposes, it is proposed to introduce a scheme of compulsory savings such as already exists in some Latin American countries (e.g. Brazil) and which has recently been introduced in Ghana. Even without the destimulating effect on the economy caused by the capital flight, a savings scheme such as the one to be outlined is highly desirable.

91. Similar to the Ghana scheme, the one I propose will be administered in close relationship with the administration of income tax. Contributions will be deducted weekly or monthly (as the case may be) from the wages and salary of employees along with the Pay-As-You-Earn deductions; and from all others (the self-employed, business partnerships and companies), they will be assessed and collected in the same manner as income tax.

92. The rate of contribution will be 5% of wage and salary income and 10% of other income — the income of the self-employed in excess of \$5,000 to be regarded as falling in the higher rate category. Income under \$1,200 will be exempt. There will be no exempt income for companies and the like which will make a contribution of 10% flat on all profits.

93. Contributors will be given Government bonds of the registered, non-transferable variety, repayable at the end of seven years with interest (tax-free) at 3.75%, any bonds not encashed at maturity continuing to earn interest at the higher rate of 4% per annum, compounded annually. The bonds can be encashed before maturity on retirement after 60 years of age (payable in five instalments), emigration or death.

94. It is also proposed to incorporate certain lottery features in the scheme which ought to make it more attractive to the majority, who would then have the chance of winning large cash prizes even before the bonds are due for repayment. Each contributor will therefore be offered the choice between a straight interest-bearing bond or a combined interest-and-lottery bond, except that companies and business partnerships will be offered the former only. Lottery bonds will earn interest at a lower rate of 2% and will participate in drawings in which 2% of the total face-value of such bonds outstanding is given away each year, in addition to the

redemption of the bonds drawn.

95. Additionally, it is proposed to allow withdrawal (except for lottery bonds) of one-third of any contribution at the end of three years, in which case interest will be at the rate of 3%, and the remainder at the end of four years thereafter, interest on this part being 3.5%.

96. A scheme along these lines should provide considerable internal resources for development, something of the order of \$6 million annually. I wish to point out, however, that the scheme outlined must not be considered in the same way as taxation, since the amounts taken are fully repayable with accrued interest. The contributor will benefit doubly -- by saving for his own and his family's future and by helping to make a future for himself and his family by the country's development.

97. In announcing that it is proposed to introduce the compulsory savings scheme by July 1, 1962, I would like to say that it is a simple alternative to a universal contributory pension scheme, and that the Government might transform it into a more elaborate pension scheme at a later date.

98. If this scheme is introduced we can therefore count on an additional \$3 million from this source for financing development expenditure, which with the \$3.4 million surplus on the Recurrent Budget will bring the additional funds for development to \$6.4 million -- sufficient to complete the finance for expenditure of \$26.4 million.

#### CENTRAL BANK

99. If the community is to make the best use of its real resources in the public interest, it is necessary that it should have a sound monetary and banking system which can be controlled so as to complement and facilitate its development policy. It is therefore proposed to set up a central bank, which will issue the national currency, regulate the flow of money and credit so as to assure a balanced growth of the economy, administer the public debt and exercise other functions normally undertaken by central banks in other countries. The central bank's operations can also contribute to the appropriate distribution of investment in the economy.

## EXCHANGE CONTROL AND RELATED MATTERS

100. Since the control of outward capital movements was an urgent necessity, it was not possible initially to work out a system of controls designed to achieve the particular objective and adapted to the particular circumstances of our international transactions with the sterling area. We simply had to extend the existing controls relating to the non-sterling world to the sterling area. However, the original controls did not have quite the same objective, nor did they involve the same difficulties since traffic with the non-sterling world was smaller, and what was more important, our international payments and monetary systems were not tied in any way to the non-sterling world. But our monetary system is shared with the eastern group of the British Caribbean territories, our international payments are effected through the intermediary of sterling, our banking system is oriented towards the sterling area, and the larger part of our imports come from the sterling area. It has been necessary, therefore, to adjust the controls to achieve their particular objective more efficiently and conveniently, and to clarify and simplify them so that non-residents who lend to or invest in this country may be assured that the controls will be applied in a clear, predictable and uniform manner on which they can rely, and that residents should not be unduly hampered by restrictions on their international transactions.

101. I propose to issue for the guidance of the public a statement fully setting out the manner in which the controls will operate. Meanwhile, I take this opportunity of referring very briefly to some of the more important ones.

102. Imports will be allowed to continue free of restrictions, but foreign exchange for payment of goods will have to be meshed closely with actual imports to ensure that they are not used as a cloak for capital exports. The banks already have authority, by delegation since 1959, to allow payments on certain conditions. Import trade will not be hampered by restrictions; and form-filling will only be required for transactions over the value of \$10,000.

103. Exports of goods (up to \$10,000 in value) in the ordinary course of business will be similarly free of restrictions subject to control through the banks and the Customs and Excise Department to ensure that the foreign currency proceeds of the exports accrue to the country.

104. Remittances for education at schools will continue to be permitted up to \$3,360 and at universities or comparable institutions up to

\$4,800 per child per year, provided that evidence is produced from the institution that the payment is bona fide.

105. With regard to gifts and grants, the banks are allowed to approve remittances up to a limit of \$50 per person for the former. Up to \$4,800 p.a. will be allowed on application to the Exchange Control for the support of dependent relatives provided satisfactory evidence is produced of the bona fides of the payment.

106. Pensions payable to non-residents will be freely permitted on satisfactory proof that they are reasonable and arise from a contract of employment.

107. The usual policy of allowing the remittances of profits, dividends, interest, etc. accruing to non-residents from investment in this country will be continued with the approval of the Exchange Control. Repatriation of capital and capital increments will be permitted freely by the Exchange Control in accordance with the usual practice in applying exchange controls. New investments by non-residents require Exchange Control approval for this purpose.

108. Loans and direct investments by residents in foreign countries will not ordinarily be permitted. Indeed, these fall in the category of capital outflow items, which have adversely affected our balance of payments.

109. With regard to investment abroad of the funds of finance institutions (other than banks), life insurance companies, both local and foreign, will be required to invest 75% of their resources locally. This will apply to new resources, but the companies will be required over a period of ten years to bring their local investments up to 75% of their total resources. This same policy will also apply to the Building Society. In order to facilitate these requirements, the Government will offer to issue securities with a range of maturities to suit the financial needs of these companies.

110. This is yet another means, in addition to the compulsory savings scheme, capital taxation, and increased taxes, of mobilizing enough internal resources for development and the future economic security of the nation.

111. With regard to foreign assets, every resident person will be required to declare immediately all foreign assets (e.g. securities,

property and bank accounts). All securities and certificates of title will then have to be registered in the Exchange Control and placed in the hands of "authorised depositaries" their disposal requiring the express permission of the Minister of Finance. Foreign bank accounts will be allowed only where required to facilitate normal commercial transactions.

#### CONCLUSION

112. Honourable Members will surely appreciate by now — after the presentation of the case and the proposals for tax reform — that it is precisely because of underdevelopment that increased Government expenditure (which implies increased taxation) is required to lay the foundation for rapid economic growth. There is no doubt that we have been held back in the past. Perhaps the political and editorial servants of "enlightened" and "people's" capitalism will explain why foreign capital did not flow into Guiana before; and why, because it does not now flow, they are attempting to shift the blame.

113. The budget this year is a reflection of our determination to continue the Development Programme. The sacrifices made today will bear fruit tomorrow, but only if we have a vigorous and confident approach to our administrative and financial affairs. I should like to add that the Government is determined that the increased revenue raised by the taxation proposals shall be devoted to the maximum extent possible to the Development Programme and that with this end in view the recurrent services shall be maintained with the maximum economy of expenditure. Inefficiency, waste and extravagance must be eliminated. The proper safeguard of public funds is absolutely essential. The money provided by the people must be wisely spent.

114. The machinery for the control of public expenditure has been reorganised and will be perfected to ensure that there is no waste of public funds. With the help of United Nations technical assistance an Organisation and Methods Section of the Ministry of Finance has been set up and provision made for its adequate staffing. A Training section has also been established and staffed to ensure that public servants are adequately trained to make the most efficient use of their effort. These are necessary adjuncts to the effective control and economy of expenditure by the Ministry of Finance. What are vitally needed are thoroughness, sound organisation and discipline in all ranks of the Public Service.

115. The staffs of the Audit Department and the Accountant General's Department have been expanded. Under the new Financial

Administration and Audit Ordinance, with its supplementary regulations and instructions, responsibility for the efficient organisation of the departments under the Ministry falls directly on the Permanent Secretary, who will not only be responsible to his Minister and the Government for the efficiency of the services under the Ministry's control, but will also be personally answerable to the Legislature through the Public Accounts Committee for the economical expenditure of public funds for the purposes for which they were provided and generally in accordance with the injunctions of the Legislature.

116. Of course, organisation, training and regulations are of little avail without willing and loyal service from public servants: the efficiency of the public services depend ultimately on the willingness of each and every public servant to put forward his best efforts for the good of his country. The Government will be vigilant in all these matters, and the willing co-operation of the public service will enable us to set an example of which all Guianese can be proud.

117. At this point I should like to say how much I appreciate the assistance I have received in the preparation of the Budget from the members of my staff and of the departments concerned. The groundwork for establishing what is a new era in financial, fiscal and economic administration in this country has inevitably thrown an enormous burden of work on them. I am glad to say that they have given unstintingly the extra time and effort without which the proposals I have discussed in this speech could not have been formulated and presented in the short time available.

118. I trust also that now Honourable Members of this House can appreciate the amount of work this Ministry has had to undertake as the result of the constitutional change in the short time since the Government took office, they will excuse the late presentation of the Budget.

119. Now that we are about to be completely free, and therefore in a position to plan and provide for a secure future, we cannot expect to get the great advantages that will flow from independence without assuming the burdens inevitably associated with them.

120. The taxation proposals are meant to make all Guianese contribute in as equitable a manner as possible to the building of a stable and just society. This budget is one that deliberately breaks with tradition, for reasons which are quite obvious, and also in keeping with the policy of a people's Government elected to dismantle privilege, and exploitation, and lift up those living at or below the



threshold of poverty. There should be no place in a community like ours for those who cannot or will not meet — on the plane of reason — the social and economic problems facing our country today, or who are determined, in spite of the lessons of current history, to preserve a decadent social order based on scarcity and greed.

121. If foreign aid is to make any appreciable impact on our low living standards and growing unemployment, it must be devoid of political "strings" and free from demands for our adherence to military blocs and pacts. There must also be no external influence on the character of our development programme.

122. We have abundant internal resources in the form of unemployed labour and idle land. But too much of the savings of the wealthier classes is channelled into real estate, commerce, moneylending and speculation — savings that could be more effectively devoted to the utilisation of the country's idle resources for industry. In addition, some have invested abroad, either through ignorance or by design, the wealth derived from this country. The proposals made are aimed at mobilizing all internal resources for investment in productive enterprise.

123. The Government intends to do more than merely provide the infrastructure for economic development. There will be increasing public participation in the field of production. The Government is determined to accelerate the economic development in order to ensure a bright economic future for all, in contrast to the insecurity and want of the majority which is normal in an unplanned and unregulated economy. All of which means that there will be a continued growth of the public sector with enough room left, however, for private enterprise.

124. The fiscal reforms proposed to check income inequality centre around wealth control, and rely heavily upon inheritance, gift, capital gains and net property taxation. Increased governmental outlays will operate to redistribute income towards greater equality. Expenditure on health, education, old age pensions, subsidies, and the like will not only operate to reduce inequality of advantages by the provision of these services free or at subsidised rates so as to bring them within the means of all, but in the long run ensure that no one is denied the opportunity to develop his capabilities for his own benefit and the benefit of his country. The money-raising and money-spending activities of this Government, therefore, are directed not only toward stimulating and promoting economic development, but also toward maximizing social welfare and effecting a net distribution of purchasing power in favour of the working class.

125. I should like, Your Honour, before concluding, to express the Government's appreciation of the services rendered by Mr. Kaldor. He has also advised the governments of India, Ceylon, Ghana and Mexico on reformation of their fiscal systems. Measures similar to those proposed for our country have already been adopted in these territories, which are today politically free but are still grappling with the remnants of colonialism and the problems of economic imperialism. If we are to break out of the vicious circle of poverty and backwardness which has so far circumscribed our development, the Guianese people must begin to think and act as free men and women, fired with the determination to overcome obstacles strewn in the path of progress.

126. It is indeed appropriate Mr. Speaker and Honourable Members, to recall these words taken from a summary of the speech of Dr. Kwame Nkrumah, President of Ghana, when he addressed the National Assembly on the eve of the Budget, on July 4, 1961:

"The peoples of Africa had learnt to their cost that independence was not just a matter of political constitutions or changing of flags; there were subtle and surreptitious ways by which the colonial Powers could maintain their grip on the subjected peoples even after the visible trappings of foreign sovereignty had disappeared."

127. It is well that the Guianese people take heed of this warning as we take the final step to complete freedom for there are many who are seeking to deny us, a little longer, the fruits of independence for which my Party has struggled so long and so hard.