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Georgetown's Anti-Jagan Jag

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The rioting which broke out in Georgetown, British Guiana on February 13, 1962, centered world attention in a most dramatic way on the improbable issue of budgetary policy in this very small and virtually unknown colony. British Guiana has a population of only 560,000 people, the greatest part of whom reside along the coast. The interior of the country, whose area is about equal to that of Idaho, is largely uninhabited. In the past, such attention as the area has received in the United States has been due chiefly to the activities of Mr. Cheddi Jagan, the colony's Prime Minister, and his American-born wife. The Jagan's are avowed Marxists, and Mr. Jagan's ability to win the support of his fellow East Indians, who comprise the country's largest ethnic group, has for some years posed the threat of British Guiana eventually becoming a communist beachhead on the South American continent.

Jagan's party, the People's Progressive Party, initially won a majority in the colony's Legislative Council in 1953, and Jagan was made Prime Minister. Serious disagreements between Jagan and the British soon developed, and in October 1953 the British found it necessary to suspend the constitution "to prevent communist subversion of the government and a crisis both in public order and in economic affairs." Jagan was excluded from the Government until 1957, when new elections were held and his party won a majority of the elective seats (half of the total seats were appointive under the constitutional provisions then prevailing), and he again became a member of the Executive Council. A new constitution went into effect in 1961, and Jagan's party won 19 of the 35 seats in the Legislative Council in the elections held in that year. He again assumed the post of Prime Minister and stepped up pressure for early independence for British Guiana. His objective was independence by May 31, 1962.

The budget that lit the torches

The Jagan Government had its first opportunity to show in a concrete way what it intended to do with British Guiana in the budget which it proposed for 1962. The budget was unveiled by the Minister of Finance, Charles R. Jacob, Jr. on January 31, 1962. As might have been expected, it was a radical departure from previous budgets, both in terms of the level of expenditures and in terms of the methods proposed to pay the bill.

In previous years, the Government has financed its development expenditures by internal and external borrowing, foreign grants, a small surplus on current account, and in some years small drafts on the treasury's cash balances. Tax revenues have been high in proportion to the country's GNP, ranging from 16.2 to 19.7 per cent between 1955 and 1960, on the basis of provisional figures for the latter year. Moreover, the take from taxes has been rising at a more rapid rate than national income in recent years. In a country with a per capita GNP of about U.S. \$250 per year, this level of taxation, i.e., U.S. \$50 per capita in 1960 could be regarded as having reached a level that might be termed onerous. By way of comparison, neighboring Trinidad with GNP more than double British Guiana's on a per capita basis, collects only 70 per cent more taxes per capita, and Trinidad is fortunate in that 40 per cent of its tax revenue comes from oil. Taking customs, excise, and income taxes and excluding oil revenues, we find that in spite of its much greater wealth, Trinidad's estimated tax take in 1961 on a per capita basis exceeded that of British Guiana by a mere 10 per cent.

The Jagan Government's budget for 1962 was based on the premise that substantially higher rates of taxes were tolerable and necessary for British Guiana. Complete figures are not yet available, but the following table shows what the proposals were in comparison with the previous two years.

Government Receipts and Expenditures 1960-62  
(BWI\$ million) 1/

	<u>1960</u> Revised est.	<u>1961</u> Est.	<u>1962</u> Est.
Current expenditure	51.3	55.0	65.6
Development exp.	16.0	24.0	31.6
<b>Total</b>	<u>67.3</u>	<u>79.0</u>	<u>97.2</u>
Recurrent revenue	56.3	56.6	69.0 <u>2/</u>
Loans - external	8.0	8.0	11.5
internal	-	2.5	6.2 <u>3/</u>
Grants	5.6	9.0	6.5
<b><u>Total receipts</u></b>	<u>69.9</u>	<u>76.1</u>	<u>93.2</u>
Change in treasury cash balances	2.6	-2.9	-4.0 <u>4/</u>

1/ The British West Indian dollar is valued at 59 U.S. cents.

2/ Including \$10.5 million estimated revenue from new or increased taxes.

3/ Including \$6.0 million from proposed forced saving plan.

4/ Reports available do not indicate that the Minister of Finance mentioned this figure, but this would be the only way of meeting the expenditures in the absence of other revenue.

The budget proposals would have increased the per capita tax burden from U.S. \$50 to over U.S. \$63.00, or from 20 to 24 per cent of GNP, even assuming that total output rose by 5 per cent in 1962. The growth assumption would have been optimistic even before the violent reaction to the budget proposals made it clear that the Jagan Government had done serious damage to the climate for private investment. Actually, the bite on the local people would have been even more severe under these proposals, since an additional BWI\$6 million, or U.S. \$6.30 per capita, was to be raised from compulsory savings. Adding this to the tax take, we find that the Government was asking that it be empowered to collect U.S.\$70 per capita, an amount equal to 28 per cent of last year's per capita GNP. 1/

1/ Total federal, state and local taxes, excluding social security taxes, amounted to 23.4 per cent of GNP in the United States in FY 1960.

It is not necessary to go any further than this to find the explanation of why the budget was greeted with such violent opposition on the part of the people. It may be possible for an absolute dictator with a firm grip on his military power to squeeze a poor country to this extent, but Mr. Jagan has not as yet reached that position. The feelings of the populace were no doubt exacerbated by considerations other than the sheer weight of the proposed tax burden. The nature of the various proposals excited fear and anger. Over half of the new tax revenue was to come from an increase in import duties and nearly a quarter was to come from an increase in the excise on rum, beer, spirits and cigarettes. Thus it was to be the consumers, not the rich, who are not very numerous in British Guiana in any case, who were to pay BWI\$8 million of the estimated BWI\$10.5 million increase in tax revenue. The proposed introduction of a capital gains tax with a top rate of 45 per cent was probably received by the propertied classes with considerable disquiet and may have been seen as a first step toward the Marxist goal of "euthanasia of the rentier."

Other tax measures, while perhaps of questionable economic wisdom or justice, were probably not significant factors in touching off the riots, but the compulsory saving plan, which was to have been introduced in July, 1962, did not go down well with the people. The plan was to assess individuals with incomes of BWI\$100 a month or more 5 per cent of their salary and 10 per cent of other income. Self-employed individuals with incomes of BWI\$5000 or more a year would have to part with 10 per cent of their incomes. In return the contributors would be issued non-transferable government bonds maturing in 7 years and paying 3.75 per cent interest, tax free. Savings deposits in British Guiana pay 5 per cent, and so it does not appear that a 7-year non-transferable bond at 3.75 per cent would have strong appeal, even with the tax-free provision. For one thing, the long term stability of the currency is by no means assured once the country gains its independence. At present, British Guiana uses the British West Indian currency, issued by a currency board and fully backed by sterling. Mr. Jagan is planning the establishment of a central bank with currency issuing power, and this might well be used in an inflationary manner. If it were, the holders of 7-year bonds would find themselves with a wasting asset.

The violence of the public reaction to the Jagan budget proposals unquestionably resulted in large measure from the feeling of the humble citizens of Georgetown, as well as the business community, that their pocketbooks were being seriously threatened. The fact that this was being done by a Government put into power mainly by the votes of the East Indians, most of whom live in the rural areas, and not by those of African and European descent who make up the bulk of the population of Georgetown, no doubt added to their resentment.

The rioting is reported to have resulted in very heavy damage in Georgetown physically, and it has unquestionably added to the doubts in the minds of investors, present and potential, about the wisdom of keeping or putting money into the country. Mr. Jagan has now agreed to modify his budget so that the hand of the tax collector will not dig as deeply as was threatened originally. He has promised to apply the compulsory savings scheme only to those earning BWI\$300 or more a month and to drop the proposed increase in customs duties.

The London Times, in chiding both Jagan and Nicholas Kaldor, whose advice played an important role in formulating the unpopular tax proposals, observed that "textbook reliance on pure theory in economic matters has helped produce (this) new setback." 2/ The Times notes that in communist countries the troops enable the party to override the limitations imposed on theory by human nature. This seems to be the lesson that Mr. Jagan has learned from this bitter experience, for while he has made a tactical retreat with respect to the tax proposals for 1962, he has announced the intention to organize a militia that will be loyal to him, and which will, no doubt, help him override limitations on theory that may crop up in the future.