

Extra-fiscal Measures to Widen Tax base

(Contributed)

The following should not be taken as a plea for reviving the hated begar ' system of forced labour which is clearly forbidden by the Constitution. The author prefers to present a hard case in order to focus attention on the real weakness of our tax system—its extremely arrow coverage—and to impress upon the Taxation Enquiry Committee the necessity of supplementing taxation by extra-fiscal measures to Uugment the resources of the public sector for development and social services.

SEVERAL of the Memoranda presented by the various Chambers of Commerce, etc, to the Taxation Enquiry Committee, regarding the lines of enquiry which it should pursue, and the problems- it must tackle, have been published. Among these, the re-distribution of purchasing power against middle classes since the war, and more equitable allocation of the tax burden among different sections of the community are, it has been suggested, the most important.

There is no doubt that these are important and must have their place in any study of the problem but even more vital is that of collecting a larger total amount for national purposes, and if in this process those classes that are not contributing their quota at present, can be made to do so, national welfare will be so much augmented. It must be admitted at the outset that only a very small proportion of the population contributes to the revenue. Income-tax is paid by barely 11 lakhs of people. Assuming a family of five per individual assessed to tax, this implies that only 1.5 per cent of the population pays. Similarly, a large proportion of the customs duty must be borne by more or less the same class although clearly a small portion that is recovered indirectly (eg, in the form of depreciation included in the purchase price of the use of capital assets that had been assessed to customs, etc) might come from others. The only examples of taxes that a large proportion of the population bears that come readily to mind are the land revenue and the excise duties which have been becoming less and less important with the rise of prices in the last fifth of the century and the implementation of the prohibition policy. The sales tax is also in the main borne by more or less the same one or two per cent, as smaller village shops are exempt, and so is the agricultural income-tax, which has become a vanishing asset. It would, therefore, be correct to say that the bulk of the revenue of the States and Federal Governments is raised from 3 or 4 per cent of the

population, as is being stressed by all the Chambers of Commerce.

This picture is not by itself complete. Taxation is merely transfer of purchasing power, *ie*, one party receives (and can proceed to spend), what another has paid. In the UK, for instance, the Government revenue; is £4,500 million while the national revenue is of the order of £11,000 million, *ie*, on an, average each man pays away 40 per cent of his income to the State. It is, on the other hand, just as correct to say that 40 per cent of income of each man arises from the State, so there is no net national loss. For our middle classes would there be any justification in making a similar observation? Many State employees are of that class, most Government contracts go to them. On the other hand, the money spent by the contractors, and by Government *on* the army and the police provide employment for the lower classes who pay no taxes. On a rough guess I imagine not more than say one-fifth of the Government revenues go back to the middle classes, by such means. Further, the services provided free by the State, *eg.*, medical, educational, etc, are so poor as to be useless for them. By and large, therefore, it would be correct to say that the burden on this class is crushing.

In view of the above it will be generally agreed that some effort must indeed be made to bring the lower classes into the context of the fiscal system. Our economy is still a very primitive one and in spite of all our dreams of living in the twentieth century, we have to go back to primitive times and primitive means. The economists of those times had found that the only wealth in winch our country abounded was labour, so they took a toll of forced labour, from the bulk of the people who were too poor to pay in any other coinage. There was nothing essentially immoral about this; every nation does more or less the same thing, in the name of 'conscription', but the millions of our countrymen are too numerous for the army to ever require their

services. On the other hand, the schemes of the Five-Year Plan can certainly employ all of them and the cost to the people would be much reduced were the labour to be conscripted. Obviously were they to be employed for three years or so, they could not be kept without payment, while a vast propaganda will have to be made in instilling into them a sense of high purpose and ardour for a national undertaking, There can be no economy in the latter, but we may avoid subsistence cost

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by keeping them, say, for a period of only a week in the year. If the other nations can demand that their citizens should cheerfully face death on the held of battle, it seems a little thing for us to ask our men to do a week's free labour on a road or a dam.

It is a matter for some thought whether all individuals should be forced to actually contribute their labour or whether they may be allowed to buy their way out, could they afford to do so. The greater psychological value of not permitting any such concession must not be forgotten whilst the number who can afford to purchase exemptions will naturally be small. On the whole the balance of advantage would seem to lie on the side of compulsion for rich and poor alike, but the educated may be given supervisory duties. Individuals living far away, *ie*, more than walking distance, from any scheme, big or small, should be allowed to compound for a cash payment, but as far as possible¹ village improvement schemes, at least, should be brought to the door of every house-holder in the country. The period of such conscription must be spread out over the year in such a manner as to clash least with the peasants' own economic pursuits, but as most of them work on a schedule of four months' grinding labour and eight months' idleness, this should not be a matter of much difficulty. Should we really be able to get anything like a week's labour from, say, even ten crores of people, it would be worth, say, Rs 70 crores annually valuing a day's work at Re 1, an undervaluation these days.

One of the main difficulties of our fiscal system is the absence of definition in our economic policy which is really composed of both communistic and capitalistic elements. Thus Zamindari abolition with only paper compensation, as has been actually adopted, is communistic; in its implications, but at the same time capitalist exploitation of consumers and labourer is freely permitted. Because of this ambivalence of feelings we have a very stiff progressive income-tax which results not only in the loss of incentive towards saving but also of giving a very heavy incentive towards diddling of the tax authorities. It is surprising that no studies of the elasticity of tax revenue have been undertaken in this country, but one might guess that, were tax rates reduced to half the revenue would not suffer. On the other hand that

would clash with the socialistic philosophy of the Government.

"If, therefore, it is proposed to finance the Plan to any considerable extent by capitalist means, some relaxation in taxation must be given. State financing is also possible but in that event a gradual rise in the rate of interest must be expected. Ordinarily on the share market this rate was of the order of 6 per cent when Government was borrowing at 3 per cent. It is to be presumed that diversion from consumption to saving will be insufficient at, say, 3 ½ per cent, to raise all the capital that will be required, but the implications of the increased incomes arising from such expenditure would be wide enough to justify separate study.

Some criticism has been made of the attitude of tax collecting officials who are often said to harass the public. Public servants must realise that they are now indeed the servants of the people and not the agents of a foreign power, whose only purpose was to extract wealth from a conquered nation, if they ever thought themselves to be such. Such an attitude can, however, but be reciprocal, *ie* the richer classes must also realise that by paying taxes they nourish their own people and their own Government. They must also learn the lesson of the time and realise that with the spread of democracy, not to speak of communism, in the world, grave disparity of incomes arouses not only

envy but active hostility, and their own survival depends on their being able to create a social value in their class. Far from thinking of increasing their wealth by *mala fide* means, whether by tax evasion, or through black-marketing, or by the other methods they are such masters of, enlightened self-interest demands that they learn to sacrifice even honestly-earned money in charities and other schemes of public welfare. Capitalism has received a new lease of life in America because capitalists have learnt this lesson so well in that country that indeed they are now looking for a new word to describe their economic system; the association of exploitation and poverty that goes with capitalism is being progressively eliminated. In India it has emphatically not. Should these classes accordingly, face some faint harassment at the hands of taxation officials, they should take it as but a pale foretaste of the horrors they are piling for themselves.

There is unfortunately a tendency in most of our countrymen to gloss over difficulties and analyse, if it can be called that, only the most superficial outlines of a problem. No such method will serve the Commission; if it does so, it will have failed in its duty, and betrayed a trust reposed in it at this most critical time. Nothing less than a revolution in our fiscal structure, will now serve. It is to be hoped that the problem will not be avoided.

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