

# How to Reduce FISCAL DEFICIT

Clue: Make increasing India's tax revenue base a priority, and avoid frequent threshold increases



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India's fiscal deficit is one of the highest in emerging markets. At 6.7% of GDP in 2013-14, the general government fiscal deficit is significantly higher than the Asian average of under 2% of GDP. While India's stock of government debt has been eroded by high inflation in recent years, the high fiscal deficit leads to other macroeconomic problems.

These include a lower national savings rate due to the government's spending being higher than its revenues, and large government borrowing needs crowding out the private sector. Banks, pension and insurance funds have to park a large fraction of their assets in government bonds, which prevent the private sector from using these funds.

Therefore, a gradual fiscal consolidation is imperative after a period of very high fiscal deficits. A successor to the Fiscal Responsibility and Budget Management Act, or FRBM Act, 2003, could bring in transparency, accountability and predictability to the government's finances.

About 80 countries, of which 33 are emerging markets and 26 low-income countries, have adopted some form of fiscal rules with positive results on debt reduction. We think the Union Budget for 2015 affords an opportunity to do the same.

## Spread the Tax Net

To achieve fiscal deficit targets, however, it would be important to increase the country's tax revenue base. India's revenue base remains very small — one of the lowest in Asia — and is the principal cause for a high fiscal deficit.

Just 3% of India's population pays income tax, compared to over 20% in China and 45% in the US. Measures to increase the tax revenue base in the Budget could help.

First, high agricultural income could be brought into the tax net. A policy of excluding agriculture does not distinguish between high and low incomes, but only on the basis of occupation. It is, therefore, not equitable. Further, there is an incentive to disguise non-agriculture income as agriculture income to



Excluding agriculture only on the basis of occupation is not equitable. Providing safeguards to the poor by adequate exemption limits could be more equitable

avoid taxes. A policy that provides safeguards to the poor by way of adequate exemption limits could be more equitable.

Second, tax collection is hampered by the long and multi-staged appeals process. An individual can appeal against an income-tax department enquiry over several stages. First, he can go to the commissioner of income tax to contest the claim. If he does not get a favourable outcome, he can then appeal to the income-tax tribunal. From there, he can take the income-tax authority to the high court, and then finally to the Supreme Court.

## REAL REFORMS

This means multiple stages to contest taxes in India, while most other countries tend to have only one or two stages. This reduces the efficiency of tax collection.

Third, the tax collection agencies are divided into two: the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). The two agencies are under the ministry of finance, with little autonomy in setting their budgets or hiring staff, and limited coordination between the two boards.

While there have been incremental changes, the country has not had deep reforms of its tax administration system since the two boards were created. With one of the lowest staff-to-population ratios, and limited autonomy, the tax authorities have been unable to increase the tax-to-GDP ratio.

## Cut the Strings

In fact, an independent tax authority — like the Internal Revenue Service (IRS) in the US — could help ease some of the tax collection issues. A large number of developing countries in Asia, Africa and Latin America have adopted a model that includes a fully autonomous tax agency that has its own budget and the ability to recruit staff, and an executive board that actively monitors the agency.

The finance ministry can set the goal, but the implementation is often left to the tax agency. For example, in Peru, an independent revenue authority was established in 1991 under a law that gave it substantial autonomy. Tax revenue collections increased from 5.8% of GDP in 1991 to 21.5% of GDP by 2013.

Overall, a culture of tax compliance needs to develop. When current and potential taxpayers hear that only some 42,500 individuals declare incomes of over ₹1 crore, it acts as a disincentive to pay taxes. The tax-avoider needs to be seen as the exception rather than the rule.

Finally, the continuous rises in income-tax thresholds could be avoided. India has raised the income-tax thresholds five times in the last 10 years. China avoided raising tax thresholds through its high growth phase, thus allowing for a widening of the tax base as incomes rose.

According to our estimates, every ₹1 crore increase in income taxpayers — taking account of taxpayers by income bracket, by using the estimates of the standing committee on the Direct Taxes Code — would increase income tax revenues by 0.6 percentage points. This could go a long way in resolving India's fiscal deficit targets.

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# The IS next door

India must look the threat of the Islamic State in the eye. It will need to frame a response

*The 9th Jan copy, p. 2-15*

**E**VEN as Indians have watched the rise of the Islamic State with alarm, few have understood just how imminent the danger is. In recent days, evidence of the growing danger in India's near neighbourhood has piled up. Police in Bangladesh have caught an Islamic State-inspired terrorist module planning attacks on the country's government. Entire families have left the Maldives to participate in the so-called caliphate's millenarian dystopia; at least five of the country's nationals have lost their lives in its cause. Taliban factions in both Afghanistan and Pakistan have pledged loyalty to the organisation — as have break-away factions of the Indian Mujahideen network. Even inside India, the impact of the IS's new, ultra-violent jihadism is certain to be felt. The Afghan jihad and the Taliban's triumph in Kabul gave birth to a generation of jihadists who let loose a crimson tide across South Asia; the IS has given their inheritors new hope of victory.

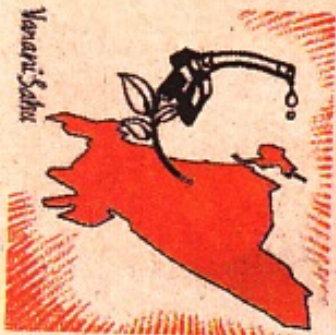
How should the government of India respond to this challenge? For one, the Research and Analysis Wing, as well as India's Intelligence Bureau, are desperately short of the

kind of language and technology skills that are needed — just as they were in the mid-1980s, when the first phase of Islamist terrorism began unfolding. Though Prime Minister Narendra Modi's government has taken some tentative steps forward to address these deficits, capacity-building in the intelligence services needs to be pushed much harder. Then, there has to be political cognisance that a communalised domestic politics is the toxic swamp in which Islamism breeds. Ensuring communal peace, by coming down hard on religious reactionaries who threaten it, is a national security imperative.

Finally, New Delhi needs to think hard about just what its role in the international effort against terrorism might be. New Delhi has long called for efforts against terrorists to be truly global — but, equally, has not been willing to put its shoulder to the wheel. For good reasons and bad, India has stayed away from involvement in foreign wars against Islamist terror, whether under the United Nations flag, like in Mali, or multinational efforts, like those in Iraq. New dangers must be met with new ideas — and the time to start debating them with seriousness is now.

# Invest, to Curtail Vehicular Pollution

*The Economic Times, 10-2-15*  
India today has the world's worst polluted city: New Delhi. Many other Indian cities are close competitors. Heightened air pollution hurts health and well-being, curtails lifespan and productivity. Cutting vehicle emissions is an important part of the solution. This calls for cleaner fuel, higher fuel efficiency norms and better transport planning, with far greater stress on public transport and aligning freight routes so that cargo trucks circumvent, rather than pass through, densely populated settlements en route to distant destinations. Larger investment in the railways — track, signalling and rolling stock — to shift a larger share of freight to rail and haulage by electricity is another part of the solution.



The Saumitra Chaudhuri expert committee report of May 2014 chalks out a road-map for clearer ambient air quality by 2020. Among other provisions, the panel suggests a levy of 75 paise surcharge per litre of automotive fuel, to garner an estimated ₹80,000-crore corpus required to retrofit and revamp oil refineries to produce ultra low sulphur fuel. The drop in global oil prices is all the more reason to increase the surcharge to, say, ₹2, to fast-track modernisation. The uptick in investment would surely boost growth, too. The expert report says Bharat Stage IV-quality fuel (sulphur of 50 ppm) is yet to be widely diffused nation-wide, and that BS V (sulphur of 10 ppm) is only likely over several years. The transition must take place faster.

The Chaudhuri report also calls for mandatory catalytic converters in older diesel vehicles, and better vehicular fuel efficiency, now mandated at 18.2 km per litre by 2016-17 and 21 km per litre by 2021-22. There seems a solid case to improve the target figures. Better fuel efficiency means better combustion and less tailpipe emissions.

## कृषि की फिक्र

जगह (नोट)  
9-2-15

योजना आयोग की जगह बने नीति आयोग की पिछले हफ्ते हुई पहली बैठक में आमंत्रित अर्थशास्त्रियों ने उचित ही कृषि क्षेत्र की बिगड़ती जा रही हालत की ओर प्रधानमंत्री का ध्यान खींचा। यह बात खासकर इसलिए मायने रखती है क्योंकि मोदी सरकार ने विनिर्माण क्षेत्र को और गति देने का उत्साह तो दिखाया है और मेक इन इंडिया नाम से नई विनिर्माण नीति घोषित की है, पर कृषि क्षेत्र के लिए अभी तक उसका कोई महत्वाकांक्षी कार्यक्रम सामने नहीं आया है। इसलिए हैरत की बात नहीं कि शुक्रवार को हुई बैठक को संबोधित करते हुए प्रधानमंत्री ने जन धन योजना, स्वच्छ भारत अभियान और रसोई गैस सबसिडी को नकदी रूप देने जैसे कार्यक्रमों की तो चर्चा की, पर कृषि क्षेत्र के लिए अपनी सरकार की कोई खास पहल वे नहीं गिना सके। बैठक में

शामिल अर्थशास्त्रियों ने कृषि से संबंधित दो अहम मुद्दे रखे। एक, उत्पादकता में कमी का, और दूसरा, ऊंची लागत का। हमारे जैसे विशाल आबादी वाले देश में अल्प उत्पादकता, यानी प्रति एकड़ पैदावार अपेक्षित या तुलनात्मक रूप से कम होना दुनिया के दूसरे देशों के मुकाबले कहीं ज्यादा प्रतिकूल स्थिति है। अगर लागत भी ऊंची हो, तो कम उत्पादकता दोहरी समस्या का रूप ले लेती है। उत्पादकों के रूप में जहां इसका खमियाजा किसानों को भुगतना पड़ता है, वहीं खाद्य सुरक्षा के लिहाज से यह पूरे देश के लिए चिंता का विषय है, या होना चाहिए। हमारे कृषि क्षेत्र में अल्प उत्पादकता के अनेक कारण रहे हैं। खेती को बहुत पहले से मानसून का जुआ कहा जाता रहा है और काफी हद तक वह आज भी मानसून पर निर्भर है। तमाम योजनाओं के बावजूद करीब एक तिहाई कृषिभूमि ही सिंचाई-सुविधा के दायरे में आ सकी है। ऐसे में बारिश की कमी जैसे मौसमी कारक और भी मारक हो जाते हैं। कृषि अनुसंधान पर कम ध्यान और नई तकनीक और नई जानकारी तक किसानों की कम पहुंच भी अपर्याप्त उत्पादकता की वजह हो सकते हैं।

कई अर्थशास्त्रियों का मानना है कि भारत में उत्पादकता में कमी छोटी जोत से भी ताल्लुक रखती है, और यह तर्क देकर वे कृषिभूमि पर प्रत्यक्ष रूप से निर्भर लोगों की संख्या घटाने की वकालत करते रहे हैं। लेकिन यह सवाल वे कभी नहीं उठाते कि जो लोग शहर में रहते हैं या जिनकी आजीविका के स्रोत दूसरे हैं, वे कृषिभूमि के मालिक न हों। बहरहाल, सबसे ज्यादा गौर करने की बात यह है कि कृषि उत्पादकता घटने का सबसे नया और निरंतर व्यापक होता कारण पर्यावरण-विनाश की प्रक्रिया से जुड़ा है। भूजल का भंडार छीजता जा रहा है, लिहाजा सिंचाई के स्रोत के रूप में भी उसकी क्षमता दिनोंदिन घटती जा रही है। दूसरे, रासायनिक खादों और कीटनाशकों के बेतहाशा इस्तेमाल के चलते जमीन की उर्वरा-शक्ति घटती गई है। आज मिट्टी की सेहत सुधारना और भूजल का संरक्षण कृषि उत्पादकता का सबसे बड़ा तकाजा है। इसे पूरा किए बिना न तो पैदावार की समस्या सुलझाई जा सकेगी न खेती टिकाऊ हो सकेगी। आज कुछ लोग कृषि संकट का समाधान केवल बड़े पूंजीनिवेश के रूप में देखते हैं और मानते हैं कि कॉरपोरेट जगत ही अनुबंध आधारित खेती के जरिए कृषि क्षेत्र का उद्धार कर सकता है। पर उत्पादकता की कमी की आड़ लेकर कृषि क्षेत्र को इस राह पर ले जाने की कोशिश हुई तो वह एक बड़ी त्रासदी ही साबित होगी।