

Tax on Wealth or Expenditure

(Contributed)

An expenditure tax as against a tax on wealth, has several advantages, it is a good fiscal incentive for increasing savings- A tax on wealth or steeper progression in income-tax would certainly adversely affect savings, while a tax on expenditure would discriminate in favour of savings. Thus, from the point of view of economic development, an expenditure tax would tend to increase the rate of growth.

Moreover, even from the point of view of reducing inequalities, an expenditure tax, with appropriate exemption limits in the light of family needs, would be much more effective than a tax on wealth or a steeper tax on income.

SEARCH for finding suitable means of augmenting the available resources for financing the Investment expenditure in the next plan period is a continuous one. One of the most important means of providing resources is additional taxation. It is reported that in the draft of the second five year plan, there is a proposal for levy of an annual tax on wealth. The object of this article is to examine whether this is a practicable proposition from the point of view of equity, incentive to save and promotion of economic stability and growth.

Whether wealth is a fit subject of taxation and whether this form of taxation would provide the necessary resources would depend on what is to be included within the term 'wealth'. By wealth is meant any kind of property, tangible and intangible, which confers material benefits on the owners of that property over a period of time. This material benefit may take the form of a flow of money income or may have money's worth received in kind over a period of time. Judged by this criterion, it would appear that for purposes of assessment, the value of land, buildings shares and securities and other property would have to be taken into consideration.

Wealth in Liquid Form

This would, however, exclude wealth held in liquid form, which does not confer any immediate benefit of the kind mentioned above but is capable of doing so at a future date. It is, therefore, logical to include gold, cash and claims to near money within the scope of wealth. This definition of wealth again raises problems of how to value the property and determine with reasonable accuracy the amount of various types of wealth owned by an individual at a particular time. The difficulty of valuing property for which there are no market prices current can be readily imagined. There is no easy method either of determining the exact amount of

wealth held by an individual. In cases where gold and cash are hoarded, it would be extremely difficult to assess the extent of hoarded wealth. But if, for example, bank deposits are taken into account for purposes of assessment while hoarded cash escapes taxation, there would be discrimination between owners of wealth, not to speak of the disastrous effect on the economy of the heavy withdrawals of bank deposits resulting from it.

Valuation and Sale

Individuals whose wealth is largely held in the form of fixed assets would encounter a serious difficulty when they are required to meet their tax liability by selling a part of their assets. If enough buyers are not forthcoming, the value of property will fast depreciate and those liable for taxation, who may be forced to sell, may not find buyers. In India ownership of wealth is concentrated in a small section of the population. No potential buyer would come from this group, as there is bound to be a system of graduation in the rate of tax. People with limited means would not have the necessary resources to offer in exchange for the property the tax payer would be forced to sell to meet his tax liability. In that case, how will the Government get the necessary resources? The only conceivable advantage that the Government may have will be that to the extent to which the tax liability is met by Government securities, the national debt and the interest payment on that portion of the debt would be reduced.

Will Discourage Saving and Foreign Investment

To the extent to which the amount of tax is paid out of disposable income, there will be a strong disposition on the part of the property owners, not to accumulate wealth further. This will have a serious effect on personal saving. At a time when the objective is to promote economic development and when the Government expects the private

sector to play an important role in the new investment activity, it would be sheer folly to encourage these who can promote investment to increase their consumption expenditure. If there was any likelihood that the short-fall would be made good by additional investment in the public sector made possible by receipts from this source, there might be a case for such a levy. But this is doubtful in the extreme.

Another important point to be borne in mind is that 'wealth' is owned both by residents and non-residents. A tax on wealth owned by non-residents will retard the flow of foreign investment in India. Would it be desirable to impede the flow of foreign investment when the estimated gap between India's expenditure abroad and available foreign exchange resources during the second plan period would be of the order of Rs. 800 crores?

Tax on Expenditure

In view of the near-impossibility of arriving at an equitable method of determining the value of wealth owned by an individual and the harmful effects on personal saving and foreign investment, it is surprising that a tax on wealth could be seriously proposed. A tax on expenditure may have proved impracticable so far but it merits consideration, nevertheless, since it can put a curb on consumption and release resources for promotion of investment.

An expenditure tax, as against a tax on wealth, has several advantages. It is a good fiscal incentive for increasing savings. A tax on wealth or 'steeper progression in our income-tax would certainly adversely affect savings, while a tax on expenditure would discriminate in favour of savings. Thus from the point of view of economic development, an expenditure tax would tend to increase the rate of growth by encouraging savings.

Curb on Conspicuous Consumption

Moreover, even from the point of view of reducing inequality, an ex-

penditure tax with appropriate exemption limits in the light of family needs would be much more effective than a tax on wealth or a steeper tax on income. The latter might fall on 'savings entirely and thus leave the disparity in living standards absolutely unaffected. What is important from the point of view of a socialistic pattern of society is not so much a reduction in income or wealth differences as a reduction in consumption-expenditure differences. Once the conspicuous consumption

of the rich is curtailed and their savings are utilised for the purposes of economic development, we would have made much greater advance towards a real egalitarian society than we otherwise would.

In fact from both these points of view, a highly steep expenditure tax is a much better tax, than a highly progressive income tax or for that matter any other tax. From a purely theoretical angle, a single tax system with a highly steep expendi-

ture tax would be a most efficient and desirable tax system. However, in levying an expenditure tax, it is argued, there would be many administrative difficulties. But these difficulties would not be greater than what is actually encountered in administering income tax. A tax on wealth would beat the expenditure tax any day in complexity and the latter should appeal to Government economists, being much more subtle. Moreover it has the stamp of high academic approval.

Towards Voting A Stalemate ?

Manoranjan Guha

Over wide arras affected by the controversial issues of States reorganisation, the Congress as a single united party under a common discipline had ceased to exist long before the recent disturbances in the country. State Congress leaders, State Congress Committees and even State Governments had for long been feuding openly with one another. In fact, the Congress "High Command" had become a total misnomer

The attempt to fly in the face of this fact has been primarily responsible for the subsequent disastrous course of events.

IN a historical vacuum, the homilies in the Congress Working Committee's resolution, heroically self-styled "A Call to the Nation", would make excellent, if somewhat soporific, reading. In context, that is to say, in the context of the terrible things that happened, for instance in Bombay, during the third week of January, they were but an advertisement of vacuity of leadership. This was made the more graceless by the absence of the least suggestion, let alone admission, that, guidance (or its lack) at the top might have any share in the responsibility for the perilous mess into which the nation has been landed. On the contrary, the old habit of taking a high and mighty tone and making pronouncements *ex cathedra* persists, which trying to spread a misty veil over the ruling party's bunglings and failures, only serves to aggravate the dangers of the situation. A little humility could at least have provided some healthy relief in a story of humiliation which still seems far from ending.

For it is plain as pike-staff that Congress leadership has been beaten hollow, not by the hooligans in Bombay or elsewhere but long before, by its own ineptitudes, lack of a coherent policy and complete failure to keep order not only among the ranks but among provincial "generals" also. As a matter of fact, over wide areas affected by the controversial issues of States reorganisation, the Congress as a single united party under a common discipline had simply ceased to exist. State Congress leaders,,

State Congress Committees and even State Governments had for long been feuding openly with one another. Nobody paid the least practical heed to the counsel against an "agitational approach" issued periodically from the Congress Centre, which as time went on looked more and more like the observance of a ritual than a confident directive expected to be obeyed by those to whom it was addressed. In fact, the Congress "High Command" had become a total misnomer. Non-recognition of this fact or rather the attempt to fly in its face was one of the principal causes that contributed to the subsequent disastrous course of events.

While unable to keep order within its own house, the so-called High Command arrogated to itself the function of an arbiter of a national issue involving rival "claims" which were complicated not only by the feuds between different Congress bodies (Committees as well as Governments) but by every variety of political opportunism and emotional conflicts cutting across party frontiers in all directions. In this atmosphere, the idea received currency and was even fostered that "justice" was to be done by the Congress Working Committee or by the Central Government as guided by the Working Committee. In the process, the authority of the States Reorganisation Commission's recommendations was of course damaged beyond repair. But a more fundamental injury was done to the procedure of democracy itself. By ail appearances, we seemed to live under a totalitarian regime

where all final decisions were made by the ruling party's executive and simply handed to the Government for execution, the function of Parliament being only to hear and approve proposals and reports presented to it. But under parliamentary democracy with which we are supposed to be experimenting "very successfully" in some people's opinion, it would be a misconception to think that the ruling party acting outside Parliament, or the Government itself, could be a "judge", in any context like the present. Indeed, the business of a democratic Government is not to be a "judge" of any kind but to carry out the will of the people as expressed by their representatives. If it were necessary at all to call anything a "judgment", the name might be given to an opinion of Parliament.

It is of ominous significance that even after the recent calamitous happenings in the country, especially those of Bombay, there was no demand for immediately recalling Parliament to consider the situation. In any country where Parliamentary democracy is something more than a mere name, a fraction of what has happened here would be enough to bring Parliament if in recess, promptly back into session. But here people, even the Opposition, did not seem to remember that there was a Parliament. Perhaps, many thought that an emergency debate in Parliament on the situation could serve no useful purpose because the over-whelming Congress majority in Parliament would simply echo the