Chapter - VI
General impact on the pattern of distribution of the burden of development on different classes of people and the economy as a whole

India is a pioneer in initiating economic planning among the third world developing countries. With the launching of the First Five Year Plan in 1950-51, it has now completed five decades of economic planning. As a result of this, India stands on different footing today. The people of India have conclusively demonstrated their ability to forge a nation united despite its diversity, and their commitment to pursue development within the framework of a functioning, vibrant and highly pluralistic democracy and the various governments has been constantly impressing upon the people of India that development planning in India aims to build up a socialist pattern of society. It is not slogans or political catch-phrases that matter, the more relevant thing is the changing pattern of the Indian economy because its analysis alone can convince whether we are moving towards socialism or drifting away from it the crucial question is at whose expense the country is to be developed.

The sources of finance are internal resources and external borrowings (external borrowings are built in feature of Indian plans). Internal resources are raised by the government through taxation, deficit financing and loans.

The Government resorts to taxation for generating resources for development because taxes play a very
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important role in the fiscal system of a modern mixed economy. Taxes are not a source of revenue of the Government at different levels they are also an instrument of control. Taxes are used to control inflation, to change the pattern of production in the desired direction, and to improve the balance of trade position of the country. Direct taxes play a significant role in the tax system not only as a source of revenue but as a powerful instrument for achieving objectives of social and economic policy. Firstly, Direct taxes helps to make the tax system progressive and progressiveness is considered desirable in the interest of equity and for reducing the disparities in the distribution of income and wealth. Secondly, direct taxes sub-serve the strategy of planning in many ways. On the contrary indirect taxes are regressive in nature as they are usually imposed on consumption items because in general, poor people have a high propensity to consume than the rich people. Infact, the marginal propensity to consume gradually decreases with the increase in income, thus the poor people who spend the major portion of their small income on consumption goods, pay the maximum amount of indirect taxes. However, over the years, the incidence of indirect taxes which hit the common people has gone up steadily while the direct taxes like the income tax, the corporate tax, the wealth and Gift tax have steadily declined and as a result of poor performance of direct taxes, the Government has been forced to rely increasingly on indirect taxes, which rose
from 71.2 percent of total tax revenue in 1960-61 to 85.5 percent in 1989-90 while the share of direct taxes went down during the period from 28.8 to 14.5 percent of the total tax revenue as can be seen from the table E-1.

In 1990-91, the share of direct taxes in the total tax revenue of the union, states, union territories and local bodies combined was only 15.9 percent and the indirect taxes 84.1 percent.

Table E-1  Direct and Indirect Tax Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Taxes As% of total tax revenue</th>
<th>Indirect Tax As % of total tax revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>28.8</td>
<td>71.2</td>
</tr>
<tr>
<td>1970-71</td>
<td>22.0</td>
<td>78.0</td>
</tr>
<tr>
<td>1980-81</td>
<td>17.6</td>
<td>82.4</td>
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<tr>
<td>1985-86</td>
<td>15.1</td>
<td>84.9</td>
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<tr>
<td>1988-89</td>
<td>15.3</td>
<td>84.7</td>
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<tr>
<td>1989-90</td>
<td>14.5</td>
<td>85.5</td>
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<tr>
<td>1990-91</td>
<td>15.9</td>
<td>84.1</td>
</tr>
<tr>
<td>1998-99</td>
<td>32.4</td>
<td>66.7</td>
</tr>
<tr>
<td>2000-01</td>
<td>36.2</td>
<td>62.9</td>
</tr>
<tr>
<td>Average</td>
<td>21.98</td>
<td>77.82</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>8.38</td>
<td>8.71</td>
</tr>
<tr>
<td>Coeff. of Var.</td>
<td>38.12</td>
<td>11.19</td>
</tr>
</tbody>
</table>


Table E-1

The contribution of direct taxes in total tax revenue is 21.98 percent during the period of 1960-61 to 2000-01 whole indirect taxes contributed 77.82 percent. As the values of standard deviation and coefficient of variation indicate, the contribution of indirect taxes is comparatively more consistent than the direct taxes.

This increase in the indirect taxes is not a good sign for any economy because direct taxes are less distortionary and more equitable in impact as compared to indirect taxes keeping this fact in mind the government setup a tax
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reform committee under the chairmanship of Dr. Raja J. Chelliah in August, 1991 to recommend a comprehensive reform of both the direct and indirect tax system. In response to tax reforms, the tax/GDP ratio registered a perceptible increase. As the result of the tax reform direct taxes increased from 15.9 percent in 1990-91 to 32.4 percent in 1998-99 and then to 36.2 percent of the gross tax revenue while the indirect taxes went down during the period from 84.1 percent to 62.9 percent of total tax revenue as given in table No. t-1. This achievement was possible by reducing the scope of exemption and reduction. The improvement in the direct tax/GDP ratio witnessed in the post reform period has been largely due to broadening the scope of tax deduction at source. "The main potential for improvement in the tax/GDP ratio continues to be in the area of direct taxes, particularly that in the personal income tax. The introduction of one-by-six scheme has done much to bring increasing numbers of people with taxable incomes under the tax net". Moreover new measures to curb tax avoidance by transfer pricing was also introduced. However the Indian tax laws are full of concessions, exemptions and loopholes. Most of the new enterprises are permitted to operate free of any corporate tax for the first five years the budget for 1995-96 declares five-year holiday also for all infrastructure projects. In June 1995 the Government decided to allow with effect from April 1995, tax holiday for any five years of the first twelve years of operation of
an infrastructure project, which includes transport and communication mining and power. Ten years tax holiday offered to projects in core sectors like roads, highways, waterways, water supply, sanitation and solid waste management systems can now be availed of during the initial twelve years. The facility of five year tax holiday available to the communication sector till March, 2000 was reintroduced for units commencing their operations on or before March 31, 2000.

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Tax incentives were made available to investors for providing long-term finance to enterprises engaged in infrastructure. If a new enterprise undertakes expansion before the end of the five year period, the corporate tax is waived for several more years vary generous depreciation allowance even 100 percent accelerated depreciation, is allowed and export earnings are totally exempt from taxes. Some years ago, an American specialist in international investment and tax problems, Mathew J. Kust, said that the “Indian tax laws permit extremely liberal and accelerated depreciation which allows a new enterprise to write off 85 percent of its investment during the first three years. Various other concessions and rebates, like development rebate and rebate on expenditure for research and development (in almost all cases a euphuism for adaptations of foreign technology to Indian conditions for quality control are liberally offered)”² At a convention “Advantage Maharashtra global Investors” organized by the Maharashtra government and others early
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in 1997, S.N.L. Aggarwal commissioner of Income tax, Mumbai, said that India has an assessee - friendly tax system and that the incidence of taxation on foreign corporates is very low compared with other countries. There are tax exemption in many ways 100 percent tax exemptions is available for example “concession available for infrastructure by way of 10 years tax holiday were extended to the development of special Economic Zones (SEZs). Specific thrust was put on agricultural exports by announcing establishment of Agri-Economic Zones. To boost exports duty draw back rates were revised upwards and value caps under Duty Entitlement Pass Book (DEPB) abolished for a number of export products”. A special financial package was also announced for large value exports of selected products. Besides these short-term measures government also unveiled a medium term export strategy to achieve a quantum jump. An article in Economic Times stated that because of these concessions, exemptions and loopholes. Reliance Industries, now the largest private sector company in India which made a net profit of Rs. 576 crore (Rs.5760) million in 1993-94 did not pay an corporate tax all. The Centre for Monitoring Indian Economy (CMIE) found that out of a sample of 1,206 companies, as many as 514 companies paid no corporate tax at all in 1993-94. To quote from the above article in THE ECONOMIC TIMES “The tax paid by the corporate sector in proportion to their gross profits has fallen from 23.55 percent in the first half
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1993-94 to 17-07 percent in the same period in 1994-95”. Speaking at a workshop organized by the confederation of Indian Industry at Delhi on 16th May 1995, the Revenue Secretary of the Government of India, M.R. Sivaraman said “What needs to be considered is incidence of tax and not the tax rate and compared to other countries, tax incidence in case of corporate tax is much lower in India. Again on 6 December 1995 he said that the rate of corporate tax was 46 percent but the final rate was only 19.5 percent due to a large number of exemptions and concessions. He observed that since the large number of exemptions are provided in India, the corporate tax incidence works out to be just 19.5 percent to 20 percent whereas it is as high as 30-40 percent in other countries where tax rates are lower”.

To attract investment by large Indian and foreign companies, the different State Governments compete with one another with offers of capital subsidy, sales tax exemption etc. besides offering land, water, electricity and other infrastructural facilities at nominal prices.

To promote exports all kinds of incentives are offered to export houses, Indian and foreign by the Central Government. Till 1992, the incentives were primarily

1. Duty drawback  2. Cash compensatory support
3. Import replenishment
Amresh Bagchi writes that in the Tenth Report presented to Parliament in Nov. 1977, The Public Accounts Committee observed that “while the votaries of cash assistance scheme may argue that this is not too high a price for the economy, if the value of other concessions and facilities like import replenishments, concessional railway freight, concessional bank finance, supply of raw materials at subsidized prices, grants in aid etc extended to exporters is also quantified and taken into account the total cost of the export promotion effort may well turn out to be not quite proportionate to the net gain actually accruing to the country as foreign exchange”.

Deepak Nayyar, who become Chief Economic Advisor to the Government of India was of the view that if one “added up indirect tax advantages with the 20 percent subsidy extended to engineering exports, the total subsidy to them might be taken as high as 100 percent”.

Since April 1992 a new scheme called the Duty Exemption Entitlement Certificate (DEEC) has replaced the direct subsidy like the cash compensatory support. The new scheme is doubly welcome to export houses. It helps many exporters to enrich themselves in several ways. A consignment may be exported and sold to an overseas buyer at a price many times its real worth. The black money that was sent out in a clandestine manner return laundered as white money. Since the introduction of the scheme there has
been spate of such fake exports and racket in hawala operation. These "bogus exports" which are rather encouraged by the authorities who have asked all enforcement agencies like the directorate of revenue intelligence the enforcement directorate and the Central Bureau of Investigation (CBI) to stop all probes and "harassment" of the exporters are likely to have contributed a sizeable portion of India’s foreign exchange which has swelled since 1992. According to one estimate the actual revenue sacrificed as a result of the DEEC is over 20,000 crores. If the central excise, foreign exchange and income tax sides of the scheme were also taken into account the loss would be many more 1000 crores of rupees. A report by a Study Group has underlined that the most frequent misuse of DEEC has been by way of division of duty free imports into local market while meeting export obligation by free fraudulent means. It has also noted that there were cases where exported goods were deliberately made of inferior quality imports of prime materials.

Indian businessman are keen on making quick profits and much interested in running a parallel economy that is tax evaded or in other words black money and this money is invested in real estate, share market etc. for quick speculative profits. In January 1981, the Government of India officially recognized the existence of black money for the first time and announced various measures to unearth black money. For example the introduction of a 10 year
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‘special bearer bond’ was a measure in this direction. This bond offered tax free benefits to the owners, above all the buyer of the bond need not have to disclose the sources of income to the Government. Unfortunately, this scheme largely failed to unearth black money likewise Indira Vikas Patra, introduced in 1986, did not yield any result. Furthermore the Voluntary Disclosure Scheme was introduced but it also failed to prevent the menace of black money. In this regard it may be noted that GDP growth rate for the period 1980-81 to 1994-95 works out to be 52 percent per annum at 1980-81 prices. This only underlines the fact that black income has been growing at 2.6 times the growth rate of GDP. The situation is rather alarming and it indicates the tolerance limits of our polity towards tax evaders, black marketers and smugglers. It affects the state exchequer as a consequence of tax evasion, both from direct and indirect taxes since the Government is not able to plug the leakage of tax evasion, it has to resort to other avenues of raising funds so it imposes existing rates of taxation on commodities. As a result, India has developed a regressive tax structure. Direct Taxes Enquiry Committee in this connection mentioned “Black money and tax evasion which go hand in hand, have also the effect of seriously undermining the equity concept of taxation and warping its progressiveness. Together they throw a greater burden on the honest tax payer and lead to economic inequality and concentration of wealth in the hands of unscrupulous few in
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the country**. Emphasizing the fact, D.K. Ranginikar mentions "So while the tax paying public finds its own income falling, the non-tax paying public is having a free run of swelling concealed incomes thereby adding a new dimension to the problem of inequality of income and wealth". According to an estimate of the Planning Commission the amount of black money is about 3 lakh crore at 1989-90 prices. The addition to the parallel economy is put at Rs.50,000 crore per year by conservative estimates.

According to a Reuters report dated 3 December 1992, the director of India’s Central Bureau of investigation told Reuters that most of the money leaving India through illegal channels was either deposited in foreign banks which thrive on secrecy or in several tax havens across the world. The report states some official estimates place India’s losses through illegal transfers at between $5.5 billion and $7.5 billion annually. Madhu Dandavate the then Deputy Chairman of the planning commission made a very modest estimate of the black money circulating in the Indian economy when he said in December 1996 that it was to the tune of Rs. 80,000 crore. As regards the money stashed away by Indian businessman and politicians in Swiss banks alone, the Chief de mission of the Swiss Embassy in New Delhi, due Pierre Helg quoted unofficial estimates suggesting that it amounted to more than $80 billion or Rs. 280,000 crore. Mr. Bhurelal, Central Vigilance Secretary
General impact on the pattern of distribution of the burden of development on different classes of people and the economy as a whole revealed that Swiss bank officials had told investigators on the probe mission some time ago that the Indian money lying in vaults cannot be estimated. He commented "It is really a situation of rich Indian Contribution to poor Europe". Moreover, instead of contributing to savings and stimulating investment for productive purposes, various tax reliefs to the big industrialist and businessman have only helped corruption to assume gigantic proportions to the detriment of the interest of the country and the people.

The landlords too are a favoured class who hardly pay any direct taxes. According to the Eight Five Year Plan "The ratio of direct taxes relating to the agricultural sector, including the land revenue and agricultural income tax, to agricultural GDP fell from about 1.2 percent in 1950-51 to less than 0.7 percent in 1989-90".

It is the landlord and rich peasants who can derive the maximum benefit from the increases in procurement prices, for procurement prices sets the floor prices above which prices in private trade are fixed. An over whelmingly large share of the benefits from irrigation, subsidized electricity is appropriated by the landlords and the rich peasants as they are the main beneficiaries of hundreds of thousands of crores of rupees invested for the development of agriculture for it is they who owns most of the land. Thus they get the bulk of benefits of low irrigation rates, subsidized, cheap credit to buy, farm, Machinery, subsidized fertilizers etc.
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The Eight Plan States that according to estimates for 1987-88 “The gap between the annual working expenses and the gross receipts from water rates stood at Rs. 400 crore. Similar problem exist in the case of ground water irrigation where water rates reflect only about 1/6th of the economic water rates. Electric charges for agriculture purposes, including pumping of water are highly subsidized”.¹² According to S.S. Acharya, Chairman of the commission for agricultural costs and prices. “The subsidy for irrigation was Rs. 3,011 crore for electricity Rs. 5,963 crore and the total input subsidy of agricultural sector was only Rs. 14,682 crore in 1992-93. The middle class and poor peasants had only a small share of benefits from these subsidies”.¹³

Deficit Financing is another important tool of the Government of India for raising resources to finance the plans. The Government of India have resorted to greater and greater monetary expansion-much greater than what the meagre increase in national income has justified-To raise resources during the Second Five Year Plan and all subsequent plans. During the Third Plan (1961-66) for instance the annual rate of growth of national income was 2.2 percent but the money supply increased by about 40 percent. The growth of national income especially of the per capita income which has been about 1.4 percent per annum has always lagged far behind the monetary expansion.
Internal Debt is another important source of finance of the plans. It too is mounting every year. The outstanding internal debt of the centre during 1993-94 stood at Rs. 2,42,729 crores which was higher by Rs. 43,627 crore than in the previous year. The other liabilities comprising small savings, provident fund etc rose to Rs. 1,83,298 crore in 1993-94 from Rs. 1,60,554 crore in 1992-93. The budget for 1995-96 had estimated interest payments. The interest payment for the interest loans stood at Rs. 52,000 crore, which took away 51.5 percent of total revenue receipts. As a ratio of GDP debt-service payments have increased from 3.4 percent in 1985-90 to about 4.6 percent in 1995-96 and around 5 percent in 1999-2000. The main sufferer in this process is government capital expenditure on both social and infrastructure facilities. High debt service payments also preclude increase in or even maintenance of current real level of expenditure in social sector services.

As noted before Indian plans are invariably dependent on external loans. The costs that the Indian people have to pay for such finance are quite a heavy burden on them. Apart from other payments under different guises India had to pay the foreign creditors during the years 1991-92 to 1994-95 above $35.42 that is approximately Rs. 1,11,888 crore. A contributor to the Statesman wrote. "The outstanding dues of the government, domestic and international were Rs. 723,750 crore in 1995-96, it must be realized that whenever the government talks of external
debts it gives figures at historical prices which means the actual implication is far more ominous".14

According to the Budget for 1997-98 the revised estimates of repayment of debt (internal and external debt was Rs. 66,545 crore and interest payment Rs. 58,500 crore. a total of Rs. 123.045 crore which has been 95.6 percent of the total revenue receipts of the Government of India in 1996-97. In 2000-01, the burden of the interest payment further rose to Rs.90249 crore. In 2001-02 the burden of interest payment increased and reached to Rs. 99314 crore. The percentage is likely to be exceeded as there are likely to be shortfalls in revenue receipts on account of the tax concessions showered on the corporate sector and the rich. The debts and the payments to service debts are mounting fast higher and higher every year. All these have invariably contributed to the rise in inflationary pressures on the economy. Since the mid-fifties inflation, the scourge of the toiling people has been particularly severe since 1991-92. Inability to contain rising prices has been considered as the biggest failure of economic planning of the country although the general price level in the country rose at an annual average of five to six percent during 1950-70 but it rose alarmingly at the average rate of 20 percent during 1970-75 there was again an inflationary spiral in price level at an average rate of 18 percent during 1983-84 and 1984-85 wholesale price index gradually increased by 9.4% and 7.0% respectively. In order to face this serious inflation and
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to restore price stability the Government took several initiatives during 1991-92 and 1992-93. As a result of all these measures inflation rate began to recede from Sept. 1991 and stabilized between 12-14 percent until the middle of July, 1992. Thereafter the rate of inflation declined steadily and came down to 6.8 percent in January 1993. However the same rate rose further and rose to 10.2 percent in March, 1994 and then declined to 1.38 percent in March 30, 2002 thus these type of fluctuations in the price behavior have been affecting the flow of income, savings and investment and thereby retarding the growth of the economy to a considerable extent. According to the Economic Survey 1994-95 “Primary articles continue to contribute disproportionately to the total inflation with an increase in their contribution from 35 percent in 1993-94 to 46 percent in 1994-95” the regular and steep increase by the Government especially in the eighties and in the nineties of prices of food grains, sugar etc supplied through the public distribution system and of administered prices of petroleum products, coal and of freight rates and fares have intensified the inflationary pressures. In most years, the prices of foodstuffs have tended to rise faster than those of the goods while the GDP growth is slow and the per-capita GDP is much slower, the food prices have risen steadily and steeply. To quote B.S. Minhas “the poor and the weak who have no means available to neutralize inflation are hit in their stomach”.
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Therefore it can be concluded that the main beneficiaries of Indian plans are the Indian and the capitalist and the Indian landlords with negligible contribution to the total plan outlay. It is the toiling people of India, the workers, the peasantry (except its upper stratum) and the petty middle class people – at whose expense development takes place in India. It is on them that the burden of financing the plans has been imposed by the ruling classes because so far there has been great divergence between ideology and actual economic situation. The purpose of land reform, co-operative societies, panchayat raj or even the rapid expansion of the public sector is defeated by the moral crisis that exists in India. Socialism has so far remained a mere slogan with very little policy content.

All the different source of public finance like, heavy indirect taxation, enormous increase in the money supply, without corresponding growth in the purchasing power of the people, the staggering increase in the internal debt, external debt and servicing of them, are means of transferring money from the toiling people to the upper class people and the landlords thus leading to distributive injustice.
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REFERENCES

7. Ibid. p.38.
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