

DISCUSSION PAPER

REMOVAL OF INCOME TAX

BY

BHARATIYA JANTA PARTY

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1. INTRODUCTION

Bharatiya Janta Party has emerged in the last decade from the fringes of the political arena to the centrestage. The party is seen to be main contender for power at the centre. It is expected that the party will sooner or later get an opportunity to be at the helm of the affairs of the country.

The meteoric rise of BJP has been accompanied by rising expectations from it. People are expecting revolutionary change from BJP and are not ready to accept BJP if BJP is just a cleaner vision of Congress.

The socialist model of growth that was the favourite of the Congress in the Nehru-Indira years has been effectively dumped by the Congress, who has now embraced a Capitalist model that follows the dictates of IMF & World Bank. There is widespread resentment against the new capitalist model although the socialist model is generally seen to be an unsuccessful attempt. The alternative in such a case can only be a Nationalist Growth oriented model of development and BJP has a moral responsibility to be the advocate for this course.

Removal of Income Tax for all Indians is an essential step towards liberating Indian economy from the shackles of beauracracy and setting it free to move ahead with full force and vigour on the path of growth. It is also an attempt to remove the distortions that have crept in the Indian economic scenario - firstly due to centuries of foreign rule and secondly due to about half a century of beauracratization under the garb of socialism.

This paper discusses the removal of Income Tax for Indian citizens in the light of BJP's politico-economic policies. It seeks to show that BJP should adopt such a stand as part of its long-term policies and that in doing so it will lay the foundation stone for the building of India as an economic super-power.

2. HISTORICAL PERSPECTIVE

India was a rich country about six centuries ago. Muslim invaders looted this country at many times during history. Moghuls were the first invaders who settled down and enjoyed the riches of the country while living here. They did not take away the country's wealth to a foreign land. However, they destroyed the creative fountains of knowledge that India had. The universities and the education system were systematically demolished. The holiest temples were, generally speaking, at the greatest centres of learning. The temples were in fact only a tip of the iceberg. Today, when we seek to reestablish these symbols of our great past, we must not forget that we had lost much more than just the temples.

The weakening of the nerve centres of the society led to its corruption in due course of time. The corruption led to the super-luxurious life styles of the Nawabs and other well-to-do sections of society. The society, under centuries of Moghul rule became internally very weak. Its capacity to create, to assimilate new thoughts and ideas, to adopt new technologies, to produce and to innovate gave way to either complacent luxury or to fatalistic helplessness. The Moghul period can hence be summed up as a period when the brain of the social organism was either damaged or drugged but the body was more or less intact and the Moghuls were happy living off the body as parasites.

The British went a step further. They did extensive damage to the body. Their systematic loot and plunder of India is often underestimated. For more than a century, they took away from the country every single surplus resource that the country had. This was done in a most merciless manner. They recovered their land revenue even if a few million "natives" died of starvation. They took away young men to toil in the fields of Fiji, Mauritius and South America as slaves. They fed Indian soldiers as cannon fodder during the two world wars. They destroyed all traditional landholding patterns. They made every part of the body fight every other part of the body. They created undoubtedly a miserable mess that they found impossible to manage. And then they left us free to manage ourselves.

This was the India that we inherited. The situation was indeed difficult. Every single institution that was the foundation of our wealth in past had been effectively razed to ground. Yet, we had to reconstruct.

We began the task of reconstruction using the tools and equipment that our colonial masters had used. We even tried to ape them. To a certain extent, it was inevitable because one can only do what one knows and we knew only what our masters had taught us.

The Government policies of the post-independence India had externally a socialistic fervour but the underlying assumptions were the same as were made by the former masters. Some of the assumptions are very interesting and arise from the theory of racial supremacy that the Englishman believed. The theory in simple terms is that the rulers (read Englishmen) know all that is worth knowing, the rulers never do anything wrong, the rulers have a divine right or rather duty to interfere in every aspect of the life of their subjects, the rulers have a superior life style, the subjects should try to ape the rulers and so on. After independence, the above assumptions were retained. The country saw a new breed of rulers emerging. A nexus between the Congress and the beauraucrats emerged and this nexus had the same level of arrogance that the former masters had.

This arrogance and know-all attitude was the basis of the politico-economic policies of the past half a century. The rulers are the centre of the divine knowledge and powers so they and they alone can decide what the subjects will eat or drink or hear or speak and how the subjects will live their personal lives and how the economic activity of the subjects will be conducted. For more than four and half decades after independence, the rulers have not realized that a people impoverished by centuries of plunder need to be strengthened. On the other hand, the rulers have perpetuated the same plunder in another form. The surplus resources of the country are taken away from the people and utilized in a most inefficient and unproductive manner possible. The impoverishment continues.

For any economic growth of society, capital accumulation is one of the most important prerequisites. Indian people are by nature inclined to save. Our savings rate as percentage of GDP is one of the highest in the world.

Yet, we are facing today a shortage of capital in one form or the other. The reasons for this are two-fold-(a) the systematic attacks on all attempts at capital accumulation by the people and (b) the squandering away of the national resources in non-productive activities by the rulers.

Any blueprint for growth of the country has to address the above two causes. It is necessary that policy changes are brought about that encourage the process of capital accumulation and that the use of national resources by the rulers is reduced. We have to reverse the process of impoverishment of the people that was carried out for centuries.

The removal of Income Tax is a necessary step for reversal of this process. To an extent, this is a historical necessity. It has been proved beyond doubt that the state as an instrument of economic growth has failed. The failure of the experiments in communism have shown that it is dangerous to take economic power out of the hands of the people and hand it over to a beauracratc apparatus.

It is said that those who refuse to learn from history are condemned to repeat it. We must learn our lessons from history and empower our people economically, socially and politically.

3. POLITICAL - ECONOMIC PHILOSOPHY OF BJP

The political economic philosophy of BJP can be summed up as follows :

- 1) **Nationalist** - The party is committed to building a strong India.
- 2) **The Government should not do anything that the people can do.**
- 3) **The Government should be a catalyst of social change rather than be the agent of change.** The process of social reforms has to be a natural process of evolution carried out by the people with subtle help from the Government instead of it being a Government program carried out without any involvement of the people.
- 4) **The Government's job is to regulate, control and protect.**
- 5) **People are the most important elements of a nation and a Government must trust its people.**

The above principles look very simple and it should surprise one if there exists a political party that does not believe in these principles. Yet, for the past few decades, our rulers have followed policies that are exactly opposite of the above simple principles.

It is interesting to look at a few examples:

- a) India is one of the few countries in the world that will trust a foreigner in matters of national security but will not trust its own nationals. We buy arms and ammunition from various private companies all over the world but do not buy from any Indian company.
- b) The Government of India is involved in almost every sphere of economic activity e.g. making bread, producing ketchup, producing power,

manufacturing contraceptives, banking, insurance, agriculture, fertilizers etc. The only other example that is there in history of such a wide Government involvement can only be found in communist countries.

- c) The Government of India has taken its role as a social reformer most seriously. There are so many laws in India that seek to reform the Indian society of all its ills, that one wonders - how is it that there are any problems left in this society ?
- d) The Government as a regulatory body has failed to regulate its own parts from all regulatory mechanisms. Many consumer laws do not apply to Government undertakings. Most public sector companies do not even comply with the essential requirements of the Companies Act.
- e) The feeling that an Indian businessman or even farmer gets, when he stands in any government office is that of a criminal or sinner. How many of us will like to personally face an Income Tax Officer for assessment ?

These examples substantiate the arguments advanced in the earlier chapter about the mass of the Indian people being treated as "subjects" or "natives" by the rulers.

Bharatiya Janta Party is committed to changing this state of affairs. BJP is committed to building a strong Indian nation where people have the real power - economic, social and political.

4. THE PROPOSAL

Removal of Income Tax will involve a series of policy measures. The key steps will be as follows:-

- a) The Income Tax Act 1961 will be duly amended to make the following changes:
 - i) **No individual who is a citizen of India will be liable to pay any tax on his income.**
 - ii) **No company or partnership firm or association of persons who have less than ten per cent of their capital in the hands of foreign person(s) or company(ies) will be liable to pay any tax on their income.**
 - iii) **All proceedings in respect of past years in cases where the tax recovery is likely to be less than Rs. one lakh will be closed.** However, in cases where there is an entitlement of an assessee for receiving a refund, the same will be given promptly.
 - iv) **Income Tax will apply at the full rates as prescribed presently for all companies having 50% or more foreign equity and for all foreign nationals.** Pro-rata rates will be applied for companies having foreign equity in the range of 10-50%. Equity held by Indian passport holders resident abroad will not be treated as foreign equity.
 - v) **No tax will be deducted by any person for any payments made to any Indian individual or company.**
 - vi) **There will be no requirements for any Indian to maintain any books of accounts or to follow any particular accounting year for taxation purposes.**

- b) **The Government will reduce its plan expenditure by 15% during the first year and by additional 10% during the second year.** This will be done by drastically reducing the Government expenditure in the fields of organised industry, mining, power and telecommunications. The private sector will be encouraged to make up this shortfall. The saving on account of reduction in plan expenditure is envisaged to be about Rs. 6000 crores in the first year and an additional Rs. 4000 crores in the second year.
- c) **The non-plan expenditure will be curtailed by 0.5% per annum.** This will be done by the Government reducing its involvement in various areas. The disbanding of the vast administrative machinery for collection of taxes will also contribute towards lowering of expenditure. It needs to be pointed out that in the twelve years from 1980-81 to 1992-93 the non-plan expenditure of the Government has increased from Rs. 13,062 crores to Rs. 84,475 crores. Hence even a nominal reduction in non-plan expenditure will be a major achievement. A saving of about Rs. 500 crores per year is envisaged on this account.
- d) **Higher excise and customs duties will be imposed on all items of conspicuous consumption and luxury. Services like advertising, cable TV, credit card operation etc. will be brought into the tax net.** Additional revenue from increase in excise and customs duties as well taxes on services is envisaged to be about Rs. 4000 crores.

The overall effect of the above proposals on budget is likely to be as follows :-

	First Year Rs. Crores	Second Year Rs. Crores
• Loss of Revenue from removal of Income Tax	15,000	15,000
• Reduction of plan expenditure	6,000	10,000
• Reduction of non-plan expenditure	500	500
• Additional Revenue from increased rates of excise,	4,000	4,000

customs duties and taxes on services		
• Additional Revenue from increase in indirect taxes due to increase in GDP by 10% p.a.	4,000	4,000
• Deficit/Surplus due to the above proposals	- 500 (deficit)	+ 3,500 (surplus)

There are various estimates of the so-called "black" economy in India. Even a partial integration of that to the mainstream is likely to have a major effect. This combined with the growth induced by removal of income tax and encouragement to savings will lead to a double digit growth rate. An estimate of 10% p.a. growth in GDP is hence a highly conservative one.

5. INDIAN ECONOMY - AT A GLANCE

Some interesting aspects of Indian economy that are relevant to the present discussion are as follows :

- A) Savings vis-à-vis Investment - The following are the figures of Gross Domestic Savings and Gross Domestic Investment as percentage of Gross Domestic Product at current market prices.

	1992-93	1991-92	1990-91
	As % of GDP		
Gross Domestic Savings	22.3	23.1	24.0
Public	2.1	1.7	1.0
Private	20.2	21.4	23.0
Gross Domestic Investment	24.5	24.2	27.4
Public	10.3	10.0	10.5
Private	14.6	14.0	16.2

It is obvious that the public sector has been using up much more of the national savings than what has been its contribution. This gobbling up of the nation's potential for growth by the public sector becomes more glaring when one takes into account the performance of the public sector.

It does not take much calculation to demonstrate the potential of growth that the country has if a larger percentage of the national savings is channeled into areas that are more productive, that generate more employment and that do more exports.

- B) Primary, Secondary and Tertiary sectors - the composition of the net domestic product by industry of origin at current prices is as follows :-

	1990-91	1981-82
	As % of GDP	

• Primary	35.8	41.0
• Secondary	24.1	22.8
• Tertiary	40.2	36.3

During the nine years, the primary sector had a negative growth of 12.7%, the secondary sector had a growth of 5.7% while the tertiary sector had a growth of 10.7% in terms of contributing to the GDP. This sectoral contribution in absolute terms at 1980-81 prices is as follows :-

	1990-91	1981-82
	Rs. '000Crores	
• Primary	65	48
• Secondary	48	27
• Tertiary	75	41
Total	188	117

During the above nine years, in absolute terms the growth has been as follows

• Primary	35.4%
• Secondary	77.8%
• Tertiary	83%

The figures for employment in the three sectors are not available. However it is well known that the primary sector employs more than 75% of the total work force. The primary and secondary sectors of economy are the ones that produce wealth while the tertiary sector is the one that uses it. The growing importance of the tertiary sector has led to various social and political problems. This has led to widespread discontentment and demands for social engineering (more about it later).

- C) Industry - Public Sector and Sick Industries - Both, the public sector and the sick industries are seen to be a major problem of the Indian economy. However there is a very big difference in the scale of the two. Non-performing assets of the public sector enterprises is a major national problem and the sick industries are relatively a very small problem. The following data will illustrate the point :

	1991-92	1990-91	1980-81
	Rs. thousand crores		
• Capital employed in central PSE's	118	102	18
• Amount outstanding from sick units	12	11	2

The comparison of the two sectors is relevant when one notices that the net profit to capital employed for the central PSE's is about 2% which is much lower than the expectation of returns that the banking sector has from even the sick units.

D) Taxation :- The total revenue received by the Central Government was as follows :

	1990-91	1980-81
	Rs'000	crores
• Direct Taxes	11	3
• Indirect Taxes	45	10
• Other Taxes	1.4	0.3
• Less States' share	20	3.8
• Tax Revenue (net)	43	9
• Non-Tax Revenue	12	2.6
• Total Revenue (net)	55	12

It is interesting to calculate tax revenue as percentage of GDP at current prices during the above years

	1990-91	1980-81
	%	%
• Direct Taxes	2.35	2.44
• Indirect Taxes	9.61	8.13
• Tax Revenue (net)	9.19	7.31

It is clear that the importance of indirect taxes has risen while the contribution of direct taxes has gone down during the above ten years. This has been primarily due to the resistance that the Government has been facing in collection of direct taxes.

There are various estimates of the underground or "black" economy in India. A reasonable estimate about the size of the black economy is that it is approximately 25% of GDP. If this can be integrated with the mainstream of economy and if there is a **9.6% realization on account of indirect taxes from this economy, the additional revenue will be 2.4% of GDP which is higher than the collection of direct taxes being done currently.**

The benefit of such an integration on the Gross Domestic Savings (GDS) will be even more. **Assuming a GDS of 23% of GDP, at the current level of GDP a sum of about 40,000 crores will be available as savings for use in productive investments.** It is interesting to compare this with the level of direct foreign investment in the country by various routes.

	Rs. crores 1992-93	Rs. crores 1993-94
A. Direct Investment	995	2667
a. RBI automatic route	123	315
b. SIA/FIPB route	695	1353
c. NRI's	177	999
B. Portfolio Investment	699	8530
a. FII's	3	6285
b. Euroequities	696	2245
TOTAL (A+B)	1694	11197

It is obvious that the availability of additional savings will be many times more than the total direct foreign investment being made currently. The political advantages of a country tapping its own savings over any foreign investment cannot be overemphasized.

6. ECONOMIC VIEW

Various arguments from an economic view-point can be put forth in favour of removal of income tax. Some of the important economic arguments are as follows :

- A) The cost of collection of Income Tax is very high in comparison to the socio-economic benefits that are sought to be achieved. The costs are both direct and indirect. The direct costs are incurred by way of expenses for running the income tax department including salaries and wages, rents, stationery and other administrative expenses. Some of the indirect costs are as follows :-
- i) Time money and effort put in by assessee for maintaining books of accounts.
 - ii) Time money and effort put in by the assessee for complying with various statutory requirements like filling of forms and return, making payments by cheque, getting clearance certificates etc.
 - iii) Costs for getting accounts audited under the Income Tax Act.
 - iv) Costs for getting assessment order from the department. The costs are in terms of follow up required at the department as well as the amounts to be paid to various officers of the department unofficially.
 - v) Costs incurred by the public as well as the government in cases at judicial/sub-judicial bodies.
 - vi) Costs incurred by the public in various schemes for reducing tax liability.

The above indirect costs are the expenditures incurred by the nation in a manner that is unproductive and wasteful. There are no estimates at the macro level of the above costs. However, some estimates may be made at the micro level. A firm having a turnover of Rs. 50 lakhs per annum will incur the following expenditure:

	Rs.p.a.
I) Accounting Costs	20,000
ii) CA's charges for filing returns etc.	2,500
iii) Auditing charges	5,000
iv) ITO's bribe	5,000
v) Cost at tribunal/high court @ Rs. 20,000 in 10 years	2,000
vi) Loss of interest on amounts invested in various schemes for avoiding Income Tax @ 5% p.a. on Rs.1 lakh	5,000
Total	39,500
Add the value of time and effort put in by the assessee for complying with various requirements and appearing personally in the department	10,000
GRAND TOTAL	49,500

This shows that the firm is spending almost 1% of its turnover in expenditure that is for income tax purposes only. Assuming that the same ratio holds good at the macro level for GDP at current prices originating from secondary and tertiary sectors of economy, **the total indirect costs incurred by the nation for collection of Income Tax will be about Rs. 4,500 crores.** This is in addition to the loss of opportunity costs due to a significant amount of savings being immobilized from productive employment generating investments. If that is taken into account, the above figure will probably double up to Rs. 9,000 crores.

If the direct costs for collection of tax are assumed at just Rs. 100 crores, the total costs of tax are Rs. 9100 crores which forms almost two third of the total tax collected by the Government. This is a very high cost to the economy as a whole and is hence avoidable.

- B) Income Tax encourages businessmen and corporate entities to spend on revenue account rather than save and invest in additional production capacities that have a potential of employment generation. This leads to conspicuous consumption that increases social tensions.

The proposal made in this paper seeks to do exactly the opposite. It attempts at discouraging all forms of conspicuous consumption and luxuries at the same time encouraging savings and investments. The aim of the proposal is to encourage creation of wealth in the country rather than to encourage a consumerist life style.

The difference in the two approaches is a fundamental one. The European and American model of development has been based on increasing consumption to get growth while the Japanese have used an approach based on creation of wealth model. Given the historical background that our country has and also considering the mindset of our people, a creation of wealth approach is preferable to the consumerist model. It will not be an exaggeration to say that given the impoverished society that we have inherited, it will be highly dangerous for us to adopt the consumerist model.

- C) Income and profit are notional concepts. It is difficult or rather impossible to objectively define what constitutes income and profit. There will be generally speaking more than one method of calculating income. For example, The Companies Act, 1956 and The Income Tax Act, 1961 differ on the procedure for calculation of income. This nebulous nature of income or profits makes it difficult to determine leading to extensive disputes that in turn need a vast redressal mechanism.

On the other hand, the prices of products and services are more easily determinable and hence it is appropriate that the tax be levied at

products and services rather than at a loosely defined thing like income.

- D) **Non-Resident Indians do not park their funds currently in Indian banks due to various income tax hassles. The removal of Income Tax will lead to India receiving a massive inflow of funds from NRI's.** It is difficult to estimate the quantum of this inflow but it is likely to be much more than what the FII's and Euroissues can bring to this country.
- E) Income Tax encourages the growth of non-productive sections of the society. It encourages accountants, clerks and middlemen at the cost of engineers and doctors. It forces the productive people to indulge in unproductive activities. For example, it will force a heart surgeon to spend an hour a day writing his accounts instead of treating a few more patients.

7. THE POLITICS

Income Tax has survived for so long because it is politically convenient. It is nice rhetoric to shout from a political platform that rich will not be allowed to become richer and there will be redistribution of wealth. The first half of this century saw this rhetoric bloom and the last decade has seen its fall. The fall of communism has made socialists run for cover and American brand of capitalists are out on the roof tops. Yet, there is a vast populace that finds the emotive appeal of socialism too strong to resist.

The proposal outlined here runs the risk of being labeled capitalist, anti-worker, anti-socialism and so on. The truth is that it is none of the above. **The correct labels for this proposal ought to be growth oriented, pro-savings, pro-workers, anti-parasites and pro-Indian.** The proposal seeks to find an economic policy that is neither a watered down version of IMF-World Bank prescribed consumerist capitalism nor is it a pale shade of the communist red.

The bluff of communism and the mirage of consumerist capitalism has been seen by the world and it is not necessary to discuss the same here. What is not however clear is that there exists a possibility of an economic policy that is truly path-breaking.

The proposal outlined here is based on the SWADESHI concept. It seeks to break away from the paradigm of rich against poor. It is based on the concept of brotherhood and interdependence. It follows Gandhi when it looks at rich as trustees of wealth rather than as owners who can use it for a life of luxury. The Indian tradition has always sought from its Gods blessings in the form of all types of riches though even the richest man is always advised to lead a simple life. The emphasis is on creation of wealth rather than on consuming it.

It is essential to look at a wider perspective to understand the full impact of the reorientation of the economic policies that is being sought to be achieved. India has been impoverished for centuries by foreigners. We trusted them and they looted us. We have to put an end

to this. The foreigners followed a policy of Divide and Rule. They made us look at each other as enemies and not as brethren. This must also change. We must change our outlook towards each other. The jealousy and venomous feelings of the past should give way to a brotherhood.

Let our guiding principles be "Ghee gire to thali mein"
(If the ghee falls in the plate it is acceptable).

The options are limited. We can either accept this way to prosperity and growth or keep fighting amongst ourselves for a piece of bread that will keep reducing. We have to understand that if we do not make our companies and businessmen strong, they will be beaten by foreigners. Their defeat will be the defeat of the country. An Indian company creates jobs in India while a European company creates jobs in Europe. When we support Indian companies, we support Indian jobs. If Indian companies are taken over by foreigners, it is a part of India that is lost and we have all moved a step closer to becoming slaves once more. We must act to stop this and we must act urgently.

The proposal outlined here not only seeks to create wealth and strengthen Indians, it seeks to **give economic power to the people**. Income Tax is an instrument to put brakes on the creation of wealth in the people and seeks to transfer resources to the Government who are supposed to do all good and no wrong. The people are no longer in a mood to trust a machinery that has proved to be highly inefficient and wasteful. Moreover such a centralization of economic power in the hands of persons who can be easily bribed is dangerous for national security. We are seeing a systematic effort to hand over large parts of our public sector to foreign companies under the garb of privatization or joint ventures or technology upgradation. We must not only stop this but also ensure that no further assets are created in a sector that is not only highly inefficient but also highly vulnerable.

Bharatiya Janta Party has a historical responsibility cast upon its shoulders. The party with its roots in the Indian ethos, tradition and culture is truly equipped to provide a leadership to a **national renaissance**. It must aim to do so. The nation has great expectations from the party. The proposal outlined here can form the **foundation stone for an economic policy that leads India on the way of becoming an economic superpower**.

8. SOCIAL ENGINEERING

The term "Social Engineering" has become fashionable in the last decade in Indian politics. Various parties have tried to give their own designs of social engineering. Though it must be admitted that the parties have sought to give expression to people's aspirations, it is clear that Congress, Janta Dal and other like minded parties have either refused to look at the reality or have tried to fool people by giving false hopes. Mandal Commission and reservation policy have been proclaimed as the great tools for social engineering. It is necessary to look at facts to see **the great fraud** being perpetuated on the poor people of India.

The total number of people employed in Government were as follows :

	million 1991	million 1981
• Central Government	n.a	3.20
• State Governments	n.a	5.68
• Quasi Governments	n.a	4.58
• Total	18.97	15.48

The annualized growth rate for total employment in Govt./quasi-govt. is about 2% per annum during the above ten years. Assuming that there will be recruitment for filling up vacancies caused by retirements etc. to the extent of 3% of the total employment, the total potential for employment generation will be 5% per annum of the current level of employment. This means that there can be jobs for about 0.95 million or 9.5 lakh persons every year.

The population of India as per 1991 census is 846 million and the decennial growth of population is 24%. The number of total workers in the population is 307 million which is likely to grow by about 74 million in ten years, or 7.4 million per year, assuming growth rate being the same as that of population. In addition to the growth there is a 3% per annum replacement rate of the workforce on account of retirees being replaced by young people. This replacement works out to about 9.2 million per year.

Hence the total demand for new jobs every year is about 16.6 million. Against this the Government and the public sector create 0.95 million jobs, that are sufficient for only 5.7% of the demand.

It is clear that irrespective of any reservation policy more than 94% of the young job-seekers will have to take jobs in sectors other than public. Even if the various backward castes and communities are given 100% reservation, a majority of the jobseekers of the above communities have no hope whatsoever of getting a Government job. All politicians who are trying to sell fancy dreams to them are obviously fooling them.

The problem lies somewhere else. We have to understand the root cause of widespread dissatisfaction among the people. Almost 90% of our population belongs to castes and communities other than brahmin and vaishya. They are adept at doing various jobs involving skills and hard work. They by nature are not inclined to do either book-keeping or be clerks. **The direction of growth in India during the past half of a century has gone against the basic nature of the majority of the population of our country.** There has been a phenomenal growth in the tertiary sectors of the economy while the primary has shrunk in relative importance. There has been a movement of resources from the primary and secondary sectors to the tertiary sector.

We have followed American pattern of development as against a German or Japanese pattern. In America, accountants and managers are considered more important than producers while in Germany and Japan, it is exactly the opposite. Even in India, it is administrators or accountants that rule over technocrats, doctors and agriculturists. In a different conceptual framework, one can say that the brahmin and the baniya are ruling over the kshatriya and the shudras who form 90% of the population. The problem cannot be solved by trying to make the brahmins shudra and vice-versa.

The solution is to shift economic power to the productive sections of the society. The size and importance of the tertiary sector must reduce in comparison to the primary and secondary., In fact this was the case in our country for a long time. The economic well-being of Mahars in Maharashtra is very well documented in history.

We have created a situation in our country when a semi-educated skilled worker cannot start and operate an enterprise due to innumerable forms and inspectors that he has to contend with. At some stage one feels that it is better to be an inspector rather than be the owner of an enterprise. This is the root of the malaise that creates demand for Government jobs.

The traditional wisdom of our villages has been "Krishi uttam, Vyapar madhyam, Chakri adham" (Agriculture good, trade medium and service bad). The post-independence India has reversed this. Doing a service is now considered the best option. The blue-print for social engineering cannot be effective till we create the conditions for the Indian society to go back to its traditional wisdom.

The steps for creating such a situation are as follows :-

- a) Reduce the movement of economic resources from the primary and secondary sectors to the tertiary sector. The first step must be to reduce what the Government takes away from the productive sections of the society.
- b) The Government must remove all such rules and regulations that make demands on the time of productive persons. In other words, no productive person should be asked to do any unproductive work like maintaining accounts or filing returns for statistical purposes.
- c) Any enterprise in the fields of agriculture or mining or industry that generates employment and does productive work must not be allowed to be closed on account of any default that it may have made towards the tertiary sector including the Government, the banks and the financial institutions. If the default is of a serious nature, a change in ownership may be considered, but this must be done in a manner so as not to affect the employment or production capacity of the enterprise. In case such a change of ownership is not possible, the tertiary sector should suffer a loss and forgive the default.
- d) The Government should not create any further production capacities in public sector and

instead try to actively promote creation of assets in other sectors of the economy that provide about 95% of the employment in the country. A stagnancy in the Govt. sector will lead to a loss of about four lakh potential jobs every year that can be easily made up by just 0.2% additional growth in the sectors that provide employment to almost 290 million persons.

The proposal outlined in this paper is the first step towards implementing the above plan for re-engineering of our social set up.

9. CONCLUSIONS

The arguments against income tax can be summed up as follows :-

- a) It tends to **further impoverish** a society that has been extensively damaged by centuries of plunder.
- b) The need of the nation is **capital accumulation** for growth as well as to face external threats. Income Tax is an attack by the Government on the people's capacity of capital formation.
- c) Income Tax attempts to place the surplus resources of the society in the hand of the Government which is not an efficient user of resources.
- d) Income Tax has led to the **growth of a parallel economy** in India. Even a partial integration of the parallel economy to the mainstream will lead to the availability of vast sums of money for investment. **This will lead to a situation where it will not be necessary for us to look for foreign investment.**
- e) The direct and indirect **costs of collection of Income Tax are very high** in comparison to the socio-economic benefits that are sought to be achieved.
- f) **Income Tax encourages expenditure rather than investment.** It is investment that creates employment opportunities.
- g) **Income is a nebulous concept** while prices of products and services can be easily defined. Hence it makes sense to tax products and services rather than income.
- h) **Removal of Income Tax will lead to India emerging as a financial centre for non-resident-Indians**

leading to vast sums of money becoming available to Indian economy.

- i) Income Tax encourages **productive sections of society to undertake non-productive work** like maintaining account books.
- j) Removal of income tax will lead to creation of wealth, strengthening of Indians and will give **economic power to the people.**
- k) Removal of income tax will lead to a **fast growth thereby increasing employment.**
- l) Removal of income tax is the first step towards **re-engineering of our society** wherein the productive sectors of agriculture, mining and industry get a pride of place and the services take the backseat. This will reduce the excessive demand for Government jobs that has led to social tensions in the recent past. This will also enable the vast majority of our people who are adept at doing skilled works to be productive in a manner that is in conformity with their natural aptitude.

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