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How wealth tax boost Indian economy



ARUN KUMAR

MORE MONEY, LESS PROBLEMS

Wealth tax in India will boost economic growth. The roadblock is political will

THE EDITORIAL, 'PIKETTY'S rights, wrongs' (IE, December 17) is correct in its assessment of inequality, demand and taxation in India. But, one could disagree with the conclusion that taxation of wealth would be disruptive while not generating revenue for public goods. It is argued that recent reforms have broadened the tax base, which should lead to additional revenue.

As per the Union Budget 2024-25, the Centre's tax collection according to the estimated GDP would be 11.78 per cent with direct taxes contributing 7 per cent. Additional taxes are collected by the states and the local bodies, taking the total tax to GDP to around 17 per cent. This is low compared to most other countries, which means inadequate expenditure on social sectors like education and health leading to low productivity and low incomes for a majority, resulting in weak demand and slowdown of growth.

Low tax collection is a result of black income generation. According to Oxfam estimates, the top 1 per cent on the income ladder earn 22 per cent of the national income. Projecting that further, the top 5 per cent may be earning about 40 per cent of the income. This means income tax collection from this 5 per cent should be about 10 per cent of GDP at an average tax rate of 25 per cent. Much more tax could potentially be collected if black income generation by the

DEAR EDITOR,
IDISAGREE

A fortnightly column in which we invite readers to tell us why, when they differ with the editorial positions or news coverage of 'The Indian Express'

Despite tax reforms, there are only 90 million (6.5 per cent of the population) taxpayers. But, only about 15 million are effective taxpayers. About half of the 90 million file nil returns and the rest pay negligible tax. So, the tax base remains narrow and the distribution of income is highly skewed.

top 3 per cent in the income ladder could be checked.

Despite tax reforms, there are only 90 million (6.5 per cent of the population) taxpayers. But, only about 15 million are effective taxpayers. About half of the 90 million file nil returns and the rest pay negligible tax. So, the tax base remains narrow and the distribution of income is highly skewed. Even if agriculture incomes are taxed, the numbers will not rise much. The real problem is the taxation of services — the dominant sector of the economy.

How can more revenue be raised for development? Not by indirect taxes, since they are inflationary and regressive.

That is where wealth tax comes in. Wealth and its value are largely visible and/or recorded, so it can be taxed. Billionaire wealth is largely financial, in the stock market and the rich in India also hold real estate which is registered, even if *benami*. The reason wealth tax failed earlier is because it was deliberately made complicated by allowing concessions, loopholes, etc. Now, with digital records, it should be easier to implement, if there is political will.

Most assets are overvalued due to speculation. A wealth tax would bring down the prices. Take Reliance Industries; its share price is Rs 1,250. At a P/E ratio of 25, the return is 4 per cent or Rs 50 on the share value. The

wealth tax at 2 per cent would be Rs 25. So, the net income would be Rs 25 per share. On this, there would be a 40 per cent income tax so that the net income becomes Rs 15. This return of 1.2 per cent would be way below that on bank fixed deposits.

So, funds would move from shares to the banks and industries and share valuations would decline from their stratospheric levels. As investments move to other productive investments, growth will be boosted.

The real problem could be the flight of capital, the decline of the Rupee and the BOP. Stricter capital controls would be needed temporarily. Animal spirits may be dampened till the rate of growth picks up and profits rise due to increased demand. Currently, financial bubbles build up and continuous stimulation of stock markets is required.

In brief, wealth tax is feasible in India. It will boost tax collections to fund greater investments in social sectors, resulting in a more productive workforce, higher economic growth and reduced inequality. If structured right, the black economy will decline, yielding even more direct taxes. The roadblock is political will.

Kumar is retired professor of Economics, JNU and author of Indian Economy's Greatest Crisis: Impact of the Coronavirus and the Road Ahead

- ❖ A recent writing ("Piketty's rights, wrongs") discusses **issues related to inequality, demand, and taxation in India**, particularly questioning the effectiveness of wealth taxation.
- ❖ While agreeing with the concern over **low tax revenue and its impact on social sectors**, the editorial argues that wealth taxation could be disruptive and ineffective.
- ❖ However, it is suggested that **broadening the tax base through reforms** has the potential to generate more revenue.

- ❖ **India's tax-to-GDP ratio is low at 17%, with direct taxes contributing only 7%**, far below global standards.
- ❖ This leads to inadequate public spending on essential sectors like education and healthcare, resulting in **low productivity, weak demand, and sluggish growth**.
- ❖ The **top 1% of earners in India account for 22% of national income**, and the **top 5% likely earn 40%**.
- ❖ If black income generation by the wealthiest could be reduced, more tax revenue could be collected, contributing significantly to GDP. This would help in **broadening the tax base and tackling inequality**.

- ❖ Despite recent reforms, **only 6.5% of India's population are taxpayers**, and a large portion of these pay negligible tax.
- ❖ This **narrow tax base contributes to a skewed income distribution**, highlighting the need for better tax collection mechanisms, especially in the service sector.

- ❖ **Wealth tax** is seen as a viable option for raising revenue .
- ❖ With **digital records and proper political will**, taxing wealth can be more efficiently implemented compared to past failures due to loopholes.
- ❖ A wealth tax could **reduce inflated asset prices**, leading to a more realistic return on investments.
- ❖ For example, wealth tax on large corporations like **Reliance Industries could lead to lower share prices**, prompting capital to shift towards more productive investments, thus boosting growth.

- ❖ While wealth tax is feasible, there are **potential challenges such as capital flight, currency depreciation, and balance of payments issues**.
- ❖ However, the long-term benefits of wealth tax include **higher tax collections**, which could fund greater investments in public goods and social sectors.

- ❖ The successful implementation of wealth tax hinges on **political will**. Despite its feasibility, there are **political and economic roadblocks** that have historically hindered its introduction.
- ❖ Overcoming these barriers would be critical to ensure wealth tax can be a tool for **improving social sector investment and reducing inequality**.
- ❖ If structured effectively, wealth tax could contribute to **reducing economic inequality**, as it would generate more funds for public investment in education, healthcare, and infrastructure.

- ❖ A well-implemented wealth tax would also **reduce the black economy** by addressing illegal wealth generation, which would further **increase direct tax collections**.
- ❖ This could create a **virtuous cycle** where the tax system becomes more effective, and inequality is addressed over time.

What is Protected area regime..?

Foreigners' entry restricted in Manipur, Mizoram, Nagaland

Centre reimposes Protected Area Regime amid 'security concerns arising out of influx from neighbouring countries'; foreigners will have to seek permission and permits to visit the 3 States

Vijalra Singh
NEW DELHI

The Union Home Ministry has reimposed the Protected Area Regime (PAR) in Manipur, Nagaland, and Mizoram to monitor the movement of foreigners amid "growing security concerns arising out of influx from neighbouring countries", the Manipur government said on Wednesday.

From now on, foreigners visiting the three north-eastern States would have to seek prior permission and special permits from the government. The relaxation has been withdrawn after a gap of 14 years.

According to Ministry guidelines, a foreigner is not encouraged to visit protected areas unless there are "extraordinary reasons to justify a visit".

On Tuesday, the Ministry wrote to the Chief Secretaries of Manipur, Mizoram, and Nagaland regarding the changed norms for the PAR under the Foreigners (Protected Areas) Order, 1958. The let-



From now on, foreigners visiting Manipur, Nagaland, and Mizoram must seek prior permission and special permits from the Centre. ANI

ter said the relaxation provided to Manipur, Mizoram, and Nagaland under the PAR had been "withdrawn with immediate effect" and henceforth, the entire areas of these States would again fall under the PAR. The relaxation was given earlier to promote tourism.

The PAR was initially relaxed for a year in 2010 in the three States bordering Myanmar and subsequently the duration of the order was extended for five years. The latest PAR order was issued on December

16, 2022 and was valid till December 2027, an official said.

The Manipur government said in a press statement that the PAR had been reimposed in the three States. "With this reimposition, the movement of foreigners visiting Manipur will be closely monitored, and they are required to obtain the necessary Protected Area Permits (PAP) in accordance with the Foreigners (Protected Areas) Order, 1958," it said.

The statement said that

no such organisation called "Kuki-Zo Council" existed in Manipur, claiming that the "origin and authenticity of this group are highly questionable".

"There is no district by the name Lamka, mentioned as a headquarters in Manipur. This raises strong suspicions regarding the external origins of such organisations that appear to operate outside legal and administrative framework," it said.

The State government urged national and local media houses to refrain from giving publicity to such press releases from unauthorised organisations or individuals. It also appealed to the "Central government and its agencies to disregard such claims from unverified organisations".

The new group comprising members of the Kuki-Zo community had on Tuesday warned Chief Minister N. Biren Singh to not travel by road via the Kuki-dominated Kangpokpi to inaugurate a festival in Senapati district, a Naga-dominated area.

- ❖ The Centre has re-imposed the **Protected Area Permit (PAP)** in the **Manipur, Mizoram and Nagaland**, due to growing security concerns linked to the influx of people from neighboring countries.
- ❖ This measure requires foreign nationals visiting these states to obtain **Protected Area Permits (PAP)** under the **Foreigners (Protected Areas) Order, 1958**.

What is Protected Area Permit (PAP)?

- ❖ A **Protected Area Permit (PAP)** is issued under the **Foreigners (Protected Areas) Order, 1958**.
- ❖ It is a regulatory mechanism for controlling the entry of non-Indian citizens into **designated areas** in India, primarily in the **Northeastern regions**, which include states like **Manipur, Nagaland, Mizoram**, and others.
- ❖ These areas are considered sensitive due to **geopolitical concerns, security issues**, and the need for controlled tourism and migration.

- ❖ The **Ministry of Home Affairs** is the central authority responsible for issuing the PAP.
- ❖ In addition, the **state authorities** of the concerned regions, such as the **state governments** of Northeastern states, can also issue PAPs.
- ❖ The PAP is generally issued for a **10-day** However, it can be extended for an additional **7 days**, depending on the specific situation or requirement.

Comprehensive policy for sacred groves..?

Formulate policy to manage sacred groves, SC tells govt.

Union Environment Ministry asked to develop plan for nationwide survey of groves, which are traditionally safeguarded by local communities, for its ecological value and cultural significance

Krishnadas Rajagopal
NEW DELHI

The Supreme Court on Wednesday directed the Centre to create a comprehensive policy for the management of sacred groves across the country.

Sacred groves are patches of trees traditionally protected by local communities for their religious and cultural significance. They also contribute to the conservation of the local biodiversity. These small forests are commonly found in Tamil Nadu, Kerala, Karnataka and Maharashtra. The recommendation by a Special Bench of Justices B.R. Gavai, S.V.N. Bhatti and Sandeep Mehta was based on a petition highlighting the vanishing groves of Rajasthan.

Significant move

The court's suggestion to the Centre to frame a policy is significant as the Centre has usually maintained that the manage-



Save biodiversity: These small forests are commonly found in Tamil Nadu, Kerala, Karnataka and Maharashtra. THULASI KAKKAT

ment of wildlife and its habitat is primarily the responsibility of the States. The Centre had noted that the Wild Life (Protection) Act, 1972, empowered States for declaration of any private or community land, as a community reserve, for protecting fauna, flora and traditional or cultural conservation values and practices.

However, the judgment aligned the preservation of sacred groves with the cultural and traditional rights of entire communities, while asking the Ministry of Environment, Forest

and Climate Change to spearhead the efforts to protect these precious sources of biodiversity.

The Ministry was asked to develop a plan for a nationwide survey of sacred groves. The court said the survey must identify the area and extent of the groves. It said the boundaries of the groves have to be clearly marked but left flexible to accommodate future growth of the forests. It said the Centre should provide instructions against the reduction of the groves.

Justice Mehta reminded

the Centre that the National Forest Policy of 1988, backed by the top court's interventions through the T.N. Godavarman Thirumulpad batch of cases, encouraged communities with customary rights to improve these forest patches on which they depend for their needs.

Village's efforts

The judgment narrated the story of Piplantri village in Rajasthan, where barren land was transformed to lush green groves due to the efforts of the people. "Piplantri village shows how a community-driven initiative came to effectively address social, ecological and environmental challenges in a cohesive manner," Justice Mehta underscored.

"Sacred groves have immense ecological value. Sacred groves should be identified and protected as community reserves to ensure their preservation against unauthorised land use changes," he observed.

- ❖ In a landmark judgment, the Supreme Court (hearing applications dealing with the protection of sacred groves of Rajasthan) **directed the Union government to develop a comprehensive policy for the management and preservation of sacred groves across India.**
- ❖ **Sacred groves**, small patches of forest traditionally protected for their **religious and cultural significance**, also play a vital role in conserving biodiversity.

- ❖ The management of wildlife and its habitat is primarily the responsibility of the concerned **State Government**.
- ❖ **The Wild Life (Protection) Act, 1972** empowers the State Government for declaration of any private or community land, as a community reserve, for protecting -Fauna, Flora and **Traditional or cultural conservation values and practices**.
- ❖ The court emphasised the **need for a national policy** and instructed Ministry of Environment, Forest and Climate Change (MoEF&CC) to:
- ❖ **Conduct a nationwide survey** to identify and map sacred groves.
- ❖ Issue strict guidelines to prevent reduction due to **denudation or deforestation**.

<i>State</i>	<i>Local term for Sacred Groves</i>
Andhra Pradesh	Pavithravana
Arunachal Pradesh	Gumpa Forests
Goa	Deorai, Pann
Jharkhand	Sarana
Karnataka	DevaraKadu
Kerala	Kavu, Sara Kavu
Maharashtra	Devrai, Devrahati, Devgudi
Manipur	Gamkhap, Mauhak
Meghalaya	Ki Law Lyngdoh, Ki Law Kyntang, Ki Law Niam
Odisha	Jahera, Thakuramma
Puducherry	KovilKadu
Rajasthan	Orans, Kenkris, Jogmaya
Tamil Nadu	Swami shola, Koilkadu
Uttarakhand	Deo Bhumi, Bugyal
West Bengal	Garamthan, Harithan, Jahera, Sabitrithan, Santalburithan

- ❖ The apex court highlighted the **National Forest Policy of 1988**, which supports community-led initiatives to protect forest patches.
- ❖ The court encouraged **formal recognition** of sacred groves as community reserves under the **Wild Life (Protection) Act, 1972**.
- ❖ The court suggested **recognising and empowering traditional custodians** under the **Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006**.
- ❖ These communities can regulate harmful activities, **ensuring sustainable conservation**.

Rajasthan's Piplantri village success story:

- ❖ The court cited the example of Piplantri village in Rajasthan, where **community efforts transformed barren land into thriving groves**.
- ❖ **Initiatives such as planting 111 trees for every girl child have:-**Created sustainable livelihoods. **Reduced female foeticide.**
- ❖ The Union has **traditionally** viewed wildlife and habitat management as **State responsibilities**.
- ❖ **The SC's directive marks a shift** by aligning sacred groves with the cultural and traditional rights of communities, **urging the MoEF&CC to take the lead**.

Under water hot spring in Indian Ocean

In a first, image of active underwater hot spring captured in Southern Indian Ocean

ANJALI MARAR
BENGALURU, DECEMBER 18

IN A first, a team of scientists from the National Centre for Polar and Ocean Region and National Institute of Ocean Technology imaged an active hydrothermal vent located at a depth of 4,500 m in the Central and South West Indian Ridges in Southern Indian Ocean.

This could hold potential for carrying out mineral explorations under the Rs 4,000-crore Deep Ocean Mission led by the Ministry of Earth Sciences.

Hydrothermal vents, largely found near tectonic plates, are underwater springs where cold water (about 2 degrees Celsius) prevailing near the seabed

EXPLAINED
E Rich in minerals and metals

THE DEPOSITS from hydrothermal venting are generally rich in copper, zinc, gold, silver, platinum, iron, cobalt, nickel and other economically-beneficial minerals and metals. According to senior NCPOR scientist John Kurian, they could remain active from a few hundred years to as long as 30,000 years, making them vital.

comes in close contact with magma in a tectonically active region. When this cold water trickles through fissures on the

ocean crust and admixtures with magma, it can turn into super hot water (up to 370 degrees Celsius) and emerge as plumes, rich in minerals and gases, through chimneys and vents.

In April this year, the NCPOR team, with the help of a Automatic Underwater Vehicle (AUV), almost zeroed in on this site. Located along the Central Indian Ridge, the high-resolution image capturing was done by a joint exploration team from the NCPOR, and the NIOT, Chennai, during the high-resolution Deep Sea Exploration and Imaging along hydrothermal sulphides field at the Central and South West Indian Ridges in Southern Indian Ocean.

Senior scientists John Kurian from NCPOR and N R Ramesh from NIOT led the hydrothermal

exploration programme and the AUV campaign. During the latest observation campaign done using an Indian AUV – launched from onboard research vessel Sagar Nidhi – the image was captured.

"We could capture images of an active hydrothermal vent. It depicted the vent chimney, black smokers and offered some signs of living chemosynthetic organisms," Kurian, group director, Deep Sea Exploration at NCPOR, told *The Indian Express*. "The latest findings visually confirm our previous detailed near-bottom surveys that identified several potential locations of active vents ... This (discovery) will go a long way to intensify the Indian exploration activities in the deep ocean," said Thamban Meloth, Director of NCPOR.

- ❖ Indian oceanographers have achieved a historic feat by capturing an image of an active **hydrothermal vent** located 4,500 meters below the Indian Ocean.
- ❖ This discovery, made under the Ministry of Earth Sciences' **Rs 4,000-crore Deep Ocean Mission**, holds immense potential for mineral exploration.

What is Deep Ocean Mission

- ❖ DOM is a program to **explore the deep ocean and develop technologies** to use its resource.
- ❖ This mission-mode project supports **India's Blue Economy initiatives, with MoES** serving as the nodal ministry to coordinate this multi-institutional effort.
- ❖ To **develop technologies to use the ocean's living and non-living resources**, and to improve understanding of the ocean's role in climate change

What Are Hydrothermal Vents?

- ❖ Hydrothermal vents are **underwater springs found near tectonic plate boundaries**.
- ❖ They occur when **cold water at the seabed (around 2°C) interacts with magma** in tectonically active regions, heating up to 370°C.
- ❖ This superhot water emerges as plumes, **rich in minerals and gases**, through vent chimneys and fissures.

Significance

- ❖ Hydrothermal vents are significant due to their deposits of valuable minerals and metals.
- ❖ These are: **Copper, Zinc, Gold, Silver, Platinum, Iron, Cobalt, Nickel etc.**

Biological Insights

- ❖ Hydrothermal vents support unique ecosystems.
- ❖ **Chemosynthetic organisms** thrive by utilizing chemicals enriched with minerals and metals, similar to how plants use sunlight for photosynthesis.
- Chemosynthetic organisms are organisms that **use chemical reactions to create food**, rather than sunlight, and include bacteria and archaea.

- ❖ This discovery boosts India's Deep Ocean Mission, especially the **Samudraayan initiative, focusing on mineral exploration.**
- ❖ The findings confirm earlier surveys and open new opportunities for understanding **deep-sea ecosystems and resource potential.**

1. India and Sri Lanka must collaboratively to strengthen their ties and realize their shared objectives of development and prosperity. Comment.



- ❖ Sri Lankan President **Anura Kumara Dissanayake**, on his first bilateral visit to India, assured Prime Minister Narendra Modi that Sri Lankan territory will not be used in ways detrimental to Indian interests.
- ❖ Both leaders emphasised **strengthening cooperation in defence, economic development, and regional security.**



...big business is done. As geographic dimensions have shrunk, there is a need to re-examine the national and regional geographic identity of Sri Lanka and to re-examine the smaller business clusters and trade flows. It is the basis of the economic relationship.

Second, New Delhi and Colombo are also planning a regional trade-led initiative (RTLI) for Sri Lanka. The RTLI initiative is a joint effort to expand domestic capabilities in sophisticated manufacturing industries including solar panels, electric vehicles and electronics components. This has reduced India's dependence on imports of these items which in turn has made Sri Lanka a key player in the regional trade-led initiative.

Third, it is time to re-examine the India-Sri Lanka Free Trade Agreement (FTA). India-Sri Lanka trade negotiations resumed under former President Maung Aung Mye Thazan and there was expectation of an early harvest agreement. In 2024, however, the talks are still in progress. Sri Lankan government has decided to trade negotiations to develop its FTA status. India is also aware of the need to strengthen its relationship with Sri Lanka in the region. It is also aware of the need to strengthen its relationship with Sri Lanka in the region.

Sri Lanka's economy is stabilizing from a crippling debt default and economic crisis. Indian aid and an IMF programme were instrumental in the economic turnaround. Trade is reviving during the European winter season has increased, bringing in much needed foreign exchange. The country's new budget is expected to be ready by early 2025. Apart from limited fiscal space for social spending, the island faces the serious risk of repayment (capital) on its external debt starting in 2025 if it is unable to generate sufficient foreign exchange through trade-led growth. Working in partnership with the IMF and World Bank, India should stand ready to help if Sri Lanka falls in a second time.

Prime Minister Narendra Modi and President Anura Kumara Dissanayake will meet in New Delhi in May 2024. The meeting will be the first between the two leaders since Dissanayake's inauguration in September 2024.

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The relationship between India and Sri Lanka is more than 2,500 years old. Both countries have a legacy of **intellectual, cultural, religious and linguistic interaction**.

In recent years, the relationship has been marked by close contacts at all levels. **Trade and investment have grown and there is cooperation** in the fields of development, education, culture and defence. Both countries share a broad understanding on major issues of international interest.

Areas of cooperation between India-Sri Lanka

- ❖ Sri Lanka is a member of regional groupings like **BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)** and **SAARC** in which India plays a leading role.
- ❖ This is in line with the government's focus on its **'Neighbourhood First' policy**.

Trade

- ❖ The main framework for bilateral trade has been provided by the **India-Sri Lanka Free Trade Agreement (ISFTA)** that was signed in 1998 and entered into force in March 2000.
- ❖ Sri Lanka is one of **India's largest trading partners among the SAARC countries**. India in turn is Sri Lanka's largest trade partner globally.

Cultural and Educational Relations

- ❖ **The Indian Cultural Centre in Colombo** actively promotes awareness of Indian culture by offering classes in Indian music, dance, Hindi and Yoga.
- ❖ India and Sri Lanka commemorated the 2600th year of the attainment of enlightenment by **Lord Buddha (Sambuddhathva Jayanthi)** .

Defence and Security Cooperation

- ❖ India and Sri Lanka conducts **joint Military ('Mitra Shakti') and Naval exercise (SLINEX)**.
- ❖ A trilateral maritime security cooperation agreement was signed by **India, Sri Lanka and the Maldives** to improve surveillance, anti-piracy operations and reducing maritime pollution in Indian Ocean Region.
- ❖ In April 2019, India and Sri Lanka also concluded agreement on **countering Drug and Human trafficking**.

Areas of divergence:

- ❖ In recent years, China has extended billions of dollars of loans to the Sri Lankan government for new infrastructure projects, which is not good for **India's strategic depth in Indian Ocean Region.**
- ❖ Sri Lanka also handed over the **strategic port of Hambantota**, which is expected to play a key role in **China's Belt and Road Initiative, to China on a 99-year lease.**
- ❖ The two countries have signed **civil nuclear cooperation agreement which is Sri Lanka's first nuclear partnership** with any country.
- ❖ India is also planning to build Trincomalee Port to counterweight the Chinese developments at Hambantota Port.

Measures needed to strengthen the bilateral ties:

- ❖ Both countries should try to work out a **permanent solution to the issue of fishermen through bilateral engagements.**
- ❖ **Comprehensive Economic Partnership Agreement (CEPA)** must be signed to improve the economic cooperation between both countries.
- ❖ India needs to **focus more on its traditional and cultural ties** to improve relations with Sri Lanka.



Thank you

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