PART II

MOBILIZATION OF RESOURCES

Resource Mobilization for Basic CSS Package

On the onset, sceptics would doubt the feasibility of providing basic comprehensive social security (CSS) to all the people of the country, citing financial crunch in our country, as the total package for providing essential support for meeting requirements of people towards food, cloth, security, elementary education, and basic healthcare, is around Rs.2943 billion per annum, as computed in the preceding section, whereas the total revenue receipt for the country for the financial year 2008-09 is expected to be around Rs.6000 billion only.

I would appeal to such intelligentsia that instead of posing such doubts, they should themselves search for various avenues from where resources can be generated for meeting out the most basic requirements of all the people of the country, otherwise the entire populace of the country will have to pay a heavy price for it as already elaborated earlier in Part I of this book under the section *"Need for Basic Comprehensive Social Security for All"*.

Although, the estimated requirement of about Rs.2943 billion per annum is a huge sum yet it is surely manageable in view of the fact that it is just around 6.33% of the total GDP of the country, which is estimated to be Rs.46,500 billion for the financial year 2007-08. However, if we consider that only 30% of our total population belongs to the *BPL* category then it implies that out of our total expenses of Rs.2943 billion, about Rs.2060 billion (70% of the total) will go towards the people belonging to the *APL* category, whereas only Rs.883 billion will be spent on the poor people.

But one should not construe from the above contention that I intend to provide any subsidies to the people of the *APL* category. On the contrary, I am going to project a scenario, whereby the above estimated total requirements for the basic CSS package will be met from those who belong to the *APL* category. Accordingly, those who consume more will also contribute more to the national exchequer in proportionately increasing manner. However, the main reasons for including the people belonging to the *APL* category in the network of people eligible for receiving basic CSS, are twofold:

- First, there are always ample chances of mistakes, intentional or otherwise, in classifying people in various categories, besides this, the process of classifying people into various categories, itself, prepares breeding ground for introducing people to the sullied world of corrupt practices from the grass-root level. **When everyone is included in the network for receiving the basic CSS, the need for categorizing people in the *Antyodaya* category, the *BPL* category, and the *APL* category will itself disappear, and along with it, a lot of scope for corruption will also die down without any further effort. Moreover, poverty is a dynamic phenomenon and people cannot be classified in various categories flawlessly, for a longer duration.**
- Secondly, if we also include people of the *APL* category in the network for extending basic CSS, the entire scheme of comprehensive social security can be executed flawlessly and efficiently, as already elaborated earlier in this book under the section *"Disbursal of Essential Commodities"*.

Now, I propose as to how substantial revenue can be generated to meet out the additional expenses required for providing livelihood support to the people. In this endeavour my strategy is two pronged: (a) recover the cost for providing livelihood support to all, from those who belong to the *APL* category and thus consume more and (b) increase tax on those items which are not essential building blocks for maintenance of healthy life and their consumption level increases as we move up towards the apex of the socio-economic pyramid of society. **Thus increase in tax will impact those, more, who belong to the upper middle class stratum of the society and are thus capable to pay back to the nation, to which they owe their prosperity.**

Before proceeding further, I also wish to point out that the basic strategy for taxing should be that it does not leave out any loopholes, in collection of taxes. I am not an expert in taxation, in fact, I know very little about taxation rules. But by sheer common sense and gut feeling, I assert that we should tax only those items and at only such points, from where collection of tax is executable completely and no one is able to short-change the procedure and generate black money. If the GOI cannot plug holes in collection of tax on any item then such an item should not be taxed at all lest it should leave gray-areas where corrupt practices can thrive upon. **Because compliance of rules is more important than losing some revenue, which can always be compensated from other sources. Because once culture of lawlessness and breaking of rules sets in then it cannot be undone by enforcing rules at other places.**

For example, it is easily possible to receive full taxes from the (i) income of salaried people, (ii) capital gains of people through trading in stock exchanges, (iii) profit of companies,

(iv) petroleum products, (v) chemical fertilizers, (vi) telecommunication services, (vii) electricity sale, (viii) automobiles sale, (ix) branded beverages, (x) sugar, (xi) banking services, (xii) cement, (xiii) metals, (xiv) other branded items, etc., because here concealing of transactions is difficult, thus compliance of taxation rules can be enforced more or less completely.

However, there are some other items where enforcement of tax rules is very difficult, like, (a) local production and sale of food-grains, vegetables, and fruits, (b) local poultry and dairy business, (c) small scale professions (tailoring, catering, dry cleaning, photography, etc.), (d) small scale industries (leather goods, glass work, furniture making, etc.), and the list goes on. So I would say that such small businesses should not be taxed at all because there will be wide-spread tendency of evasion of taxes, as well as scope for corruption at the level of tax enforcement authorities. Exemption from taxes at such points will also remove obstacles in carrying out business smoothly and overall productivity will increase. Instead, the income accruing to the owners of such businesses should be taxed and to cross-check whether this income has been stated correctly, it should be tallied with the financial transactions such people carry out, and the guilty should be imposed exemplary penalty.

But, indirect taxation is always possible in such cases, too. For example, we can increase tax on chemical fertilizers which are applied for boosting fertility of agricultural fields, besides increasing tax on diesel and electricity which are used for running pump sets for irrigation purposes. Similarly, tax can also be increased even on supplying water from canals to the farmers. In this manner, revenue can be generated even from the agriculture sector, by increasing tax on chemical fertilizers, fuel, energy, and canal water, which we can control easily and this will obviate the need to levy tax on production and sale of food-grains which we can never control flawlessly. However, to ensure that farming remains lucrative to the farmers and thus farmers do not lose interest in farming, minimum support prices of crops can also be increased simultaneously, which will also ensure that agriculture production remains buoyant, which is a priority for food-security of the nation as well as necessity for the farming community of the nation, who comprise more than 50% population of the country.

Now, I shall list out the potential sources, from where the required resources for extending comprehensive social security to all, can be generated with minimal inconvenience to all concerned.

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Savings from Reforming Chemical Fertilizers Sector

The GOI in its budget estimate for 2008-09 projected a total subsidy burden of about Rs.310 billion on chemical fertilizers. However, due to high volatility in the prices of crude oil during 2008-09, at one point of time, it was estimated that total subsidy burden due to chemical fertilizers, alone, will be more than Rs.1250 billion, but later as per the official estimates, it was pegged down around Rs.1000 billion (which includes cash subsidy of around Rs.800 billion and around Rs.200 billion in form of bonds), it may still vary to some extent depending on the international prices of petroleum products. However, we proceed further after assuming that a total fertilizer subsidy burden during 2008-09 will be around Rs.1000 billion.

Therefore, had we totally removed subsidy on the chemical fertilizers, the total savings on the head of fertilizers would have been to the tune of Rs.1000 billion. However, if the GOI is to provide essential commodities to the people under the proposed UPDS scheme, a part of the impact due to higher minimum support prices of agriculture produce will have to be borne by the GOI, also. One can compute from the estimates carried out earlier under the section *"Livelihood support to All"* that the GOI would need to procure food-articles from the market for distribution to people under the proposed UPDS programme, in the following proportion: (i) about 38% of the total cereals produce, (ii) about 49% of the total pulses produce, and (iii) about 31% of the total production of edible oils.

In addition to the production of food-grains, pulses, and oil-seeds, chemical fertilizers are also used extensively for production of sugar-cane, cotton, vegetables, fruits, fodder, etc. Therefore, as a guesstimate, about 75% impact of removing subsidy on fertilizers will fall on agriculture produce which will be beyond the ambit of procurement to be made by the Government for its UPDS programme. **This way net savings to the GOI after removing subsidy on the chemical fertilizers can be to the tune of Rs.750 billion as per the projected subsidy for the year 2008-09, itself. However, there would be no detrimental effect of increasing prices of chemical fertilizers on the food-production, should we simultaneously increase minimum support prices of crops. Moreover, some kind of crop insurance can also be provided to the farmers, depending upon the expenses incurred by them on the use of chemical fertilizers and fuel in connection with their**

farming needs. It will certainly ensure that farming remains a lucrative business with built-in safeguards. Thus, it can be said that there will be no adverse effect from removal of subsidy on chemical fertilizers; on the contrary, there will be many benefits from the removal of this subsidy as listed below:

- Experts emphasize that due to higher amount of subsidy on nitrate based fertilizers, vis-à-vis Potassium and Phosphate based fertilizers, soil nutrients are not applied in agricultural fields in optimum proportion. And this imbalance in composition of soil nutrients is reducing soil fertility thereby adversely affecting total yield of food-production, which is significantly lower in comparison to other countries.

- **Total subsidy on chemical fertilizers is not passed on to the farmers; in fact, more than one third is fetched by the fertilizers industry. As per the estimate of the National Institute of Public Finance and Policy, in the year 1999-2000, the share of farmers in this subsidy was just 46% whereas 54% subsidy was gulped down by the fertilizer industry, and for the entire period of 1981-82 to 2002-03, overall share of the farmers was 62% whereas the remaining 38% subsidy was enjoyed by the fertilizer Industry (Source: *http://finmin.nic.in/downloads/reports/cgsi-2004.pdf*). Therefore, if we remove subsidy on fertilizers and decontrol fertilizer sector, efficiency of our fertilizers industry will also improve. Consequently, more competitive units for fertilizers production will be set up which will help in creating self-sufficiency in production of fertilizers in the country.**

- Enhanced cost of chemical fertilizers will also motivate farmers to turn their attention for increasing use of organic-based fertilizers, which will also improve fertility of the soil as well as quality of agricultural produce. Farm produce obtained with the use of organic manures fetch better prices, too, besides reducing toxins in the agricultural produce, which is now causing alarming concern due to over use of urea-based fertilizers in our agricultural fields.
- Last but not the least, higher prices of food-articles and fertilizers will ensure that these are not smuggled out to neighbouring countries. Thus the GOI will be saved from initiating steps in curbing smuggling activity at least for these items. As far as impact of high prices of food-articles is concerned, it will be minimal on the poor who will not be hurt because they will get enough quantity of food-articles vis-à-vis their present consumption level through the basic CSS to be provided by the GOI and regarding the people of the *APL* category, who would be consuming more, its impact will be moderate because they, too, will be entitled to receive substantial quantity of food-articles under the basic CSS scheme.

Thus, annual savings from reforming chemical fertilizers sector will be to the tune of Rs.750 billion besides other critical accompanying benefits as discussed above.

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Savings from Removing Existing Food Subsidies

Now, there will be no need to administer food-subsidies through the existing TPDS as its role will be taken over by the expanded UPDS as explained earlier in this book. Thus, the existing food-subsidies, which are disbursed by way of distribution of food-grains at discounted prices through the TPDS, will not be required any more. The GOI has estimated food-subsidy of Rs.326.67 billion in its budget estimate for the year 2008-09 though it will be somewhat higher due to high prices of food-grains in the financial year 2008-09. Budget estimate of 2007-08 for food-subsidies was for Rs.256.96 billion but later it was revised to Rs.315.46 billion. Likewise, the actual bill of food-subsidy for the year 2008-09 will also be more, and as per revised estimates, it is expected to be around Rs.440 billion.

Thus, annual savings from food-subsidies after discontinuation of the existing TPDS will be of the order of Rs.440 billion, as now, it will be replaced by the expanded UPDS scheme which will encompass all the people in its fold.

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Savings from Disbanding Mid-Day Meal Scheme

Now, there will be no need to make any provision for the mid-day meal scheme for school children of the government and government-aided schools because now the children will get adequate food from their homes too under the proposed UPDS scheme. No amount of effort on the part of the Government can ever provide better quality food to the children than they can get from their mothers (homes). Numerous cases have been reported that worm ridden food-grains were used for preparation of mid-day meal for the children. Moreover, when corruption has become so rampant in every walk of life, it is almost impossible to check that full value of ration allocated for mid-day meals has been rightly used. For example, the GOI has projected its National Rural Employment Guarantee Scheme (NREGS) as its flagship programme with much fanfare and boasts that it has changed the lives of rural people but the truth is that only a small fraction of what Government spends on this scheme reaches the actual beneficiaries. A recent study (April 2007-January 2008) by a Delhi-based Centre for Environment and Food Security revealed in its survey in Madhya Pradesh that "only 25 percent of the NREGS funds have reached the intended beneficiaries and the remaining 75 percent have been siphoned off by the prevailing "Percentage Raj" (Source: *The Hindu*, dated 19^{th} July, 2008). Similarly, when even the educated and well informed persons in cities feel helpless and sometimes see no other option but to accept even a quarter empty LPG cylinder from an LPG hawker because of existing black marketing and long waiting period in obtaining refill of LPG, though in principle grievance redressing cells do exist and quite often help those who approach these cells. But is it always practical to devote so much of time for getting one's grievances redressed when these keep cropping up everywhere with alarming periodicity? Moreover, how many people, one can antagonize when one is apprehensive about one's own safety due to precarious law and order situation in the country? In such cases, people opt for easier path of somehow getting along instead of confronting with every Tom, Dick, & Harry, and taking up the task of setting right the whole system. Moreover, everyone does not have enough guts for it, too. Thus, only the proper governance can put things in right prospective in such matters and till then one has no option but to wait. In such an environment, how can one check mushrooming malpractices in siphoning off funds earmarked for the mid-day meal schemes of the Government?

Therefore, I suggest that mid-day meal scheme should be scrapped without pretending that its continuation is necessary to increase and sustain enrolment of children in schools. Because parents will be eager and even feel elated in sending their children to schools with home-packed lunch provided (a) there is quality teaching in schools, which, too, can be easily enforced as elaborated earlier in Part I of this book under the sub-section *"Central Assessment for Development of Education"* and (b) the parents have food-grains and other essential commodities to cook food in their homes, which will also be available if the UPDS as proposed earlier in this book is implemented in letter and spirit.

However, in case it is imperative to implement mid-day meal scheme in some pockets, the expenses on it should be deducted from the allocation made for these children in the proposed UPDS. The GOI has proposed an expenditure of Rs.80 billion in the budget of 2008-09 towards mid-day meal scheme, considering high prices of food-grains in this fiscal year, this expenditure may exceed at least by 10 percent and may easily reach a figure of Rs.90 billion, thus this amount can be saved when the UPDS comes into operation.

Thus, annual savings through shelving existing mid-day meal scheme will be Rs.90 billion, as it will not be required after introduction of the UPDS scheme.

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Generate Revenue from Petroleum Products

The issue of huge fuel-subsidies in India requires no re-telling as its utility is always debated vigorously. The GOI has tried many times that the administered price regime for petroleum products (petrol, diesel, LPG, etc.) should be replaced with market-determined system but mainly due to political reasons, it has not succeeded in it so far. As per the estimates of Paris-based International Energy Agency, the GOI spent about $19 billion ≈ Rs.855 billion ($1=Rs.45) on fuel subsidies alone in the year 2007.

The high-powered B.K. Chaturvedi Committee, constituted by the Prime Minister to look into the financial position of the oil companies in the wake of unprecedented rise in crude oil prices, in its report released in August, 2008, estimated that due to high prices of crude oil in the first half of the 2008-09, which hovered around an average of $125 per barrel during the first quarter of 2008-09, the under-recoveries for the state-owned oil companies may zoom over Rs.2000 billion during 2008-09. Later, when crude oil prices soared even higher up to $147 per barrel, it gave sleepless nights to the Finance Ministry. However, by January, 2009, crude prices fell back to less than one third of its peak but still it is estimated that the state-owned oil companies will have under-recovery of around Rs.1000 billion in the financial year 2008-09 because of fuel subsidies.

The aforesaid Chaturvedi Committee proposed that fuel subsidies should be given only on the kerosene and the LPG and that, too, only to those who belong to the *BPL* category in the country. The Committee also opined that all other fuel related subsidies should be phased out gradually by the year 2011.

Under the basic CSS as proposed in this book, provision has already been made to provide at least half-a-litre kerosene per person per month free of cost to all. However, those who do not require it can opt for other commodities of equal value. Therefore, now, there is no need to provide any kind of fuel-subsidy to anyone hence forth. Thus, it can result in net savings of Rs.1000 billion to the GOI as per the current level of under-recovery of state-owned oil companies. Otherwise, also, if the crude prices remain subdued in the subsequent years, the GOI should raise taxes on petrol, diesel, LPG, kerosene, etc., in such a manner that it fetches at least additional Rs.1000 billion in revenue to the Government beyond the existing level of collection of taxes from the excise duty on the domestic crude oil production and from the customs duty on the import of crude oil and other petroleum products from the international market.

Increased prices of fuel in India will have salutary effect in solving many other related problems of the country, too,

besides earning a lot of revenue for the GOI which can play a pivotal role in inducing earnestly needed social transformation in the entire country, by providing required livelihood support, to one and all. Though the potential benefits of removing fuel-subsidies are well documented yet for the sake of continuity and completeness, I am tempted to list below a few of my favourite ones:

1. As per some studies, more than 40% of kerosene meant for distribution to the *BPL* category people, is diverted to black-market and nearly half of it is used for adulteration with diesel. It creates black money which hits the economy badly as well as debases the character of the people involved in the racket of diversion of kerosene. Moreover, adulteration of the diesel with the kerosene also creates serious air-pollution problems. Kerosene sold in India contains about 2000 parts per million (ppm) sulphur compared to 350 ppm sulphur mandated for Euro III diesel, and this increased sulphur contents in the adulterated diesel create health hazards because of emission of noxious fumes from the adulterated diesel-fuel, thus compromising long-term health of the people of the country.

   Therefore, if the subsidy is withdrawn from the kerosene, both the aforesaid problems will be solved without any further effort in this regard. Also, a lot of kerosene is smuggled out to the neighbouring countries because it earns quick money to the black marketeers from the heavily discounted kerosene, which is sold through the TPDS in our country. After removal of the fuel subsidy, this will also get checked of its own, thus saving a lot of valuable resources for the national exchequer.

However, in case of the country's poor, who are supposed to reap benefits of subsidized kerosene as they are the targeted beneficiaries for it, their interests will also remain protected even when subsidy is removed from the kerosene. Because they will get some quantity of kerosene free of cost under the basic CSS scheme whereas they can meet rest of their requirements from the open market purchase, as now their overall financial position will be much better after the advent of the basic CSS scheme.

2. Subsidy on the LPG is also regressive as it benefits mostly the higher expenditure groups in urban areas, while the GOI intends to help the poor through subsidies. Due to the dual pricing for the LPG, one for commercial use and another for domestic use which entails heavy subsidy, diversion of the LPG meant for domestic consumption towards commercial use remains a lucrative business for the black marketeers. To check the black marketing of domestic LPG, state-owned oil companies are contemplating to use Radio-Frequency Identification (RFID) based solutions so that the LPG cylinders meant for domestic use could be demarcated with RFID tags during bottling of LPG and thereafter movement of these LPG cylinders could be tracked for checking, whether these are being diverted towards commercial use. This hi-tech tracking will involve huge cost and still at the best will remain only partially effective for several reasons. **So if subsidy on the LPG itself is removed then there will be no need to install such costly RFID based trackers. It is not understandable as to why we first create problems ourselves and**

then struggle with half-baked solutions to eradicate these problems.

When substantial assistance is provided to all the people through the basic CSS then there appears no need for any subsidy on the domestic LPG. If the subsidy on the domestic LPG is ended, availability of the LPG for the customers will also increase because presently state-owned oil companies hesitate to invest in increasing bottling capacity for the LPG as it is not remunerative, instead it adds to huge under-recovery and thus acts as a drag on their profitability. In a subsidy-free regime, many private players will also come forward and invest to build additional bottling plants for the LPG. Everyone is aware that LPG is a clean fuel but still it is used in only one-third households of the country. If more bottled LPG is available then use of LPG in rural areas can also be expedited at a much faster pace thus benefitting a larger population of the country as well as reducing air-pollution substantially. But this can be done only when the LPG is set free from the shackles of government price-control.

Moreover, due to scarcity of the LPG, which is a by-product of the government control over its marketing, retail customers bear the maximum brunt because quite often during retail marketing of the LPG refills, a substantial quantity of the LPG is siphoned off the LPG cylinders, before their delivery to the hapless customers. So all this corruption laden environment can be cleaned up in one comprehensive sweep if the LPG is taken out of price-control of the Government, in the same way as people are enjoying telecommunication services in the country after opening up of this sector for the private players.

3. **Higher subsidy on diesel vis-à-vis petrol has encouraged dieselization of the country, resulting in damage to the environment due to higher-rate of air pollution. Because of higher subsidy on diesel, even luxury car-makers are also rolling out super expensive sedans, viz., Audi, BMW, Mercedes-Benz, and other expensive brands, which run on diesel fuel. So whom are we subsidizing, the ultra rich in the country?** By increasing prices of diesel and petrol, we can check the mushroom growth of motor-cars in the cities, which are choking movement of traffic as well as creating unbearable air pollution. As far as the impact of the increased cost of diesel on transportation is concerned, it will be minimal on the poor who can be supported through the basic CSS package and regarding the increased cost for running pump sets for drawing water for irrigation of agricultural fields, the farmers can be amply compensated by way of increased minimum support prices for the produced food-grains.

4. By increasing prices of diesel and petrol, we can also coax automobile industry to increase investment in research and produce more fuel-efficient motor vehicles. Cheap fuel prices have enabled the transport providers to stay put with ageing fuel-inefficient automobiles which spit diesel fumes in the environment. Thus increased cost of fuel will force these transporters, too, to invest in modernization of their transport fleets and lean towards cleaner and more fuel-efficient motor vehicles.

So, as per the aforesaid deliberation, one can easily foresee that if we completely remove fuel-subsidies and if possible even further hike duty on fuel then its potential benefits will far outweigh any other consideration, which may arise out of such a hike in prices of fuel. One can also notice that, presently, the lion's share of the subsidy on fuels is enjoyed by the people who belong to the *APL* category; on the other hand, people belonging to the economically weaker sections only receive trickling benefits out of it. Thus, the earlier we remove subsidies on fuel; the better it would be for the larger interest of the people. Moreover, it will also unleash the spirit of competitiveness among state-owned companies and private companies, which will ultimately benefit the whole nation.

Thus, as per the above narration, it can be stated that additionally about Rs.1000 billion can be generated, annually, from removal of fuel-subsidy and/or further increasing duties on the petroleum products. Moreover, this generation of revenue will be hassle free, clean, and efficient, without leaving any scope for tax evasion.

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Savings from Hiking Duties on Beverages

Branded beverages are mostly consumed by the people belonging to the *APL* category in general and high expenditure group people, in particular. Beverages are classified mainly in two broad categories (a) Non-Alcoholic Drinks and (b) Alcoholic Drinks. The Non-Alcoholic Drinks can be further divided in two main segments, viz., Soft Drinks (Cola Products and Non-Cola Products) and Fruit Drinks (Fruit-Juice Drinks, which contain 80 to 85 percent Juice and Fruit-Based Drinks, which contain 15 to 20 percent juice), whereas the Alcoholic Drinks can be sub-divided in three main segments, viz., Beers, Wines, and other Spirits. I strongly feel that substantial sum of money must be generated by increasing duties on these products; a proposal for hike in the cost of beverages is illustrated in the following table:

Proposed Hike in Prices of Branded Beverages

Type of Beverage	**Expected Consumption of Branded Beverage in 2008-09**		**Proposed Hike (Average per litre)**	**Expected Additional Revenue (in billion)**
	(9 litre cases) (in million)	**(litres) (in million)**		
Fruit Drinks	80.0	720	Rs. 15/-	Rs. 10.80
Soft Drinks	580.0	5220	Rs. 10/-	Rs. 52.20
Beers	150.0	1350	Rs. 30/-	Rs. 40.50
Wines	1.6	14.4	Rs.200/-	Rs. 2.88
Other Spirits	190.0	1710	Rs.100/-	Rs.171.00
Total additional revenue: Rs.277.38 billion (say, Rs.280 billion)				

In future, consumption of branded beverages in India is set to rise due to higher disposable income of the fast rising middle class of the country; thus the segment of beverages can generate even more revenue for the social welfare programmes of the Government.

Thus, additional annual savings through duty hike on beverages will be of the order of Rs.280 billion.

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Savings from Reforming Electricity Sector

The GOI is trying to bring reforms in electricity generation, transmission, and distribution in the country, for the purpose, it enacted Electricity Act of 2003, and also brought amendment in it in 2007. In FY08 (2007-08), the total electricity generation by the power utilities in the country is estimated to be 710 billion units (BU). As per *Economic Survey* (2007-08), the break-up of consumption of electricity in various segments was estimated as: Domestic (24.3%), Commercial (8.7%), Industry (37.8%), Traction (2.3%), Agriculture (21.9%), and Others (5%). Considering 5 to 7% annual growth in electricity generation in the country, it can be extrapolated that about 750 BU of electricity will be generated in the FY09.

Now, considering the transmission and distribution losses (technical losses) of about 18% and other losses (commercial losses) on account of power thefts by way of improper billing, under realization of dues, and pilferage during distribution, amounting to another 27%, we are left with only 55% of gross generated electricity, i.e., 412.5 BU out of a total of 750 BU, which can be billed to the consumers. The aforesaid 412.5 BU also include about 90 BU of electricity (21.9% of 412.5 BU) which is consumed by the agriculture sector, which is given free in some States to the farmers or billed at steeply discounted rates in other States. Here, it is submitted that the under-realization on account of agriculture sector should be charged fully from the respective State Governments, without exception. In fact, the farmers should also be charged commensurately, for the canal water which is used by them for irrigation purposes. As far as, the Central Government is concerned, it can compensate the farmers uniformly by increasing minimum support prices for the farm-produce.

Now, I propose that per unit cost of electricity should be raised by Rs.1/- per unit, say, to Rs.5/- from the existing Rs.4/-, and that 30 units of electricity should be given free of cost to every household so that the lower expenditure group households are not affected at all due to hike in electricity tariff. In fact, a household using one electric fan (65 W) for 12 hours and two C.F.L. (20 W and 15 W) for 6 hours, each per day, would mathematically consume less than one unit per day or less than thirty units per month and thus will not be required to pay any bill for electricity consumption, except for some fixed charges for the sake of maintaining continuity of its electric connection. As a matter of fact, in this manner all the households consuming less than 150 units per month will have some sort of saving on their existing electricity bills.

As per National Sample Survey 58th Round (2002), it was estimated that 63.9% households use electricity for lighting, thus it can be said with crude estimates that about 80% households will have electricity connection in 2008-09. In all there are about 220 million households and thus 176 million would be having electricity connection. If all these 176 million households are given 30 units per month free electricity, about 5.28 BU of electricity will be distributed free. Supposing, we increase cost of total billable electricity (gross generated electricity minus electricity lost due to technical and commercial reasons) by Rs.1/- per unit, we can raise additional revenue of about Rs.412.5 billion. However, if we deduct Rs.26.4 billion (5.28 BU x 5) which will be given in the form of free electricity to the households as illustrated above, we will still have a surplus of about Rs.386 billion (412.5 – 26.4).

Thus by increasing electricity tariff by Re.1/- per unit as above, the GOI can raise substantial revenue amounting to Rs.386 billion per annum on the sale of electricity without hurting the poor in anyway whatsoever.

Similarly, if we adopt another public welfare reform of handing over the transmission, distribution, and realization of dues of electricity to private companies, we can raise even more resources as about Rs.810 billion get lost due to power thefts (consider the existing cost of 202.5 BU electricity, @ Rs.4/- per unit, which is 27% of the total 750 BU of electricity which is expected to be lost due to power thefts). And this loss can be avoided substantially, as can be seen from the examples quoted below (Source: *Business Standard*, dated 5th November, 2008):

1. **Aggregate Technical and Commercial losses, which comprise loss on account of transmission & distribution and power thefts, were brought down from 53 percent in 2002 to 18.5 percent in 2008, by one of the three private companies, viz., North Delhi Power Ltd., which managed distribution of electricity in Delhi.**
2. **Aggregate Technical and Commercial losses, excluding loss on account of improper billing and under realization of dues, were brought down from 49 percent to less than 21 percent in Bhiwandi Circle of Maharashtra state, in a short period of one and half years (during January, 2007 to May, 2008) when its power distribution was handed over to a private company, viz., Torrent Power.**

Thus, if we hand over transmission, distribution, and realization of dues of electricity to private companies and provide them back up support through *panches* and *head-*

panches as mentioned earlier under the section *"Minimum Cost for Basic Security"*, we can substantially reduce aggregate Technical and Commercial losses in the country and I will take the liberty to add at the risk of being accused for exaggeration that by initiating such steps, the power thefts (commercial losses) can be brought down to almost zero level in rural as well as urban areas.

Moreover, by handing over job of transmission, distribution, and realization of dues of electricity to the private companies, huge employment opportunities will also arise for the people, for the simple reason that these private companies will strive their best to minimize losses arising out of sale of electricity so that their profit could be maximized, and this cannot be achieved in vacuum. For the purpose, these companies will have to hire a large number of personnel to streamline their operations as these companies will not be able to stay afloat, like the Government owned companies are able to survive whether these make any profit or not. Further, it does not hurt anyone in person even if these government companies make a loss and this is also one of the main reasons for poor efficiency of government companies, and this situation gets further aggravated when there is no competition from the private companies.

Besides generation of huge revenue from the hike in electricity tariff, the following benefits will also accrue to the country and its people as a bonus reward:

- Due to the hike in cost of electricity, domestic industry will be motivated to employ latest technologies and to use power efficient electrical devices in industrial processes, thus resulting in substantial saving of electrical power, which in turn will transform domestic industry into a more vibrant and competitive force in this era of globalization.

- Concerned people will pay more attention for development of irrigation network through optimum use of river water, canal water, and rain-harvested water, which will bring long-term benefits for sustainable growth of agriculture in the country. Presently, because of free or heavily discounted electricity, farmers tend to use excessive ground-water for farming purposes. Consequently, ground water-table is tumbling at a faster pace and along with it quality of ground-water is also deteriorating, which is the only source of drinking water at many places. Moreover, excessive use of ground water, for irrigation of agricultural fields, is increasing salinity of the soil, too, which will eventually degrade fertility of our agricultural land. Therefore, in the scenario of fully priced electricity, the farmers will be forced to explore advanced methods of farming as well as newer technologies, which are less water intensive. And this will provide a congenial environment for balanced and optimal long-term growth of agriculture in our county.
- By changing perception of electricity sector, from a loss-making proposition to a profitable venture, we can create an enabling and conducive environment for attracting investment from more public as well as private companies in the field of generation, transmission, and distribution of electricity, in a competitive manner. Eventually, this will reduce cost of electricity for the consumer as well as improve quality and continuity of electricity, which will ultimately bring enormous relief and savings to the people. Presently, owing to the bad quality of power

(power with fluctuating voltage and frequent power cuts), people are forced to use voltage stabilizers and inverters/UPS/mini power generators in their houses, shops, and commercial establishments. And use of these appliances costs enormous sum of money to all concerned as per the estimates given in the table below:

Estimated Capital Cost of Stabilizers/Inverters/ Mini Generators

Appliance	Estimated User Households as per NSS 58th Round (Jul, 2002 to Dec, 2002)	Estimated User Households and Small Commercial Establishments in 2008-09	Estimated no. of Stabilizers/Inverters/ Generators (Average Capital Cost per Unit)	Total Capital Cost of Stabilizers for listed Appliances
Refrigerator	21.90 million	40 million	40 million (Rs.1000)	Rs.40 billion
Television	75.19 million	150 million	*80 million (Rs.500)	Rs.40 billion
A.C.	1.25 million	10 million	10 million (Rs.3000)	Rs.30 billion
Inverter with battery (0.5 KVA) Or Mini-Generator	No Data	30 million	30 million (Rs.12,000)	Rs.360 billion
			Total >>>	Rs.470 billion

* Considering that only half of the total no. of televisions run with stabilizers.

Note:

1. Main-line stabilizers of houses and commercial establishments have not been taken into account assuming that either these are used or the stabilizers for appliances as included in the above table are in use. Thus, the total capital cost just on installation of appliances, as listed in the above table, turns out to be around Rs.470 billion.

2. Stabilizers used for (i) water-coolers, (ii) air-coolers, and (iii) other electrical equipments, are not included in the aforesaid table for want of reliable data.

Estimated Wastage of Electricity due to Use of Stabilizers

Stabilizer for Appliance	Estimated No. of Stabilizers	Average Use per day	Average Consum-ption per hour	Average Consum-ption per day	Total Annual Consum-ption
Refrigerator	40 million	24 hrs.	40 W	0.96 units	14.02 BU
Television	80 million	4 hrs.	30 W	0.12 units	3.50 BU
A.C.	10 million	4 hrs.	400 W	1.60 units	5.84 BU
				Total >>>	23.36 BU

1. Thus, total electricity wastage simply on account of the use of normal stabilizers for the aforesaid appliances will be 23.36 BU. If we also include wastage of electricity due to use of stabilizers for water-coolers, air-coolers, and other electrical equipments, this figure of wastage of electricity will mount further. Say, total electricity wastage on the above counts is 25 BU per annum. Thus, about Rs.100 billion (cost of 25 BU

electricity @ Rs.4/- per unit) are being wasted annually only because stabilizers are necessary for protecting electrical appliances from breakdown due to poor quality of electrical power.

2. Further, annual expenses on account of maintaining and running of 30 million inverters with batteries/ mini generators are estimated to be Rs.90 billion @ Rs.3000/- per appliance per annum.

Thus, total annual cost simply on account of maintaining and running stabilizers and inverters/mini generators adds up to a minimum of Rs.190 billion.

Therefore, one can conclude that if good quality power (uninterrupted power with steady and proper voltage) could be provided to the people, it will free up capital investment of about Rs.470 billion and it will also save another Rs.190 billion annually in terms of recurring expenses on use of stabilizers and inverters/mini generators.

Accordingly, this can also be inferred that if good quality electric power is supplied, people will be too glad to embrace the increased cost of electricity because then they will not need to use stabilizers and inverters which cost them much more than the proposed hike in electricity tariff. Besides this they will also be set free from the worries of frequent power cuts.

In addition to the savings in cost as illustrated above, the following advantages will also accrue as a bonus:

- A lot of environmental pollution, which results due to use of lead-acid batteries and use of kerosene/diesel mini generators, can be checked instantly.
- We can free up to 35 BU of electricity (25 BU from elimination of stabilizers and remaining from

elimination of inverters which consume a lot of electricity while providing back up power as well as during charging of batteries), which is about 8.5% of the total electricity (412.5 BU) left for use after deduction of technical and commercial losses as stated earlier. On the other hand, total average short-fall in the electricity production in the country is estimated around 8 to 9 percent per annum whereas the peak load deficit as around 15 percent. Thus, with a slight more push in curbing losses in transmission of electricity and pilferage during its distribution to the users, the country can be self-sufficient towards its electricity requirements much earlier than the goal set by the GOI to provide power to all by the year 2012.

- However, the biggest advantage would be received in terms of enhanced productivity of the nation besides providing peace of mind to the people who always remain worried about looming threats of incessant power cuts and frequent voltage fluctuations in the electricity which is supplied to them.

As per the *Economic Survey* (2007-08), the expected subsidy on the electricity in our country in the FY09 (2008-09) will be Rs.327 billion, out of which about Rs.302 billion is earmarked towards agriculture sector. Since the impact of removal of electricity subsidy on agriculture will also be reflected in the increased minimum support prices of farm-produce and thus the GOI will also have to bear about half of its impact on account of its obligation to supply food-articles under the basic CSS programme. **Therefore, it can be guesstimated that the net savings from removal of subsidy on electricity can accrue up to Rs.164 billion and if we add into it the generated revenue of Rs.386 billion on account of hike in rates of**

electricity as mentioned above, we can save up to Rs.550 billion (386+164) from the electricity sector alone. And, if we are able to hand over transmission, distribution, and realization of dues of electricity to the private companies, also, the total savings to the nation can easily exceed even Rs.1000 billion, annually.

Thus, the net savings from slightly increasing cost of electricity and removing existing subsidies on electricity should be easily more than Rs.550 billion, annually.

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Savings from Duty Hike on Motor-Cars and Two-Wheelers

It is an acknowledged fact that the automobile industry played a major role in the development of U.S. economy in the twentieth century. It spurred the development of highways linking cities; it also acted as a catalyst in enhancing prosperity of the suburbs around major U.S. cities. However, ground realities are starkly different in India in this context. Thus, India should not try to emulate U.S. experience, which derived its growth from consumption and over consumption but, now, is facing its most difficult economic crisis, since The Great Depression, precisely due to this over-stretching and to some extent to the feeling of supremacy and complacency among American society.

In India, economic growth can be propelled and sustained at a much faster pace for a very long period, mainly through the development of (a) country's core infrastructure (transport network, electricity sector, water management, etc.), (b) agriculture sector, and (c) knowledge base of Indian population. Accordingly, explosive growth of motor-cars on Indian roads can be put on hold and sops to this sector should be curtailed, till we meet out our other priority development goals. Because first of all, these motor-cars cater to a very small population of the country and secondly, our road network is not fully geared up, to bear the load of ever increasing number of motor-cars. As a matter of fact, instead of facilitating seamless flow of traffic on the roads, the over crowded population of motor-cars is creating transport bottlenecks for majority of the people in our major cities.

In fact, the Metro Rail System and the Bus Rapid Transport System - currently in operation in Delhi - have shown the way as to how mass transport systems can ease out traffic problems with even bigger accompanying benefits in the form of less noise, less air pollution, less chaos, less crowd, less accidents as well as substantial savings in terms of time and money, which matter much for the majority of the people, at least in India.

Accordingly, to generate resources for priority concerns of the country, first among which is providing basic livelihood support to all the people of the country, motor-driven vehicles which are used for private transport, can be made a little more expensive, primarily because this burden will fall on the relatively well off population of the society and that general public will be spared from its pinch.

Therefore, it is suggested that the duty should be increased on the motor-cars and two-wheelers; I propose a conservative hike as under:

Type of Automobile	Estimated production in 2006-07 as per *Economic Survey* (2007-08) (number in thousands)	Per vehicle average price hike proposed (Rs.)	Estimated Revenue Collection (Rs. in billion)
Motor cycles/ Scooters/ Mopeds, etc.	8436.2	5,000	42.18
Cars/Jeeps/ Land Rovers	1545.6	50,000	77.28
		Total >>>	119.46

Note:

1. Production of vehicles in 2008-09 has been assumed to be the same as that for 2006-07, due to slow down expected in 2008-09 in comparison to 2007-08.
2. Commercial vehicles, which include buses, trucks, auto-rickshaws, tempos, etc, and agricultural tractors, are not proposed under duty hike as these are used for general public good.

In this manner, about Rs.120 billion can be generated from slightly increasing the cost of motor-cars and two-wheelers sold in the country. However, my views are at variance with the government policy in this context, as lately it has been on spree to shower tax concessions for these vehicles. The Government reduced excise duty on small cars and two-wheelers from 16 percent to 12 percent in the budget of FY09, while earlier it reduced excise duty on the small cars from 24 percent to 16 percent in the budget of FY07, and this took place when income of upper class people was increasing at a rapid pace.

In this context, it is just to add that currently (in 2008-09) excise duty on buses as well as small cars is the same and stands at 12 percent, for each, while buses serve much larger public cause. Buses, on an average, cater to the needs of about 100 times more passengers than the small cars, but occupy only about twice the road space (consider that a bus on an average carries more than 40 passengers in one trip and that it makes 10 such trips in a day in a city, whereas a car caters to the need of not more than four persons in such a context). Further, besides traffic congestion, cars also place other social costs on the society, enormously, in terms of increased air pollution, increased risk of accidents besides occupying scarce space for parking.

Therefore, the measures to raise revenue from the motor-cars and two-wheelers should be welcomed by the most in the society because by raising prices of these vehicles, in addition to generation of much needed resources, rash and reckless use of these vehicles purely for pleasure driving, especially by the youth, can also be restrained to some extent which will lessen the crisis of ever increasing chaos on the roads of our over-congested cities. Though, the Government can help the automobile industry in the promotion of export of motor-driven vehicles to other countries so that our automobile industry remains competitive in the global arena. However, this duty hike can also be moderated as and when we are in a position to decongest traffic on our city roads and able to build sufficient infrastructure for supporting larger fleet of motor-cars, and of course, when and only when sufficient provision has been made to provide necessary livelihood support for the less fortunate population of the country because only then even the elite will have peace of mind and hospitable environment, to reap and enjoy the reward of their prosperity in true sense.

Thus net annual savings from increasing cost of motor-cars and two-wheelers can reach up to Rs.120 billion or even more.

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Generate More Resources from Direct Taxes

The Direct Taxes contributed Rs.3144.96 billion towards overall gross revenue collection of around Rs.5990 billion for the Government of India from the Central Taxes during the FY08 (2007-08). Direct taxes comprise income tax on individuals and corporate tax on corporations. The share of corporate tax collection is rather large and is about two-third of the total direct taxes; as such, its rate should not be increased any further. Accordingly, the Government should pay far more attention and channelize its resources to rope in more and more people in the income tax net; this will increase a sense of belongingness among the people, too, that they are directly contributing towards building up of the nation. I give the following reasons for my aforesaid contention: First, by increasing corporate tax, we erode profitability of the companies and restrict their overall growth. If companies look profitable, they will attract more investment from the investors, domestic as well as overseas, which will help in faster growth of these companies which in turn will benefit the whole nation by way of more and more employment opportunities for the people as well as boosting the GDP of the nation. On the other hand, if we do not tax corporate profit heavily, disposable income of companies will increase, which these companies will anyway utilize somewhere. Some of their possible options are listed below: (a) distribute profit among their shareholders, (b) increase salaries of their employees, (c) augment their general reserves, and (d) invest in further capacity expansion.

Now, this increased income of the shareholders and the employees can be taxed separately, as income tax. As far as funds transferred to general reserve are concerned, they will get deployed in some financial instruments of the Government or other financial institutions, which can also be taxed separately. And regarding the last option for investing in further capacity expansion, I have already mentioned above, that further capacity expansion of the companies will culminate in imparting even larger public good to the whole nation by way of creation of more employment opportunities for the masses. Accordingly, increasing corporate tax any further does not seem to be a beneficial proposition. Thus, we are left only with the personal income tax on individuals, which can be explored to generate more revenue in a progressive manner.

However, the Finance Minister chose to ignore this option in his last budget, instead he showered unwarranted largesse on relatively well off population of the country in the budget of the FY09. Individuals earning up to Rs.150,000/- were let off the income tax hook, by increasing threshold limit by a whopping 36% over the previous year, whereas for the women and the senior citizens this tax threshold was scaled up even higher. This annual income of Rs.150,000/-, excludes another Rs.100,000/- which also stands exempted from the tax net if it is invested in notified savings schemes. If a person is able to complete a minimum three year cycle of contribution towards savings schemes (like, Equity Linked Savings Schemes), he can enjoy total annual income of Rs.250,000/- or about Rupees Twenty One Thousand per month without paying any tax (in fact, there are even more tax exemptions available if one subscribes to health insurance schemes). And this gift to income tax payers was granted, when more than 30 percent population of the country lives in abject poverty, whose upper limit is defined by pitiable earnings of Rs.356/- per capita per month in rural areas and Rs.538/- per capita per month in urban areas.

Due to the income tax relief given in the FY09 - over the previous financial year - individuals having annual income of Rs.150,000/-, excluding available exemptions, are saving income tax of Rs.4120/-, whereas those earning Rs.500,000/- per annum, excluding available exemptions, are saving income tax of Rs.45,320/-.

There were 31.5 million income tax payers in 2005-06 in the country as per official sources. Thus considering that there would have been at least 32 million income tax payers in India in the FY09, too, and estimating that average tax savings, for each, will be of the order of Rs.8000/- per annum, one can compute that the finance ministry sacrificed tax revenue of Rs.256 billion which was due to the nation, on this front alone. Accordingly, a lot of revenue can be generated by lowering limit of taxable slabs for individuals. I propose that at least Rs.300 billion should be generated, additionally, by way of lowering threshold floor for income tax, without fuss. And due to the recent pay hike on account of Sixth-Pay Commission award, amount of this revenue can be much higher.

It is just to add that, otherwise, also the income tax floor of Rs.150,000/- for personal tax in India is quite high and is more than double the tax floor of China though per capita income of the Chinese is about twice more than that of the Indians. As a matter of fact, when changes in income tax rates were proposed on the 28th February, 2008, as per the then exchange rate of a dollar vis-à-vis rupee, threshold for personal tax in India stood at $4000 against $3400 in the USA (Source: *Business Standard* dated 3rd March, 2008).

Thus, we can annually collect additional direct taxes at least of the order of Rs.300 billion by slightly lowering threshold floor for the personal income tax.

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Generate More Resources from Indirect Taxes

About Rs.2845 billion were collected as indirect taxes, comprising Excise Duty, Customs Duty, and Service Tax, in the total central tax revenue of around Rs.5990 billion in the year 2007-08. In the indirect taxes, the share of service tax was of the order of Rs.511 billion. The contribution of the service tax in the total GDP of the country for the year 2007-08, viz. Rs.46,500 billion, was only 1.1% whereas the total share of services in the total GDP was about 56%, though, the Government of India is relentlessly pursuing to increase share of service tax in the total collection of indirect taxes. To further this pursuit, it has included seven more services, w.e.f. 16th May, 2008, in the service tax net in the budget of FY09 and thus, now, in all 103 services fall under service tax net and these are being taxed @ 12.36% (Source: *www.servicetaxindia.co.in./list/services.htm*). Whereas there were only three services on which service tax was being charged @5%, when it was first introduced in 1994 with the resultant service tax revenue of merely Rs.4.10 billion.

However, I would like to submit with due respect to all the taxation experts that we should tax only those services, where tax collection can be enforced flawlessly and it cannot be evaded by the concerned persons. By bringing services such as dry cleaning, internet café, photography, maintenance and repair, outdoor catering, *pandal* and *shamiana* services, tour operation, transportation of goods by road, etc., under the service tax net, we only increase corruption in the society.

To illustrate my point of view, I take the example of outdoor caterers: First of all, a customer would not like that a recorded bill, of full consideration or for that matter any bill whatsoever, should be raised for the catering services availed of by him, because he will have to pay additional 12.36% as service tax. Secondly, the caterer would also not like to raise the bill for two reasons (i) he would like to earn good-will of the customer by reducing his expenses so as to build long-term relationship for securing repeat order(s) from him in future and (ii) the caterer would himself like to stay within the threshold limit prescribed for the small services providers, below which he remains exempted from the service tax net, which stands at Rs.1 million for the year FY09. Thirdly, some black sheep among tax enforcement officers may keep an hawk eye on the caterer to look for an opportunity, to earn quick money by invoking the issue of non-raising or under-raising the bill of the services provided by him, consequently, the caterer will find it more convenient to pay bribe to the tainted tax official than facing consequences of non-compliance of service tax rules. In the resultant scenario, everyone is getting some financial benefit, albeit by embracing unlawful activities but for the Government which is the lone loser and keeps on waiting that its coffer will be filled up by the earnings of service tax. The same factors apply to other small scale service providers, like, small tour operators, providers of *Pandal* or *Shamiana* services, owners of internet café, etc.

Therefore, I submit that only those services should be retained under service tax net for which tax compliance can be fool-proof, like, insurance services, telecommunication services, capital market transactions, banking services, other financial services, railway services, air-travel services, etc.

Similarly, realizing tax on finished metals is much easier than taxing small businesses that consume these metals and run small scale operations. In the same way, it should be explored that as to where tax should be imposed and as to where it should be waived off. The underlying principal should be that tax evasion either by the concerned persons in isolation or in collusion with taxation authorities, should be made increasingly more and more difficult.

In this way, we can instil in the minds of the people that earning money by foul means and getting away by deceit is more difficult than living with a little hardship but with peace of mind by following the rules. Consequently, in a gradual manner, the character of the people of our country will also be built up in an upright manner which will pave the way for all-round development of all the people of our country.

However, I have got a proposal to increase revenue from indirect taxes, by way of taxing the interest accrued on the term deposits held in the banks, post offices, and other financial institutions. For example, scheduled commercial banks held term deposits of the order of Rs.16,933 billion on the last Friday of march, 2007 (Source: *Reserve Bank of India Bulletin*, October, 2008), now, considering about 20% annual increase, it can be estimated that Rs.20,000 billion would have been kept as term deposits by the scheduled commercial banks, alone, on an average in 2007-08. If an average 7% interest is payable on these term deposits, about Rs.1400 billion will be payable as interest to the depositors, before deduction of applicable taxes. If we tax this interest uniformly, say, @5% (which will have a minuscule impact of 0.35% on the depositors), we can generate additional revenue of Rs.70 billion. If we include term deposits of post offices and other financial institutions, generated revenue will be much more and no one will be able to evade tax by having multiple term deposits with different banks or with fictitious names or in the names of various family members.

Moreover, such a tax on term deposits will be progressive in nature because the more interest a person earns, the more tax he will pay. Further, it will not be like tax on other services, where everyone pays at the same rate, irrespective of one's income level. For example, service providers of dry cleaning services or courier services, are supposed to charge service tax, which they uniformly pass on to the consumers of their services, irrespective of their income level.

Thus, we can meticulously collect additional indirect taxes even from the existing banking and financial services at least of the order of Rs.100 billion.

In fact, as a thumb rule, service tax should be levied only on such services where tax evasion is extremely difficult. Consequently, the Government can also lessen its burden of tracking 0.55 million service tax payers but still netting only a small portion of the total indirect taxes by way of service tax. Accordingly, instead of having those services under service tax net, where evasion of tax is possible, a better option would be to raise excise duty and customs duty on those items which are used by the providers of such services and thus these services will get taxed indirectly. For example, transporters always demand that transport of goods through road should be exempted from the service tax, this demand of transporters can be conceded to because on account of the service tax, they (especially a large number of small transporters who own only one or two vehicles but still about 70% lorries running on the roads belong to them) are subjected to unnecessary inconvenience because of increased accounting work and dealing with taxation authorities. Moreover, it also leaves transporters and their customers with temptation to resort to under-billing and thus raising the spectre of corruption. I would suggest that a far wiser option would be to increase excise/customs duty on fuel and increase excise duty on automobiles, if needed, none of which can be evaded, and these additional taxes will compensate much more than can be realized from the transporters by way of service tax. Similar strategy can be thought of for other such services, too. **Moreover, visible taxes hurt more than the invisible taxes and thus we should not go in pursuit of taxing every thing on which we can lay our hands lest it should crop up in the minds of the people that the business of the Government is nothing but to tax and harass them.**

Moreover, due to the ever increasing scope of service tax net, even service tax enforcement officers and service tax payers are finding it difficult to comprehend the complexity of the situation. Recently, cases of service tax evasion by commercial airlines were detected, which were making payment to ticketing solution providers based overseas. Here, no one will doubt the integrity of commercial airlines with regard to due payment of taxes but if service tax rules themselves are cumbersome, their compliance cannot be executed meticulously.

In a nutshell, I just want to conclude that tax only those things, for which tax collection can be enforced without leakage. There is no doubt that the collection of tax is

necessary for the national economy but even more important is building up of the national character, which can be built only when we are able to break all pervasive endemic culture of tax evasion by the individuals for pecuniary benefits, which has somehow deeply crept in our society over a period of time, due to inherent scope of exploiting loopholes in the existing rules. In fact millions of man-hours of high-skill professionals get spent in the quest of exploiting complex tax system of our country.

Employ Indirect Taxation to Streamline Pharmaceutical Industry

Here, at the cost of slightly drifting away from the main topic of looking for ways to generate more resources from indirect taxes, I would like to submit that the tool of indirect taxation, especially excise duty, can also be employed by the Government for improving corporate ethics of the country, in a more fruitful manner. Its need is being felt more, now, because these days some of the pharmaceutical companies are exploiting existing provisions of excise-free zones in the country and adopting unethical corporate practices, as illustrated below, and thus required intervention on behalf of the Government is urgently solicited in this matter of larger public good.

Many accuse the pharmaceutical industry of the country, for exploiting hapless situation of patients and forcing them to pay exorbitant prices for drugs. Because when it comes to purchase of drugs for an ailment, some times even a life threatening one, the patient is in distress and has no option but to follow instructions of his/her doctor and to purchase the drug(s) which have been prescribed by the doctor. As per a news item in the daily, *The Times of India*, dated 15th January, 2009, quite often, doctors are showered unethical gifts in cash or kind by the drug manufactures and their associates for promotion of their drugs. In this connection, on the 13th January, 2009, the Pharmaceutical Secretary of the Government of India met the representatives of some leading drug companies and brought to light the reported problems of unethical practices rampant in the marketing of drugs.

Here, I will discuss the cases of non-scheduled drugs only, which are outside the purview of direct price control exercised through the National Pharmaceutical Pricing Authority of India and, thus, create more trouble by way of unethical trade practices. Moreover, the problem of pricing of drugs is getting accentuated because most of the essential and useful drugs are out of the price control of the Government, for the reasons best known to the concerned regulatory authorities. As per some studies, more than 60% of the top-selling 300 medicines in India (which constitute almost 90% of the total retail market of drugs), fall in the category of non-scheduled drugs and thus are not covered under the provisions of the Drugs Prices Control Order (1995) of the Government of India, which regulates prices of drugs in the country.

Further, it is widely documented that certain drugs sold in the Indian market have huge profit-margins for retail traders, which sometimes exceed even 1000%, though unbelievable, but true. The following table shows just a few sample cases as to how some drug manufacturers and/or marketeers print exorbitant maximum retail prices on the drugs and thus enable the retailer to earn sky-rocketing trade margins from the sale of these drugs, it is also emphasized that the given trade margins pertain only to the retailer and do not include profit of the wholesaler/distributor of the drug.

Mind-boggling Trade Margins of the Retailer

Name of the Drug	Use	Price Billed to the Retailer by the Distributor	Maximum Retail Price (including all taxes) of drug (Date of manufacture)	Retail Trade Margin (including local taxes, if any)
Cetirizine Hydrochloride Tablets	Anti-allergy treatment	Rs.1.40 per 10 tablets	Rs.22.00 per 10 tablets (May, 2008)	1471%
Fluconazole Tablets 150mg	Treatment of skin diseases	Rs.4.00 per tablet	Rs.33.60 per tablet (Feb., 2008)	740%
Calcium with Vitamin D	For meeting deficiency of Calcium and Vitamin D	Rs.6.00 per 15 tablets	Rs.42.90 per 15 tablets (Sep., 2008)	615%
Omeprazola Capsules IP	Treatment of gastric ulcers	Rs.5.00 per 10 capsules	Rs.37.50 per 10 capsules (Aug., 2008)	650%

Note:

- Specific names of the concerned drug companies have not been mentioned because I have no intention to tarnish their image, more so, because retail trade margins may be even higher for some other drugs, which I could not quote.

- All the above mentioned drugs were manufactured in excise-free zones of Himachal Pradesh and Uttrakhand, and thus supposedly exempted from excise duty payment.

But, now, the question remains as to how this problem can be solved because the pharmaceutical industry always clamours for more freedom in pricing of drugs and pleads vehemently that market forces should be allowed to drive down prices of the medicines for long-term healthy growth of pharmaceutical industry as well as to promote larger public good. But the above table depicts as to how well public good is being served by many reputed pharmaceutical companies in our country.

In case of the purchase of drugs, the consumer (patient) is just a helpless entity in deep distress, who is not in a position to safeguard his interests. Because of his precarious situation, he cannot be placed in the league of consumer of other goods and services, say, the consumer (purchaser) of white goods (refrigerator, television, air-conditioner, etc.), who has the liberty, to survey the market, to compare specifications and prices of the various brands, and to discuss with colleagues, and thereafter take a considered decision as per his judgement. In such situations, the competition can work in favour of the consumer. Likewise, the competition in the telecommunication sector has also helped the consumer and it has been able to drive down telecom tariff in India so much so that these are now among the lowest in the whole world. **But, the same open-market strategy cannot work with the drugs. Because for a free-market to operate, the consumer should be well-informed, he should have liberty and time to exercise his option, and he should also be aware of the available alternative choices. But none of the aforesaid elements are**

under the control of a patient because he is under the treatment of his doctor and thus under obligation to follow his instructions in totality or else he may have to face the wrath of his doctor, which can jeopardize chances of his early recovery from his ailments, too.

With a view, to fix up the aforesaid problem of inflation of maximum retail prices of drugs by the companies, the Government has started levying excise duty on the basis of the printed maximum retail price of the drugs, after giving an abatement of 35% from the declared retail price, since 2005. Prior to this, the excise duty was charged on the ex-factory prices of drugs. But still the problem of overpricing could not be solved because the Government also notified some regions as excise-free zones, with a view to promote faster development of these regions. And to cash on this opportunity, many pharmaceutical companies shifted manufacturing of their drugs to these excise-free zones. Thus, it gave rise to another set of problems, whereby some drug manufacturers were paying excise duty but others were exempted from its payment and the latter could still resort to the practice of overpricing by way of printing jacked up maximum retail price on the drugs.

Thus, the clause of excise-free zones has aggravated the problem of over pricing of drugs further, as it does not hit the drug companies financially, at all, instead, it gives them even more leverage to entice the wholesalers and the retailers for promotion of their drugs.

Thus, it can be emphasized that the concept of excise-free zones can work with automobile industry or other consumer goods industries where the consumer has the choice for selection of the product but this concept of excise-free zone cannot work with pharmaceutical companies, which are

artificially jacking up maximum retail prices of the drugs for boosting their sales by way of resorting to unethical trade practices. More so, because when it comes to healthcare, the consumer is an utterly powerless person and thus unable to take the optimum decision to safeguard his interests.

So the Government should either terminate the concept of excise-free zones for drug manufacturers or else it should bring all the drugs manufactured in excise-free zones under strictly regulated price control regime.

Now, supposing that the excise duty is levied on all the drugs, considering the printed maximum retail price as the base for charging the excise duty, irrespective of their place of manufacture, then all the drug manufactures and/or marketeers will be forced to print reasonable maximum retail price on their drugs, as the inflated maximum retail prices will result in higher tax outgo on account of higher excise duty for these companies. So this will act as a balancing force to check artificial jacking up of maximum retail prices of the drugs. In the new scenario, competitive market forces will also come into play which will prompt drug manufacturers, distributors, and retailers to sort out between themselves regarding share of their respective profit margins. Moreover, in the new set up sub-standard and/or spurious drug companies, which thrive upon unethical trade practices, by leveraging the scope to print astronomically high maximum retail price on their drugs, will be sidelined and healthy consolidation of pharmaceutical industry will take place, which will bring enormous relief to the people besides increasing availability of better quality drugs at reasonable prices in the market.

To my mind, in this way drug pricing can be made more rationalized, without much government intervention, which people are now demanding, increasingly, as more and more unethical trade practices adopted by various drug companies, are unfolding before them. As a matter of fact, the pricing distortion, as mentioned above for the pharmaceutical industry, does exist in many other sectors, also. And if the Government could plan some similar strategies, there, too, the existing problem of artificially jacking up of maximum retail price of the goods, which ultimately dupes the consumer because of lack of awareness and choice, can be controlled to a large extent because then the manufacturer will also feel the heat of reckless printing of maximum retail prices on the packing of its products. Such measures will eventually bring about long-term benefits in terms of transparent and healthy trade practices in the country besides increasing competitiveness of the domestic industry. In the same way, as the cut-throat competition in the telecom industry has not hurt this industry instead it has helped this industry to grow by leaps and bounds continuously. Thus, it is obvious that the healthy competition does not kill an industry instead it helps it to grow more robustly.

So, it can be concluded that by levying excise duty on the maximum retail prices of goods, the Government will either earn additional revenue or the temptation of inflating maximum retail prices of the goods will be checked, both ways it will serve larger public good of the nation.

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Generate Savings from Telecommunication Services

Telecommunication sector is perhaps the fastest growing sector in India, density of telephone connections in the country has improved from under 4% in March, 2001 to over 30% at the end of September, 2008. Total subscriber base for telephone connections in the country at the end of September, 2008 stood at 353.66 millions, comprising 315.31 million wire-less connections (GSM, CDMA, and WLL[F]) and 38.35 million wire-line connections (source: Press Release dated 13th January, 2009 of Telecom Regulatory Authority of India). It is expected that the total subscriber base will cross the 410 million mark by the end of March, 2009, as almost 10 million subscribers are being added every month.

Further, tariff structure of telecom services in India is one of the lowest in the world. Taking advantage of this low tariff structure, we can levy some kind of progressive tax on the users of telecom services. Even by a nominal increase in taxes which will net on an average Rs.25/- per subscriber per month - on the existing telephone connections of 353.66 millions - we can generate substantial revenue amounting to Rs.106 billion per annum. The tariff structure may be designed in such a way that the people at the lower end of monthly use are impacted the least. In fact, telecom service tariff should be increased even more for heavy users of telephones as it will dissuade people from indulging in unnecessary lengthy telephonic conversations, which is nothing but wastage of human capital. Thus, this move will also have some social benefits in terms of induced saving of time of individuals, especially youth, who quite often waste a lot of their precious time in long telephonic chats, the saved time can be better spent by them in acquiring knowledge and other skills for their career advancement.

Thus, additional annual income from telecommunication services can easily exceed Rs.106 billion, without much effort.

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Generate Savings from Foreign Travel Tax

With rising disposable income of 300 million affluent population of the country, the number of Indians holidaying abroad has assumed an increasing pace. It was estimated by the Pacific Asia Travel Association that 8.3 million trips were taken by Indian travellers abroad in 2006 and this India outbound travel is growing by nearly 10 percent annually. Accordingly, it is estimated that about 10 million trips were taken by the Indian travellers abroad in 2008, and on an average each spent around Rs.80,000/- per trip. Further, as per official sources, more than 5.4 million tourists came to India in 2008 and it is estimated that on an average each spent Rs.95,000/- per visit.

It would not be a bad idea if some revenue is generated from these outbound and inbound tourists, also. Presently, a Foreign Travel Tax of Rs.500/- (and Rs.150/- on trips to Afghanistan, Bangladesh, Bhutan, Myanmar, Nepal, Pakistan, Sri Lanka, and Maldives) per passenger is charged from those embarking on trips to any place outside India. Those who buy airline tickets from outside India are charged at designated travel tax counters in India and those who buy tickets in India for outbound journey; their foreign travel tax is charged along with their travel ticket fare.

The rates of the Foreign Travel Tax have not been revised for a very long period and, therefore, can be raised to generate valuable resources. If the amount of Foreign Travel Tax is raised, say by additional, Rs.2500/- per person per trip, the Government can earn additional revenue of about Rs.25 billion from the Indians taking outbound travel whereas about Rs.13.5 billion can be raised from the tourists coming to India. In this manner, a substantial sum of Rs.38.5 billion per annum can be raised from the well off people who should be able to afford it without pain.

Thus, additional savings from foreign travel can be in the vicinity of Rs.40 billion, annually.

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Summary of Resource Mobilization

S.N.	Head	Remark	Annual Savings
1.	Savings from reforming chemical fertilizers sector.	Fertilizer subsidy is causing more harm than good. After subsidy removal farmers can be compensated through higher minimum support prices.	Rs.750 billion
2.	Savings from removing existing food-subsidies under the TPDS.	This subsidy will be redundant now as its role will be taken over by the expanded UPDS.	Rs.440 billion
3.	Savings from disbanding mid-day meal scheme.	This subsidy will be redundant now as its role will be taken over by the expanded UPDS.	Rs.90 billion
4.	Generate revenue from petroleum products.	Raised prices of petroleum products will clean up the economy as well as the environment. Poor will find support through the UPDS.	Rs.1000 billion
5.	Generate revenue from duty-hike on branded beverages.	Branded beverages are mostly consumed by the *APL* Segment of the society, thus poor will be hurt the least.	Rs.280 billion

S.N.	Head	Remark	Annual Savings
6.	Savings from reforming electricity sector.	Low-end users will not be affected at all. Overall people will have tremendous relief. Savings under this head can exceed even Rs.1000 billion per annum.	Rs.550 billion
7.	Generate resources from duty-hike on motor-cars and two-wheelers.	Poor will not be hurt. It will also clean up the environment and bring feeling of austerity among the rich.	Rs.120 billion
8.	Generate more revenue from direct taxation.	Personal Tax slab threshold is very high in India in comparison to other countries.	Rs.300 billion
9.	Generate more revenue from indirect taxation.	Tax bank deposits, this tax will be truly progressive and the poor will be least affected.	Rs.100 billion
10.	Generate more resources from telecommunication services.	Low-end users will not be hurt. Telecom tariff are very low in India and thus can be increased a bit with ease.	Rs.106 billion
11.	Generate resources from increasing foreign travel tax.	Only high income groups will be affected a little.	Rs.40 billion
		Total >>>	Rs.3776 billion

Note: The aforesaid scheme of resource mobilization from the various sources is quite logical, as it will also bring, along with it, several other benefits, as outlined above in their respective sections, while detailing strategy for resource mobilization from such sources. Though, it can be reassessed as well as other suitable sources can also be identified for increasing income of the Government.