

CEA: Higher tax will drive capital away

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Taxing capital less may not lead to more investments but taxing more will drive capital away, Chief Economic Advisor V Anantha Nageswaran on Friday said during a discussion on Inequality, Economic Growth and Inclusion. While it is easy to drive capital out, bringing it back is a lot harder, said Nageswaran.

Rejecting the idea of a "billionaire tax" suggested by noted economist Thomas Piketty, Nageswaran said: "Not all problems can be solved through fiat."

While there may be a need for billionaires to contribute more, its execution, measuring the wealth and distributing it further, will be a challenge. "We may agree on the progressivity of taxes, which we do in India. There are multiple ways to ensure there is contribution towards nation-building by the rich and all people according to their ability," he said.

Speaking at the event organised by the Research and Developing System for Developing Countries (RIS), the CEA said equality of access and opportunity matters more for public policy than equality of outcomes, relatively.

Enforcing equality through regulation hurts micro and small businesses more, given their limited management and

financial bandwidth, he said. "The tyranny of thresholds condemns them to remain small."

He cautioned that policy experts must beware of asymmetric effects of public policy and the law of unintended consequences. Nageswaran said the reduction of poverty, and not income inequality, is the litmus test of equitable growth.

Piketty in his comments said the countries earlier have become rich by exploiting world's resources but in the 21st century they have achieved it by reducing inequalities.

While exhorting the government to publish more data and be more transpar-

ent with information, Piketty refuted arguments about unfair international comparisons and the quality of data in his studies on inequality in India.

"Whatever the imperfection of data, you will have to conclude that India is a very unequal country by comparative standards. You can reduce poverty faster by having less inequality."

Taking part in the discussion, member of the PM's Economic Advisory Council Shamika Ravi said growth for India is non-negotiable.

"There is degrowth in Europe. Degrowth for us is immoral. Growth is what has gotten us here," he said responding to the growth versus inequality debate.

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V Anantha Nageswaran
Chief Economic Advisor

