

Ethical Deficit to Trust Deficit... Cushioning the Social Diseconomies....

"We must learn to trust.. For several centuries, Indians have been brainwashed to distrust other Indians. This saps national energy. Distrust kills initiative. Distrust compels people to maneuver and manipulate. Trust and transparency stimulates entrepreneurship."



For long we have been patting our own backs on stories of India rising and our ambition to clock double digit growth. It is true that we can still expect 9% growth in the long run, which probably might be one of the highest in the world. But a slight introspection would reveal that at present the momentum seems to be loosing its steam. The various corruption issues opening up like a can of worms is not only severely denting investor confidence, it has all the ammo to derail the much touted Indian growth story. The signs are ominous. FDI in India declined in this year. GDP growth is declining steadily to 7.7% in the second quarter of 2011. Investors are holding up investments, capital is locked up in projects, and negative signs post August / September 2010 is all encompassing. There is something in the air which is preventing any further movement, awaiting a big push for the return of the feel good factor. The mood is sombre, and the corporate earning figures have also not lifted up the spirit. Deep rooted corruption and total apathy of the common man in the system prevents an inclusive growth and is creating a bigger divide between the haves and the have not's which might result into India facing a Malthusian nightmare instead of reaping its demographic dividend.

The Government needs to get its act together and take some bold decisions to unshackle the system and induce further growth. The government should make some bold announcements to convey its willingness to come clean on matters of corruption and black money. We need an out of the box approach to achieve this. The tax rates should be lowered significantly. Specific moves like zero capital gains tax and 1% stamp duty on all real estate deals to encourage full value transactions is the need of the hour. Last time when we rationalized the tax system in 1985-86, all fears of loss of government revenue were put to rest when the actual tax collection was much higher by the lowering of taxes. We need a radical move from the government which dismantles the current rate provision.

Trust is a valuable social asset that forms the basis of democracy. Trust demands respect for the inherent value and rights of a human being. It is time for us to accept that while "taxes are the price we pay for civilization" - civilization cannot sustain itself without trust. Distrust kills transparency, creates divide and fuels maneuvering to suit ones motive. If a government distrusts its people, people are likely to reciprocate by distrusting the system. Reciprocity and cooperation increase in a trust based regime where people trust that others will indeed reciprocate.

Sadly in India it is this trust that is missing. Recent events have only pointed out the extent of this trust deficit and the lack of faith that people have in the laid down processes and the norms of democracy that we so proudly hold to with high esteem. The best way to promote trust is to promote procedural justice, legitimacy, and identification which would create a sense of respect for the authorities among the mass and a belief that he is being trusted by the men in power.

The government should encourage voluntary compliance. Forced compliance is leading to a situation where there is no fear of getting caught but, leading to an easier route of not complying and when the turn comes of being scrutinized, one easily gets away with payouts - invariably payouts are a cheaper option than compliance in monetary terms, wherein both parties benefit. The prevailing raid raj and high handedness of agencies aided by the discretionary power inbuilt in our laws is one of the key reasons for lack of compliance. Voluntary disclosure should be encouraged; instill trust in the system which would ultimately result in much greater compliance. It is not a novel idea, our previous experiences illustrate that a lower tax system accompanied by self compliance will result into greater revenue collection, given our current improved e-governance. The developed countries in the world do not have the kind of forced compliance that we have in India, but they have much better compliance. Hence it is high time we change the existing system which is corrupt and not work-

ing in our favour and announce some forward looking measures in this regard. Trust based compliance with strict enforcement in case of any breach of this trust is the need of the hour.

The Government should empower and encourage public participation in the cleansing process. Economic offenders should be made public and the highest tax payers should be honoured. Repeat offenders should pay steep and certain penalties and repeat performers should be awarded. Our system provides overriding power to the enforcement agencies which leads to extortionary corruption. Policy correction can curb extortionary corruption. Moreover, it is extortionary corruption which affects the common man, the honest man. The tax laws should provide at least the minimum dignity to the tax payers.

Trust based compliance with strict enforcement in case of any breach of this trust is the need of the hour. This would make the tax system more robust, transparent and vibrant. The call is for freedom from being harassed by the authorities due to the huge discretionary power that they enjoy. We may look at diluting this excessive discretionary power to enable more trust and faith in the system.

As a one time exercise, we may also look at an amnesty scheme to clear off all backlogs and post that treat whosoever evades tax with strict enforcement. The proposed amnesty scheme may be treated differently from all the previous amnesty schemes, since we did not have the kind of technology and e-governance previously that we have today. Today with the prevalent 360o profiling, we can literally track all transactions and expenditures of any individual, particularly of the high net worth individuals. The amnesty scheme would only help a large section of willing citizens to come clean and honest, who have been living in the muddle of corruption and deceit forced upon by the antediluvian tax system. Trust your citizen, and if he betrays your trust, punishment should be certain and exemplary.

Personally, I am against any amnesty scheme as it penalizes the honest. A three year limitation for any investigation or enforcement, which itself would clear more than 80% of the back log in the system and divert all our resources to more recent ones to get results instead of motivated grave digging of evergreen cases without any convictions may be a better option. This would also free our citizens from a lifelong fear of the unknown, of being persecuted for things they may never have done or known and don't have enough time or money to fight the system in which they have been caught.

Today we need a bold message through action from the government that it intends to fight corruption and bring in transparency in governance. The government needs to walk the extra mile to announce some big ticket reforms to bring in some cheer in the investment climate. The present status quo needs to go and the country needs to start moving.

—Arun Kumar Jagatramka