# The Logic of Neoliberal Anti-Populism*

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Advocates of neoliberalism not only dress themselves as market fundamentalists but also present themselves as anti-populist. They don't dither when it comes to condemning any sign of the government using tax revenues to provide transfers or subsidies to the poor or undertake expenditures that are expressly meant to favour the poor, in the form of livelihood protection, poverty alleviation or free and universal provision of basic health and educational facilities. The justification for this is two-fold: that expenditure to support growth must be favoured over spending to directly improve welfare; and, that fiscal prudence must be privileged over all else when deciding the use of the exchequer's resources. So if spending has to be tailored to correspond to revenues, expenditure on 'populist' measures must be limited or abjured.

There is a twist in the arithmetic underlying such reasoning. It assumes that the difference between tax and non-tax revenues, on the one hand, and total expenditures, on the other, can be reduced only by reducing expenditures and not by increasing revenues. That is obviously not true. Comparisons of the share of GDP appropriated as taxes by the Centre alone or by the Centre and states in India with the corresponding figures in similarly placed or even poorer economies points to the substantial untapped revenue potential in the country. While this has been occasionally recognised in the budget speeches of Indian finance ministers, few are willing to impose significantly higher taxes on those with much-higher-than-average incomes or those appropriating a disproportionate share of the surpluses over necessary consumption in the system.

The unwillingness or "inability" of the State to tax the rich reveals that it is not a neutral agency standing above all classes. It is partisan and represents the interests of a few. But such partisanship also serves the specific interests of the party in government. Resources are needed to fight elections or consolidate a political position, leading to a financial nexus between those wielding political power and those with access to the nation's surpluses. Under neoliberalism, which is based on an anti-statist and pro-market rhetoric, this nexus is strengthened. Since the neoliberal State is openly committed to favouring private capital, handouts to the rich in the form of tax reductions or direct transfers are seen as normal, and higher taxes on surplus incomes as abnormal. In such a system, State functionaries who have a role in deciding the magnitude of such transfers and determining the favoured recipients, often see nothing wrong in claiming a share in the spoils. The space for corruption is considerably enlarged. The result is that expenditure reduction has to be focused even more on curtailing so-called "populist" expenditures favouring the poor, to release the resources needed to finance the handouts provided to the rich and the payouts made to State functionaries.

This has two consequences. On the one hand, right-wing anti-populism gains intensity to both divert attention from financial cronyism and to release resources for transfers to a small elite. On the other, means are devised to treat elitist hand-outs very differently from so-called populist sops, with the former being treated as measures to spur growth and the latter derided as a dampener on productive investment and

therefore as being anti-growth. This tendency is often reflected in the language of neoliberal fiscal policy as well, with tax concessions to corporates being labelled as "tax expenditures", ostensibly aimed at furthering the growth agenda, while welfare measures are described as subsidies or transfers with no productive purpose.

For example, the relevant document on "revenues foregone" in the budget for 2014-15 states that the tax base and the effective tax rate are influenced by "… a range of measures which include special tax rates, exemptions, deductions, rebates, deferrals and credits." These 'tax preferences' are, in its view, "an indirect subsidy to preferred tax payers" that can be legitimately referred to as 'tax expenditures'." Why some tax payers are 'preferred' and why these are 'expenditures' and not plain subsidies for the well-to-do is by no means clear.

Such "expenditures" are not small. If we take corporate taxes alone, the revenue foregone in 2006-07 was Rs. 50,075 crore (or 34 per cent of corporation taxes that were actually collected) and that lost in 2012-13 was Rs. 68,270 crore (or 19 per cent of actual collections). As a result, in financial year 2005-06 the effective tax rate for the companies surveyed amounted to 19.26 per cent, as compared to the statutory tax rate of 33.66 per cent. That amounts to a subsidy of more than 10 per cent of profits. In 2011-12 the figures were 22.85 per cent and 32.45 per cent respectively.

These are not the only form in which corporations are favoured. The pressure to please capital can even result in the government condoning tax avoidance, seeing it as a signal that the tax concerned should be done away with. An example is the treatment of profits repatriated by resident firms from their overseas subsidiaries and joint ventures. As part of the process of liberalisation, and encouraged by the accumulation of foreign exchange reserves, the government decided to allow Indian firms to access those reserves to invest in establishing or acquiring firms abroad. Initially, however, the outflow on this count was not too large. According to one estimate, between end-March 2001 and end March 2006 investment abroad by Indian firms rose by a total of just $10 billion. Moreover, to the extent that profits were being generated from these investments, parent Indian firms seemed reticent to repatriate a part of those earnings and replenish the domestic foreign exchange kitty. The reason, it was argued, was the 'high' rate at which these earnings abroad were taxed if repatriated.

Rather than persuade domestic investors to repatriate some of those profits, replenish India's reserves and pay the statutory taxes on those earnings, the government saw in the corporate reticence to repatriate a signal to change its tax policy. In the Finance Act for 2011, the then Minister of Finance declared that he had received a representation that "the taxation of foreign dividends in the hands of resident taxpayers at full rate is a disincentive for their repatriation to India and they continue to remain invested abroad." So in response, he announced the following: "For the year 2011-12, I propose a lower rate of 15% tax on dividends received by an Indian company from its foreign subsidiary. I do hope these funds will now flow to India".

This amounted to providing private capital a reward for avoiding taxes. Incentivising repatriation by privileging profits earned abroad relative to those earned domestically amounted to condoning the practice of keeping such profits abroad in order to avoid taxation. By offering a tax concession for a single year on repatriated profits the

government was rewarding those who were willing to bring back their surplus earnings.

It needs to be noted that the foreign exchange reserve that supported corporate investments abroad were not reflective of large current account surpluses or an excess of foreign exchange earnings over foreign exchange expenditures. Rather they accrued because of large inflows of foreign capital into the country, which were well in excess of the sums required to finance the current account deficit in India's balance of payments. Since capital inflows involve future payments commitments in the form of interest, dividend and the outflow of capital, this implied that acquisition of assets abroad by Indian firms was being financed with the foreign exchange liabilities of other agents in the country. If this process is to be sustainable at all, over time the asset acquisition abroad should lead to the repatriation of profits back to the country, adding to the pool of the nation's foreign exchange.

It was soon clear that to ensure such repatriation the government would opt for offering investors abroad a long-term incentive, rather than making it an obligation to be met if foreign reserves were accessed. The tax concession did not remain a single-year, once-for-all benefit. Since 2011 it has been extended year-after-year for an additional one year period, and has now been extended for an indefinite period in the budget for 2014-15 by the new NDA Finance Minister Arun Jaitley. To quote from his budget speech: "The concessional rate of tax at 15 per cent on dividends received by Indian companies from their foreign subsidiaries has resulted in enhanced repatriation of funds from abroad. I propose to continue with this concessional rate of 15 percent on foreign dividends without any sunset date."

The results of the tax concession have been dramatic in the recent past. The annual increase in investment commitments abroad by Indian firms in the form of equity, loan and guarantees issued rose to more than \$10 billion in 2007-08 alone, touched an annual figure of about \$17-18 billion during 2008-10 and then spiked to stand at \$40-44 billion during 2009-11 and \$35-37 billion during 2012-14.

As argued above, supporting this surge increases the country's exposure to the risk of foreign exchange reserve depletion. What we are observing, therefore, is a budgetary transfer to a few firms so that they can earn profits abroad, at the cost of an increase in the foreign exchange risk exposure of the country.

These, however, are not 'sops' to be surprised by. They constitute the essence of neoliberal policy, which allows the behaviour of private capital to determine what policy should be. If corporations are adopting practices aimed at avoiding certain taxes, those taxes are best done away with. Even in the haven of neoliberalism, the US, this is not the response to similar tendencies. For some time now, US corporations have begun exploiting tax differences between the US and some other countries by relocating their headquaters to lower tax locations or tax havens in a process labelled "inversion". That deprives the US government of revenues. President Obama has come out against such reincorporations, and charged corporations adopting the practice with "cherry-picking the rules" and denuding the government of legitimate finances. "My attitude is I don't care if it's legal, it's wrong," he reportedly said.

The Indian government, led by its adherence to neoliberalism obviously thinks differently. The results are extremely regressive. Providing large transfers to the rich while pursuing fiscal consolidation requires trimming expenditures that benefit the poor. This, rather than any technocratic logic, explains the ideology of "anti-populism."

*** This article was originally published in the Frontline, Print edition- August 22, 2014.**