

1. Taxation is not just about financing expenditure; it is economic glue that binds citizens to the state in a two-way accountability relationship. Analyze in the context of India's Fiscal capacity and fiscal discipline? (250 Words)

**Answer:**

- Democracy is a contract between the state and its citizens. This contract has a vital economic dimension: the state's role is to create the conditions for prosperity for all by providing essential services and protecting the less well-off via redistribution.
- The citizen's part of the contract is to hold the state accountable when it fails to honor the contract, but a citizen's stake in exercising accountability diminishes, if he does not pay in a visible and direct way for the services the state commits to providing.
- Both government & people are accountable to run the show. This both end accountability ensures that the public money is utilized efficiently & enough resources are mobilized to pace the development ahead. Government need to adhere to fiscal discipline & have constant monitoring & transparency in spending.
- While analyzing it from prism of Fiscal capacity i.e. spending and especially taxation is key to long run economic development. Simple tax-GDP (16.6%) and spending-GDP (26.6%) ratios suggest that India is under-taxed and it under-spends w.r.t comparable countries.
- India does tax and spend less than other politically developed nations, but given that most other democracies took time to strengthen tax capacity, perhaps India is not an outlier on this dimension, either.
- India does stand out in the number of individual income taxpayers, currently about 4 percent, far from our desirable estimate of about 23 percent (i.e., size of middle class), i.e., we are utilizing much less than our fiscal capacity.
- Building long-run fiscal capacity is vital. One low hanging fruit would be to refrain from raising exemption thresholds for the personal income tax, allowing natural growth in income to increase the number of taxpayers.
- Beyond that, building fiscal capacity is also about creating legitimacy in the state. This can be acquired by prioritizing improved delivery of essential services that all citizens consume: public infrastructure, law and order, less pollution and congestion, etc. reducing corruption, fiendishly difficult as it is, must be a high priority not just, because of its economic costs, but also because it undermines legitimacy.
- The more citizens believe that public resources are not wasted, the greater their willingness to pay taxes.
- Similarly fiscal discipline is essential and subsidies to the well-off (amounting to about R1 lakh crore) need to be scaled back. The utilization of fiscal capacity in itself would also bring about much of fiscal discipline.

## PRACTICE QUESTIONS

### **Answer the following Questions**

1. Recent strategic decisions indicate a post-normative turn in India's foreign policy. Critically analyse. (250 words)
2. Examine the process related to granting environmental clearances in India and bring out the shortcomings in the process? (250 words)

VANIKIAS