Mind the wealth gap, bridge it with wealth tax

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The fortunes of wealthy elites have also skyrocketed over the years, increasing the gap with the average Indian

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Inequality in India is at obscene levels. While still home to a very large number of people living in destitution, the number of dollar billionaires in India increased from one in the mid-1990s to 166 in 2022.

The fortunes of wealthy elites have also skyrocketed over the years, increasing the gap with the average Indian. As per the Forbes billionaires list for 2023, the most affluent Indian (Mukesh Ambani) is worth $83.4 billion, which translates to around Rs 6.8 lakh crore.

To put these numbers in perspective, if Ambani were to donate a Rs 2000 note every minute, it would take more than 6,000 years before his current wealth runs out.

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Using official survey data from 2018 and adjusting for inflation, we find that the average household wealth in India will be around Rs 25 lakh in 2023. That is, the wealth of the most affluent Indian is around 27 lakh times the wealth of an average Indian household.

In general, the top 10% of the Indian population has enjoyed a steep rise in their wealth share over the past two decades. Some argue that there is nothing wrong with rising wealth concentration at the top and that policy should rather focus on poverty. Such arguments overlook the consequences of rising wealth disparity.

Extreme concentration of wealth is detrimental to the health of democracy and to the planet itself. A handful of individuals and corporations are able to exercise disproportionate influence and control over economic policy, politics, the media, and other institutions whose impartial functioning is a precondition for the functioning of a true democracy. Wealthy elites across the globe are also responsible for a high share of carbon emissions.

Recognising the perils of extreme wealth concentration, wealth taxes are being demanded in different parts of the world.

India has had a long experience with a wealth tax, though not a very good one. A wealth tax was introduced in 1957 but did not make a substantial contribution to revenues due to design and implementation issues. When the wealth tax was abolished in 2015, it contributed only Rs 1079 crore, or 0.05%, of the total tax revenue.

There have been several calls for a tax on the top 1% of wealth holders in India. Our calculations show that a flat 2% wealth tax on the top 1% would have generated about Rs 8.54 lakh crore in 2021.

The Hurun India Rich List for 2021 lists 1007 families that own wealth worth more than Rs 1,000 crore. A wealth tax of 2% on these 1007 families would have generated Rs 1.84 lakh crore in 2021.

However, an ideal tax structure should be a progressive one where the marginal tax rate increases as wealth rises.

We propose a progressive wealth tax with five slabs: a tax rate of 2% on wealth between Rs 1,000 and 25,000 crore, 3% between Rs 25,000–50,000 crore, 4% between Rs 50,000–75,000 crore, 5% between Rs 75,000–1,00,000 crore, and 6% on wealth above Rs 1,00,000 crore.

This proposed wealth tax on families with net worth above Rs 1000 crore, ranging between 2% and 6%, would have generated Rs 2.76 lakh crore in 2021, which is higher than the combined budgetary allocation on health, education, MGNREGA, and old age, widow, and disability pensions for 2023, and the tax revenues could have been used to double the budgetary allocation on these heads.

A progressive wealth tax should ideally be accompanied by an inheritance tax. Several countries in the world have some form of inheritance, gift, or estate tax. The inheritance tax rate varies from 33% in Ireland to over 50% in Japan.

Detractors of the wealth tax claim that it is a bad idea on the grounds that wealth is difficult to tax, it may discourage growth, financial wealth is only notional, and its value fluctuates with the stock market. These arguments do not hold water.

A wealth tax is well aligned with the idea of India as enshrined in the constitution. The directive principles of state policy give a clear mandate for the State to ensure “that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment”.

The unequal distribution of wealth is also intimately tied to group inequality and social exclusion. Official statistics show that caste and gender are important axes of inequality in wealth distribution. Households in the Scheduled Castes and Scheduled Tribes communities have the lowest net worth. Gender-disaggregated data on land ownership clearly shows that women within the household face serious assetlessness.

Taxation of top wealth and redistribution in the form of a rise in welfare allocations for historically disadvantaged
communities and women can address some of these gaps.

India has the advantage of a long experience with wealth taxes and a strong tax administration. If the focus is on extreme wealth limited to a narrow tax base—say, the top 1%—it need not be a difficult exercise to administer a robust wealth tax system.

A tax on wealth and a rise in public spending on the social sector are sound economics. What is needed is a political vision, accurate data collection on top wealth, and the will to choose people over corporate profits and mind-numbing levels of wealth accumulation.

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