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REDISTRIBUTION OF INCOME AND ECONOMIC GROWTH IN UNDERDEVELOPED COUNTRIES

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IN the literature on redistribution of income the subject is usually viewed from the point of view of social justice and the levelling down of inequalities. The redistribution that is studied is related to the public finance of the country concerned, taxation reducing income at the higher levels, and public expenditure adding to those at the lower levels through social benefits in both cash and kind, the net result being a reduction in inequalities in the levels of income available for consumption. In this paper, however, redistribution of income is approached from another angle; namely, its relation to economic growth in underdeveloped countries. In doing this, public finance, of course, is a relevant field, but other aspects of the economy also come into the picture.

The paper is divided into two parts. The first deals with a general consideration of the relation between economic growth and redistribution of income in underdeveloped countries; while the second deals with Indian experience during the last ten years, which also happens to be the first ten years of planned economic development.

Economic growth is linked with, *inter alia*, savings, investment, and entrepreneurial activity. Distribution of income in the community is linked with all these factors. Thus income receivers in any given community can be classified on the basis of willingness and capacity to save, readiness to invest, and ability to undertake entrepreneurial activity. It must be added that these qualities are not found only in individuals; they can be and are, in fact, also found in institutions and organizations, including the State or Government, and corporations or companies; and income receivers include not only individuals but also institutions like Government and joint stock companies. Redistribution of income, therefore, has to be viewed not only as between individuals, but also as between individuals and the State, individuals and institutions, institutions and the State, and the State and individuals, as a kind of both two-way and criss-cross traffic.

In an underdeveloped economy, savings, investment, and entrepreneurial activity are all at a level at which economic growth is barely sufficient to look after the requirements of additions to the population; and *per capita* income normally remains stationary over time. The problem of growth for such an economy is to find ways by which these crucial factors can be stepped up to initiate the emergence of a surplus and stimulate the utilization of the surplus in such manner as to lead to a continuing rise in income, savings, investment, and entrepreneurial activity.

It is wrong to believe that an underdeveloped economy has no surplus available for economic growth. Even before the advent of the industrial revolution, there have been carried out programmes of investment, both in the public and the private sector, the former mainly in the form of irrigation, roads, bridges, rest houses and public buildings; and the latter in the form of residential houses, gardens, mausoleums, and other means for giving permanence to the individual's desire for personal immortality. Besides these, investment took the form of the construction of military and religious buildings, of forts, castles, churches, mosques, temples, and monuments; and these took place not only in the public sector but also in the private sector, and in the organized institutional sector which was mainly in the sphere of religion. There was also investment in the simple implements and equipment needed for production, transport, and exchange in the pre-industrial era. All this investment implied savings; and though then, as now, investment could be financed by foreign savings obtained either by negotiation or otherwise, there was also no doubt that domestic savings did play an important role in the financing of the investment that took place in the pre-industrial era. Such savings were obtained partly by transfer from individuals to the State and to institutions, and partly by retention and accumulation of surpluses from the property at the disposal of these bodies. There was no doubt that inequalities in income and wealth were a feature of the pre-industrial society, and this led to exploitation on the one hand and the emergence of surpluses on the other. These surpluses were used partly for financing the different investments referred to earlier in this paper and partly for financing the higher standard of life and the conspicuous consumption of the upper classes which was so characteristic of the pre-industrial society in all countries. That the surplus did not lead to economic growth of the self-accelerating variety was due to its unproductive utilization in the economic sense, either being dissipated in consumption or invested in a manner that did not lead to an increase in productivity. It was, of course, true that in the absence of the industrial revolution and the advent of modern technology, the scope for productive investment was also somewhat limited, while the social values and status determinants of that time were also not conducive to the encouragement of entrepreneurial activity. It must be emphasized that when we talk of a surplus in a pre-industrial society we are not thinking of a residual after meeting the basic consumption needs of the entire community. Surplus in this sense is obviously not consistent with the low productivity characteristic of such a society. But it did exist in the form of resources in excess of necessary consumption among certain individuals and groups in the pre-industrial society, this being largely due to the non-egalitarian distribution characteristic of that society.

An underdeveloped country is, by and large, a pre-industrial society. It has a low productivity, low national income, and therefore a small volume of surplus in spite of the unequal distribution of its income. The economic stagnation that accompanies this state is, however, not solely the result of its having a small surplus. For inhibiting economic growth in this country, the greater villain of the piece is the sociology and psychology accompanying the pattern of its income distribution. The upper classes who have a surplus do not use it for productive investment nor are they interested in entrepreneurial activity. They go in for more consumption, either of a luxury type or involving waste or having some conspicuousness about it. That is one reason why inequality of income is always more visible and strikes the foreigner more in an underdeveloped country than in a developed one. Moreover, in an underdeveloped country, because of its being in a pre-industrial stage, income accompanies status rather than function; and status is determined more by birth than by merit. The result is that income gets disassociated with productivity, and there is no incentive either for intensive work or the play of enterprise in the productive field. Thus, the normal pattern of income distribution in an underdeveloped country encourages neither saving nor enterprise and does not, therefore, promote economic growth.

Obviously, therefore, a change in the pattern of income distribution, with income diverted into the hands of those who will save or invest or undertake entrepreneurial activity, will be a positive factor for the promotion of economic growth.[1] This is how redistribution of income gets related to economic growth in an underdeveloped country.

An underdeveloped country deliberately setting out on the path towards economic growth has to step up the rate of investment. Investment has to be in the public sector at least to the extent that is necessary for the creation of the infra-structure and the social and economic overheads without which there is no inducement for the release of productive energies in the economy; and for this purpose it is necessary to build up public savings, which, in turn, means at least in part through taxation. Investment has also to be in the private sector, at least in the case of non-communist economies, and this means not only the promotion of private savings but also the provision of the economic stimulus necessary for the utilization of these savings in forms of productive investment. It is also necessary that producers should be given the necessary incentive for stepping up the pace of their productive effort, which in the case of agriculture mainly takes the form of the policy of 'land to the tiller'. *A redistribution of income has, therefore, to be brought about from income receivers who do not save to those who do, from those who save to those who invest productively, from those who do not produce to those who do, and from the community at large to the State on the one hand and to the entrepreneurial class on the other.* It must be emphasized, however, that this redistribution should not be interpreted in the static sense of operating on a defined figure of national income. There is no doubt that the operation has to start on the volume of initial national income, but its progress takes place primarily through acting on the increments to income that arise from growth and not merely from the initial national income from which the country leaves the point of stagnation and embarks on the process of growth. Redistribution, therefore, primarily operates on this marginal base and the effect on economic growth depends upon how much of this incremental income gets into hands that will use it for

[1] It must be added that a change in the psychology of those whose incomes are in excess of their basic consumption needs can also be a factor for the promotion of economic growth.

savings or investment or undertake entrepreneurial activity.

Redistribution of income for the promotion of economic growth can be effected in a variety of ways. The method most associated in the public mind with redistribution is through taxation and public expenditure. This method, however, is primarily used in redistribution intended for egalitarian purposes, though it has also got an important place in redistribution intended for economic growth. For this latter purpose, redistribution of income through taxation is primarily intended to reduce consumption, increase savings, and make more resources available for the public sector for the financing of social and economic overheads. Taxation is then expected to reduce disposable income not only in the hands of those individuals who have a real surplus over their consumption needs and may expend it on wasteful consumption or unproductive investment, but also in the hands of those who may not have a real surplus but from whom nevertheless a contribution to saving is necessary for meeting the needs of development in an underdeveloped country. Public expenditure is intended to finance the social services necessary to improve the efficiency of the human factor as an instrument for economic development, as also to help in the creation of the economic overheads necessary for the efficient release of productive energies within the economy. In addition, of course, there is always an egalitarian motive which operates in the public finance even of the underdeveloped countries embarking on economic growth, to which a more detailed reference is made later on in this paper when dealing with India.

Another method of redistribution for economic growth is through institutional changes in the community brought about by legislation based either on reform or revolution. The most important illustration of this method is land reforms such as will restore land to the tiller, eliminate or minimize the rentier class, and establish direct relations between the State and the actual cultivator. The primary object of this measure is to restore incentive to those who actually work on the land by giving them ownership and thus reducing their rent burden and stimulating them to increase their inputs of both labour and capital in agriculture. The effect of this measure is a redistribution of income in favour of the cultivating class as against the mere landlords.

Another aspect of income distribution that is relevant for economic growth is the redistribution of income between the corporate sector and the unincorporated or individual sector in the economy. The more the country's economic activity gets corporate, the larger becomes the aggregation of income in single decision units, and the greater the operational distance between the ultimate owners of the income and those who have the virtual authority to determine its disposal. This in turn leads to a greater accumulation of undistributed profits and, therefore, a higher rate of saving. It also usually leads to a higher rate of investment. An underdeveloped country is distinguished by the smallness of the corporate component in its national income; and a redistribution of both the initial and incremental income in the corporate direction acts as a positive factor in the stimulation and acceleration of its economic growth. For an underdeveloped country, which starts with a large proportion of its population engaged in agriculture, this takes the form of encouraging the formation of co-operatives in the agricultural field. Such co-operatives are intended to transfer income from middlemen to the actual producer and also create aggregations of larger decision and income-disposing units that are more likely to save and invest than smaller and individual units of primary producers. In the industrial and commercial field, this takes the form of encouraging the growth of joint stock companies and corporations that are likely to play a similar role *vis-à-vis* individual entrepreneurs.

Redistribution of incomes relevant to economic growth can also be the result of sectoral price changes. In an underdeveloped economy, there are sharp differences in the proportion of income that is consumed as between different sectors of the economy; and this is especially so as between the agricultural and the non-agricultural sector, and as between the rural and the urban sector. The saver-spender composition is thus different in these different sectors. The terms of trade between the rural and the urban sector or between the industrial and urban sector can get altered by sectoral price changes; and the redistribution of purchasing power they bring about may have the result of either increasing savings or diminishing it, depending upon the magnitude of the changes that take place in the sectoral incomes and the nature of their response in terms of consumption to the changes in their incomes and terms of trade.

Another aspect of redistribution relevant to growth is the factor distribution of national income, especially as between wages and profits. Here the usual presumption is that an increase in profits would lead to a greater volume of savings and investment and also serve as a stimulant to entrepreneurial activity, while an increase in wages may just lead to an increase in consumption. On the other hand, an increase in wages may lead to an increase in the efficiency of labour and also make for an increase in production through better industrial relations, while an increase in profits may just lead to an increase in wasteful consumption.[1] The factors determining redistribution of income as between wages and profits would depend partly at any rate on the extent to which labour is minimized and the strength of such trade unions and partly on the policy followed by Government in respect of industrial relations and wages.

To sum up, redistribution of income for the promotion of economic growth in underdeveloped countries is primarily intended to transfer income from spenders to savers, and from savings to investment. It is also intended to transfer income from non-producers to producers and to serve as an incentive to entrepreneurial activity. The methods used or relevant in this redistribution are varied and can be listed as under:

1. Public finance, through taxation, and public expenditure.
2. Legislative, through land reforms, and reduction if not elimination of rentier incomes.
3. Institutional, through a transformation of the machinery of economic activity from individual to corporate or co-operative enterprise, in both the agricultural and the industrial-cum-commercial sector.
4. Price policy, though changes in inter-sectoral prices and terms of trade between different sectors of the economy.
5. Factor distribution, through changes in the factor distribution of income, primarily between wages and profits.

The redistributions referred to above all relate not only to the initial position at the time of embarking on economic growth, but even more to the incremental incomes arising from economic growth till at any rate such time as is necessary to get

[1] An increase in wages in an underdeveloped country makes possible an increase in the efficiency of labour by giving workers more and better food and conditions of living; but this increase in efficiency can be ensured only if wage increases are made dependent on increases in productivity.

the economy through the take-off stage and firmly on the path towards self-sustaining and self-accelerating growth.

PART II

It is well known that India has deliberately embarked on a programme of economic development and has gone in for economic planning for this purpose. Two Five Year Plans have already been completed and the third Five Year Plan has started operating from April this year. It must be pointed out, however, that Indian planning is not merely intended for increasing the national income or accelerating the rate of economic growth. The objectives of her social and economic programme have been formulated in specific terms in the Directive Principles of State Policy embodied in the constitution. The cardinal emphasis in this document is on the securing of 'a social order, in which justice – social, economic and political – shall inform all the institutions of the national life'. More specifically, the directive principles include the right of all men and women to an adequate means of livelihood, and 'within the limits of its economic capacity and development, to make effective provision for securing the right to work, education, and public assistance in the event of unemployment, old age, sickness and disablement or other cases of undeserved want'. The Welfare State, which is the goal of all developed economies, is thus made also the goal of an underdeveloped country starting on the long road of its economic growth. In the economic sphere, the directive principles require the State 'to direct its policy in a manner as to secure the distribution of ownership and control of the material resources of the community to subserve the common good and to ensure that the operation of the economic system does not result in the concentration of wealth and means of production to common detriment'. This was spelled out further by the adoption by Parliament of a socialistic pattern of society as the goal of planned development in India. Economic Development in India has therefore not only to look to the requirements of growth but also to those of a social order based on a welfare state and socialist ideals.

Inevitably this throws up a conflict between the strictly economic and the larger social objectives. The Planning Commission, in their draft outline of the Third Plan, recognize this conflict, but suggest on the basis of the experience of the first two Plans that the best way is a balanced advance in all the relevant directions, namely, economic and social equality, increased employment, and increased production. They add: 'What constitutes a balance will vary according to the needs and circumstances of the economy, but, given the acceptance on the part of the community of the essential values or ends to be persued, the processes of democracy and freedom of choice shall be capable of throwing up the optimum to be aimed at in a given context.' I may add that the balance sought and attained is an uneasy one, resulting inevitably in stresses and strains more than ordinary to economic growth as witnessed in the non-communist countries which have attained their economic development earlier without this background of a social objective of a welfare-cum-socialist society. It follows that redistribution of income in India cannot be exclusively linked to the requirements of economic growth, but has also to take into account the egalitarian and welfare impulses normally associated with redistribution in the developed economies. We may now turn to a consideration of the redistribution that has taken place in India during the first ten years of economic planning, adding to the five categories listed at the end of Part I of this paper a sixth category, viz. redistribution for the promotion of social welfare as is commonly found in the welfare states with their developed economies.

It must be stated at the outset that no comprehensive study has been made so far of the structure of income distribution in India. The only data relating to distribution are the income-tax statistics, but these deal only with non-agricultural income and cover only a small proportion of the total working force. No similar statistics are available either for agricultural income or for the non-agricultural income not subject to income tax. Data of a suggestive character, which could be used for making a rough estimate of distribution by broad categories, is available in a miscellaneous collection of official documents and reports as well as some non-official surveys, but these have not yet been brought together and processed for the purpose.[1] In any case, even this miscellaneous data does not give scope for making a

[1] The writer of this paper is engaged at present in making such a study and hopes to present his preliminary estimates of the distribution of income in India by the end of 1961.

study of changes in the distribution of income over time; and it is practically impossible to establish quantitative estimates of any redistribution effected through public finance covering all income categories. The only statistics of distribution by income ranges available over time is that given by the income tax data; and it is in respect of these that it is possible to look at the effect of taxation on redistribution. All other references to the re-redistributive effect of public finance will have to be in general terms and cannot be given a quantitative content in terms of income ranges.

The following table gives the figures of the total tax revenues raised by the central and state governments during the last ten years and the proportion they constitute of the national income during that period:

TABLE I

Year	National income (in millions of Rs.)	Total of central and state tax receipts (in millions of Rs.)	% of tax receipts to national income
1951–52	99,700	7,387	7·4
1952–53	98,200	6,778	6·9
1953–54	104,800	6,723	6·4
1954–55	96,100	7,204	7·5
1955–56	99,800	7,675	7·7
1956–57	113,100	8,917	7·9
1957–58	113,900	10,476	9·2
1958–59	126,000	10,898	8·6
1960–61	145,000	12,911	8·9

It will be seen from this table that there has been a significant, though not an evenly steady, rise in the amount of income transferred from the private to the public sector. There has also been a noticeable rise in the proportion of the national income taken by taxation, though this has also not been a steady rate and, in any case, is far below the corresponding figures of the developed economies. That this redistribution of income between the public and private sector has been used for the promotion of economic growth is seen from the following table, which gives the figures of central and state expenditure during the last ten years classified under developmental and non-developmental expenditure:

TABLE II

Public expenditure (central and state) (figures in millions of Rs.)

Year	Central and state expn. developmental and non-developmental	Central and state expn. developmental and social services	% of developmental and social expn. to total expenditure	% of developmental and social expn. to national income
1951–52	7,740	2,387	30·8	2·4
1952–53	8,198	2,571	31·4	2·7
1953–54	8,616	2,862	33·2	2·7
1954–55	9,271	3,270	35·3	3·4
1955–56	10,655	4,389	41·3	4·4
1956–57	11,280	4,953	43·9	4·4
1957–58	13,152	5,402	41·1	4·7
1958–59	14,406	5,988	41·6	4·8
1959–60	16,058	7,024	43·7	5·7
1960–61	18,588	8,261	44·4	5·7

N.B.—Developmental and social services referred to in col. 3 include education, medical and public health, agricultural, veterinary and co-operation, irrigation, electricity schemes, rural and community development projects, civil works, industries and supplies, multipurpose river schemes, scientific departments, national extension service, labour and employment, aviation, broadcasting, ports and pilotage, lighthouses and lightships and miscellaneous departments.

Expenditure on developmental and social services, which means all public expenditure of a recurring kind incurred on social and economic overheads (and, of course, excludes the much larger volume of capital expenditure incurred steadily from 30·8 per cent of total public expenditure during the first year of the first Five Year Plan period to 44·4 per cent during the last year of the second Five Year Plan period. These ten years also saw a rise in the proportion of national income used for such public expenditure from 2·4 to 5·7 per cent. The increase in the absolute figures of this expenditure was as much as 246 per cent.

While it is a matter for satisfaction that public expenditure during the period showed this decisive trend towards an increase in the share going to developmental and social services, its effect on redistribution of income also turns on the nature of the taxation raised to finance this expenditure. The following table summarizes the position for the first and last years of this ten-year period:

TABLE III

Composition of tax receipts (in millions of Rs.)

Taxes on	1951–52		1960–61	
	Receipts	% of total	Receipts	% of total
Income and property	2,448	32·6	3,866	29·5
Commodities and services	4,457	59·3	8,232	62·7
Transactions	274	3·6	445	3·4
Others	339	4·5	576	4·4
Total	7,518	100·0	13,119	100·0

The table reveals a decline in the importance of direct taxation and an increase in that of indirect taxation. As taxes on income and property constitute the really progressive element in public finance, it also follows that the transfer of income from the private to the public sector has been more at the expense of the consumption of the poor than that of the well-to-do. It is true that taxes on commodities and services also contain an element of progression in so far as they fall on luxury consumption, but this is a comparatively small element. There is no doubt that the bulk of the incidence of taxation has been on the real surplus of the well-to-do classes, while in the case of masses it has been at the cost of their basic consumption. In any case, restriction on the consumption of the poor has been playing an important role in the financing of the social and economic overheads created by the State during the ten years of planning.

The declining importance of direct taxation in the financing of public expenditure on economic development is borne out even more clearly when we look at the growth of the income assessed to income tax and compare it with the growth of the direct taxes paid by them, both as a proportion of national income. Relevant figures are given in the following Table IV.

Income assessed to income tax has grown as a proportion of national income; but the income tax it pays has actually declined as a proportion of national income. This conclusion is not upset even if we take into account the new direct taxes on income and property levied mainly during the second plan period. Relevant figures are given in Table V.

TABLE IV

(*Figures in millions of Rs.*)

Year (1)	National income (2)	Income assessed to income tax (3)	Receipts from income tax (4)	% of col. 3 to col. 2 (5)	% of col. 4 to col. 2 (6)
1951–52	99,700	7,829	1,959	7·9	1·96
1952–53	98,200	7,116	1,996	7·2	2·03
1953–54	104,800	7,813	1,904	7·5	1·82
1954–55	96,100	7,600	1,775	7·9	1·85
1955–56	98,800	7,849	1,819	7·9	1·84
1956–57	113,100	9,357	2,166	8·3	2·00
1957–53	113,900	10,105	2,221	8·9	1·95
1958–59	126,000	11,727	2,538	9·3	2·01
1959–60	128,400	11,921	2,301	9·3	1·79
1960–61	145,000	N.A.	2,650	N.A.	1·83

TABLE V

(*Figures in millions of Rs.*)

Year	Estate duty	Expenditure tax	Tax on wealth	Gifts tax	Total
1951–52–1953–54	Nil	Nil	Nil	Nil	Nil
1954–55	8·1	Nil	Nil	Nil	8·1
1955–56	18·1	Nil	Nil	Nil	18·1
1956–57	21·1	Nil	Nil	Nil	21·1
1957–58	23·1	Nil	70·4	Nil	93·5
1958–59	27·0	6·4	96·7	9·8	139·9
1959–60	29·1	7·9	121·1	8·1	166·2
1960–61	30·0	9·0	75·0	8·0	122·0

The highest yield of these new taxes is in 1959–60, when it comes to 0·13 per cent of the national income of that year. Adding this to the proportion of national income paid as income tax, the figure comes to 1·92 per cent, which is still below the percentage reached in the first two years of the plan period. At best, we can say that the total of all direct taxes as a proportion of national income paid by those whose incomes are assessed to income tax is stationary over the ten-year period, while the proportion of national income received by this class has been rising. This is perhaps in line with the economics of growth, though it is doubtful if it is equally consistent with the social objectives of planning.

Incomes assessed to income tax cover only non-agricultural incomes. Agricultural incomes are not subject to income tax or any of the direct taxes imposed by the Centre. They are subject to land revenue which is levied mostly on a flat rate on land, subject to differences in productivity per acre, and the higher incomes among them to an agricultural income tax that has a mild degree of progression. It is difficult to compare the incidence of direct taxes on comparable levels of agricultural and non-agricultural income. But from certain rough calculations that I have been able to make, it is my guess that agricultural households with incomes exceeding Rs. 2,500 a year were paying by way of direct taxes (including both land revenue and agricultural income tax) about 5 per cent of their income,[1] whereas other households with non-agricultural income exceeding Rs. 3,000 a year were paying about 14 per cent of their income as direct taxes. It is also likely that the income of this better-off agricultural class has been increasing during the last ten years as a proportion of total agricultural income. What seems clear is that the better off among the agricultural classes are not making a proportionate contribution to the financing of public expenditure on social and economic overheads anywhere comparable to that which is being made by the corresponding income ranges in the non-agricultural sector. Perhaps this is a factor operating in the promotion of economic growth in the agricultural sector, but it does raise grave questions of equity in incidence of taxation between different sections of the community.

For the class paying income tax and other direct taxes on non-agricultural income, taxation has been progressive and does have the effect of reducing inequalities within the income ranges constituting this class. This is seen from the figures given below showing the proportions of total income assessed to income of the different income ranges included in this total before and after the payment of income and super taxes. The figures are given for 1959–60, which is the latest year for which data is available:

[1] For details, the impatient reader will have to await my forthcoming study on 'Distribution of Income in India'.

TABLE VI

Annual income in Rs.	Proportion of total assessed income	
	Before tax	After tax
3,001–5,000	15·36	17·47
5,001–10,000	27·20	30·38
10,001–12,500	8·39	9·13
12,501–15,000	6·44	6·89
15,001–25,000	6·23	6·26
25,001–40,000	10·56	9·71
40,001–70,000	8·31	6·47
70,001–100,000	3·05	1·93
100,001–200,000	2·94	1·48
Above 200,000	2·53	0·87

The distribution pattern has changed, in favour of incomes below Rs. 20,000 which constitute 73·3 per cent of total income after tax as compared to 66·4 per cent before tax; while incomes above Rs. 25,000 a year constitute only 20·5 per cent after tax as compared to 27·4 per cent before tax. The fall in the proportion of income after tax increases progressively with every income range after Rs. 25,000.

The position regarding the redistribuve effects of the income tax is however not so satisfactory from the egalitarian angle when viewed over a period of years. If we take the individual assessees among the income-tax-paying class and look at their income and tax position as compared to that of the remaining individuals in the country, we find that whereas their share of the national income has been rising over the nine years ending 1959–60 (data is not available for 1960–61), the proportion of their income paid as tax has been declining over the same period. Relevant figures are given below:

TABLE VII
(*Figures in millions of Rs.*)

Year	Assessed income	Tax	Income as a proportion of national income	Tax as a proportion of assessed income
1951–52	4,755	803	4·77	16·9
1952–53	4,257	775	4·34	18·2
1953–54	4,704	752	4·49	16·0
1954–55	4,693	730	4·85	15·6
1955–56	5,005	794	5·01	15·9
1956–57	5,548	876	4·88	15·9
1957–58	6,050	903	5·78	14·9
1958–59	6,924	942	5·49	13·6
1959–60	7,422	965	5,78	13·0

Individuals paying income tax increased their share of the national income from 4·77 per cent in 1951–2 to 5·78 per cent in 1959–60, while the proportion of their income paid as tax declined from 16·9 to 13 per cent during the same period. Taxation, therefore, did not adversely affect individual income tax payers as a class *vis-à-vis* the rest of the community. Nor did it bring about a secular change in an egalitarian direction. This is clearly shown by the following table, which gives figures of the percentage loss or gain of the share in total income of each income group in 1951–2 and 1959–60.

TABLE VIII

Total gain + or loss – of share in income account of tax (percentage points)

Range of income	1951–2	1959–60
3,001–5,000	+ 3·18	+ 2·11
5,001–10,000	+ 4·14	+ 3·18
10,001–12,500	+ 0·86	+ 0·74
12,501–15,000	+ 0·47	+ 0·45
15,001–20,000	+ 0·37	+ 0·42
20,001–25,000	+ 0·12	+ 0·03
25,001–40,000	– 0·64	– 0·85
40,001–70,000	– 1·55	– 1·84
70,001–100,000	– 1·15	– 1·12
100,001–200,000	– 2·04	– 1·46
Above 200,000	– 3·76	– 1·66
Total	± 9·14	± 6·90

These figures show that the income-tax system gave encouragement to those who had the ability to earn and to save, and this must have proved favourable from the point of view of economic growth, though viewed from the point of view of social justice and the rising tax burden on the poorer classes it may not command equal appeal.

The general conclusion emerging from this section is that, in spite of a socialist and egalitarian ideology, the actual fact was that the redistribution of income effected by taxation between the private and public sector was not such as to discourage either investment or enterprise on the part of the individuals whose initial incomes allowed them to do so. Moreover, the income transferred to the public sector was increasingly used for the financing of economic and social overheads which, in turn, increased the opportunities for investment, enterprise, and earnings in the private sector. Clearly, the redistribution effected by the Indian tax system was not killing the goose that was laying the golden eggs. On the other hand, it gave them discreet encouragement and was on the whole conducive to the promotion of economic growth.

We have already observed that another way of redistributing income for promoting economic growth was by land reforms that will vest ownership of the soil in the actual tiller and reduce if not altogether eliminate the rent element in the agricultural economy: Land reforms have figured at length in both the first and second Five Year Plans in India. An official article published in the journal of the Ministry of Agriculture lists the following as the main aspects of land reforms in India:

(*a*) Wider distribution of land ownership by the abolition of intermediaries.

(*b*) Regulating the landlord-tenant system by fixing fair rents, conferring security of tenure upon tenants subject to the landlords' right to resume a limited area for personal cultivation, leading to the conferment of ownership upon tenants.

(*c*) Preventing concentration of ownership by placing a ceiling upon the extent of land that an individual or family may acquire.

(*d*) Redistribution of land by placing a ceiling on existing holdings and acquiring the surplus area for the settlement of displaced tenants, landless agricultural workers and uneconomic holders.

(*e*) Consolidation of scattered holdings into compact blocks and the prevention of sub-division and fragmentation.

(*f*) Development of co-operative farming in which small-holdings will be pooled and cultivated jointly to increase the size of the operational unit and make the economies of large-scale organization available, leading ultimately to co-operative village management.

It is only in respect of (*a*) above that the proposed land reforms have been completely implemented in the country. Even here, however, there has been no reduction in rent except in the case of Madras and Andhra, where a reduction in rents to the level of ryotwari assessments was made preliminary to the abolition of intermediaries. In the case of the other states, principally U.P. and Bihar, where intermediaries figured prominantly in the agrarian structure and have now been abolished, the cultivator now pays to Government the rent he was previously paying to the landlord except when he has compounded for a reduction in rent by a lump-sum payment. It is therefore doubtful how far redistribution of agricultural income has been effected in favour of the actual cultivator by the abolition of intermediaries. To this extent, therefore, this aspect of land reforms has not stimulated economic growth in the agricultural sector except in so far as cultivators with resources who were previously unwilling to invest in land when they were tenants now have an incentive to do so.

In the case of the other measures of land reforms listed earlier, the official note makes it clear that they are all in the initial stage of implementation. There has been a spate of legislative activity; and inevitably action taken by landlords to anticipate the law or circumvent it or delay the enactment of legislation have been much more successful than Government's attempt to reduce rents and confer security of tenure. Ejections of tenants for the presumed purpose of resumption of so-called personal cultivation by the landlord and the replacement of short-tenure cash tenancy in many places by the more unsatisfactory system of share cropping have been some of the results that have followed the attempt to give the tenant by legislation a reduction in rent and better security of tenure. Land reforms in India cannot compare with those either in China or in Japan and have not succeeded in redistributing income among the agrarian classes to the advantage of the poorest among them; nor have they succeeded in eliminating landlordism or giving land to the landless. An idea of the pattern of distribution among the agricultural classes can be obtained from the eighth round of the National Sample Survey (July 1954–April 1955), which showed that of 'an estimated 44·4 million agricultural holdings, 4·3 per cent accounted for more than 30 per cent of the total area with holdings exceeding 30 acres each, while at the other end of the scale 39·1 per cent of the holdings accounted for only 5·3 per cent of the total area and were all below 2·5 acres each. The same N.S.S. round showed that about 24 per cent of the holdings area was leased out to tenants who did not possess permanent rights in the land and were generally tenants-at-will. An Agricultural Labour Enquiry conducted two years later

(1956–57) showed that 42·9 million agricultural labourers and their families enjoyed a *per capita* income which was about 57 per cent of the national *per capita* income; while their total share in agricultural income was about 13 per cent as against which they constituted nearly 18 per cent of the population engaged in agriculture and their dependents. And of the 16·3 million agricultural households, 9·3 millions were completely landless labourers. It is obvious that land reform in India bristles with difficulties inherent in a low land-man ratio and a disproportionately large agricultural population added to which are the inevitable stresses and strains accompanying the working of parliamentary democracy in a country with such a vast mass of the poor and the very-poor. It must be added that though land reforms have not been successful in redistributing agricultural income, yet there has been some stimulus to economic growth in this sector mainly arising from the fact that the middle farmers and the more well-to-do farmers have been able to take better advantage of public investment in agricultural overheads and public outlays on national extension service, agricultural supplies and agricultural credit than the small farmers, while the landless labourers are not in the picture at all. This, combined with the comparatively mild fiscal treatment meted out to agriculture including the middle and large farmers, is bringing about a redistribution of income in the agricultural sector that is helping to create an agricultural middle class with interest in both investment and enterprise and, therefore, able to promote economic growth. Public finance rather than land reforms has contributed to this picture and that, too, more by public expenditure with its creation of opportunities for increase in agricultural production rather than by a tax policy aimed at transferring income from the agricultural class as a whole to the State.

The third kind of redistributive machinery listed at the end of Part I of this paper was the replacement of individual by corporate enterprise in both the agricultural and the industrial sector. In the case of agriculture, there has been a great deal of talk about co-operative farming, but it still remained largely in the realm of discussion and vocal expression of aspiration by political leadership. In 1957–8 the number of farming societies was only 3,637 with a total membership of 190,000 persons in the whole of India, as against which agricultural credit societies, which cater primarily for individual farming enterprise, numbered 166,543 with a membership exceeding 10 million persons. The possibilities of co-operative or corporate organization replacing individual enterprise in agriculture seem at the moment somewhat remote and this form of redistribution between the individual and the institution does not appear to be a significant factor in the promotion of economic growth in the agricultural sector.

Even in regard to organized industry, where the joint stock company is becoming practically the rule in the developed economies, progress in India has not been as rapid as one would have expected in a planned economy with socialist leanings. It is true that in absolute terms joint stock companies are growing in the country and that governmental enterprise is also being increasingly organized on a corporate basis. Thus, between 1951 and 1960, joint stock companies at work increased their paid-up capital from Rs. 7,754 millions to 15,931 millions, while between 1956 and 1960 Government companies increased in number from 61 to 125 and in paid-up capital from Rs. 660 millions to Rs. 4,684 millions. Nevertheless, in terms of contribution to the national income, corporations or companies are less important than individual enterprise. Thus, in 1958–9, for which year data is available for Government companies, their income was estimated at Rs. 890 millions or 0·7 per cent of the national income of that year. During the same year, corporate income assessed to income tax was returned at Rs. 2,659 millions or 2·1 per cent of the national income. Taken together, corporate income was 2·8 per cent of the national income during that year. As against this, the income of individuals assessed to income tax during that year, including salaries, was Rs. 6,924 millions or 5·5 per cent of the national income. Even if we exclude from this figure the individual incomes which are either those of purely salary earners or salary earners with income from other sources and confined ourselves only to the individuals who are exclusively non-salary earners (the bulk of which would be from industry and commerce, and the rest from professions part of which at any rate could be offset by the non-salary income of salary earners which is mainly derived from industry and commerce), the figure comes to Rs. 3,985 millions or 3·2 per cent of the national income of that year. It appears that corporate activity is still not playing the dominant role in the modern sector of Indian economic activity; and when one also takes into account income from unincorporated enterprises other than individuals such as unregistered firms and Hindu undivided families, which accounted for an income of Rs. 1,242 millions in 1958–9 or nearly 1 per cent of the national income of that year, it becomes even clearer that corporate enterprise accounts for less than half of the income from the modern sector and is therefore not playing that major role in the economy which one associates with economic development. This conclusion gets further reinforced when one looks at the share of the corporate sector in the national income over the latest period of nine years for which data are available and which also covers the first nine years of planning in India. Relevant figures are given below:

TABLE IX

Year	Income assessed to income tax as a percentage of national income	Income of companies as a percentage of national income
1951–52	7·9	2·01
1952–53	7·2	2·04
1953–54	7·5	2·10
1954–55	7·9	2·06
1955–56	7·9	1·88
1956–57	8·3	2·09
1957–58	8·9	1·93
1958–59	9·3	2·11
1959–60	9·3	1·66

Price policy is another way of redistributing income for the promotion of economic growth. An effective price policy for individual prices, however, requires a policy of buffer stocks and open-market operations, with the possibility in the background of compulsory procurement of supplies and rationing of consumption. It is not easy to operate such a policy in a free society like India, even if it has taken to economic planning. There has been a great deal of discussion on the need for a co-ordinated and effective price policy that will fit in individual prices with the needs of developmental planning, but so far there has been no action. Public attention, in fact, is concentrated on price policy in the anti-inflationary context of holding the price line and not on price policy as a way of redistributing income either for stimulation of production or meeting the needs of the less well-to-do classes. But some discussion has taken place among

Indian economists about inter-sectoral changes in prices and variations in the terms of trade between the rural and urban areas (largely identified with agricultural and non-agricultural prices), and the effect this has been having on the national rate of saving, investment, and economic growth. A recent article on the subject by Dr A. M. Khusro in the *Economic Weekly* gives the following figures of the share of agriculture in the national income and the ratio of agriculture to non-agricultural prices:

TABLE X

Year	Ratio of agriculture to non-agriculture prices	Ratio of agricultural income to non-agricultural income
1951–52	1·21	1·01
1952–53	1·00	0·96
1953–54	0·88	1·03
1954–55	0·79	0·83
1955–56	0·93	0·83
1956–57	0·98	0·95
1957–58	0·91	0·88
1958–59	0·94	0·99
1959–60	0·92	0·93
1960–61	0·92	N.A.

The table shows that there is some positive correlation between the terms of trade and the proportion of agricultural to the national income; but it is also clear that there are other factors operating as well, chiefly changes in the volume of agricultural and industrial production. In any case, the table does not show any consistent trend in the ratio of inter-sectoral prices, though it is true that prices are less favourable to agriculture at the end of the second plan period than during the beginning of the first plan period. On the whole, inter-sectoral prices do not seem to have played a significant role as a machinery for redistribution of income for the promotion of economic growth. To the extent it has, it seems to have been helpful to economic growth in the sector more responsive to price changes which is also the more modern sector, namely, industry; but this has been the result of market forces working against the background of an expanding economy operating under import and exchange restrictions rather than of a deliberate price policy followed by Government.

Another item in the redistributive machinery relevant for economic growth is the factor distribution of income. Here again it is difficult to generalize in the absence of detailed and adequate data. But some light is thrown on this factor by the following table derived from the latest available report on the census of manufactures which covers more than 50 per cent of industry in the modern sector:

TABLE XI

(*Figures in millions of Rs.*)

Category	1951	1958	Index of change with 1900 = 100
Value added	2,839	4,635	163
Wages and salaries	1,722	2,513	146
Profits	1,118	2,123	190

As profits are considered to be the more dynamic element in the economy, it appears that redistribution among factor incomes during the last few years has been in the direction of the promotion of economic growth.

Some more data on indices relevant to factor distribution have been brought together in the following table:

TABLE XII

(*Base 1952 = 100*)

Category	1958–9
1. Index of national income	128·4
2. Index of gross industrial profits before tax	170·7
3. Index of prices of variable dividend industrial securities (base 1952–3 = 100)	146·8
4. Index of average annual earnings of factory labour	116·5

It seems clear from this table that wages have not kept pace with national income, while profits have made a definite advance. Though the policy of Government is pro-labour, the figures make it clear that a redistribution of factor incomes has been taking place which is conducive to economic growth and that entrepreneurial activity has been getting a suitable incentive. Incidentally, it is this redistribution that has enabled Government to raise from profits the tax receipts needed for financing at least a part of its expenditure on economic and social overheads.

The same conclusion also appears to hold good for the agricultural sector. Thus, it appears from an analysis of the results of the two agricultural labour enquiries undertaken under official auspices for the years 1950–1 and 1956–7 that there has been a definite decline in the share of the income of agricultural labour, both in agricultural income and in national income as a whole. The following table gives the relevant data:

TABLE XIII

Description	1950–1	1956–7
Agricultural labour income amount (in millions of Rs.)	790	712
Agricultural labour income as a percentage of agricultural income	16·2	13·0
Agricultural labour income as a percentage of national income	8·3	6·3

The figures given in the table are somewhat misleading, as the number of agricultural labourers has recorded a decline in 1956–7 as compared to 1950–1, and this is bound to lead to a fall in the total income of this class. Moreover, there have been differences in definition and coverage of agricultural labour between the two enquiries which also makes comparison a little difficult. Even after taking these two factors into account, it appears on analysis that, at best, there has been no improvement in the share of agricultural labour in agricultural income and possibly a little deterioration in its share of the national income. Here again factor redistribution seems to have been working in the direction of economic growth. It must be emphasized that in this as well in the case of factory labour, what has happened is not the result of deliberate Government policy, but has ensured as a result of the interplay of economic forces working during this developmental period.

Finally, we must refer to an aspect of redistribution that is connected not with economic growth, but with considerations of the Welfare State that has been accepted as the national objective in the directive principles of State policy embodied in the Indian Constitution. During the first ten years of Indian planning there has been a good deal of legislation connected with labour welfare in the modern sector and there is no doubt about the fact that labour in the modern sector enjoys advantages today that it did not before the advent of independence. Thus there is now an Employees Provident Fund Scheme which covers 2·7 million factory workers in 1959–60 as compared to 1·4 million in 1953–4. More than 400,000 workers in the coal industry are covered by the scheme, while those covered in tea plantation is nearly half a million. Thus more than 3·6 million workers in the modern sector are enjoying the benefit of a Provident Fund Scheme today, and it is expected that the scheme will be further extended in its coverage and contribution during the third plan period. The total amount invested by these Provident Fund Schemes stood at Rs. 1,090 millions on 31 March 1960, to which must be added the investment of Rs. 861 millions made by private provident funds whose contributing workers are exempted from the Government scheme. The total of these investments then comes to Rs. 1,951 millions. Half of this came from workers' contributions and half from employers; the State makes no contribution. This is a kind of redistribution that not only promotes welfare but also economic growth, as it reduces the current consumption of those who would normally expend their entire income on consumption and make these savings available for investment in the public sector for the financing of social and economic overheads.

The other important welfare scheme set up during the plan period is health insurance. At the end of 1959–60 more than 1·5 million workers were covered by a scheme of compulsory health insurance financed by contributions from workers and employers and giving cash benefits and medical benefits of various kinds. The following table gives details of the cash benefits paid out under the scheme since its inception in the early years of the second plan period:

TABLE XIV

(*Figures in millions of Rs.*)

Description	Up to 1957–8	1958–9	1959–60	Total
Sickness	37,026	18,543	22,214	77,783
Maternity	1,157	1,026	1,359	3,542
Temporary disablement	4,605	1,687	2,201	8,493
Dependants' benefit	265	191	278	734
Permanent disablement	619	470	784	1,873
Other benefits	123	98	134	353
Total cash benefit	43,795	22,015	26,970	92,780

In absolute terms, the figures are perhaps not so impressive, as the number of workers covered is a small proportion of the population, while the benefit received per worker covered is only about 1·4 per cent of his average annual earnings during the latest year for which data are available. But there is no doubt that it is a good beginning in the direction of the long process of building up a Welfare State. Incidentally, there has been delay in the construction of the required additional hospital facilities and this has left the Government with a balance of Rs. 184 millions, which, temporarily at any rate, increases the volume of national savings and helps to finance the public sector in its creation of social and economic overheads.

Among other redistributive transfers of a welfare character should be mentioned subsidies for industrial housing, programmes of slum clearance and a small beginning for new village housing, all of which accounted for an expenditure of about Rs. 378 millions during the second plan period. Subsidized public housing for Government employees during the period amounted to Rs. 2,500 millions. In addition, there were loans given by the State for the housing of low-income groups in urban areas. Welfare expenditure of various kinds incurred by the State for the 'backward classes' (who also constituted the bottom rung of the economic ladder) amounted to Rs. 327 millions during the second plan period.

More recently, an interesting experiment has been started in the Uttar Pradesh (one of the states in the Indian Union) for the provision of old age pensions of a limited character, and another state, namely Madras, has just announced a scheme for old age pensions for persons above the age of 70. The third plan contains a proposal for setting up a fund for rendering financial assistance to certain institutions and organizations for giving relief and rehabilitation to old people and dependants who are without any means of livelihood. The scheme is, of course, of a pilot and token character, but it is indicative of the way in which the wind is blowing.

There is thus no doubt that a certain redistribution of income is being attempted which is linked up with welfare and increase of consumption and may therefore be not directly contributory to economic growth. But this is an inevitable part of the process of economic development that is deliberately initiated by a democratic state operating under parliamentary institutions; and it is bound to be helpful even from the narrow point of view of the promotion of economic growth by creating an atmosphere of social peace and providing a stimulus to popular participation in developmental planning. In any case, the redistribution effected in this manner is not quantitatively very significant as compared to the other kinds of redistribution referred to earlier and which are directly connected with the promotion of economic growth. It seems clear that, so far at any rate, welfare state and socialist leanings have not come in the way of the speeding up economic growth in India. If economic growth achieved so far has not been up to expectations, the cause is to be sought elsewhere and not in redistributive efforts of a welfare character.

The account given above of economic growth in India during the last ten years bears out broadly the general conclusions formulated in Part I of this paper. The extent to which redistribution has been effected in favour of savings, investment, and enterprise has undoubtedly helped India to achieve the measure of growth that has been seen during the last ten years, limited though it is with reference to requirements. That she has been able to do this in spite of operating under a parliamentary democracy and having the objective of a welfare state and a socialist society is a tribute to the common sense and pragmatical working of the Indian people and the Indian Government.