

Tax incentives for job creation

Bharat Jhunjunwala

The government is considering providing incentives to labour-intensive industries for speeding up job creation. These may include income tax and excise duty concessions; enhanced deduction in income tax for wages paid; and making available land at concessional terms to industries set up in poor-majority areas. The resolve is wholly welcome but some modifications are required for the benefits to actually reach the poor.

Proposal is to provide enhanced deduction in Income Tax for wages paid by industries in poor-majority areas. It will provide encouragement to the industries to employ larger numbers. But this will have limited impact because many small industries do not pay much income tax anyway. Moreover, the impact of income tax is felt after two years at the time of assessment. It is better to provide this incentive in the excise duty and sales tax. This will provide immediate incentive to small scale- as well as large industries to employ more persons. Industries having a larger share of wages in the value added may be required to pay excise duty and sales tax at low rates. Say, on average the share of wages in value-added in a particular industry is 20 percent. It can be provided that units paying more than 40 percent wages will be subject to lower rates of tax. The government may increase the rate of tax on units paying fewer wages to make up the loss of revenue. This will lead to higher taxes being paid by capital-intensive industries and lower taxes by labour-intensive industries while the average rate of taxation will remain unchanged. The Government collects higher tax from a person consuming Rs 100 worth of cigarettes and lower tax from one who consumes fruit juice of the same value, similarly the government can collect higher excise duty and sales tax from capital-intensive industries.

Incentives to employ larger numbers of workers should be made available not only in selected poor-majority areas but across-the-board to all industries in any part of the country. The problem of employment has a national dimension. It is of little use if a thousand jobs are created in Palamu and the same numbers are lost in Ranchi. We should aim to create jobs for *all* our people. Higher demand for labour across the country will create demand and benefit workers in far-flung areas as well. Wage rates in remote areas increase as few workers migrate to the cities. We should not make a policy to hold the poor in their remote areas. Many tribal leaders hold that glorification of their culture is designed to keep them locked in backward ways of living. The poor also want urban comforts. Let us give these to them.

Tax concessions must be combined with exemption from labour laws. There is overwhelming evidence that labour laws made to secure benefits for the workers are actually acting as a discouragement for industries to employ more numbers. These laws are applicable to units which employ a specified number of workers irrespective of the capital involved. An agarbatti or beedi factory employing 2,000 persons is subject to same labour laws as a petroleum refinery. Industrialists want to keep the number

of workers less so that they do not attract application of certain laws. In order to remove this difficulty, labour laws should be made applicable on the basis of ratio of capital and labour. An industry employing Rs one crore capital per worker must be subject to strict labour laws. An industry employing Rs one lac capital per worker must be exempted from these laws. This will encourage industrialists to employ more labour.

The Government must desist from providing incentives to establish industries in poor-majority areas. This leads to inefficient production. These areas typically do not have adequate infrastructure of electricity, roads, railways and education. This leads to higher cost of production. For example, engineer has to be called from Ranchi if a diesel generator located in Palamu needs repairs. The factory may lie closed for two days. The government can compensate for these costs by providing tax concessions. But is it wise to produce a wrist watch in Palamu for Rs 1,000 when the same can be produced in Ranchi for Rs 700?

The objective is to provide jobs to the poor. It is not necessary to provide them jobs in the backward areas. Migration is a natural process that must be accepted without discomfort. The Siberian Crane migrates from Siberia to Bharatpur to lay eggs. Nature does not provide it with housing 'subsidy' so that it may lay eggs in Siberia. Most of the people in South Asia lived in the Indus Valley at one time. Technological change made it easier to live in the Ganges Basin. The people moved from the Indus to the Ganges. Similarly we must accept the migration of poor from backward areas to cities where production can be carried out efficiently. It must be remembered that the poor of Palamu would be happy to work in Ranchi rather than their home village. Facilities of schools, entertainment, transport and the like attract the poor to the cities, and rightly so.

It is not necessary that poor will be benefited from the establishment of factories in areas inhabited by them. Often factories are capital-intensive. For example an oil refinery has been established in Jagdishpur in UP. Oil is brought through a pipeline, processed and sent out by tankers. There is little linkage of the refinery with the local economy. Only a handful of jobs are created. Instead, a sugar mill would enable local people to sell their sugar cane and provide downstream linkages. The refinery provides no such benefits. Therefore, incentives must be provided to those industries that generate more linkages with local economy.

The welfare of the poor will be secured only when the demand for labour in the economy is increased. High wages cannot be legislated without detrimental effect. The trick lies in creating demand for labour. It matters little whether the demand is in poor-majority areas or cities. High demand for labour will necessarily lead to higher wages and people will spontaneously migrate to those areas. Workers from Tamil Nadu routinely migrate to Kerala and those from Bihar to Punjab. This is a natural process of

relocation. Tube wells and canals have enabled Punjab to produce more than Jharkhand. To keep the tribal people of Jharkhand locked into their areas is to ensure that they ever remain poor.

The government must be congratulated for thinking of providing incentives to the creation of jobs. But this should be done across-the-board in all areas of the country and all sectors. The concessions should be provided in excise duty and sales tax, rather than in income tax. Further, these may be provided on the basis of salaries paid. That will provide a direct incentive to the industrialists to employ more workers and also not hamper India's emerging as a globally efficient economy.

Author's address: bharatjj@gmail.com

Tel: 99171-44777