

Suit-boot nationalism

The convenor of the Swadeshi Jagran Manch, (an economic policy platform affiliated to the Rashtriya Swayamsevak Sangh), Ashwani Mahajan, recently argued that foreigners of Indian origin should not be allowed to repatriate inherited wealth over the \$1 million allowed under existing rules, as some influential people have been lobbying the government to do. I agreed with him. However, I dislike banning things, so suggested that all inheritance repatriation abroad should be allowed but taxed, putting the national interest first.

It is not desirable that wealth earned in India by Indians should be repatriated to foreign countries as inheritance, as this constitutes a reduction in scarce financial resources and the stock of gross national savings. The inheritance is not taxed if deployed in India. Surely, Amrit Kaal, the \$5 trillion economy, third-largest economy, etc, mean that only curmudgeonly anti-nationals would wish to repatriate the national patrimony? I argue for taxation as a temporary disincentive until the virtues of India's glorious future become apparent to these foreigners of Indian origin.

While the proposition met with broad support or indifference from all the economists who responded, a number of others responded negatively — many were self-declared "Proud Indians" and "India First" nationalists. But their assertions had nothing to do with making India proud or putting India first. Some railed against the introduction of socialism and the curbing of individual freedom. Others asserted that this involved double taxation. Yet others warned of the adverse behavioural consequences on non-resident Indians (NRIs), dampening their zeal to invest in India.

I found these responses interesting. First, when it came to personal wealth, the arguments were about personal liberty and taxation principles taking

precedence over national interest. "India first" could clearly take a hike, with only poor Dr Mahajan left flying the nationalist flag. Second, these skin-deep nationalists took a great interest in the welfare of foreigners, rating it above the welfare of the nation.

I could have responded reassuring them that these proposals would go nowhere. The children of almost the entire Cabinet, a large swathe of the senior civil service, the private sector, industrialists, top journalists — Indian elites across the spectrum — have studied and made lives and investment portfolios in Western nations. It is highly unlikely that these high-net-worth individuals would deprive their children of their full inheritance in their chosen places of foreign residence, in the national interest. But shining a torch for the blind is futile.

The technical arguments are quickly disposed of. Taxing a transfer of an asset from a local to a foreign jurisdiction is not double taxation. The inheritance is a stock, built with accumulated income. It has value because, and only because, it is an earning asset. Hence, moving it to a foreign jurisdiction detracts from national income. The tax seeks to compensate for this loss in national income. If the asset is not transferred, then there is no reason to tax it.

There is nothing unique or novel about differential treatment of foreigners and national residents. In the UK, foreigners pay a higher stamp duty on property purchases than residents. Taxing capital outflows is a long-standing practice across time and geographies, and done explicitly in the national interest at different junctures of a country's history by many, now developed, countries.

The tax will not apply if the foreign inheritors invest the inheritance in India. They do not even have to move here, and the returns from domestic

investment are generously repatriable under existing rules. By choosing to decamp with the inheritance, the inheritor is, in effect, passing a no-confidence vote on India's economic future. Interesting, is it not, that "Proud Indians" who are "insulted" on every trivial count find this acceptable?

Finally, we are talking about very rich people here. In a country with a per capita income of ₹2 lakh per annum, free repatriation is already allowed up to ₹800 lakh — 400 times the per capita income. This is not enough for the rich foreigners. And the new Indian "nationalist" is willing to forsake national interest to facilitate ease of living of the very, very, affluent who have left this country to settle abroad and want to take every rupee of their inheritance with them.

India pays dearly to indulge the expensive tastes of its rich citizens. We run a chronic current account deficit financed by inflows of foreign institutional investment and minimised by hard-earned exports of services. Our elites send their children abroad to study because Indian educational institutions are not good enough for them, even in Amrit Kaal. They go abroad for health care despite new world-class institutions like the AIIMS in Darbhanga being set up for them. They indulge in foreign holidays and foreign destination weddings. They are freely allowed to repatriate money for these things but bristle when even a withholding tax is proposed to be imposed on these outgoings.

Elite consumption contributes unfettered to India's import bill. Now, it seems that the new type of Indian nationalist and "proud Indians" also have no problem with unfettered export of painstakingly accumulated Indian capital to foreign countries by children who have taken foreign citizenship and no longer see any value in keeping their inheritance of their very rich parents and legators in the motherland they have left for good.



RATHIN ROY

The writer is managing director, ODI, London. r.roy@odi.org. The views are personal