

**Raksha:** Welcome to Unequal India. Decoded a podcast from the Tax Justice Network where we dissect economic inequalities in one of the most unequal countries in the world. I'm Rakha Kumar, and I've been working as a journalist for over 15 years now. I report from different parts of the country on issues of social and economic justice.

## MUSIC

Have you ever done the thing where you've written a letter to your younger self? It was quite a fa on social media some time ago.

Perhaps it's still a good exercise for those who need closure. Have always been curious as to what would happen if we tweak the exercise a bit. What if we went into the future and looked it up, present times, what do you think we would find? Let me see. Um, at least two warts being fought simultaneously in different parts of the world.

Chaos, unprecedented hunger, excessive addiction to devices, country after country being ruled by unstable leaders and some soap opera level drama in geopolitics. Well, would you see the end of US' dominance over the world economy? Like some observers are saying? I have asked many people how that makes them feel.

Those who are more averse to change, hate the idea, and those who are less averse to it are, um, ambivalent. I think it's quite exciting to be able to experience gigantic shifts. Don't get me wrong, it's rough and s stormy, but it is also a time when we have the power to shape our futures definitively. I'm guessing those who witnessed the resolution of the USSR in the late 1980s leading up to 1991 would've probably said the same.

So if we stood in 2050. Looked back at 2025, would we be able to say that we contributed to bolstering the alternatives to US dominance, or would we say the world collapsed into more chaos while we watched from the fences? By many accounts, bricks, uh, the group of Brazil, Russia, India, China, and South Africa and a few other countries now can offer a stable alternative to the US and the world economy. This can flatten out inequalities to some extent, clearly. This has Donald Trump on edge, but if we choose to leave Trump's anxiety aside as we should and look at the grouping objectively, what will we find? So this month, even as news changes every day, depending on whether Donald Trump woke up on the wrong side of the bed or not, it is crucial.

We talk about bricks plus. As of today, bricks plus nations contribute to about 40% of the world's economy and house about 50% of its people part. And here's the crucial part. Most of the exports from the bricks plus countries are going to the west. The world economy is stilling in favor of the Western countries despite everything.

India is a significant member of bricks. So in the last few weeks, so much has happened, right? The Trump Modi relationship has gone from one of bromance to Trump canceling Modi altogether. Trump called Indian economy a dead economy. He hit India with one of the highest tariffs, something that has made analysts wonder why the India, US trade deal, , broke down over opening up of India's agricultural sector.

So a lot has happened that has made many observers in India believe that Indian companies should diversify their client base. India should trade more with other countries. In this respect, India has the advantage of being a founder member of Bricks in order to understand the implications of current churning in the world economy and how bricks can actually offer stability towards its members.

I spoke to J Hos, professor of Economics at the University of Massachusetts Amherst, about the potential of bricks in bringing about a balance to global trade.

**Jayati Ghosh:** There's a bunch of countries that has also joined and that actually makes it quite significant, especially now when Trump's tariffs have become, what shall I say, a means of not just destabilizing global trade, but are forcing all countries in the world to look for plan B.

So BrickX is one way of doing plan B. And by, by the way, I would argue that bricks, the big impetus didn't even come from Trump. It came from Mr. Biden, because when you impose sanctions on a country, now the US is famous for imposing sanctions, right? Venezuela, Cuba, Iran, et cetera. But you do it to a big country like Russia.

And you also, you then freeze the bank accounts. The dollar reserves held in the US are frozen. Even though that's illegal, actually under international law, you can't do that. And you say, well, we are not going to allow you to use Swift, the International Clearing System. Now, that makes every country in the world sit up and think, oh, wait a minute.

Tomorrow if they decide they don't like me, they can freeze my reserves. Held in US dollar and they can get me out of the trade, the exchange clearing system. So there are alternatives. The bricks are trying to develop bricks clear, which is an alternative system.

The Chinese have got much more aggressively into renminbi swaps, which allows a lot of countries to do trade directly with them without going the dollar at all.

**Raksha:** That's true of India and Russia as well, right? We do ruble. Rupe,

**Jayati Ghosh:** as well. Yes. I mean, India less successfully because nobody really wants our rupe so much.

But, but you, you see potential there. You see how, you know, if not Brix currency necessarily, that would take a much longer time, but you could, you are already getting different means of exchange.

Are getting trade credits, you are getting different currency swap arrangements. All of this is happening.

The other thing we have to notice is that the Middle Eastern countries, the new entries into bricks, Saudi Arabia, UAE, et cetera, they have been very aggressively now investing directly in a bunch of countries. So, you know, earlier the oil surpluses would all go into Western banks and then the western banks would decide where they went.

Which is how it's, they've always been mediated. Increasingly you find that these are countries investing their surpluses directly. And they're playing a role in North Africa and in other countries of the Middle East. They are playing a role in different countries. It's something that really emerge later.

You know, people aren't talking about it so much because everyone's obsessed with China, but this is good to be something important in the next few years.

**Raksha:** right? So there's a lot happening at the moment, but despite everything Jdi says, Brix countries have been a bit sluggish.

**Jayati Ghosh:** So in a sense, the basic problem, the power that the IMF gets and the IMF strategies are really driven by the US and Europe entirely.

That hasn't gone away. And it's a surprise, I think, to many of us why they have been so low on ambition. Why the bricks, uh, alternative institutions have been relatively less ambitious. Maybe things will change. I certainly hope things will change now.

**Raksha:** Uh, do you think it's because they are also very diverse internally? I mean, they also have competing interests. They have, you know, interests that don't really match. .

**Jayati Ghosh:** that, that's absolutely the case. This is a real, mixture of all kinds of very, very different economies. Oil surplus economies, merchandise surplus economies, massively deficit economies, potentially large economies. It's a mix of all kinds of things, there are two ways in which I think they could make a difference.

One is if they enable more issue-based coalitions. And that's something that already started with the Financing for Development Conference in se. You know, they created these severe platforms for action. The idea is that progressive governments who have a, an agenda on an issue, it doesn't have to be you agree on everything else, but you are sharing a common agenda on some issue, and you agree to work together on that.

And these can be regional. I mean, you know, in Latin America, they have PT Lack, which is the Alliance for Progressive Taxation in Latin America. And there are 12 countries who are members. So they're sharing information, they're sharing, strategies, and they're enabling things like wealth taxation, which is very difficult for a small country to try and do.

You know, they're always scared that they will be capital flight and so on. But all of that has been, , it's pushed by p Tlac, but you know, now there is also a specific wealth tax. Platform, and some countries are part of it, but other countries may join is in severe.

The idea was that there would be a platform for debtors to get together and once again, exchange information, exchange strategies, say, okay, the IMF asked you to do this. Well, they asked us to do that, and how come you got better deals than I did, and so on, , so. All of these things, I think, can play a role.

So the bricks, if you think of it again, as not a grouping so much as a platform from where you can get different kinds of cooperation really, because the, the old multilateral system is not delivering. We all know that.

I think increasingly what countries are beginning to realize is that having relied on the IMF as the multilateral way out and so on, they now see it as an explicit instrument of very aggressive national interests of rich countries who are frankly no longer that dynamic.

And that means that increasingly, I believe countries are going to think of other ways out.

**Raksha:** Depending on how you look at it these times can be very challenging or exciting. Thank you so much J for your time and insights.

## MUSIC

and now, as I had promised in the last episode, we are kicking off a new series which will look at how the colonial period created inequalities in India that one can see. Even now, we call the segment the story of the Rupe professor Surjit Mazumdar teaches economics at the Java University in Delhi.

He spoke to me about how taxation created during the colonial period is casting its shadow even now on the Indian Society.

**Surajit:** One part of the relationship between Britain and India involved.

What came to be called the drain of wealth. Now the drain was essentially a process in which you extracted a surplus out of the production activity that took place in India, and it was transported out of India with nothing coming back in exchange. So it is a unilateral transfer of something that happens in India.

Uh, of income that is generated in India by production that takes place in India. And this worked through the taxation system. . So essentially the revenue that accrued to the, to the state. . So originally the East India company, went after it acquired the di of. In the 18th century after the Battle of P, essentially they acquired the right to claim the revenue that customarily all rulers in India had.

So land revenue, which was a part of the value that was generated in agricultural activity, had to be paid to, the ruler. And from that, a whole class of aristocrats used to be basically benefited. Now the difference that the Isinia company's acquisition of the right to receive revenue did was that the Isinia Company used this revenue to replace its use of gold and silver brought from Europe to purchase a products that it bought in India and sold in Europe.

What that did was therefore that from a exchange process where gold and silver were flowing towards India and in exchange Indian products were going out towards Europe, became a unilateral transfer. Indian income was used to purchase these Indian products, and they were shipped out of India. So one of the bilateral exchange became a unilateral transfer.

Now. While it originated during the East India company period, uh, and was linked up with the East India company's trading activities in one way or the other, this transfer, continued throughout the period of Colonial rule.

**RakshaSurajit:** Just for the, sake of, clarity for the audience. So when you say throughout Colonial rule, you mean while the East India company was in charge and also when the British Crown was in charge after 1857? Right .

**Surajit:** Yes, absolutely, absolutely. This continued right up until the end of. Uh, British rule in India covering both the period of the Raj as well as the East India company period. So it begins in the East India company period. And the forms that it uses changes, uh, with the British rag. So, I mean, once the British Crown directly takes over India, it's not a trading entity.

But the same process where, uh, and it came to be called, uh, one part of it came to be called the home charges, which were basically, uh, sterling expenditures, uh, that were financed outta revenues and generated in India. Okay. Uh, and corresponding to this income transfer was of course, uh, also a commodity surplus being extracted from India, uh, which, uh.

Was taken out of India and didn't come back and nothing was received in exchange. That is why you had this, uh, situation where India had an export surplus for most of the period of colonial rule, but it exported more to the rest of the world than it, uh, bought from the rest of the world. And yet. That was not an export surplus, that generated an expansionary momentum to, uh, uh, imported in expansionary momentum to India's economy.

It's not like China's export surplus. And export led growth. It didn't produce growth. In fact, it was an extraction out of India, which took the form of exports. Uh, uh, we also had, uh, India, of course used as a market for British manufacturing industry, which led to the destruction of India's own, um, traditional manufacturing industry, what we call the process of, of the industrialization.

Now. So you had this process where, in a sense, what was being extracted out of India, uh uh, was at the same time having the effect of compressing the

economy, which formed the basis for that transfer. And this contradiction expresses itself in, uh, this contradiction and, uh, political imperative of maintaining colonial rule produces changes over time in the sources of this, uh, uh, of the revenues, which form the basis for this transfer.

So, historically, the most important source of revenue in the East India company period, and much of the 19th century, even after the Crown directly establishes control over India. Was the land revenue. Okay? But over a period of time, you have a reduction in the weight of land revenue in the total revenues, okay?

Uh, and this is partly driven by the fact that, uh, not because the part that is remaining with the actual cultivators is increasing, but because the level of systems that the British created. Resulted in the creation of a ADE class, uh, which kind of innocent shared in the extraction from the cultivators.

So while the cultivators remained in extreme poverty, the part surplus that was extracted from them had to be shared between the state. And the class of, uh, uh, with the property rights and land that were in some senses, partly created by the revenue systems that the British put in place in order to guarantee and ensure that this revenue stream would be sustained, uh, so that the transfer from India could be sustained without any disruption.

Now over a period of time, the political imperative of trying to maintain this, uh, condition. Uh, led to a dis change in the distribution of that surplus between the government and the land owning class in favor of the land owning class and the land revenue. The importance in revenues de tended to decline.

Uh, the effect of this political imperative was also seen in, uh, one, uh, the, the consequence of India's direct tax structure, uh, which survived. Please survive still this date. So one of the ways in which this revenue issue was sought to be addressed, one of the taxes that was introduced by the British was the income tax.

Okay. Uh, the income tax generating. Income tax. However, there was a problem that, uh, on the one side there were these. Um, high income British officials who are here, who are paid high salaries in order to incentivize them coming to India and, uh, serving the British administration here. So you couldn't tax them very heavily, uh, if, but so, but they were one high income category that, was there.

Another high income category that was emerging was this, basically this land classes, uh.

This is in the late 19th century. Income tax is introduced in India in the, in the 1870s or so, but soon after its introduction. Agricultural income was exempted from income tax and this exemption of agricultural income from income tax is something that persists still date. So that even when there was large, I mean there was a section within agriculture who had very high incomes.

They were not obliged to pay income tax. Okay? And of course, over time it also became possible to use this particular route to avoid taxes. On income generated and other activities, because you could show it, if you could show it as agricultural income, income generated, other activities. Yeah, so this is, this is something that has persisted till till date, uh uh, that this particular uh, uh, taxation.

Now, if you can't therefore use income taxes, essentially you had a heavy reliance on what you would call indirect taxes. And the burden of these indirect taxes also fell. So basically what a taxation structure evolving under, uh, British rule where, uh, uh, the, the, the burden on high income groups was kept in check and you essentially relied on various taxes, which could be.

One way or the other, levied on the general population, which had extremely low incomes. So if you look at the history, the why in the soil tax, which was a major issue in our national movement also because it affected a large number of people. Okay? Uh, then, uh, and excise duties, ax work, a structure which relied heavily on indirect taxes.

Uh, was it, was the tendency that was generated by the colonial context, which end feature of India's taxation structure after independence?

Yes. It, so there are two sides to it. One is that if you have an income distribution, which the economic working produces, which is highly unequal. If you do not use direct taxes significantly to tax the those with higher incomes heavily, and you rely more on indirect taxes. So with regard to those who have the means to pay higher taxes, you have a political constraint for one other or other reasons you don't tax them heavily.

And on the other side, you have a more fundamental economic constraint that those who have very little, even when you impose a tax on the taxes on them, the burden of taxation on them, there are limits beyond which you can't take that because they have, in many case, very little to pay. The consequence, therefore, of a taxation structure, which relies heavily on indirect taxes, is to keep the overall share of taxes in income itself low.



And this in a sense, is something, the kind of the structure and uh, in many ways, that orientation of Indian taxation was created during the colonial period because the direct taxes, income, taxes and all, who would they. Okay, so in the colonial era, either there were landed groups who had large amounts of land from which they received a large amount of rent, who had high incomes, those, I mean nas or other categories of, uh, those property rights in land.

You had, of course businessmen, who had high incomes, and you, those businessmen also significant part of them were. Of European origin who were here primarily because of the colonial context. And you had British officials who worked here who received high salaries. So the government of India, India paid high salaries to a small stratum of its employees who were basically those who came from Britain to serve the administration in India.

Uh, so they were paid a high salary in each of these categories. There were compulsion, the constraints, which. In the logic of colonialism work towards keeping their taxation burden low. Okay. Which means that you only have the scope for taxing the rest of the population through indirect taxes. Okay? There too, there are limits weights because of the economic constraints, and there's also under colonial rule, there were also some political imperatives.

How far? Could you push the burden of taxation on ordinary people without inviting rebellion? Okay, , so the, there were political constraints, so that which, which worked to ensure that the level of taxation relative to the total national income itself remained low. This was true during the colonial period and after the end of colonialism.

If you look at the trajectory of development of the tax to GDP ratio in India. It was moved up over time till the before. Liberalization primarily on account of indirect taxes. That's the method that has been used so that the majority of the taxes in India, central and state governments combined come from indirect taxes, but it is also combined with keeping that tax to GDP ratio relatively low.

And this has had an impact on inequality in two senses. One is, of course the direct effect you've done, not being able to use taxation and expenditure as a means of some kind of redistribution. And secondly, you are not able to finance the economic activities of the state. Which could in the long run affect how the income is in this country is distributed.

But the origins of that go back to the colonial periods.

**Raksha:** Thank you so much, professor Mazumdar. We will continue this conversation in future episodes. It is our attempt to understand the past so that we make our future a little better. You can subscribe to this podcast on Apple Podcast or any other podcast application you use or through our website, [podcast.tax justice.net](http://podcast.taxjustice.net).

Tell us what you think about the podcast and anything else you might want to hear by emailing us on [Unequal india@taxjustice.net](mailto:Unequal india@taxjustice.net). There are links in the show notes that give you more context to everything we've spoken about today.

You've been listening to Unequal India, decoded from the Tax Justice Network. I'm Raksha Kumar, and we'll be back next month. Thank you for listening in.