

Corporate tax bonanza unlikely to revive economy: Yashwant Sinha

FE BUREAU

Pune, September 23

FORMER FINANCE MINISTER

Yashwant Sinha has raised doubts if the recent corporate tax cut announced by the government would have the desired "trickle down" impact on the rest of the economy and spur demand.

He said the tax bonanza would benefit only 0.7% of companies and improve their balance sheet but it will not generate demand or put money in the hands of rural households or middle class.

"If this is the diagnosis of the government, it misses the point completely. It has wrongly diagnosed the problem," the former finance minister said.



In the long term, tax cut is beneficial but will the entire ₹1,45,000-crore stimulus be invested in the economy or solve problems facing the economy, he asked while speaking at the Gokhale Institute of Politics and Economics on Monday.

Quoting economist John Kenneth Galbraith on the "trickle down" economics,

Sinha said the government's tax bonanza seems based on the logic, "If you feed enough oats to the horse, some will pass through to feed the sparrows." However, he added, trickle down is a discredited concept and suggested a direct transfer to targeted groups.

Sinha said the slowdown in the economy was both cyclical and structural and in some areas it was more structural than cyclical.

The former finance minister said he was not averse to the government spending ₹3 lakh crore or ₹4 lakh crore to revive the economy by raising fiscal deficit but all of it should go to capital expenditure and not to unproductive revenue expenditure.