

---

**THE TIMES OF INDIA**

[ MONDAY, OCTOBER 21, 2002 12:10:26 AM ]

---

---

## A taxing idea at the right time?

---

---

JAIRAM RAMESH

Yet another Nobel Prize for Economics has been awarded and yet again, that perennial front-runner professor Jagdish Bhagwati, the guru of international trade, has missed the accolade. But an old idea of his, a brain drain tax — first propounded around a quarter of a century ago — is enjoying renewed popularity.

Recently, *The Economist*, in its survey of emigration and its impact on developing countries like India, drew pointed reference to Bhagwati's work. Two young Harvard professors, Mihir Desai and Devesh Kapur, along with another colleague John McHale, have carried out detailed empirical investigations into the fiscal impacts of emigration and built upon Bhagwati's early ideas. And in any discussion on global finance in the UN and other forums, two ideas are ever-present: The Tobin Tax, a tax on speculative cross-border capital movements named after the Nobel Laureate James Tobin. And the Bhagwati Tax.

According to calculations made for the first time, the three academics estimate the net fiscal loss to India from emigration to the US in 2001 at between 0.24 per cent and 0.58 per cent of Indian GDP. This is a significant loss arising largely from the fact that although Indian-born residents account for just 0.1 per cent of the US population, their aggregate income is 10 per cent of India's national income.

After looking at options like an exit tax and some compensatory payment system by the country of destination, Bhagwati settles on a tax paid by the immigrants themselves. This implies an extension of domestic income tax jurisdiction to nationals abroad. This would mean India adopting the US system of taxation that taxes its citizens according to citizenship rather than residence contrary to the European practice that we have inherited.

Obviously this would involve governmental cooperation as well. The author of the tax also argues that it is the flip side of the current diaspora policy: Rights and obligations must go together. Desai and his colleagues say that a Bhagwati tax could yield an annual revenue stream to the government of around \$ 500 million, although their preference appears to be for a straight-forward exit tax on all those engineers, doctors and other skilled persons leaving the country.

One development that might weaken the case for a Bhagwati tax on skilled Indians abroad is the growth of remittances which is presently averaging \$ 8 billion annually. In the late 1970s and through the 1980s, the bulk of these remittances came from Indian workers in the West Asia. But there has been a shift in the composition in the last decade and probably close to half of the remittances are now coming from the US and other western countries.

These remittances, along with software export earnings, show up as invisibles in the country's current account balance. They have helped keep India's current account deficit down to very safe levels.

NRI deposits are also an important component of India's foreign exchange reserves and close to \$ 25 billion now has to be repaid. But the Bhagwati tax is a citizenship obligation and is quite independent of the remittance flows and NRI deposits. The tax adds to the government's revenues while the remittances help boost private expenditure.

With globalisation, there has been some return migration. But that is a trickle compared to, for instance, China and it is largely short-term. The flight of human capital that is taking place has led to a crisis in the entire system of Indian professional education today. India's elite institutions in areas like science, engineering, management, medicine and economics enjoy great reputation entirely because of the quality of the students. There are a few pockets of excellence elsewhere India's higher education presents a picture of mediocrity which no calculation of fiscal loss can capture and no tax can compensate for. Nevertheless, the tax is a beginning.

***Kautilya@indiatimes.com***

---

---

---

[About the Publisher](#) | [For reprint rights: Times Syndication Service](#)

---

---

Copyright © 2003 Times Internet Limited. All rights reserved. |