06 CHAPTER

Bounties for the Well-Off

Subsidies for the poor tends to attract policy attention. But a number of policies provide benefits to the well-off. We estimate these benefits for the small savings schemes and the tax/subsidy policies on cooking gas, railways, power, aviation turbine fuel, gold and kerosene, making assumptions about the definition of "well-off" and the nature of neutral policies. We find that together these schemes and policies provide a bounty to the well-off of about ₹1 lakh crore. We highlight that policies that are based on providing tax incentives will, in India, benefit not the middle class but those at the very top end of the income distribution. For example, the average income of those in the 20 percent tax bracket places them roughly in the 98.4th percentile of the Indian income distribution, and the corresponding figure for the 30 percent tax bracket is the 99.5th percentile.

Introduction

6.1 The government spends nearly 4.2 per cent of GDP[1] subsidising various commodities and services. Public discussion of these subsidies focuses on their importance in the economic lives of the poor. This chapter shows that the Indian state's generosity is not restricted to its poorest citizens. In fact, in many cases, the beneficiaries are disproportionately the well-off. In at least one area – corporate taxes – the government has recently taken decisive action, by identifying and quantifying exemptions amounting to about ₹62,000 crore[2] and announcing a clear path for phasing them out. A move to GST would also eliminate leakages due to rationalisation of indirect tax exemptions estimated to cost ₹3.3 lakh crore.[3] These commendable efforts could be extended to other areas where the poor and vulnerable are not exposed.

6.2 The aim of this chapter is to document some of this largesse, in areas that often attract policy attention. Our list is neither exhaustive in scope, nor precise in its estimates. But it nonetheless allows a broad understanding of how much government subsidises the better-off.

6.3 We focus on seven areas: small savings schemes, kerosene, railways, electricity, LPG, gold, and aviation turbine fuel (ATF). In each case, we highlight salient facts and estimate the subsidy's magnitude.

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1 Economic Survey 2014-15, Vol. 1, Chapter 3.

2 This is projected number for 2014-15 as per budget 2015-16.

3 Subramanian Committee Report on the Revenue Neutral Rate and Structure of Rates for the Goods and Services Tax (GST), available at http://finmin.nic.in/the_ministry/dept_revenue/Report_Revenue_Neutral_Rate.pdf. The exemption amount is calculated as 2.7 per cent of GDP at current market price for the year 2014-15.

"SMALL" Savings

6.4 "Small" savings schemes were initially created to mobilise saving by encouraging "small earners" to save, and offered above-market deposit rates in accessible locations like post offices for this purpose. Recent discussions have focused on one efficiency cost of "small" savings schemes – how they hinder monetary policy transmission. Because small savings schemes offer high and fixed deposit rates (within year) and compete with banks, it is difficult for banks to reduce their own deposit rates and hence pass on policy rate cuts to consumers in form of lower lending rates. Recently, the government has reduced rates on some small savings schemes to make them more responsive to market conditions.

6.5 But questions also arise about the equity of small savings schemes: what is the rate offered on these instruments, who benefits from them, and how large are these implicit subsidies? These findings are highlighted in Tables 1 and 2.

6.6 It is misleading to characterise these savings schemes as "small", because in fact there are at least three types of schemes, only one of which can really qualify as "small." This first set of "actually small" schemes ranges from postal deposits to schemes for the elderly and women. The second set is of "not-so-small" schemes, which includes the most important of all – the Public Provident Fund (PPF). And the third category is "not-small-at-all" schemes, which includes tax-free bonds issued by designated public sector companies like IRCL, IIFCL, PFC, HUDCO, NHB, REC, NTPC, NHPC, IREDA, NHAI and others, supposedly to finance infrastructure projects.

6.7 The interest rates on most of these schemes are fixed (for year), but they vary in magnitude and periodicity. Whatever the terms, the key determinant of their real return is their tax treatment. Ideally, savings schemes should be taxed according to the "EET principle". The first "E" stands for tax exemption of the contribution, the second E for exemption of interest income, while T stands for taxation of the principal (and interest) when it is withdrawn. The logic of this principle is explained in the Box 1 at the end of this section.

Table 1: Characteristics of savings schemes

Scheme	Tax Treatment ($)	Compound-ing of Interest	2011-12@	2012-13@	2013-14@	Interest Rate*
Post Office Savings Account	TTT**	Yearly	868.4	921.9	953.4	4.0%
Post Office Savings Time Deposit##	TTT	Quarterly	470.9	531.9	611.6	8.4%
Post Office 5-year Time Deposit	ETE	Quarterly	10.5	18.5	21.7	8.5%
Post Office Monthly Income Account Scheme	TTT	Monthly	284.2	190.5	179.9	8.4%
Senior Citizen Savings Scheme	ETE	Quarterly	37.2	22.8	23.5	9.3%
5 Years National Savings Certificate (VIII Issue)	ETE	Half yearly	103.3	191.0	167.2	8.5%
10 Years National Savings Certificate (IX Issue)	ETE	Half yearly	0.0	19.6	35.6	8.8%
15 year Public Provident Fund Account	EEE	Yearly	366.6	443.6	506.7	8.7%
Tax Free Bonds #	TET	-	61.0	34.9	144.0	7.6%

Notes:

$ The tax treatment of any scheme has three stages- first at the time of deposit, second on the interest accrued on the deposits, and third at the time of withdrawal. For example, under an EEE scheme deposits, interest accrued, and withdrawal of money are all tax exempt.

* Interest rates are for the year 2014-15.

** Any scheme which attracts tax at the first stage (at the time of contribution) is deemed as taxed at the time of withdrawal.

Includes post office 1-year, 2-year, 3-year time deposit and 5 year recurring deposits.

@ Amount is gross deposit in ₹ Billion.

Interest rate on NHAI 15Y bond of 2015-16.

6.8 Most schemes in the "actually small" category are TTT – neither the interest nor the contribution to the scheme are exempt from tax under Section 80C[4] of the Income Tax Act. By contrast, the PPF, which is a "not-so-small" scheme is EEE: the interest is tax exempt, contributions are tax exempt, but up to a limit of ₹ 1.5 lakhs, and tax exempt at the time of withdrawal. Finally, schemes in the "not small at all" category are TET – the contribution is taxable but the interest is tax exempt and there are no limits (unless otherwise indicated at the time, they are issued) on the permissible subscription to these bonds.

6.9 The effect of all these special treatments can be summarised into one metric—the effective rate of return on these instruments compared with the return on a comparable savings instrument, say saving account deposits in the case of post office savings, and 15-year G-Sec in the case of PPF and tax-free bonds. Table 2 shows that the return on PPF contributions and tax-free bonds are particularly high (Table 2).

6.10 We can indirectly infer how well-off beneficiaries of the PPF scheme are. Roughly 62 per cent of total 80C deductions in FY 2013-14 were accounted for by taxpayers with gross taxable income more than ₹4 lakh (47 per cent by those earning more than ₹5 lakh). These individuals are at the 97.3rd and 98.4th percentiles of the income distribution respectively – hardly "small".

6.11 While not all 80C deductions are PPF deposits, they appear very sensitive to 80C contribution rules. In 2014-15, when the limit for the 80C deductions was increased by ₹ 50,000 there was an almost a one to one increase in 80C claims for those in the 20 and 30 per cent tax brackets (Figure-1A and B). From independent data from State Bank

Table 2: Implicit Subsidies in Savings schemes

	Outstanding as on 31st March 2015 (in ₹ crore)	Interest Rate* (%)	Effective Interest Rate** (%)	Comparable Market instrument rate (%)	Implicit subsidy rate @	Implicit Subsidy (in ₹ crore) ^
Actually Small						
Post office Saving Account	47422	4.0	4.0	4.0	0.0%	0
Not-So-Small						
PPF	319549	8.7	16.0	10.0	6.0%	11900 (##)
Not-Small-at-All						
Tax Free bonds (2011-12/2015-16) #	2997	7.6	13.7	10.0	3.7%	111

Notes:

* Rate of interest is for the year 2014-15.

** The effective interest rate is the internal rate of return (IRR) on the scheme after incorporating the impact of tax treatment on the deposit and interest accrued. The assumed average tax rate for the IRR calculation is 15 per cent.

$ Comparable market instrument is saving account deposits in the case of post office savings and 15 year G-Sec in the case of PPF and tax free bonds.

@ Implicit subsidy rate is difference between the effective interest rate and comparable market instrument.

^ Implicit subsidy is the subsidy rate multiplied by the outstanding balance of the scheme as of 31st March 2015.

Interest rate on 2015-16 NHAI 15-year bond.

As per income tax return data, around 62 per cent of 80C claims are from the people who have gross income greater than ₹4 lakh, therefore the implicit subsidy to well-off for PPF is 62 per cent multiplied by ₹19182 (which is 6 per cent multiplied by outstanding amount in PPF).

[4] 80C is a section in Income tax Act of India, which allows deduction from Gross Income for various savings schemes.

of India, we found that this increase was associated with increases in PPF deposits.

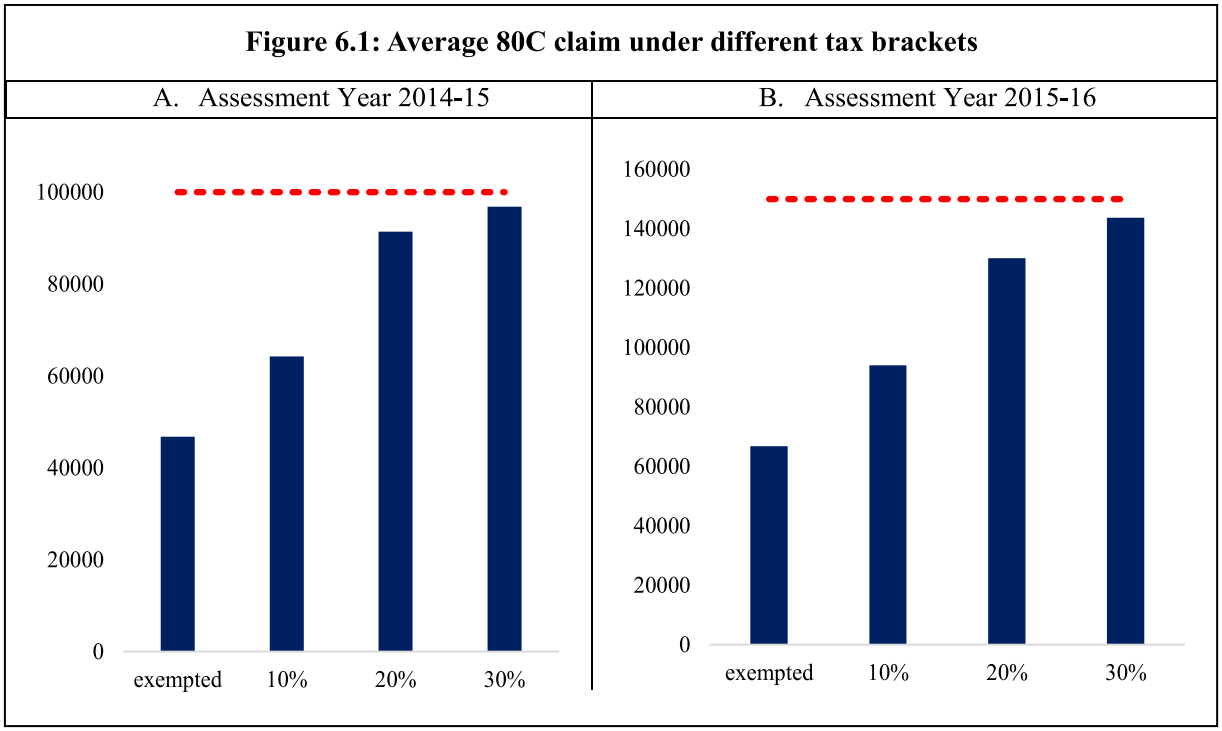
6.12 In sum, the effective returns to PPF deposits are very high, creating a large implicit subsidy which accrues mostly to taxpayers in the top income brackets. The magnitude of this implicit subsidy is about 6 percentage points – approximately ₹12,000 crore in fiscal cost terms.

6.13 The interest subsidy on tax-free bonds is slightly smaller—about 3.7 percentage points—but because there are no limits on permissible contributions (other than that dictated by the supply of such instruments), the main beneficiaries are large savers who can set aside large amounts. For example, the average size of the investment in tax-free bonds by the individuals was nearly ₹ 6 lakhs in FY 2013-14, which was six times the total exemption limit under Section 80C.

6.14 In light of a number of tax incentives for savings given to individuals it is worth asking how wealthy they are in relative terms. So, we identify the tax thresholds for the 10, 20 and 30 percent tax bracket which were 2, 5, and 10 lakhs, respectively in FY 2013-14. We then compute the average incomes of the people in these tax brackets were and see where they stood in the overall income distribution (Figure 6.2). The results are striking. In 2013-14, the average income in the 30 percent threshold was ₹24.7 lakhs and these earners were roughly 25 lakhs in number (1.1 percent of all taxpayers) and placed in the top 0.5 percent of the overall Indian income distribution. Similarly, the 54 lakh income earners in the 20 percent tax bracket represented the top 1.6 percent of the Indian income distribution.

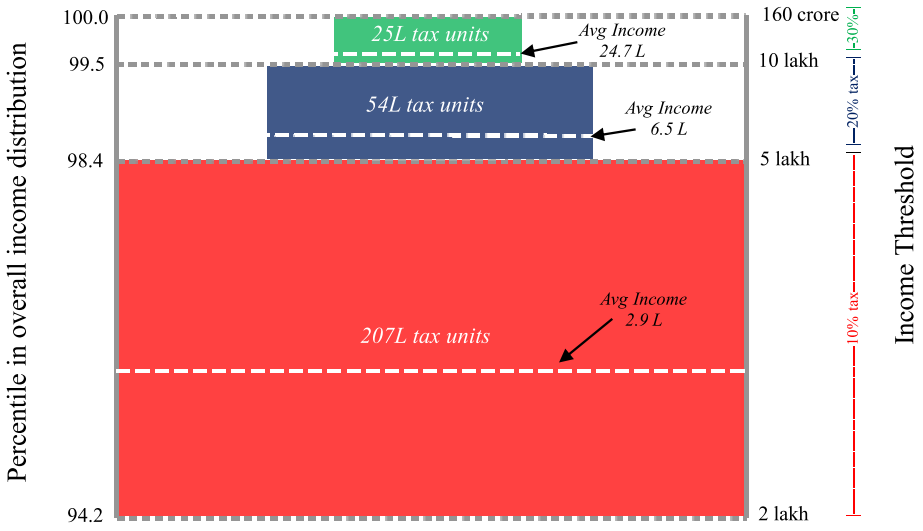
6.15 These numbers are striking and have one policy implication: any tax incentives that are given, for example, for savings, benefit not the middle class, not the upper middle class but the super- rich who represent the top 1-2 percent of the Indian income distribution. Now, it is by definition true that top taxpayers will be beneficiaries of tax incentives. However, in most countries, they will range from being middle class to very rich. In India, they are the super-rich.

Figure 6.1: Average 80C claim under different tax brackets



Source: **Department of Revenue**

Figure 6.2: Number of Tax Units by Population Percentile and Threshold Income (for 2013-14)



Box 6.1: Tax Treatment of Savings

Income tax is inherently biased against savings; it leads to double taxation in so far both the savings and the earnings are taxed. In general, the tax system provides for a mechanism to eliminate this bias and promote savings in the economy. This mechanism takes the form of a tax incentive by way of a deduction for contribution to specified savings instruments. In India, savings in several instruments are further incentivised by exempting fully, or partially, the earnings at the accumulation stage as well as the withdrawals from tax (both the contribution and the earnings). In effect, savings are subject to exempt-exempt-exempt (EEE) method of taxation i.e. they are exempt at all three stages of contribution, accumulation and withdrawal.

The case for concessional tax treatment of savings is built on the consideration that a tax concession for savings leads to higher post-tax return for the investor. The higher returns, in turn, create a positive substitution effect whereby, in favour of savings rather than current consumption. However, what is missed out is the fact that it also creates a disincentive for savings (income effect), since the higher returns now require lower savings to meet the lifetime savings target.

There is some empirical evidence to suggest that the positive and the negative effects are neutralized at the economy level. Further, the tax incentives for savings, as designed in India, do not encourage net savings (contribution plus accumulation minus withdrawals) since withdrawals are also exempt from tax. In addition, national savings comprise of household savings, government savings and corporate savings. To the extent, tax incentives for savings lead to fiscal loss, government savings are adversely impacted, thereby partially neutralizing the increase in household savings.

Further, tax incentives for savings distort the interest structure and choice of saving instruments, and merely help mobilize funds to specified savings instruments. They also increase the interest rate at which households are willing to lend funds to banks (i.e., make deposits) , thereby adversely affecting investment. They are also regressive in as much as they provide relatively higher tax benefits to investors in the higher tax bracket; in fact, the real "small savers", who are largely outside the tax net, do not enjoy any form of tax subsidy on their savings. Overall, tax incentives for savings, more so as designed in India, are economically inefficient, inequitable and do not serve the intended purpose. Hence, there is a strong case for review of the design of the tax incentives for savings schemes.

While there should be no tax incentive for savings, the question is what should be the tax treatment of savings so as to eliminate the inherent bias under income tax. The emerging wisdom is that savings should be taxed only at the point of contribution (TEE) or withdrawal (EET); the latter being the best international practice on several counts.

First, savings (contribution) reduce cash flow and therefore, the 'ability' to pay. Therefore, taxation at the point of contribution would create hardship and act as a disincentive to save. However, taxation at the point of withdrawal

Contd....

(principal or earnings) occurs when the ability to pay is greater and therefore, justified on principles of taxation.

Second, under the TEE method, taxation at the point of contribution does not provide any immediate incentive to save nor does exemption of withdrawals discourage dissavings. However, under the EET method of taxation of savings, full deduction from income at the point of contribution and accumulation acts as an incentive for savings while taxation at the point of withdrawal penalizes dissavings. The combined effect is that it encourages the saver to build a self-financing old age social security system.

Third, under the TEE method, there is no incentive for consumption smoothening since withdrawals are exempt irrespective of the amount. However, the EET method allows for consumption smoothening particularly in old age since taxation of withdrawals incentivizes postponement of consumption. Under a progressive personal income tax rate structure, there is an in-built incentive to restrict withdrawals to meet necessary consumption only since lower withdrawals imply taxation at lower marginal tax rate and hence, lower tax liability. Consequently, the potential for old-age poverty is minimized.

Fourth, the EET method provides discretion to the saver for tax smoothening and minimize the tax liability arising from any bunching of gains. Fifth, because taxation is at the last point in the savings process, there is no uncertainty about the potential tax liability unlike in the case of TEE method where the saver is uncertain whether the Government would impose a tax at the point of accumulation or withdrawal to raise revenue to overcome the fiscal crisis.

Sixth, the EET method is extremely simple in terms of compliance and administration since it can be operationalized by opening an account with a designated fund which, in turn, can invest in a mix of a broad range of debt and equity instruments depending upon the risk appetite of the saver. All earnings are required to flow into the same account and withdrawals, if any, can be subject to withholding tax. It does not require any complex tracking mechanism to prevent leakage of revenue. It is not necessary for the saver to maintain details of savings and earnings to claim tax benefit.

Finally, most developed countries and many developing countries are implementing the EET method of taxation of savings.

In view of the foregoing, India should move, in a phased manner, to the EET method of taxation of savings. Interestingly, the New Pension Scheme (NPS) is already being subjected to the EET method of taxation. Therefore, deductions under Section 80C and 80CCD should be re-assessed to move toward a common EET principle for tax savings.

Other Bounties

6.16 For a number of commodities including gold, LPG, kerosene, electricity, railway fares, aviation turbine fuel, we have calculated the implicit subsidy or tax rates. We define the "poor" as those whose consumption is in the bottom three deciles (lowest 30 per cent) of the population, and the "better off" as the rest[5], except in case of electricity and railways where this classification is different.

Gold

6.17 Gold is a strong demerit good: the 'rich' consume most of it (the top 20 per cent of population account for roughly 80 per cent of total consumption) and the poor spend almost negligible fraction of their total expenditure on it. Yet gold is only taxed at about 1-1.6 per cent (States and Centre combined), compared with tax of about 26 per cent for normal goods (the central government's excise tax on gold is zero compared with 12.5 per cent for normal commodities.) In other words, there is a huge subsidy of about 25 percentage points (the difference between average tax on other commodities and tax on gold). About 98 per cent of this subsidy accrues to the better-off and only 2 per cent to the bottom 3 deciles. And this is an under-estimate because the data on consumption is from the NSS, which is known not to capture those at the very top end of the income and expenditure distribution.

[5] The decile classes in the population are calculated from 68th Household Consumer Expenditure Survey of NSS (2011-12) data.

Railway

6.18 There is a difference between the subsidy for the better-off and the poor in railways, because fares vary in different classes of travel. We combine the categories of A/C, first class, second class, sleeper as the primary modes of rail travel by rich and unreserved category as mode of travel used primarily by the poor. We then compute the implicit subsidy rate for these categories, by comparing the actual fare charged to the consumers with the marginal cost of supply (i.e. difference between earning per km and cost per km)[6]. On this basis, the subsidy rate (implicit subsidy as a ratio of actual cost of journey to railways) amounts to 34 per cent for the better-off and 69 per cent for the poor. Note that there is no provision for covering fixed costs, so the calculation understates, perhaps significantly, the subsidy.

LPG

6.19 LPG consumers receive a subsidy of ₹238.51 per 14.2 kg cylinder[7] (as in January 2016), which amounts to a subsidy rate of 36 per cent (ratio of subsidy amount to the market price). It turns out that 91 per cent of these subsidies are accounted for by the better-off as their share of consumption of LPG in the total consumption is about 91 per cent; while the poor account for only 9 per cent of LPG consumption and hence only 9 per cent of subsidies go to them.[8] So, this subsidy, aimed at benefitting the poor, is hardly being used by them. Another important point to note is that LPG is subsidized heavily, as compared to other energy related commodities like petrol, diesel etc which are taxed at very high rates, hence the effective subsidy to the better-off on account of LPG is much more than the actual direct subsidy of 36 per cent (more details in next section).

Electricity

6.20 In the case of electricity, like railways, tariffs vary on levels of consumption, so there is *de facto* targeting of the subsidy. Based on data available for two states (Tamil Nadu and Delhi), we have estimated the subsidy for the better-off and poor by comparing the average billing rate, which depends on levels of consumption, with the average cost of supply of power. Implicit subsidy rate is the subsidy given per unit to domestic consumers as a ratio of the cost of supply per unit. The rates charged to the better-off are subsidized to the extent of 32 per cent, and the poor, 49 per cent (average for Delhi and Tamil Nadu). But given the magnitude of relative power consumption of the better-off in the total consumption of electricity (84 per cent), the better-off appropriate a substantial amount of the total subsidy.

ATF

6.21 Aviation fuel is taxed at about 20 percent (average of tax rates for all states), while diesel and petrol are taxed at about 55 per cent[9] and 61 per cent[10] (as in January 2016). The real consumers of ATF are those who travel by air, who essentially are the well-off. Hence there is an implicit subsidy for air passengers (the difference between taxes on diesel/petrol and aviation fuel) amounting to about 30 percentage points.

Kerosene

6.22 There is a subsidy of ₹9.16/litre (as in January 2016) on kerosene distributed under the public distribution system, which translates into a subsidy rate of about 38

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6 Both of these have been calculated by the Ministry of Railways.

7 Petroleum Planning and Analysis Cell.

8 Consumption from 68th Household Consumer Expenditure Survey of NSS (2011-12).

9 The tax rate is a sum of centre's excise duty and state taxes (average of state tax rates).

10 The tax rate is a sum of centre's excise duty and state taxes (average of state tax rates).

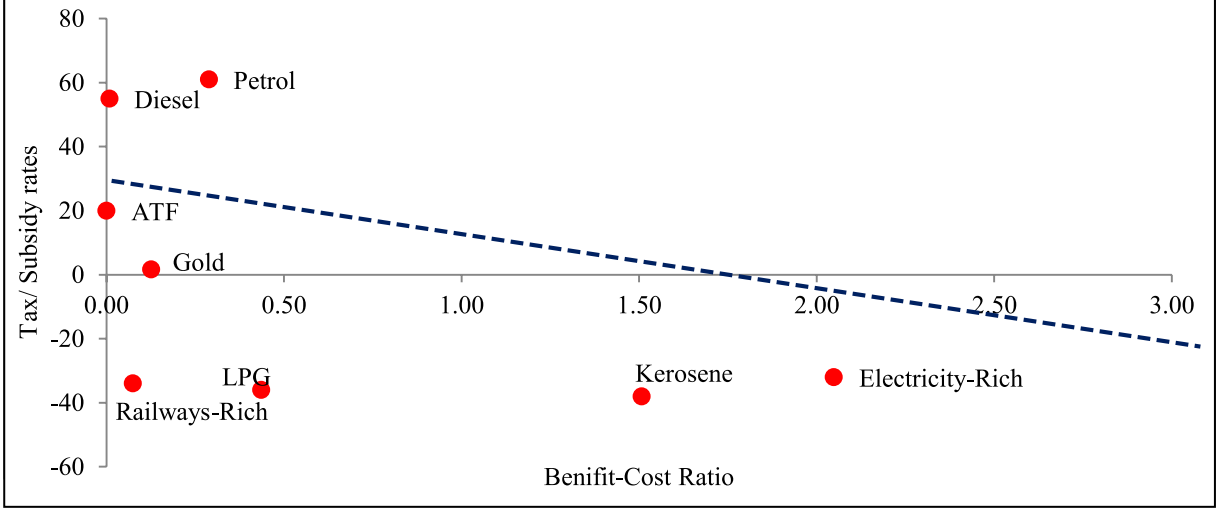
per cent (subsidy per litre as a ratio of non-subsidized market price per litter) for both rich and poor. Kerosene makes up about 1 per cent of the consumption basket of the poor; however about 50 per cent of the Kerosene given under PDS is consumed by the well-off and the rest by the bottom 3 deciles, showing that half of the subsidy benefit goes to the well-off section.

6.23 We can combine all this information into one comparative assessment of the bounties/ subsidies given by governments by invoking two criteria: equity and effectiveness. Goods that account for a large share of expenditures of poorer households, such as food, will typically be merit goods, and should therefore be taxed at low rates, made exempt from taxation, or even subsidized. Conversely, from an equity perspective, if a large share of expenditure on a good is by the better-off, then the good should be taxed at higher rates.

6.24 But even if a good is a merit good, warranting a low tax/exemption/subsidy, policy makers will want to ask how effective such a decision would be, based on how well targeted the implicit subsidy would be, where the implicit subsidy is the difference between allowing the targeted group to face a different price from some notional market price. If the poor also account for a large fraction of total expenditure on the merit good, then the low tax/subsidy will be well targeted; if, on the other hand, they account for a small share of the total expenditure of that good, then the subsidy decision will come with the cost that most of the benefits of the subsidy will accrue to the relatively better off.

6.25 So, one can think of a commodity-wise benefit-cost analysis for determining the efficacy of government interventions on taxes and subsidies. The benefit could be thought of as the share of the subsidy going to the target (poor) group. The cost is simply that proportion that "leaks" to the non-target group. More precisely, the benefit/cost ratio is defined as a share of expenditure of that commodity in the household budgets of the poor, divided by the share of consumption of that particular commodity by the non-target group.

Figure 6.3: Benefit-Cost ratio and Tax/ Subsidy rates



Source: **NSS, PPAC,World Bank, Ministry of Railways**

Notes:

Railways (Rich) and Electricity (Rich) denotes the subsidy rates on these for the well-off section of population.

The line drawn is a normative one to indicate that higher the benefit cost ratio, the lower is the case for subsidization or low taxation of that commodity; however, tax systems opt for few rates on administrative grounds, hence the calculation of implicit subsidies in the next section takes only two normative rates-higher rates on energy related commodities (due to negative externalities) and a standard rate for all others.

Table 3: Effective subsidy rates and implicit subsidies to rich

Commodity	Share of consumption		Subsidy /Tax rates		Effective subsidy rates(@)	Implicit subsidy to rich (in ₹ crore) (*)
	Rich	Poor	Rich	Poor		
Kerosene	49	51	-38	-38	88	5501
Electricity	84	16	-32	-49	51	37170
LPG	91	9	-36	-36	86	40151
Railways	92	8	-34	-69	53	3671
Petrol	95	5	61	61	_	_
Diesel	98	2	55	55	_	_
ATF	100	0	20	20	30	762
Gold	98	2	1.6	1.6	17.4	4093
Sum of Subsidy						91349
Subsidy on account of PPF						11900
Total subsidy to well-off						103249

Source: **NSS, Ministry of Railways, PPAC, World Bank, Delhi Electricity Regulatory Commission**

Notes:

1 All the figures are in percentage terms, except the last column (which is in ₹ crore).

2 Poor refer to the bottom 30 per cent of the population and rich refer to top 70 per cent population, divided based on expenditure distribution as per NSS data.

3 Negative sign in the column of subsidy/tax rates denotes subsidy rate.

4 Kerosene here refers to the consumption of kerosene under PDS only and not from other sources.

5 There is a blank (_) in the effective subsidy rate for the category Petrol and Diesel as the tax rate on these categories is already higher than the normative 50 per cent.

@ Effective subsidy rate (for the rich) is the difference between normative tax rate (50 per cent for energy related commodities and 19 per cent for others) and actual subsidy/tax rate for better-off.

* Implicit subsidy to rich is the effective subsidy rate multiplied by consumption of that commodity by rich.

6.26 We depict this benefit-cost analysis for a number of commodities, and then compare it against the actual structure of taxes/subsidies for a few commodities (Figure 6.3). The benefit-cost ratio is shown on the x-axis while the tax/subsidy rate is shown on the y-axis. In an ideal system of incentives that gives greater weight to the welfare of the poor, taxes should be greater and subsidies lower for richer households: hence the line should be downward sloping as shown. Ideally, the higher the benefit-cost ratio the more is the rationale for a subsidy/ lower tax on that commodity and vice-versa. Points below the line indicate the measure of the implicit bounties given to the relatively better off. And the further away from the line, the greater the bounty. From the chart, it can be seen, as discussed above, that the largest bounties (for the better off) are provided for railways, LPG, gold, and to some extent ATF.

Total Subsidy Appropriated by the well-off

6.27 The implicit effective subsidy to the well-off is not just the actual subsidy or tax (which may be lower than what it should be) on that commodity, but the difference between what the tax burden on that commodity should be on the rich and the actual subsidy/ tax rate. To find the normative tax rate on the well-off, we assume that average tax on normal commodities to be the standard rate recommended by the Subramanian panel on a Revenue Neutral Rate (RNR) for GST, i.e. 19

[11] http://finmin.nic.in/the_ministry/dept_revenue/Report_Revenue_Neutral_Rate.pdf

per cent[11], and average tax on energy related commodities to be 50 per cent (an appropriate carbon tax). Then the implicit effective subsidy rate for the well-off is calculated as the difference between this normative rate (19 per cent or 50 per cent) and the actual subsidy (measured as a negative number) or the (positive) tax rate on that commodity/service. Then based on the consumption by the well-off, the implicit effective subsidy to rich on gold, kerosene, LPG, electricity, railways, and ATF is calculated. The total amounts to a total of no less than ₹91,350 crore (Table 3); not to forget that this is an underestimate of the actual subsidy to the better-off because of the underestimation of the consumption by the rich in the NSS. If we add the subsidies inherent in just the PPF schemes, the total subsidy to the well-off amounts to above ₹1 lakh crore.

Conclusion

6.28 There are a fair amount of government interventions that help the relatively better-off in society. In many cases, this help takes the form of explicit subsidization, which is surprisingly substantial in magnitude. Addressing these interventions and rectifying some egregious anomalies may be good not only from a fiscal and welfare perspective, but also from a political economy welfare perspective, lending credibility to other market-oriented reforms. The ₹1 lakh crore of subsidy going to the better-off merely on account of 6 commodities plus the small savings schemes represent a substantial leakage from the government's kitty, and an opportunity foregone to help the truly deserving.