Q4

A decrease in tax to GDP ratio of a country indicates which of the following? 1. Slowing economic growth rate 2. Less equitable distribution of national income Select the correct answer using the codes given below (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2 Official key: D.

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Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

(a) 1 only. A falling tax-GDP ratio can occur even in a growing economy if collections lag, rates are cut, or the base is eroded. It does not by itself prove a slowing growth rate, so statement 1 is not a safe inference and (a) is not the key.

(b)

(b) 2 only. Tax-GDP is an aggregate of collections to output. It says nothing necessary about how national income is shared; equity needs Gini or tax-progressivity data. Statement 2 is therefore not established.

(c)

(c) Both 1 and 2. Neither slowing growth nor less equal distribution is a necessary reading of a lower tax-GDP ratio. Both statements fail.

(d) Official key

(d) Neither 1 nor 2. Tax-GDP can fall because of policy cuts, exemptions, evasion or a shift in the composition of GDP, without growth slowing and without a verdict on equity. That is why neither statement follows, and (d) is the official key.

Summary

Official key is (d) Neither 1 nor 2. A lower tax-to-GDP ratio is an arithmetic ratio of tax take to output. It need not mean growth has slowed, and it need not mean income has become less equal. Other causes-rate cuts, a narrower base, or collection lags-can move the ratio. UPSC therefore rejects both inferences.

Related possible facts

These can be asked in a future Prelims paper.

Tax-GDP ratio
Tax revenue as a share of GDP

Buoyancy
How tax revenue responds to GDP growth

Tax effort
Collections relative to taxable capacity

Direct vs indirect mix
Affects both ratio and equity, separately from growth

Fiscal deficit
A different ratio; not implied by tax-GDP alone