

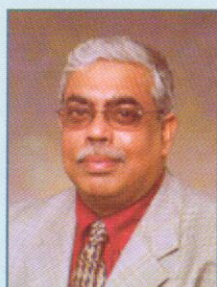
CTRFPF

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Centre for Training and Research in Public Finance and Policy

[A Ministry of Finance, Government of India funded initiative]

From the Project Director's Desk...



I feel happy while I pen a brief overview of the activities carried out during the period from September 2011 to July 2012 at the Centre for Training and Research in Public Finance and Policy (CTRFPF). Over the last few months a plethora of activities were undertaken under CTRFPF. A seminar on VAT and GST issues was presented by Smt. Shyama Nair (Gulati Institute of Finance and Taxation) in September. Dr. Avik Chakravarti (University of Wisconsin, Milwaukee) visited CTRFPF during the period from December 2011 to January 2012. Prof. Robert Breunig (Australian National University) visited CTRFPF during the period from January 2012 to February 2012. He participated in teaching activities and presented a seminar on the Australian Health Care System.

One of the most prestigious events organized by CTRFPF was an International Conference on Emerging Issues in Public Finance and Policy at the CSSSC campus on February 23rd and 24th, 2012.

Following the first Steering Committee Meeting held in September 2011, research proposals on several issues concerning public finance and policy in India have been accepted for funding by CTRFPF. These include study on the fiscal health of states; study of system of fixation of market value to assess stamp duty across states; study of rate structure followed by states in levying electricity duty, possibility of harmonization and possible movement of the same towards GST etc.

We have covered some distance on our set path but still have a long way to go. However, I am sure of achieving our targets with the help of the untiring efforts of the CTRFPF members.

Dr. Sugata Marjit

RBI Chair Professor of Economics & Project Director,
Centre for Training and Research in Public Finance and Policy

Current & Upcoming Events of CTRFPF

■ A week-long training on state finances and fiscal issues for policy makers and officials of Eastern and North-Eastern states is scheduled to be held from October 8th to October 12th, 2012.

■ A week long international conference is scheduled to be held at our Centre during November 26th to November 30th, 2012. Prof. Richard Blundell, of the University College London and Prof. Flavio Menezes, of the University of Queensland will be the plenary speakers.

■ CTRFPF has been engaged in several analytical and policy related studies and a number of new projects in diverse areas have also been initiated in this regard. A day-long workshop on completion of these projects is scheduled for early 2013.

■ CTRFPF in collaboration with RBI Endowment Cell will organize a week-long workshop on fiscal issues in February 2013.

■ There is a continuous call for new small grants research proposals on topics related to public finance, public economics or public policy. If interested, please send enquiries to ctrfpf@cssscal.org.

■ Academicians or policy makers interested in short-term visits to CTRFPF are invited to send their proposals to ctrfpf@cssscal.org.

Dr. Jyotsna Jalan

Professor of Economics
Centre for Studies in Social Sciences, Calcutta

CTRPFP International Conference on Public Finance & Policy: A Report

Punarjit Roychowdhury

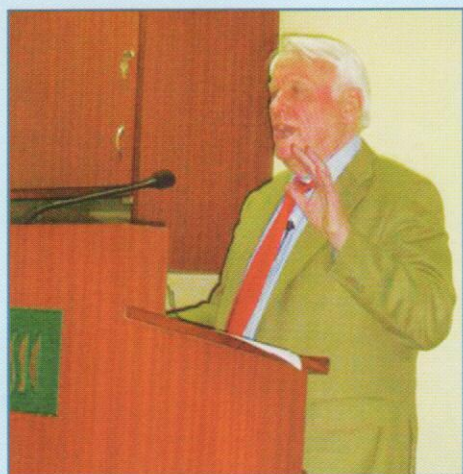
■ A two day long international conference on “Emerging Issues in Public Finance and Policy” was organised by Centre for Training and Research in Public Finance and Policy, CTRPFP at the CSSSC Campus on 23rd and 24th of February, 2012. The conference was inaugurated by Prof. Sugata Marjit, RBI Chair Professor and Project Director, CTRPFP. Prof. Marjit, in his inaugural speech, pointed out the reasons behind setting up of the CTRPFP and how it would foster research in the domain of public finance and public policy in the future. He also expressed his sincere gratitude to the Ministry of Finance, Government of India for providing the endowment required for setting up of such a think tank. In the inaugural session, the CTRPFP Brochure and the first issue of the CTRPFP newsletter were



Prof. Sugata Marjit, RBI Chair Professor & Project Director, CTRPFP & Mr. Binod Kumar (left), Commissioner of Commercial Taxes, Government of West Bengal, attending the inaugural session of the International Conference

released by Prof. Marjit and Mr. Binod Kumar, Commissioner of Commercial Taxes, Government of West Bengal.

The keynote speaker of the first session was Prof. Sijbren Cnossen of CPB Netherlands Bureau of Economic Policy Analysis. The paper presented by him dealt with the current flaws of indirect tax system in India and how GST could be used to increase efficiency of the tax system. Prof. Cnossen's presentation was followed by Dr. Sudip Kumar Sinha's (Senior Joint Commissioner, Sales Tax, Government of West Bengal) lecture that stressed on crucial issues regarding GST. The last speaker of the pre-lunch session was Dr. Sanjay Kumar, faculty member of National University of Juridical Sciences, Kolkata. The chairperson of this session was Mr. Binod Kumar.

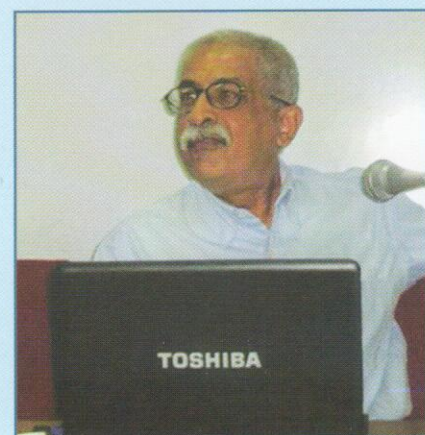


Prof. Sijbren Cnossen of CPB Netherlands Bureau for Economic Policy Analysis, presenting his paper titled 'Will a true GST ever come to India'

The first session of the second day began with Prof. Arindam Das Gupta's (Goa Institute of Management) paper presentation that dealt with various important public finance issues in emerging economies. His presentation was followed by a lively debate that shot off primarily as a result of his proposition that 'VAT is bad'!

Other speakers in the conference were Professors Poonam Gupta (NIPFP), Rohini Somanathan, Parikshit Ghosh, Mausumi Das, (Delhi School of Economics), Vivekananda Mukherjee (Jadavpur University), Partha Sen (South Asian University), Farzana Afridi (ISI Delhi) and Deb Kumar Chakrabarti (Ramkrishna Mission Vidya Mandir, Belur).

Overall, the first international conference organized by CTRPFP was a grand success. The lively discussion following each presentation was enriched by the participation of a number of policy practitioners of the Government of India and many renowned economists, in addition to faculty members of CSSSC.



Prof. Arindam Das Gupta of Goa Institute of Management during paper presentation

POLICY NOTES

Recent Developments in Australia's Tax System

Robert Breunig

Australian National University

■ The years since 2000 have been interesting ones for the Australian public finance system. The Goods and Services Tax (GST), a value added tax of 10 per cent, was introduced on 1st July 2000, replacing the Federal wholesale sales tax system and was combined with a phase out of various State and Territory Government taxes, duties and levies such as banking taxes and stamp duty. Today, the GST remains at 10 per cent and there is no serious political opposition to the GST.

The Australian tax system, as of 2008, contained 125 separate taxes. 99 of these are levied by the central government while 25 are levied by states. Compared to its OECD counterparts, Australia is a low tax and low expenditure country with some peculiarities. There is no social security tax, as individuals (and their employers) pay directly into "superannuation" accounts. Property taxes make up a larger share of Australian taxes. Australia has a very high top personal tax rate on capital gains and savings. Corporate tax rates have come down in the OECD over the last 20 years, which makes Australia's current 30 per cent tax rate fairly uncompetitive by OECD standards.

Australia's tax and transfer system is highly redistributive and transfer payments are generous. Australia has very high effective marginal tax rates for welfare beneficiaries who want to switch to work, which is an important work disincentive built into the system. This disincentive has been masked by Australia's strong economic performance over the last 20 years, but is still an important feature of the system.

West Bengal's Value Added Tax & "Unobserved" Unorganized Sector

Avik Chakrabarti

University of Wisconsin, Milwaukee

■ In view of the dire state of finances, West Bengal's finance Minister Amit Mitra reminded (March 23rd, 2012) the Assembly of the pressing need to broaden the tax net by expanding the number of companies and firms under the ambit and compliance of our state's Value Added Tax (VAT) and proposed an increase in the VAT rate by a full percentage point from 13.5% to 14.5% on luxury goods. This must not have come as a surprise despite the widely known facts that a) West Bengal will get Rs. 24,784 crore as the Centre's share of taxes (in the budgetary estimates for the 2012-13) which is higher by Rs. 5,618 crore, compared to the central tax share of Rs. 19,166 crore in 2011-12; b) the Centre has raised the state's borrowing limit by Rs. 2,706 crore from the original borrowing limit of Rs. 17,828 crore; and c) West Bengal has extended market borrowing by an additional Rs. 1,000 crore. Our state government, having historically failed to contain its non-interest revenue expenditure, has systematically used net borrowing for financing. Reports also indicate that our state government now owes hundreds of crores rupees in VAT refunds despite the fact that the multi-point sales tax (levied at every stage of the value chain) was originally intended to relieve cascading tax burdens through a free and frictionless flow of credit toward taxes paid at any previous stage.

With this backdrop, it becomes imperative to visit the linkages between imminent increases in state VAT rates and a potential expansion of our state's VAT base to include the vast and growing unorganized sector characterizing a typical "unobserved" economy that remains a virtually untapped source for raising tax revenue and yet is allegedly subject to significantly large though undocumented amounts of extortion fees paid to political hooligans and corrupt policemen.

For further details please see entire policy notes available at www.cssscal.org

2nd INTERNATIONAL CONFERENCE ON EMERGING ISSUES IN PUBLIC FINANCE & POLICY

An International Conference on Public Finance and Public Policy, organized by CTRPFP (a Ministry of Finance, Government of India funded initiative) will take place at Centre for Studies in Social Sciences Calcutta (CSSSC) from 26th to 30th November, 2012.

Stamp Duty & Registration Fee Collection in Indian States

Vivekananda Mukherjee, *Jadavpur University*

■ The scope of this project is to assess the 'stamp duty and registration system' in Indian states and to find ways to improve its efficiency. To understand factors that govern stamp duty revenue collection, we construct a theoretical model of the housing market. We find that stamp duty revenue is a function of stamp duty rate, income of state, property tax rate, capital gain tax, market capitalization rate and existing term deposit rate. Our model predicts expected influence of each of these factors on stamp duty revenue. In future we plan to use our data to estimate the above functional relation for individual states so that we can predict to what extent stamp duty revenue collection changes as a result of change in these factors.

Sustainability of Fiscal Health for State Governments in India

Nimai Das, *Centre for Studies in Social Sciences, Calcutta*

■ Provided government fiscal policy is subject to an inter-temporal budget constraint, long run fiscal sustainability can be achieved if high budget deficits are eventually followed by higher taxes or by lower spending. The question of how the budget is balanced is closely related to question about the statistical causality between taxes and spending. In this study, we therefore explore some key issues for fiscal health of sub-national governments by examining whether states' debt level is on a sustainable path, and extend the analysis to illuminate the economic dynamics of tax-spend causality. We plan to test the inter-temporal budget constraint suitable for sub-national governments using endogenous structural break tests and cointegration analysis.

In Search of Long Run Stability for Fiscal Transfers in Indian Federalism

Nimai Das, *Centre for Studies in Social Sciences, Calcutta*

■ The objective of the present study is to estimate state-wide contributions in central resource pool that are not publicly recorded in India. Our study offers a comparative picture of the states in respect of net gain/loss from federal transfers as central devolution (centre to state) and state contribution (state to centre) using budgetary data of national and sub-national governments over the last three decades. We will also identify any long run stability in the pattern of federal fiscal transfers between *centre to state* and *state to centre*. The study will also provide a comparative view of state-wide fiscal health involving deficit indicators. We will also model the contribution of the different states to the central resource pool.

News & Events ...

- *Call for Research Proposals:* CTRPFP invites small grant proposals from practitioners and academics, related to current issues in Public Finance and Policy. Please contact CTRPFP programme coordinator (ctrpfp@cssscal.org) for details.
- *Visiting faculty openings:* CTRPFP invites practitioners and academics to apply. Please contact CTRPFP coordinator (ctrpfp@cssscal.org) for details.
- Farewell to Punarjit Roy Chowdhury who has been associated with CTRPFP since its inception. Punarjit has left for the USA to pursue his doctorate degree in Economics from Southern Methodist University.
- Dr. Tushar Nandi & Dr Sattwik Santra have joined CTRPFP as Fellow (Assistant Professor) & Post Doctoral Fellow respectively.
- Koushik Kr. Hati and Sunanda Bhattacharya have joined CTRPFP as Research Assistants and Sumit Dutta as the Program Coordinator.