

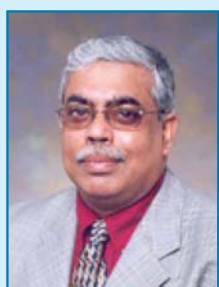


Centre for Training and Research in Public Finance and Policy

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

NEWSLETTER • FEBRUARY 2013, VOL. 2, ISSUE 1

From the Project Director's Desk...



I feel very happy to write this brief outline of our accomplishments and to reflect on the activities carried out during the period from August 2012 to January 2013 at the Centre for Training and Research in Public Finance and Policy (CTRFPF). Over the last six months, numerous activities kept the faculty and staff of CTRFPF abuzz. A week-long Training Workshop on State Finances and Fiscal Issues for policymakers and officials of the Eastern and North Eastern States was successfully held at the CSSSC campus during the period October 8, 2012 to October 12, 2012. One of the most significant and prestigious events that CTRFPF organized last year was the 2nd International Conference on Public Finance, Public Economics and Public Policy at the CSSSC campus from November 26, 2012 to November 30, 2012. Prof. Richard Blundell of University College London and Prof. Flavio Menezes of the University of Queensland were the plenary speakers at the event. A seminar titled 'Competition, Disclosure and Signaling' was presented by Prof. Santanu Roy (Southern Methodist University, Texas) in December. Prof. Paul Frijters (University of Queensland, Brisbane) visited CTRFPF during the period from January 18, 2013 to January 27, 2013. During his stay, he presented a couple of papers, titled 'Expectation Formation in an Evolving Game of Uncertainty: Theory and New Experimental Evidence' and 'The Role of Rural Migrants in the Chinese Urban Economy'. Much like the past, the focus of our research on issues concerning public finance and policy continues with equal zeal. We have completed two research projects and have undertaken three new ones.

The Centre will continue its endeavors in research and capacity building in various policy areas and communicate its research findings to the public. We are all committed to that and I know that I have all the needed cooperation and support in this endeavor. Finally, I take this opportunity to wish all the readers of this newsletter and well-wishers of CTRFPF a very prosperous year ahead.

Dr. Sugata Marjit

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

Announcement ...

- **Call for Research Proposals:** CTRFPF invites small grants research proposals from practitioners and academics, related to current issues in Public Finance and Policy. Please contact CTRFPF Programme Coordinator (ctrfpf@cssscal.org) for details.
- **Visiting faculty openings:** Academicians and Policy makers interested in short term visits to CTRFPF are invited to send their proposals to ctrfpf@cssscal.org.

CTRPFP International Conference on Public Finance & Public Policy

■ A week long International Conference on Public Finance, Public Economics and Public Policy was organized by Centre for Training and Research in Public Finance and Policy (CTRPFP) at the CSSSC Campus from November 26, 2012 to November 30, 2012. The Conference was well attended by faculty members, research scholars and students of various Institutes and Universities.

The Conference was inaugurated by Prof. Sugata Marjit, RBI Chair Professor and Project Director, CTRPFP. Prof. Richard Blundell of University College London and Prof. Flavio Menezes of the University of Queensland were the plenary speakers at the Conference. In all, sixteen papers were presented in three sessions on each day in the Conference.

Prof. Richard Blundell presented two papers titled 'Empirical Evidence and Tax Reform: Lessons from the Mirrlees Review' and 'Consumption Inequality, Consumption Smoothing and Family Labour Supply'. Prof. Flavio Menezes talks were on 'Allowance for Corporate Equity: Conceptual and Implementation Issues' and 'Role of Auctions in the Allocation of Public Goods'.



Prof. Flavio Menezes of the University of Queensland presenting a paper on 'Auctions and Public Policy' at the Conference

CSSSC), Dr. Tarun Jain (Indian School of Business) and Dr. Tushar Nandi (CTRPFP, CSSSC).

Overall, the international conference organized by CTRPFP was a grand success. The lively discussions following each presentation were 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.



Dr. Adil Mohommed of Asia Pacific Development Department, IMF, presenting a paper titled 'Reforming Fuel Subsidies in India' at the Conference

Other notable speakers in the Conference were Prof. Arijit Sen (Indian Institute of Management, Calcutta), Prof. Manipushpak Mitra (Indian Statistical Institute, Kolkata), Prof. Prabal Roy Chowdhury (Indian Statistical Institute, Delhi), Dr. Adil Mohommed (Asia Pacific Development Department, International Monetary Fund), Dr. Anita Rath (Tata Institute of Social Sciences, Mumbai), Dr. Bharatee Bhushan Dash (National Institute of Public Finance and Policy, Delhi), Hiranya Lahiri (Jadavpur University), Dr. Marcus Ditttrich (Chemnitz University of Technology, Germany), Dr. Pinaki Chakraborty (University of Burdwan), Dr. Sattwik Santra (CTRPFP, CSSSC),



Prof. Richard Blundell of University College London speaking on 'Consumption Inequality and Family Labor Supply' at the Conference

Training Workshop on 'State Finances and Fiscal Issues'

■ A Training Workshop on State Finances and Fiscal Issues for the policymakers and government officials of Eastern and North Eastern states was held during 8-12 October, 2012 at the CSSSC campus. In all, fourteen participants attended the workshop. Broadly, the aim of the training programme was to sensitize, provide practical skills and up-to-date knowledge to the participants on issues concerning state finances and taxation policy. The training course covered the following topics:

- Fiscal Policy and the macro-economy
- Fiscal Developments in India since 2002-03
- Fiscal Institutions, Fiscal Decentralization and Fiscal Federalism
- Introduction to Tax Policy
- A look at the Indian Stamp Duty Act
- Value Added Tax (VAT) and Goods and Services Tax (GST)
- Taxation and Informal Sector
- Tax Administration and use of Communication and Information Technology
- Practical Workshop in the use of EXCEL in Public Finance

The five-day long training programme included lectures, discussions, presentation of case studies, field visit and interactive and participatory methods.

The workshop was inaugurated by Prof. Sugata Marjit, RBI Industrial Economics Chair Professor and Project Director, CTRPFP. The resource persons for the training course included the faculty of the Institute, senior bureaucrats from the



Participants from Eastern and North-Eastern states participated in the CTRPFP Training Workshop on 'State Finances and Fiscal Issues', held during 8-12 October, 2012



Shri Kamalesh Pant, Director (State Taxes), Dept. of Revenue, Govt. of India, during one of the sessions at the CTRPFP Training Workshop

Government of India and experts from the best training institutes of the country, including Arvind Kumar (Under Secretary, Ministry of Finance, Department of Revenue, Government of India), Sadhan Kumar Chatterjee (Assistant Adviser, Department of Economic and Policy Research, Reserve Bank of India), Pinaki Chakraborty (Professor, National Institute of Public Finance and Policy), Sudip Kumar Sinha (Joint Commissioner, Ministry of Finance, Department of Sales Tax, Government of West Bengal), Santi Roy Chowdhury (Deputy Inspector General, Directorate of Registration and Stamp Revenue, Government of West Bengal), Kavita Rao (Professor, National Institute of Public Finance and Policy), Kamalesh Kumar Pant (Director, Ministry of Finance,

Department of Revenue, Government of India), Rajshekhar Banerjee (Senior Joint Commissioner, Ministry of Finance, Department of Sales Tax, Government of West Bengal) and B. Mishra (Professor of Economics, North Eastern Hill University).

On the third day of the workshop a field trip was organized for the participants to the office of the Commissioner of Commercial Taxes, Government of West Bengal that provided them with an exposure to the method of commercial tax management in the state of West Bengal.

Feedback on the workshop was collected from the participants using a structured response sheet.

- All the lectures were highly appreciated by the participants.
- They stressed upon the necessity of holding such programme more frequently in the future.
- They felt that a separate day should be allotted for field visits.
- Overall feedback from the participants was extremely positive.



(From left) Prof. Sugata Marjit, Project Director, CTRPFP & Prof. Jyotsna Jalan, Professor of Economics, CSSSC, during presentation of Certificates at the Training Workshop



Prof. Sugata Marjit giving away Participation Certificate to one of the Workshop participants

“I would like to suggest including some more contents in the training course related to the innovative taxation practices followed in some of the advanced states of the country. Also, sharing their practical experiences in this regard might be useful”

Dinesh Kumar (IAS)
Commissioner of Commercial Taxes,
Nagaland



Prof. Richard Blundell, Ricardo Professor of Political Economy, University College London and Director, Institute of Fiscal Studies, London in conversation with **Dr. Saibal Kar**, Assistant Professor of Economics, CSSSC and IZA, Bonn, Germany.

SK: You have been one of the most prolific contributors in Economics for the last 30 years and a highly revered name in Econometrics, Labor Economics and Public Economics. What is your general impression on the patterns that research issues and questions have followed between say 1980 and now (with emphasis on labor economics/public economics)?

RB: Availability and use of micro data have supported new and interesting questions in recent times. It has also helped to understand the dynamics of the system in a much better way. There are a number of important policy questions demanding specific policy interventions that may affect other domains too. It includes pressing questions about inequality and outcome of development policies. Moreover, use of experiments to complement empirical work in various fields has become very important. This will continue for a while.

SK: Do you think there has been a lot of change in the practice of labor economics in the last two decades?

RB: No. Certainly many economies have changed dramatically in the last few years. That has led to a lot more interesting questions like the functioning of the labor market – what works in changing the effects of recession. These are the things that have become more important, I guess. In developing middle-income economies what underpins development, given the regime is important. In some of the successful developing economies including India, there are certain really pressing issues, like the growing inequality. It has happened in the U.K, in the U.S and also in the developing countries. One must consider this as an outcome of development but it still raises important issues and my guess is that public policy and labor market policies would be looking at what can be done in the sense that 'what will be the consequences of rising inequality for policy and for the labor market itself'!

SK: Was the world more equal some time back and inequality has come as a shock, which has drawn so much attention?

RB: There has been a shift towards inequality but Europe is still not at the level of inequality present 70 years ago. So inequality has gone away and come back in a way. The question is, we had a period without inequality in Western Europe. But since 1980s there have been spells of economic growth accompanied by growth in inequality, perceived to have happened in countries like Germany and Italy, U.K and the U.S. So, that raises public economics and labor market questions. That raises questions like: are the main interventions as human capital and education important or the ways families operate are important? That is, the more time spent in labor market, the more issues around inequality will arise and that we need to understand as also their policy responses.

SK: So, in a way, these are the concerns or problems that are kind of global and not specific to developed or developing economies. But do you think there are some specific questions that the developing countries might be facing?

RB: On the first part, these might well be. Because, the world economy is now so global that it is not surprising that in the Indian IT sector you have to pay the employees quite a lot. And the financial sector is international with international market, and it is true for global players as well as local players. So it might be part and parcel of not so much growth but integration of the global market. The question is about policy response. I think, what we know from studies is that relative inequality does matter. It's not good to have relatively more poverty or relatively high inequality. It would have been better if we didn't have such big differences. And we might reduce the difference through direct transfers of income, through subsidies to education in a way to resolve problems little more specific to poor countries.

SK: Will redistributive programs bring more equality in the system?

RB: Yes, that's part of it. It becomes harder and harder with inequality, but you also do not want to redistribute quite a bit as there is a tradeoff. Perhaps, the obvious way is that you want people to be more and more educated, because if you get more educated you make more money. But then, if you redistribute a lot, your incentive to get educated goes down, so there is again a trade-off. The question is why is education not done properly among low-skilled people; is it access to education, credit or is

it lack of understanding of returns or is it something else. And we still don't know, even in western economies, the best design for education intervention. We don't know what really drives this education response. Kind of an old idea that the government does everything and the individual has no role to play. My guess is that it is still true but there is increasingly a role of individuals and in developing countries individuals will choose as they will supplement the local state education with higher levels of private education. To economists that can be important. Like what you were telling me here, about how quick the pay off from education is. There is short-term pain and long-term gain which may give rise to interesting interventions and education is a long term investment but at the end it is the key to growth and reduction in inequality. The usual point is that if you just expand education, it leads to more inequality because those who take more education are up the distribution. It increases growth but doesn't do anything to inequality. So there is this trade off.

SK : Have the microeconomic mechanisms, by which more educated people are taxed and the underprivileged being given educational and other subsidies, met with success?

RB : Yeah, I think that's the key issue in the labor market. Developing countries should invest a lot on health and nutrition and I consider it important for working. In developing countries income and labor market outcome depend on health, that is, productivity. So, I think health and education go hand in hand. And the same question arises in the context of public-private investments and we need more experimentation and evaluation on how it works. In case of health and education, people have very strange views on what works and are not open to analysis and it does turn out that a lot of things don't work. Empirical economics can help a lot to find out and substantiate what works, especially in a country like India.

SK : But politicians in similar contexts are not often ready to listen to what economists have to say. According to them good economics is bad politics. How to deal with that?

RB : Yeah, that's a good point. Economists are not there to be loved! My own experience says it is a love-hate relationship. It has more to do with the civil servants than the ministers. But then we cannot expect non-economists to understand all that we are doing. We have to give policy advice to them. It takes a long time to build relationships between research groups and politicians. My own experience is that over time you can build good relations with education department, treasury etc.

SK : But in the process do we always have to internalize the objective functions of the governments/policy-makers as that might become complicated and difficult to resolve in view of development questions?

RB : No, in the end we don't want to distort anything. I think you would want to present it in a way that is fairly easy to understand but is still correct. I think when economists point out where policies have gone wrong and governments don't like that, it tends to defeat the process of policy-making. We can do it in a fairly objective way.

SK : Your message for young researchers in India thinking of empirical problems, especially where they have problems with data and access to information?

RB : This is true for all countries. It is not easy to get data. One response is, to collect primary data. Economists now-a-days collect a lot of data from primary surveys. I think it is important because you can then connect these to administrative data.

SK : Are cross-section primary data always equally reliable?

RB : That depends on the question and on the methodology used. Also, it is important for young researchers to engage with senior researchers elsewhere and do more collaborative works which also helps with funding primary data collection. Many economists are interested in development problems in middle-income countries like India. I think collection of primary data is something that 20 years ago economists never did but now they do and there is a lot of understanding in how to do that. But my message is that it is going to be more exciting lately, because there would be big questions in middle-income countries. We are in news everyday and economists are in big demand.

SK : You have been awarded by Her Majesty the Queen!

RB : Ha, ha! Yes. Well, in fact if we do a piece of work that has an academic output in the form of rigorous publication, it must have a policy output that can be understood by non-economists. It is important to present things to intelligent people but not necessarily economists. I think some of the development in econometrics makes this easier as they are designed to give you a simple evaluation of the policy and is not the hard models.

SK : Thank you so much Prof. Blundell. I am grateful for your time and for kindly agreeing to discuss these issues.

Seminars by Faculty & Visitors

- Trade between Similar Countries : The Role of Credit Market Imperfection – Prof. Sugata Marjit, RBI Professor of Industrial Economics & Project Director, CTRPFP, CSSSC (19th October, 2012).
- Competition, Disclosure and Signaling – Prof. Santanu Roy, Department of Economics, Southern Methodist University (24th December, 2012).
- Expectation Formation in an Evolving Game of Uncertainty : Theory and Empirical Evidence – Prof. Paul Frijters, School of Economics, University of Queensland (21st January, 2013).
- The Role of Rural Migrants in the Chinese Urban Economy – Prof. Paul Frijters, School of Economics, University of Queensland (24th January, 2013).

Research Projects

COMPLETED RESEARCH PROJECTS

- Stamp Duty and Registration Fee Collection in Indian States – Dr. Vivekananda Mukherjee.
- India's Move from Sales Tax to Value Added Tax: A Hit or Miss? – Dr. Sattwik Santra and Mr. Koushik Kumar Hati.

NEW PROJECTS

- Caste, Religion and Employment in India: An Empirical Analysis of Network Effects – Dr. Tushar Nandi.
- Sustainability of Fiscal Health of State Governments in India – Dr. Nimai Das and Mr. Ritwik Sasmal.
- In Search of Long run Stability of Fiscal Transfers in India Federalism – Dr. Nimai Das and Mr. Ritwik Sasmal.

News & Events ...

- CTRPFP will organize a Training Workshop on fiscal issues in August 2013.
- The 3rd International Conference on 'Public Finance, Public Economics and Public Policy' is scheduled to be held at our Centre on 5th and 6th December, 2013.
- CTRPFP has recently launched its own website www.ctrpfp.ac.in.
- CTRPFP will be publishing Policy Brief series on a regular basis in order to bring the research works of the Centre to a wider audience who are interested in and would benefit from research based policy work.



Inauguration of the CTRPFP website by Dr. Sattwik Santra, Post-Doctoral Fellow, CTRPFP

A day-long Launch Trip across the river Hooghly organized for the Conference participants on 28th November, 2012: Some Reflections

