



Centre for Training and Research in Public Finance and Policy

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From the Project Director's Desk...



Even though this newsletter has been delayed slightly, it gives me great pleasure to report on the plethora of activities carried out between November 2013 and March 2015 at the Centre for Training and Research in Public Finance and Policy (CTRPF).

During this period, CTRPF organized its Annual International Conference on 'Public Finance, Public Economics and Public Policy' on 5th and 6th of December in 2013, and on 10th and 11th of December in 2014. Professors Giacomo G. Corneo, Free University of Berlin, Arye L. Hillman of Bar-Ilan University, Heinrich W. Ursprung of University of Konstanz, and Parimal K. Bag of National University of Singapore were the plenary speakers in 2013. Professors James Andreoni, University of California at San Diego and Maitreesh Ghatak, London School of Economics were

the plenary speakers in 2014.

A three-day training workshop on 'Fiscal Issues and State Finances' for tax officials of Eastern and North-Eastern States of India was organized at the CSSSC campus during 12-14 August, 2014. Several commercial tax officials from Sikkim, Assam, Nagaland, Manipur, Meghalaya, Tripura, Bihar, Odisha and West Bengal participated in the training workshop.

A two-day National Conference on 'Fiscal Issues, Reforms and Development Policies' was held on 19th and 20th February, 2015.

In January-February 2015, a lecture series on 'Income Inequality' was delivered by eminent economist, Professor Maitreesh Ghatak of the London School of Economics.

We are happy to mention that the 4th State Finance Commission of West Bengal entrusted CTRPF with the responsibility of undertaking a study on 'Evaluation of State Finances'. The Centre will continue its endeavors in research and capacity building in various policy areas and communicate its research findings through major outlets.

Dr. Sugata Marjit

RBI Professor of Industrial Economics, CSSSC

Project Director, Centre for Training and Research in Public Finance and Policy

News and Upcoming Events

- Dr. Ranajoy Chaudhury has been appointed Research Consultant of CTRPF.
- Ms. Jharna Panda has been appointed Research Associate of CTRPF.
- CTRPF has provided financial support to Dr. Tushar Nandi to present his paper at Arnoldshain Seminar, Universitat Jaume I and University de Valencia.
- CTRPF has provided financial support to Dr. Ranajoy Chaudhury to present his paper at the Conference on Economic Growth and Development organized by Indian Statistical Institute, Delhi.
- CTRPF has provided financial support to Mr. Koushik Kr. Hati to present his paper at a conference organized by Indian Business School, Hyderabad.
- The Indian Public Finance and Policy Report (IPFPR) shall be published under the aegis of CTRPF in 2016. The inaugural report will be on 'Fiscal Issues and Macro-economy'. CTRPF is hosting a conference on 17th-18th September, 2015 as a curtain-raiser to the commencement of IPFPR.
- 4th Training Workshop on 'Fiscal Issues and State Finances' is scheduled to be held in August 2015.
- Annual International Conference on 'Public Finance, Public Economics and Public Policy' is scheduled to be held in January 2016.
- International Conference on '50 Years of Simple General Equilibrium Models and Policy Implications for Open Developing Economies – Historical and Emerging Issues' is scheduled to be held in November 2015.

Training Workshop on ‘Fiscal Issues and State Finances’

■ A Training Workshop on ‘Fiscal Issues and State Finances’ for commercial tax bureaucrats from different north eastern states of India was held from August 12, 2014 to August 14, 2014 at the CSSSC campus. This workshop is a part of one of the regular activities of CTRFPF.

Nineteen participants representing the states of Sikkim, Assam, Nagaland, Manipur, Meghalaya, Tripura, Bihar, Odisha and West Bengal participated in the training program. Broadly, the aim of the training programme was to highlight on Goods and Services Tax, E – Governance initiative in commercial Tax administration and the like. The training course covered the following topics:

- GST and Restructuring Supply Chain Management in India: Present Scenario
- Goods and Services Tax – Concept, Model and Present Status
- E-Governance initiative in commercial tax administration in West Bengal
- A Subnational VAT in the Federal System of Brazil
- Constraints of Resource Mobilisation in North-East India
- State of State Finance: West Bengal
- Fiscal Policy and Macro-economy

The three-day long training programme included lectures, discussions and presentations of various relevant case studies. The workshop was



Prof. Sugata Marjit, Project Director, CTRFPF and Prof. Jyotsna Jalan, Professor of Economics, CTRFPF, presenting Participation Certificates to the Workshop participants



Participants of CTRFPF training Workshop on 'Fiscal Issues and State Finances' held during 12-14 August, 2014

inaugurated by Prof.

Sugata Marjit, Project Director, CTRFPF. Resource persons for the training workshop included senior bureaucrats from the Government of India and experts from various training institutes of the country. The list of resource persons included Abhirup Sarkar (Professor, Indian Statistical Institute, Kolkata), Tapas Kumar Sen (Professor, National Institute of Public Finance and Policy), Biswambhara Mishra (Professor, North-Eastern Hill University), Jayanta Dwivedi (Assistant Professor, Brahmananda Keshab Chandra College, Kolkata), Upender Gupta (Additional Commissioner, CBEC, Ministry of Finance, Govt. of India), Binod Kumar (CCT, Govt. of West Bengal), Mrityunjay Acharjee (Associate Vice President, Balmer Lawrie & Co Ltd, Kolkata) and Sattwik Santra (CTRFPF).

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

- The topics and lectures were highly appreciated by the participants.
- They stressed upon the necessity of holding such programmes more frequently in the future.
- The last day of the training involved presentation by participants on relevant issues faced by the tax administration of their respective states. Participants, resource persons and CTRFPF faculty members participated in the discussion after presentation. Some innovative proposal and research questions came out during this session.

Overall feedback from the participants was extremely positive.

Annual International Conference on ‘Public Finance, Public Economics and Public Policy’

■ During the period covered in this newsletter, the CTRPFP organized two international conferences, the highlights of which are given below.

INTERNATIONAL CONFERENCE, 5th & 6th December, 2013

The Conference was inaugurated by Prof. Sugata Marjit, Project Director, CTRPFP. Prof. Giacomo G. Corneo of Free University of Berlin, Prof. Arye L. Hillman of Bar-Ilan University, Prof. Heinrich W. Ursprung of University of Konstanz, and Prof. Parimal K. Bag of National University of Singapore were the plenary speakers. In all, nine papers were presented in two sessions on each day in the Conference.

Prof. Giacomo G. Corneo presented a paper titled ‘Social Insurance, Work Norms, and the Allocation of Talent’. Prof. Parimal K. Bag gave a talk on ‘Does Affirmative Action Work?’. Prof. Arye L. Hillman delivered a lecture on ‘Expressive Behavior and Public Policy’. The last plenary talk of the Conference was given by Prof. Heinrich W. Ursprung who presented a paper titled ‘Does the Field of Study Influence Students’ Political Attitude?’.

Other speakers in the conference were Prof. Swapnendu Banerjee (Jadavpur University), Dr. Tushar K. Nandi (CTRFPF, CSSSC), Dr. Oliver Kovacs (ICEG European Center), Dr. Anindita Sen (Calcutta University) and Mr. M. Shanmugam (Pondicherry University).

INTERNATIONAL CONFERENCE, 10th & 11th December, 2014



Prof. Maitreesh Ghatak of the London School of Economics presenting 'Theories of Poverty Traps and Design of Anti-Poverty Policies'

in the Conference were Professors Saibal Kar (Centre for Studies in Social Sciences, Calcutta), Joo Young Jeon (University of East Anglia), Bodhisattva Sengupta (Indian Institute of Technology, Guwahati), Parikshit Ghosh (Delhi School of Economics), Meenakshi Rajeev (Institute for Social and Economic Change, Bengaluru) and Abhinandan Sinha (Centre National de Recherche Scientifique), Ananish Chaudhuri (University of Auckland), Subhasish M. Chowdhury (University of East Anglia) and Sanjay Banerji (University of Nottingham). The conference concluded with a presentation by Prof. Sunil Paul of Madras School of Economics, an awardee for the best paper in South Asian Journal of Macroeconomics and Public Finance for the year 2013. Overall, twelve papers were presented in the Conference.

The Conference was inaugurated by Prof. Sugata Marjit, Project Director, CTRPFP. The first plenary talk was given by Prof. James Andreoni of University of California at San Diego. He presented a paper titled ‘Holier Than Thou? Testing Models of Social Information in Charitable Giving using a Natural Field Experiment’.

The second plenary talk was given by Prof. Maitreesh Ghatak of the London School of Economics. His presentation focussed on issues related to Theories of Poverty Traps and the Design of Anti-Poverty Policies.

Other speakers



Prof. James Andreoni of University of California, San Diego, speaking on 'Holier Than Thou? Testing Models of Social Information in Charitable Giving using a Natural Field Experiment'



Prof. Arye L. Hillman, William Gittes Chair Professor of Economics, Bar-Ilan University with **Dr. Vivekananda Mukherjee**, Associate Professor, Jadavpur University, Kolkata

Professor Arye L. Hillman from Bar-Ilan University, Israel, is one of the pioneers of political economy as applied to the theory of intervention in international trade and to other aspects of government intervention and political decisions that affect economic outcomes. Professor Hillman was a visitor of CTRFP in early December 2014. He kindly agreed to an interview for this newsletter. I went to his hotel for the interview in a slightly chilly December afternoon. He was just back from a day-trip to a village near the Sundarbans. But he did not appear to be tired and was eloquent in answering all my questions, which ranged from his upbringing, academic research and problems of developing countries.

Q: Your Bar-Ilan University homepage lists your contributions to economics into three main areas: Political Economics and International Economics, Political Economics and Public Policy, and Socialism and Transition. In early years, your research was primarily in the area of Political Economy and International Trade. You started your research with the theories of club goods and some core public finance issues in 1970s, and later your interests shifted to trade related issues. What were the reasons behind this shift? What is the background of this transition? Why didn't you stick to the club good issues?

A: My research on club goods was part of my PhD thesis when I was in graduate school in the United States. My thesis was about trade but also migration and regional public goods. Albert Ando, one of my advisors, was in the field of public finance and my other advisor, Wilfred Ethier, was in the field of international economics. My thesis combined these two fields.

Basically, the idea behind club goods is that people can voluntarily choose to be members of groups that provide public goods. This is consistent with the theme that coercion is not necessary for financing public spending if people choose to pay taxes by choosing where to locate. Of course, locational choice does not solve the intent of the public-good free-rider problem.

Regarding international economics, at that time it was puzzling to me that the textbooks told students in chapter one that free trade is best because people voluntarily achieve efficiency through market exchange. Then, in chapter two, the textbooks explained the inefficiencies of tariffs and other forms of government intervention. For me, something was missing in between, because if free trade was best, then why did we observe departures from free trade?

I was always interested in explaining what could be observed in the world or positive economics, although normative economics does provide us with guidelines about efficiency and social justice. I started thinking that it could not possibly be true that, as authors were suggesting at that time, that one could explain observed departures from free trade by the theory of second best. There had to be another reason for departures from free trade. I thought that there must be political advantages of using trade policy for income redistribution and that politicians surely make decisions to maximise their own utility. Later, I came across the Public Choice school, which begins from the premise that everybody maximises utility including the government. I found this approach more appealing than benevolent-government models.

When I began my research, political economy issues were not in the forefront of economic analysis. I have never felt at ease with models based on a benevolent dictator who chooses for everybody.

Q: Has this been influenced by your immediate reality or upbringing?

A: Perhaps this is influenced by the history of my family, who suffered from a dictator who was not benevolent – to us.

Q: What are the differences in public policy issues between developed and developing countries?

A: In richer countries, there are political elites. While they exist everywhere, these elites are subject to greater discipline in older democracies. Looking at the countries that are democracies and where people are not rich, there is often a problem of political entrenchment. The political elites achieve power and retain privilege. They often pass on power and privilege

to their families through connections. Such political entrenchment allows them to create and extract rents. It is more difficult to do this in a richer economy, perhaps because political competition is more effective.

Q: What makes a democracy richer? For example, in India there is political entrenchment but we have a change in power every five to ten years at the Centre. In West Bengal itself, we had a government ruling for 30 to 35 years but now that has changed. So the basic question would then be, what determines a good democracy? Is there any public choice kind of explanation?

A: Let me say that on a number of occasions I have been in countries where people ask me about entrenchment and I know that the people asking the question know more about the answer than what I know. After being in India for one week, I lack details that are contained in the information of other people who have spent all their life in India.

Q: No, I am asking on a theoretical ground.

A: A theory on political entrenchment does not depend on who is in government. Different people use political power to maximise their own utility based on a time horizon. We can look for altruistic people to go into politics and that is rare. We might look for highly skilled people who would go into politics but that is also rare, because highly skilled people study architecture, law, economics, and go into other professional fields. There is always an issue regarding who seeks to become a politician.

I was very impressed with the quality of journalism in India. I have seen journalists being extremely critical of politicians. I saw a particular broadcast about a judge accused of sexual molestation. I have also seen criticisms of a film star who was given time off from jail on the grounds that his wife was sick but they showed his wife at a film premiere the previous night and she looked quite well. The press in India seems to be doing its job. The question is whether politicians can be made to respond or care if criticized.

Q: Do you think that trade policy reform, which has been advocated in developing countries because there is mutual interest, can take place without appropriate reform in the government? Don't you think that they are very much complementary? Would trade reform without non-corresponding reform in the government be good for a country? Will the state policy be effective to promote welfare of the Nation?

A: Western countries liberalized trade in the context of the GATT and the WTO, and the requirement for liberalization was reciprocal. In a paper that I wrote in the 1990s with Peter Moser, we took a different approach to the existing literature on trade liberalization. We proposed that trade liberalization had nothing to do with optimum tariffs and was not explained by models in which governments make decisions for the benefit of the people at large. We viewed trade liberalization as politically optimal exchange of market access. Countries' governments liberalized because of agreement that: "I will allow your exporters to sell in my market and you will let my exporters sell in your market." Reciprocal trade liberalization is about creation of rents for exporters and the giving up of rents by protected import-competing interests. A political calculation is being made. The most-favoured-nation clause prevents opportunistic behaviour – which means that if you make an agreement with a country to reduce tariffs by 10%, that country also wants an agreement that if you reduce the tariff by more for another country, they will also have that benefit.

Trade liberalization need not be reciprocal. If India did not liberalize trade, the government and politicians were seemingly more interested in promoting and protecting domestic rents – or privileged benefits. Perhaps the government believed that the home market was sufficient and foreign markets were not required. Nor then was the discipline of foreign competition available to provide incentives for domestic producers to be competitive.

Rent creation can take various forms, including a Value Added Tax at the state level. For such a tax, you have to be able to document where goods went to and where they came from. For example, without appropriate controls, money can be made by exporting goods from West Bengal to another state and then bringing the same goods back. The tax creates rents through smuggling. Who is going to police the borders to prevent the smuggling?

Q: Of course there are going to be bribes at the bottom.....

A: When bribes are endemic, bribes can be expected at the borders.

Q: There is a literature which says that if we have liberalization through trade reform, that will improve governance of a country..... there is a kind of pull effect.....

A: Eliminating some rents does not end them all but perhaps a first step is taken to change the culture of bribery and corruption, and political office for personal benefit. Government in West Bengal has for decades focussed on government decisions and not markets. Where have the resources gone? If politicians have been Communists, could better outcomes be expected?

Q: Yes, that is the big question. Let us change the topic a bit. There are new laws in the developed countries nowadays that say if the Multinational Corporations (MNCs) bribe the officials in a developing country then they will be tried in the home country. Do you think that it is going to have any effect on corruption in developing countries? Often Multinational Corporations from developed countries are involved in corruption in a big way in developing countries.

A: The journal that I edit, the European Journal of Political Economy, recently published a paper showing cultural corruption affinity in foreign investment in Russian regions. The researchers found that foreign investors from corrupt countries invest in regions in Russia where corruption is high. This is a remarkable finding confirming the cultural basis of corruption. If we cannot rely on the institutions of a country to stop corruption, the laws of the richer countries can be applied.

Q: One report I found in a newspaper that, earlier, the information about bribery used to be revealed by the companies themselves: for example, a Swedish company bribing Indian middlemen for an arms deal. The information was revealed because there was no law against their actions in their own country. But because of the new law, now they are suppressing information. So what is happening? I contest your viewpoint in the sense that, actually, it is not doing any good. Earlier the information was available but not now. Everything now is under cover because they do not want to be punished in their home country.

A: I can see your concern. On the other hand, the bribe payments may be tax deductions or a cost of doing business. Not revealing bribe payments is therefore costly.

Q: So this will be a kind of evasion in that sense?

A: It is not tax evasion so much as foregoing the tax deductions of bribery if these costs are accepted by the foreign companies' home tax authorities. The point is that, when two cultures interact, one with endemic corruption and the other in which corruption is more limited, perhaps the culture of limited or no corruption can prevail. Of course, a culture of corruption is difficult to change. Culture usually takes a long time to change. There is a question whether poor countries are corrupt or corrupt countries are poor. There could be simultaneity of course.

Q: Now I have come to my last question. What is your suggestion about, or what do you think are the essential topics that should be taught in a public economics course, undergraduate and post graduate level?

A: I have had to think about that question with regard to my text book 'Public Finance and Public Policy'. The subtitle is 'Responsibilities and Limitations of Government'. The book has been translated into Chinese, Greek, Hebrew, Japanese, Russian, and Greek. So the students who read the book are from different societies, including those who read the English version.

Q: I have seen that book. I used to teach from that book for some time, but that is a huge volume which covers too many things and then you summarize many things very nicely. Suppose you want to teach this in one semester, what essential features would you want to fit in?

A: My book contains many examples applying principles to real life and the real world. The first chapter is about the market, property rights, and the rule of law. The second chapter explains that there are political and bureaucratic principal-agent problems. The voter cannot control the politicians and there is bureaucratic principal-agent problem where the voters do not know what the bureaucrats are doing in the course of the day. Bureaucrats want to maximise their utility, which entails maximising the size of their budget and their hierarchy. For many countries, the chapter would require supplemental material on corruption. I do address in detail the topic of rent seeking, which is seeking to gain through persuasion and privilege rather personal productive effort. These topics are important for both undergraduate and graduate students.

The book includes the standard normative analysis of public goods and externalities, and social welfare or social insurance decided behind a veil of ignorance. However, issues of implementation are also considered, as are concepts such as fiscal illusion used for political benefit. Paternalism is an important topic, as is voting. Entitlements are important: what are people entitled to from government? What is the importance of moral hazard? Who should pay for entitlements? In the final chapter I review the growth of government in western countries over time in historic perspective. Why has the size of government grown so much in the Western countries? Institutions of low income countries are of course different from the institutions of high income countries. Is the willingness to accept inequality much greater in poorer countries than the richer countries? Or does the form and nature of government in poorer countries force the inequality?

The interview ended here. As I switched off the recorder I thanked Professor Hillman for the excellent interview. It was a long discussion and an enriching one too.....we realized it was dinner time by then.

CTRFPF Working Papers for 2014-2015

- Tushar K. Nandi & Grazia Cecere: Network and Diversification in Audio-Visual Market.
- Sugata Marjit & Vivekananda Mukherjee: Rent Seeking and Market-Oriented Reform in India.
- Hamid Beladi, Avik Chakrabarti & Sugata Marjit: Competitive General Equilibrium with Finite Change and Theory of Policy Making.
- Sugata Marjit, Arijit Mukherjee & Lei Yang: On the Sustainability of Product Market Collusion under Credit Market Imperfection.
- Sattwik Santra & Ranajoy Chaudhury: The American Pride and Aspiration.

Papers are available to download at <http://www.ctrpfp.ac.in/wp.htm>

Ongoing Research Projects

- STRATEGIC LITIGATION-A STUDY ON SALES TAX IN WEST BENGAL

Sugata Marjit (CTRFPF), Sandip Mitra (ISI, Kolkata) and Shradha Mehta (ISI, Kolkata)

The purpose of this project is to look at deliberate tax related litigations against the state government by heterogeneous firms. We try to find out the extent of loss in tax revenue, whether the litigation rates vary across firm size, and how the government can design a mechanism to deter false litigations. Given the paucity of readymade accessible government statistics, we take an innovative route of working with data made available by a set of tax lawyers. This is a pilot study, but has tremendous potential and useful policy advice. We find that due to the difference between the formal and informal rates of return, there will always be an incentive for the firms to defer tax payment until and unless the litigation costs are too heavy or firms are inherently honest. Larger firms litigate more on average. The best way to tackle this problem is to consider an up-front fee before the dispute is settled and return it with interest if the case is lost by the government. This will reduce the incentive to defer legitimate payments and hence reduce the extent of evasion thereby generating

greater revenue for the government. This project opens up a new avenue for research in tax collection with imperfect credit market. Since the government cannot invest in informal activities which pay higher rates of return and firms can always do due to lack of governance, the case for false litigations involving monetary pay offs will be greater in a less developed country.

■ POLITICAL ECONOMY OF TAX REVENUE DETERMINATION AND STATE- LEVEL TAX REFORMS IN EASTERN STATES IN INDIA

Prasant Kumar Panda (Central University of Tamil Nadu) and Tusbar Kanti Nandi (CTRPP)

Mobilization of higher revenues from own taxes is not only essential for financing the increased state activities and achieving self-reliance, but it is also highly important for stability of sub-national finances. There has been deterioration in the finances of low income states, particularly, the eastern states over the years. Further, these states are putting intense pressure on the centre for getting special category status and higher central transfers for financing their developmental activities. Besides, states have embarked upon fiscal reform initiatives like implementation of state value-added tax (VAT) to replace the sales tax, enactment of fiscal responsibility and budget management act, and various e-governance measures to increase their tax efficiency and revive fiscal positions. In this perspective, the main objective of this study is to examine the pattern, growth and determinants of own tax revenue mobilization and tax efficiency in eastern states. The traditional literature on tax determination is mainly based on normative approach and endorses the economic determinants of taxes. The growth of tax revenues does not only depend on the advancement and structure of the economy but also on ideological leanings, political competitions and priorities of political party in power. Sometimes vote bank politics adopted by the parties in power undermines the tax efficiency of states. Hence the present study aims to verify the determinants of states' own tax revenues and their revenue efficiency from a public choice perspective, rather being confined to economic factors alone. Further, we want to verify whether higher per capita transfers have any moral hazard problem and if they tend to reduce tax efficiency in eastern states. The study will also explore the tax reform initiatives in eastern states and their impact on tax revenue generation. The study uses annual panel data for Bihar, Jharkhand, Orissa and West Bengal for the period of 2001-02 to 2012-13. The results are also verified using a longer data set for the period 1980-81 to 2012-13, for Orissa and West Bengal. A dynamic panel data model is specified and then estimated using system generalised method of moments to obtain the coefficients of determinants of tax revenues. Finally, stochastic frontier analysis is used to capture the tax inefficiency.

■ SOCIAL CAPITAL AND FISCAL PERFORMANCE IN INDIA

Soumyananda Dinda (University of Burdwan) and Rittwik Chatterjee (CSSSC)

This study investigates the relationship between social capital and fiscal performance in India since 1991. Fiscal performance is measured in terms of tax and non-tax revenue, expenditure, and fiscal deficit. Social trust is considered a proxy for social capital. We measure trust as the percentage vote turnover during general election in India, i.e., trust in institution (Parliament or Assembly or local bodies). Vote turnovers certainly help to increase governmental responsibility and accountability. Government accountability can be seen as the most important aspect of trust with respect to fiscal performance. In this context, the government is forced to be responsive to citizens' preferences and the underlying social contract rule, which leads to a higher level of fiscal discipline. Here, our basic hypothesis is that more trust in government should ensure strong fiscal policy decisions.

For this study, we collect data on social structure and cultural aspects from different sources to capture social capital, and fiscal performance data from Reserve Bank of India. Our data cover major Indian states over the period 1991-2012. Using principal component analysis we construct social capital index that captures both structural and cultural aspects. Major

components of social capital are average associational life size, vote turnover, literacy and crime rate. Single social capital index is formulated assigning weights, which are taken from principal component analysis. Vote turnover (one major indicator of social capital) carries higher weight compared to other indicators. We find that a negative value is associated with crime rate. This is justified because more crime rate indicates that less trust prevails in the society. Vote turnover rate is highly significant but its impact on revenue collection is different and in the opposite direction, i.e., own tax revenue falls as vote turnover increases while own non-tax revenue rises. It indicates that higher social (trust) capital reduces own tax (or direct tax) revenue. More associational life reduces tax revenues whereas literacy rate has positive impact on it.

Here, higher value of social capital index indicates higher level of social trust which is a proxy for higher social capital. So, more social capital suggests less direct tax burden, but more non-tax revenues. Higher social capital also reduces the fiscal deficits which are highly desirable. Thus, social capital directly affects the fiscal performance.

■ FISCAL DEFICIT DISEQUILIBRIUM IN CENTRE- STATE FINANCIAL DYNAMICS: LOOKING AFRESH

Pinaki Chakraborti (University of Burdwan) and Sattwik Santra (CTRFPF)

In the context of ongoing deficit financing in the history of the Indian economy, the project entitled ‘Fiscal Deficit Disequilibrium in Centre-State Dynamics: Looking Afresh’ intends to examine empirically and theoretically the rationale behind deficit financing when the economy has been on a continuous threat of non-sustainable growth within a foreseeable future. In this study, we propose to examine two issues regarding the deficit financing in the context of Public Finance and Policy. First is the investigation whether the states under the federal structure (India in our case) are strategically interdependent instead of remaining neutral to each other so far as claims and allocation of funds from the centre are concerned. If the answer to the first enquiry is affirmative then secondly, what are the implications for deficit financing of the states (and also of the centre) over time. This in turn means that the decision will have to be intertemporal in nature because an optimal time path of deficit financing needs to be found out in that case.

For the first point we prepared a comprehensive database from the financial statistics provided by the Ministry of Finance, Government of India and that available from the Reserve Bank of India. Our analysis based on the data reveals that there indeed exist interrelationships at the sub-national level (the state governments) which makes the decision making of one ‘agent’ dependent on that of all others and the outcomes also depend on what all have done in tandem. We also validate empirically that the states’ strategic interdependence with respect to the financial claims from the centre is carried forward to the components of the states’ expenditures. On the basis of this information we formulated a theoretical model from which we derive certain policy relevant implications. We find that continuous positive public debt is not necessarily unsustainable and destabilizing provided the debt is utilized to increase cost saving efficiency of production of public supplies.

Seminar by Faculties & Visitors

- Financial System Architecture: Some Representative Models - Pranab Kumar Das, Centre for Studies in Social Sciences, Calcutta (4th November, 2013)
- Financing Growth: Foreign Aid vs. Foreign Loans - Sajal Lahiri, Southern Illinois University (6th November, 2013)
- Potential Pareto-improving Move towards Most Favored Nation Tariffs - Sajal Lahiri, Southern Illinois University (11th November, 2013)
- Do People really Support Trade Restrictions? Cross Country Evidence - Sajal Lahiri, Southern Illinois University (14th November, 2013)
- Analysis of Conflict within a Contested Land: The Case of Kashmir - Soumyanetra Munshi, Indira Gandhi Institute of Development Research (25th November, 2013)
- Birthweight and Academic Achievement in Childhood - Kajal Lahiri, University at Albany (16th December, 2013)
- The Power of the Example - Karla Hoff, Director of the World Development Report 2015, World Bank (19th December, 2013)
- Social Welfare and Household Consumption Distribution in India: 2004-05 to 2011-12 - Bhaskar Dutta, University of Warwick (6th January, 2014)
- Trade, FDI and Organizations of Production: A Contemporary Perspective - Meghna Dutta, Goa Institute of Management (15th January, 2014)
- Taxation in Ancient India - Nrisingha Prasad Bhaduri, Gurudas College, Kolkata (16th January, 2014)
- Tax Me But Spend Wisely: Sources of Public Finance and Government Accountability, Evidence from Brazil - Lucie Gadenne, Institute for Fiscal Studies & University College London (20th January, 2014)
- Current Account, Exchange Rate and the Macroeconomy - Ranjanendra Narayan Nag, St. Xavier's College, Kolkata (7th April, 2014)
- The Long Term effect of Early Childhood Nutrition: Evidence from Andhra Pradesh - Arindam Nandi, Center for Disease Dynamics, Economics and Policy (9th May, 2014)
- Offshoring and Dual Labour Markets in Developing Nations - Subhayu Bandopadhyay, Federal Reserve Bank of St. Louis (9th June, 2014)
- Electoral Politics and Public Good Distribution: Evidence from Village Council Election and MGNREGA Allocation in West Bengal - Subhasish Dey, School of Social Sciences, University of Manchester (17th July, 2014)
- Cross Border Mergers and Market Concentration in a Vertically Related Industry: Theory and Evidence - Avik Chakrabarty, University of Wisconsin-Milwaukee (21st July, 2014)
- Is India Ready for Inflation Targeting? - Rajeswari Sengupta, Indira Gandhi Institute of Development Research (27th August, 2014)
- Time Zone, Trade and Endogeneous Growth - Sugata Marjit, Centre for Studies in Social Sciences, Calcutta (16th September, 2014)
- Rural Non-Farm Employment in West Bengal: Trend and Determinants - Aparajita Dhara, Rishi Bankim Chandra Evening College (13th October, 2014)
- Finance Constraint and Cournot Oligopoly - Sugata Marjit, Centre for Studies in Social Sciences, Calcutta (22nd October, 2014)
- Estimating Trade Elasticities using Product-Level Data - Kam Ki Tang, University of Queensland, Australia (2nd December, 2014)
- Informal and Formal Employment in a Liberalizing Economy - Errol D'Souza, Indian Institute of Management, Ahmedabad (17th December, 2014)
- Policy Persuasion and Electoral Competition - Jaideep Roy, Murdoch University, Western Australia (8th January, 2015)
- Choosing Between Formal and Informal Ventures: Property Rights, Credit and Threat of Eviction - Sarbajit Sengupta, Visva Bharati University (11th February, 2015)

Visitors to CTRPFP

Quite a few outside researchers have visited CTRPFP between November 2013 and March 2015.

- Giacomo G. Corneo, Free University of Berlin, Germany (2013)
- Arye L. Hillman, Bar-Ilan University, Israel (2013)
- Heinrich W. Ursprung, University of Konstanz, Germany (2013)
- Parimal K. Bag, National University of Singapore (2013)
- Avik Chakrabarti, University of Wisconsin-Milwaukee, USA (2014)
- James Andreoni, University of California, San Diego, USA (2014)
- Kam Ki Tang, University of Queensland, Australia (2014)
- Maitreesh Ghatak, London School of Economics, UK (2015)
- Subhayu Bandyopadhyay, Federal Reserve Bank of St. Louis, USA (2014)
- Sajal Lahiri, Southern Illinois University, USA (2015)

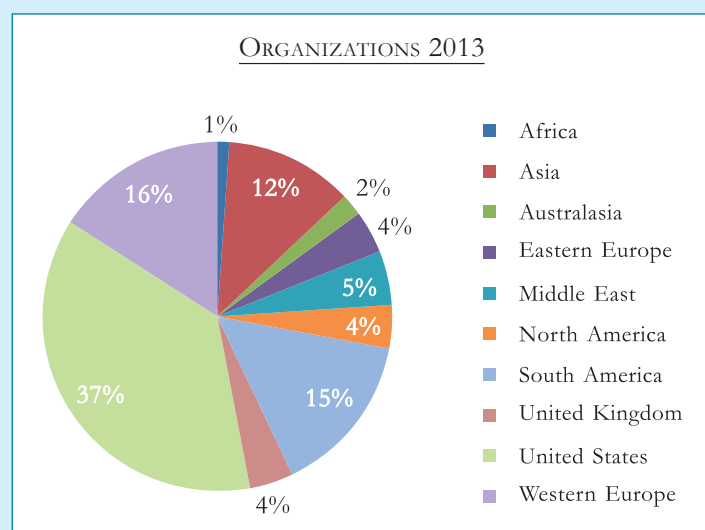
Collaborative Seminars/Conferences

As a part of one of its regular academic activities, the CTRPFP co-organizes seminars/conferences with other institutes/universities. Three such collaborative seminars/conferences have been organized in the 2014-15 academic calendar.

- National Conference on 'Managing Balance of Payments' together with the Department of Economics, Jadavpur University on 5th and 6th March, 2014.
- International Conference on 'Political Economy of Policy Reform' together with the Centre for Advanced Study in Economics, University of Mumbai on 21st and 22nd February, 2014.
- International Seminar on 'Contemporary Issues of Economic Development with special reference to Public Finance and Policy' in collaboration with the Department of Economics with Rural Development, Vidyasagar University on 17th and 18th February, 2015.

Our Publication

- SOUTH ASIAN JOURNAL OF MACROECONOMICS AND PUBLIC FINANCE, SAGE Publishers



The South Asian Journal of Macroeconomics and Public Finance is edited by Prof. Sugata Marjit. The journal has well-known economists from around the world serving as Associate Editors and in the Board of Advisors. The journal publishes various topics in macroeconomics and public finance as well as in international trade, public economics, labor and applied microeconomics. It also publishes well-written surveys on these topics and intends to bring out special issues in future on open economy macroeconomics, exchange rates, public policies in developing countries, etc. The following picture shows the organizational distribution of subscribers across countries.

About CTRFPF ...

The Centre for Training and Research in Public Finance and Policy (CTRFPF) was established in the year 2011 as a consequence of a MOU signed between the Centre for Studies in Social Sciences, Calcutta and the Ministry of Finance, Government of India, for promotion of study, research and training in public finance and policy.

CTRFPF emphasizes on research and policy based studies related to contemporary fiscal affairs, specially focusing on taxation and various fiscal support programs of Central as well as State Governments. The Centre aspires to promote effective economic, social and public policies through better understanding of their impact on individuals, families and businesses. It desires to communicate its research conclusions effectively, thereby maximizing their impact on policy, both directly and through public debate to a wider range of audience. It plans to establish itself as the authoritative commentator on public finance, tax and welfare policy, inequality and poverty issues, productivity and innovation etc. For further details on our work please visit www.ctrfpf.ac.in or contact our Program Coordinator at: ctrfpf@ctrfpf.ac.in.