Chapter - II
LITERATURE REVIEW

Meagher and Parmenter (1993)

Meagher and Parmenter analyse short-run implications of Australia’s tax reforms of 1992 proposed as *Fightback* (*Liberal and national Parties, 1992*). *Fightback* was a radical economic reform package and incorporated move to 15 per cent GST. They use a general equilibrium model for their analysis. The conclusion states that: “The GST does not discriminate between imports and domestic commodities and affects exports only in a minor indirect way. Hence, its impact on cost-sensitive industries exposed to international competition is smaller than the impacts of other taxes. Hence the implications of the GST for output and employment are relatively small”. However, the paper does not lay out changes in the composition of Australia’s foreign trade.

Millet (1998)

Millet wrote about the dominance of systems theory in the existing literature and explored viewing the emerging explanations of complexity and chaos theories as evolutionary system theories. The paper began with an assumption that there is a definite black/white dichotomy between viewing an organization as either one that blindly defines an endpoint and is only concerned with arriving there or one that defines and redefines endpoints as conditions change. He offered: “… The implication of sensitive dependence is that the future is unknowable.
Consequently, strategic planning and the creation of visions to take the organization into the future, is questionable and dangerous. It could be more by sheer chance that some companies succeed in fulfilling their long-range plans. A structural adjustment from a functional to a process emphasis moves the stable/unstable borders with consequences for the organization’s capability for self-development. Although this switch is not necessarily undesirable, it merely points out that there will be long-term consequences in the trade off between functional and customer boundaries.”

**M. Govinda Rao and Nirvikar Singh (1998)**

The author duo, review the basic theories of fiscal decentralization, apply them to the problem of tax and expenditure assignments in a federal system, and consider the Indian case in the light of economic principles. We note the centripetal bias of India’s federal fiscal arrangements, which give the center indirect power over states’ expenditure decisions, as well as creating a vertical fiscal imbalance that requires large center-state transfers. We describe some of the distortions that arise in the federal aspects of the current Indian tax system. In particular, we highlight internal trade barriers, inter-state tax exportation, and tax sharing arrangements as areas for reform. The paper is organized as follows. In section I, we review the broad theoretical principles of fiscal decentralization. In section II, these principles are applied specifically to the problem of expenditure and tax assignments in a federal system. Section III describes the assignments for the case of India, including some comparative analysis where appropriate. Section IV highlights some of the policy issues and areas for reform that emerge from the study of tax and expenditure assignments in India.
**Dixon and Rimmer (1999)**

Dixon and Rimmer use a general equilibrium model to analyse the impact of Australia’s tax reforms contained in Treasury Paper (*ANTS*) of 1998. *ANTS* programme proposed tax reforms including move to 10 per cent GST. The paper concludes that the long-run resource allocation gains flowing from the proposed tax changes will be negligible.

Terms-of-trade effect would be negative. Composition of exports would change away from services and in favour of goods. For example, the package would harm tourism and benefit traditional exporters like iron ore.

**Wittwer and Kym (2002)**

Wittwer and Kym use a computable general equilibrium model (CGE) to analyse the impact of the GST and wine tax reform on Australia’s wine industry introduced in 2000. It is concluded that export-oriented premium segment would gain at the expense of non-premium segment of wine industry. The implicit message is that such gains would originate from increased prospects of exports of the premium wine segment.

**McLure (2003)**

MCLure outlines characteristics of a well designed indirect tax regime in the context of Canada. While consumers should be taxed at single rate sales of inputs to business should not carry any
tax liability. With regard to exports the tax should be levied under the destination principle, i.e. exports should be tax-free and imports should be taxed at the same rate as domestic products.

**Keen and Lockwood (2007)**

As per the investigation made by the author duo, during the last four decades VAT has become an important instrument of indirect taxation with 130 countries having adopted this resulting in one-fifth of the world’s tax revenue. Tax reform in many of the developing countries has focused on moving to VAT. Most of these countries have gained thus indicating that other countries would gain from its adoption

**Richard M. Bird and Michael Smart (University of Toronto) 2008**

The author examined that a decade ago, several Canadian provinces replaced the retail sales taxes by value-added taxes. This paper estimates the effects of this tax substitution on consumer prices in the reforming provinces. Consistent with theory, we find that the resulting effective tax rate changes were shifted forward to consumers in most sectors of the economy. The overall effect on tax-inclusive consumer prices was small, albeit perhaps somewhat regressive.

**Ehtisham Ahmad (2009)**

Is the Advisor in Office of the UAE Prime Minister. He has held senior positions over the past two decades in the International Monetary Fund (Senior Advisor, Office of Executive Directors; Advisor and Division Chief, Fiscal Affairs Department); and was also a member of the core team
for the World Bank’s 1990 World Development Report on Poverty. He has also been Special Advisor to the Finance Minister of Saudi Arabia; as well as Director of the Development Economics Research Program, STCERD, LSE in the late 1980s, and Deputy Director of the Development Economics Research Center at the University of Warwick (to 1986). During his period at the IMF, he has led missions on intergovernmental reforms to China, Indonesia, UAE, Argentina, Mexico, Colombia, Peru, Bolivia, Iraq and Nigeria (the last two were joint with the World Bank). Ahmad has written extensively on public economics and federalism--his books include, inter alia: *Theory and Practice of Tax Reform in Developing Countries*, (with Nicholas Stern), *Social Security in Developing Countries*, (with Jean Drèze, John Hills and Amartya Sen), *Managing Fiscal Decentralization* (with Vito Tanzi) and more recently *Handbook of Fiscal Federalism* and *Does Decentralization enhance Service Delivery and Poverty Reduction?* (both with Giorgio Brosio).

**Satya Poddar (2009)**

Is a senior tax partner in Ernst & Young (in India since 2005, and in Canada from 1987 to 2005). Prior to joining Ernst & Young in 1987, Satya was Director in the Tax Policy Branch of the Canadian Ministry of Finance. In that position, he played a lead role in the design of the Canadian Goods and Services Tax (GST) and ongoing review and reform of the personal and corporate income tax systems.

**Rajesh Chadha (1998)**

Rajesh Chadha Is a Chief Economist at the National Council of Applied Economic Research (NCAER) in New Delhi, India. His Teaching and research experience of more than 29 years
includes the University of Delhi and the NCAER. Chadha’s specialization is international trade with significant experience in applied economic research and economic modeling. His international experience includes Visiting Scholar in the Department of Economics, University of Michigan, and in the Department of Economics, University of Melbourne, Australia.

The author reviewed that the differential multiple tax regime across sectors of production leads to distortions in allocation of resources thus introducing inefficiencies in the sectors of domestic production. With regard to India’s exports, this leads to lack of international competitiveness of the sectors which would have been relatively efficient under distortion-free indirect tax regime. Further, there is lack of full offsets of taxes loaded on to the fob export prices. Efficient allocation of productive resources and providing full tax offsets is expected to result in gains for GDP, returns to the factors of production and exports of the economy. Implementation of a comprehensive goods and services tax (GST) is expected, ceteris paribus, to provide gains in India’s GDP somewhere within a range of 0.9 to 1.7 per cent. It is expected that the real returns to the factors of production would go up. Our results show gains in returns to land ranging between 0.42 and 0.82 per cent. Wage rate gains vary between 0.68 and 1.33 per cent. Returns to capital would gain somewhere between 0.37 and 0.74 per cent. In sum, implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. This would translate into enhanced economic welfare and higher returns to the factors of production, viz. land, labour and capital.