CHAPTER-IX

SUMMARY AND CONCLUSION

New economic policies were launched in July 1991 to correct the fiscal crisis and check the process of deterioration of the Indian economy. India suffered from slow growth, rising unemployment, high fiscal deficits, rising prices, unfavorable balance of payments and an all time low credibility in the international financial markets, particularly with the international institutions like the IMF and World Bank. Underperforming public sector, high interest rates, growing and unproductive public expenditure and rising debts coupled with low production were the disturbing features of the Indian economy. International capital did not find India an attractive destination. Space for investment by the private sector was limited. Economic development in India which for a long time was guided by a politico-economic approach that restricted the role of the private sector and allowed the state a dominant role in planning and implementing growth strategies for giving the benefits of a benevolent state to the population became embedded in populist ideologies. Unjustifiable large interference of the state in regulating the economy resulted in large scale inefficiencies in allocation of resources, use of credit, human resource management and fixation of prices. Coupled with lack of management expertise and efficiency, the PSUs, instead of creating assets became growing liabilities contributing to the deficit indicators year after year. Rising public expenditure in the unproductive sector and low investment in productive areas like infrastructure and capital formation did not improve the prospects of economic growth. Instead, the economy was dragged down to an unsustainable level of fiscal deficit resulting in severe economic and balance of payments crisis. It was great humiliation to the Indian nation when gold security was demanded by international financing institutions for grant of further loans to bail out the country from the crisis.

Fiscal reforms were initiated with the aim of achieving a reduction in the size of deficit and debt in relation to GSDP through revenue enhancement and curtailment in current expenditure growth, while enlarging spending on investment and infrastructure so as to provide the momentum to the growth process. After nearly five decades of relative insulation from the world markets, state controls and slow growth,
India in 1991 embarked on an accelerated process of liberalization. The 1991 reforms ensured that the way for India to progress would be through globalization, privatization and liberalization. In the new regime, government assumed the role of a promoter, a facilitator and a catalyst agent instead of the regulator and controller of economic activities. Foreign direct investment was welcome and given the status of global importance because of its beneficial use as an instrument for global integration. Foreign trade expanded as a result of reforms and India became an attractive destination for Foreign Direct Investment and portfolio investment. Earlier restrictions relating to the entry of foreign capital and finance were abolished.

Following the economic reforms at the national level, the state government were asked to follow the reform process and remove restrictions on the private sector and prune the size of their public sector. Like other states in India, Orissa which by that time was facing a fiscal crisis adopted the reform measures to correct its fiscal situation and to step up investments and create conditions for growth.

The study aims to evaluate the impact of fiscal reforms including the impact of implementation of VAT, which was part of the fiscal reforms package in the Indian context in general and in the Orissa context in particular. The study also includes an assessment of associated socio-economic impact of reforms. Economic reforms which were carried out in favour of wider opening of national markets and greater integration into the global economy had had its impact on the Indian states.

The study includes nine chapters from Chapter-I to Chapter-IX. In Chapter-I we have made an attempt to introduce the subject of economic reforms in the context of the Washington Consensus and its adoption by the government of India to deal with the severe fiscal crisis and balance of payments problem which it faced in 1990-91. Indian government which was fast losing its credibility in the international market and with the World Bank and IMF had no other option but to go for implementation of the reform measures as suggested by the world bodies and the international lenders.

The fiscal scenario in the Indian states including Orissa was no better. Since 1985, the state of Orissa which was earlier a revenue surplus state got gradually transformed into a revenue deficit state because of the wreckless expansion in state activities and consequently the high growth in state expenditure. It is in this context
that the study has formulated its objectives to be examined and analyzed and the hypothesis to be tested in relation to the introduction of VAT in Orissa as a part of the tax reform measures. Accordingly, the database, methodology and chapterization of the work have been stated in Chapter-I.

An attempt has been made in Chapter-II to make a review of the published literature and available documents relating to fiscal reforms, the implementation of VAT and the impact of tax reforms particularly the impact of VAT on revenue generation at the state level. Contributions of different authors have been assessed to find out their relevance for our study. The research gaps as found in those studies has also been observed. It is in this context that this particular study assumes academic significance as there has been no study earlier on this subject in relation to Orissa. This study, therefore is expected to remove the existing research gap and on that basis open scope for further research and studies.

In Chapter-III we have made an analysis of the socio-economic features of Orissa. We have examined in brief, the history, geography and important aspects of its economy including industry, agriculture and the developments in its social sector. The socio-economic analysis is expected to provide the necessary background to our research work.

Chapter-IV contains an analysis of economic reforms in India. We have examined important aspects of the economic reform process in India and in that context, we have analyzed the important changes that have taken place in areas such as fiscal policy, monetary policy, capital market, international trade, exchange rate policy and the changes in industrial sector and the public sector consistent with the reforms process. We have also examined the impact of economic reforms by analyzing the economic situation that prevailed in India in the pre-reform period and in the post-reform period in relation to money and banking, taxation and insurance sector. We have also tried to look at the recommendations of the different Finance Commissions concerning economic reforms that are expected to be taken care of both by the government of India and the state governments. We have examined the impact of the reforms on India’s growth process including its effects on poverty alleviation and social development.
Chapter-V is devoted to a discussion on economic reforms in Orissa. We have looked into the pre-reform economic situation in the state by looking at its Gross State Domestic Product, Revenue Deficit, Fiscal Deficit, Primary Deficit, Human Development, Infrastructure Development, Revenue Expenditure vis-à-vis Capital Expenditure. Developments that have taken place in the economy after the reform process was initiated have also been looked into particularly in relation to the objectives of fiscal reforms, public sector restructuring and taxation policies. Outcomes of the policy implementation have also been assessed.

In Chapter-VI we have taken up the issue of tax reforms in India right from the recommendation of the Mathai Committee in 1953, Kaldor Committee in 1957-58, Kaldor Committee in 1970, Wanchoo Committee in 1971, Jha Committee in 1972 and R.J. Chelliah Committee in 1991-92 till today. This provided the backdrop for the generation of resources for the Second Five Year Plan (1956-60) and was required to fulfill a variety of objectives such as raising the level of savings and investment, effecting resource transfer from the private to the public sector and achieving a desired state of redistribution.

Chapter-VII which covers implementation of VAT in the Indian states including Orissa and contains an assessment of its effects looks at the recommendations of the Kelkar Committee, the recommendations of the Empowered Committee of state Finance Ministers and their unanimous recommendation for acceptance and implementation of VAT in India. The superiority of the VAT system over the Sales Tax system has been examined in detail. The rate slabs in the Sales Tax system that prevailed in different Indian states including Orissa have been examined and the problems which they create in administering an efficient tax system have also been pointed out. Compared to the Sales Tax regime, VAT system provides us with a simplified procedure, transparency and efficiency in tax structure. VAT has achieved the status of an international tax system as it has been adopted by a number of countries including the developed countries of the world. The Indian states who had their initial reservations about the VAT system accepted it only after they were assured by the Central Government of transfer of resources to fill up the shortfall in their tax collection following implementation of VAT. We have examined VAT administration in Orissa and in that context we had tried to relate VAT collection to
NSDP, to state’s administrative reforms and its superior revenue yield over the Sales Tax.

Chapter-VIII discusses the need for further reforms and identifies the key areas where such reforms can be implemented. We have also suggested a number of measures which include administrative, managerial, technological and training programmes for the benefit of the tax officials so that the tax officials can be more effective in their job.

We have made an effort in the study to review the entire process of economic reforms including fiscal reforms where VAT as a part of the tax reforms has been analyzed. The findings of the study may prove useful to other scholars who may be interested in this particular area. There are, of course, limitations in the study as the study focuses more of its attention on the implementation and consequences of VAT for the state of Orissa. No sweeping generalization, therefore, may be drawn from this study for other states.

The study notwithstanding the limitations is intended to serve an academic and research purpose.