CHAPTER-II
REVIEW OF LITERATURE

An attempt is made in this chapter to make a review of studies relating to fiscal reforms including VAT implementation and their impact on the national and sub national levels. An appreciation of such contributions and ideas will help us in highlighting the issues involved and evolving our approach to read the importance of reform though our efforts may not include all the exhaustive review in the area under study. The review of various studies provides us with broad ideas relating to different aspects of shortcomings causing fiscal failures in various fronts and the impact of the measures undertaken to counter them. In addition to that, it picturizes the degree and extent of successes or failures in achieving the desired objectives after implementing the corrective measures prescribed. Political economy of development succumbs to the global order of restructuring in time. Misallocation of resources ends up with precarious debt and deficit fiscal health when it lags output. The present chapter also reviews the findings and contributions of different studies on fiscal crisis in the international, national and sub national levels.

The Brettonwood Era of fixed exchange rate failed to accommodate the economic change in 1970s and 1980s. It imposed inflexibility into the fiscal and monetary measures to restore domestic economy. Carrasco (1980) brings out the contribution of IMF in resolving the crisis in its acute phase. Dymsky (2002) analyses the reasons of international debt crisis since 1980s and provides a broad range of suggestions to meet the challenge comprising fixation of macroeconomic policies and rules governing cross border financial flows in the global economy. Naim (1995) in a similar study discusses the economic impacts in countries who adopted the policies of the Washington Consensus. Sustainability of the policy came under questioning as it could not embody the changes in the international economic, political environment as well as domestic realities. In a study relating to global financial markets, Piccitto, Sol and Haines (1999) trace the origin of internationalization of financial markets to emergence of new competitive pressures, rooted in changes in the social structure of savings and investment, breaking down both national system of financial control and international arrangements of monetary and financial coordination. Stiglitz (2000) in
his study enlightens us about the spread of world economic crisis in different countries and the role of International Monetary Fund in the crisis management. Macedo (2000) in a similar study highlighted the various prospects of global financial architecture and gave emphasis on improved surveillance as security measure.

Williamson (2002) traces out the reasons of disappointing outcomes of countries adopting the Washington Consensus and in an earlier study (1999), the author concluded that it failed to bring about any hope to ensure the basic requirements of nutrition, education and health, housing and entertainment to the adopting countries while establishing the supremacy of market oriented economy.

Easterly (2001) speculated that the attributable reasons could be for increase in world interest rates, increased debt burden and the slowdown in the industrial world in developing countries.

Maxwell (2005) emphasizes that the role of Millennium Development Goals (MDGs) can be improved by paying more attention to rights, equity and social justice to the problems of 'infant economies' and to issues of aid policy and architecture. While reviewing the economic performances of Asia, Burton and Zanello (2007) concluded that a decade after 1997-1998, the crisis period, things improved in the global economy and they have given their suggestions for further improvements to meet new challenges in the region. Another study made by Malliaris (2006) emphasizes that Brettonwoods system had proved to be remarkable, durable, adaptable and successful. The role of IMF in building global economy through surveillance, lending and technical assistance has beyond doubt proved successful in restoring global economic order. In the study, the fundamental economic developments in major economic areas are discussed along with suggestions for changes in the practices and procedures of IMF to explain the relative financial stability of global economy.

The study concludes that rapid economic growth in a low inflation environment for majority of economic regions contributed to an improvement of financial stability of the global monetary system. Chadha, Pohit, Deardoref and Stern (1997) while making an analysis of India’s policy reforms have found that import liberalization enhances the welfare in the economy and that the effect gets further
enlarged if exports are also liberalized simultaneously. Ahluwalia (1999) evaluated the fiscal achievements by gradualism in a seven year period and emphasized that poor state of social indicators in India is obviously not a consequence of the reforms but a reflection of prolonged neglect of this crucial reforms in the pre-reforms era.

In the post reform period, there has been an increase in interstate disparity although significant decline in poverty has been observed in all states except Orissa. In another study, Ahluwalia (2000) attempted to explore the reasons of such growth inequality and tried to identify crucial issues that need to be addressed by the slow growing states. Chelliah (1999) points out that the major reforms carried out in the years 1991-92 to 1994-95 had very favourable effects in improving the Indian economy assessed in terms of growth in GDP, tremendous increase in foreign investment, a very large flow of remittances with a realistic exchange rate, remarkable growth in exports and no balance of payment problems after 1991-92.

India’s development strategy including economic reforms and macroeconomic performance in international perspective was reviewed by Klein and Palanivel (2000). They found that improvement in economy was largely due to financial and trading integration of India with the global economy. Shand and Bhide (2000) examined growth aspect in Indian Economy. By observing data of 14 major states as sample, they concluded that there has been a strong positive correlation between GSDP growth rates and investment levels in the reform period 1990's in the government and private sector. There is a strong inverse association between fiscal deficit and debt levels to GSDP growth rates. The importance of economic and social infrastructure was also examined. The service sector growth has been the prime driving force during the reform period. In course of a review of economic performances after a decade of reforms, Rao (2000) brought out the trends in fiscal imbalances of states combined from 1980-81 to 2000-2001 and of individual states from 1990-91 to 1999-2000. The study concludes that there has hardly been any reduction in the share of capital expenditure after a decade of reforms. They pointed out that to launch the Indian economy to a higher growth trajectory will depend crucially on state level fiscal reforms.

The new dynamism that India could achieve in the process of reforms is well recognized in a study by Bajpai and Sachs (2000). on the basis of their study, they
suggested ten crucial initiatives including universal literacy, aggressive public health campaign, enhanced family planning policies, completion of economic reform agenda, political decentralization, enhanced global role in India, commitment to IT backbone, strengthening of economic, cultural, investment, scientific ties to overseas communities, strengthening science and technology in India's development policies and major commitments to Indian higher education. They also looked into the centre-state fiscal relations and their implications for structural deficits. Japan Bank of International Cooperation (JBIC) (2001) assessed the expenditure management in India with an objective to identify major tasks ahead. The study provides an overview of reforms and trends in the fiscal sector of the Indian Economy. It contains the essentials of good governance and effective public expenditure management. Pangariya (2001) while assessing reform outcomes emphasizes growth acceleration. Khatri and Kochhar (2002) who made a study of the Indian Economic Scenario for a period 1988-89 to 2001-02, made a comparison with some successful fiscal adjustment countries like Australia (1987), Belgium (1984-85), Denmark (1983-86), Ireland (1987-89), Italy (1993) and the four east Asian countries like Indonesia, Korea, Malaysia and Thailand and could draw the conclusion that the success in India could be gained through widening base of trade taxation, simplification of corporate and personal income taxation, rationalization of exemptions and reduction, lowering of rates in income taxation and introduction of broad based consumption tax. Singh and Srinivasan (2002) while examining several dimensions of economic reforms in India in the context of country's federal system and of globalization recognized that the centre and state, the two layers of governments interact with foreign governments and corporations in a global economy. To obviate regional disparity, intergovernmental transfer system need be made more effective and efficient. While dealing with macroeconomic stability aspects of sub national finances and their contribution to overall fiscal imbalances of the country, Rao (2002) analyzed the extent to which intergovernmental fiscal policies and institutions have helped or hindered growth efficiency during the last decade. In the opinion of the author, federalism has advantage over the unitary system as the former provides a large common market while providing a wider choice of fiscal packages as well as intergovernmental competition.
Sachs, Bajpai and Ramiah (2002) find growth disparity in the Indian states after economic reforms. In a study of social impact of reform process, Dutta (2002) finds out that liberalization and privatization along with globalization process in India have led to erosion of living standard of the poor, increase in regional disparities in terms of industrial benefits, sluggishness in employment generation, greater casualization, feminization and deskilling of the workforce, growing uncertainty and hidden hardships.

The fiscal reform during 1999 to 2004 has been inclusive of monetary and structural reforms in both layers of government in the federation. Twelfth Finance Commission fixed targets for monitoring of debt and deficit indicators. Rastogi (2003) expresses concern that government failed miserably in tackling the level of debt and the twin deficits, revenue and fiscal. It is advised that the devolution should be as a proportion of tax receipts or fixed sum. There is need to break the nexus between the state government's revenue deficit with that of central government by making committed expenditure on social infrastructure free from economic growth cycle.

In an analysis of the efficiency implications of reforms, Das (2003) finds that the postwar creation of global trading system and integration of world trade has the crucial role. FDI has become the most important source of finance for the emerging market economies.

While suggesting corrective actions for further consolidation of reforms in areas of tax and non-tax, centre-state fiscal issues, infrastructure, monetary policy, foreign trade and investment, state participation in production of goods and services, further opening of economy, privatization etc., Srinivasan (2003) is optimistic of India achieving eight percent growth per year to achieve higher investment rates to attract more foreign direct and profit investment. Sharma and Sharma (2003) viewed that there was visible growth in the economy as a whole except in Bihar, Uttar Pradesh and Orissa. The degree of dispersion in growth rates across states increased significantly in the 1990s compared to 1980s. Areas like urban infrastructure, power, roads, telecommunication, ports, rural and social development had the scope of external financing.

In an analysis of economic growth and its determinants in 14 major states during the four decades of 1960s, 1970s, 1980s and 1990s, Krishnan (2004) found the difference in pattern of growth among developing and developed states as the former is characterized by instability as well as volatility. Four states namely Orissa, Rajasthan, Gujarat and U.P. were considered most volatile while Punjab, Maharastra and Kerala were the least. The study further provides that dispersion in growth rates of states increased considerably in the post-reform period. Krueger (2000) in his address at Stanford India Conference enlightened the various challenges in the Indian economy and have suggested measures to address those.

While reviewing the necessity of reforms and the consequences, Yadav (2004) made a balance sheet of successes as well as disappointments of the structural changes in the Indian Economy since early 1990s; comparing rate of growth of indicators like GDP, percapita income, foreign exchange reserve, the current account deficit and extent of debt to GDP. For an equitable spread of growth over different states, the ongoing revolution need be pursued and sustained. Pinto and Zahir (2004) find out that it was due to reform-induced losses and government's inability to adjust public spending caused fiscal deterioration during reform process.

The study of Dev (2004) agrees that social and economic infrastructure, physical and human capital formations are responsible for interregional, interclass and rural urban disparities in the post reforms period. Sahoo and Mohapatra (undated) in their study have examined the evidence for regional convergence or catch up in levels and growth rates of per capita income among the 15 major states in India between 1980-81 and 2005-06. Pal and Ghose (2007) have made a study on the inequality in India and the trends in income and consumption inequality in India. The study also makes an overview of the nature and causes of inequality trends since the mid 1990s.

Chaturvedi and Upadhyaya (2004) have also undertaken a study of poverty alleviation in India in the context of economic reforms. The study of Fukumi (2004) revealed that developmental expenditure by state governments has positive impact on growth whereas social diversity has negative correlation.
In an analysis of debt sustainability in states, comparing fiscal parameters like RD, GFD, Debt, IP/RR, IP/SOR, IP/RE for periods 1992-97, 1997-2002 and 2002-03, Rajaraman, Bhide and Pattanaik (2005) suggest that varied policy initiatives are called for different states in view of their heterogeneity in terms of size, levels of income and resource raising ability. The study recommend for restoring debt sustainability.

In a study to ascertain the growth interdependence in states, using data for the period from 1971 to 1998 and standard statistical test of causality, Bhide, Chandra and Kalirajan (2005) find that the transmission of growth impulses across states have been limited. The structure of economy, the quality of state specific institutions account for growth effects in states.

One of the pioneers himself in the reform process, Ahluwalia (2005) summarises Indian economic performance over the past three decades comparing GDP growth of 30 large emerging economies including China and the developing regions like Subsaharan Africa, developing Asia except China and India, Middle East and North Africa, Latin America and Caribbean for the period 1971-2003. Reasons of success are attributed to the approach which was conducive to growth in democratic India. Further reform measures were home grown and gradual. Inequalities in states have been caused for the difference in response to resource flow when poverty in India has declined in 1980s as well as 1990s.


Aggregate growth is measured in selected indicators like per capita income, poverty, literacy, life expectancy, power capacity as well as growth experience in agriculture, industry, services, GDP, per capita national income. Mohan (2006) reviewed the GFD (Gross Fiscal Deficit), RD (Revenue Deficit), direct and indirect taxes, gross tax, interest payments and subsidies position of the central government for a period 1991-92 to 2006-07. While analyzing the above indicators he finds that
reforms have brought forth new entrepreneurial energies across the board in all the sectors of the Indian economy.

On their examination of fiscal issues in India, Desmukh, Chaudhuri, Powar, Parhar and Shejwal (2006) pointed out that the significant outcomes of economic reforms was brought through cut in expenditure. The study suggests that an investment rate of 32 percent instead of 24 to 25 percent of GDP over the years and reduction of fiscal gap was essential for India to arrive a growth rate of eight percent.

The objective of fiscal reforms in India and the success of reforms in banking, debt and equity markets, insurance, monetary and other financial sector reforms have been analyzed in a study made by Gurumurty (2006) with indications of precaution measures against emerging challenges.

In a study of deterioration of India's debt dynamics after mid 1990, Pang, Pinto and Wes (2006) pointed out that the reform induced losses in trade, customs and in taxes as well as lower entry barriers are increasing competition and hardening budget constraints for firms as well as financial sector institutions. The capital expenditure cuts have contributed to the infrastructure gap. Rangarajan (2006) in the study while explaining the rationale behind reforms highlights the uniqueness in India's reforms for their implementation in a domestic and decentralized context. It is suggested that six important challenges are required to meet comprising (i) agricultural growth; (ii) infrastructure development, (iii) fiscal consolidation, (iv) building social infrastructure, (v) managing globalization and (vi) good governance are required in order to sustain the achieved rate of growth to broad base poverty reduction.


According to a study by Sindzingree (2006), the issues of taxation, public revenue and spending are the crucial elements in building up of a viable developmental state. In the opinion of the author, financing the developmental state could be achieved at the external level via foreign direct investment and aid at the internal level. Reddy (2006) is in the opinion that Indian economy responded well after the economic reforms in a discussion on global imbalances during 1990s.
India experienced upsurge in its economy from the beginning of its implementation of FRBM Act and Rules. Kishore and Prasad (2007) emphasize the advantage of rule based fiscal policy comprising deficit rules, expenditure rules, revenue rules and debt rules as contained in the FRBM Act which could help achieve the remarkable improved achievements of the state governments. Taxation is viewed as an important factor of growth and that the lack of credibility of the state and its policies alongwith lack of trust from citizens justifies tax evasion. In a similar study, Pattanaik, Dupas and Chandar (undated) support the above reasons of growth in the economy when measured in terms of movement in the key deficit indicators viz Revenue Deficit (RD), Gross Fiscal Deficit (GFD) and Primary Deficit (PD) during select patch periods like 1991-92 to 1996-97, 1997-98 to 2002-03 and 2002-03 to 2006-07.

Kumar, Palit and Singh (2007) suggest that the growth experienced in the Indian Economy can be made sustainable if necessary policies are adopted for removing binding constraints like poor infrastructure, stagnant agriculture and lack of fiscal space. Necessary policy in establishing a modern and industrial market based economy has been recommended in the study.

Organisation for Economic Cooperation and Development (OECD) (2007) in their review recognized the growth in Indian economy and have identified the drivers of growth. In their conclusion, to sustain and accelerate the growth, India needs to ensure that the gaps in the living standards across states, regions and socio economic groups be reduced.

The Rabo Bank (Netherlands), Research Group (2007) in a special scenario study of Indian Economy while recognizing the excellent growth has sought to visualise India's rise in a long term perspective in 2020. Their recommendations which include business opportunities vis-à-vis growth potential of sectors like food and agriculture, health and pharmaceuticals, infrastructure and utilities, telecom media and internet, energy, metals and mining, banking and financial market may be explored for India as long-term growth. Allen and Jesse (2007) have analyzed the position of key economic indicators in India. Also, the types of aid India receives has been summarized in the study.
Economic reforms have increased interstate, inter-regional disparities as has been observed. Kurian (2007) in one such study explains that the reforms led to acute economic and social disparities in four dimensions i.e. regional, rural, social and gender. The southern and western states experienced accelerated economy with widening gaps in income, poverty as well as other developmental indicators. It has widened the rural urban divide. The Scheduled Caste (SC) and Scheduled Tribe (ST) have gained little.

Mohan (2008) in an attempt to review the growth process of the Indian economy, has analyzed the growth or decline of macroeconomic indicators for different patch periods from 1950-51 to 1964-65, 1965-66 to 1980-81, 1990-91, 1991-92 to 1996-97, 1997-98 to 2002-03 and 2003-04 to 2007-08 with reasons attributable to each of the period. It is observed that there has been consistent growth in GDP, savings, investments except for the lost period during 1965-1980. The author has proceeded to compare the growth, investment and Incremental Capital Output Ratio (ICOR) of select countries like Brazil, China, India, Indonesia, Korea, Mexico, Philippines, South Africa and Thailand. Herd and Leibfriz (2008) examine the various areas of India's fiscal policy, in particular, fiscal discipline. The result show that India's federal structure has led to a well developing system of tax sharing and transfers, both through constitutionally empowered bodies and delivered through annual budgets. Reddy (2008) while highlighting fiscal reform outcomes emphasizes the role of RBI in the reform process.

Panda (2008) in his study of economic growth trend in Orissa in terms of GSDP, percapita income (NDP) at 1999-2000 prices, sectoral growth trend contributing to GSDP, presents evidence that the economy is poised for a take off to a high growth phase, almost similar to that of national level but poverty reduction has been gloomy. Mackinnon (2002) has also made a similar study of poverty impacts of the economic reforms in Orissa.

Rajan (undated) in his study analyses the structure of economic reforms during pre and post independence era and points to the increased importance of FDI, more so after the formulation of two major Legislations; namely Foreign Exchange Regulation Act (FERA) and Foreign Exchange Management Act (FEMA). Mishra (undated) in an analysis of Orissa (India) budget during 1990-91 to 2008-09 have
discussed the effects of fiscal reforms in Orissa and the social sector spending in Orissa in the context of fiscal reforms.

VAT has been introduced in the Indian states on or after 01.04.2005. Tax administration reform plays an important role in generation of tax revenue and other societal functions. Therefore, an assessment of dimensions that contribute to a fairer tax administration becomes necessary as it has immense impact on an economy that opts for a paradigm shift to a newer taxation policy administration. Also, the review of the contributions in relation to VAT administration is intended to strengthen and streamline VAT implementation in India and especially for our study in the state of Orissa.

Recent tax reforms in Asian developing countries has been guided by the principle as prescribed by Ahmed and Stern (1991) based on fairly comprehensive representation of various theories of taxation and the characteristics of ‘ideal’ tax system for a developing country. Islam (2001) also discusses the new direction of the perceived role of taxation as a macroeconomic tool and the principles which have framed the basis of recent tax reforms. Poirson (1993) in his study makes a comparison of India's indicators of effective tax rates and tax revenue productivity as well as suggests to lower the marginal tax burden and tax induced distortions. Engen and Skinner (1996) have analyzed interlink of taxation and economic growth. The study of Carlos and Baer (1997) presents ten guiding principles which have proven useful in defining the general framework for a tax administration reform strategy across a broad range of countries. Ott (1998) in his study suggests that the main weights in reforms concern the problem of tax evasion measures for making tax administration more efficient and reducing the complexity of taxation laws. Modern tax administration need concern with a stronger focus on tax payers, specialization of personnel, independence from the ministries of finance and privatization of those areas which could be better performed by the private sector, establishing a special customer care unit, special service for largest enterprise, decreasing tax collection costs and prevention of tax evasion. The system must provide equity, be stable, should minimize its effects on economic activity and be compatible with the system prevailing in other countries in order to avoid double taxation that is an obstacle to investment. There should not be heterogeneity in the rules and regulations among states.
Rao (2000) makes analysis of the evolution of tax system in India since the early 1990s. The study assesses the revenue and equity implications of new taxes introduced while pointing out success. The major shortcomings persisting in taxation and the challenges faced by the government in developing a coordinated tax system in the federal policy have been discussed. Rana (2000) explains that macroeconomic crisis faced by countries in the 1990s were the principal stimulus for reforms. The trade trends in developing countries in the 1990s in a global context finds place in the study. The author has highlighted the implications of multilateral trade negotiations.

Figueroa (2000) recommends how tax policy need be designed and what the tax system must include. Tax simplification is largely supported. The reasons attributable to tax evasion and the economic effects of tax evasion in developing countries have been discussed. He points out that organizational models and tax administrative reform ingredients contribute most to improving tax compliance, neutrality and revenue productivity. Tanzee and Zee (2001) in their study, considered that taxation is the only practical means of raising the revenue to finance government spending on the goods and services. The ideal tax system in those countries should raise essential revenue without excessive government borrowings and should do so without discouraging economic activity as well as without deviating too much from the tax system in other countries. Mc Carten (2003) in his study agrees that tax administration organizational reforms, alongside the self assessment reforms, are the keys to coping with growth inhibiting tax distortions. Gill (2003) suggests methodology to diagnose the institutional and organizational deficiencies of revenue administration and some key indicators to assess performances in case of reforms. The key success in tax administration reform in any country lies in evolving a strategy that best utilizes the available resources to minimize the scope of noncompliance, while simultaneously providing facilities and incentives for compliance at each stage of compliance process. Bird (2004) discusses the relationship between the tax policy and tax administration. It is highlighted that tax administration is a production process where inputs consist of men, materials and information and the output consists of revenue for the government and tax payer equity.

The study made by Rai (2004) gives an overview of the Indian tax system and discusses the challenges in tax collection faced by developing economies using India as a model. In the study, the ways and means to reduce the black economy for better
collection of revenue and the establishment of a dispute resolution system in developing economies similar to that of the US for speedy and fair settlement of taxation disputes have been suggested. It must always be borne in mind that there is inherent interlink between development, good governance and the tax gap. Carey (2005) has referred to areas where developing countries have benefited from reduction in the tax gap including Sub-Sahara Africa, South Africa and South East Asia. The developing countries need strive to develop covering a system that incorporate progressivity, a broad base, simplicity, transparency and insulation from political process, efficiency, effective tax laws and consistent enforcement of the tax laws, good tax payer services with tax payer education programs, certainty and stability, collection and reporting enforcement of tax laws which involve going out and looking for tax revenue. Several factors influence and determine the environment role, operation, performance and efficiency of tax administration. Among them are the size of public sector, the size and structure of government revenues. The system, institutions, process and rules of the general public administration determine the tax administration environment. Hogye (2005) makes analysis of the systems and reforms of tax administration in international context and has concluded that the different types of tax revenues can make significant differences in developing tax administration functions and organizational setting.

The study of Dhillon and Bouwer (2005) is a guide to achieving high performance under taxing circumstances. It reveals that reforms of tax administration need to include well designed plan and strategy, organization and job chart, performance management, business process and information technology.

The tax system in India prior to 1990s unavoidably raised more than one problem; foremost among these problems appeared to be a too large dominance of a complex and obsolete indirect taxation and the fiscal relation among government layers. Bernadi and Fraschini (2005) recognize that the road to updating and improving the Indian tax system has been entered since the early 1990s, but the reform need to be largely accomplished. Undoubtedly, federal grants create some fiscal effects on the budgets of the unit government. The study of NIPFP (1981) under the leadership of R.J. Chelliah (for 15 major states for a period from 1965-66 to 1974-75) conclude that federal transfer as a whole seems to have a dampening effect
on the tax efforts of the states. Shivagnanam and Naganathan (1999) in a study have analyzed the impact of union resource transfers on the tax efforts by the states.

Income, consumption and wage taxation are related to each other. Weisbach and Bankman (2005) focusing on an argument made by Atkinson and Stiglitz (1976) conclude that a consumption tax is superior to income tax and favour implementation of VAT to reduce the possibilities for fraud by the retailers. Bird and Zolt (2005) in a study discuss the limited role of the personal income tax in developing countries to redistribute income.

The appropriate extent of tax enforcement critically depends on the underlying tax structure. Kopczuk (2006) determines the role of complexity in the tax system as a factor influencing the size of tax gap as well as legal but undesirable tax avoidance.

Fjedstad (2006) in a study finds that the way taxes and charges are collected may impact significantly on tax payer's compliance. It suggests that excessive use of sanctions and force are likely to fuel tax resistance.

Poirson (2006) assesses the effects of India’s tax system on growth through the level and productivity of private investment. The study concludes that Indian tax system is characterized by more dependence on indirect taxes, low average effective tax rates and high marginal effective and large tax-induced distortions on investment and financing decisions. Bejakovic (undated) in a study remarks the close correlation between the tax policy and tax administration.

Tax administration reforms concern strategic principles. Camillei (2007) explains the role of internal and external environment and strategic alternatives.

Developing countries owe different characteristics than developed countries and face many challenges in tax reforms and administration. In one such study, Bird (2008) discussed the challenges and hinted that in any developing country reforms generally depend on politics of taxation. To meet the many tax challenges, it is suggested that experts and aid agencies need to create the appropriate human and institutional capacity.

Economic experience suggests that any tax system would need reforms due to the changing socio economic scenario over periods. For effective fiscal adjustment,
tax administration reforms play crucial role. Tax administration improvements have a strong positive effect on the investment climate. It has major role in reducing the tax gap. Brondolo, Silvani and Bosch (2008) in a similar study suggest that tax reforms need to include simplifying tax laws, improving the legal framework for tax administration, increasing audit effectiveness, implementing a performance measurement system, reforming human resource management policies, designing an information technology master plan and creating an internal investigation unit. These aspects have got supports from many exponents in the taxation arena.

Ruebling (1973) has given a general description of VAT and has examined the consequences of VAT implementation on prices, income distribution, economic growth and the balance of payments. Ture (1980) also explains the types of VAT and different methods of computing the VAT liability. The effects of VAT on the economy as well as on the linkages of consumption, savings and investment have been outlined in the study. The Deputy Comptroller General to the Congress of the United States (1981) had the report defining VAT in detail. The economic and distributional effects of VAT with advantages/disadvantages are also discussed in the study. Warren (1993) discusses the reasons for the introduction of VAT and its specific developments in U.K. Since 1973, the economic effects of the introduction of VAT and subsequent changes to it are examined in the review. In a similar study, Bannock (2001) warns that high compliance cost is not only undesirable but also causes heavy disadvantages to small firms distorting competition and to obviate, various solutions have been suggested in the study.

Sus and Oliveira (2001) in a very similar study make a brief account of Value Added Tax and the economic effects of choosing to implement such tax under the destination principle or under the origin principle, with regard to trade done between states that use a VAT and are part of some type of economic activity. The main objective has been to understand how that choice affects production and consumption efficiency and the main effects that such division has on the public administration, considering both revenues and the effort needed to obtain compliance under each VAT principle. Bird and Gendron (2001) in a similar study discuss briefly the major problems in making sub national VATs infeasible or undesirable. It discusses the specific problems faced by the federal states and deal with the sales tax system and sub national VAT.
In Indian context, Purohit (2003) in his study examines various options for the introduction of VAT from the experience of federal countries such as Brazil, Canada and also of European Union. He recommends the introduction of a comprehensive state VAT inclusive of CENVAT, Sales Taxes and Service Tax. It implies that the centre withdraws from the field of domestic trade taxes and the states to levy VAT designed on the destination principle.

Ebril, Keen, Bodin and Summers (2002) in their study explain the usefulness of VAT and its various implications. The study warns that the success of VAT can not be taken for granted. It requires good design and implementation, even after many years of adoption. The review has judged the efficiency aspects of VAT and arrives at the conclusion that VAT yields higher ratio of revenue to GSDP. A simple VAT with high registration threshold limit is suggested for developing countries.

Tasfaye (2003) made a similar study of the development and implementation of VAT in Ethiopia and its prospects. Rao (2003) has shown concern with the treatment of interstate transactions in the levy of state VAT in India and examines the revenue implication of CST reduction in short term and Zero rating in the long term. The study also examines the issue of compensating the states for loss of revenue. It deals briefly with the management information system that is needed to monitor interstate transaction in the absence of CST. Mukhopadhaya (2003) deals with issues on introduction of VAT in the Indian context and reveals that (a) VAT is not the best form of consumption tax, especially in a developing country, (b) it is not suitable for Indian federation, (c) an imperfect VAT would not achieve the purpose for which VAT is introduced, and (d) a better choice would be to have a combination of CENVAT, retail Sales Tax with uniform rates in all states, reduction in exemptions and removal of CST. Satapathy (2003) in a similar study discusses implications of VAT and Service Tax on imported goods and services.

Yonah and Margalioth (2006) suggest that consumption tax is superior to income taxation in developing countries in terms of efficiency as well as redistribution.

Grandcolas (2005) in a related study narrates the cross country experiences of VAT. VAT in Malta, Grenada, Ghana had failures while its success in Gabon and Mauritius is explained. Grandcolas (2003) in another study has presented the
performance of VAT in island countries. The advantages of VAT system has been discussed with clear recognition of VAT as a catalyst to neutralize the tax administration and therefore to improve efficiency, equally applicable in large countries, in developing countries and Pacific Island Countries (PIC).

Kumar (2005) did a study of the implications of direct and indirect taxes in general and VAT in particular. The issues of VAT, as considered, cannot be viewed in isolation from other policy aspects. To eradicate poverty and accelerate development, resources needed for investment must rely more on direct taxes and not on indirect taxes. It is suggested that VAT may be levied on final stage of production and consumption of luxury goods and essentials.

In a study intended to examine the pricing effect of VAT in the Indian scenario, Sthanumurty and Eapen (2005) find that a change over to VAT does not result in any sustained increase in price level. In most of the cases, it had caused an one time rise in prices, which is reported to be happening in the states which switched over to VAT on April 1st 2005. Khatik (undated) in a study has highlighted the importance of VAT in the Indian economy. The procedural aspect and the difficulties in the implementation of VAT have been discussed. The paper also carries suggestions for removing those difficulties.

Sarkar (2005) in his study examined the various implications of VAT along with explaining of the merits and demerits of VAT. Sharma (2005) in a study on VAT implementation, anticipates loss of revenue in states as well as their autonomy and therefore, suggests introduction of a 'federal friendly' VAT. Bird (2005) reviewed the problems that have emerged from VATs in many countries.

Keen and Smith (2007) review the exposure of VAT to revenue losses through noncompliance with a particular focus on fraud and evasion. Ray Chaudhuri and Sinha (2007) have examined the position of fiscal reforms in India in the global context of economic reforms, particularly reforms in commodity taxation. The study also suggests an alternative model of commodity tax reforms based on optimal commodity taxation approach.
Ray Chaudhuri, Sinha and Ray (2007) make an effort to understand the nature of marginal tax reform by different state governments when they switch over to VAT. Their study finds reforms are pro-poor.

Prasad (2008) analyzes the revenue performance of states which implemented VAT from April 2005 vis-à-vis the states which implemented it later. Their study indicates a reduction in the rates of growth of revenue of VAT states compared to non-VAT states. The possible reasons attributable were exemptions, inclusions of inputs in the concessional rate category and the differences in definitions of commodities and Sales Tax legislatures.

The above studies, however, do not include the performance of VAT in the Indian states and especially its performance in the state of Orissa. The present study makes an attempt to make an empirical analysis of VAT contributions to the respective state economies in India in relation to their GSDP including state of Orissa in particular. The sectoral growth analysis of VAT collection which has been made in the study in case of Orissa may prove beneficial for projection of growth in the lagging sectors. Other impacts of VAT implementation which have not been assessed so far for the state of Orissa finds place in the study. Policy recommendations for further reforms to gear up VAT revenue augmentation in order to strengthen the public finances in the Indian states and particularly in the Orissa state have also been looked into for future planning and guidance.

The study may, therefore, make a contribution to feel the research gap that exists particularly in the context of Orissa particular and the Indian states in general.